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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Power New Energy Development Company Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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China Power New Energy Development Company Limited

中國電力新能源發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 735)

**CONNECTED TRANSACTION
ISSUE OF CONVERTIBLE BOND**

Independent Financial Adviser



FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

First Shanghai Capital Limited

A letter from the board of Directors is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 17 to 18 of this circular. A letter from First Shanghai containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 30 of this circular.

A notice dated 18 July 2012 convening an SGM to be held on 6 August 2012 at 11:00 a.m. at Rooms 3801–3805, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong is set out on pages 35 to 37 of this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

* *for identification purposes only*

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DEFINITIONS

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

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	means the board of Directors
“Bondholder”	means holder of the Convertible Bond
“Business Day”	means a day other than a Saturday or Sunday on which banks are open for business in Hong Kong and the PRC
“China Three Gorges”	means 中國長江三峽集團公司 (China Three Gorges Corporation*)
“Closing Date”	means ten (10) Business Days after the fulfillment of condition (a) of the conditions precedents and in any event not later than the Closing Long Stop Date, or such other date that the Company and the Subscriber may agree
“Closing Long Stop Date”	means 31 December 2012 or such later date as may be agreed in writing between the Company and the Subscriber
“Completion”	means the completion of the issue and subscription of the Convertible Bond pursuant to the Subscription Agreement
“Company”	means China Power New Energy Development Company Limited, the Shares of which are listed on the Stock Exchange
“Conditions”	means the terms and conditions of the Convertible Bond
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Conversion”	means the exercise of the conversion rights attached to the Convertible Bond and the issuance of the Conversion Shares accordingly
“Conversion Price”	means the price at which each Conversion Share(s) will be issued upon Conversion, being HK\$0.65 per Conversion Share initially and subject to adjustment which may be made pursuant to the Conditions
“Conversion Share(s)”	means the new Share(s) to be issued upon Conversion
“Convertible Bond”	means the convertible bond to be issued by the Company to the Subscriber in the principal amount of HK\$236,031,719.95 pursuant to the Subscription Agreement

* *for identification purposes only*

DEFINITIONS

“Director(s)”	means director(s) of the Company
“Event of Default”	means any of the Events of Default as stated in the Conditions
“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	means an independent committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “First Shanghai”	means First Shanghai Capital Limited, an independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	means Shareholders other than the Subscriber and its associates
“Issue Date”	means the date on which the Convertible Bond is issued by the Company to the Subscriber under the Subscription Agreement
“Last Trading Day”	means 26 June 2012, being the last full trading day in the Shares immediately before the entering into of the Subscription Agreement
“Latest Practicable Date”	means 13 July 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	means a date falling on the fifth anniversary of the Issue Date
“PRC”	means the People’s Republic of China
“Representations”	means the representations, warranties and statements contained in the Subscription Agreement

DEFINITIONS

“RMB”	means Renminbi
“SGM”	means the special general meeting of the Company to be convened to approve the Subscription Agreement and the transactions contemplated thereunder and the Special Mandate
“Share(s)”	means ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	means holder(s) of the Share(s)
“Special Mandate”	means the special mandate to be granted to the Directors at the SGM for the allotment and issue of the Convertible Bond to the Subscriber and the Conversion Shares to the Subscriber and/or other Bondholder upon Conversion
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Subscriber”	means China Power New Energy Limited, incorporated in Hong Kong with limited liability, being a substantial shareholder of the Company holding 24.93% of the issued share capital of the Company as at the Latest Practicable Date
“Subscription”	means the subscription of the Convertible Bond by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	means the subscription agreement dated 26 June 2012 and entered into between the Company and the Subscriber in relation to the Subscription
“Termination Agreement”	has the meaning ascribed to it in the section entitled “FUND RAISING ACTIVITY BY THE COMPANY IN THE LAST 12 MONTHS” in the Letter from the Board in this circular
“Three Gorges Share Purchase Agreement”	has the meaning ascribed to it in the section entitled “FUND RAISING ACTIVITY BY THE COMPANY IN THE LAST 12 MONTHS” in the Letter from the Board in this circular
“Takeovers Code”	means the Code on Takeovers and Mergers

DEFINITIONS

“Yangtze HKCo”	means China Yangtze International (Hongkong) Co., Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Yangtze Power
“Yangtze Power”	means 中國長江電力股份有限公司 (China Yangtze Power Co., Ltd*)
“Yangtze Share Purchase Agreement”	has the meaning ascribed to it in the section entitled “FUND RAISING ACTIVITY BY THE COMPANY IN THE LAST 12 MONTHS” in the Letter from the Board in this circular
“HK\$”	means Hong Kong dollar
“%”	means percent.

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LETTER FROM THE BOARD



China Power New Energy Development Company Limited

中國電力新能源發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 735)

Executive Director:

Ms. Li Xiaolin
Mr. Yin Lian
Mr. Zhao Xinyan
Mr. Wang Hao
Mr. Liu Genyu

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Non-executive Directors:

Mr. Cheng Chi

Principal place of business in Hong Kong:

Rooms 3801–3805
38/F, China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Independent Non-executive Directors:

Dr. Li Fang
Mr. Chu Kar Wing
Mr. Wong Kwok Tai

18 July 2012

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
ISSUE OF CONVERTIBLE BOND**

INTRODUCTION

Reference is made to the announcement of the Company dated 26 June 2012 in which the Company announced that on 26 June 2012, it entered into the Subscription Agreement with the Subscriber pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$236,031,719.95 due five years from the Issue Date convertible into Shares at the initial Conversion Price of HK\$0.65 per Conversion Share (subject to adjustments).

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LETTER FROM THE BOARD

The Subscriber is a substantial shareholder of the Company holding 24.93% of the issued share capital of the Company as at the Latest Practicable Date. The Subscriber is therefore a connected person of the Company and the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Subscription Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder; and (iv) the notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Date

26 June 2012

Parties

Issuer : the Company

Subscriber : the Subscriber

The Group is principally engaged in the development, construction, owning, operation and management of clean energy power plants in the PRC, including but not limited to the following types of energy generation — natural gas power generation, wind power generation, hydro power generation, waste-to-energy power generation, photovoltaic power generation and other power generation. The Group is also engaged in investment holding in the clean energy power industry, property investments and securities investments.

The Subscriber is a substantial shareholder of the Company holding 24.93% of the issued share capital of the Company as at the Latest Practicable Date. The Subscriber is therefore a connected person of the Company and the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Subscriber is a company incorporated under the laws of Hong Kong with limited liability. Its principal business is investment in new energy businesses in China.

Subscription

Subject to the fulfillment of the conditions set out in the section headed "Conditions Precedent" below, the Company has agreed to issue, and the Subscriber has agreed to subscribe for, the Convertible Bond in the principal amount of HK\$236,031,719.95 due five years from the Issue Date convertible into Shares at the initial Conversion Price of HK\$0.65 per Conversion Share (subject to adjustments).

LETTER FROM THE BOARD

The Conversion Price of HK\$0.65 per Conversion Share was arrived at after arm's length negotiations between the Company and the Subscriber taking into account the average closing price of the Shares for the 5 trading days and 10 trading days prior to the signing of the Subscription Agreement. The Conversion Price represents:

- (i) a premium of approximately 106.3% to the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 107.0% to the average of the closing prices of approximately HK\$0.314 per Share for the five trading days of the Shares up to and including the Last Trading Day;
- (iii) a premium of approximately 106.3% to the average of the closing prices of approximately HK\$0.315 per Share for the ten trading days of the Shares up to and including the Last Trading Day; and
- (iv) a discount of approximately 14.5% to the audited net asset value per Share of approximately HK\$0.76, which is calculated based on the audited net asset value of the Company of approximately RMB4,954,900,000 (equivalent to HK\$5,969,663,520 assuming RMB1: HK\$1.2048) as at 31 December 2011 as stated in its 2011 annual report divided by its total number of 7,889,039,108 issued Shares as at 31 December 2011.

Assuming the exercise in full of the conversion rights attaching to the Convertible Bond at the initial Conversion Price, a total of 363,125,723 Conversion Shares may be issued, representing approximately 3.27% of the issued share capital of the Company as at the Latest Practicable Date and approximately 3.16% of the issued share capital of the Company as enlarged by the Conversion.

Conditions Precedent

Completion of the Subscription is conditional upon the satisfaction of the following conditions on or before the Closing Date:

- (a) Listing: the Stock Exchange having granted conditional permission for the listing of and permission to deal in the Conversion Shares arising on conversion of the Convertible Bond (and such listing and permission not subsequently having been revoked prior to Completion);
- (b) SGM: a valid special general meeting of the Shareholders having approved (i) a special mandate to be granted to the Directors to issue Conversion Shares on a full conversion of the Convertible Bond and (ii) the transaction contemplated under this Agreement as a Connected Transaction pursuant to Chapter 14A of the Listing Rules;
- (c) No material adverse change: there has, since 31 December 2011 (being the date of publication of the most recent annual financial statements of the Company), been no adverse change, or any development reasonably likely to involve an adverse change, in the management, business, financial condition, prospects, or results of operations

LETTER FROM THE BOARD

of the Company or any of its subsidiaries that is material in the context of the Convertible Bond or the issue thereof or the rights and entitlements of the Subscriber thereunder;

- (d) Accuracy of representations: (i) the Representations that are qualified as to materiality are true, correct and accurate on the date of the Subscription Agreement and would be true, correct and accurate if they were repeated on the Closing Date with reference to the facts and circumstances then subsisting, and (ii) all the other Representation are true, correct and accurate in all material respects on the date of the Subscription Agreement or on the Closing Date with reference to the facts and circumstances then subsisting;
- (e) No events of default: there being no event existing or having occurred and there being no event existing or having occurred and no condition being in existence which would (had the Convertible Bond already been issued) constitute an Event of Default and no event or act having occurred which, with the giving of notices, or the lapse of time, or both, would (had the Convertible Bond already been issued) constitute an Event of Default;
- (f) Requisite filings: the Company and each member of the Group having made all filings and having obtained and delivered to the Subscriber all governmental and/or third party permits, authorizations, consents and approvals required to be obtained by the Company of any such member of the Group to consummate the transactions contemplated by the Subscription Agreement. All governmental approvals, consents, filings and waiting periods required in connection with the transactions contemplated by the Subscription Agreement shall have been obtained, made, expired or been terminated; and
- (g) Suspension: the Shares shall not have been suspended from trading on the Stock Exchange for a continuous period of more than twenty (20) Trading Days (other than where the suspension relates to a transaction or transactions that the Subscriber has approved).

If any of the above conditions precedent is not fulfilled or waived (if applicable) on or before the Closing Date, the Subscriber may give a termination notice to the Company. The Subscription Agreement shall be terminated forthwith and the parties shall have no further obligation under the Subscription Agreement from such date and the provisions of the Subscription Agreement shall have no effect without affecting the then accrued rights and remedies of the parties under the Subscription Agreement.

Completion of the Subscription will take place on the Closing Date. The Subscriber will pay or procure the payment of the proceeds of the issue of the Convertible Bond to the Company by credit transfer in Hong Kong Dollars for same day value to the account in Hong Kong designated by the Company and notified in writing by the Company to the Subscriber not less than five (5) Business Days prior to the Closing Date.

LETTER FROM THE BOARD

Warranties and Undertakings

The Company has given customary warranties and undertakings to the Subscriber under the Subscription Agreement.

Termination

The Subscription Agreement may be terminated under the following circumstances:

The Subscriber may give a termination notice to the Company at any time prior to the issue of the Convertible Bond to the Company on the Closing Date if:

- (a) **Inaccuracy of representation:** (i) any Representation that is qualified as to materiality is or proves to be untrue, incorrect or inaccurate on the date of the Subscription Agreement or on the Closing Date with reference to the facts and circumstances then subsisting, and (ii) any other Representation is or proves to be untrue, incorrect or inaccurate in any material respect on the date of the Subscription Agreement or on the Closing Date with reference to the facts and circumstances then subsisting; or
- (b) **Breach of obligation:** the Company fails to perform any of its obligations under the Subscription Agreement to the extent required to be performed on or prior to the Closing Date; or
- (c) **Failure of conditions precedent:** any of the conditions (a) to (g) inclusive of the conditions precedent are not satisfied or waived by the Subscriber on the Closing Date in accordance with the Subscription Agreement.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

Principal amount HK\$236,031,719.95

Maturity A fixed term of 5 years from the date of issue of the Convertible Bond. Unless previously converted in accordance with the terms and conditions of the Convertible Bond, the Company shall repay the outstanding principal amount of the Convertible Bond by way of cashier's order to the Bondholder on the maturity date.

Interest The Convertible Bond will not carry any interest.

Events of default Each of the following events is an event of default under the Subscription Agreement and the Conditions:

- (a) the Company fails to pay the principal amount when due unless non-payment of such amount is due solely to administrative or technical error and payment is made within seven business days of the due date thereof;

LETTER FROM THE BOARD

- (b) the Company defaults in performance or observance or compliance with any of its other obligations set out herein which default may have a material adverse effect on the Company and its subsidiaries taken as a whole and is incapable of remedy or, if capable of remedy, is not in the reasonable opinion of the Bondholder remedied within 14 Business Days after notice of such default shall have been given to the Company by such Bondholder;
- (c)
 - (i) any indebtedness of the Company or its subsidiaries is not paid when due, or as the case may be, within any applicable grace period;
 - (ii) the Company or its subsidiaries fails to pay when due or expressed to be due any amounts payable or expressed to be payable by it under any present or future guarantee for any moneys borrowed from or raised through a financial institution;
- (d) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any part of the undertaking, property, assets or revenues of the Company or its subsidiaries;
- (e) the Company or any of its subsidiaries becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or subject to the appointment of any administrator, liquidator or receiver of the Company or any of its subsidiaries on the whole or any part of the undertaking, property, assets or revenues of the Company or any of its subsidiaries or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors;
- (f) if the Company and or any of its PRC subsidiaries (otherwise than in the course of reorganisation, reconstruction, amalgamation or merger) cease or threaten to cease to carry on their business or a substantial part of their business taken as a whole;
- (g) an order is made or an effective resolution passed for winding-up of the Company or any of its subsidiaries except in the case of voluntary winding-up of subsidiaries in the course of internal reorganization;

LETTER FROM THE BOARD

- (h) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its subsidiaries or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or part of the assets of the Company or any of its subsidiaries;
- (i) the Shares (as a class) cease to be listed on the Stock Exchange for a continuous period of 10 trading days due to the default of the Company; or
- (j) if any circumstances arise which in the reasonable opinion of the Bondholder have or may have a material adverse effect on the financial position of the Company and its subsidiaries (including the PRC subsidiaries or joint venture companies).

Conversion right

Subject to the requirements of the Listing Rules, the holder of the Convertible Bond will have the right to convert the whole or part of the principal amount of the Convertible Bond in to Conversion Shares from time to time in amounts of not less than HK\$650,000 on each conversion, save that if at any time, the principal outstanding amount of the Convertible Bond is less than HK\$650,000, the whole (but not part only) of the principal outstanding amount of the Convertible Bond may be converted.

The price at which each of the Conversion Shares to be issued shall be HK\$0.65 subject to adjustments. No fraction of a share will be issued on conversion but (except in cases where any such cash payment would amount to less than HK\$10) an equivalent cash payment in Hong Kong dollars will be made to the Bondholder in respect of such fraction.

The rights of conversion shall be exercisable on any Business Day commencing on the day immediately after Completion and prior to the date of maturity of the Convertible Bond.

Conversion Price

Initially at HK\$0.65 per Conversion Share, subject to adjustments as set out below and in accordance with the Conditions.

Adjustment to the Conversion Price

The Conversion Price of HK\$0.65 per Conversion Share is subject to adjustment upon the occurrence of subdivision or consolidation of Shares, capitalization issues, cash distribution to Shareholders being made on a reduction of capital, and rights issues.

LETTER FROM THE BOARD

Ranking of Conversion Shares 363,125,723 Conversion Shares, will rank in all respects pari passu with all Shares in issue as at the date of registration of the holders of Conversion Shares on the register of members of the Company. The Conversion Shares will not be issued under the Company's existing general mandate but the issue thereof shall be subject to the approval by Independent Shareholders by means of a special mandate at the SGM.

Assuming full conversion of the Convertible Bond, the Company will issue 363,125,723 Conversion Shares (Note), representing (i) approximately 3.27% of the Company's total issued share capital as at the Latest Practicable Date; and (ii) approximately 3.16% of the Company's issued share capital as enlarged by the issue of the Conversion Shares.

Note: It is a term of the Convertible Bond that the Bondholder will not, during the term of the Bond, exercise its conversion rights (whether in whole or in part) if the exercise or conversion of such will result in a mandatory general offer obligation on the part of the Bondholder and/or parties acting in concert with it under Rule 26 of the Takeovers Code. The Bondholder may by a written notice to the Company before the Maturity Date request the Company to defer the issue and allotment of the Shares upon Conversion to a date specified in a written notice so as to allow the Bondholder sufficient time to determine whether the Conversion (in whole or in part) will trigger its general offer obligations under the Takeovers Code.

Transferability Subject to the consent of the Stock Exchange, the Convertible Bond is freely transferable and may be assigned to any party or parties other than connected persons of the Company.

Listing No application will be made for the listing of the Convertible Bond on the Stock Exchange or any other stock exchange.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming that there is no change in the issued share capital of the Company prior to the Conversion, the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon full conversion of the Convertible Bond by the Subscriber will be as follows:

Name	Shareholding as at the Latest Practicable Date		Shareholding upon full conversion of the Convertible Bond by the Subscriber	
	<i>Number of issued Shares</i>	<i>%</i>	<i>Number of issued Shares</i>	<i>%</i>
China Three Gorges Corporation* (Note 1)	3,230,769,231	29.05%	3,230,769,231	28.14%
China Power New Energy Limited (Note 2)	2,771,903,508	24.93%	3,135,029,231	27.30%
China Power International Holding Limited (Note 2)	<u>95,740,000</u>	<u>0.86%</u>	<u>95,740,000</u>	<u>0.84%</u>
	2,867,643,508	25.79%	3,230,769,231	28.14%
China National Offshore Oil Corporation (Note 3)	900,000,000	8.09%	900,000,000	7.83%
Public Shareholders	<u>4,121,395,600</u>	<u>37.07%</u>	<u>4,121,395,600</u>	<u>35.89%</u>
Total	<u><u>11,119,808,339</u></u>	<u><u>100%</u></u>	<u><u>11,482,934,062</u></u>	<u><u>100%</u></u>

Notes:

- China Three Gorges Corporation is wholly owned by State-owned Assets Supervision and Administration Commission of The State Council*, the PRC. Accordingly, State-owned Assets Supervision and Administration Commission of The State Council*, the PRC is deemed to be interested in these shares.
- China Power New Energy Limited is a wholly-owned subsidiary of Tianying Holding Limited, which in turn is a wholly-owned subsidiary of China Power International Holding Limited. China Power International Holding Limited is a wholly-owned subsidiary of China Power Investment Corporation which in turn is wholly owned by State-owned Assets Supervision and Administration Commission of The State Council*, the PRC. Accordingly, State-owned Assets Supervision and Administration Commission of The State Council*, the PRC is deemed to be interested in these shares by virtue of their corporate interest in China Power New Energy Limited.
- These shares are held by Shining East Investments Limited, a wholly-owned subsidiary of Overseas Oil & Gas Corporation, Ltd., which in turn is a wholly-owned subsidiary of China National Offshore Oil Corporation. China National Offshore Oil Corporation is wholly owned by State-owned Assets Supervision and Administration Commission of The State Council*, the PRC. Accordingly, State-owned Assets Supervision and Administration Commission of The State Council*, the PRC is deemed to be interested in these shares by virtue of its corporate interest in Shining East Investments Limited.

* for identification purposes only

LETTER FROM THE BOARD

REASONS FOR ENTERING INTO THE SUBSCRIPTION AGREEMENT

The Directors consider raising funds by issuing the Convertible Bond is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position of the Group. The Directors consider that the issue of the Convertible Bond is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

The terms and conditions of the Subscription Agreement were agreed at after arm's length negotiations between the Company and the Subscriber. The Directors (excluding the independent non-executive Directors who will form their view upon considering the advice of the Independent Financial Adviser) consider that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The Group recorded net current assets of approximately RMB144 million and cash and cash equivalents of approximately RMB645 million as at 31 December 2011. Profit attributable to Shareholders amounted to approximately RMB181 million for the year ended 31 December 2011. The net proceeds from the issue of the Convertible Bond will be HK\$236,031,719.95, which is intended to be used for general working capital, including but not limited to payment of general operating expenses, repayment of loans, or such other purposes as the Company may consider appropriate from time to time.

FUND RAISING ACTIVITY BY THE COMPANY IN THE LAST 12 MONTHS

The Company has not conducted any fund raising activities in the past twelve months immediately before the Latest Practicable Date except the following:

(1) Share purchase agreement with Yangtze Power and Yangtze HKCo

As stated in the announcement dated 23 January 2011 and the circular dated 14 February 2011, on 21 January 2011, the Company, Yangtze Power and Yangtze HKCo entered into a share purchase agreement (the "Yangtze Share Purchase Agreement") pursuant to which the Company conditionally agreed to allot and issue 2,800,000,000 Shares to Yangtze HKCo at a price of HK\$0.75 per Share for a consideration of HK\$2,100,000,000.

The estimated proceeds from the issue of Shares pursuant to the Yangtze Share Purchase Agreement were HK\$2,100,000,000.

The Company intended to use such proceeds in furtherance of its business plan of investing in power generating projects including the Jiangsu offshore wind-farm project, the Dongguan China Power New Energy Heat and Power project, the Tangshan waste-to-energy power generation project and the Haikou waste-to-energy power generation power project (the details of which are contained in the circular dated 14 February 2011) and other projects to be identified by the Group.

LETTER FROM THE BOARD

On 9 December 2011, the Company, Yangtze Power and Yangtze HKCo entered into an agreement (“Termination Agreement”) to terminate the Yangtze Share Purchase Agreement as it was anticipated by the Parties that the completion of the Yangtze Share Purchase Agreement would not be feasible within the period prescribed by the Yangtze Share Purchase Agreement.

Since the Company terminated the Yangtze Share Purchase Agreement, the Company did not raise any funds from the issue of Shares contemplated under the Yangtze Share Purchase Agreement.

(2) Share purchase agreement with China Three Gorges

As stated in the announcement dated 12 December 2011 and the circular dated 6 January 2012, on 10 December 2011, the Company entered into a share purchase agreement (“Three Gorges Share Purchase Agreement”) with China Three Gorges, pursuant to which the Company has conditionally agreed to allot and issue 3,230,769,231 Shares to China Three Gorges at a price of HK\$ 0.65 per Share for a consideration of HK\$2,100,000,000.

As stated in the announcement dated 30 May 2011, completion of the Three Gorges Share Purchase Agreement took place on 30 May 2011 and China Three Gorges became the beneficial owner of 3,230,769,231 Shares.

The proceeds from the issue of Shares pursuant to the Three Gorges Share Purchase Agreement were HK\$2,100,000,000.

As stated in the circular dated 6 January 2012, the Company intends to use such proceeds in furtherance of its business plan of investing in power generating projects including the Jiangsu offshore wind-farm project, the Dongguan China Power New Energy Heat and Power project, the Tangshan waste-to-energy power generation project and the Haikou waste-to-energy power generation power project (the details of which are contained in the circular dated 6 January 2012) and other projects to be identified by the Group. Pending the deployment of such proceeds for such purposes, the Company has placed such proceeds as fixed-term deposits in banks.

PROPOSED GRANT OF SPECIAL MANDATE TO ISSUE THE CONVERTIBLE BOND AND CONVERSION SHARES

Under the terms and conditions of the Convertible Bond, the Company will issue the Conversion Shares to the Subscriber upon the exercise of the conversion rights attached to the Convertible Bond. The Conversion Shares will rank pari passu with all the then existing issued Shares. The Company will seek the grant of a Special Mandate from the Independent Shareholders at the SGM to issue the Convertible Bond and to issue and allot the Shares to satisfy the allotment and issue of the Conversion Shares.

LETTER FROM THE BOARD

LISTING RULES IMPLICATION

The Subscriber is a substantial shareholder of the Company holding 24.93% of the issued share capital of the Company as at the Latest Practicable Date. The Subscriber is therefore a connected person of the Company and the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements.

None of the Directors have a material interest in the Subscription Agreement or the transactions contemplated thereunder but Ms. Li Xiaolin, who is the chairman of the Subscriber, and Mr. Zhao Xinyan, who is a director of the Subscriber, abstained from voting on the relevant board resolutions passed at the board meeting held on 26 June 2012.

An Independent Board Committee has been formed to advise the Independent Shareholders and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder.

The Company will apply to the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

SGM

An SGM will be held on 6 August 2012 at 11:00 a.m. at Rooms 3801–3805, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during which an ordinary resolution will be proposed to the shareholders of the Company to approve (i) the Subscription Agreement and the transactions contemplated thereunder and (ii) the Special Mandate. The Subscriber and its associates, being connected persons in respect of the Subscription, will abstain from voting on the ordinary resolution. Any vote of the Independent Shareholders at the SGM will be taken by poll.

By Order of the Board
China Power New Energy Development Company Limited
Li Xiaolin
Chairman



China Power New Energy Development Company Limited

中國電力新能源發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 735)

Independent Board Committee:

Dr. Li Fang

Mr. Chu Kar Wing

Mr. Wong Kwok Tai

18 July 2012

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
ISSUE OF CONVERTIBLE BOND**

We refer to the circular (the “**Circular**”) dated 18 July 2012 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.

We have been appointed as members of the Independent Board Committee to consider the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bond to the Subscriber and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond), to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and the transactions contemplated thereunder, and to recommend how the Independent Shareholders should vote at the SGM. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The terms of the Subscription Agreement and reasons for entering into the Subscription Agreement are summarised in the Letter from the Board set out on pages 5 to 16 of the Circular.

We also draw your attention to the letter from First Shanghai in the Circular containing the advice of First Shanghai in respect of the Subscription Agreement and the transactions contemplated thereunder.

* *for identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the Subscription Agreement and the basis upon which the terms of the Subscription Agreement have been determined. We have also considered the key factors taken into account by First Shanghai in arriving at its opinion regarding the terms of the Subscription Agreement and the transactions contemplated thereunder as set out in the letter from First Shanghai on pages 19 to 30 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, among other things, the views of First Shanghai, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, considers that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution set out in the Notice of the SGM at the end of the Circular.

Yours faithfully

Dr. Li Fang Mr. Chu Kar Wing Mr. Wong Kwok Tai
Independent Board Committee

LETTER FROM FIRST SHANGHAI

The following is the full text of the letter of opinion from First Shanghai to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, for the purpose of incorporation in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

18 July 2012

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sir or Madam,

CONNECTED TRANSACTION ISSUE OF CONVERTIBLE BOND

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder, details of which are set out in the circular of the Company dated 18 July 2012 (the “**Circular**”) of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 26 June 2012, the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the Convertible Bond in the principal amount of approximately HK\$236 million due five years from the Issue Date convertible into a total of 363,125,723 Conversion Shares at the initial Conversion Price of HK\$0.65 per Conversion Share (subject to adjustments). The net proceeds from the issue of the Convertible Bond is intended to be used for general working capital.

The Subscriber is a substantial shareholder of the Company and is therefore a connected person of the Company. Hence, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and the Subscription is subject to, amongst others, Independent Shareholders’ approval by way of poll at the SGM.

LETTER FROM FIRST SHANGHAI

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Dr. Li Fang, Mr. Chu Kar Wing and Mr. Wong Kwok Tai, has been constituted to advise the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Company, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Company were true at the time they were made and continued to be true up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We have sought confirmation from the Directors that no material facts or information have been omitted from the information supplied and/or opinions expressed. We consider that we have reviewed sufficient available information and documents to enable us to reach an informed view with a reasonable basis for our opinions. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules in formulating our opinion and recommendation. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Company nor have we conducted any form of investigation into the business, affairs or future prospects of the Group or the Subscriber.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Background to and reasons for the entering into of the Subscription Agreement

(i) Information on the Group

The Group is principally engaged in the development, construction, owning, operation and management of clean energy power plants in the PRC. According to the annual report of the Company for the year ended 31 December 2011 (the “**2011 Annual Report**”), the Group recorded revenue (including tariff adjustment) of approximately RMB1,861 million for the year ended 31 December 2011, representing annual growth of approximately 17%, which was primarily attributable to contributions from new energy power projects after commencing operation. Nonetheless, profit attributable to Shareholders amounted to approximately RMB181 million for the year ended 31 December 2011, representing annual decline of approximately 23%, which was attributable to, amongst others, the increase in depreciation and amortisation expenses and the heightened finance costs.

LETTER FROM FIRST SHANGHAI

With reference to the 2011 Annual Report, the financial position of the Group as at 31 December 2011 was as follow:

	As at 31 December 2011 <i>(in RMB million)</i>
Non-current assets	9,940
Current assets	1,685
Total assets	11,625
Non-current liabilities	4,972
Current liabilities	1,541
Total liabilities	6,513
Net assets attributable to Shareholders	4,955
Non-controlling interests	157
Net assets	5,112

As shown in the above table, net assets of the Group amounted to approximately RMB5,112 million as at 31 December 2011. Non-current assets primarily comprised property, plant and equipment of approximately RMB7,947 million. Current assets primarily comprised cash and cash equivalents of approximately RMB645 million and prepayments, deposits and other receivables of approximately RMB525 million. Non-current liabilities mainly comprised long-term bank and other borrowings of approximately RMB4,289 million. Current liabilities mainly comprised construction cost payable of approximately RMB980 million and current portion of long-term bank and other borrowings of approximately RMB340 million.

(ii) Information on the Subscriber

The Subscriber, which is a substantial shareholder of the Company, is a company incorporated under the laws of Hong Kong with limited liability and is principally engaged in investment in new energy business the PRC. The Subscriber is an indirect wholly-owned subsidiary of China Power Investment Corporation, which in turn is wholly-owned by the State-owned Assets Supervision and Administration Commission of The State Council*, the PRC (the “SASAC”).

* for identification purposes only

LETTER FROM FIRST SHANGHAI

(iii) Benefits of the Subscription

The Group recorded net current assets of approximately RMB144 million and cash and cash equivalents of approximately RMB645 million as at 31 December 2011 and profit attributable to Shareholders of approximately RMB181 million for the year ended 31 December 2011. The net proceeds from the issue of the Convertible Bond is intended to be used for general working capital, including but not limited to payment of general operating expenses and repayment of loans. We are advised by the Company that the issue of the Convertible Bond can improve the financial flexibility of the Group by further expanding the working capital pool of the Group and alleviating the Group from the reliance of interest bearing loans in near future where interest expenses already accounted for approximately 16% of the revenue (including tariff adjustment) and 165% of the profit attributable to Shareholders of the Group for the year ended 31 December 2011.

We understand from the Company that various alternative funding approaches have been considered to enhance its general working capital, which included the conduct of rights issue or an open offer, the placing of new shares and the raising of bank loans. Nonetheless, we are advised by the Company that (i) rights issue or an open offer takes considerable time to complete and may involve underwriting commission expenses; (ii) placing of new shares would immediately dilute the shareholdings of other existing Shareholders and may involving placing commission expenses; and (iii) the raising of bank loans would increase the finance costs of the Group, where the weighted average interest rate on borrowing costs of the Group was approximately 6.29% per annum for the year ended 31 December 2011. Accordingly, the Company considered that the Subscription, which is interest-free, involves no underwriting or placing commission and is not expected to have an immediate dilution effect to the shareholdings of the Independent Shareholders, is the best approach to enhance the general working capital of the Group. Furthermore, we are also advised by the Company that the Group may not be able to secure other funding opportunities on terms no less favourable than those of the Subscription in the near future.

Having considered that (i) the issue of the Convertible Bond can improve the financial flexibility of the Group by further expanding the working capital pool of the Group and alleviating the Group from the reliance of interest bearing loans in near future where interest expenses already accounted for approximately 16% of the revenue (including tariff adjustment) and 165% of the profit attributable to Shareholders of the Group for the year ended 31 December 2011; (ii) the Subscription would not involve any underwriting or placing commission expense; (iii) the Convertible Bond is interest-free, whereas the weighted average interest rate on borrowing costs of the Group was approximately 6.29% per annum for the year ended 31 December 2011; (iv) the Convertible Bond has a term of five years and is not expected to cause an immediate dilution effect to the shareholdings of the Independent Shareholders; (v) the Group may not be able to secure other funding opportunities on terms no less favourable than those of the Subscription in the near

LETTER FROM FIRST SHANGHAI

future; and (vi) the terms of the Subscription Agreement are fair and reasonable as discussed below, we are of the view that the entering into of the Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Subscription Agreement

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the Convertible Bond in the principal amount of approximately HK\$236 million due five years from the Issue Date convertible into a total of 363,125,723 Conversion Shares at the initial Conversion Price of HK\$0.65 per Conversion Share (subject to adjustments). Further details of the terms of the Subscription Agreement are set out in the letter from the Board in the Circular.

In assessing the fairness and reasonableness of the terms of the Subscription, we have identified, to the best of our knowledge, an exhaustive list of comparable subscriptions (the “**Comparable Subscriptions**”) that (i) involve proposed subscription of convertible notes/bonds issued by Hong Kong listed companies for fund raising purposes (excluding the issues to counterparty for the settlement of transaction considerations); and (ii) are announced by Hong Kong listed companies between the period from 1 January 2012 up to the publication of the announcement in relation to the Subscription by the Company. Independent Shareholders should note that the analysis of the Comparable Subscriptions is for general reference purpose only given the business and financial aspects and prospects of the subject issuers in the Comparable Subscriptions may differ from those of the Group and the specific terms and conditions of the Comparable Subscriptions may also differ from those of the Subscription. Set out in the below table are details of the Comparable Subscriptions.

Announcement date	Company name (Stock code)	Maturity (year)	Interest rate per annum (%)	Premium/ (Discount) of the conversion price over/(to) the closing price of the shares on the announcement date (%)	Premium/ (Discount) of the conversion price over/(to) the average of the closing prices of the shares for the five consecutive trading days up to the announcement date (%)
17 January 2012	Chiho-Tiande Group Limited (976 HK)	3.00	4.00	51.90	53.53
19 January 2012	Li Ning Company Limited (2331 HK)	5.00	4.00 ⁽¹⁾	15.18	13.06
20 January 2012	Hong Long Holdings Limited (1383 HK)	1.00	0.10	(11.65)	(16.23)

LETTER FROM FIRST SHANGHAI

Announcement date	Company name (Stock code)	Maturity (year)	Interest rate per annum (%)	Premium/ (Discount) of the conversion price over/(to) the closing price of the shares on the announcement date (%)	Premium/ (Discount) of the conversion price over/(to) the average of the closing prices of the shares for the five consecutive trading days up to the announcement date (%)
20 January 2012	China Public Healthcare (Holding) Limited (8116 HK)	5.00	Nil	(15.52)	(18.87)
26 January 2012	Opes Asia Development Limited (810 HK)	3.00	3.00	1.41	1.12
27 January 2012	China Properties Group Limited (1838 HK)	4.00	5.00	2.98	1.42
26 February 2012	Larry Jewelry International Company Limited (8351 HK)	2.00	3.00	9.59	8.70
6 March 2012	Wah Nam International Holdings Limited (159 HK)	1.00	12.00	17.65	14.07
6 March 2012	Siberian Mining Group Company Limited (1142 HK)	3.00	3.00	0.00	9.47
13 March 2012	China Eco-Farming Limited (8166 HK)	2.75	Nil	20.48	22.25
13 March 2012	361 Degrees International Limited (1361 HK)	5.00	4.50	27.42	20.57
14 March 2012	China Overseas Grand Oceans Group Limited (81 HK)	5.00	Nil ⁽²⁾	31.92	30.92

LETTER FROM FIRST SHANGHAI

Announcement date	Company name (Stock code)	Maturity (year)	Interest rate per annum (%)	Premium/ (Discount) of the conversion price over/(to) the closing price of the shares on the announcement date (%)	Premium/ (Discount) of the conversion price over/(to) the average of the closing prices of the shares for the five consecutive trading days up to the announcement date (%)
21 March 2012	China Hongqiao Group Limited (1378 HK)	5.00	6.50	32.18	27.68
31 March 2012	Tse Sui Luen Jewellery (International) Limited (417 HK)	5.00	5.00 ⁽¹⁾	4.23	3.39
3 April 2012	Long Success International (Holdings) Limited (8017 HK)	3.00	13.00	55.44	20.00
19 April 2012	Tai Shing International (Holdings) Limited (8103 HK)	1.25	Nil	2.46	1.30
26 April 2012	China Ruifeng Galaxy Renewable Energy Holdings Limited (527 HK)	5.00	8.00 ⁽¹⁾	(35.48)	(35.48)
3 May 2012	Xinyi Glass Holdings Limited (868 HK)	5.00	Nil	18.11	18.34
9 May 2012	China Tianyi Holdings Limited (756 HK)	3.00	3.50	33.10	30.89
15 May 2012	China Natural Investment Company Limited (8250 HK)	3.00	Nil	(59.68)	(59.68)
18 May 2012	C.banner International Holdings Limited (1028 HK)	4.00	Nil ⁽³⁾	4.35	4.62

LETTER FROM FIRST SHANGHAI

Announcement date	Company name (Stock code)	Maturity (year)	Interest rate per annum (%)	Premium/ (Discount) of the conversion price over/(to) the closing price of the shares on the announcement date (%)	Premium/ (Discount) of the conversion price over/(to) the average of the closing prices of the shares for the five consecutive trading days up to the announcement date (%)
22 May 2012	Jiangchen International Holdings Limited (1069 HK)	3.00	Nil	(18.18)	(18.67)
31 May 2012	North Mining Shares Company Limited (433 HK)	2.00	Nil	26.32	27.21
8 June 2012	Baofeng Modern International Holdings Company Limited (1121 HK)	3.00	7.00	11.02	9.35
18 June 2012	Sino Resources Group Limited (223 HK)	2.00	12.00	25.79	24.69
	Maximum:	5.00	13.00	55.44	53.53
	Mean:	3.36	3.74	10.04	7.75
	Median:	3.00	3.00	11.02	9.47
	Minimum:	1.00	Nil	(59.68)	(59.68)
	The Subscription:	5.00	Nil	106.35	107.01

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. The bondholders are entitled to amount no less than the dividend payment amount.
2. The bondholders are entitled to interest of 2% for the first three years and nil for the remaining two years.
3. The bondholders are entitled to dividend interest.

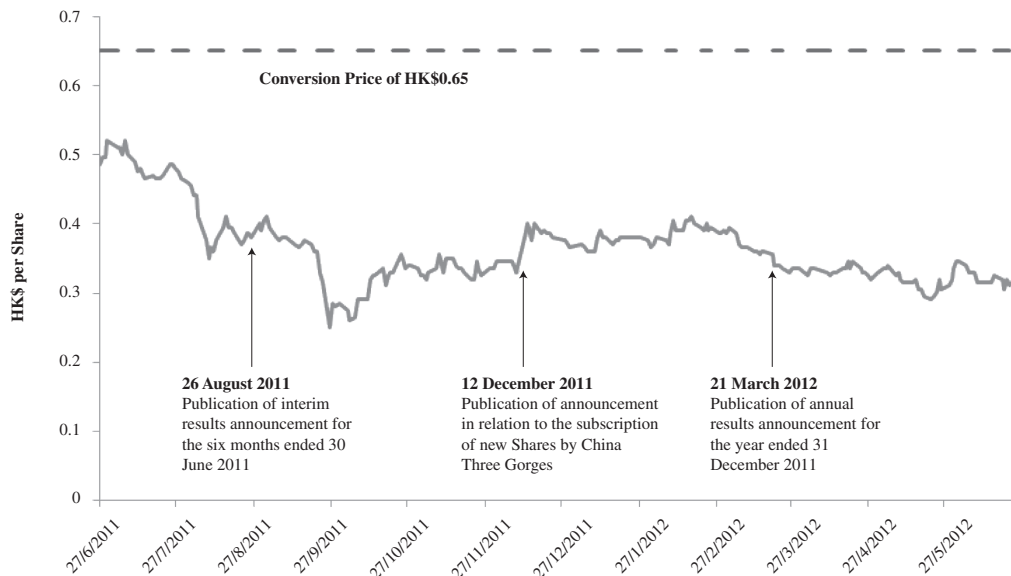
LETTER FROM FIRST SHANGHAI

(i) Maturity and interest rate

We note that the maturity term of the Convertible Bond of five years equals the upper end of those of the Comparable Subscriptions. We consider a longer maturity term offers the Group a longer period before the Group has to repay the outstanding principal amount of the Convertible Bond and can therefore minimise the financial burden of the Group in the near period. We also note that the Convertible Bond carries no interest whilst the Comparable Subscriptions have interest rate as high as 13% per annum and, based on the 2011 Annual Report, the weighted average interest rate on borrowing costs of the Group was approximately 6.29% per annum for the year ended 31 December 2011, hence we consider the Subscription allows the Group to obtain funding for its general working capital with minimal finance cost.

(ii) Conversion Price

We note that the premium represented by the Conversion Price over the closing price of the Shares on the announcement date and the average of the closing prices of the shares for the five consecutive trading days up to the announcement date are significantly higher than the range of those of the Comparable Subscriptions. Moreover, we note that the Conversion Price equals the subscription price of 3,230,769,231 new Shares by China Three Gorges as disclosed in the announcement of the Company dated 12 December 2011. Furthermore, we note that the Conversion Price represents a premium of approximately 25% over the highest closing price of the Shares during the one-year period up to the date of the announcement of the Subscription of HK\$0.52, which was recorded on 30 June 2011 and 7 July 2011. The chart below sets out the closing prices of the Shares during the one-year period up to the date of the announcement of the Subscription.



Source: Bloomberg

LETTER FROM FIRST SHANGHAI

Based on the above principal factors, in particular, (i) the Convertible Bond has a maturity term of five years and carries no interest, which allows the Group to raise fund for general working capital whilst minimising the financial burden of the Group in the near period; (ii) the Conversion Price represents substantial premium as compared with those of the Comparable Subscriptions and also represents substantial premium over the highest closing price of the Shares during the recent one-year period; and (iii) the benefits of the Subscription as previously discussed, we consider the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Financial effects of the Subscription to the Group

(a) Earnings

According to the 2011 Annual Report, the Group recorded net profit attributable to Shareholders of approximately RMB181 million for the year ended 31 December 2011. We are advised by the Company that the issue of the Convertible Bond is not expected to have any material impact to the earnings of the Group immediately upon Completion. We are further advised by the Company that, despite the Convertible Bond is interest-free, the Group may record imputed interests in future based on subsequent fair value assessment of the Convertible Bond.

(b) Net assets

According to the 2011 Annual Report, the Group recorded net assets attributable to Shareholders of approximately RMB4,955 million as at 31 December 2011. We are advised by the Company that the issue of the Convertible Bond will result in an increase in both assets and liabilities of the Group at the same time, therefore the net assets of the Group is not expected to experience any material impact immediately upon Completion.

(c) Gearing and working capital

According to the 2011 Annual Report, the gearing ratio of the Group, which was calculated based on net debt (being total bank and other borrowings less cash and cash equivalents and pledged deposits) divided by total capital (being the sum of net debt and net assets), was approximately 47% as at 31 December 2011. We are advised by the Company that, given the issue of the Convertible Bond will result in an increase in both assets and liabilities of the Group at the same time, the net debt and net assets of the Group are not expected to experience any material change, hence the gearing ratio of the Group is also not expected to experience any material change immediately upon Completion. In addition, given that the Group will receive cash for the issue of the Convertible Bond, the working capital of the Group is expected to improve upon Completion.

LETTER FROM FIRST SHANGHAI

4. Dilution effects of the Subscription to the Shareholders

Assuming that there is no change in the issued share capital of the Company prior to the Conversion, the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon full conversion of the Convertible Bond by the Subscriber are as follows:

Name	Shareholding as at the Latest Practicable Date		Shareholding upon full conversion of the Convertible Bond by the Subscriber	
	<i>Number of issued Shares</i>	<i>%</i>	<i>Number of issued Shares</i>	<i>%</i>
The Subscriber ⁽¹⁾	2,771,903,508	24.93%	3,135,029,231	27.30%
China Power International Holding Limited ⁽¹⁾	<u>95,740,000</u>	<u>0.86%</u>	<u>95,740,000</u>	<u>0.84%</u>
	2,867,643,508	25.79%	3,230,769,231	28.14%
China Three Gorges ⁽²⁾	3,230,769,231	29.05%	3,230,769,231	28.14%
China National Offshore Oil Corporation ⁽³⁾	900,000,000	8.09%	900,000,000	7.83%
Public Shareholders	<u>4,121,395,600</u>	<u>37.07%</u>	<u>4,121,395,600</u>	<u>35.89%</u>
Total	<u><u>11,119,808,339</u></u>	<u><u>100.00%</u></u>	<u><u>11,482,934,062</u></u>	<u><u>100.00%</u></u>

Notes:

1. The Subscriber is a wholly-owned subsidiary of Tianying Holding Limited, which in turn is a wholly-owned subsidiary of China Power International Holding Limited. China Power International Holding Limited is a wholly-owned subsidiary of China Power Investment Corporation which in turn is wholly owned by the SASAC. Accordingly, the SASAC is deemed to be interested in these shares by virtue of their corporate interest in the Subscriber.
2. China Three Gorges is wholly owned by the SASAC. Accordingly, the SASAC is deemed to be interested in these shares.
3. These shares are held by Shining East Investments Limited, a wholly-owned subsidiary of Overseas Oil & Gas Corporation, Ltd., which in turn is a wholly-owned subsidiary of China National Offshore Oil Corporation. China National Offshore Oil Corporation is wholly owned by the SASAC. Accordingly, the SASAC is deemed to be interested in these shares by virtue of its corporate interest in Shining East Investments Limited.

LETTER FROM FIRST SHANGHAI

As shown in the above table, the shareholding of the public Shareholders would be slightly diluted from approximately 37% to approximately 36% upon full conversion of the Convertible Bond by the Subscriber. Having considered the previously mentioned factors, in particular, (i) the Convertible Bond has a maturity term of five years and carries no interest, which allows the Group to raise fund for general working capital whilst minimising the financial burden of the Group in the near period; (ii) the Conversion Price represents substantial premium as compared with those of the Comparable Subscriptions and also represents substantial premium over the highest closing price of the Shares during the recent one-year period; and (iii) the benefits of the Subscription as previously discussed, we consider the slight dilution to the shareholding of the public Shareholders is acceptable.

RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that (i) despite the issue of the Convertible Bond is not in the ordinary and usual course of business of the Group, the net proceeds from the issue of the Convertible Bond is intended to be used for the ordinary and usual course of business of the Group; (ii) the entering into of the Subscription Agreement and the transactions contemplated thereunder is in the interest of the Company and the Shareholders as a whole; and (iii) the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of

First Shanghai Capital Limited

Eric Lee
Managing Director

Fanny Lee
Managing Director

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 herein or this circular misleading.

2. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, save as disclosed in the table 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 would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were 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 referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange.

Name	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
Mr. Li Xiaolin	Chairman	Company	8 June 2007	23,000,000	0.21%	Long
			1 November 2010	20,000,000	0.18%	Long
Mr. Zhao Xinyan	Executive Director	Company	8 June 2007	18,000,000	0.16%	Long
			1 November 2010	8,000,000	0.07%	Long
Mr. Wang Hao	Executive Director	Company	9 March 2007	30,000,000	0.27%	Long
			1 November 2010	8,000,000	0.07%	Long
Mr. Liu Genyu	Executive Director	Company	8 June 2007	18,000,000	0.16%	Long
			1 November 2010	15,000,000	0.13%	Long

3. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up or subsisting at the Latest Practicable Date, and which was significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract, nor is there any proposed service contract with any member of the Group which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

5. 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 with Company	Other Interests
Li Xiaolin	Chairman and Executive Director	Vice General Manager of China Power Investment Corporation, Chairman of China Power International Holding Limited, Chairman of the Subscriber and Director of Companhia de Electricidade de Macau
Zhao Xinyan	Executive Director	Vice General Manager of China Power International Holding Limited and Director of the Subscriber

6. OTHER DISCLOSURE BY DIRECTORS

As at the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of Director	Company	Position
Li Xiaolin	Subscriber	Chairman
	China Power International Holding Limited	Chairman
	China Power Investment Corporation	Vice General Manager

Name of Director	Company	Position
Zhao Xinyan	Subscriber	Director
	China Power International Holding Limited	Vice General Manager
Cheng Chi	Shining East Investments Limited	Director
	China National Offshore Oil Corporation	General Manager, Cash Management Department

7. EXPERTS AND CONSENTS

The following are the qualifications of the professional adviser who has given opinions or advice contained in this circular:

Name	Qualifications
First Shanghai	a licensed corporation for carrying out Type 6 (advising on corporate finance) regulated activity under the SFO

First Shanghai has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its statements, letter, report and opinion (as the case may be) as set out in this circular and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, First Shanghai was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the Group.

8. INTERESTS IN ASSETS

None of the Directors or First Shanghai had since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest published audited accounts of the Group were made up.

10. MISCELLANEOUS

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.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Rooms 3801–3805, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong during normal business hours (Saturdays and public holidays excepted) from the date of this circular until 6 August 2012 (both dates inclusive):

- (a) the Subscription Agreement;
- (b) the Yangtze Share Purchase Agreement;
- (c) the Termination Agreement; and
- (d) the Three Gorges Share Purchase Agreement.

NOTICE OF THE SPECIAL GENERAL MEETING



China Power New Energy Development Company Limited

中國電力新能源發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 735)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting of China Power New Energy Development Company Limited (the “**Company**”) will be held at Rooms 3801–3805, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 6 August 2012 at 11:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the subscription agreement dated 26 June 2012 (the “**Subscription Agreement**”) entered into between the Company and China Power New Energy Limited (the “**Subscriber**”), a connected person of the Company, in relation to the issue of a convertible bond (the “**Convertible Bond**”) in the principal amount of HK\$236,031,719.95 due five years from the date of issue and convertible into ordinary shares of par value of HK\$0.10 each in the share capital of the Company at the initial conversion price of HK\$0.65 per share (subject to adjustment) by the Company as the issuer to the Subscriber, a copy of the Subscription Agreement having been produced to the SGM marked “A” and signed by the chairman of the SGM for identification purpose, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) subject to completion of the Subscription Agreement, the directors of the Company be and are hereby authorised and granted a special mandate to issue the Convertible Bond to the Subscriber and allot, issue and deal with 363,125,723 shares of par value of HK\$0.10 each in the share capital of the Company initially (or other number of shares based on subsequent adjustment to the Conversion Price) (the “**Conversion Shares**”) to the Subscriber and/or other holder(s) of the Convertible Bond upon the exercise of the conversion rights attached to the Convertible Bond in accordance with the terms and conditions of the Subscription Agreement and the Convertible Bond; and
- (c) any director(s) of the Company be and is/are hereby authorised to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or do all such acts on behalf of the Company as he/she may consider necessary, desirable or expedient for the purpose of, or in connection with, (i) the

* *for identification purposes only*

NOTICE OF THE SPECIAL GENERAL MEETING

implementation and completion of the Subscription Agreement and transactions contemplated thereunder (including but not limited to the issue of the Convertible Bond to the Subscriber and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond) and/or (ii) any amendment, variation or modification of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bond to the Subscriber and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond) upon such terms and conditions as the board of directors of the Company may think fit.”

By Order of the Board
China Power New Energy Development Company Limited
Li Xiaolin
Chairman

Hong Kong, 18 July 2012

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:

Rooms 3801–3805
38/F, China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is holding two or more shares of the Company is entitled to appoint more than one proxy to attend and vote in his stead. If more than one proxy is appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the share registrar of the Company, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the special general meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member of the Company from attending the meeting or any adjournment thereof and voting in person if such member so wishes and in such event, the form of proxy will be deemed to be revoked.
3. Where there are joint registered holders of any share, any one of such joint registered holders may vote at any meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint registered holders are present at any meeting in person or by proxy, that joint registered holder so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.

NOTICE OF THE SPECIAL GENERAL MEETING

4. A form of proxy for use at the above meeting is enclosed herewith.
5. As required by the Listing Rules, the vote will be taken by poll. The chairman of the above meeting will demand a poll on the resolution set out in the notice of the above meeting in accordance with the bye-laws of the Company.
6. As at the date of this notice, the directors of the Company are: executive directors Ms. Li Xiaolin, Mr. Yin Lian, Mr. Zhao Xinyan, Mr. Wang Hao and Mr. Liu Genyu, non-executive director Mr. Cheng Chi and independent non-executive directors Dr. Li Fang, Mr. Chu Kar Wing and Mr. Wong Kwok Tai.