THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **DATANG INTERNATIONAL POWER GENERATION CO., LTD.,** you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

大唐国际发电股份有限公司

DATANG INTERNATIONAL POWER GENERATION CO., LTD.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00991)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Quam CAPITAL 華富嘉洛企業融資

A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee is set out on page 16 of this circular. A letter from Quam Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 39 of this circular.

The Company will convene the AGM at the function room of 5/F, InterContinental Hotel, No. 11 Financial Street, Xicheng District, Beijing, the PRC on 12 June 2014 (Tuesday) at 9:00 a.m.. The notice convening the AGM has been despatched to the Shareholders on 25 April 2014.

Completion and return of the proxy form shall not preclude you from attending and voting in person at the AGM or at any adjourned meetings should you so wish.

20 May 2014

CONTENTS

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

"A Shares"	the domestic ordinary shares of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"AGM"	the 2013 annual general meeting of the Company to be held at the function room of 5/F, InterContinental Hotel, No. 11 Financial Street, Xicheng District, Beijing, the PRC on 12 June 2014 (Thursday) at 9:00 a.m. to consider and approve, among others, the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"CDC"	China Datang Corporation, a State-owned enterprise established under the laws of the PRC and the controlling Shareholder of the Company; as at the Latest Practicable Date, CDC, together with its subsidiaries, own approximately 34.71% of the issued share capital of the Company
"Chemical Products"	chemical products to be manufactured and sold to Energy and Chemical Marketing Company by Keqi Coal-based Gas Company and Duolun Coal Chemical Company under the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun), including coal tar, mixed benzene, polypropylene, propylene, ethanol, LPG, BTX aromatics and etc.
"Company"	Datang International Power Generation Co., Ltd., a sino-foreign joint stock limited company incorporated in the PRC on 13 December 1994, whose H Shares are listed on the Hong Kong Stock Exchange and the London Stock Exchange and whose A Shares are listed on the Shanghai Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Directors"	the director(s) of the Company

"Duolun Coal Chemical Company"	大唐內蒙古多倫煤化工有限責任公司Datang Inner Mongolia Duolun Coal Chemical Company Limited, a subsidiary of the Company, details of which are set out in the section headed "Information of Parties to Agreements"
"Energy and Chemical Marketing Company"	大唐能源化工營銷有限公司Datang Energy and Chemical Marketing Company Limited, a wholly-owned subsidiary of the Company, details of which are set out in the section headed "Information of Parties to Agreements"
"Framework Agreement of Sale of Natural Gas"	the framework agreement of sale of natural gas entered into between Energy and Chemical Marketing Company and Keqi Coal-based Gas Company on 25 April 2014
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange of Hong Kong and the London Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising five independent non-executive Directors, and each of them does not have any material interest in the Sale and Purchase Agreement of Chemical Products and Materials
"Independent Shareholders"	has the meaning ascribed to it under the Listing Rules
"Keqi Coal-based Gas Company"	內蒙古大唐國際克什克騰煤制天然氣有限責任公司Inner Mongolia Datang International Keshiketeng Coal-based Gas Company Limited, a subsidiary of the Company, details of which are set out in the section headed "Information of Parties to Agreements"
"Latest Practicable Date"	16 May 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China

"Quam Capital"	Quam Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun)
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina)"	the sale and purchase agreement of coal-based gas (energy and chemical – PetroChina) entered into between Energy and Chemical Marketing Company and PetroChina Company Limited on 10 December 2013, details of which are set out in the relevant announcement issued by the Company on 10 December 2013
"Sale and Purchase Agreement of Chemical Products and Materials"	the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun)
"Sale and Purchase Contract of Chemical Products (Duolun)"	the Sale and Purchase Contract of Chemical Products entered into between Energy and Chemical Marketing Company and Duolun Coal Chemical Company on 25 April 2014
"Sale and Purchase Contract of Chemical Products (Keqi)"	the Sale and Purchase Contract of Chemical Products entered into between Energy and Chemical Marketing Company and Keqi Coal-based Gas Company on 25 April 2014
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	the holder(s) of Share(s) of the Company
"Shares"	the issued ordinary shares of the Company with a nominal value of RMB1.00 each, comprising domestic Shares and H Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	Percent

大唐国际发电股份有限公司
DATATANG INTERNATIONAL POWER GENERATION CO., LTD.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00991)

Executive Directors:
Mr. Wu Jing
Mr. Zhou Gang

Non-executive Directors:
Mr. Chen Jinhang *(Chairman)*
Mr. Hu Shengmu
Mr. Fang Qinghai
Mr. Li Gengsheng
Mr. Cao Xin
Mr. Cai Shuwen
Mr. Liu Haixia
Ms. Guan Tiangang

Independent non-executive Directors:
Mr. Dong Heyi
Mr. Ye Yansheng
Mr. Li Hengyuan
Ms. Zhao Jie
Mr. Jiang Guohua

Office address:
No.9 Guangningbo Street
Xicheng District
Beijing, 100033
the PRC

Principal place of business in Hong Kong:
c/o Eversheds
21/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

20 May 2014

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

On 25 April 2014, Energy and Chemical Marketing Company, a wholly-owned subsidiary of the Company, entered into the following agreements with certain subsidiaries of the Company for the implementation of continuing connected transactions set out below:

I. Purchase of natural gas and Chemical Products by Energy and Chemical Marketing Company from Keqi Coal-based Gas Company

(1) Energy and Chemical Marketing Company entered into the Framework Agreement of Sale of Natural Gas with Keqi Coal-based Gas Company, pursuant to which, Energy and Chemical Marketing Company agreed to purchase natural gas from Keqi Coal-based Gas Company with an annual cap for transaction amount of RMB4.029 billion for a term commencing from 18 December 2013 to 31 December 2014.

(2) Energy and Chemical Marketing Company entered into the Sale and Purchase Contract of Chemical Products (Keqi) with Keqi Coal-based Gas Company; pursuant to which, Energy and Chemical Marketing Company agreed to purchase Chemical Products from Keqi Coal-based Gas Company with an annual cap for transaction amount of RMB623 million for a term commencing from 18 December 2013 to 31 December 2014.

II. Purchase of Chemical Products by Energy and Chemical Marketing Company from Duolun Coal Chemical Company

Energy and Chemical Marketing Company entered into the Sale and Purchase Contract of Chemical Products (Duolun) with Duolun Coal Chemical Company, pursuant to which, Energy and Chemical Marketing Company agreed to purchase Chemical Products from Duolun Coal Chemical Company with an annual cap for transaction amount of RMB3.63 billion; The term of the agreement for a term commencing from 1 January 2014 to 31 December 2014.

The purpose of this circular is:

(1) to provide you with further details of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun);

(2) to set out the recommendation of the Independent Board Committee in respect of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun); and

(3) to set out the letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun).

PURCHASE OF NATURAL GAS AND CHEMICAL PRODUCTS FROM KEQI COAL-BASED GAS COMPANY BY ENERGY AND CHEMICAL MARKETING COMPANY

1. Framework Agreement of Sale of Natural Gas

Agreement Date:	25 April 2014
Parties to Agreement:	Energy and Chemical Marketing Company and Keqi Coal-based Gas Company

Major Terms:

(1) Subject Matter: Energy and Chemical Marketing Company agreed to purchase natural gas produced by Keqi Coal-based Gas Company within the term of the agreement.

(2) Transaction Price: 0.5% discount (subject to change) to the price fixed according to the pricing principle of the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina), whereas the 0.5% represents the rate charged by Energy and Chemical Marketing Company for provision of co-ordination and management services with reference to the average market rate and on a fair and reasonable basis.

The pricing principles as stipulated in the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina) are as follows:

a. the initial agreed price is RMB2.75 per m^3 (13% VAT included);

b. the agreed price is only applicable to coal-based natural gas with the lower calorific value of not lower than 8,000kCal/m^3. Where the lower calorific value of coal-based natural gas delivered by the vendor is lower than 8,000kCal/m^3 on any day within the term of the agreement, the agreed price applicable for actual settlement shall be discounted as follow:

   Discounted agreed price = Agreed price x (Average calorific value of coal-based natural gas of the day/8,000);

c. the agreed price mentioned above is effective for the period between the date on which the agreement is signed and 31 December 2016. The agreed price applicable for 1 January 2017 onwards can be adjusted according to the current pricing base and the prevailing price and market conditions;

d. where the State provides or recommends that the calculation of price of natural gas shall be based on the calorific value, parties to the agreement shall confirm to adopt the agreed price based on the calorific value and calculated according to principles as stipulated by the State and the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina).

(3) Settlement and Payment: Parties to the agreement shall settle all payments according to the invoice confirmed by both parties and the term of the agreement, 10 days shall constitute a settlement cycle (3 settlements per month).

(4) Term: from 18 December 2013 to 31 December 2014

The Company confirms that each of the applicable percentage ratios under the transaction amount in respect of purchase of natural gas under the Framework Agreement of Sale of Natural Gas for the period from 18 December 2013 to the Latest Practicable Date are below the de minimis threshold under Chapter 14A of the Listing Rules.

(5) The agreement shall become effective once it is executed by the authorised representatives of both parties and the common seals of both parties are affixed. Upon expiration of the agreement where no change is to be made by the parties to the terms of the agreement and subject to re-compliance with applicable reporting, announcement and independent Shareholders' requirements (as the case maybe) under Chapter 14A of the Listing Rules, it shall be extended for one year automatically.

Annual Cap

The annual cap of transactions under the Framework Agreement of Sale of Natural Gas for the year ending 31 December 2014 is expected to be RMB4.029 billion which is based on: (i) the volume of natural gas expected to be produced and sold by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company for the year ending 31 December 2014; and (ii) the price of natural gas as provided in the agreement.

Historical Transaction Amount

For the year ended 31 December 2013, the transaction amount of sale of natural gas by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company did not reach the de minimis threshold under Chapter 14A of the Listing Rules.

For the two years ended 31 December 2011 and 31 December 2012, no natural gas was sold by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company.

2. Sale and Purchase of Chemical Products (Keqi)

Agreement Date: 25 April 2014

Parties to Agreement: Energy and Chemical Marketing Company and Keqi Coal-based Gas Company

Major Terms:

(1) Subject Matter: Energy and Chemical Marketing Company agreed to purchase Chemical Products produced by Keqi Coal-based Gas Company within the term of the agreement.

(2) Transaction Price: Energy and Chemical Marketing Company will sell Chemical Products at prevailing market selling price of similar chemical products in the PRC (details of the pricing policy are set out in the subsequent section headed "PROCEDURES FOR DETERMINATION OF PRICING POLICY") and a 1% discount to such market selling price of the Chemical Products shall be made for the settlement of payment with Keqi Coal-based Gas Company. Such 1% discount represents the rate charged by Energy and Chemical Marketing Company for provision of co-ordination and management services with reference to the average market rate and on a fair and reasonable basis.

(3) Settlement and Payment: During the term of the contract, Energy and Chemical Marketing Company shall pay Keqi Coal-based Gas Company the amount for Chemical Products on a cash-on-delivery basis and the payment shall be settled every Friday during the term of the agreement.

(4) Term: from 18 December 2013 to 31 December 2014

The Company confirms that each of the applicable percentage ratios under the transaction amount in respect of purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Keqi) for the period from 18 December 2013 to the Latest Practicable Date are under the de minimis threshold under Chapter 14A of the Listing Rules.

(5) The agreement shall become effective once it is executed by the authorised representatives of both parties and the common seals of both parties are affixed. Upon expiration of the agreement where no change is to be made by parties to the terms of the agreement and subject to re-compliance with applicable reporting, announcement and independent Shareholders' requirements (as the case maybe) under Chapter 14A of the Listing Rules, it shall be extended for one year automatically

Annual Cap

The annual cap of transactions under the Sale and Purchase Contract of Chemical Products (Keqi) for the year ending 31 December 2014 is expected to be approximately RMB 623 million which is based on: (i) the volume of Chemical Products expected to be sold by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company for the year ending 31 December 2014; and (ii) the expected price of Chemical Products.

Historical Transaction Amount

For the year ended 31 December 2013, the transaction amount for the purchase of Chemical Products by Energy and Chemical Marketing Company from Keqi Coal-based Gas Company is below the de minimis threshold under Chapter 14A of the Listing Rules.

No transaction in respect of purchase of Chemical Products has been made between Energy and Chemical Marketing Company and Keqi Coal-based Gas Company for the two years ended 31 December 2011 and 31 December 2012.

PURCHASE OF CHEMICAL PRODUCTS BY ENERGY AND CHEMICAL MARKETING COMPANY FROM DUOLUN COAL CHEMICAL COMPANY

Sale and Purchase Contract of Chemical Products (Duolun)

Agreement Date:	25 April 2014
Parties to Agreement:	Energy and Chemical Marketing Company and Duolun Coal Chemical Company

Major Terms:

(1) Subject Matter:

Energy and Chemical Marketing Company agreed to purchase Chemical Products from Duolun Coal Chemical Company during the term of contract.

(2) Transaction Price:

Energy and Chemical Marketing Company will purchase Chemical Products from Duolun Coal Chemical Company at prevailing market selling price of similar chemical products in the PRC (details of the pricing policy are set out in the subsequent section headed "PROCEDURES FOR DETERMINATION OF PRICING POLICY") and a 1% discount to such market selling price of the Chemical Products shall be made for the settlement of payment with Duolun Coal Chemical Company. Such 1% discount represents the rate charged by Energy and Chemical Marketing Company for provision of co-ordination and management services with reference to the average market rate and on a fair and reasonable basis.

(3) Settlement and Payment:

Energy and Chemical Marketing Company shall pay Duolun Coal Chemical Company the amount for Chemical Products on a cash-on-delivery basis for the purchase of Chemical Products.

(4) Term: 1 year from 1 January 2014 to 31 December 2014

The Company confirms that each of the applicable percentage ratios under the transaction amount in respect of purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) for the period from 1 January 2014 to the Latest Practicable Date is under the de minimis threshold under Chapter 14A of the Listing Rules.

(5) Settlement and Payment:

The Sale and Purchase Contract of Chemical Products (Duolun) shall become effective once it is executed by both parties. Upon expiration of the agreement where no change is to be made by parties to the terms of the agreement and subject to re-compliance with applicable reporting, announcement and independent Shareholders' requirements (as the case maybe) under Chapter 14A of the Listing Rules, it shall be extended for one year automatically.

Annual Cap

It is expected that the maximum transaction amount in respect of purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun), for the year ending 31 December 2014 is RMB3.63 billion; such amount is determined with reference to (i) the anticipated volume of Chemical Products to be purchased by Energy and Chemical Marketing Company from Duolun Coal Chemical Company; and (ii) the estimated price of Chemical Products and Chemical Materials.

Historical Transaction Amount

No purchase of Chemical Products was made by Energy and Chemical Marketing Company with Duolun Coal Chemical Company for the previous 3 years.

PROCEDURES FOR DETERMINATION OF PRICING POLICY

The mechanism by which the transaction prices of relevant products under the Sale and Purchase Agreement of Chemical Products and Materials were determined is as follows:

(1) Purchase of Chemical Products by Energy and Chemical Marketing Company from Keqi Coal-based Gas Company and Duolun Coal Chemical Company

(i) Extended settlement method (i.e. listing for sale) was mainly used for the purchase of polypropylene from Duolun Coal Chemical Company. In other words, pricing meeting will be held regularly by Energy and Chemical Marketing Company and the relevant business division will collect and analyse the selling price and trends of similar products. Selling price and settlement price of polypropylene will be determined by a pricing committee after due consideration of various factors such as proposed sales volume, inventories and price trend.

(ii) For the purchase of other Chemical Products, the selling price was determined by way of request of quotation tendering. In other words, the business division of Energy and Chemical Marketing Company will conduct tendering by issuing quotation request documents to eligible trading companies and downstream production units in PRC based on the sales plan and product quality report provided by Keqi Coal-based Gas Company and Duolun Coal Chemical Company. Pricing meeting will be held by the pricing committee. The selling price of products will be determined based on the result of quotation request and after due analysis of the information on market trends of relevant products collected by the business division. Settlement of payment with Keqi Coal-based Gas Company and Duolun Coal Chemical Company will be made in accordance with the selected principle for settlement.

The business division of Energy and Chemical Marketing Company will send letter of quotation request to each of the suppliers, and complete the quotation before the closing date. Overall supervision will be maintained by supervisory auditing staff. Upon receipt of the quotations, pricing meeting will be held by the pricing committee to determine the bid price of the purchase, which, in principle, the bidder with the lowest rate will be the winning bidder. Settlement of payment with Keqi Coal-based Gas Company and Duolun Coal Chemical Company will be made in accordance with the selected principle for settlement.

(2) Purchase of Natural Gas from Keqi Coal-based Gas Company by Energy and Chemical Marketing Company

Pursuant to the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina), the sales representatives of the parties will verify the sales volume of natural gas every day and calculate the unit selling price of natural gas based on the calorific value. Settlement of payment with Keqi Coal-based Gas Company will be made in accordance with the selected principle for settlement.

(3) Co-ordination and management service fee charged by Energy and Chemical Marketing Company.

The level of management fee is determined by Energy and Chemical Marketing Company with reference to the investigation and research results on the fee of provision of management service for sale and purchase of similar chemical products and materials charged by other independent third parties and after negotiation with Keqi Coal-based Gas Company and Duolun Coal Chemical Company.

REASONS FOR, AND BENEFITS OF, ENTERING INTO THE SALE AND PURCHASE AGREEMENT OF CHEMICAL PRODUCTS AND MATERIALS

Energy and Chemical Marketing Company is a company specialised in selling coal-based chemical products, and is fully qualified for the sale and operation of relevant products and holds trading permits for hazardous chemical products. In addition, Energy and Chemical Marketing Company has also developed its competitive edges in terms of the sale of coal-based chemical products, relationships with suppliers and logistics, providing a reliable supply of raw materials and sale channel to affiliated corporations engaged in the business of coal-based chemical products, thereby securing a safe environment for ordinary production and operation activities. Meanwhile, economy of scale can be generated by the centralised procurement and sale activities of Energy and Chemical Marketing Company, thus effectively controlling the bulk purchase cost of raw materials incurred by affiliated corporations engaged in the business of coal-based chemical products and enhancing the advantages of regional sale of products, which can also rationalise the deployment of resources and control sales and marketing expenses in a reasonable way for the ultimate goal of maximising the profit of the Company. As a result, Duolun Coal Chemical Company and purchase natural gas and Chemical Products from Keqi Coal-based Gas Company and Duolun Coal Chemical Company.

The Directors (including the views of the independent non-executive Directors), are of the view that the terms in respect of the purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun), are fair and reasonable, have been entered into after arm’s length negotiation between all parties thereto and determined on normal commercial terms, and are in the best interests of the Company and its Shareholders as a whole.

None of the Directors has material interest in the Sale and Purchase Agreement of Chemical Products and Materials. In accordance with the requirements of the Listing Rules of the Shanghai Stock Exchange, those connected Directors, including Chen Jinhang, Hu Shengmu and Fang Qinghai, have abstained from voting at the Board meeting for approval of the above-mentioned transactions; Connected Director Mr. Li Gengsheng has abstained from voting at the Board meeting for entering into the Sale and Purchase Contract of Chemical Products (Keqi) and the Framework Agreement of Sale of Natural Gas and the transactions contemplated thereunder.

INFORMATION OF PARTIES TO AGREEMENTS

1. The Company is principally engaged in the construction and operation of power plants, the sale of electricity and thermal power, the repair, maintenance and tuning of power equipment and power related technical services. The Company's main service areas are in the PRC.

2. Energy and Chemical Marketing Company is a wholly-owned subsidiary of Datang Energy and Chemical Company Limited which is also a wholly-owned subsidiary of the Company. It was duly established in May 2009 with a registered capital of RMB50 million. Energy and Chemical Marketing Company is mainly engaged in the import and export of organic and inorganic chemical products and products and technologies under dealership and developed in-house.

3. Duolun Coal Chemical Company was duly incorporated on 19 August 2009 with a registered capital of RMB4,050 million. Duolun Coal Chemical Company is principally responsible for the construction and operation of the coal-based olefin project with an annual output of 460,000 tonnes. The shareholding structure of Duolun Coal Chemical Company is as follow: Datang Energy and Chemical Company Limited, a wholly-owned subsidiary of the Company, holds 60% of its equity interests, and CDC holds 40% of its equity interests.

4. Keqi Coal-based Gas Company was duly incorporated on 10 December 2010 with a registered capital of RMB392 million. It is mainly responsible for the production and sale of coal-based gas, tar, naphtha, crude phenol, sulphur and thiamine, technical consultation of coal-based chemicals and equipment inspection. The shareholding structure of Keqi Coal-based Gas Company is as follow: Datang Energy and Chemical Company Limited, a wholly-owned subsidiary of the Company, Beijing Gas Group Co., Ltd., CDC and Tianjin Jinneng Investment Company, holds 51%, 34%, 10% and 5%of its equity interests, respectively.

5. CDC was established on 9 March 2003 with a registered capital of RMB18.109 billion. It is principally engaged in the development, investment, construction, operation and management of power energy, organization of power (thermal) production and sales; manufacturing, repair and maintenance of power equipment; power technology development and consultation; power engineering, contracting and consultation of environmental power engineering; development of new energy as well as development and production of power related coal resources.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CDC is the controlling Shareholder of the Company, which together with its subsidiaries holds approximately 34.71% of the issued share capital of the Company. Since CDC holds 10% or more of the equity interests in each of Keqi Coal-based Gas Company and Duolun Coal Chemical Company, which are subsidiaries of the Company, such subsidiaries are therefore connected persons of the Company. The transactions under the Sale and Purchase Agreement of Chemical Products and Materials constitute continuing connected transactions of the Company.

Since (i) one or more of the applicable percentage ratios (as defined under Rule14.07 of the Listing Rules) in respect of the aggregated transaction amount for purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas and the Sale and Purchase Contract of Chemical Products (Keqi); and (ii) one or more of the applicable percentage ratios (as defined under Rule14.07 of the Listing Rules) in respect of the transaction amount for purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are all higher than 5%, the transactions contemplated in (i) and (ii) are subject to the reporting and announcement requirements, as well as the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Any Shareholder with a material interest in the transactions and its associates will abstain from voting at the AGM to be held by the Company, to, among others, consider and approve the purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun).

As at the Latest Practicable Date, CDC together with its subsidiaries holds approximately 34.71% of the issued share capital of the Company. Since CDC holds certain equity interests in Keqi Coal-based Gas Company and Duolun Coal Chemical Company. Therefore, CDC and its associates shall abstain from voting at the AGM to approve the purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun) in accordance with the requirements of the Listing Rule.

As at the Latest Practicable Date, Tianjin Jinneng Investment Company holds approximately 9.74% of the issued share capital of the Company and 5% equity interest in Keqi Coal-based Gas Company. Therefore, Tianjin Jinneng Investment Company, as a connected Shareholder that has interest in the relevant transactions, shall abstain from voting at the AGM to approve the purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas and the Sale and Purchase Contract of Chemical Products (Keqi) in accordance with the requirements of the Listing Rules.

AGM

The Company will convene the AGM to, among other things, consider and approve the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun). The notice convening the AGM and the relevant notice of attendance has been despatched to the Shareholders on 25 April 2014.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 16 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun). Your attention is also drawn to the letter of advice received from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 18 to 37 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun), the casting of votes for or against the resolutions approving the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) by poll at the AGM as well as the principal factors and reasons considered by it in concluding its advice.

The Directors consider that the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are fair and reasonable and in the interest of the Shareholders and the Company as a whole and they recommend the Shareholders to vote in favour of the resolutions at the AGM.

Yours faithfully,
By Order of the Board of
Datang International Power Generation Co., Ltd.
Zhou Gang
Secretary to the Board

大唐国际发电股份有限公司
DATANG INTERNATIONAL POWER GENERATION CO., LTD.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00991)

office address
No.9 Guangningbo Street
Xicheng District
Beijing, 100033
The PRC

20 May 2014

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the shareholders dated 20 May 2014 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the Sale and Purchase Agreement of Chemical Products and Materials constitute continuing connected transactions of the Company, and are subject to the approval of the Independent Shareholders at the AGM.

We have been appointed as the Independent Board Committee to consider the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) and to advise the Independent Shareholders in connection with the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) as to whether, in our opinion, their terms are fair and reasonable and whether the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are in the interests of the Company and the shareholders as a whole. Quam Capital has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Quam Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Quam Capital as set out in its letter of advice, we consider that the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are on normal commercial terms, and that the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are in the best interests of the Company and the Shareholders as a whole.

We also consider that the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (including their respective annual caps contemplated thereunder) are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (including their respective annual caps contemplated thereunder) at the AGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
Dong Heyi, Ye Yansheng, Li Hengyuan, Zhao Jie, Jiang Guohua
Independent non-executive Directors
Datang International Power Generation Co., Ltd.

The following is the full text of a letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (including the respective annual caps contemplated thereunder).

Quam CAPITAL 華富嘉洛企業融資 Quam Capital Limited
A Member of The Quam Group

20 May 2014

To the Independent Board Committee
and the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (including the respective annual caps contemplated thereunder), details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 20 May 2014 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Dong Heyi, Mr. Ye Yansheng, Mr. Li Hengyuan, Ms. Zhao Jie and Mr. Jiang Guohua, has been established to advise the Independent Shareholders as to whether the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (including the respective annual caps contemplated thereunder) are fair and reasonable so far as the Company and Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the AGM to approve, among others, the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (including the respective annual caps contemplated thereunder). As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

Quam Capital is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the terms of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contracts of Chemical Products (Duolun) and the adoption of the respective annual caps.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the AGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Keqi Coal-based Gas Company and Duolun Coal Chemical Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

A. Background

On 25 April 2014, Energy and Chemical Marketing Company, a wholly-owned subsidiary of the Company, entered into the following agreements with certain subsidiaries of the Company for the implementation of continuing connected transactions (the "**Continuing Connected Transactions**") contemplated thereunder:

I. Purchase of natural gas and Chemical Products by Energy and Chemical Marketing Company from Keqi Coal-based Gas Company

(1) Energy and Chemical Marketing Company entered into the Framework Agreement of Sale of Natural Gas with Keqi Coal-based Gas Company, pursuant to which, Energy and Chemical Marketing Company agreed to purchase natural gas from Keqi Coal-based Gas Company with an annual cap for transaction amount of RMB4.029 billion for a term commencing from 18 December 2013 to 31 December 2014.

(2) Energy and Chemical Marketing Company entered into the Sale and Purchase Contract of Chemical Products (Keqi) with Keqi Coal-based Gas Company, pursuant to which, Energy and Chemical Marketing Company agreed to purchase Chemical Products from Keqi Coal-based Gas Company with an annual cap for transaction amount of RMB623 million for a term commencing from 18 December 2013 to 31 December 2014.

II. Purchase of Chemical Products by Energy and Chemical Marketing Company from Duolun Coal Chemical Company

Energy and Chemical Marketing Company entered into the Sale and Purchase Contract of Chemical Products (Duolun) with Duolun Coal Chemical Company, pursuant to which, Energy and Chemical Marketing Company agreed, among other things, to purchase Chemical Products from Duolun Coal Chemical Company with an annual cap for transaction amount of RMB3.63 billion for a term commencing from 1 January 2014 to 31 December 2014.

Information on the parties to the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) is set out below:

(1) The Company is principally engaged in the construction and operation of power plants, the sale of electricity and thermal power, the repair, maintenance and tuning of power equipment and power related technical services. The Company's main service areas are in the PRC.

(2) Energy and Chemical Marketing Company is a wholly-owned subsidiary of Datang Energy and Chemical Company Limited, which is also a wholly-owned subsidiary of the Company. It was duly established in May 2009 with a registered capital of RMB50 million. Energy and Chemical Marketing Company is mainly engaged in the import and export of organic and inorganic chemical products and products and technologies under dealership and developed in-house.

(3) Duolun Coal Chemical Company was duly incorporated on 19 August 2009 with a registered capital of RMB4,050 million. Duolun Coal Chemical Company is principally responsible for the construction and operation of the coal-based olefin project with an annual output of 460,000 tonnes. Duolun Coal Chemical Company is owned as to 60% by Datang Energy and Chemical Company Limited, a wholly-owned subsidiary of the Company and 40% by CDC.

(4) Keqi Coal-based Gas Company was duly incorporated on 10 December 2010 with a registered capital of RMB392 million. It is mainly responsible for the production and sale of coal-based gas, tar, naphtha, crude phenol, sulphur and thiamine, technical consultation of coal-based chemicals and equipment inspection. Keqi Coal-based Gas Company is owned as to 51% by Datang Energy and Chemical Company Limited, a wholly-owned subsidiary of the Company, 34% by Beijing Gas Group Co., Ltd., 10% by CDC and 5% by Tianjin Jinneng Investment Company.

(5) CDC was established on 9 March 2003 with a registered capital of RMB18.009 billion. It is principally engaged in the development, investment, construction, operation and management of power energy, organization of power (thermal) production and sales; manufacturing, repair and maintenance of power equipment; power technology development and consultation; power engineering, contracting and consultation of environmental power engineering; development of new energy as well as development and production of power related coal resources.

As at the Latest Practicable Date, CDC is the controlling Shareholder of the Company, which together with its subsidiaries holds approximately 34.71% of the issued share capital of the Company. Since CDC holds 10% or more of the equity interests in each of Keqi Coal-based Gas Company and Duolun Coal Chemical Company, which are subsidiaries of the Company, such subsidiaries are connected persons of the Company. The transactions under the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) constitute continuing connected transactions of the Company.

Since (i) one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the aggregated transaction amount for purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas and the Sale and Purchase Contract of Chemical Products (Keqi) respectively; and (ii) one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transaction amount for purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are higher than 5%, the transactions contemplated in (i) and (ii) are subject to the reporting and announcement requirements, as well as the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CDC and its associates shall abstain from voting at the AGM to approve the purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun) respectively in accordance with the requirements of the Listing Rules.

As at the Latest Practicable Date, Tianjin Jinneng Investment Company holds approximately 9.74% of the issued share capital of the Company and 5% equity interest in Keqi Coal-based Gas Company. Therefore, Tianjin Jinneng Investment Company, as a connected Shareholder that has interest in the relevant transactions, shall abstain from voting at the AGM to approve the purchase of natural gas and Chemical Products under the Framework Agreement of Sale of Natural Gas and the Sale and Purchase Contract of Chemical Products (Keqi) respectively in accordance with the requirements of the Listing Rules.

B. Reasons for and benefits of entering into of (i) the Framework Agreement of Sale of Natural Gas; (ii) the Sale and Purchase Contract of Chemical Products (Keqi); (iii) the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun); and (iv) the adoption of the respective annual caps (the "Annual Caps") for the Continuing Connected Transactions for the year ending 31 December 2014

The Group is principally engaged in the construction and operation of power plants, the sale of electricity and thermal power, the repair, maintenance and tuning of power equipment and power related technical services. The Group's main service areas are in the PRC. As stated in the Letter from the Board, Energy and Chemical Marketing Company is a company specialised in selling coal-based chemical products, and is fully qualified for the sale and operation of relevant products and holds trading permits for hazardous chemical products. As advised by the management of the Group, Energy and Chemical Marketing Company serves as the centralised sales arm of the Group, being responsible for procurement and sales and marketing activities of the Group.

As further stated in the Letter from the Board, Energy and Chemical Marketing Company has developed its competitive edges in terms of the sale of coal-based chemical products, relationships with suppliers and logistics, providing a reliable supply of raw materials and sale channel to affiliated corporations engaged in the business of coal-based chemical products, thereby securing a safe environment for ordinary production and operation activities. Meanwhile, economy of scale can be generated by the centralised procurement and sale activities of Energy and Chemical Marketing Company, thus effectively controlling the bulk purchase cost of raw materials incurred by affiliated corporations engaged in the business of coal-based chemical products and enhancing the advantages of regional sale of products, which can also rationalise the deployment of resources and control sales and marketing expenses in a reasonable way for the ultimate goal of maximising the profit of the Group.

Energy and Chemical Marketing Company acts as the sales representative of Keqi Coal-based Gas Company and Duolun Coal Chemical Company for their natural gas and Chemical Products providing co-ordination and management services. We were advised by the management of the Group that all the natural gas produced by Keqi Coal-based Gas Company will be sold to Energy and Chemical Marketing Company under the Framework Agreement of Sale of Natural Gas, which will in turn sell most of them to PetroChina Company Limited pursuant to the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina). Similarly, it is strategically intended that all of the Chemical Products produced by Keqi Coal-based Gas Company and Duolun Coal Chemical Company will be sold to Energy and Chemical Marketing Company under the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun) respectively, which will in turn sell the Chemical Products to eligible trading companies and downstream production units in the PRC based on the sales plan and product quality reports provided by Keqi Coal-based Gas Company and Duolun Coal Chemical Company respectively.

As advised by the management of the Group, the Group is planning several coal-based chemical products production projects, the products of which are largely similar. The Group considers it cost effective and efficient to centralise the procurement and sales and marketing activities, such as market development, pricing, settlement, logistics, contract management and after sales services, in order to control selling expenses and human resources.

In light of the (i) respective principal business and operations of Energy and Chemical Marketing Company, Keqi Coal-based Gas Company and Duolun Coal Chemical Company; (ii) the competitive edges of Energy and Chemical Marketing Company in terms of the sale of coal-based chemical products which provide a reliable sale channel to affiliated corporations engaged in the business of coal-based chemical products, including Keqi Coal-based Gas Company and Duolun Coal Chemical Company; and (iii) the arrangement of centralised procurement and sale of coal-based chemical products by Energy and Chemical Marketing Company shall enable the Group to rationalise the deployment of resources and control sales and marketing expenses in a way for maximising the profit of the Group, we consider that the entering into of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) would allow the Group to implement an efficient operation flow and is conducted in the ordinary and usual course of business of the Group.

Having considered Energy and Chemical Marketing Company's principal activities and the natures of the Continuing Connected Transactions, it is reasonable to expect that the Continuing Connected Transactions will continue to take place on a regular and frequent basis and in the ordinary and usual course of business of the Group during the term of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun) respectively. It would be impracticable for the Company to strictly comply with the Listing Rules requirements regarding "connected transaction" on each occasion when it arises. As such, we are of the view that the entering into of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the Sale and Purchase Contract of Chemical Products (Duolun), and the adoption of the Annual Caps are essential for the Group in ensuring the continued smooth operation of the Continuing Connected Transactions during the year ending 31 December 2014.

Based on the foregoing, we are of the view that the entering into of the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun), and the adoption of the Annual Caps are conducted in the ordinary and usual course of the Group's business, and in the interests of the Company and the Shareholders as a whole.

C. The Framework Agreement of Sale of Natural Gas

1. Principal terms of the Framework Agreement of Sale of Natural Gas

(i) Subject matter

Energy and Chemical Marketing Company agreed to purchase natural gas produced by Keqi Coal-based Gas Company within the term of the Framework Agreement of Sale of Natural Gas.

(ii) Transaction price

0.5% discount (subject to change) to the price fixed according to the pricing principle of the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina), whereas the 0.5% represents the rate charged by Energy and Chemical Marketing Company for provision of co-ordination and management services with reference to the average market rate and on a fair and reasonable basis.

The pricing principles as stipulated in the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina) are as follows:

(a) the initial agreed price is RMB2.75 per m^3 (13% VAT included);

(b) the agreed price is only applicable to coal-based natural gas with the lower calorific value of not lower than 8,000kCal/m^3. Where the lower calorific value of coal-based natural gas delivered by the vendor is lower than 8,000kCal/m^3 on any day within the term of the agreement, the agreed price applicable for actual settlement shall be discounted as follow:

Discounted agreed price = Agreed price x (Average calorific value of coal-based natural gas of the day/8,000);

(c) the agreed price mentioned above is effective for the period between the date on which the agreement is signed and 31 December 2016. The agreed price applicable for 1 January 2017 onwards can be adjusted according to the current pricing basis and the prevailing price and market conditions;

(d) where the State provides or recommends that the calculation of price of natural gas shall be based on the calorific value, parties to the agreement shall confirm to adopt the agreed price based on the calorific value and calculated according to principles as stipulated by the State and the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina).

We were advised by the management of the Group that most of the natural gas purchased from Keqi Coal-based Gas Company will be sold by Energy and Chemical Marketing Company to PetroChina Company Limited under the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina). The management of the Group further advised us that for the remaining natural gas not sold to PetroChina Company Limited, Energy and Chemical Marketing Company intends to sell them to third parties based on similar pricing principles as stipulated in the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina) and with reference to market prices. The Company confirmed that Energy and Chemical Marketing Company has not been selling natural gas to other parties except for PetroChina Company Limited. Accordingly, we consider it is reasonable to determine the purchase price of natural gas under the Framework Agreement of Sale of Natural Gas with reference to the selling price of natural gas under the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina).

Energy and Chemical Marketing Company acting as the sales representative of Keqi Coal-based Gas Company will provide co-ordination and management service, such as market development, negotiation with customers, contract management, sales logistics, settlement and after sales services. The co-ordination and management service fee of 0.5% charged by Energy and Chemical Marketing Company for the provision of co-ordination and management services is determined after arm's length negotiation between Energy and Chemical Marketing Company and Keqi Coal-based Gas Company after taking into consideration the investigation and research results on the fee of provision of management service for sale and purchase of similar chemical products (including natural gas) charged by other independent third parties.

We were advised by the management of the Group that the amount of management service fees of 0.5% charged by Energy and Chemical Marketing Company is determined to cover the estimated operating expenses for the provision of co-ordination and management services to be incurred under the Framework Agreement of Sale of Natural Gas by Energy and Chemical Marketing Company. In such regard, we have discussed with the management of the Group and understood that the aforesaid estimated operating expenses to be incurred by Energy and Chemical Marketing Company during the year ending 31 December 2014 is determined based on (i) the historical operating expenses of Energy and Chemical Marketing Company incurred during the year ended 31 December 2013; (ii) the expected number of staff employed by Energy and Chemical Marketing Company; (iii) the relevant rental rate of Energy and Chemical Marketing Company; (iv) the relevant tax rate of Energy and Chemical Marketing Company; and (v) the expected transaction volume with Keqi Coal-based Gas Company for the year ending 31 December 2014. We have compared the estimated co-ordination and management service fee receivable by Energy and Chemical Marketing Company for the year ending 31 December 2014 (calculated based on the co-ordination and management service fee rate of 0.5% and the proposed annual cap for purchase of natural gas under the Framework Agreement of Sale of Natural Gas) with the aforesaid estimated operating expenses to be incurred by Energy and Chemical Marketing Company, and noted that the co-ordination and management service fee charged by Energy and Chemical Marketing Company is expected to be sufficient to cover its estimated operating expenses.

Further, we have attempted to, based on the information available on the website of the Stock Exchange, obtain the relevant information in connection with the market rate of management service fees for sale and purchase of similar chemical products (including natural gas) charged by other listed companies. However, no such information was available. We have then reviewed an investigation and research report conducted by the Company (the "**Research Report**") regarding a regional sales arrangement of an independent group which is principally engaged in the exploration, development and production of crude oil and natural gas; refining, transportation, storage and marketing of crude oil and petroleum product; and production and sale of chemicals in the PRC. We were advised that the information contained in the Research Report was collected through discussion with the aforesaid independent group. The Directors confirmed that all information provided to us in connection with the Continuing Connected Transaction (including the information contained in the Research Report) is true, accurate and complete in all respects and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group in this regard.

We noted from the Research Report that regional procurement and sales activities were conducted by a member of the independent group and that the management service fees for sale and purchase of chemical products charged by such company were 0.9% and 1%. Notwithstanding that the principal business activities of the independent group are not the same as the Group, given that its regional procurement and sales arrangement is similar to that of the Group and the chemical products of the independent group are similar in nature to the chemical products (including natural gas) purchased by Energy and Chemical Marketing Company, we consider that case reviewed under the Research Report is a relevant and meaningful sample for comparison purpose.

The management of the Group have advised us that the reason for the lower service fee charged by Energy and Chemical Marketing Company under the Framework Agreement of Sale of Natural Gas than the rates charged by the independent group is mainly because the co-ordination and management services to be provided by Energy and Chemical Marketing Company are expected to be comparatively less in the case of the Framework Agreement of Sale of Natural Gas.

Having taking into account that most of the natural gas purchased from Keqi Coal-based Gas Company will be sold by Energy and Chemical Marketing Company to an identified customer, namely PetroChina Company Limited under the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina) based on the pre-determined pricing principles, it is reasonable to expect that Energy and Chemical Marketing Company will engage less work on market development, negotiation with customers and contract management. Accordingly, we consider it justifiable for Energy and Chemical Marketing Company to charge a lower rate than that of the independent group.

In light of the foregoing, in particular that: (i) centralising procurement and sales activities is expected to rationalise the deployment of resources and control sales and marketing expenses for the Group as a whole; and (ii) the co-ordination and management service fee charged by Energy and Chemical Marketing Company is expected to be sufficient in covering its estimated operating expenses, we consider that the pricing mechanism for the purchase of natural gas under the Framework Agreement of Sale of Natural Gas is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(iii) Settlement and payment

Parties to the agreement shall settle all payments according to the invoice confirmed by both parties and the terms of the agreement, 10 days shall constitute a settlement cycle (3 settlements per month).

(iv) Term

The Framework Agreement of Sale of Natural Gas shall have a term commencing from 18 December 2013 to 31 December 2014. Upon expiration of the agreement where no change is to be made by the parties to the terms of the agreement and subject to re-compliance with applicable reporting, announcement and independent shareholders' approval requirements (as the case maybe) under Chapter 14A of the Listing Rules, it shall be extended for one year automatically.

In light of the foregoing, we are of the opinion that the terms of the Framework Agreement of Sale of Natural Gas are fair and reasonable so far as the Company and the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

2. The annual cap for the purchase of natural gas from Keqi Coal-based Gas Company under the Framework Agreement of Sale of Natural Gas (the "**Natural Gas Annual Cap**")

(i) Historical transaction amount

As disclosed in the Letter from the Board, each of the applicable percentage ratios under the transaction amount in respect of purchase of natural gas under the Framework Agreement of Sale of Natural Gas for the period from 18 December 2013 to the Latest Practicable Date are below the de minimis threshold under Chapter 14A of the Listing Rules.

For the two years ended 31 December 2011 and 31 December 2012, no natural gas was sold by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company.

(ii) The bases of determination of the Natural Gas Annual Cap

As stated in the Letter from the Board, the Natural Gas Annual Cap for the year ending 31 December 2014 is proposed to be RMB4.029 billion, which is based on: (i) the volume of natural gas expected to be produced and sold by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company for the year ending 31 December 2014; and (ii) the price of natural gas as provided in the agreement.

The natural gas to be purchased from Keqi Coal-based Gas Company are generated from the Inner Mongolia Datang International Keshiketeng Qi coal-based natural gas and ancillary gas transmission pipelines project (the "**Keqi Coal-based Gas Project**"), which was approved by the National Development and Reform Commission on 20 August 2009 and commenced construction on 30 August 2009. We noted that Keqi Coal-based Gas Company is responsible for the development and construction of the Keqi Coal-based Gas Project and that the construction of the said project will be carried out in three phases and after fully putting into operation, production capacity will reach 4 billion cubic meters per year. Phase one of the Keqi Coal-based Gas Project was successfully put into operation and officially included in piped natural gas network to transport clean coal-based natural gas products. We have discussed with the management of the Group and understood that the Keqi Coal-based Gas Project is currently in the trial-run stage with production capacity of a daily output of 2 million cubic metres of natural gas and the Keqi Coal-based Gas Project is expected to be placed in the series 1 ramp-up stage in the second half of May 2014 with an annual production capacity of 1.2 billion cubic meters of natural gas.

The initial selling price of natural gas under the Sale and Purchase Agreement of Coal-based Gas (Energy and Chemical – PetroChina) is RMB2.75 per m^3, which is subject to downward adjustment. We were advised by the management of the Group that the State currently does not provide or recommend that the calculation of price of natural gas shall be based on the calorific value. When assessing the reasonableness of the Natural Gas Annual Cap, we noted that, for illustrative purpose, based on (i) the initial selling price of RMB2.75 per m^3; (ii) the co-ordination and management services fee of 0.5% charged by Energy and Chemical Marketing Company; and (iii) the annual production capacity of 1.2 billion of natural gas of the Keqi Coal-based Gas Project in the series 1 ramp-up stage, the estimated transaction amount for the year ending 31 December 2014 would be approximately RMB3.284 billion, which is less than the Natural Gas Annual Cap.

In such regard, we were advised by the management of the Group that the Directors have adopted a buffer of around 18.5% when determining the Natural Gas Annual Cap (when compared to the aforesaid estimated transaction amount of approximately RMB3.284 billion) in order to enable Energy and Chemical Marketing Company to have greater degree of flexibility in conducing the procurement so as to accommodate the increase in production of the Keqi Coal-based Gas Project during the ramp-up stage in which the annual production capacity could reach up to 2.5 billion cubic meters of natural gas in the series 2 ramp-up stage. In view that the natural gas purchased by Energy and Chemical Marketing Company under the Framework Agreement of Sale of Natural Gas will be sold to PetroChina Company Limited and hence generating revenue for the Group as a whole, we consider it justifiable to adopt a buffer in determining the Natural Gas Annual Cap in order to allow the Group to have greater degree of flexibility in conducting the sale of natural gas, which is revenue-generating in nature and in turn in the interest of the Group as a whole.

Based on the above, we are of the view that the Natural Gas Annual Cap for the year ending 31 December 2014 was set by the Directors after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

D. The Sale and Purchase Contract of Chemical Products (Keqi)

1. Principal terms of the Sale and Purchase Contract of Chemical Products (Keqi)

(i) Subject matter

Energy and Chemical Marketing Company agreed to purchase Chemical Products produced by Keqi Coal-based Gas Company within the term of the Sale and Purchase Contract of Chemical Products (Keqi).

(ii) Transaction price

Energy and Chemical Marketing Company will sell the Chemical Products produced by Keqi Coal-based Gas Company at prevailing market selling prices of similar chemical products in the PRC and a 1% discount to such market selling prices of the Chemical Products shall be made for the settlement of payment with Keqi

Coal-based Gas Company. Such 1% discount represents the rate charged by Energy and Chemical Marketing Company for provision of co-ordination and management services with reference to the average market rate and on a fair and reasonable basis.

As disclosed in the Letter from the Board, the selling price of the Chemical Products by Energy and Chemical Marketing Company to third parties will be determined by way of request of quotation tendering. The business division of Energy and Chemical Marketing Company will conduct tendering by issuing quotation invitation documents to eligible trading companies and downstream production units in the PRC based on the sales plans and product quality reports provided by Keqi Coal-based Gas Company. Pricing meetings will be held by the pricing committee of Energy and Chemical Marketing Company. The selling price of the Chemical Products will be determined based on the result of quotation requests and after due analysis of the information on market trends of relevant products collected by the business division of Energy and Chemical Marketing Company. We consider that this pricing policy will safeguard the purchase prices of Chemical Products under the Sale and Purchase Contract of Chemical Products (Keqi) (which are determined based on the selling prices of the Chemical Products charged by Energy and Chemical Marketing Company to third parties) to be on normal commercial terms and determined with reference to prevailing market prices.

Energy and Chemical Marketing Company acting as the sales representative of Keqi Coal-based Gas Company will provide co-ordination and management service, such as market development, negotiation with customers, contract management, sales logistics, settlement and after sales services. The co-ordination and management service fee of 1% charged by Energy and Chemical Marketing Company for the provision of co-ordination and management services is determined after arm's length negotiation between Energy and Chemical Marketing Company and Keqi Coal-based Gas Company after taking into consideration of the investigation and research results on the fee of provision of management service for sale and purchase of similar chemical products charged by other independent third parties.

We were advised by the management of the Group that the amount of management service fees of 1% charged by Energy and Chemical Marketing Company is determined to cover the estimated operating expenses for the provision of co-ordination and management services to be incurred under the Sale and Purchase Contract of Chemical Products (Keqi) by Energy and Chemical Marketing Company. In such regard, we have discussed with the management of the Group and understood that the aforesaid estimated operating expenses to be incurred by Energy and Chemical Marketing Company during the year ending 31 December 2014 is determined based on (i) the historical operating expenses of Energy and Chemical Marketing Company incurred during the year ended 31 December 2013; (ii) the expected number of staff employed by Energy and Chemical Marketing Company; (iii) the relevant rental rate of Energy and Chemical Marketing Company; (iv) the relevant tax rate of Energy and Chemical Marketing Company; and (v) the expected transaction volume with Keqi Coal-based Gas Company for the year ending 31

December 2014. We have compared the estimated co-ordination and management service fee receivable by Energy and Chemical Marketing Company for the year ending 31 December 2014 (calculated based on the co-ordination and management service fee rate of 1% and the proposed annual cap for purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Keqi)) with the aforesaid estimated operating expenses to be incurred by Energy and Chemical Marketing Company, and noted that the co-ordination and management service fee charged by Energy and Chemical Marketing Company is expected to be sufficient to cover its estimated operating expenses.

Further, we have reviewed the Research Report and noted that the management service fees for sale and purchase of similar chemical products charged by the independent group were 0.9% and 1%. Accordingly, the co-ordination and management service fee of 1% charged by Energy and Chemical Marketing Company is in line with the aforesaid market rates.

In light of the foregoing, in particular that: (i) centralising procurement and sales activities is expected to rationalise the deployment of resources and control sales and marketing expenses for the Group as a whole; and (ii) the co-ordination and management service fee charged by Energy and Chemical Marketing Company is expected to be sufficient in covering its estimated operating expenses, we consider that the pricing mechanism for the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Keqi) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(iii) Settlement and payment

During the term of the Sale and Purchase Contract of Chemical Products (Keqi), Energy and Chemical Marketing Company shall pay Keqi Coal-based Gas Company the amount for Chemical Products on a cash-on-delivery basis and the payment shall be settled every Friday during the term of the agreement.

(iv) Term

The Sale and Purchase Contract of Chemical Products (Keqi) shall have a term commencing from 18 December 2013 to 31 December 2014. Upon expiration of the agreement where no change is to be made by parties to the terms of the agreement and subject to re-compliance with applicable reporting, announcement and independent shareholders' approval requirements (as the case maybe) under Chapter 14A of the Listing Rules, it shall be extended for one year automatically.

In light of the foregoing, we are of the opinion that the terms of the Sale and Purchase Contract of Chemical Products (Keqi) are fair and reasonable so far as the Company and the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

2. The annual cap for the purchase of Chemical Products from Keqi Coal-based Gas Company under the Sale and Purchase Contract of Chemical Products (Keqi) (the "**Keqi Chemical Products Annual Cap**")

(i) Historical transaction amount

As disclosed in the Letter from the Board, each of the applicable percentage ratios under the transaction amount in respect of purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Keqi) for the period from 18 December 2013 to the Latest Practicable Date are under the de minimis threshold under Chapter 14A of the Listing Rules.

No transaction in respect of purchase of Chemical Products has been made between Energy and Chemical Marketing Company and Keqi Coal-based Gas Company for the two years ended 31 December 2011 and 31 December 2012.

(ii) The bases of determination of the Keqi Chemical Products Annual Cap

As stated in the Letter from the Board, the Keqi Chemical Products Annual Cap for the year ending 31 December 2014 is proposed to be approximately RMB623 million, which is based on: (i) the volume of Chemical Products expected to be sold by Keqi Coal-based Gas Company to Energy and Chemical Marketing Company for the year ending 31 December 2014; and (ii) the expected prices of Chemical Products.

In assessing the reasonableness of the Keqi Chemical Products Annual Cap, we have discussed with the management of the Group and understood that the Directors have considered the following factors when determining the Keqi Chemical Products Annual Cap: (i) the designed production capacity of Keqi Coal-based Gas Company; (ii) that Keqi Coal-based Gas Company is in its early stage of production and it is expected that its production and sales volume will gradually increase; and (iii) buffers have been adopted to accommodate increase in the sales volume of Keqi Coal-based Gas Company and the market prices of the Chemical Products.

In such regard, we have reviewed the production capacity and analysed the historical and projected production volume of Keqi Coal-based Gas Company. Since Keqi Coal-based Gas Company only commenced trial production in late 2013, the management of the Group advised that the production volume of its Chemical Products in 2013 was minimal. The actual production volume of Keqi Coal-based Gas Company's Chemical Products for the three months ended 31 March 2014 was approximately 11,875 tonnes in aggregate and the production utilisation rates ranged between approximately 2.0% to 16.0%. We were advised by the management of the Group that the expected transaction volume between Keqi Coal-based Gas Company and Energy and Chemical Marketing Company in 2014 is calculated based on a projected utilisation rate of 30% of the designed production capacity. We consider it is reasonable to expect the production volume of Keqi Coal-based Gas Company to increase in 2014 as its operation gradually picks up. Based on the production volume of Keqi Coal-based Gas Company since its commencement, we consider it justifiable to expect an utilisation rate of 30% of the designed production capacity in 2014.

Further, we have reviewed the market prices of the Chemical Products for the first quarter of 2014. We noted that the market prices of the Chemical Products have fluctuated substantially, ranging from a decrease of approximately 22.4% to an increase of approximately 64.5% during the first quarter of 2014.

We have also compared the estimated transaction value for the year ending 31 December 2014 (calculated based on the projected transaction volume between Keqi Coal-based Gas Company and Energy and Chemical Marketing Company in 2014 estimated by the management of the Group as discussed above and the average historical market prices of the Chemical Products for the first quarter of 2014) against the Keqi Chemical Products Annual Cap, and noted that the Directors have adopted a buffer of around 44% on top of the aforesaid estimated transaction value for the year ending 31 December 2014 when determining the Keqi Chemical Products Annual Cap. Given the significant fluctuation in the market prices of the Chemical Products (being as much as an upsurge of approximately 64.5% during the first quarter of 2014), we consider a buffer of 44% is justifiable.

In light of the foregoing, we consider it justifiable to adopt a buffer in determining the Keqi Chemical Products Annual Cap in order to accommodate any unexpected increase in production and sales volume and market prices, hence to allow the Group to have greater degree of flexibility in conducting the sale of Chemical Products, which is revenue-generating in nature for the Group as a whole and in turn in the interest of the Company and the Shareholders.

Based on the above, we are of the view that the Keqi Chemical Products Annual Cap for the year ending 31 December 2014 was set by the Directors after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

E. Sale and Purchase Contract of Chemical Products (Duolun)

1. Principal terms of the Sale and Purchase Contract of Chemical Products (Duolun)

(i) Subject matter

Energy and Chemical Marketing Company agreed to purchase Chemical Products from Duolun Coal Chemical Company during the term of the Sale and Purchase Contract of Chemical Products (Duolun).

(ii) Transaction price

Energy and Chemical Marketing Company will purchase Chemical Products from Duolun Coal Chemical Company at prevailing market selling price of similar chemical products in the PRC and a 1% discount to such market selling price of the Chemical Products shall be made for the settlement of payment with Duolun Coal Chemical Company.

For the purchase of polypropylene under the Sale and Purchase Contract of Chemical Products (Duolun), pricing meeting will be held by the pricing committee of Energy and Chemical Marketing Company and the relevant business division will collect and analyse the selling price and trends of similar products. Selling price and settlement price of polypropylene will be determined by the pricing committee of Energy and Chemical Marketing Company after due consideration of various factors such as proposed sales volume, inventories and price trend.

The selling price of other Chemical Products (excluding polypropylene) under the Sale and Purchase Contract of Chemical Products (Duolun) is determined by way of request of quotation tendering. Similar to the purchase of Chemical Products from Keqi Coal-based Gas Company, the business division of Energy and Chemical Marketing Company will conduct tendering by issuing quotation invitation documents to eligible trading companies and downstream production units in the PRC based on the sales plans and product quality reports provided by Duolun Coal Chemical Company. Pricing meetings will be held by the pricing committee of Energy and Chemical Marketing Company for the purposes of determining the selling price of Chemical Products (excluding polypropylene) based on the result of quotation request and after due analysis of the information on market trends of relevant products collected by the business division. We consider that this pricing policy will safeguard the purchase prices of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) (which are determined based on the selling prices of the Chemical Products charged by Energy and Chemical Marketing Company to third parties) to be on normal commercial terms and determined with reference to the prevailing market prices.

Pursuant to the Sale and Purchase Contract of Chemical Products (Duolun), the settlement prices of Chemical Products (including polypropylene) to be paid by Energy and Chemical Marketing Company to Duolun Coal Chemical Company are calculated by deducting 1% from the selling prices of the Chemical Products (including polypropylene) to third party trading companies and downstream production units in the PRC. The 1% spread between the selling price and settlement price of the Chemical Products (including polypropylene) represents the service fee charged by Energy and Chemical Marketing Company for the provision of co-ordination and management services to Duolun Coal Chemical Company.

Energy and Chemical Marketing Company acting as the sales representative of Duolun Coal Chemical Company will provide co-ordination and management service, such as market development, negotiation with customers, contract management, sales logistics, settlement and after sales services. The co-ordination and management service fee of 1% charged by Energy and Chemical Marketing Company is determined after arm's length negotiation between Energy and Chemical Marketing Company and Duolun Coal Chemical Company after taking into consideration of the investigation and research results on the fee of provision of management service for sale and purchase of similar chemical products charged by other independent third parties.

We were advised by the management of the Group that the amount of management service fees of 1% charged by Energy and Chemical Marketing Company is determined to cover the estimated operating expenses for the provision of co-ordination and management services to be incurred under the Sale and Purchase Contract of Chemical Products (Duolun) by Energy and Chemical Marketing Company. In such regard, we have discussed with the management of the Group and understood that the aforesaid estimated operating expenses to be incurred by Energy and Chemical Marketing Company during the year ending 31 December 2014 is determined based on (i) the historical operating expenses of Energy and Chemical Marketing Company incurred during the year ended 31 December 2013; (ii) the expected number of staff employed by Energy and Chemical Marketing Company; (iii) the relevant rental rate of Energy and Chemical Marketing Company; (iv) the relevant tax rate of Energy and Chemical Marketing Company; and (v) the expected transaction volume with Duolun Coal Chemical Company for the year ending 31 December 2014. We have compared the estimated co-ordination and management service fee receivable by Energy and Chemical Marketing Company for the year ending 31 December 2014 (calculated based on the co-ordination and management service fee rate of 1% and the proposed annual cap for purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun)) with the aforesaid estimated operating expenses to be incurred by Energy and Chemical Marketing Company, and noted that the co-ordination and management service fee charged by Energy and Chemical Marketing Company is expected to be sufficient to cover its estimated operating expenses.

Further, we have reviewed the Research Report and noted that the management service fees for sale and purchase of similar chemical products charged by the independent group were 0.9% and 1%. Accordingly, the co-ordination and management service fee of 1% charged by Energy and Chemical Marketing Company is in line with the aforesaid market rates.

In light of the foregoing, in particular that: (i) centralising procurement and sales activities is expected to rationalise the deployment of resources and control sales and marketing expenses for the Group as a whole; and (ii) the co-ordination and management service fee charged by Energy and Chemical Marketing Company is expected to be sufficient in covering its estimated operating expenses, we consider that the pricing mechanism for the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(iii) Settlement and payment

Energy and Chemical Marketing Company shall pay Duolun Coal Chemical Company the amount for Chemical Products on a cash-on-delivery basis for the purchase of Chemical Products.

(iv) Term

The Sale and Purchase Contract of Chemical Products (Duolun) shall have a term commencing from 1 January 2014 to 31 December 2014. Upon expiration of the agreement where no change is to be made by parties to the terms of the agreement and subject to re-compliance with applicable reporting, announcement and independent shareholders' approval requirements (as the case maybe) under Chapter 14A of the Listing Rules, it shall be extended for one year automatically.

In light of the foregoing, we are of the opinion that the terms of the Sale and Purchase Contract of Chemical Products (Duolun) are fair and reasonable so far as the Company and the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

2. The annual cap for the purchase of Chemical Products from Duolun Coal Chemical Company under the Sale and Purchase Contract of Chemical Products (Duolun) (the "**Duolun Chemical Products Annual Cap**")

(i) Historical transaction amount

No purchase of Chemical Products was made by Energy and Chemical Marketing Company from Duolun Coal Chemical Company for the previous 3 years. As disclosed in the Letter from the Board, each of the applicable percentage ratios under the transaction amount in respect of purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) for the period from 1 January 2014 to the Latest Practicable Date is under the de minimis threshold under Chapter 14A of the Listing Rules.

(ii) The bases of determination of the Duolun Chemical Products Annual Cap

As stated in the Letter from the Board, the Duolun Chemical Products Annual Cap for the year ending 31 December 2014 is proposed to be RMB3.63 billion, which is determined with reference to: (i) the anticipated volume of Chemical Products to be purchased by Energy and Chemical Marketing Company from Duolun Coal Chemical Company; and (ii) the estimated prices of the Chemical Products.

In assessing the reasonableness of the Duolun Chemical Products Annual Cap, we have discussed with the management of the Group and understood that the Directors have considered the following factors when determining the Duolun Chemical Products Annual Cap: (i) the designed production capacity of Duolun Coal Chemical Company; (ii) that Duolun Coal Chemical Company is in its early stage of production and it is expected that its production and sales volume will gradually increase; and (iii) buffers have been adopted to accommodate increase in the sales volume of Duolun Coal Chemical Company and the market prices of the Chemical Products.

In such regard, we have reviewed the production capacity and analysed the historical and projected production volume of Duolun Coal Chemical Company. The actual production volume of Duolun Coal Chemical Company's Chemical Products for the year ended 31 December 2013 was approximately 328,723 tonnes in aggregate and the average production utilisation rate was approximately 31.6% of its designed annual production capacity. Based on the production volume of Duolun Coal Chemical Company of approximately 18,623 tonnes in aggregate for the three months ended 31 March 2014, the average production utilisation rate amounted to approximately 21.5%. We were advised by the management of the Group that the expected transaction volume between Duolun Coal Chemical Company and Energy and Chemical Marketing Company in 2014 is calculated based on a projected utilisation rate of 55% of the designed production capacity. Based on the production volume of Keqi Coal-based Gas Company in 2013 and the first quarter of 2014, we consider it justifiable to expect a utilisation rate of 55% of the designed production capacity in 2014.

Further, we have reviewed the market prices of Duolun Coal Chemical Company's Chemical Products for the first quarter of 2014. We noted that the market prices of the Chemical Products have fluctuated substantially, ranging from a decrease of approximately 4.3% to an increase of approximately 17.5% during the first quarter of 2014.

It is noted that the transaction amount in respect of purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) for the three months ended 31 March 2014 only represented approximately 0.7% of the Duolun Chemical Products Annual Cap. Notwithstanding, we have compared the estimated transaction value for the year ending 31 December 2014 (calculated based on the projected transaction volume between Duolun Coal Chemical Company and Energy and Chemical Marketing Company in 2014 estimated by the management of the Group as discussed above and the average historical market prices of the Chemical Products for the first quarter of 2014) against the Duolun Chemical Products Annual Cap, and noted that they are largely in line.

Given the expected increase in production and sales volume of Duolun Coal Chemical Company and the significant fluctuation in the market prices of the Chemical Products as discussed above, we consider it justifiable to adopt a buffer in determining the Duolun Chemical Products Annual Cap in order to allow the Group to have greater degree of flexibility in conducting the sale of Chemical Products, which is revenue-generating in nature for the Group as a whole and in turn in the interest of the Company and the Shareholders.

Based on the above, we are of the view that the Duolun Chemical Products Annual Cap for the year ending 31 December 2014 was set by the Directors after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

F. Requirements of the Listing Rules

For each financial year of the Company during the terms of each of the agreements related to the Continuing Connected Transactions, the Continuing Connected Transactions will be subject to review by the independent non-executive Directors and the Company's auditors as required by Rules 14A.55 and 14A.56 of the Listing Rules (which will be effective on 1 July 2014) respectively. The independent non-executive Directors must confirm in the annual reports and accounts that the Continuing Connected Transactions have been entered into:

– in the ordinary and usual course of business of the Company;

– on normal commercial terms or better; and

– according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Listing Rules (which will be effective on 1 July 2014) require that the Company must engage its auditors to report on the Continuing Connected Transactions for each financial year of the Company and that the Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:

– have not been approved by the Board;

– were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

– were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

– have exceeded the caps.

Straight compliance with the regulatory requirements as detailed above by the Company is expected to ensure that the Continuing Connected Transactions will be conducted on terms that are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned.

RECOMMENDATIONS

Having considered the principal factors and reasons described above, we are of the opinion that the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) have been entered into within the ordinary and usual course of the Group's business based on normal commercial terms, and their respective terms together with the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and from this perspective, we consider that the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Framework Agreement of Sale of Natural Gas, the Sale and Purchase Contract of Chemical Products (Keqi) and the purchase of Chemical Products under the Sale and Purchase Contract of Chemical Products (Duolun) as well as the adoption of the Annual Caps at the AGM.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
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. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OF THE COMPANY

(i) As at the Latest Practicable Date, save as and except Mr. Fang Qinghai, being a Director, who held 24,000 A shares of the Company, none of the Directors, supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company under section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

(ii) As at the Latest Practicable Date, none of the Directors, proposed Directors, supervisors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2013 (being the date to which the latest published audited financial statements of the Company were made up) 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.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

4. INTEREST IN CONTRACT

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group, and which was significant in relation to the business of the Group.

5. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors of the Company and its Subsidiaries, or their respective associates has interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries.

7. EXPERT

(a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
Quam Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

(b) Quam Capital did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group as at the Latest Practicable Date.

(c) Quam Capital does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any members of the Group, or which are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2013, the date to which the latest published audited financial statements of the Company were made up.

(d) Quam Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

8. LITIGATION

No member of the Company and its subsidiaries is at present engaged in any litigation or arbitration of material importance to the Company and its subsidiaries and no litigation or claim of material importance to the Company and its subsidiaries is known to the Directors or the Company to be pending or threatened by or against any member of the Company and its subsidiaries.

9. MISCELLANEOUS

(a) The registered office and office address of the Company is No. 9 Guangningbo Street, Xicheng District, Beijing, the PRC.

(b) The place of business of the Company in Hong Kong is at c/o Eversheds, 21/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

(c) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary to the Board of the Company is Mr. Zhou Gang. Mr. Zhou graduated from East China Institute of Water Conservancy (currently known as Hehai University), and is a senior engineer.

10. MATERIAL CONTRACTS

Copies of the Sale and Purchase Agreement of Chemical Products and Materials, the consent letter and the letter of advice from Quam Capital are available for inspection at the principal place of business in Hong Kong of the Company at 21/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 3 June 2014.