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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

This circular is solely for the purpose of providing shareholders with certain information in connection with an extraordinary general meeting of the Company and is not an offer to sell or a solicitation of an offer to buy any securities.

CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED
中 國 電 力 國 際 發 展 有 限 公 司

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

(Stock Code: 2380)

MAJOR AND CONNECTED TRANSACTIONS

International Financial Adviser to
China Power International Development Limited

Merrill Lynch

PRC Financial Adviser to
China Power International Development Limited

招商證券(香港)有限公司
CHINA MERCHANTS SECURITIES (HK) CO., LTD.

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

CLSA
ASIA-PACIFIC MARKETS

A letter from the Independent Board Committee of China Power International Development Limited is set out on pages 37 to 38 of this circular. A letter from CLSA containing its advice to the Independent Board Committee is set out on pages 39 to 64 of this circular.

A notice dated June 30, 2005 convening an extraordinary general meeting of the Company to be held at Island Ballroom A, 5/F, Island Shangri La, Pacific Place, Supreme Court Road, Central, Hong Kong on July 21, 2005 at 10:30 a.m. is set out on pages 155 to 156 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

June 30, 2005

CONTENTS

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

"Acquisition"	the proposed acquisition by the Company of the entire equity interest in the Target Holding Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional sale and purchase agreement dated June 9, 2005 entered into by the Company, CPI Holding and CPDL relating to the Acquisition
"Announcement"	the Company's announcement made on June 10, 2005 in relation to the Acquisition and the Prospective Connected Transactions
"Associate"	has the meaning given to it by the Listing Rules
"Board"	the board of directors of the Company
"Boya Company"	Boya Development Limited (博亞發展有限公司*), a company incorporated in the BVI on March 31, 2005
"BVI"	British Virgin Islands
"Changshu Power Plant"	the power plant wholly-owned by 江蘇常熟發電有限公司 (Jiangsu Changshu Electric Power Generating Company Limited*), a company in which the Company has a 50% equity interest
"CLSA"	CLSA Equity Capital Markets Limited, the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders on the Acquisition and the Prospective Connected Transactions requiring Independent Shareholders' approval
"Company"	China Power International Development Limited, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange
"Converted Loan"	the equity contribution made by CPI Group to Shentou I Power Plant to be converted to debt, details of which are set in "Financial information" under section 6(b) in the Letter from the Board of this circular
"CPDL"	China Power Development Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of CPI Holding which held approximately 63.68% in the Company as at the Latest Practicable Date

"CPI Group"	China Power Investment Corporation* 中國電力投資集團公司, a wholly State-owned enterprise established by the State Council of the PRC
"CPI Holding"	中國電力國際有限公司 (China Power International Holding Limited*), a company incorporated in Hong Kong and a wholly-owned subsidiary of CPI Group
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened on July 21, 2005 at 10:30 a.m., or any adjournment thereof
"Enlarged Group"	the Company, its subsidiaries and the Target Holding Company
"excess output"	the amount by which the total output of a power plant in a particular year exceeds its planned output for such a year but does not include any output subject to competitive bidding
"Huanggang Dabieshan Power Plant"	the planned power plant to be wholly-owned by 黃岡大別山發電有限責任公司 (Huanggang Dabieshan Power Generating Company Limited*)
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong GAAP"	accounting principles generally accepted in Hong Kong
"Huize Company"	Huize Development Limited (匯澤發展有限公司), a company incorporated in the BVI on March 31, 2005
"Independent Board Committee"	the committee of Directors, consisting of Kwong Che Keung, Gordon, Li Fang and Tsui Yiu Wa, Alec, who are independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Acquisition
"Independent Shareholders"	shareholders of the Company other than CPI Group and its Associates
"installed capacity"	the manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW
"Latest Practicable Date"	June 24, 2005, being the latest practicable date prior to the publication of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"MW"	megawatt. One million watts.
"NDRC"	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC* (previously known as the State Development and Planning Commission))
"Non-Acquired Items"	the relevant assets and liabilities relating to the repair and maintenance and other supporting operations (more particularly described in "The Restructuring" under section 2(b) in the Letter from the Board of this circular) and which will not be acquired by the Company
"Parent Group"	CPI Group and its subsidiaries. Unless otherwise expressly stated or the context otherwise requires, references to "Parent Group" exclude the Company, its subsidiaries and the Target Holding Company
"PBOC"	中國人民銀行 (People's Bank of China*), the central bank of the PRC
"planned output"	the actual amount of electricity sold by a power plant in accordance with annually determined target gross generation level in a particular year
"Pingwei Power Plant"	the power plant wholly-owned by 安徽淮南平圩發電有限責任公司 (Anhui Huainan Pingwei Electric Power Generating Company Limited*), a wholly-owned subsidiary of the Company established as a wholly foreign-owned enterprise in the PRC
"Pingwei Power Plant II"	the planned power plant wholly owned by 淮南平圩第二發電有限責任公司 (Huainan Pingwei No. 2 Electric Power Generating Company Limited*)
"PRC" or "China"	the People's Republic of China. Geographical references in this circular to the PRC excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on August 24, 2004
"Prospective Connected Transactions"	the connected transactions between the Enlarged Group and the Parent Group described in "Prospective Connected Transactions" under section 7 in the Letter from the Board in this circular
"RMB"	Renminbi, the lawful currency of China
"Restructuring"	has the meaning given to it in "The Restructuring" under section 2(b) in the Letter from the Board in this circular

"SFO"	Securities and Futures Ordinance (Cap. 571) of Hong Kong
"Share(s)"	share(s) of HK$1.00 each in the capital of the Company
"Shentou I Power Plant"	山西神頭第一發電廠 (Shanxi Shentou Number 1 Power Plant*) situated in Shentou town, Shuozhou city, Shanxi province comprising the power generation, repair and maintenance and supporting operations prior to the Restructuring, and only the power generation operations immediately after completion of the Restructuring
"State Council"	the State Council of the PRC* (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Holding Company"	Tianze Development Limited (天澤發展有限公司), a company incorporated in the British Virgin Islands on 31 March 2005
"TWh"	terawatt-hour. One billion kilowatt-hour, which is the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
"Yaomeng Power Plant	the power plant wholly owned by 平頂山姚孟發電有限責任公司 (Pingdingshan Yaomeng Power Generating Company Limited*), a wholly owned subsidiary of the Company established as a wholly foreign-owned enterprise in the PRC
Yaomeng Power Plant II	The planned power plant wholly-owned by 平頂山姚孟第二發電有限公司 (Pingdingshan Yaomeng No. 2 Power Generating Company Limited*)

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

This circular contains translation between Renminbi amounts and Hong Kong dollars at 1.06, being the exchange rate prevailing on the Latest Practicable Date. The translation shall not be taken as representation that the Renminbi could actually be converted into Hong Kong dollars at that rate, or at all.

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

(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)
(Stock Code: 2380)

Executive Directors:
Li Xiaolin
(Vice-Chairman and Chief Executive Officer)
Hu Jiandong
(Executive Vice-President)

Non-Executive Directors:
Wang Binghua *(Chairman)*
Gao Guangfu

Independent Non-Executive Directors:
Kwong Che Keung, Gordon
Li Fang
Tsui Yiu Wa, Alec

Registered Office:
Suite 6301, 63/F Central Plaza
18 Harbour Road, Wanchai
Hong Kong

June 30, 2005

To the shareholders

Dear Sir or Madam,

ACQUISITION OF POWER PLANT AND CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

The Company announced on June 10, 2005 that it has entered into the Acquisition Agreement, pursuant to which the Company agrees to acquire and CPDL agrees to sell, the entire issued share capital of the Target Holding Company, subject to the satisfaction (or waiver) of certain conditions. The Target Holding Company will wholly-own Shentou I Power Plant prior to completion of the Acquisition.

The purchase price of the Acquisition amounts to RMB560 million and is subject to an adjustment in certain specified circumstances as set out in this circular after the completion of the Acquisition. The Company intends to use a portion of the proceeds from its initial public offering completed in October 2004 to finance the Acquisition. The Company is of the view that the purchase price payable by the Company for the Acquisition and the other terms of the Acquisition, are fair and reasonable, and that the Acquisition is in the best interests of the Company and its shareholders as a whole.

As at the Latest Practicable Date, CPDL owned approximately 63.68% of the issued share capital of the Company. CPDL is a wholly-owned subsidiary of CPI Holding, which is in turn wholly-owned by CPI Group. As the applicable percentage ratio(s) for the Acquisition under Rule 14.07 of the Listing Rules exceeds 25% but is below 100%, the Acquisition constitutes a major transaction for the Company. Further, as CPI Group and its Associates (including CPI Holding and CPDL) are substantial shareholders and connected persons of the Company within the meaning of the Listing Rules, the Acquisition also constitutes a connected transaction for the Company. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders.

In connection with the day-to-day business and operations of Shentou I Power Plant, the Target Holding Company will, upon completion of the Acquisition and from time to time, enter into certain arrangements with certain members of the Parent Group. Such transactions will, following the completion of the Acquisition, constitute continuing connected transactions of the Company under the Listing Rules. Details of these arrangements are set out in section 7 headed "Prospective Connected Transactions" in this letter. Pursuant to the Listing Rules, these Prospective Connected Transactions are subject to reporting and announcement requirements. In addition, certain of these Prospective Connected Transactions which are set out in section 7(b) are subject to Independent Shareholders' approval.

Merrill Lynch (Asia Pacific) Limited is the international financial adviser and China Merchants Securities (HK) Co., Ltd is the PRC financial adviser to the Company in respect of the Acquisition.

The Company has established an Independent Board Committee to advise the Independent Shareholders on the terms of the Acquisition and those Prospective Connected Transactions requiring Independent Shareholders' approval. CLSA has been retained as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

The main purposes of this circular are to provide you with (i) details of the terms of the Acquisition and the Prospective Connected Transactions, (ii) letters from the Independent Board Committee and from CLSA, (iii) further financial and other information of the Target Holding Company and Shentou I Power Plant, and (iv) a notice to shareholders of the Company convening an EGM to approve the terms of the Acquisition and the Prospective Connected Transactions requiring Independent Shareholders' approval. CPI Group and its Associates (including CPI Holding and CPDL) will abstain from voting in respect of the Acquisition and the Prospective Connected Transactions set out in section 7(b) in this letter at the EGM.

2. ACQUISITION OF THE TARGET HOLDING COMPANY

(a) Introduction

The Company entered into the Acquisition Agreement on June 9, 2005, pursuant to which the Company agrees to acquire and CPDL agrees to sell, the entire issued share capital of the Target Holding Company, subject to the satisfaction (or waiver) of certain conditions. The Target Holding Company will wholly-own Shentou I Power Plant prior to completion of the Acquisition.

(b) The Target Holding Company and Shentou I Power Plant

The Target Holding Company

The Target Holding Company was incorporated on March 31, 2005 in the BVI as a limited liability company and is an intermediate holding company wholly-owned by CPDL, which is in turn wholly-owned by CPI Holding. CPI Holding is a wholly-owned subsidiary of CPI Group, one of the five national power generating groups in China. Following the completion of the Restructuring and prior to the completion of the Acquisition, Shentou I Power Plant will be wholly-owned by the Target Holding Company.

Shentou I Power Plant

Shentou I Power Plant commenced operations with power generation unit 1 in December 1979. It is located in Shentou town, Shuozhou city of Shanxi province. It has total installed capacity of 1,200 MW that consists of six 200 MW coal-fired generation units, details of which are as follows:

Generation unit	**In-Service Year**	**Total Installed Capacity**
		(MW)
Unit 1	1979	200
Unit 2	1981	200
Unit 3	1985	200
Unit 4	1985	200
Unit 5	1986	200
Unit 6	1987	200
Total		1,200

Shentou I Power Plant is a mine-mouth power plant (i.e. it is located close to coal mines). Its coal supply is purchased entirely from producers in Shanxi province. It sells all of the electricity that it generates to the Shanxi provincial power grid which is part of the North China Power Grid operated by the North China Power Grid Company.

The Restructuring

In preparation for the Acquisition, CPI Holding is currently undertaking the Restructuring pursuant to which the assets, liabilities and undertakings of Shentou I Power Plant are being divided into three divisions, namely: power generation, repair and maintenance of power generation units and equipment and other supporting services. The Restructuring will be completed prior to completion of the Acquisition. Upon completion of the Restructuring, the repair and maintenance operations, together with related assets and liabilities, will be injected into Huize Company whilst the other supporting services operations, together with related assets and liabilities, will be injected into Boya Company. Huize Company and Boya Company were incorporated in the BVI on March 31, 2005 and are wholly-owned subsidiaries of Tianrun Holdings Limited, a company incorporated in the BVI and wholly-owned by CPI Holding. Shentou I Power Plant, comprising the retained power generation business and related assets and liabilities, will be injected into the Target Holding Company before the completion of the Acquisition.

As part of the Restructuring and prior to completion of the Acquisition, the Target Holding Company will also incorporate Shanxi Shentou Power Generation Company Limited (山西神頭發電有限責任公司)[(1)], a wholly-foreign owned enterprise in the PRC. Shentou I Power Plant (comprising all the assets and liabilities related to the power generation business) will be injected into Shanxi Shentou Power Generation Company Limited[(1)].

Note:

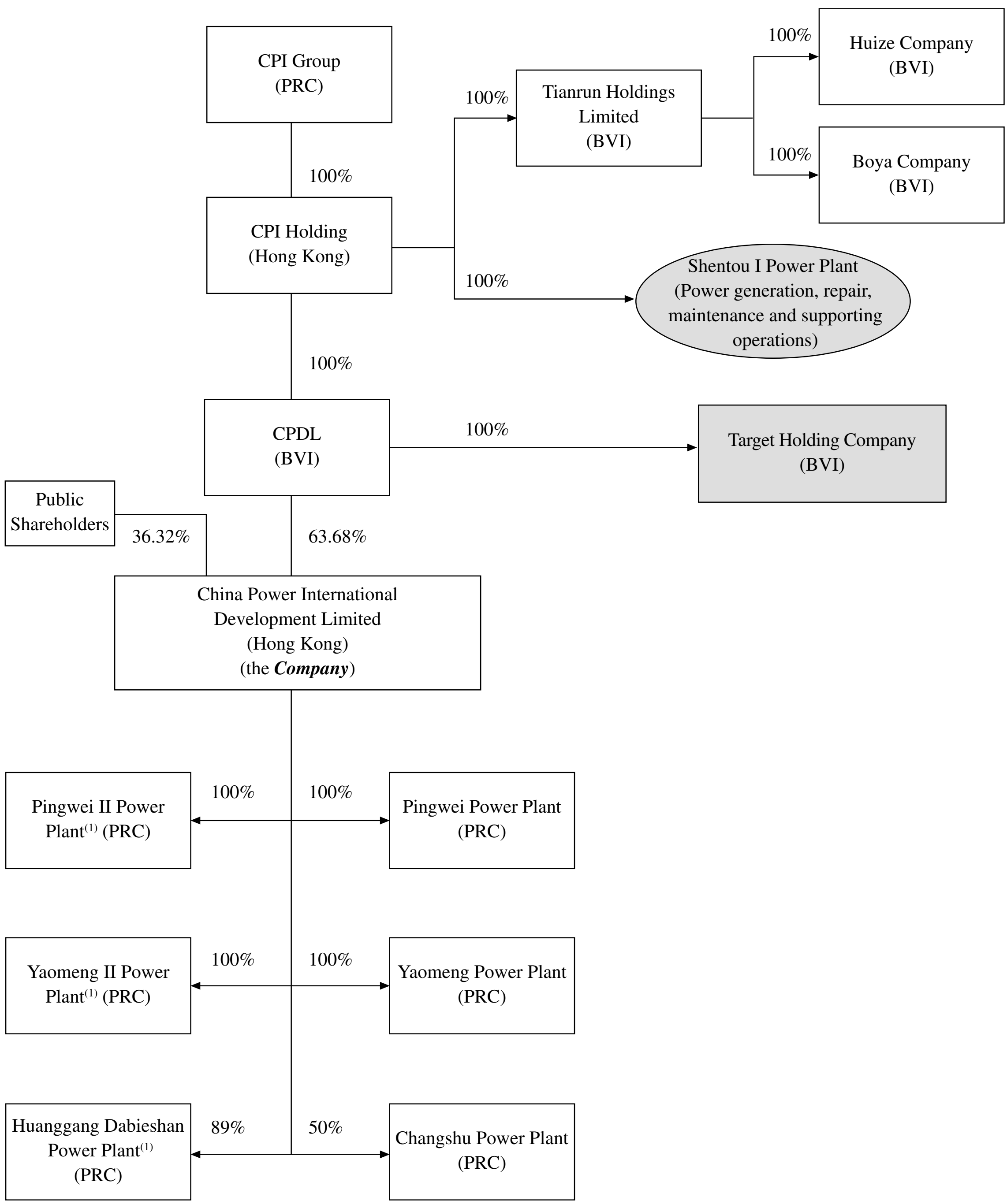
(1) Temporary name

Shentou I Power Plant was originally owned by State Power Corporation before being granted to CPI Group at no consideration pursuant to the power industry restructuring in 2002. It has a large workforce that are employed in both core power generation operations as well as non-core and supporting operations. The Restructuring is necessary to enhance the operating efficiency and competitiveness of the core power generation business by separating the non-core and supporting operations from the power generation business. After the Restructuring, the management will be relieved from responsibilities for non-core operations and can better focus on improving the operating efficiency of the power generation business. The workforce would also be substantially reduced. The Restructuring would also allow the management to consider other service providers in the future to achieve further cost savings.

The Restructuring is also encouraged by PRC government market economy directives to enable greater efficiency in the repair and maintenance and other supporting operations. After the Restructuring, these operations would no longer function as cost centers but would be market competitors responsible for the competitiveness of their own operations.

Set out below are the corporate structures of the Company and the power plants owned by it and of the Parent Group in so far as is relevant to the Acquisition, currently and immediately following completion of the Restructuring:

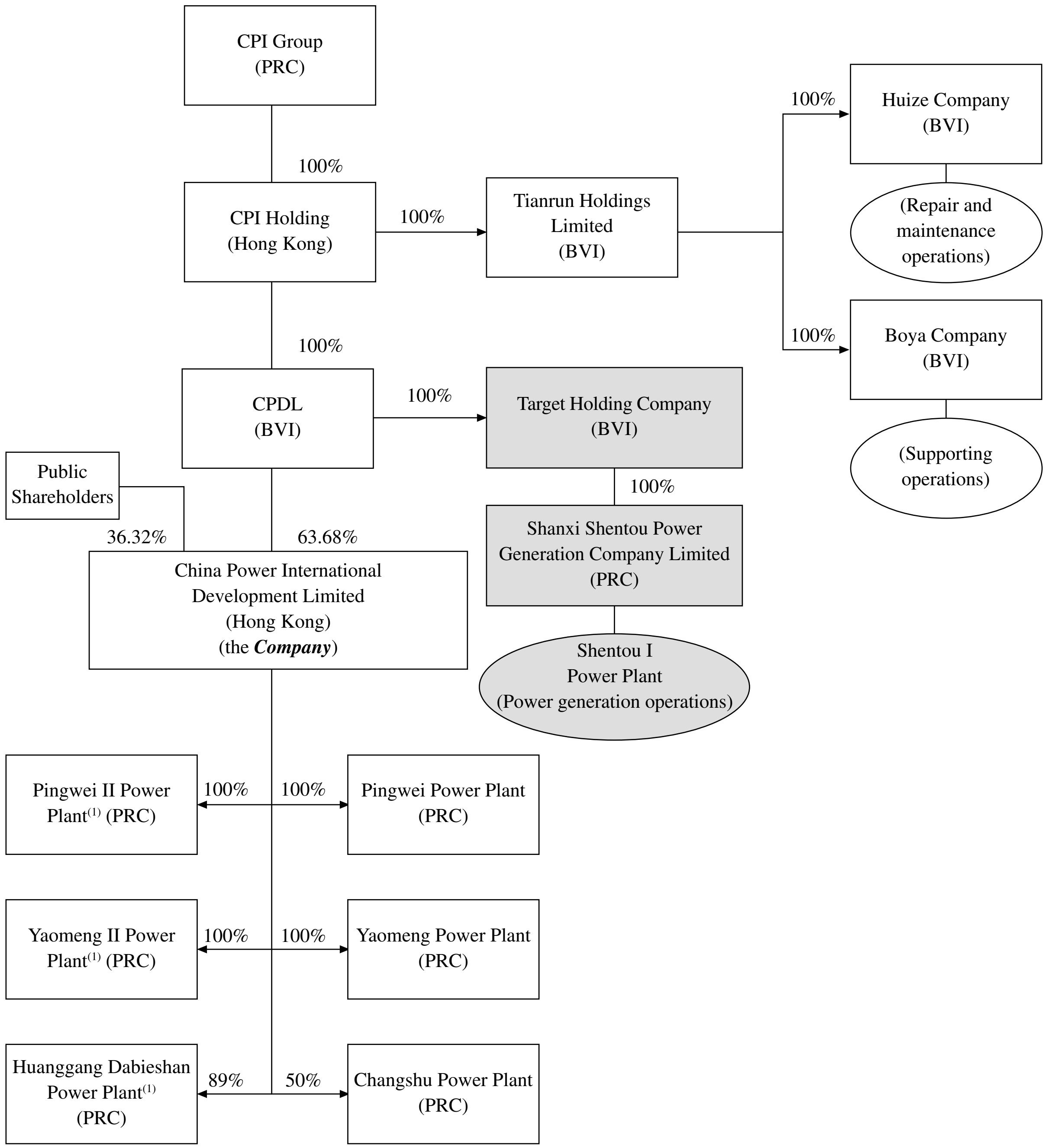
Current corporate structure



Note:

(1) These are planned power plants which are not yet in operation.

Corporate structure immediately following the Restructuring



Note:

(1) These are planned power plants which are not yet in operation.

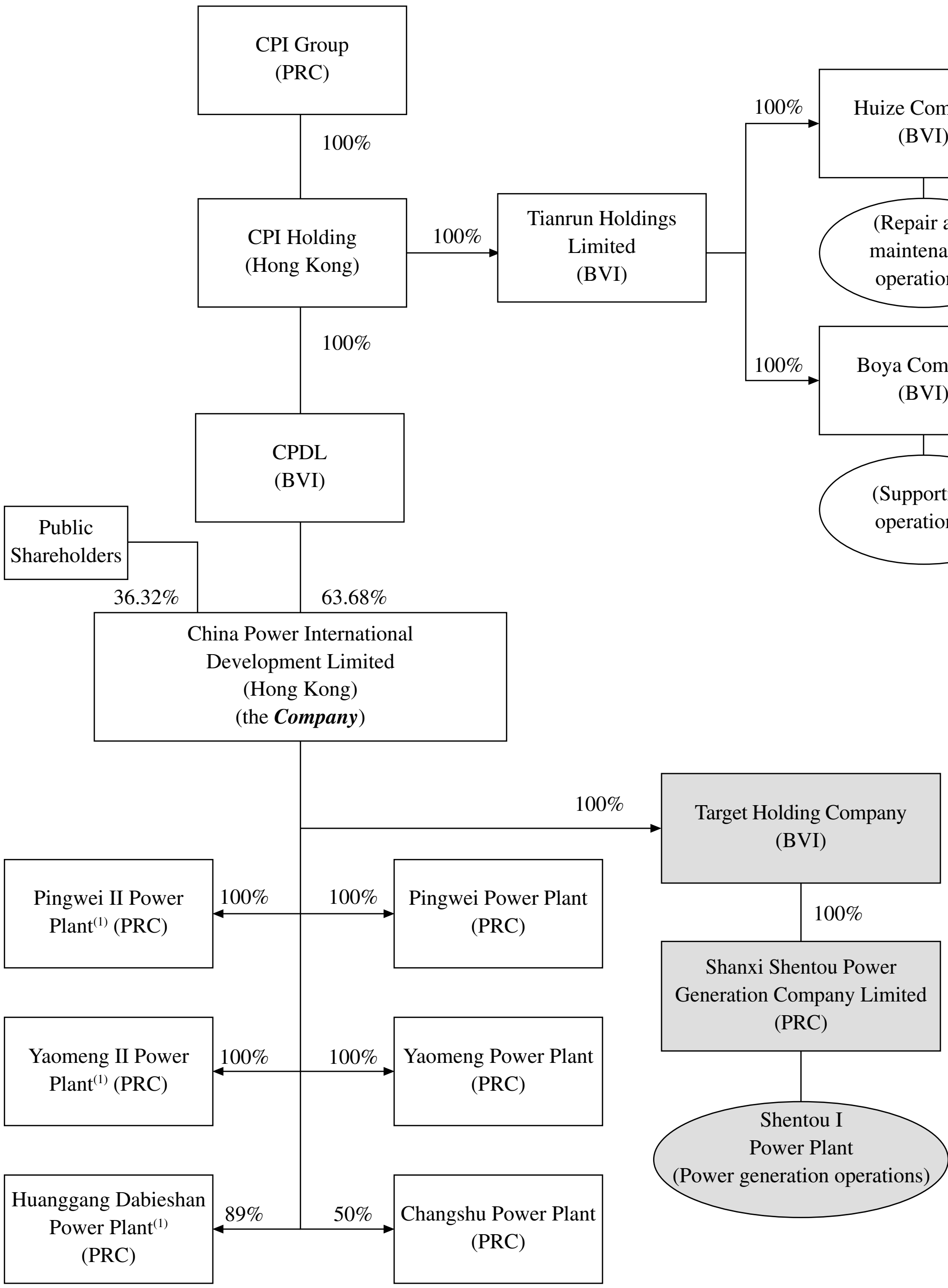
(c) **Interest to be acquired**

The Company will acquire from CPDL the entire issued share capital of the Target Holding Company, which will, upon the completion of the Restructuring, wholly-own the power generation assets and liabilities of Shentou I Power Plant.

Pursuant to the Acquisition Agreement, the Company, CPI Holding and CPDL also agree that the revenues, profits and losses attributable to the power generation business of Shentou I Power Plant from July 1, 2005 will belong to the Company.

Set out below is the corporate structure of the Company and the power plants owned by it and of the Parent Group so far as is relevant to the Acquisition immediately following completion of the Acquisition:

Corporate structure immediately following completion of the Acquisition



Note:

(1) These are planned power plants which are not yet in operation.

3. THE CONSIDERATION

The purchase price of the Acquisition is RMB560 million, subject to an adjustment in the circumstances set out below after the completion of the Acquisition. Consistent with the Company's intentions as disclosed in its prospectus issued for the initial public offering completed in October 2004, the Company intends to use a portion of the proceeds received from the initial public offering to finance the Acquisition. The purchase price of the Acquisition (subject to adjustment after completion of the Acquisition) is payable in cash on completion.

The Acquisition Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The purchase price was determined based on various factors, including the valuation report prepared by China Enterprise Appraisal, an asset appraiser independent from CPI Group and its Associates (using the depreciated replacement costs basis) which valued the net assets of the power generation business of Shentou I Power Plant at approximately RMB502 million as at December 31, 2004, the market environment and the technical and operating conditions of Shentou I Power Plant, and Shentou I Power Plant's earnings potential. Taking into consideration these factors, the Board is of the view that the purchase price, which represents a premium of about 12% in relation to the valuation by China Enterprise Appraisal, is fair and reasonable.

Adjustment to the Purchase Price

Following completion of the Acquisition and in any event no later than the release of the Company's audited financial results for the year ending December 31, 2005, the Company will appoint a certified public accountant to audit the completion accounts of Shentou I Power Plant which will be prepared in accordance with Hong Kong GAAP for the period from January 1, 2005 to June 30, 2005 (the "Completion Accounts").

The final consideration will be subject to an adjustment according to the Adjusted Net Asset Amounts between December 31, 2004 and June 30, 2005. The "Adjusted Net Asset Amount" as at December 31, 2004 or June 30, 2005, as the case may be, means (a) the net assets value of Shentou I Power Plant as at the relevant date, less (b) the net asset value of the Non-Acquired Items as at the relevant date, and less (c) the Converted Loan amount.

The Completion Accounts will set out the net asset value of Shentou I Power Plant on a pre-Restructuring basis, as the Restructuring will not have been completed by June 30, 2005, and will disclose the net asset value of the Non-Acquired Items as of June 30, 2005 (being the relevant assets and liabilities relating to the repair and maintenance and other supporting operations).

If the Adjusted Net Asset Amount as at June 30, 2005 is less than the Adjusted Net Asset Amount as at December 31, 2004, CPDL shall pay such difference to the Company. If the Adjusted Net Asset Amount as at June 30, 2005 is more than the Adjusted Net Asset Amount as at December 31, 2004, subject to a maximum limit of 10% of the purchase price, the Company will pay such difference (which shall be no more than RMB56 million under the limit) to CPDL. The adjustment payment should be made in cash within 14 business days after the delivery of the completion accounts by the relevant party.

Please refer to "Financial information" under section 6(b) below for further information on the net asset value of Shentou I Power Plant and the net asset value of the Non-Acquired Items as at December 31, 2004.

The Board is of the view that the purchase price for the Acquisition payable by the Company and the other terms of the Acquisition Agreement are fair and reasonable, on normal commercial terms and that the Acquisition is in the best interests of the Company and its shareholders as a whole.

4. CONDITIONS TO COMPLETION OF THE ACQUISITION

Completion of the Acquisition is conditional upon satisfaction (or waiver) of the following conditions:

(i) the passing of an ordinary resolution by Independent Shareholders approving the terms of the Acquisition;

(ii) the obtaining of all necessary approvals from the PRC and other relevant governmental and regulatory authorities for the Acquisition, including the transaction structure and transaction terms, the Restructuring and the incorporation of Shanxi Shentou Power Generation Company Limited;

(iii) the completion of the Restructuring; and

(iv) other than pursuant to the Restructuring, there having been no material adverse change to the financial conditions, business operations or prospects of the Target Holding Company and Shentou I Power Plant since December 31, 2004.

Completion of the Acquisition will take place within 10 business days following notification by the Company to CPI Holding and CPDL of the satisfaction (or waiver) of the above-mentioned conditions.

If any of the above-mentioned conditions is or are not satisfied (or in the case of (ii), (iii) or (iv) above, not waived by the Company) by December 31, 2005 or such other date as the Company, CPI Holding and CPDL may agree, the Acquisition Agreement will lapse.

CPI Holding and CPDL are in the process of obtaining all necessary PRC regulatory approvals for the Restructuring and the Acquisition. CPI Holding and CPDL have to date obtained Ministry of Commerce's approval for the Acquisition and the Restructuring. CPI Holding and CPDL are in process of incorporating Shanxi Shentou Power Generation Company Limited as a wholly-foreign owned enterprise under the Target Holding Company. CPI Holding and CPDL do not anticipate any material obstacles in obtaining the approvals and incorporating such company.

5. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition represents a good opportunity for the Company to enlarge its operating scale, expand its geographical scope, promote business development and improve financial performance, so as to benefit from the growth in the power industry in the PRC. In addition, the advantageous location of Shentou I Power Plant in coal-rich Shanxi province will enable the Group to benefit from proximity to coal supply and without the need to pay for long distance transportation or being subject to transportation capacity constraints.

(a) Enlarge operating scale

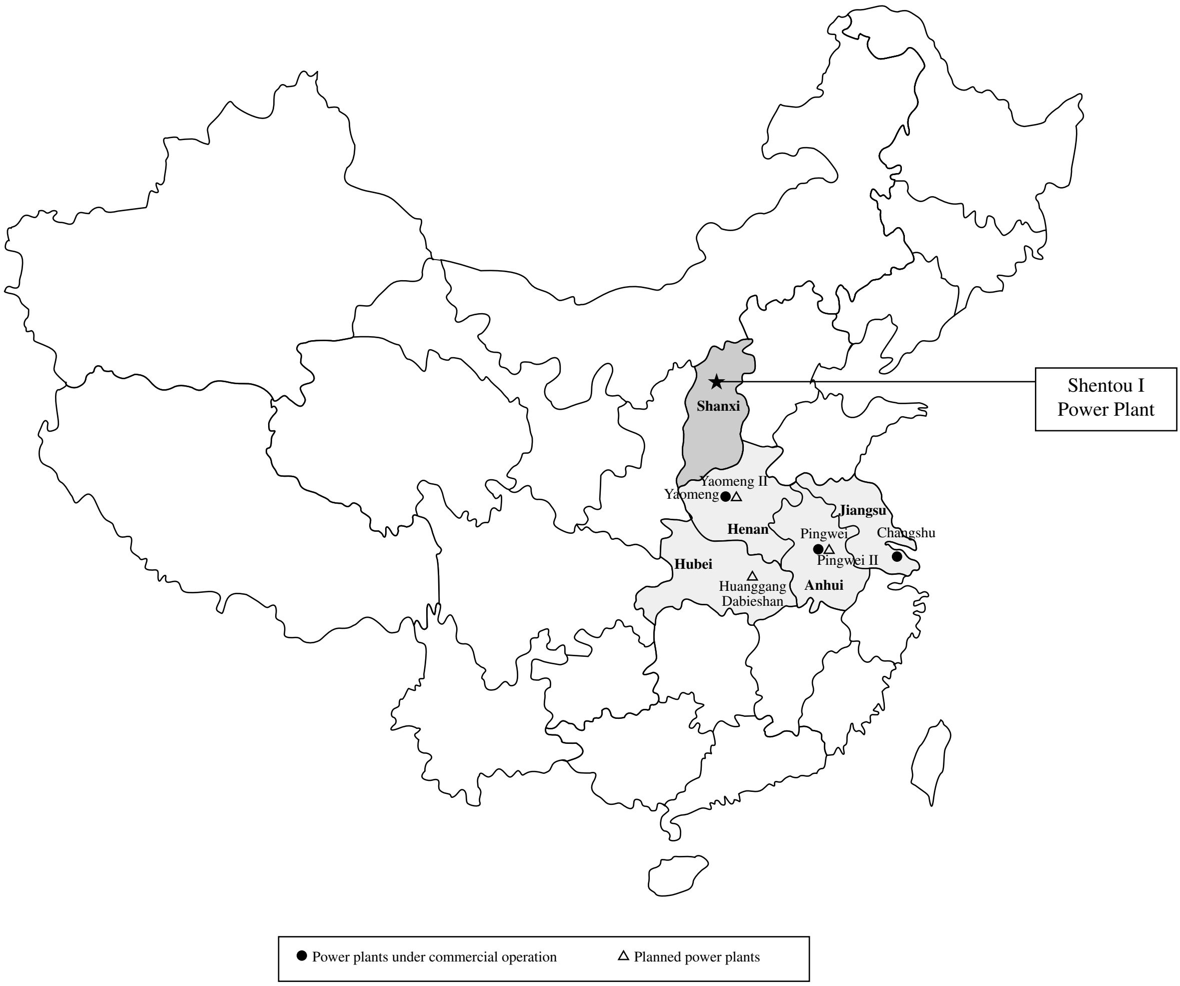
At present, the Company operates and has a 100% ownership interest in two coal-fired power plants, namely Pingwei Power Plant and Yaomeng Power Plant, and operates Changshu Power Plant in which it has a 50% equity interest. These three power plants have total installed capacity of 3,610 MW, and give the Company installed capacity attributable to its ownership of 3,010 MW in aggregate.

The Acquisition will give the Company additional installed capacity of 1,200 MW, increasing its total installed capacity to 4,810 MW, and installed capacity attributable to its ownership to 4,210 MW in aggregate, representing an increase of approximately 33% and approximately 40% respectively.

Further, the Company currently manages Shentou I Power Plant for CPI Holding pursuant to the management agreement between CPI Group, CPI Holding and the Company effective July 1, 2004, and receives a service fee in return. The Acquisition will enable the Company to leverage its experience gained in the management of Shentou I Power Plant to enhance its financial position and increase its revenue.

In addition, Shentou I Power Plant has resources required for future expansion plans. It has vacant land, water sources and available ash disposal and storage facilities that could be deployed in the future should Shentou I Power Plant wish to expand its power generation capacity by constructing more generation units. Currently, there is no definitive plan to do so.

(b) **Expand geographical coverage and improve financial and growth prospects**



Shentou I Power Plant is located in Shanxi province, and supplies electricity to the Shanxi provincial power grid. Shanxi provincial power grid is a significant grid of the North China Power Grid operated by the North China Power Grid Company. The North China Power Grid Company transmits electricity to the northern regions of China, including the more populous and economically prosperous regions of Beijing and Tianjin.

The Acquisition will expand the geographical coverage of the Company's power operations beyond Anhui, Henan and Jiangsu provinces (where the Company's three existing power plants under operation are located) and expand its service coverage. Currently, Pingwei Power Plant and Changshu Power Plant supply electricity to the East China Power Grid which transmits electricity primarily to the eastern regions of China and Yaomeng Power Plant supplies electricity to the Central Power Grid which transmits electricity primarily to the central regions of China. The Acquisition will expand the Company's service coverage to three interprovincial power grids with the addition of the North China Power Grid, thereby opening up a new market for the Company, improving the Company's growth prospects and enhancing the Company's risk tolerance by diversifying its asset portfolio and market exposure.

(c) **Ensure secured supply of coal with lower cost**

Shentou I Power Plant is a mine-mouth power plant located in Shanxi province. Shanxi province has abundant coal supply and ranks among the top regions in the PRC for coal production. Shentou I Power Plant's close proximity to coal mines is a significant advantage, considering coal is one of the most important raw materials and fuel cost is a significant component of operating costs of coal-fired power plants, and rising coal price has been one of the challenges faced by coal-fired power plants in recent years. Shentou I Power Plant's advantageous location will enable it to benefit from proximity to supply of coal and without the need to pay for long distance transportation cost or being subject to transportation capacity constraints. Currently, Shentou I Power Plant obtains all its coal requirements from producers in Shanxi province and does not need to rely on State allocation to meet its needs or State-allocated transportation to transport coal.

(d) **Improve financial performance**

After completion of the Acquisition, Shanxi Shentou Power Generation Company Limited will be a wholly-owned subsidiary of the Company and its financial results will be consolidated into the Company's. Such financial results are expected to contribute to the revenue of the Company due to increased on-grid tariffs and stable generation output owing to expected high power demand. Please refer to section 6 in this letter for more information regarding Shentou I Power Plant.

For the reasons set out above, the Acquisition will be beneficial to the Company. The Company considers it is good timing to acquire Shentou I Power Plant now as Shentou I Power Plant fulfils certain key criteria the Company typically uses in selecting power plants and is in line with the Company's overall development strategy. The Company has gained sufficient knowledge and operational experience of Shentou I Power Plant from its management of Shentou I Power Plant on behalf of the Parent Group since July 1, 2004. Further, following its separation from the operations of the Shanxi provincial power grid and injection into the Parent Group in 2003, Shentou I Power Plant had undergone restructuring to become an independent power producer, and will, upon completion of the Restructuring, be separated from its non-core operations.

6. INFORMATION ON SHENTOU I POWER PLANT

(a) **Industry Background and Market Environment**

PRC and Shanxi province statistics

As the PRC economy continues to grow, electricity demand and consumption in the PRC is also expected to increase. In 2004, total annual electricity generation in the PRC amounted to 2,197 TWh, an increase of 14.8% from 2003. The gross domestic production of China was RMB13,652 billion in 2004, an increase of 9.5% from 2003.

Shentou I Power Plant is located in Shanxi province in the northern part of China. Shanxi province has a total land area of approximately 156,000 square kilometers and its population at the end of 2004 was approximately 33.4 million people, representing approximately 2.6% of the total population of China.

From 1993 to 2004, Shanxi province's gross domestic production increased from RMB70.4 billion to RMB 304.2 billion, representing a compounded annual growth rate of 14.2%. Its gross industrial value-add in 2004 was RMB156.9 billion.

Shanxi province's electricity supply principally comes from thermal power sources within the province. As at December 31, 2004, the total installed capacity of all power plants in Shanxi province was approximately 17,925 MW. Total power generation in the province amounted to 106.4 TWh and 95.4 TWh in 2004 and 2003 respectively. For the six months ended June 30, 2004, Shanxi province consumed 39.2 TWh of Electricity, an 11.0% increase over the corresponding period in 2003. In 2003, Shanxi province consumed a total of 72.5 TWh of electricity.

Transmission and Dispatch

All electricity generated by power plants in the PRC is dispatched by power grids (except for electricity generated by power plants not connected to a grid). Power plants negotiate with the relevant PRC government agencies to determine the volume of output to be dispatched annually.

The main system for the dispatch, transmission and distribution of power in China consists of five existing interprovincial power grids owned by the State Grid Corporation of China and one interprovincial power grid owned by the China Southern Grid Company, namely:

(i) East China Power Grid

(ii) North China Power Grid

(iii) Central China Power Grid

(iv) Northeast Power Grid

(v) Northwest Power Grid

(vi) Southern Grid

The electricity generated by Shentou I Power Plant is supplied to the Shanxi provincial power grid, which is a significant grid of the North China Power Grid operated by the North China Power Grid Company. The North China Power Grid transmits electricity to the northern regions of China, including the more populous and economically prosperous municipalities of Beijing and Tianjin.

On-grid tariffs

On-grid tariffs for power output in the PRC are determined by a review process involving the relevant provincial price bureaus and the NDRC. Prior to the implementation of the coal price-tariff linked policy effective May 1, 2005, different on-grid tariffs were applicable to planned output and excess output.

In April 2001, the former State Development and Planning Commission (the predecessor to the NDRC) issued guidelines for tariff reforms. Pursuant to the notice, an on-grid tariff setting mechanism, based on the operating term of power plants as well as the average costs of comparable power plants that were constructed during the same period within the same provincial power grid, was gradually implemented.

In addition, in 1998 the PRC government started an experiment to effect power sales through competitive bidding in several provinces (which did not include provinces in the northern region of China where Shentou I Power Plant is located). As the PRC power industry continues to undergo reform, the portion of output subject to competitive bidding on-grid tariffs is expected to increase in the long-term. However, in the past, the on-grid tariffs for power sold through competitive bidding were generally lower than the pre-approved on-grid tariffs for planned output. According to the tariff reform plans of the PRC government, in the long-term, on-grid tariffs are expected to be determined by market competition.

Pursuant to the coal price-tariff linkage policy recently announced by the PRC government which seeks to allow on-grid tariffs to float in line with coal price fluctuations, on-grid tariffs were adjusted nationwide to alleviate coal costs pressure faced by coal-fire power plants.

Coal prices

The allocation of coal used by coal-fired power plants is regulated by the PRC government. Each year, the NDRC sponsors and coordinates annual sales conferences to make allocations for coal purchases which are attended by representatives of coal purchasers and sellers, the railway authorities and the shipping companies. At these conferences, power plants obtain allocations for coal and sign supply contracts with coal producers.

As Shentou I Power Plant obtains all its coal requirements locally from producers located in Shanxi province, it does not rely on the NDRC sales conferences for allocation of coal nor depend on State-allocated transportation for coal.

Due to PRC government policies announced in 2002 aimed at eliminating guideline prices for coal used in electricity generation and increasing demand for coal with increased industrial production and economic growth, coal prices in PRC have been on an upward trend, as they become more subject to market forces. From time to time, the PRC government has intervened to alleviate cost pressures by adjusting on-grid tariffs for power output or affecting coal prices. For instance, the coal price-tariff linkage policy was recently implemented.

(b) **Overview of the business of Shentou I Power Plant**

Set out below are certain operating data in respect of Shentou I Power Plant provided by the management of Shentou I Power Plant.

Operating data

The following table sets out certain operating data of Shentou I Power Plant for 2004:

	2004
Installed capacity (MW)	1,200
Average utilization hours (hours)	7,008
Gross generation (MWh)	8,409,502
Net generation (MWh)	7,560,135
Equivalent availability factor (%)	87
Net generation standard coal consumption rate (grams/kWh)	383
Planned output (MWh)	5,900,220
Excess output (MWh)	1,659,915

On-grid tariffs

The following table sets out the on-grid tariffs (exclusive of value-added tax) applicable to Shentou I Power Plant, from 2003[1] to the Latest Practicable Date:

		2003	**January 1, 2004 to June 14, 2004 (inclusive)**	**June 15, 2004[2] (inclusive) to April 30, 2005**	**May 1, 2005 (inclusive)[3] to the Latest Practicable Date**
				(RMB per MWh)	
	Planned			133	
Output		118	124		167
	Excess			168	

Notes:

(1) Prior to the power industry restructuring in 2002, Shentou I Power Plant was owned by the State Power Corporation and was managed by the Shanxi Electric Power Corporation as part of the Shanxi provincial grid. Power output supplied by Shentou I Power Plant did not have an applicable tariff. After Shentou I Power Plant was transferred to the CPI Group in 2003, on-grid tariffs applicable for power output supplied by Shentou I Power Plant became regulated and set by the NDRC annually.

(2) On-grid tariffs were adjusted with effect from June 15, 2004 and a separate on-grid tariff for excess output became applicable for Shentou I Power Plant, pursuant to measures implemented by NDRC to alleviate pressures arising from coal price increases.

(3) Pursuant to the implementation of the coal-price tariff linkage policy, on-grid tariffs were again adjusted. On-grid tariff for excess output was abolished and a single on-grid tariff became applicable for all output sold by Shentou I Power Plant.

Coal prices

Shentou I Power Plant is a mine-mouth power plant, located within close proximity to major coal producers in Shanxi province. It obtains its coal supply from coal producers in Shanxi province. Its proximity to coal mines helps reduce operating costs by reducing the transportation component in the coal price.

The following table sets out the weighted average standard coal prices (exclusive of value-added tax) of Shentou I Power Plant for the three years ended December 31, 2002, 2003 and 2004 and the three months ended March 31, 2005:

	Year ended December 31,			**3 months ended**
	2002	**2003**	**2004**	**March 31, 2005**
			(RMB per ton)	
Weighted average standard coal price	180	180	182	271

The weighted average standard coal price for Shentou I Power Plant for the first three months ended March 31, 2005 is approximately RMB271 per ton, which is significantly higher than the weighted average standard coal price for 2004. The abnormal increase in coal price was primarily due to a shortage in coal supply as a result of the temporary suspension of production imposed on certain coal mines from which Shentou I Power Plant procures its coal requirements. It is expected that with the resumption of full production of these coal mines, the coal supply will increase and the weighted average standard coal price will be normalized.

Effective from May 1, 2005 onwards, the on-grid tariff (exclusive of value-add tax) applicable for all power output supplied by Shentou I Power Plant has been increased to approximately RMB167 per MWh pursuant to the implementation of the coal price-tariff linkage policy. The increase in the on-grid tariff is expected to help alleviate the increase in coal price in the first three months of 2005 and improve the operating environment of Shentou I Power Plant.

Financial information

(i) Assets and Liabilities

The following is a summary of the assets and liabilities of Shentou I Power Plant (before the Restructuring) for the years ended December 31, 2002, 2003 and 2004, as extracted from the financial information of Shentou I Power Plant prepared in accordance with Hong Kong GAAP for inclusion in the shareholders' circular. As the Restructuring is undertaken after December 31, 2004 and has not been completed to date, the summary financial information presented in the table below relates to the entire Shentou I Power Plant, including the repair and maintenance and other supporting operations which would not be acquired by the Company.

	As at December 31,		
	2002	**2003**	**2004**
		(RMB millions)	
Current assets	800	263	393
Non-current assets	542	544	1,170
Total assets	1,342	807	1,563
Current liabilities	269	359	516
Non-current liabilities	98	264	266
Total liabilities	367	623	782
Net assets	975	184	781

In preparation for the Acquisition and pursuant to domestic regulatory requirements, a revaluation of the assets and liabilities of Shentou I Power Plant was carried out as at December 31, 2004. The increase in non-current assets of Shentou I Power Plant as at December 31, 2004 was mainly attributable to the increase in valuation of property, plant and equipment on a depreciated replacement costs basis.

The net asset value of the Non-Acquired Items (being the asset and liabilities that would not be acquired by the Company) was approximately RMB96 million as at December 31, 2004. Please refer to note 1 of the "Notes to the financial information" to the Accountants' Report in Appendix III for the assets and liabilities relating to the Non-Acquired Items.

The Non-Acquired Items represent certain assets and liabilities as at December 31, 2004. These Non-Acquired Items formed an integral part of Shentou I Power Plant and are historically associated and managed commonly with the power generation business; there is no separate accounting record in connection with these Non-Acquired Items. As such, no profit and loss item can be separately identified from these Non-Acquired Items.

However, as the Restructuring is undertaken to separate the power generation and sale of electricity operations from the repair and maintenance and other supporting functions in order to achieve operational efficiency, the Directors are of the opinion that the net profit of Shentou I Power Plant for the financial year ended December 31, 2004 of RMB114 million (before the Restructuring) reflected the performance of the power generation business because the power generation business required the repair and maintenance and other supporting functions (which are inseparable before the Restructuring) and would have incurred such expenses after the Restructuring. Had the Restructuring been completed at the beginning of 2004 and all other factors (including the operational efficiency) in 2004 remained unchanged, the Restructuring would simply result in Shentou I Power Plant paying the relevant expenses relating to the repair and maintenance and other supporting functions to Huize Company and Boya Company rather than for its own account.

Further, it should be noted that had the Restructuring been completed at the beginning of 2004, additional depreciation expenses, interest payable on the Converted Loan and taxation (if tax exemption were not available) would have arisen and would have reduced the net profits of Shentou I Power Plant. Details of such additional depreciation expenses, interest payable on the Converted Loan and taxation are set out in sub-sections (ii), (iii) and (iv) below.

(ii) Converted Loan

In addition, on June 8, 2005, the Target Holding Company, on behalf of Shanxi Shentou Power Generation Company Limited, the wholly-foreign owned enterprise to be established to hold Shentou I Power Plant, entered into a loan agreement with CPI Financial Co., Ltd.* (中電投財務有限公司), a company controlled by CPI Group, for the sum of approximately RMB270,295,174, to convert an existing equity contribution of the same amount in Shentou I Power Plant by CPI Group to debt on completion of the Acquisition. When converted, the Converted Loan will increase the total liabilities and reduce the net assets of Shentou I Power Plant. The loan is repayable in full on June 7, 2010. Pursuant to the loan agreement, an aggregate monthly interest plus handling fee of 5.305% per annum is payable. The applicable interest rate is subject to adjustment in accordance with changes in relevant PBOC regulations. The interest amount payable will reduce the net profit of Shentou I Power Plant. The loan is on normal commercial terms and is not secured by any assets of the Enlarged Group. Pursuant to rule 14A.65(4) of the Listing Rules, the loan is considered financial assistance from a connected person, exempt from reporting, announcement and Independent Shareholders' approval requirements. For the purpose of the asset valuation report prepared as at December 31, 2004 and submitted to the PRC regulatory authorities for approval, this amount had been included and accounted for as a liability and was taken into account in the valuation of Shentou I Power Plant.

(iii) Turnover, Profits and Losses

The following is a summary profit and loss statement of Shentou I Power Plant (before the Restructuring) for the years ended December 31, 2002, 2003 and 2004, as extracted from the financial information of Shentou I Power Plant prepared in accordance with Hong Kong GAAP for inclusion in the shareholders' circular. As the Restructuring is undertaken after December 31,2004 and has not been completed to date, the summary profit and loss statement presented in the table below relates to the entire Shentou I Power Plant, including the repair and maintenance and other supporting operations which would not be acquired by the Company.

	Year ended December 31,		
	2002	**2003**	**2004**
		(RMB millions)	
Turnover	—	842	1,030
Operating (loss)/profit	(6)	(42)	125
(Loss)/profit for the year	(21)	(54)	114

Prior to the power industry restructuring in 2002, Shentou Power Plant was owned by the State Power Corporation and was operated as part of Shanxi Electric Power Corporation ("SEPC") which operated the Shanxi provincial power grid. Shentou I Power Plant was treated as an internal unit of SEPC rather than an independent profit centre and was subject to an internal settlement system. Output supplied to the power grid was determined by SEPC and was not assigned any on-grid tariff. Due to the absence of on-grid tariff, no turnover is recorded for the financial year ended December 31, 2002. An amount due for power output supplied by Shentou I Power Plant was determined by SEPC's internal settlement system and accordingly recorded as an amount due from SEPC in the audited financial results for the financial year ended December 31, 2002.

Following the power industry restructuring and the transfer of Shentou I Power Plant to CPI Group, from 2003 onwards, on-grid tariffs became applicable for power output supplied by Shentou I Power Plant and were regulated and set by the NDRC. Please refer to section 6(b) for information regarding Shentou I Power Plant's on-grid tariffs from 2003 to the Latest Practicable Date.

The loss suffered in 2003 was in part due to the low on-grid tariff applicable. On-grid tariff was implemented for Shentou I Power Plant by the NDRC for the first time in 2003 (following the PRC power industry restructuring in 2002) and was fixed at a relatively low level.

The significant increase in turnover and profits in 2004 is due to the increase in on-grid tariff and higher electricity output due to the strong demand for power in Shanxi province and other areas served by North China Power Grid.

Pursuant to the revaluation carried out as at December 31, 2004, property, plant and equipment of Shentou I Power Plant were booked at revalued amount less accumulated depreciation, and will be depreciated on a straight-line basis over their estimated useful lives. It is currently estimated that the additional depreciation expense resulting solely from the asset revaluation as at December 31, 2004 would be approximately RMB40 million on an annual basis. This estimate is calculated based on the increase in valuation of the property, plant and equipment resulting from the asset revaluation and the average depreciation life of such property, plant and equipment. No adjustment has been made to take into account the additional depreciation expense in the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix V to this circular which has been prepared to set out the unaudited pro forma statement of assets and liabilities of the Enlarged Group in accordance with rule 14.67(4) of the Listing Rules.

(iv) Taxation

Prior to the Restructuring, Shentou I Power Plant was considered as a branch for income tax filing purposes and all of its profits and losses were combined into the results of China Power Investment Group for tax purposes. Consequently, no income tax provision has been made for the three years ended December 31, 2002, 2003 and 2004. After the Restructuring and the establishment of Shanxi Shentou Power Generation Company Limited as a wholly-foreign owned enterprise, the Company expects that pursuant to the relevant PRC income tax law and regulations, Shentou I Power Plant will be entitled to enjoy the relevant PRC tax benefits available to enterprises with foreign investment engaged in the energy industry, being preferential income tax rate of 15%, exemption from income tax for 2 years commencing from the first year of positive earnings and entitlement to 50% reduction in income tax for the 3 years following thereafter.

The relevant provisions are the Income Tax Law of the People's Republic of China of Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and its implementation rules and the State Council's Circular on Expanding Application Scope of Income Tax Preferential Treatment on Enterprises with Foreign Investment Engaged in Energy or Traffic Infrastructure Projects (國務院關於擴大外商投資企業從事能源交通基礎設施項目稅收優惠規定適用範圍的通知).

In connection with the Acquisition, CPI Holding and CPDL will bear any tax liability of Shentou I Power Plant associated with any earnings prior to July 1, 2005.

(v) Expenses arising out of repair & maintenance and other supporting operations

As the Restructuring is undertaken after December 31, 2004 and has not been completed as of the date of this circular, the audited financial information of Shentou I Power Plant include certain expenses associated with the repair and maintenance and other supporting operations which will not be acquired by the Company. Instead, after the completion of the Acquisition, the Target Holding Company will procure repair and maintenance and other supporting services from Huize Company and Boya Company respectively pursuant to agreements entered into and set out under section 7(b) in this letter. Purely for information purposes only, the unaudited historical amounts of operating expenses Shentou I Power Plant spent in 2004 on repair and maintenance services (which will be procured from Huize Company in the future) and on other supporting services (which will be procured from Boya Company in the future) are approximately RMB66 million and approximately RMB82 million respectively. These historical operating expenses are calculated from the accounting records for the year ended 2004 based on the staff costs associated with the related workforce and the depreciation expenses associated with the Non-Acquired Items, to be transferred to Huize Company and Boya Company respectively.

The unaudited depreciation expenses associated with the fixed assets of the Non-Acquired Items were estimated to be approximately RMB3 million in 2004. There was no interest expense associated with the liabilities of the Non-Acquired Items in 2004.

Please refer to section 7(b) in this letter for further information on these Prospective Connected Transactions relating to repair and maintenance and other supporting services and their respective annual caps in 2005, 2006 and 2007. The Company does not expect to exceed such annual caps. Under the agreements, the Company has the option to engage other independent service providers on better and more competitive commercial terms.

7. PROSPECTIVE CONNECTED TRANSACTIONS

(a) Introduction

Certain agreements have been entered into by the Target Holding Company with certain members of the Parent Group, which following the Acquisition, will constitute continuing connected transactions between the Parent Group and the Enlarged Group. These transactions are necessary for the continual operations of Shentou I Power Plant following the Restructuring and completion of the Acquisition.

A summary of these Prospective Connected Transactions is as follows:

Prospective Connected Transaction	Term	Parties	
		Enlarged Group	**Parent Group**
Technical repair and maintenance	Date of completion until December 31, 2007	Target Holding Company	Huize Company
Fuel and chemical processing	Date of completion until December 31, 2007	Target Holding Company	Boya Company
Non-power generation facilities maintenance	Date of completion until December 31, 2007	Target Holding Company	Boya Company
Composite ancillary services	Date of completion until December 31, 2007	Target Holding Company	Boya Company
Land lease	20 years from July 1, 2005	Target Holding Company	CPI Group

Pursuant to the agreements, the parties to the agreements have the right to novate their respective benefits and obligations under the agreements to their wholly-owned subsidiaries. Specific agreements in respect of each of the Prospective Connected Transactions are set out in sections 7(b) and 7(c) below.

Pursuant to the Listing Rules, the Prospective Connected Transactions under section 7(b), namely the technical repair and maintenance framework agreement, the fuel and chemical processing serves framework agreement, the non-power generation facilities maintenance framework agreement and the composite ancillary services framework agreement are subject to the announcement, reporting and Independent Shareholders' approval requirements as the applicable percentage ratios (other than the profits ratio) for these transactions, when aggregated, are on an annual basis more than 2.5%.

As each of the applicable percentage ratios (other than the profits ratio) (as defined in the Listing Rules) for the land lease agreement (aggregated with those entered into by the Enlarged Group with the Parent Group in the last 12 months) is on an annual basis more than 0.1% but less than 2.5%, it is subject to the reporting and announcement requirements but is exempt from Independent Shareholders' approval requirements.

(b) **Information on Prospective Connection Transactions subject to announcement, reporting and Independent Shareholders' approval requirements**

Technical Repair and Maintenance Framework Agreement

Background: On June 9, 2005, the Target Holding Company entered into the technical repair and maintenance framework agreement with Huize Company effective from the date of completion of the Acquisition until December 31, 2007. Under the terms of the technical repair and maintenance framework agreement, Huize Company agrees to provide to the Target Holding Company repair and maintenance services for the six power generation units and related power equipment of Shentou I Power Plant. The services to be provided under the agreement include: overhaul services involving detailed inspection, extensive repair and replacement of parts and components of the generation units and recalibration and retuning of power generation units and its related equipment; daily routine repair and maintenance of the power generation units and related power equipment, including protection against frost, heat and other seasonal conditions; calibration of inspection apparatus; extensive repair and maintenance of the power generation units and related power equipment, on a routine, ad hoc or emergency basis; repair and maintenance of power generation and supporting infrastructure; ongoing technical testing to ensure compliance with the relevant PRC requirements and specifications; repair and maintenance consultancy services; plant-grid-dispatch center communications network services; and repair and maintenance technical training.

Pricing: The fees payable to Huize Company for the various repair and maintenance services provided under the technical repair and maintenance services framework agreement shall be:

- the applicable State tariffs set by the PRC government (central and local), if any; and if there are no such stipulated State tariffs,

- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (central and local); and if there are no such pricing guidelines or recommendations,

- prices determined in accordance with the prevailing market prices; and if there is no market price for a particular service,

- an agreed price consisting of reasonable cost incurred by Huize Company in providing the service.

Where there are viable third party service providers, the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favourable to the Enlarged Group than those reasonably available from such third party service providers.

Reasons for such transactions: Repair and maintenance of the six power generation units are essential to ensure the safe, effective and efficient operations of Shentou I Power Plant. Such repair and maintenance are highly-technical in nature and can only be carried out by engineers and skilled technicians equipped with the relevant technical skills and specialized knowledge. Huize Company has the relevant technical expertise and specific in-depth knowledge of Shentou I Power Plant's power generation units and related power equipment, as the same workforce was responsible for administering ongoing repairs and maintenance for the generation units and related power equipment prior to the Restructuring. The technical repair and maintenance framework agreement will ensure continuity of reliable service, maximization of the specialized knowledge and experience of Huize Company and the safe, effective and efficient operations of Shentou I Power Plant. Under the technical repair and maintenance agreement, the Target Holding Company has the right to request for and to accept services from third party service providers.

Fuel and Chemical Processing Services Framework Agreement

Background: On June 9, 2005, the Target Holding Company entered into the fuel and chemical processing services framework agreement with Boya Company effective from the date of completion of the Acquisition until December 31, 2007. Under the terms of the fuel and chemical processing services framework agreement, Boya Company agrees to provide fuel and chemical processing services for Shentou I Power Plant's operations. The services to be provided under the fuel and chemical processing services framework agreement include: transportation and unloading of coal; powderization of coal, chemical treatment and purification of water supply; collection and treatment of ash, coal residue and wastes produced from power generation; lime treatment; procurement of steel grinders; and procurement of chemical agents and transportation of chemicals and chemical containers.

Pricing: The fees payable to Boya Company for the various services provided under the fuel and chemical processing services framework agreement shall be:

- the applicable State tariffs set by the PRC government (central and local), if any; and if there are no such stipulated State tariffs,

- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (central and local); and if there are no such pricing guidelines or recommendations,

- prices determined in accordance with the prevailing market prices; and if there is no market price for a particular service,

- an agreed price consisting of reasonable cost incurred by Boya Company in providing the service.

Where there are viable third party service providers, the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favourable to the Enlarged Group than those reasonably available from such third party service providers.

The Company will settle the fees payable by way of cash payments.

Reasons for such transactions: Fuel and chemical processing are necessary for Shentou I Power plant's operations. All of Shentou I Power Plant's generation units are fueled by coal. Shentou I Power Plant purchases its coal requirement directly from coal producers in Shanxi province. Raw supply of coal needs to be processed and powderized before it can be used for burning. Water supply used in the burning of coal and generation of power must be chemically treated and purified. Ash and wastes will be generated through the burning of coal. These ash wastes must be chemically processed and disposed of in such a manner which complies with PRC environmental and safety regulations. The Company believes that Boya Company's specialized experience in handling fuel, water and wastes will ensure that the various processes as well as the subsequent disposal of wastes are undertaken in compliance with the relevant PRC regulations. The Company further believes that it is in the best interests of Shentou I Power Plant to procure fuel and chemical processing services from Boya Company as it possesses special strengths that independent third-party service providers generally do not possess, such as having the requisite power industry knowledge and being ideally situated in close proximity to Shentou I Power Plant to enable efficient and timely services. Under the fuel and chemical processing framework services agreement, the Target Holding Company has the right to request for and to accept services from third party service providers.

Non-power Generation Facilities Maintenance Framework Agreement

Background: On June 9, 2005, the Target Holding Company entered into the non-power generation facilities maintenance framework agreement with Boya Company effective from the date of completion of the Acquisition until December 31, 2007. Under the terms of the non-power generation facilities maintenance framework agreement, Boya Company agrees to provide maintenance services for the facilities and equipment (not including power generation units and related power equipment) of Shentou I Power Plant. The services to be provided under the agreement include: cleaning, maintenance and repair of ash yards, ash residue yards and ash disposal system, coal yard sand adjoining roads, internal rail tracks, waterway and water pipes, transmission poles, yards and interiors of generation rooms, sewage systems, ducted heating systems, underground power lines, electrical supply equipment, cooling towers, fire safety systems; temperature control for facilities and equipment; procurement of facilities and equipment spare parts; and providing anti-corrosion protection to operations facilities.

Pricing: The fees payable to Boya Company for the provision of services under the non-power generation facilities maintenance framework agreement shall be:

- the applicable State tariffs set by the PRC government (central and local), if any; and if there are no such stipulated State tariffs,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (central and local); and if there are no such pricing guidelines or recommendations,
- prices determined in accordance with the prevailing market prices; and if there is no market price for a particular service,
- an agreed price consisting of reasonable cost incurred by Boya Company in providing the service.

Where there are viable third party service providers, the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favourable to the Enlarged Group than those reasonably available from such third party service providers.

The Company will settle the fees payable by way of cash payments.

Reasons for such transactions: Facilities maintenance, repair and cleaning services are necessary for the normal and day to day operations of Shentou I Power Plant. The Company believes that it is in the best interests Shentou I Power Plant to procure these services from Boya Company as it has special strengths that independent third-party service providers generally do not possess, such as having the requisite power industry knowledge and understanding of Shentou I Power Plant's facilities and being conveniently located in close proximity to Shentou I Power Plant to enable efficient and timely services. Under the non-power generation facilities maintenance framework agreement, the Target Holding Company has the right to request for and to accept services from third party service providers.

Composite Ancillary Services Framework Agreement

Background: On June 9, 2005, the Target Holding Company entered into the composite ancillary services framework agreement with Boya Company effective from the date of completion of the Acquisition until December 31, 2007. Under the terms of the composite ancillary services framework agreement, Boya Company agrees to provide to Shentou I Power Plant ancillary services which are necessary to facilitate the operations of Shentou I Power Plant. The services to be provided under the agreement include: security and surveillance; fire safety; roads, buildings and environmental sanitation, greening and maintenance; general office supplies procurement; meals catering; maintenance of water and electricity supply and heating systems; printing and marketing; transportation arrangements for employees; provision of medical care for employees; conference room and meeting facilities; postal delivery and dispatch; human resources and labor recruitment.

Pricing: The fees payable to Boya Company for services provided under the composite ancillary services framework agreement shall be:

- the applicable State tariffs set by the PRC government (central and local), if any; and if there are no such stipulated State tariffs,

- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (central and local); and if there are no such pricing guidelines or recommendations,

- prices determined in accordance with the prevailing market prices; and if there is no market price for a particular service,

- an agreed price consisting of reasonable cost incurred by Boya Company in providing the service.

Where there are viable third party service providers, the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favourable to the Enlarged Group than those reasonably available from such third party service providers.

The Company will settle the fees payable by way of cash payments.

Reasons for such transactions: These ancillary services are required by Shentou I Power Plant to facilitate its business operations. The Company believes that it is in the best interest of Shentou I Power Plant to procure these ancillary services from Boya Company as Boya Company has special strengths that independent third-party service providers generally do not possess, such as having the relevant knowledge and being conveniently located in close proximity to Shentou I Power Plant to enable efficient and timely services. Under the composite ancillary services framework agreement, the Target Holding Company has the right to request for and to accept services from third party service providers.

(c) **Prospective Connected Transaction exempt from Independent Shareholders' approval requirements**

Land lease agreement

Background: On June 9, 2005, the Target Holding Company entered into the land lease agreement with CPI Group to lease approximately 2,925,019.15 square meters of land from CPI Group, for a term of 20 years commencing from July 1 2005. The annual rent for the period up to 31 December 2007 is fixed at RMB4.94 million. Please refer to property items 2 and 3 in the Property Valuation Report in Appendix I to this circular. The rental amount is subject to review by the parties on the expiration of the period and independent valuation.

Reason for such transactions: The land Shentou I Power Plant is situated on is allocated by the State to CPI Group. Entering into the land lease agreement is necessary to ensure that, following the Acquisition, Shentou I Power Plant can continue to operate on the land.

The annual rental payable is determined by reference to market rates. CLSA, the Company's independent financial adviser, has reviewed the land lease agreement and its 20 year term and noted that other PRC power companies listed in Hong Kong have similar lease term between 20 and 30 years either with their parent or local government, and has confirmed that it is normal business practice for contracts of this type to be of such duration.

The Company will settle the rental payments payable by way of cash payments on a quarterly basis.

For the reasons set out in the foregoing, the Directors of the Company, are of the view that the above Prospective Connected Transactions are and will be conducted on normal commercial terms that are no less favourable to the Enlarged Group than terms available from independent third party service providers, are fair and reasonable so far as the Enlarged Group are concerned and are in the interests of the Company and its shareholders as a whole.

8. COMPLIANCE WITH THE LISTING RULES

Following completion of the Acquisition, the Enlarged Group will enter into the Prospective Connected Transactions that are continuing in nature and described in section 7 in this letter above. Such transactions would constitute continuing connected transactions for the Company under the Listing Rules for so long as the relevant members of the Parent Group remain connected persons within the meaning of the Listing Rules.

These transactions will be entered into for the first time in 2005, following the Restructuring and completion of the Acquisition. Prior to the Restructuring, Shentou I Power Plant satisfied its needs for services provided under the respective agreements internally. As such, there are no historical values for these Prospective Connected Transactions. However, purely for information purposes only, the unaudited historical amounts of operating expenses Shentou I Power Plant spent in 2004 on repair and maintenance services (to which the technical repair and maintenance framework agreement relates) and on othersupporting services (to which the fuel and chemical process framework agreement, non-power generation facilities maintenance framework agreement and composite ancillary services framework agreement relate) are approximately RMB66 million and approximately RMB82 million respectively. These historical operating expenses are calculated from the accounting records for the year ended 2004 based on the staff costs associated with the related workforce to be transferred to Huize Company and Boya Company respectively and the depreciation expenses associated with the Non-Acquired Items to be transferred to Huize Company and Boya Company respectively. As they are prepared on cost-based assumptions and do not correspond to pricing mechanisms used for the Prospective Connected Transactions going forward, these historical amounts shall not necessarily be read as an indication of future transaction amounts.

Set out below are the aggregate annual caps for the years ending December 31, 2005, 2006, and 2007 applicable for transactions entered and to be entered into between (i) the Target Holding Company or its subsidiaries and (ii) members within the Parent Group pursuant to the following agreements, and the basis of determining such aggregate annual caps:

Prospective Connected Transactions	**Annual Cap** *(RMB millions)*			**Basis of determination of the annual cap**
	2005	**2006**	**2007**	
Technical repair and maintenance framework agreement	68	68	68	The annual caps are determined by the Company after taking into account repair and maintenance plans determined based on the age, condition and repair and maintenance needs of each power generation unit and equipment, the expected time costs of expertise labor required, the complexity of the repair and maintenance works involved, and/or market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.
Fuel and chemical processing services framework agreement	24	24	24	The annual caps are determined by the Company after taking into account Shentou I Power Plant's expected coal consumption with reference to the expected power generation level, its requirements for fuel and chemical processing services and/or market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.
Non-power generation facilities maintenance framework agreement	39	39	39	The annual caps are determined with reference to the age, condition and repair and maintenance requirements of each facility and equipment, the expected time costs of labor required, and/or the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.

Prospective Connected Transactions	Annual Cap (RMB millions)			Basis of determination of the annual cap
	2005	2006	2007	
Composite ancillary services framework agreement	19	19	19	The annual caps are determined with reference to Shentou I Power Plant's requirements for ancillary services and/or the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.
Land lease agreement	4.94	4.94	4.94	The annual caps are determined based on the annual rental payable which have been confirmed by the independent property valuer to be fair and reasonable.

9. RELATIONSHIP WITH CPI GROUP

The Company, whose principal activities are the development, construction, operations and management of power plants, is the flagship company and only listed entity outside the PRC of CPI Group. CPI Group is one of the five national power generation groups in China, and operates coal-fired, hydroelectric and nuclear power plants in various locations in the PRC. CPI Holding is wholly-owned by CPI Group and owns and operates coal-fired and hydroelectric power plants in the PRC. CPDL is an investment holding company wholly-owned by CPI Holding. As at the Latest Practicable Date, CPI Group, through intermediate holding companies, CPI Holding and CPDL, owned and was entitled to control approximately 63.68% of the issued share capital of the Company.

10. FINANCIAL EFFECTS OF THE ACQUISITION

Set out in Appendix V is the Unaudited Pro Forma Financial Information of the Enlarged Group based on (i) the audited financial statements of the Company as at December 31, 2004 set out in Appendix IV and (ii) the audited financial information of Shentou I Power Plant as at December 31, 2004 set out in Appendix III to this circular, assuming, *inter alia*, that completion of the Restructuring and the Acquisition had taken place on December 31, 2004, and taking into account the effect of certain adjustments to reflect the Restructuring and the Acquisition, including the net asset value of the Non-Acquired Items and the Converted Loan amount.

As shown in the Unaudited Pro Forma Financial Information of the Enlarged Group, the pro forma assets and liabilities of the Enlarged Group following the Acquisition would have been RMB10,100 million and RMB3,875 million as compared with RMB9,050 million and RMB2,825 million before the Acquisition respectively. The pro forma net assets of the Enlarged Group following the Acquisition would have been RMB6,225 million which is the same as the net asset value of the Company and its subsidiaries before the Acquisition.

In addition, had the Acquisition been in place at the commencement of the financial year ended December 31, 2004, the Acquisition would have been accretive to the earnings of the Company.

11. APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER AND EXTRAORDINARY GENERAL MEETING

As at the Latest Practicable Date, CPDL owned approximately 63.68% of the issued share capital of the Company. CPDL is a wholly-owned subsidiary of CPI Holding, which is in turn wholly-owned by CPI Group. As CPI Group and its Associates (including CPI Holding and CPDL) are substantial shareholders and connected persons of the Company within the meaning of the Listing Rules, the Acquisition constitutes a connected transaction for the Company. The Acquisition exceeds 25% but is below 100% of the applicable percentage ratios under Rule 14.07 of the Listing Rules and constitutes also a major transaction for the Company.

Further, the applicable percentage ratios of the Prospective Connected Transactions under section 7(b) in this letter, when aggregated, on an annual basis exceed 2.5% under Rule 14A.34 of the Listing Rules.

The Acquisition and the Prospective Connected Transactions under section 7(b) in this letter are subject to the approval of the Independent Shareholders. CPI Group and its Associates (including CPI Holding and CPDL) being connected persons in respect of the Acquisition and the Prospective Connected Transactions, will abstain from voting on the ordinary resolution to approve the terms of the Acquisition and the Prospective Connected Transactions under section 7(b) in this letter. Any vote of the Independent Shareholders at the EGM shall be taken by poll.

Under the articles of association of the Company, a poll can be demanded by:

(a) the chairman of the meeting; or

(b) at least three members present in person or by proxy having the right to vote on the resolution; or

(c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or

(d) a member or members present in person or by proxy holding shares conferring the right to attend and vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right,

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition and the Prospective Connected Transactions under section 7(b). CLSA has been retained as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders.

The Notice of Extraordinary General Meeting to be held at Island Ballroom A, 5/F, Island Shangri La, Pacific Place, Supreme Court Rd, Central, Hong Kong, on July 21, 2005 at 10:30 a.m. is set out on pages 155 to 156 of this circular, at which an ordinary resolution will be proposed to approve (i) Acquisition Agreement and (ii) each of the Prospective Connected Transactions referred to in section 7(b) in this letter and the annual caps for each such Prospective Connected Transaction for the years ending December 31, 2005, December 31, 2006 and December 31, 2007. The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

A notice of attendance and form of proxy for use at the EGM are also enclosed with this circular. Whether or not shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy to Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM.

12. ADDITIONAL INFORMATION

Your attention is drawn to the Letter from the Independent Board Committee to the Independent Shareholders set out on pages 37 to 38 of this circular, the Letter from CLSA, the independent financial adviser to the Company's Independent Board Committee and Independent Shareholders in respect of the terms of the Acquisition and the Prospective Connected Connected Transactions referred to in section 7(b) in this letter set out on pages 39 to 64 of this circular, and to the information set out in the appendices to this circular.

By Order of the Board
China Power International Development Limited
Wang Binghua
Chairman

CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED

中國電力國際發展有限公司

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

(Stock Code: 2380)

Independent Board Committee
Kwong Che Keung, Gordon
Li Fang
Tsui Yiu Wa, Alec

June 30, 2005

To the Independent Shareholders

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular (the "Circular") dated June 30, 2005 issued by the Company to its shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On June 10, 2005, the Board announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CPI Holding and CPDL agreed to sell, the entire equity interest in the Target Holding Company, subject to certain conditions.

The Independent Board Committee was formed on June 8, 2005 to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of the Acquisition and Prospective Connected Transactions requiring Independent Shareholders' approval (the "Relevant Prospective Connected Transactions") are fair and reasonable and whether the Acquisition and the Relevant Prospective Connected Transactions are in the interest of the Company and its shareholders. CLSA has been retained as independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the terms of the Acquisition and the Relevant Prospective Connected Transactions from a financial perspective.

The terms and the reasons for the Acquisition and the Relevant Prospective Connected Transactions are summarized in the Letter from the Board set out on pages 5 to 36 of the Circular.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Acquisition and the Relevant Prospective Connected Transactions and the basis upon which their terms have been determined. We have also considered the key factors taken into account by CLSA in arriving at its opinion regarding the terms of the Acquisition and the Relevant Prospective Connected Transactions as set out in the letter from CLSA on pages 39 to 64 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the views of CLSA, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, considers that the terms of the Acquisition and the Relevant Prospective Connected Transactions are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of each and every ordinary resolution set out in the Notice of the Extraordinary General Meeting at the end of the Circular.

Yours faithfully
Kwong Che Keung, Gordon
Li Fang
Tsui Yiu Wa, Alec
Independent Board Committee

CLSA
ASIA-PACIFIC MARKETS

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

30 June 2005

Dear Sirs,

Major and Connected Transaction
Acquisition of Power Plant

We refer to our engagement pursuant to which CLSA Equity Capital Markets Limited ("CLSA") has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the acquisition of the entire issued share capital of the Target Holding Company by the Company, and certain of the Prospective Connected Transactions to be entered into between the Enlarged Group and the Parent Group following completion of the Acquisition that are subject to the Independent Shareholders' approval (the "Relevant Prospective Connected Transactions"), are on normal commercial terms, in the ordinary and usual course of the business of the Company, and are fair and reasonable and in the interests of the Company and the shareholders as a whole.

This letter has been prepared for inclusion in the circular dated 30 June 2005 (the "Circular") issued by the Company to its shareholders. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 9 June 2005, the Company, CPDL and CPI Holding entered into the Acquisition Agreement, pursuant to which the Company agrees to acquire and CPDL agrees to sell, the entire issued share capital of the Target Holding Company for a purchase price of RMB 560 million (subject to any adjustment on completion of the Acquisition, more particulars of which are detailed below). The Target Holding Company was incorporated on 31 March 2005 in the BVI as a limited liability company and an intermediate holding company wholly owned by CPDL to own the power generation assets and businesses of Shentou I Power Plant (the "Acquired Business"). The Acquisition constitutes a connected transaction for the Company under the Listing Rules and, pursuant to the provisions thereof, is subject to, among other things, approval by the Independent Shareholders at the EGM.

www.clsa.com

CLSA Equity Capital Markets Limited
18/F One Pacific Place, 88 Queensway, Hong Kong
Tel: (852) 2600 8888 Fax: (852) 2877 0110

Following completion of the Acquisition, the Target Holding Company will enter into certain Prospective Connected Transactions with the Parent Group. In respect of the Prospective Connected Transactions, the Directors advised that the relevant "percentage ratio" applicable to the Relevant Prospective Connected Transactions, when aggregated, for the purpose of Chapter 14A of the Listing Rules is expected to exceed 2.5% on an annual basis, and such transactions are not expected to fall under the categories set out in the Listing Rules 14A.16 (1)-(4). As such, the Relevant Prospective Connected Transactions together with their associated annual caps will be subject to the Independent Shareholders' approval at the EGM by way of a poll and will be subject to the reporting requirements set out in Rule 14A.46 and the annual review requirements under Rules 14A.37 to 14A.40.

In formulating our opinion with regard to the Acquisition and the Relevant Prospective Connected Transactions, we have relied on the information, opinions and facts supplied, and representations made to us by the Directors and representatives of the Company (including those contained or referred to in the Circular). We have assumed that all such information, opinions, facts and representations, which have been provided to us by the Directors and representatives of the Company, and for which they are wholly responsible, are true and accurate in all material respects. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the Directors that they have made all reasonable inquiries, and that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement contained in the Circular untrue or misleading. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Acquisition and the Relevant Prospective Connected Transactions and to justify our recommendation, relying on the accuracy of the information provided in the Circular as well as to provide a reasonable basis for our advice. It is not within our terms of reference to comment on the commercial feasibility of the Acquisition and the Relevant Prospective Connected Transactions, which remains the responsibility of the Directors. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms and conditions of the Acquisition and the Relevant Prospective Connected Transactions. Our opinion with regard to the terms and conditions thereof has been made on the assumption that all obligations to be performed by each of the parties to the Acquisition and the Relevant Prospective Connected Transactions will be fully performed in accordance with the terms and conditions thereof. Further, we have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information, facts and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors and its representatives. We have not, however, made any independent verification of the information and facts provided, representations made or opinions expressed by the Company, its Directors and its representatives, nor have we conducted any form of independent investigation into the business affairs or assets and liabilities of the Company. Accordingly, we do not warrant the accuracy or completeness of any such information.

Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us, as of the date of this opinion. We have no obligation to update this opinion to take into account events occurring after the date that this opinion is delivered to the Independent Board Committee and the Independent Shareholders. As a result, circumstances could develop prior to completion of the Acquisition and the taking effect of the Relevant Prospective Connected Transactions that, if known to us at the time we rendered our opinion, would have altered our opinion.

This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition and the Relevant Prospective Connected Transactions and, except for its inclusion in the Circular and for references thereto in the Circular and the letter from the Independent Board Committee set out in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

CLSA, a licensed corporation under the SFO, is licensed by the Securities and Futures Commission to carry out Types 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and we, together with our affiliates, provide a full range of investment banking and brokerage services, which, in the course of normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company, its subsidiaries or its substantial shareholder (as defined in the Listing Rules) for our own account and the accounts of customers. CLSA will receive a fee from the Company for rendering this opinion. The Company has also agreed to indemnify CLSA and certain related persons against liabilities and expenses in connection with this engagement.

PRINCIPAL FACTORS AND REASONS

In considering whether or not the terms and conditions of the Acquisition and the Relevant Prospective Connected Transactions are on normal commercial terms, in the ordinary and usual course of the business of the Company, and are fair and reasonable and in the interests of the Company and the shareholders as a whole, we have taken into consideration, inter alia, the following principal factors and reasons.

1. The Acquisition Agreement

On 9 June 2005, the Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which, the Company agreed to acquire and CPDL agrees to sell, the entire issued share capital of the Target Holding Company, which will wholly-own the Acquired Business, for a consideration of RMB 560 million, which is payable in cash upon completion of the Acquisition (the "Consideration").

The Consideration is subject to certain adjustment on completion of the Acquisition. In particular, the Consideration will be adjusted for the differences between the Adjusted Net Asset Amount of Shentou I Power Plant (i) as derived from its audited accounts as at 31 December 2004 (which amounted to approximately RMB 415 million as at 31 December 2004), and (ii) as derived from its audited accounts as at 30 June 2005 to be prepared in accordance with Hong Kong GAAP and audited by a certified public accountant following completion of the Acquisition and in any event no later than the release of the Company's audited financial results for the year ending 31 December 2005. The Adjusted Net Asset Amount means the net asset of Shentou I Power Plant as at the relevant date less (i) the net asset amount attributable to Non-Acquired Items that were retained by CPI Holding pursuant to the Restructuring and (ii) the Converted Loan which amounts to approximately RMB 270 million.

If the Adjusted Net Asset Amount as at 30 June 2005 is less than the Adjusted Net Asset Amount as at 31 December 2004, CPDL shall pay such difference to the Company. If the Adjusted Net Asset Amount as at 30 June 2005 is more than the Adjusted Net Asset Amount as at 31 December 2004, subject to a maximum limit of 10% of the Purchase Price, the Company will pay such difference (which shall be no more than RMB56 million under the limit) to CPDL. The adjustment payment shall be made in cash within 14 business days after the delivery of the completion accounts by the relevant party.

Details of the Restructuring and the Acquisition are set out in the Letter from the Board contained in the Circular.

2. **Reasons for the Acquisition**

The Target Holding Company will wholly-own the Acquired Business, which is located in Shentou Town, Shuozhou City, Shanxi Province, the PRC. After the completion of the Acquisition, the total installed capacity of the Company and the total installed capacity attributable to the Company's ownership will each be increased by 1,200 MW to 4,810 MW and 4,210 MW respectively, representing an increase of approximately 33% over the current total installed capacity of the Company and approximately 40% over the current installed capacity attributable to the Company's ownership.

The Directors believe the Acquisition will expand the Company's geographical coverage beyond Anhui, Henan and Jiangsu Provinces where the Company's three existing power plants are located and diversify its service coverage to supply electricity to the North China Power Grid, which covers the more populous and economically prosperous regions such as Beijing and Tianjin where there is strong demand for electricity.

In addition, as the Acquired Business is a mine-mouth power plant located in Shanxi Province where there are abundant coal reserves, the Directors also believe that the Acquisition will enable the Company to benefit from the proximity of the Acquired Business to a supply of coal ensuring secured fuel supplies with lower costs.

In addition, after completion of the Acquisition, the Directors believe that the consolidation of the Acquired Business' financial results to the Company will contribute to the Company's revenue due to the increased tariffs and the stable electricity output owing to expected high power demand.

For further details of the reasons for the Acquisition, please refer to the Letter from the Board contained in the Circular.

3. **Funding of the Acquisition**

The Company intends to use a portion of the proceeds received from the initial public offering to finance the Acquisition.

The Company completed its initial public offering in October 2004, raising a total of approximately HK$ 2,619 million. According to the Company's prospectus dated 4 October 2004, the Company specifically set aside net IPO proceeds of approximately HK$ 1,120 million (approximately RMB 1,187 million) to be used substantially for future acquisitions.

The Company had total cash and cash equivalent resources of approximately RMB 3,064 million as at 31 December 2004 as disclosed in its latest audited financial statements for the year ended 31 December 2004.

4. **Interest to be acquired**

Pursuant to the Acquisition Agreement, the Company is to acquire from CPDL the entire issued share capital of the Target Holding Company, which will wholly own the Acquired Business.

According to the management agreement entered into between the Company, CPI Group and CPI Holding which took effect on 1 July 2004, the Company manages Shentou I Power Plant on behalf of both CPI Group and CPI Holding.

Pursuant to the Restructuring conducted before the Acquisition, the assets, liabilities and undertakings of Shentou I Power Plant were divided into three divisions, which are (i) power generation or the Acquired Business, (ii) repair and maintenance of power generation units and equipment and (iii) other supporting services, with (i) being injected into the Target Holding Company and (ii) and (iii) (or the Non-Acquired Items) being retained by CPI Holding. The Directors believe that such Restructuring is necessary to enhance the operating efficiency and competitiveness of the core power generation business and to achieve long-term cost efficiency for the Acquired Business as (a) the management will be relieved from the responsibilities for non-core operations and can better focus on improving the operating efficiency of the power generation business; (b) the Target Holding Company has the right to request for and to accept services from third party service providers so as to ensure repair, maintenance and other supporting services are provided at a competitive cost; and (c) the Target Holding Company can reduce the workforce and staff costs and thus reduce the risks associated with escalating labour costs that have recently been observed in the region.

The Acquired Business consists of the power generating related assets, liabilities and undertakings of Shentou I Power Plant, which owns and operates six 200 MW coal-fired power generating units with a total installed capacity of 1,200 MW.

Set out below is a summary of certain financial data relating to Shentou I Power Plant and the Acquired Business to be held by the Target Holding Company. The financial information is based on information extracted from the Shentou I Power Plant and/or relevant representations made or adjustments provided by the Directors and representatives of the Company to reflect the Restructuring. For the purposes of information only, we discuss below certain items which could have affected the financials of the Acquired Business.

(i) *Turnover*

According to the Finanical Information of Shentou I Power Plant set out in Appendix III to the Circular, turnover of Shentou I Power Plant relates to sale of electricity produced by the power plant. The Directors advised that all power generating assets and businesses have been included as part of the Acquired Business during the Restructuring.

(in RMB million)	**2002**	**2003**	**2004**
Acquired Business	754.35[i]	841.67	1,030.44

Note: Before 2003, Shentou I Power Plant was a branch of Shanxi Electric Power Corporation ("SEPC") and generated electricity for SEPC whereas operating costs were reimbursed by SEPC. As such, this reimbursement of operating costs was recorded as other revenues instead of turnover in 2002.

(ii) *Net profit*

The audited net profit of Shentou I Power Plant for the year ended 31 December 2004 amounted to approximately RMB 114 million. We understand from the Directors that the unaudited historical amount of operating expenses that Shentou I Power Plant incurred on repair and maintenance services and other supporting services that relate to the Relevant Prospective Connected Transactions were approximately RMB 66 million and approximately RMB 82 million, respectively.

The Directors advised that, had the Restructuring taken place before 31 December 2004, and had the Acquired Business outsourced the repair and maintenance services and other supporting services from the Non-Acquired Items rather than internally incurring such expenses by having its own workforce and relevant equipment, the net profit of the Acquired Business for the year ended 31 December 2004 would not have been materially different from the audited net profit of approximately RMB 114 million of Shentou I Power Plant for the following reasons:

— The reason for the Restructuring is to enhance the operating efficiency and competitiveness of the core power generation business and to achieve long-term cost efficiency for the Acquired Business (Please refer to the Letter from the Board contained in the Circular and this section for further details); and

— Under the agreements covering the Prospective Connected Transactions, the repair and maintenance services and other supporting services shall be provided to the Acquired Business at an agreed price consisting of the reasonable costs incurred by the Non-Acquired Items in providing the services when none of the State tariffs, the pricing guidelines or pricing recommendations set by the PRC government or the market price apply.

However, it shall be noted that, had the Restructuring and the revaluation taken place before 31 December 2004, the net profit of Shentou I Power Plant would have been negatively affected for the following reasons:

— Depreciation: pursuant to an asset revaluation carried out as at 31 December 2004, a net increase of approximately RMB 1,086 million was debited to the gross cost/valuation of property, plant and equipment balance and an adjustment of approximately RMB 438 million was credited to the accumulated depreciation balance. If such revaluation had been carried out at 1 January 2004, the Directors estimate that the additional depreciation expense purely resulting from the asset revaluation conducted as at 31 December 2004 would be approximately RMB 40 million on an annual basis, calculated based on (i) the increase in the cost/valuation of the property, plant and equipment resulted from the asset revaluation and (ii) the average depreciation life of such property, plant and equipment. As such, the net profit of Shentou I Power Plant would have been significantly and negatively affected.

— Taxation: prior to the Restructuring, all profits and losses of Shentou I Power Plant were combined into the results of CPI Group, which is subject to a statutory income tax rate of 33%, for tax purposes. Consequently, no income tax provision has been made for the three years ended 31 December 2004. After the Restructuring and the establishment of Shanxi Shentou Power Generation Company Limited as a wholly-foreign owned enterprise, the Company expects the Acquired Business will be entitled to enjoy the PRC tax benefits available to enterprises with foreign investment engaged in the energy industry, being preferential income tax rate of 15%, exemption for income tax for two years commencing from the first year of positive earnings and entitlement to 50% reduction in income tax for the three years following thereafter. Had any tax been payable directly by the power plant, the net profit after taxation of Shentou I Power Plant would have been negatively affected.

— Interest expense relating to the Converted Loan: pursuant to the Restructuring, an equity contribution from CPI Group for the amount of approximately RMB 270 million will be converted to a liability, which bears interest of approximately 5.3% per annum (equivalent to an annual interest cost of approximately RMB 14.3 million). Had the Restructuring been completed before 31 December 2004 and such interest payment applied, the net profit of Shentou I Power Plant would have been negatively affected. Further details of the Converted Loan are set out on page 23 in the Letter from the Board of the Circular.

(iii) *Earnings before interest and tax expenses (EBIT)*

Based on information contained in the Financial Information of Shentou I Power Plant set out in Appendix III to the Circular, the EBIT of Shentou I Power Plant for the year ended 31 December 2004 amounted to approximately RMB 125 million. We understand from the Directors that there was no interest expense associated with the Non-Acquired Items in 2004 and there was no income tax payment or provision for Shentou I Power Plant. As such, the Directors believe that the EBIT of the Acquired Business would not have been materially different from that of Shentou I Power Plant for the same reasons described under (i) net profit above in relation to cost of repair and maintenance and other supporting services.

The EBIT of Shentou I Power Plant would have been negatively affected by the depreciation expense had the asset revaluation been conducted before 31 December 2004.

(iv) *Earnings before interest, tax, depreciation and amortisation expenses (EBITDA)*

Based on information contained in the Financial Information of Shentou I Power Plant set out in Appendix III to the Circular, the EBITDA of Shentou I Power Plant for the year ended 31 December 2004 amounted to approximately RMB 190 million. Had the Acquired Business outsourced the repair and maintenance and other supporting services from the Non-Acquired Items rather than internally incurring such expenses by having its own workforce and relevant equipment for the year ended 31 December 2004, the depreciation expenses related to the Non-Acquired Items would have been reclassified as a cash expense. As the Directors estimate that the depreciation expenses associated with the fixed assets of the Non-Acquired Items were approximately RMB3 million in 2004, calculated based on (i) the cost of the property, plant and equipment balance relating to the Non-Acquired Items and (ii) the average depreciation life of the such property, plant and equipment, the EBITDA of the Acquired Business would have been RMB 3 million less than that of Shentou I Power Plant and would have amounted to approximately RMB 187 million.

(v) *Net asset value of the Acquired Business as at 31 December 2004*

The following table sets forth the adjusted net asset value of the Acquired Business as at 31 December 2004 based on information extracted from Financial Information of Shentou I Power Plant set out in Appendix III to the Circular.

	Attributable to Shentou I Power Plant	**Attributable to Non-Acquired Items**	**Adjustment for the Converted Loan**	**Adjusted net asset value of the Acquired Business as at 31 December 2004**
(RMB million)	781	96	270[(i)]	415

Note:

(i) On completion of the Acquisition, an equity contribution from CPI Group for the amount of approximately RMB 270 million will be converted to a liability, which is unsecured, bearing an interest of approximately 5.3% per annum and repayable by 2010 by Shanxi Shentou Power Generation Co., Ltd. that is to be established by the Target Holding Company to hold the Acquired Business.

(vi) *Net debt of the Acquired Business as at 31 December 2004*

The following table sets forth the adjusted net debt of the Acquired Business as at 31 December 2004 based on information extracted from Financial Information of Shentou I Power Plant set out in Appendix III to the Circular.

(RMB million)	**Attributable to Shentou I Power Plant**	**Attributable to Non-Acquired Items**	**Attributable to the Acquired Business as at 31 December 2004**
Short term borrowings and current portion of long-term borrowings	108	0	108
(+) Long-term borrowings$^{(i)}$	130	0	130
(+) Adjustment for the Converted Loan	270	0	270
(-) Cash and cash equivalent	179	30	149
= Adjusted Net Debt of the Acquired Business as at 31 December 2004			359

Note: The long-term borrowings include a long-term payable to CPI Group for the total amount of approximately RMB130 million that is of financing nature (as opposed to a trade balance) as advised by the Directors.

Further details relating to the operational and financial information of the Acquired Business are set out in the Letter from the Board in the Circular.

5. **Consideration and Valuation**

a) *Basis of consideration*

The Directors have confirmed that Acquisition Agreement was negotiated and entered into on an arm's length basis between the parties thereto. The Consideration, which will be satisfied by the Company's internal cash resources, was determined with reference to the appraisal conducted by China Enterprise Appraisal in connection with the net assets of the Acquired Business and having considered various factors including the market environment, the technical and operating conditions of the Acquired Business and the earnings potential of the Acquired Business.

b) *Valuation of the Acquired Business*

According to the valuation report issued by China Enterprise Appraisal, the net asset value of the Acquired Business was approximately RMB 502 million as at 31 December 2004. The Consideration for the Acquisition of RMB 560 million represents a premium of approximately 11.6% to the net asset value of the Acquired Business as valued by China Enterprise Appraisal. The reason for the difference in the net asset value of the Acquired Business as valued by China Enterprise Appraisal and the net asset value shown in section 4(v) above is because that the Financial Information of Shentou I Power Plant has been prepared in accordance with Hong Kong GAAP under historical cost convention, except that certain property, plant and equipment are stated at revalued amount, whereas each asset and liability in the valuation report is stated at revalued amount.

Based on the Consideration of RMB 560 million (equivalent to approximately HK$ 528 million), together with the net debt of the Acquired Business of RMB 359 million as at 31 December 2004 (including an adjustment for amounts due to CPI Group of approximately RMB 270 million that was converted to liability subsequent to 31 December 2004 from an equity contribution by CPI Group), the enterprise value (EV) of the Acquired Business would be approximately RMB 919 million. Please refer to the Letter from the Board contained in the Circular and section 4 of this letter for further details of the source of financial information that is applied in conducting the ratio analyses below.

We list below the multiples for the Acquisition based on the Consideration under the Acquisition Agreement:

(i) An EV to sales multiple of approximately 0.9 times, based on the turnover of the Acquired Business for the financial year ended 31 December 2004 of approximately RMB 1,030 million;

(ii) An EV to EBITDA multiple of approximately 4.9 times, based on the EBITDA of the Acquired Business for the financial year ended 31 December 2004 of approximately RMB 187 million;

(iii) An EV to EBIT multiple of approximately 7.4 times, based on the EBIT of the Acquired Business for the financial year ended 31 December 2004 of approximately RMB 125 million;

(iv) A price to earnings multiple of approximately 4.9 times, based on the net profit of the Acquired Business for the financial year ended 31 December 2004 of approximately RMB 114 million;

(v) A price to net asset value multiple of approximately 1.3 times, based on the adjusted net asset value of the Acquired Business of approximately RMB 415 million at 31 December 2004 based on information contained in the Financial Information of Shentou I Power Plant set out in Appendix III to the Circular;

(vi) An EV per MW multiple of approximately RMB 766,000, based on the installed capacity of 1,200 MW attributable to the Company pursuant to the Acquisition.

We have analysed the Consideration by reviewing: (i) the trading multiples of listed companies comparable to the Acquired Business; and (ii) the transaction multiples of recently announced acquisitions of electricity power generation companies in the PRC.

As the Acquired Business is located in and derives its revenue from the PRC, in selecting the comparable listed companies, we have identified and chosen the following three groups of companies.

(i) All the PRC electricity generation companies that are listed in Hong Kong. Such companies have power generating businesses and operations mainly based in the PRC and derive substantially all their revenue from the PRC.

(ii) All the PRC electricity generation companies that are listed in either Shanghai or Shenzhen on the B share markets. As the shares traded on the B share markets are open for investment by both international and domestic investors and the financial statements of the B-share listed companies are prepared in accordance with or adjusted to reflect IFRS or Hong Kong GAAP, we consider this group of companies are also comparable to the Acquired Business.

(iii) All other electricity generation companies listed in Hong Kong that also have a portion of their power generating businesses and operations based in the PRC.

In selecting the comparable transactions, we have considered acquisitions in the Chinese coal-fired electricity power generating sector that were publicly announced in the past two years and for which we were able to source the relevant data. We have focused on material transactions where the installed capacity involved in the relevant acquisition was 600 MW or greater.

However, it should be noted that, although we have calculated the price to earnings multiple of the Acquired Business versus those of comparable listed companies and comparable transactions, and the EV to EBIT multiple of the Acquired Business versus those of comparable listed companies, the conclusions reached by solely analysing such multiples based respectively on the EBIT and the net profit of the Acquired Business may be somewhat distorted for the following reasons:

- any additional depreciation had the revaluation taken place before 31 December 2004 as discussed above;

- any difference in tax treatment that may prove to be applicable had the Restructuring taken place before 31 December 2004 as discussed above; and

- any additional interest payment that would have been made had the Converted Loan been in place before 31 December 2004 as discussed above.

For the purpose of information only, had (i) the asset revaluation been conducted at the beginning of 2004 and thus resulted in an increase of depreciation expense of approximately RMB 40 million, (ii) the Restructuring been completed at the beginning of 2004 and the Acquired Business, not being able to obtain the preferential tax treatment as discussed above and thus be subject to the same statutory tax rate of 33% as the CPI Group, and (iii) the Restructuring been completed at the beginning of 2004 and the Acquired Business been subject to the additional interest payment of RMB 14.3 million under the Converted Loan, the net profit after taxation and the EBIT of the Acquired Business would have been reduced to approximately RMB 40 million and RMB 85 million respectively, resulting in a price to earning multiple of approximately 14.1 times and an EV to EBIT multiple of approximately 10.9 times. These compare with the average price to earnings multiple of approximately 13.2 times and an EV to EBIT multiple of approximately 12.3 times for the Hong Kong listed PRC power generation companies.

i. *Comparable company analysis*

In formulating our opinion, we have considered the current market multiples of various comparable and listed companies based in the PRC and Hong Kong based on their respective market price as at the Latest Practicable Date and their latest available full year audited financial statements. Set out below are certain details of the comparable listed companies that are engaged in the power generation business.

For the purpose of comparison only, we have considered various measures including:

— the EV to sales multiple,

— the EV to EBITDA multiple,

— the EV to EBIT multiple,

— the price to earnings multiple,

— the price to net asset value multiple,

— the EV per MW multiple

	EV/Sales	EV/EBITDA	EV/EBIT	P/Earning	P/NAV	EV/MW
	(x)	*(x)*	*(x)*	*(x)*	*(x)*	*(RMB million)*
Hong Kong listed PRC power companies						
Datang International Power Generation Co. Ltd	4.2	10.7	13.7	14.1	1.9	5.45
China Resources Power Holding Company Limited	12.4	10.6	11.8	12.7	1.6	8.44
The Company	2.3	7.0	10.0	13.7	1.4	2.58
Huaneng Power International Inc.	3.3	8.2	13.4	13.6	2.0	4.62
Huadian Power International	2.6	7.4	12.8	11.9	1.3	3.58
Average for Hong Kong listed PRC power companies	**5.0**	**8.8**	**12.3**	**13.2**	**1.6**	**4.93**
B share listed PRC power companies						
Shenzhen Nanshan Power Station Co. Ltd	2.0	7.5	9.6	8.5	2.2	4.47
Huadian Energy Co. Ltd	2.3	6.0	11.5	12.2	0.7	2.48
Zhejiang Southeast Electric Power Co. Ltd	1.7	5.1	7.8	10.0	1.1	3.53
Guangdong Electric Power Development Co. Ltd	1.9	5.6	8.1	11.6	1.3	5.27
Average for B-share listed PRC power companies	**2.0**	**6.0**	**9.2**	**10.6**	**1.3**	**3.94**
Hong Kong power companies						
CLP Holdings Ltd	4.0	8.7	10.5	12.1	2.4	N/M
Hong Kong Electric Holdings Ltd	7.6	8.9	11.0	12.1	2.0	N/M
Hong Kong Average	**5.8**	**8.8**	**10.7**	**12.1**	**2.2**	**N/M**
The Acquisition	**0.9**	**4.9**	**7.4**	**4.9**	**1.3**	**0.77**

Source: Bloomberg and the latest available full year audited financial statements of the relevant companies available on the Latest Practicable Date

Notes:

For the purpose of comparison only:

(i) The multiples were calculated on the basis of the companies' respective market capitalisation determined as according to Bloomberg as at the Latest Practicable Date and the companies' financial data as at the end of financial year 2004 according to Bloomberg and the companies' respective annual reports.

(ii) P or Price refers to market capitalisation as at the Latest Practicable Date.

(iii) EV or Enterprise Value refers to the sum of market capitalisation as at the Latest Practicable Date and net indebtedness as at the end of financial year 2004.

(iv) Earnings refer to net profit excluding extraordinary items according to the financial statements for the financial year 2004.

(v) EBITDA refers to earnings before interest, tax, depreciation and amortisation expenses as according to the financial statements for the financial year 2004.

(vi) EBIT refers to earnings before interest and tax expenses according to the financial statements for the financial year 2004.

(vii) MW refers to the installed generation capacity in megawatt attributable to the respective companies.

(viii) We have derived the implied valuation multiples of the Acquisition on the basis of the purchase price and the audited financial statements of the Shentou I Power Plant as at 31 December 2004 prepared in accordance with Hong Kong GAAP, and relevant representations made or adjustment provided by the Directors and representatives of the Company to reflect the Restructuring.

(ix) The average information is included for the convenience of the reader only and do not necessarily represent the actual country or regional averages if other power generation companies are included.

(x) N/M means "not meaningful" as both CLP Holdings Limited and Hong Kong Electric Holdings Limited are owners and operators of vertically integrated power supply business including power generation, transmission, distribution and customer services.

(xi) An exchange rate of RMB 1.06=HK$ 1.0 has been used.

We note the acquisition multiples represented by the Consideration compare favourably as they are lower than the respective average trading multiples and are close to the low-end of the range of the valuations of the comparable companies.

ii. *Comparable transaction analysis*

We have also looked into the acquisition transactions in the Chinese electric power generation sector which have recently taken place. The following table sets out our findings:

Ann. date	Acquirer	Seller	Fuel	The Target's total installed capacity (MW)	EV/ EBITDA (x)	Price/ earning (x)	Price/ NAV (x)	EV/MW (RMB million)
Jan-05	China Huaneng Group and CITIC	Siemens/HEW	coal	1,320	9.4	12.5	3.6	10.1
Nov-04	Huaneng Power International Inc.	China Huaneng Group	coal	1,200	9.0	10.8	2.2	3.8
Aug-04	Huadian Energy Co. Ltd	China Huadian Corporation	coal	1,600	15.1	neg.	3.7	3.3
Apr-04	Huaneng Power International Inc.	China Huaneng Group and its associates	coal	4,833	5.7	8.7	1.7	3.8
Jun-03	Huaneng Power International Inc.	China Huaneng Group	coal	850	na	6.7	3.3	na
May-03	Shandong International Power Development Co. Ltd	China Huadian Corporation	coal	600	9.1	18.4	1.0	4.3
Average					**9.7**	**11.4**	**2.6**	**5.1**
The Acquisition			**coal**	**1,200**	**4.9**	**4.9**	**1.3**	**0.8**

Source: respective company's public filing available as at the Latest Practicable Date.

Notes:

(i) P or Price refers to the consideration paid to acquire the relevant equity interests in the respective acquisition target.

(ii) EV or Enterprise Value refers to the sum of the consideration paid to acquire the relevant equity interests in the respective acquisition target and the proportional net indebtness of the acquisition target in accordance with latest audited financial information that is the available prior to the respective acquisition.

(iii) China Huaneng Group and CITIC Group acquired a 40% stake in Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Plant"), including 24% from Siemens and 16% from Hew, which is a unit of Sweden's Vattenfall Group. The remaining 60% stake in Hanfeng Power Plant is owned as to 40% by Huaneng Power International Inc. and as to 20% by Heibei Provincial Construction Investment Corporation. The financial information used in calculating the valuation multiples of this transaction was based on the audited financial statements of the target company for the period ended 31 December 2003.

(iv) Huaneng Power International Inc. acquired from China Huaneng Group an equity interest representing 65% of the registered capital of Gansu Huaneng Pingliang Power Generation Limited Liability Company, which is located in Gansu Province and owns and operates four 300 MW coal-fired generating units.

(v) Huadian Energy Co. Ltd (formally Heilongjiang Electric Power Co. Ltd.) acquired from China Huadian Corporation a 42.75% equity interest in 哈爾濱華電第三發電有限責任公司 (Harbin III Power Generation Co., Ltd), which is located in Heilongjiang Province. The financial information of the target company used in calculating the valuation multiples of this transaction was prepared in accordance with accounting principals generally accepted in the People's Republic of China.

(vi) Huaneng Power International Inc. acquired from China Huaneng Group (a) an equity interest representing 40% of the registered capital of Hanfeng Power Plant that is located in Hebei Province; and (b) an equity interest representing 90% of the registered capital of Jinggangshan Huaneng Power Generation Limited Liability Company that is located in Jiangxi Province; and acquired from Huaneng International Power Development Corporation (a) an equity interest representing 55% of the registered capital of Huaneng Hunan Yueyang Power Generation Limited Liability Company that is located in Hunan Province; (b) an equity interest representing 60% of the registered capital of Huaneng Chongqing Luohuang Power Generation Limited Liability Company that is located in Chongqing Municipality; and (c) the entire assets and liabilities in Huaneng International Power development Corporation Yingkou Branch Company that is located in Liaoning Province.

(vii) Huaneng Power International Inc. acquired from China Huaneng Group (a) an equity interest representing 55% of the registered capital of Henan Huaneng Qinbei Power Generation Limited Liability Company that is located in Henan Province; (b) an equity interest representing 60% of the registered capital of Shanxi Huaneng Yeshe Power Limited Liability Company that is located in Shenxi Province; and (c) the entire assets and liabilities of China Huaneng Group Xindian Power Plant that is located in Shandong Province.

(viii) Shandong International Development Company Limited (name changed to Huadian Power International Corporation Limited starting from 6 November 2003) acquired from China Huadian Corporation of 80% equity interest in Sichuan Guangan Power Generation Company Limited that is located in Sichuan Province

We note the acquisition multiples represented by the Consideration compare favourably as they are lower than the respective average transaction multiples and are close to the low-end of the range of the valuations of the precedent transactions.

6. Potential financial effects on the Company

We have considered the potential financial effects of the Acquisition on the Company, which were prepared based on the Financial Information of the Company as set out in Appendix IV to the Circular and the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular:

a) *Net profit*

Based on the audited net profit of Shentou I Power Plant for the year ended 31 December 2004 and the Directors' belief that the net profit of the Acquired Business for the year ended 31 December 2004 would not have been materially different from that of Shentou I Power Plant, the net profit attributable to the Company in acquiring the entire issued share capital of the Target Holding Company would be approximately RMB 114 million for the financial year ended 31 December 2004 without taking into account of any adjustment in depreciation, taxation and interest expense had the Restructuring and asset revaluation taken place before 31 December 2004 as discussed in section 4 of this letter.

b) *Net assets*

The unaudited pro forma adjusted net assets of the Enlarged Group would be approximately RMB 6,225 million as at 31 December 2004, the same as the audited net assets reported by the Company (without taking into account the Acquisition) as at the same date.

As result of the Acquisition, the Enlarged Group will record positive goodwill that is currently estimated to be approximately RMB 145 million, representing the excess of the Consideration of RMB 560 million over the estimated fair value of the underlying adjusted net assets of the Acquired Business of approximately RMB 415 million as at 31 December 2004. It should be noted that, since the fair value of the net assets of the Acquired Business as at the date of Completion may be different from their fair value of approximately RMB 415 million as at 31 December 2004, the actual goodwill arising from the Acquisition may be different from the estimated goodwill of approximately RMB145 million.

Further details relating to the unaudited pro forma statement of assets and liabilities of the Enlarged Group are set out in Appendix V to the Circular.

c) *Gearing*

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2004 as set out in Appendix V to the Circular, the total debt of the Enlarged Group would be approximately RMB 2,515 million as at 31 December 2004, compared to the total debt of approximately RMB 2,007 million reported by the Company (without taking into account the Acquisition) as at the same date. Net debt of the Enlarged Group would be approximately RMB (138) million as at 31 December 2004, compared to the net debt of approximately RMB (1,057) million reported by the Company (after deducting cash and bank balances of approximately RMB3,064 million as at 31 December 2004 but without taking into account the Acquisition) as at the same date. The net gearing of the Enlarged Group, defined as net debt divided by net assets, would be approximately (2.2%) as at 31 December 2004, compared to the net gearing of approximately (17.0%) for the Company as at the same date.

When compared with the net gearing ratios of the comparable companies, the net gearing of which ranged between 57.4% and 135.2%, the net gearing of the Enlarged Group is below the low-end of the range of the comparable companies. In selecting the comparable companies for the purpose of analysing the net gearing ratio, we have identified and chosen the electricity generation companies that are listed in Hong Kong and have their main power generating businesses and operations based in the PRC (other than the Company itself).

Having considered all the above principal factors and reasons, including the reasons for the Acquisition, the interest to be acquired, the Consideration and valuation, and the potential financial effects on the Company, we are of the opinion that the terms of the Acquisition are on normal commercial terms, in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and the shareholders as a whole.

7. **Relevant Prospective Connected Transactions**

In connection with the day-to-day business and operations of the Acquired Business, the Target Holding Company will, upon completion of the Acquisition and from time to time, enter into certain transactions with certain members of the Parent Group. Such transactions will, following the completion of the Acquisition, constitute continuing connected transactions of the Company under the Listing Rules. Details of these arrangements are set out in Letter from the Board contained in the Circular.

The Directors have advised that the relevant "percentage ratio" applicable to the Relevant Prospective Connected Transactions, when aggregated, for the purpose of Chapter 14A of the Listing Rules is expected to exceed 2.5% on an annual basis, and such transactions are not expected to fall under the categories set out in the Listing Rules 14A.16 (1)-(4). As such, the Relevant Prospective Connected Transactions together with their associated annual caps will be subject to the Independent Shareholders' approval at the EGM by way of poll and will be subject to the reporting requirement set out in Rule 14A.46 and the annual review requirement under Rules 14A.37 to 14A.40.

a) *The Relevant Prospective Connected Transactions that are subject to Independent Shareholders' approval*

i. Technical Repair and Maintenance Framework Agreement

The Target Holding Company and Huize Company, a wholly owned subsidiary of Tianrun Holdings Limited which in turn is wholly owned by CPL Holding, entered into the Technical Repair and Maintenance Framework Agreement on 9 June 2005, whereby Huize Company shall provide to the Target Holding Company services such as overhaul services; daily routine repair and maintenance of the power generation units and related power equipment; extensive repair and maintenance of the power generation units and related power equipment; repair and maintenance of power generation and supporting infrastructure; ongoing technical testing to ensure compliance with the relevant PRC requirements and specifications; repair and maintenance consultancy services; plant-grid-dispatch centre communications network services; and repair and maintenance technical training. The Technical Repair and Maintenance Framework Agreement will become effective from the date of completion of the Acquisition until 31 December 2007.

The above services will be provided to the Target Holding Company at:

(i) the applicable State tariffs set by the PRC government (central and local), if any;

(ii) where there are no State tariffs set by the PRC government, the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (central and local);

(iii) where there are no State tariffs set by the PRC government and there are no such pricing guidelines or recommendations, the prices determined in accordance with the prevailing market prices; or

(iv) where none of the above is applicable, an agreed price consisting of the reasonable cost incurred by Huize Company in providing the service.

The prevailing market price may include the price obtained through a bidding process and means the price at which the same service is provided by a Chinese independent third party in the ordinary course of its business upon normal commercial terms, or the price at which the same service is provided at the same time by Huize Company to an independent third party in China in the ordinary course of its business upon normal commercial terms. The reasonable costs in (iv) above will be determined according to accounts prepared in accordance with PRC GAAP.

Where there are viable third party service providers, the Directors have advised that the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favorable to the Enlarged Group than those reasonably available from such third party service providers.

The provision of technical repair and maintenance services by Huize Company under the agreement is not exclusive and the Target Holding Company is entitled to request for and to accept services from third party service providers.

The Directors have advised that, due to the relevant technical expertise and specific in-depth knowledge of Shentou I Power Plant that the workforce of Huize Company has gained when providing such services as an internal unit of Shentou I Power Plant prior to the Restructuring, the arrangements covered by the Technical Repair and Maintenance Framework Agreement can take advantage of the specialized knowledge and experience of Huize Company and are beneficial to ensure continuity of reliable service and the safe, effective and efficient operations of the Acquired Business.

ii. Fuel and Chemical Processing Services Framework Agreement

The Target Holding Company and Boya Company entered into the Fuel and Chemical Processing Services Framework Agreement on 9 June 2005, whereby Boya Company shall provide to the Target Holding Company services such as: transportation and unloading of coal; powderization of coal, chemical treatment and purification of water supply; collection and treatment of ash, coal residue and wastes produced from power generation; lime treatment; procurement of steel grinders; and procurement of chemical agents and transportation of chemicals and chemical containers. The Fuel and Chemical Processing Services Framework Agreement will become effective from the date of completion of the Acquisition until 31 December 2007.

The services under the Fuel and Chemical Processing Services Framework Agreement are provided in accordance with the same pricing policy as that of the Technical Repair and Maintenance Framework Agreement.

Where there are viable third party service providers, the Directors have advised that the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favorable to the Enlarged Group than those reasonably available form such third party service providers.

The services provided by Boya Company under the agreement are not exclusive and the Target Holding Company has the right to request for and to accept services from third party service providers.

The Directors have advised that, due to Boya Company's specialized experience in handling fuel, water and wastes, its knowledge of the power industry and its ability to provide efficient and timely services as result of its close proximity to the Acquired Business, Boya Company possesses special strengths that independent third-party service providers generally do not possess. The Directors have further advised that the arrangements covered by the Fuel and Chemical Processing Services Framework Agreement are beneficial to the continual and effective operation of the Acquired Business and are in the best interests of the Enlarged Group.

iii. Non-power Generation Facilities Maintenance Framework Agreement

The Target Holding Company entered into the Non-power Generation Facilities Maintenance Framework Agreement with Boya Company on 9 June 2005, whereby Boya Company shall provide to the Target Holding Company maintenance services for the non-power generation related facilities and equipment such as: cleaning, maintenance and repair of ash yards, ash residue yards and ash disposal system, coal yard sand adjoining roads, internal rail tracks, waterway and water pipes, transmission poles, yards and interiors of generation rooms, sewage systems, ducted heating systems, underground power lines, electrical supply equipment, cooling towers, fire safety systems; temperature control for facilities and equipment; procurement of facilities and equipment spare parts; and providing anti-corrosion protection to operations facilities. The Non-power Generation Facilities Maintenance Framework Agreement will become effective from the date of completion of the Acquisition until 31 December 2007.

The services under the Non-power Generation Facilities Maintenance Framework Agreement are provided in accordance with the same pricing policy as those of the Technical Repair and Maintenance Framework Agreement and the Fuel and Chemical Processing Services Framework Agreement.

Where there are viable third party service providers, the Directors have advised that the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favorable to the Enlarged Group than those reasonably available form such third party service providers.

The services provided by Boya Company under the agreement are not exclusive and the Target Holding Company has the right to request for and to accept services from third party service providers.

The Directors have advised that, similar to the provision of fuel and chemical processing services under the Fuel and Chemical Processing Services Framework Agreement, Boya Company possesses special strengths that independent third-party service providers generally do not possess in providing maintenance services for the non-power generation related facilities and equipment of the Acquired Business. Boya Company has the requisite knowledge of the power industry and an in-depth understanding of the Acquired Business' facilities and is conveniently located in close proximity to the Acquired Business to enable efficient and timely services. The Directors further believe that the arrangements covered by the Non-power Generation Facilities Maintenance Framework Agreement are beneficial to ensure the normal and day to day operations of the Acquired Business and are in the best interests of the Enlarged Group.

iv. Composite Ancillary Services Framework Agreement

The Target Holding Company entered into the Composite Ancillary Services Framework Agreement with Boya Company on 9 June 2005, whereby Boya Company shall provide to the Target Holding Company ancillary services which are necessary to facilitate the operations of Shentou I Power Plant. Such ancillary services include: security and surveillance; fire safety; roads, buildings and environmental sanitation, greening and maintenance; general office supplies procurement; meals catering; maintenance of water and electricity supply and heating systems; printing and marketing; transportation arrangements for employees; provision of medical care for employees; conference room and meeting facilities; postal delivery and dispatch; human resources and labor recruitment.

The services under the Composite Ancillary Services Framework Agreement are provided in accordance with the same pricing policy as those of the Technical Repair and Maintenance Framework Agreement, the Fuel and Chemical Processing Services Framework Agreement and the Non-power Generation Facilities Maintenance Framework Agreement.

Where there are viable third party service providers, the Directors have advised that the Company will ensure that prices determined in accordance with the prevailing market prices will be no less favorable to the Enlarged Group than those reasonably available form such third party service providers.

The services provided by Boya Company under the agreement are not exclusive and the Target Holding Company has the right to request for and to accept services from third party service providers.

The Directors have advised that, similar to the provision of fuel and chemical processing services under the Fuel and Chemical Processing Services Framework Agreement and the provision of maintenance services for the non-power generation under the Non-power Generation Facilities Maintenance Framework Agreement, Boya Company possesses special strengths that independent third-party service providers generally do not possess in providing the Acquired Business with the above listed ancillary services. In particular, it has the relevant knowledge and is conveniently located in close proximity to the Acquired Business to enable efficient and timely services. The Directors have advised that the arrangements covered by the Composite Ancillary Services Framework Agreement are beneficial to facilitate the business operations of the Acquired Business and are in the best interests of the Enlarged Group.

v. Conclusion

Further details of the Relevant Prospective Connected Transactions are set out in the Letter from the Board contained in the Circular.

Having considered all of the above principal factors and reasons, including the reasons for entering into the Relevant Prospective Connected Transactions, the pricing mechanism for each of such transactions and the fact that the services to be provided thereunder are not exclusive, we are of the opinion that the terms of these Prospective Connected Transactions are on normal commercial terms, in the ordinary and usual course of the business of the Company, and are fair and reasonable and in the interests of the Company and the shareholders as a whole.

b) *The proposed annual caps for the Relevant Prospective Connected Transactions that are subject to Independent Shareholders' approval*

Set out below are the aggregate annual caps for the years ending 31 December 2005, 2006 and 2007 applicable to the Relevant Prospective Connected Transactions to be entered between (i) the Target Holding Company or its subsidiaries and (ii) members within the Parent Group:

	Annual Cap (RMB millions)		
Relevant Prospective Connected Transactions	**2005**	**2006**	**2007**
Provision of technical repair and maintenance services to the power generation facilities by Huize Company under the Technical Repair and Maintenance Framework Agreement	68	68	68
Provision of fuel and chemical processing services by Boya Company under the Fuel and Chemical Processing Services Framework Agreement	24	24	24
Provision of maintenance services for the non-power generation related facilities and equipment by Boya company under the Non-power Generation Facilities Maintenance Framework Agreement	39	39	39
Provision of ancillary services by Boya Company under the Composite Ancillary Services Framework Agreement	19	19	19

We have reviewed the unaudited historical figures provided by the Company for each of the Relevant Prospective Connected Transactions for the financial year ended 31 December 2004. We note that for the year ended 31 December 2004:

— the expenditure of Shentou I Power Plant for technical repair and maintenance services to its power generation facilities that are subject matter of the Technical Repair and Maintenance Framework Agreement was approximately RMB 66 million;

— the expenditure of Shentou I Power Plant for fuel and chemical processing services that are subject matter of the Fuel and Chemical Processing Services Framework Agreement was approximately RMB 25 million;

— the expenditure of Shentou I Power Plant for maintenance services for its non-power generation related facilities and equipment that are subject matter of the Non-power Generation Facilities Maintenance Framework Agreement was approximately RMB 39 million; and

— the expenditure of Shentou I Power Plant for ancillary services that are subject matter of the Composite Ancillary Services Framework Agreement was approximately RMB 18 million.

While the Directors indicated that such unaudited historical amounts should not necessarily be read as an indication of future transaction amounts as they are prepared on cost-based assumptions (i.e. based on staff costs associated with the related workforce to be transferred to the Non-Acquired Items and the depreciation expenses associated with the property, plant and equipment to be transferred to the Non-Acquired Items) and do not correspond to pricing mechanisms used for the Relevant Prospective Connected Transactions going forward, we are of the view that the proposed annual caps for the three years ending 31 December 2007 in respect of each Relevant Prospective Connected Transactions are in line with the relevant historical costs incurred.

We have considered the Company' projections of annual caps for each of the Relevant Prospective Connected Transactions for the three years ending 31 December 2007, the basis of the Directors estimation of such annual caps which are set out below and on pages 33 to 34 in the Circular.

— In respect of the Technical Repair and Maintenance Framework Agreement: the annual cap was determined based on (i) the repair and maintenance plans determined based on the age, condition and repair and maintenance needs of each power generation unit and equipment, the expected time costs of expertise labor required and the complexity of the repair and maintenance works involved, and (ii) market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers.

— In respect of the Fuel and Chemical Processing Services Framework Agreement: the annual caps are determined based on (i) the Acquired Business' expected coal consumption with reference to the expected power generation level, (ii) its requirements for fuel and chemical processing services and (iii) market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers.

— In respect of the Non-power Generation Facilities Maintenance Framework Agreement: the annual caps are determined based on (i) the age, condition and repair and maintenance requirements of each facility and equipment, (ii) the expected time costs of labor required, and (iii) the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers.

— In respect of the Composite Ancillary Services Framework Agreement: the annual caps are determined based on (i) Shentou I Power Plant's requirements for ancillary services and (ii) the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers.

We have also considered the Directors' objectives in effecting the Restructuring which results in the need for the Relevant Prospective Connected Transactions, which are to enhance the operating efficiency and competitiveness of the core power generation business by separating the non-core and supporting operations from the power generation business, relieving the management from the responsibilities for non-core business, reduction of workforce and staff costs, and providing flexibility for the Acquired Business to request for and accept services from third party service providers to ensure competitive costs.

Taking into the account the above factors, and considering that the Relevant Prospective Connected Transactions will be carried out in the ordinary course of business of the Company and on normal commercial terms, and in reliance upon the representations made by the Directors and the Company's representatives, we are of the view that proposed annual caps are fair and reasonable and in the interest of the Company and the shareholders as a whole.

c) *The land lease agreement that is exempt from Independent Shareholders' approval requirments*

On 9 June 2005, the Target Holding Company entered into the land lease agreement with CPI Group to lease approximately 2,925,019.15 square meters of land from CPI Group, for a term of 20 years commencing from 1 July 2005.

The Directors have advised that as each of the applicable ratios (other than the profits ratio)(as defined in the Listing Rules) for the land lease agreement (aggregated with those entered into by the Enlarged Group with the Parent Group in the last 12 months) is on an annual basis more than 0.1% but less than 2.5%, it is subject to the reporting and announcement requirements but is exempt from Independent Shareholders' approval requirements.

As required under the Listing Rule 14A.35(1), we, as the Company's independent financial adviser, have reviewed the land lease agreement for its 20 year term and noted that other PRC power companies listed in Hong Kong have similar lease term between 20 and 30 years either with their parent or the local government, and confirm that it is normal business practice for contracts of this type to be of such duration.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our conclusion:

(i) The Acquisition will enlarge the Company's operating scale, expand its geographical scope and service coverage. In addition, the Acquisition will enable the Company to benefit from the proximity to supply of coal and ensure secured supply of fuel with lower cost.

(ii) The Directors have confirmed that the Acquisition Agreement was negotiated and entered into on an arm's length basis between the parties thereto.

(iii) The Consideration was determined with reference to the appraisal conducted by China Enterprise Appraisal in connection with the net assets of the Acquired Business and having considered various factors including the market environment, the technical and operating conditions of the Acquired Business, and the earnings potential of the Acquired Business.

(iv) The Consideration of RMB 560 million represents a premium of approximately 11.6% to the net book value of the Acquired Business of RMB 502 million as at 31 December 2004, as valued by China Enterprise Appraisal, a independent PRC asset valuer.

(v) Based on our analysis set out in the section headed "Consideration and Valuation" in this letter, the Consideration suggests a valuation of the Acquired Business which is favorable compared to the averages of (a) the valuations of various comparable and listed companies and (b) the valuation of some of the recent acquisition transactions in the Chinese electric power generation sector.

(vi) The net profit attributable to the Company in acquiring the entire issued share capital of Target Holding Company would be approximately RMB 114 million for the year ended 31 December 2004 without taking into account of any adjustment in depreciation, taxation and interest expense had the Restructuring and asset revaluation taken place before 31 December 2004. The net assets of the Enlarged Group would be approximately RMB 6,225 million as at 31 December 2004, which is the same as reported by the Company as at the same date. The net gearing of the Enlarged Group would be approximately (2.2%) as at 31 December 2004, compared to the net gearing of approximately (17.0%) for the Company as at the same date.

(vii) The Relevant Prospective Connected Transactions that are subject to Independent Shareholders' approval will be entered into and conducted in the ordinary and usual course of business of the Enlarged Group and on normal commercial terms.

(viii) In addition to obtaining Independent Shareholders' approval for the Relevant Prospective Connected Transactions together with their associated annual caps at the EGM, the Enlarged Group is, in respect of the Relevant Prospective Connected Transactions, subject to the reporting requirements under Rule 14A.46 and the annual review requirements under Rules14A.37 to 14A.40 of the Listing Rules to the extent and so far as applicable.

(ix) If the total amount of any of the Relevant Prospective Connected Transactions in respect of any relevant financial year exceeds the respective cap, or if there is a material change to the terms of the agreements of the Relevant Prospective Connected Transactions, the Company is required by Rule 14A.36 to re-comply with the applicable requirements under Chapter 14A of the Listing Rules.

RECOMMENDATION

Having considered all the above principal factors and reasons, we consider that the Acquisition and the Relevant Prospective Connected Transactions are on normal commercial terms, in the ordinary and usual course of the business of the Company, and are fair and reasonable and in the interest of the Company and the shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the Acquisition and the Relevant Prospective Connected Transactions at the extraordinary general meeting to be convened on 21 July 2005, at 10:30 a.m..

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited
Tim Ferdinand
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 May 2005 of the property interests proposed to be acquired by the Company.

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30 June 2005

The Board of Directors
China Power International Development Limited
Suite 6301, 63/F,
Central Plaza,
18 Harbour Road,
Wanchai,
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests which China Power International Development Limited (the "Company") proposed to acquire from China Power Development Limited ("CPDL") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 May 2005 (the "date of valuation"). The property interests proposed to be acquired by the Company are currently occupied by Shentou I Power Plant.

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the properties in the PRC, there are no market sale comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization." This method has been used due to the lack of an established market upon which to base comparable transactions and is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the date of valuation.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties(1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by Shentou I Power Plant and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's PRC legal adviser - HAIWEN & PARTNERS, concerning the validity of the titles of the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by Shentou I Power Plant. We have also sought confirmation from Shentou I Power Plant that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 22 years' experience in the valuation of properties in the PRC and 25 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

PROPERTY INTERESTS TO BE ACQUIRED FROM CPDL BY THE COMPANY IN THE PRC

No.	Property	Capital value in existing state as at 31 May 2005 *RMB*
1.	Land, 5 buildings and various structures located at Honghaotou Village Shentou Town Shuocheng District Shuozhou City Shanxi Province The PRC	178,966,000
2.	Land, 3 buildings and various structures located at Dongshaozhuang Village Shentou Town Shuocheng District Shuozhou City Shanxi Province The PRC	No commercial value
3.	Land, various buildings and structures of Shentou I Power Plant located at Shentou Town Shuocheng District Shuozhou City Shanxi Province The PRC	No commercial value
	Total:	178,966,000

VALUATION CERTIFICATE

PROPERTY INTERESTS TO BE ACQUIRED FROM CPDL BY THE COMPANY IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2005 *RMB*
1.	Land, 5 buildings and various structures located at Honghaotou Village Shentou Town Shuocheng District Shuozhou City Shanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 594,615.02 sq.m. on which are constructed 5 buildings completed in March 2005. The buildings have a total gross floor area of approximately 724.72 sq.m., which mainly include a guard room, a pump room and a transformer room. The property mainly comprises ash depository facilities which were still under construction as at the date of valuation. These facilities are scheduled to be completed in about December 2005. The estimated construction cost of the depository facilities is planned to be about RMB 183,620,000 upon completion, of which about RMB159,700,000 has been paid up to the date of valuation. The balance outstanding amount of about RMB23,920,000 will be borne by Shentou I Power Plant. The land use rights of the property were granted to Shentou I Power Plant for a term of 50 years expiring on 27 April 2055.	The property was under construction as at the date of valuation and will be used as an industrial ash depository upon completion.	178,966,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate — Shuo Guo Yong (2005) Zi No.000004 dated 22 March 2005, the land use rights of the property have been granted to Shentou I Power Plant for industrial use for a term expiring on 27 April 2055.

2. Pursuant to a Building Ownership Certificate — Shuo Zhou Shi Fang Quan Zheng Shuo Cheng Qu Zi Di 04252 dated 11 April 2005, the building ownership rights of 5 buildings with a total gross floor area of 724.72 sq.m. are owned by Shentou I Power Plant.

3. Pursuant to the Acquisition Agreement, it was warranted that Shentou I Power Plant has (or on Completion will have) valid title to, and leasehold interests in, the above property, free and clear of all security interests except for those which do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by Shentou I Power Plant.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, HAIWEN & PARTNERS, which contains, inter alia, the following:

   a. For the land and buildings still registered under the name of Shentou I Power Plant, after the completion of the acquisition the title certificates of the land and buildings should be transferred to Shanxi Shentou Power Generation Company Limited, which will be a wholly owned subsidiary of the Company after completion of the acquisition, there will be no legal impediment in transferring the title certificates; and

   b. Upon obtaining the required title certificates of the land and buildings, Shanxi Shentou Power Gereration Company Limited will be entitled to transfer, sublet or mortgage the property.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2005 *RMB*
2.	Land, 3 buildings and various structures located at Dongshaozhuang Village Shentou Town Shuocheng District Shuozhou City Shanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 2,310,380.83 sq.m., on which are constructed 3 buildings and an industrial ash depository completed in about 1977. The buildings have a total gross floor area of approximately 461.04 sq.m., which include a guard room and 2 pump rooms. The land use rights of the property are leased to Tianze Development Limited, a wholly-owned subsidiary of CPDL from China Power Investment Corporation("CPI Group") for a term of 20 years to be commenced on 1 July 2005.	The property is currently occupied by Shentou I Power Plant as an industrial ash depository.	No commercial value

Notes:

1. According to a document Guo Tu Zi Han [2005] No.219 issued by the Ministry of State-owned Land and Resource, the land use rights of the property have been obtained by China Power Investment Corporation ("CPI Group") by way of Authorization to Operate, CPI Group is in the process of applying for the change of registration under the name of CPI Group.

2. Pursuant to a Land Use Rights Lease Agreement dated 9 June 2005 entered into between CPI Group and Tianze Development Limited (天澤發展有限公司), a wholly-owned subsidiary of CPDL, Tianze Development Limited, on behalf of Shanxi Shentou Power Generation Company Limited, which will be a wholly owned subsidiary of the Company and own Shentou I Power Plant, has leased from CPI Group a parcel of land with a total area of approximately 2,310,380.83 sq.m. for a term of 20 years to be commenced on 1 July 2005 for industrial use at an annual rental of RMB 3,902,000 with rent review on a triennial basis by both parties.

3. Pursuant to a Building Ownership Certificate — Shuo Zhou Shi Fang Quan Zheng Shuo Cheng Qu Zi Di 04251 dated 11 April 2005, the building ownership rights of 3 buildings with a total gross floor area of 461.04 sq.m. are owned by Shentou I Power Plant. As these buildings and structures of the property are situated on State Authorized Land which is leased from CPI Group, we have attributed no commercial value to the property. However, for reference purpose only, we are of the opinion that the depreciated replacement cost of the above buildings and structures as at the date of valuation is approximately RMB 106,000.

4. Pursuant to the Acquisition Agreement it was warranted that the above property is (or on Completion will be) held by Shentou I Power Plant under valid and enforceable leases in full force and effect with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by Shentou I Power Plant and no material default by Shentou I Power Plant has occurred and is continuing under any of such leases.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, HAIWEN & PARTNERS, which contains, inter alia, the following:

   a. The land use rights of the property will be leased to the lessee by CPI Group;

   b. CPI Group and the lessee should obtain related leased land register certificate with which the lessee could legally use the land during the term of the lease;

   c. For the buildings still registered under the name of Shentou I Power Plant, after completion of the acquisition the title certificates of the buildings should be transferred to Shanxi Shentou Power Generation Company Limited, which will be a wholly owned subsidiary of the Company after completion of the acquisition, there will be no legal impediment in transferring the title certificates; and

   d. Upon obtaining the required title certificates of the buildings, Shanxi Shentou Power Generation Company Limited will be entitled to occupy, use and sublet the buildings during the term of the lease of the land.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2005 *RMB*
3.	Land, various buildings and structures of Shentou I Power Plant located at Shentou Town Shuocheng District Shuozhou City Shanxi Province The PRC	The property comprises 21 parcels of connected land with a total site area of approximately 614,638.32 sq.m., on which are constructed 88 buildings and 95 structures completed in various stages between 1977 and 2002. The buildings have a total gross floor area of approximately 182,327.71 sq.m., which mainly include a main power generation factory, office buildings, warehouses and electronic control building. The structures mainly include chimney, fencing walls, roads, equipment foundations, refrigerating tower, trestles and pools. The land use rights of the property are leased to Tianze Development Limited, a wholly-owned subsidiary of CPDL from China Power Investment Corporation("CPI Group") for a term of 20 years to be commenced on 1 July 2005.	The property is currently occupied by Shentou I Power Plant for power generation purposes.	No commercial value

Notes:

1. According to a document Guo Tu Zi Han [2005] No.219 issued by the Ministry of State-owned Land and Resource, the land use rights of the property have been obtained by China Power Investment Corporation ("CPI Group") by way of Authorization to Operate. CPI Group is in the process of applying for the change of registration under the name of CPI Group.

2. Pursuant to a Land Use Rights Lease Agreement dated 9 June 2005 entered into between CPI Group and Tianze Development Limited (天澤發展有限公司), a wholly-owned subsidiary of CPDL, Tianze Development Limited, on behalf of Shanxi Shentou Power Generation Company Limited, which will be a wholly owned subsidiary of the Company and own Shentou I Power Plant, has leased from CPI Group a total of 21 parcels of land with a total area of approximately 614,638.32 sq.m. for a term 20 years to be commenced on 1 July 2005 for industrial use at an annual rental of RMB 1,038,000 with rent review on a triennial basis by both parties.

3. Pursuant to 40 Building Ownership Certificates — Shuo Zhou Shi Fang Quan Zheng Shuo Cheng Qu Zi Di Nos.04216, 04217, 04221, 04222, 04224 to 04231, 04233, 04235 to 04238, 04242 to 04247, 04249, 04250, 04255 to 04256, 04258, 04260 to 04262, 04266 to 04268, 04270, 04271, 04273, 04277, 04278, 04358 all dated 11 April 2005, the building ownership rights of 88 buildings with a total gross floor area of 182,327.71 sq.m. are owned by Shentou I Power Plant. As these buildings and structures of the property are situated on State Authorized Land which is leased from CPI Group, we have attributed no commercial value to them. However, for reference purpose only, we are of the opinion that the depreciated replacement cost of the above buildings and structures as at the date of valuation is approximately RMB 334,379,000.

4. Pursuant to the Acquisition Agreement, it was warranted that the above property is (or on Completion will be) held by Shentou I Power Plant under valid and enforceable leases in full force and effect with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by Shentou I Power Plant and no material default by Shentou I Power Plant has occurred and is continuing under any of such leases.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, HAIWEN & PARTNERS, which contains, inter alia, the following:

   a. The land use rights of the property will be leased to the lessee by CPI Group;

   b. CPI Group and the lessee should obtain related leased land register certificate with which the lessee could legally use the land during the term of the lease;

   c. For the buildings still registered under the name of Shentou I Power Plant, after the completion of the acquisition the title certificates of the buildings should be transferred to Shanxi Shentou Power Generation Company Limited, which will be a wholly owned subsidiary of the Company after completion of the acquisition, there will be no legal impediment in transferring the title certificates; and

   d. Upon obtaining the required title certificates of the buildings, Shanxi Shentou Power Generation Company Limited will be entitled to occupy, use and sublet the buildings during the term of the lease of the land.

The following is the text of a letter from Sallmanns (Far East) Limited, an independent plant and machinery valuer, in connection with their opinion of the value of the plant and machinery to be acquired by the Company as at 6 April 2005.

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30 June 2005

The Directors
China Power International Development Limited.

Dear Sirs,

In accordance with your instructions, we have undertaken a valuation of the machinery and equipment ("Machinery") of a power plant located in Shentou, Shanxi province, the People's of Republic of China.

The inspection of the Machinery was conducted on 4 to 6 of April 2005. It is our understanding that the assets inspected and valued by us in this report will form part of the Acquisition (as defined in the circular of the Company dated 30 June 2005) and be acquired by the Company. Those assets which are not being acquired by the Company or are outside the scope of the Acquisition have not been inspected and valued by us. This valuation report outlines our latest findings and conclusion. Based on the results of our investigations outlined in the report which follows, it is our opinion that the valuation of the Machinery is:

RMB 552,406,000 (RENMINBI FIVE HUNDRED AND FIFTY-TWO MILLION FOUR HUNDRED AND SIX THOUSAND) fairly representing the fair market value of the Machinery as at 6 April 2005.

For and on behalf of
Sallmanns (Far East) Limited
Tony Leung **James Lai**
Associate Director *Senior Manager*
Plant & Machinery Valuation

INTRODUCTION

Company Background

Shentou I Power Plant is located in the province of Shanxi. It is located 450 km west of Beijing and 210 km north of Taiyuan. The current total output capacity is 1200MW.

There were a total of two sets of Russian made 200 megawatt generators and four sets of Czech made 200 megawatt generators. The very first generator came into production in 1979 and the last generator was on-line by 1987.

Assets Valued

The equipment asset that we have inspected including steam turbine/boiler/generator sets which consist of the following equipment:

Steam Boilers (2-units)
Model: EII670-143
Steam Flow: 670T/H
Steam Pressure: 13.7Mpa
Steam Temperature: 545˚C
Reheat Steam Pressure: 2.47Mpa
Reheat Steam Temperature: 545˚C

Steam Turbines (2-units)
Model: K200-130-P
Rate Output: 200MW
Steam Pressure Inlet: 12.7Mpa
Steam Temperature Inlet: 540˚C
Reheat Steam Pressure: 2.38Mpa
Reheat Steam Temperature: 540˚C
No. of Extraction Stage: 7
Speed: 3000rpm

AC Generators (2-units)
Model: TBB-200-2A
Rated Power: 210MW
Rated Voltage: 15.75KV
Rated Current: 9060A
Power Factor: 0.85
Frequency: 50Hz
Number of Phase: 3
Speed: 3000rpm

Steam Boilers (4-units)
Model: PG650T/H
Steam Flow: 650T/H
Steam Pressure: 17.46Mpa
Steam Temperature: 540°C
Reheat Steam Pressure: 3.78Mpa
Reheat Steam Temperature: 540°C

Steam Turbines (4-units)
Model: K200-165-P
Rate Output: 200MW
Steam Pressure Inlet: 16.2Mpa
Steam Temperature Inlet: 530°C
Reheat Steam Pressure: 3.44Mpa
Reheat Steam Temperature: 530°C
No. of Extraction Stage: 7
Speed: 3000rpm

AC Generators (4-units)
Model: 2H6688/2VH
Rated Power: 210MW
Rated Voltage: 15.75KV
Rated Current: 9054A
Power Factor: 0.85
Frequency: 50Hz
Number of Phase: 3
Speed: 3000rpm

In addition, we have inspected ash handling system, steam generation, sub-station & distributing system, control system, instrumentation, coal handling system, machine shop, communication, water treatment, hydrogen generation, bunker oil feed system, feeding water system, laboratory and testing, and other supplementary equipment. For the equipment under “construction in progress”, we have reviewed the purchase order for 3 sets of boiler’s water feeding pump system. The amount reported is the deposit paid after the contract was signed. The total contract amount is RMB 12.92 million. However, no equipment from the sales contract had been delivered to the plant as on the date of our inspection.

We have excluded in this valuation fixture, land, buildings, other land improvements, spare parts, stocks, company records or any current or intangible assets.

BASIS OF VALUE

We have adopted the **Market Value for existing use** as being the most appropriate, in accordance with the following definitions: -

Market Value is defined herein as

"the estimated amount at which the subject assets should exchange on the date of valuation between willing buyer and a willing seller in an arm's length transaction after proper marketing where in the parties had each acted knowledgeably, prudently, and without compulsion."

Market Value for existing use is further defined as the market value of an asset based on continuation of its existing use, assuming the asset could be sold in the open market for its existing use, and otherwise in keeping with the market value definition regardless of whether or not the existing use represent the highest and best use of the asset.

This investigation is concerned solely with the values of the appraised machinery and equipment and our opinion of value is not related to the earning capacity of the business. It is assumed that prospective earnings are adequate to support the concluded value of the machinery and equipment plus the value of other assets not included in this valuation, and sufficient net working capital. It does not attempt to arrive at the value of the Company as a total business entity.

VALUATION METHODOLOGY

There are three generally accepted approaches to value, namely:

The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economical), taking into consideration past and present maintenance policy and rebuilding history. The cost approach generally furnishes the most reliable indication of value for assets without a known used market.

The term "Cost of Reproduction New" (RCN) is often used and it is defined as the amount required to reproduce in the like kind and new condition of an asset, taking into account current costs of material and labour, including all attendant costs associated with its acquisition.

The Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery and equipment relative to the market comparative. Assets for which there is an established used market may be appraised by this approach.

The Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

Analysis

A combination of the three valuation approaches defined above may be used in a particular valuation, depending upon the appraisal's objectives and the nature of the property involved.

As part of the cross checking procedures, all valuation approaches have been considered, as one or more approaches may be applicable to the subject asset. In certain situations, elements of the three approaches may be combined to reach a value conclusion. However, the relative strength, applicability, and significance of the approaches and their resulting values must be analyzed and reconciled.

In situation where we can identify and collect sufficient data on certain equipment that has direct contribution to the revenue generation, the income approach will be applied as part of the cross-checking procedure with the result from the cost approach and the market approach in arriving at our conclusion of value.

In arriving at a fair estimate of value of the equipment we have given consideration to the: -

- Cost of reproduction new of the replaceable assets;

- Current prices for similar used equipment in the second hand market;

- Accrued depreciation; and

- Age, condition, past maintenance and present and prospective serviceability in comparison with new units of like kind.

- No account was taken of selling costs.

Application of the market approach involves an analysis of the used market to measure the value level of exchanges of comparable property. An estimated amount is added to or deducted from the market price to reflect the difference in condition and utility between the item appraised and its normal used market comparatives.

Where the basis is the cost approach, an estimate is made on the cost of reproduction new or replacement cost, less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear, and obsolescence, taking into consideration past and present maintenance policy, and rebuilding history, if any, and current utilization.

Cost of reproduction new is the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets taking into consideration current prices of materials, manufactured equipment, labour, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition, but without provision for overtime or bonuses for labour and premium for materials.

Where elements are of foreign origin, our pricing process gives full consideration to all expenditures normally incurred in importation such as packing and crating charges, inland and ocean freight, insurance, duties and taxes, bank charges and commissions, wharfage, brokerage and handling.

FINDINGS

We have carried out inspection of the assets on 4-6 April 2005. During our visit to the plant, we have made the following observations:

- The power plant's generators and other assets are generally in reasonably good operation condition.

- We have examined the maintenance record and confirmed that each generator set and boiler has been put in regular major overhaul maintenance in a rotating basis, in addition to the annual regular maintenance.

- The coal transport facility is serving both the Shentou I Power Plant and the adjacent small power plant — Shouneng Power Plant.

OPINION OF VALUE

Based on the results of our inspection and findings, it is our opinion that **RMB 552,406,000 (RENMINBI FIVE HUNDRED AND FIFTY-TWO MILLION FOUR HUNDRED AND SIX THOUSAND)** fairly represents the fair market value of the machinery and equipment as at 6 April 2005.

For and on behalf of
SALLMANNS (FAR EAST) LIMITED

Tony Leung	**James Lai**
Associate Director	*Senior Manager*
Plant & Machinery Valuation	*Plant & Machinery Valuation*

SUMMARY OF VALUES

Description		Fair Market Value *(RMB)*
Machinery & Equipment		548,162,602
Vehicles		1,892,210
Office Equipment		1,065,138
Construction in Progress		1,286,200
	Grand Total :	**552,406,150**
	Rounded to :	**552,406,000**

The following is the text of a report dated 30 June 2005 made by the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, for the purpose of incorporation in this circular:

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
China Power International Development Limited

Dear Sirs,

We set out below our report on the financial information relating to 神頭第一發電廠 (Shentou Number One Power Generation Plant) ("the Power Plant") for each of the three years ended 31 December 2002, 2003 and 2004 (the "Relevant Periods"), for inclusion in the circular of China Power International Development Limited (the "Company") dated 30 June 2005 (the "Circular") in connection with the Company's proposed acquisition from China Power Development Limited ("CPDL"), the immediate holding company of the Company, the entire share capital of Tianze Development Limited ("Tianze").

Tianze is a wholly-owned subsidiary of CPDL incorporated in the British Virgin Islands on 31 March 2005 with limited liabilities under The International Business Companies Act of the British Virgin Islands to undertake certain assets and liabilities of Shentou Number One Power Generation Plant.

Shentou Number One Power Generation Plant is principally engaged in the generation and sales of electricity. It owns and operates six coal-fired generating units with installed capacity of 200 MW each (the "Power Generation Business"). Shentou Number One Power Generation Plant also owns certain assets and liabilities relating to the repair and maintenance and other ancillary functions of the Power Plant (the "Non-Acquired Items"). Shentou Number One Power Generation Plant was originally owned and operated by Shanxi Electric Power Corporation ("SEPC"). Following the restructuring of the power industry in the People's Republic of China (the "PRC"), Shentou Number One Power Generation Plant has been taken over by China Power Investment Corporation (中國電力投資集團公司) ("CPI Group"), the ultimate holding company of the Company, and became a branch of CPI Group from 2003.

China Power International Holding Limited ("CPIH") owns the entire interests in CPDL and is also a wholly-owned subsidiary of CPI Group. As set out in note 1 of Section II, CPIH assumed CPI Group's entire interests in Shentou Number One Power Generation Plant and undertook to restructure the businesses, assets and liabilities of Shentou Number One Power Generation Plant (the "Restructuring") such that the relevant assets and liabilities of Shentou Number One Power Generation Plant relating to the Power Generation Business will be transferred to Tianze Development Limited ("Tianze") for its formation of a wholly foreign-owned enterprise (the "Shentou WOFE") to carry out the Power Generation Business. Up to the date of this report, the Power Generation Business has not been transferred to Tianze and Shentou WOFE has not yet been established by Tianze.

Pursuant to the acquisition agreement entered into between the Company and CPDL on 9 June 2005, the Company is to acquire the entire share capital of Tianze from CPDL, representing the Power Generation Business of Shentou Number One Power Generation Plant (the "Proposed Acquisition").

Tianze has adopted 31 December as its financial year end date and no audited statutory accounts of Tianze have been prepared since its date of incorporation.

Since Tianze has not been incorporated until 31 March 2005, no financial information is available for Tianze during the Relevant Periods. The Power Generation Business of Shentou Number One Power Generation Plant to be transferred to Tianze is historically associated and managed commonly with the Non-Acquired Items. As these Non-Acquired Items form an integral part of Shentou Number One Power Generation Plant, no separate financial information is available for the Power Generation Business.

The financial statements of Shentou Number One Power Generation Plant for the years ended 31 December 2002, 2003 and 2004 were prepared in accordance with the applicable PRC accounting rules and regulations which have been audited by 山西東方會計師事務所 (Shanxi Dongfang Accountant Office), 中和正信會計師事務所有限公司 (Zhong He Zheng Xin Certified Public Accountants) and 中瑞華恒信會計師事務所 (China Rightson Certified Public Accountants) respectively.

For the purpose of this report, management of Shentou Number One Power Generation Plant have prepared the financial statements of Shentou Number One Power Generation Plant for the Relevant Periods in accordance with accounting principles generally accepted in Hong Kong (the "HKGAAP Accounts"). Management of Shentou Number One Power Generation Plant are responsible for preparing the HKGAAP Accounts which give a true and fair view. In preparing the HKGAAP Accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. We have carried out an independent audit of the HKGAAP Accounts in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information of Shentou Number One Power Generation Plant as set out in Sections I to III (the "Financial Information") has been prepared based on the HKGAAP Accounts on the basis set out in note 1 of Section II below. We have examined the Financial Information of Shentou Number One Power Generation Plant for the Relevant Periods which was made available to us by the Company and carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Directors of the Company are responsible for the Financial Information which give a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in note 1 of Section II below, gives a true and fair view of the state of affairs of Shentou Number One Power Generation Plant as at 31 December 2002, 2003 and 2004 and of the results and cashflows of Shentou Number One Power Generation Plant for the Relevant Periods.

I. FINANCIAL INFORMATION

Profit and loss accounts

		Year ended 31 December		
		2002	**2003**	**2004**
	Note	RMB'000	RMB'000	RMB'000
Turnover	3	—	841,667	1,030,440
Other revenues	3	755,069	2,226	5,358
Fuel costs		(447,309)	(498,489)	(528,708)
Depreciation		(71,345)	(68,940)	(65,737)
Staff costs	7	(74,746)	(99,310)	(114,441)
Repairs and maintenance		(77,335)	(89,112)	(77,183)
Consumables		(42,018)	(31,310)	(34,037)
Other operating expenses, net		(48,458)	(99,067)	(91,136)
Operating (loss)/profit	4	(6,142)	(42,335)	124,556
Finance costs	5	(14,633)	(11,256)	(10,921)
(Loss)/profit for the year		(20,775)	(53,591)	113,635
(Loss)/earnings per share		N/A	N/A	N/A

Since Shentou Number One Power Generation Plant is not a company limited by shares, no (loss)/earnings per share is presented.

Balance sheets

	Note	As at 31 December 2002 RMB'000	2003 RMB'000	2004 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	9	541,425	544,221	1,170,543
Current assets				
Inventories	10	32,776	9,669	49,814
Accounts receivable	11	—	204,254	153,418
Prepayments, deposits and other receivables		9,591	3,904	10,186
Amount due from SEPC	12	719,984	—	—
Cash and bank balances	13	37,870	44,623	179,302
		800,221	262,450	392,720
Current liabilities				
Accounts payable	14	61,695	60,821	145,293
Other payables and accrued charges	15	52,408	156,366	108,663
Amount due to CPI Group	16	—	13,107	138,372
Amounts due to related parties	17	13,254	15,281	15,219
Current portion of long-term borrowings	18	131,159	98,000	—
Short-term bank and other borrowings	18	10,500	15,500	108,500
		269,016	359,075	516,047
Net current assets/(liabilities)		531,205	(96,625)	(123,327)
Total assets less current liabilities		1,072,630	447,596	1,047,216
Non-current liabilities				
Long-term borrowings	18	98,000	—	—
Long-term payable to CPI Group	19	—	264,333	266,312
NET ASSETS		974,630	183,263	780,904
OWNER'S EQUITY		974,630	183,263	780,904

Cash flow statements

		Year ended 31 December		
		2002	**2003**	**2004**
	Note	RMB'000	RMB'000	RMB'000
Operating activities				
Net cash (outflow)/inflow generated from operations	20(a)	(135)	89,103	233,369
Interest paid		(14,633)	(14,550)	(10,921)
Net cash (outflow)/inflow from operating activities		(14,768)	74,553	222,448
Investing activities				
Purchase of property, plant and equipment		(58,326)	(72,025)	(44,868)
Proceeds for disposal of property, plant and equipment		206	—	533
Interest received		484	384	421
Net cash outflow from investing activities		(57,636)	(71,641)	(43,914)
Financing activities				
New bank and other loans	20(b)	123,500	145,500	108,500
Repayment of bank and other loans	20(b)	(85,512)	(271,659)	(113,500)
Loan from CPI Group		—	130,000	—
Contribution from head office		830	—	—
Appropriation to head office		—	—	(38,855)
Net cash inflow/(outflow) from financing activities		38,818	3,841	(43,855)
(Decrease)/increase in cash and cash equivalents		(33,586)	6,753	134,679
Cash and cash equivalents at beginning of year		71,456	37,870	44,623
Cash and cash equivalents at end of year		37,870	44,623	179,302
Analysis of the balances of cash and cash equivalents				
Cash and bank balances		37,870	44,623	179,302

Statements of changes in owner's equity

	Head office account RMB'000	**Revaluation reserve** RMB'000	**Total** RMB'000
As at 1 January 2002	994,575	—	994,575
Loss for the year	(20,775)	—	(20,775)
Contribution from head office	830	—	830
As at 31 December 2002	974,630	—	974,630
As at 1 January 2003	974,630	—	974,630
Loss for the year	(53,591)	—	(53,591)
Appropriation to head office	(737,776)	—	(737,776)
As at 31 December 2003	183,263	—	183,263
As at 1 January 2004	183,263	—	183,263
Profit for the year	113,635	—	113,635
Appropriation to head office	(164,120)	—	(164,120)
Revaluation surplus	—	648,126	648,126
As at 31 December 2004	132,778	648,126	780,904

II. NOTES TO THE FINANCIAL INFORMATION

1 **Basis of presentation of Financial Information**

Shentou Number One Power Generation Plant (the "Power Plant") is located in Shanxi province in the People's Republic of China (the "PRC") and is principally engaged in the generation and sales of electricity. It owns and operates six coal-fired generating units with installed capacity of 200 MW each.

The businesses, assets and liabilities of Shentou Number One Power Generation Plant were originally owned and operated by Shanxi Electric Power Corporation ("SEPC"). Following the restructuring of the power industry in the PRC, Shentou Number One Power Generation Plant has been taken over by China Power Investment Corporation (中國電力投資集團公司) ("CPI Group") and became a branch of CPI Group from 2003.

Pursuant to a reorganisation undertaken by CPI Group as approved by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), China Power International Holding Limited ("CPIH"), a wholly-owned subsidiary of CPI Group, assumed CPI Group's entire interests in Shentou Number One Power Generation Plant and undertook a restructuring in Shentou Number One Power Generation Plant (the "Restructuring") such that the businesses, assets and liabilities of Shentou Number One Power Generation Plant were divided into: (i) generation and sales of electricity (the "Power Generation Business"); (ii) provision for repair and maintenance services; and (iii) provision for ancillary services (of which the latter two are collectively referred to as the "Non-Acquired Items").

Pursuant to the Restructuring, CPIH will transfer the relevant assets and liabilities relating to the Non-Acquired Items in respect of (ii) and (iii) above to Huize Development Limited ("Huize") and Boya Development Limited ("Boya") respectively. Huize and Boya are wholly-owned subsidiaries of CPIH incorporated in the British Virgin Islands under The International Business Companies Act of the British Virgin Islands on 31 March 2005. Up to the date of this report, the Restructuring has not yet been completed and the Non-Acquired Items have not yet been transferred to Huize and Boya.

CPIH will also transfer the relevant assets and liabilities of Shentou Number One Power Generation Plant relating to the Power Generation Business to Tianze Development Limited ("Tianze") for its formation of a wholly foreign-owned enterprise ("Shentou WOFE") to carry out the power generation business. Tianze is a wholly-owned subsidiary of China Power Development Limited ("CPDL") which is also wholly-owned by CPIH. Tianze was incorporated in the British Virgin Islands on 31 March 2005 of which China Power International Development Limited (the "Company") proposed to acquire (the "Proposed Acquisition"). Pursuant to the Restructuring as approved by the relevant government authorities, Tianze will contribute its entire interests in the assets and liabilities of the Power Generation Business for the formation of Shentou WOFE except that an amount included in the net assets of the Power Generation Business as at 31 December 2004 amounted to approximately RMB270 million will be taken up by Shentou WOFE as long-term loan payable to a subsidiary of CPI Group, hence reducing the net assets of the Power Generation Business being contributed to Shentou WOFE by the same amount (Note 24 (c)).

Such long-term loan payable to a subsidiary of CPI Group will be repayable by Shentou WOFE in year 2010 and the amount is unsecured and carrying interest at approximately 5.3% per annum. Up to the date of this report, the Power Generation Business has not been transferred to Tianze and Shentou WOFE has not yet been established by Tianze.

1 **Basis of presentation of Financial Information (Continued)**

Since Tianze has not been incorporated until 31 March 2005, no financial information is available for Tianze during the Relevant Periods. The Power Generation Business of Shentou Number One Power Generation Plant to be transferred to Tianze is historically associated and managed commonly with the Non-Acquired Items. As these Non-Acquired Items formed an integral part of Shentou Number One Power Generation Plant, no separate financial information is available for the Power Generation Business. As at 31 December 2004, the net book value of the relevant assets and liabilities attributed to the Non-Acquired Items of Shentou Number One Power Generation Plant pursuant to the Restructuring not to be transferred to Tianze are as follows:

	2004
	RMB'000
ASSETS	
Property, plant and equipment	61,936
Inventories	1,532
Prepayments, deposits and other receivables	4,752
Cash and bank balance	30,000
	98,220
Liabilities	
Other payables and accrued charges	(2,319)
Net assets of Non-Acquired Items	95,901

The above assets and liabilities will be transferred to Huize and Boya pursuant to the Restructuring. In addition, as part of the Proposed Acquisition, Tianze has also entered into certain service agreements with Huize and Boya for the provision of repair and maintenance and other comprehensive ancillary services (also see Note 24).

Notwithstanding that Shentou Number One Power Generation Plant having net current liabilities as at 31 December 2004, the Financial Information has been prepared on a going concern basis as it is a branch of CPI Group during the Relevant Periods and is able to obtain sufficient financial support from CPI Group. In addition, CPIH has also confirmed that it will provide continuing financial support to Tianze so as to enable it to meet its liabilities as and when they fall due and to enable Tianze to continue its business in the foreseeable future until the completion of the Proposed Acquisition.

2 **Principal accounting policies**

The Financial Information in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") under the historical cost convention, except that, as disclosed in the accounting policies below, certain property, plant and equipment are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. Shentou Number One Power Generation Plant has not early adopted these new HKFRSs in the Financial Information during the Relevant Periods. Shentou Number One Power Generation Plant is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial position.

2 **Principal accounting policies (Continued)**

(a) Property, plant and equipment

Property, plant and equipment other than construction in progress (see note (b) below) are recognised initially at cost less accumulated depreciation and accumulated impairment losses. Cost comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

Subsequent to the revaluation carried out as at 31 December 2004, which was based on depreciated replacement costs, property, plant and equipment other than construction in progress are carried at their revalued amounts, being the fair values at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed on a regular basis with an interval of not more than five years. In the intervening years, management review the carrying values of the assets and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve; decreases in valuation are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged. Upon the disposal of the assets, any revaluation reserve balance remaining attributable to the relevant asset is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

Depreciation is calculated on a straight-line basis to write-off the cost or revalued amount of each asset less accumulated impairment losses over its estimated useful life, taking into account its estimated residual value. The estimated useful lives are as follows:

Buildings	15-30 years
Power generators and equipment	12 years
Electricity supply equipment	18 years
Tools and other equipment	5-18 years
Motor vehicles	6 years

Expenditure incurred after the property, plant and equipment have been put into operation, such as repair and maintenance and overhaul costs, and to restore its normal working condition is charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Power Plant.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2 **Principal accounting policies (Continued)**

(b) Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2 (a) in this Section.

(c) Inventories

Inventories comprise coal, oil, consumable supplies and spare parts held for consumption and usage and are stated at the lower of weighted average cost and net realisable value after provision for obsolete items, and are expensed to fuel costs or repair and maintenance expense when used, or capitalised to property, plant and equipment when installed, as appropriate. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location and condition.

(d) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(e) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks with a maturity of three months or less.

(f) Provisions

Provisions are recognised when the Power Plant has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Power Plant expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(g) Employee benefits

Pension obligations

The Power Plant contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial governments in the PRC based on a percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Power Plant has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

2 **Principal accounting policies (Continued)**

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(j) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Power Plant. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(l) Revenue recognition

Sale of electricity is recognised when electricity is generated and transmitted to the power grids operated by the provincial electric power company.

Operating lease rental income is recognised on a straight-line basis over the lease periods.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3 **Turnover, revenues and segment information**

Shentou Number One Power Generation Plant is principally engaged in the generation and sale of electricity. Revenues recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Turnover			
Sales of electricity	—	841,667	1,030,440
Other revenues			
Reimbursement of expenses from SEPC	754,345	—	—
Rental income	17	17	3,175
Interest income on bank deposits	484	384	421
Others	223	1,825	1,762
	755,069	2,226	5,358
Total revenues	755,069	843,893	1,035,798

Before 2003, Shentou Number One Power Generation Plant was a branch of SEPC generated electricity for SEPC whereas operating costs of the Power Plant were reimbursed by SEPC. After CPI Group took over the Power Plant, sale of electric power was made to SEPC at agreed tariff rates, subject to the approval of the relevant government authorities.

Segment information

The Power Plant's principal activities are the generation and sale of electricity as a single business segment. All of the Power Plant's assets, liabilities and capital expenditure are located or utilised in the PRC. Accordingly, no segment information is presented.

4 **Operating (loss)/profit**

Operating (loss)/profit is stated after charging/crediting the following:

	Year ended 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Charging			
Auditors' remuneration	130	90	90
Depreciation of property, plant and equipment	71,345	68,940	65,737
Staff costs excluding Directors' emoluments (Note 7)	74,746	99,310	114,441
Loss on disposal of property, plant and equipment	—	5	—
Operating lease rental in respect of other equipment	234	18	18
Provision for impairment of property, plant and equipment	751	284	829
Provision for other receivables	8,246	1,588	1,340
Write-off of other receivables	2,970	—	—
Write-off of amount due from SEPC	—	30,982	—
Crediting			
Gain on disposal of property, plant and equipment	108	—	427

5 **Finance costs**

	Year ended 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Interest expense on:			
Bank loans wholly repayable within five years	14,012	9,095	5,782
Other loans wholly repayable within five years	621	5,455	5,139
	14,633	14,550	10,921
Less: amounts capitalised in property, plant and equipment	—	(3,294)	—
	14,633	11,256	10,921

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. Interest rate on such capitalised borrowings was approximately 5.49% per annum.

6 **Taxation**

According to the relevant tax regulations, the Power Plant is considered as a branch for income tax filing purposes and accordingly, all of its profits or losses were combined into the results of its head office for tax purposes. Consequently, no PRC income tax provision has been made for the Power Plant for the years ended 31 December 2002, 2003 and 2004.

7 **Staff costs**

	Year ended 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	51,854	66,571	74,876
Contributions to pension plans	8,421	12,524	15,755
Staff welfare	14,471	20,215	23,810
	74,746	99,310	114,441

8 **Emoluments for Directors and five highest paid individuals**

(a) Directors' emoluments

No directors' emoluments were paid during the Relevant Periods as the Power Plant did not have a board of directors or similar corporate governance body.

(b) Five highest paid individuals

Details of emoluments paid to the five highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	53	58	60
Discretionary bonuses	140	125	158
Contributions to pension schemes	4	4	5
	197	187	223

The emoluments paid to each individual above fell within the band of nil to RMB1,060,000 (equivalent to HK$1,000,000).

(c) During the Relevant Periods, there was no arrangement under which an employee waived any remuneration, and no emoluments have been paid to any of the five highest paid individuals as an inducement to join or upon joining the Power Plant or as compensation for loss of office.

9 **Property, plant and equipment**

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
As at 1 January 2002	471,674	1,191,065	164,120	187,328	22,765	147,123	2,184,075
Additions	892	—	—	1,164	412	55,858	58,326
Disposals	—	—	—	(9)	(1,176)	—	(1,185)
Transfers	3,586	13,297	10,247	179	—	(27,309)	—
As at 31 December 2002	476,152	1,204,362	174,367	188,662	22,001	175,672	2,241,216
Accumulated depreciation and impairment losses							
As at 1 January 2002	361,690	970,357	109,977	168,157	18,601	—	1,628,782
Depreciation charge for the year	18,455	40,429	4,978	6,040	1,443	—	71,345
Impairment charge	—	108	464	179	—	—	751
Disposals	—	—	—	(4)	(1,083)	—	(1,087)
As at 31 December 2002	380,145	1,010,894	115,419	174,372	18,961	—	1,699,791
Net book value							
As at 31 December 2002	96,007	193,468	58,948	14,290	3,040	175,672	541,425
Cost							
As at 1 January 2003	476,152	1,204,362	174,367	188,662	22,001	175,672	2,241,216
Additions	—	303	—	1,257	—	70,465	72,025
Disposals	—	—	—	(6)	—	—	(6)
Transfers	—	36,421	1,173	125	—	(37,719)	—
As at 31 December 2003	476,152	1,241,086	175,540	190,038	22,001	208,418	2,313,235
Accumulated depreciation and impairment losses							
As at 1 January 2003	380,145	1,010,894	115,419	174,372	18,961	—	1,699,791
Depreciation charge for the year	16,668	40,296	5,405	5,561	1,010	—	68,940
Impairment charge	—	17	37	230	—	—	284
Disposals	—	—	—	(1)	—	—	(1)
As at 31 December 2003	396,813	1,051,207	120,861	180,162	19,971	—	1,769,014
Net book value							
As at 31 December 2003	79,339	189,879	54,679	9,876	2,030	208,418	544,221

9 **Property, plant and equipment (Continued)**

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost/Valuation							
As at 1 January 2004	476,152	1,241,086	175,540	190,038	22,001	208,418	2,313,235
Additions	1,054	—	—	1,494	1,075	41,245	44,868
Disposals	—	—	—	(75)	(1,996)	—	(2,071)
Transfers	36,704	20,123	7,790	9,788	—	(74,405)	—
Revaluation	316,313	809,883	28,864	(63,013)	(6,434)	—	1,085,613
As at 31 December 2004	830,223	2,071,092	212,194	138,232	14,646	175,258	3,441,645
Representing:							
Cost	—	—	—	—	—	175,258	175,258
Valuation	830,223	2,071,092	212,194	138,232	14,646	—	3,266,387
As at 31 December 2004	830,223	2,071,092	212,194	138,232	14,646	175,258	3,441,645
Accumulated depreciation and impairment losses							
As at 1 January 2004	396,813	1,051,207	120,861	180,162	19,971	—	1,769,014
Depreciation charge for the year	21,556	33,044	6,572	3,428	1,137	—	65,737
Impairment charge	—	403	155	228	43	—	829
Disposals	—	—	—	(29)	(1,936)	—	(1,965)
Revaluation	(847)	513,644	14,100	(80,942)	(8,468)	—	437,487
As at 31 December 2004	417,522	1,598,298	141,688	102,847	10,747	—	2,271,102
Net book value							
As at 31 December 2004	412,701	472,794	70,506	35,385	3,899	175,258	1,170,543
Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:							
Cost	513,910	1,261,209	183,330	201,245	21,080	175,258	2,356,032
Accumulated depreciation and impairment losses	(418,369)	(1,084,654)	(127,588)	(183,789)	(19,215)	—	(1,833,615)
	95,541	176,555	55,742	17,456	1,865	175,258	522,417

9 **Property, plant and equipment (Continued)**

(a) As detailed in Note 2 (a), except for construction in progress, property, plant and equipment were carried at revalued amounts at 31 December 2004. As required by the PRC rules and regulations relevant to the Restructuring, each class of property, plant and equipment was valued by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.), independent valuers registered in the PRC, on a depreciated replacement cost basis as at 31 December 2004.

(b) The Power Plant's buildings are situated on leasehold land in the PRC which was historically approved for the use of the Power Plant by the PRC government at nil consideration. Subsequent to the completion of the Restructuring, CPI Group held the rights to use the leasehold land under long-term leases and leased the relevant portion of the leasehold land to Tianze, Huize and Boya respectively (also see Note 24 (b)(i)).

10 **Inventories**

		As at 31 December	
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Coal and oil	2,944	3,550	7,128
Spare parts and consumables	29,832	6,119	42,686
	32,776	9,669	49,814

As at the respective balance sheet dates no inventories were stated at net realisable value.

11 **Accounts receivable**

		As at 31 December	
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Accounts receivable from SEPC	—	204,254	153,418

From 2003, a credit period of 45 to 60 days is normally granted to SEPC from the end of the month in which the sales are made. The ageing analysis of the accounts receivable is as follows:

		As at 31 December	
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
1 to 3 months	—	204,254	153,418

12 **Amount due from SEPC**

The amount due from SEPC was unsecured, interest free and is repayable on demand.

13 **Cash and bank balances**

All bank balances, which are denominated in Renminbi, are placed with banks in the PRC. The remittance of these funds out of the PRC is subjected to the exchange control restrictions imposed by the PRC government.

14 **Accounts payable**

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Accounts payable	17,699	60,821	145,293
Due to related parties	43,996	—	—
	61,695	60,821	145,293

Amounts due to related parties mainly represent balances arising from transactions with those parties as detailed in Note 22 below.

The normal credit period for accounts payable generally ranges from 60 to 180 days. Ageing analysis of accounts payable at the respective balance sheet dates is as follows:

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
1 to 6 months	58,295	58,579	122,736
Over 6 months	3,400	2,242	22,557
	61,695	60,821	145,293

15 **Other payables and accrued charges**

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Salaries and staff welfare payable	1,298	6,857	12,920
Construction cost payable	25,359	53,028	30,702
Value added tax payable	5,069	58,457	12,326
Other taxes payable	7,585	17,905	28,269
Others	13,097	20,119	24,446
	52,408	156,366	108,663

16 **Amount due to CPI Group**

The amount due to CPI Group is unsecured, interest free and is repayable on demand.

17 **Amounts due to related parties**

The amounts due to related parties are unsecured, interest free and are repayable on demand.

18 **Borrowings**

Unsecured bank and other borrowings are analysed as follows:

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Current borrowings			
Short-term bank borrowings	10,500	15,500	10,500
Short-term other borrowings	—	—	98,000
	10,500	15,500	108,500
Non-current borrowings wholly repayable within five years			
Long-term bank borrowings	131,159	—	—
Long-term other borrowings	98,000	98,000	—
	229,159	98,000	—
Less: current portion of long-term borrowings	(131,159)	(98,000)	—
	98,000	—	—

Other borrowings represent loan from 華北電網財務有限公司 (Northern Power Grid Finance Company Limited), a financial institution approved by the relevant PRC authorities, and is repayable by 25 November 2005. The loan carried interest at 5.49% per annum for the years ended 31 December 2002 and 2003; and at 5.02% per annum for the year ended 31 December 2004.

At the respective balance sheet dates, non-current bank and other borrowings were repayable as follows:

	Long-term bank borrowings As at 31 December			Long-term other borrowings As at 31 December		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	131,159	—	—	—	98,000	—
In the second year	—	—	—	98,000	—	—
In the third to fifth year	—	—	—	—	—	—
	131,159	—	—	98,000	98,000	—

19 Long-term payable to CPI Group

The amounts payable to CPI Group are unsecured and are repayable as follows:

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Repayable after twelve months from the balance sheet date, interest free	—	134,333	136,312
Repayable by 8 November 2008, bearing interest at 3.6% per annum (also see Note 24(c))	—	130,000	130,000
	—	264,333	266,312

20 Notes to the cash flow statements

(a) Reconciliation of (loss)/profit for the year to net cash (outflow)/inflow generated from operations

	Year ended 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
(Loss)/profit for the year	(20,775)	(53,591)	113,635
Interest expense	14,633	14,550	10,921
Interest income	(484)	(384)	(421)
Depreciation of property, plant and equipment	71,345	68,940	65,737
Provision for impairment of property, plant and equipment	751	284	829
(Gain)/loss on disposal of property, plant and equipment	(108)	5	(427)
Provision for other receivables	8,246	1,588	1,340
Write-off of other receivables	2,970	—	—
Write-off of amount due from SEPC	—	30,982	—
Operating profit before working capital changes	76,578	62,374	191,614
(Increase)/decrease in accounts receivable	—	(204,254)	50,836
(Increase)/decrease in prepayments, deposits and other receivables	(10,560)	4,099	(7,622)
(Increase)/decrease in inventories	(618)	23,107	(40,145)
Increase in amount due from SEPC	(71,725)	—	—
(Decrease)/increase in accounts payable	(15,305)	(874)	84,472
Increase/(decrease) in other payables and accrued charges	15,444	103,958	(47,703)
Increase in amount due to CPI Group	—	98,666	1,979
Increase/(decrease) in amounts due to related parties	6,051	2,027	(62)
Net cash (outflow)/inflow generated from operations	(135)	89,103	233,369

20 **Notes to the cash flow statements (Continued)**

(b) Analysis of changes in financing during the Relevant Periods:

	Long-term and short-term bank borrowings	Long-term and short-term other borrowings	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2002	201,671	—	201,671
New borrowings	25,500	98,000	123,500
Repayment of borrowings	(85,512)	—	(85,512)
Balance at 31 December 2002	141,659	98,000	239,659
New borrowings	145,500	—	145,500
Repayment of borrowings	(271,659)	—	(271,659)
Balance at 31 December 2003	15,500	98,000	113,500
New borrowings	10,500	98,000	108,500
Repayment of borrowings	(15,500)	(98,000)	(113,500)
Balance at 31 December 2004	10,500	98,000	108,500

21 **Commitments**

(a) Capital commitments for property, plant and equipment

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Contracted but not provided for	52,362	28,980	25,266

(b) Future operating lease arrangements

Future aggregate minimum lease receipts under non-cancellable operating leases in respect of other equipment are as follows:

	As at 31 December		
	2002	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Not later than one year	—	—	4,659
Later than one year and not later than five years	—	—	9,318
	—	—	13,977

22 **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant related party transactions, which were carried out in the normal course of the Power Plant's business during the Relevant Periods are as follows:

		Year ended 31 December		
		2002	**2003**	**2004**
	Note	RMB'000	RMB'000	RMB'000
Revenue:				
Reimbursement of expenses from SEPC	(i)	754,345	—	—
Sales of electricity to SEPC	(i)	—	841,667	1,030,440
Expenses:				
Purchases of fuel, raw materials and spare parts from parties relating to SEPC	(i), (ii)	438,035	488,967	371,537
Transportation services to related parties	(iii)	—	—	3,732
Construction services to related parties	(iv)	20,354	18,578	19,337
Labor costs to related parties	(v)	1,753	643	1,774
Interest expense to CPI Group	(vi)	—	65	4,771
Balances with related parties included in:	(vii)			
Amount due from SEPC		719,984	—	—
Accounts payable		43,996	—	—
Amount due to CPI Group		—	13,107	138,372
Amounts due to related parties		13,254	15,281	15,219
Long-term payable to CPI Group		—	264,333	266,312

The related parties referred to in items (iii) to (v) above are entities controlled by certain individuals who are also employees of the Power Plant.

Note:

(i) As a result of the restructuring of the power industry in 2002, management of the Power Plant are of the opinion that SEPC and parties relating to SEPC are no longer referred to as related parties of the Power Plant with effect from 1 January 2003 and transactions thereof are no longer referred to as related party transactions accordingly. For the purpose of the Financial Information, significant transactions with these parties for the periods after 1 January 2003 were included to provide additional information.

(ii) Purchases of goods were charged in accordance with the terms of the relevant agreements.

(iii) Transportation services were charged at mutually agreed prices.

(iv) Construction services were payable in accordance with the terms of the relevant contracts.

(v) Labor costs were charged on a cost reimbursement basis.

(vi) Interest expense was charged on outstanding loan balance at 3.6% per annum.

(vii) The terms of balances with related parties are disclosed in Notes 12, 14, 16, 17 and 19 respectively.

23 **Distributable reserves**

As at 31 December 2004, the Power Plant did not have any reserves available for distribution.

24 **Subsequent events**

(a) On 31 March 2005, Tianze was incorporated in the British Virgin Islands with a paid up capital of 1 share of US$1 each.

(b) Pursuant to the Restructuring, Tianze entered into certain significant agreements as follows:

(i) On 9 June 2005, Tianze entered into a land lease agreement with CPI Group pursuant to which CPI Group agreed to lease the land on which the Power Generation Business is situated to Tianze for a period of 20 years up to year 2025, at an aggregate annual rental of approximately RMB5 million subject to a review in year 2008.

(ii) On 9 June 2005, Tianze entered into certain repair and maintenance service agreements with Huize pursuant to which Huize agreed to provide various repair and maintenance services to Tianze for a period from the date of completion of the Proposed Acquisition to 31 December 2007, at mutually agreed prices.

(iii) On 9 June 2005, Tianze entered into certain ancillary service agreements with Boya pursuant to which Boya agreed to provide various ancillary services to Tianze for a period from the date of completion of the Proposed Acquisition to 31 December 2007, at mutually agreed prices.

(c) On 8 June 2005, Tianze entered into certain agreements with 中電投財務有限公司 (CPI Financial Co., Ltd.) (“CPFC”), a company controlled by CPI Group, pursuant to which Tianze agreed that upon its formation of Shentou WOFE by contribution of the net assets of the Power Generation Business:

(i) an amount included in the net assets of the Power Generation Business amounted to approximately RMB270 million shall be taken up by Shentou WOFE as a long-term loan payable to CPFC (also see Note 1). Such long-term loan payable by Shentou WOFE to CPFC will be unsecured, carrying interest at approximately 5.3% per annum and repayable by year 2010; and

(ii) an amount included in the long-term payable to CPI Group of the Power Generation Business of RMB130 million will be converted into a long-term loan payable to CPFC of the same amount. Such long-term loan payable by Shentou WOFE to CPFC will be unsecured, carrying interest at approximately 3.6% per annum and repayable by year 2008.

Apart from the aforesaid, no other material events took place after 31 December 2004 and up to the date of this report.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited accounts have been prepared for the Power Plant in respect of any period subsequent to 31 December 2004.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three financial years ended 31 December 2004. The financial information relating to the years ended 31 December 2003 and 2004 is extracted from the Company's 2004 annual report where as the financial information relating to the year ended 31 December 2002 is extracted from the Company's Prospectus dated 4 October 2004.

	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2002
	RMB'000	RMB'000	RMB'000
Turnover	3,352,001	2,915,382	2,581,601
Operating profit	538,237	518,564	410,543
Share of results of an assoicated company	163,604	136,418	154,335
Profit before taxation	701,841	654,982	564,878
Taxation	(59,212)	(49,826)	(38,889)
Profit after taxation	642,629	605,156	525,989
Minority interest	574	—	—
Profit attributable to shareholders/owner	643,203	605,156	525,989

	As at 31 December 2004	As at 31 December 2003	As at 31 December 2002
	RMB'000	RMB'000	RMB'000
Total assets	9,049,621	5,250,534	5,248,081
Total liabilities and minority interests	(2,824,343)	(1,847,350)	(1,954,508)
Shareholders' funds/owner's equity	6,225,278	3,403,184	3,293,573

2. AUDITED FINANCIAL STATEMENTS OF THE COMPANY AND ITS SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2004

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2004 as extracted from the Company's 2004 annual report.

Consolidated Profit and Loss Account
For the year ended 31 December 2004

	Note	**2004** RMB'000	**2003** RMB'000
Turnover	4	3,352,001	2,915,382
Other revenues	4	21,873	3,335
Fuel costs		(1,825,875)	(1,315,620)
Depreciation		(325,641)	(373,758)
Staff costs	8	(252,543)	(226,892)
Repairs and maintenance		(141,559)	(156,158)
Consumables		(51,321)	(63,842)
Other operating expenses, net		(161,413)	(178,845)
Operating profit	5	615,522	603,602
Finance costs	6	(77,285)	(85,038)
		538,237	518,564
Share of results of an associated company		163,604	136,418
Profit before taxation		701,841	654,982
Taxation	7	(59,212)	(49,826)
Profit after taxation		642,629	605,156
Minority interests		574	—
Profit attributable to shareholders/owner	9	643,203	605,156
Dividend/profit distributions	10	(460,308)	(385,012)
Basic earnings per share	11	RMB0.28	RMB0.29
Diluted earnings per share	11	RMB0.28	N/A

Consolidated Balance Sheet

As at 31 December 2004

	Note	**2004** RMB'000	**2003** RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	3,526,136	3,495,789
Prepayment for construction of power plants		614,126	—
Interest in an associated company	15	849,539	848,095
Deferred tax assets	24	13,795	17,619
		5,003,596	4,361,503
Current assets			
Inventories	16	114,512	97,852
Accounts receivable	17	644,183	461,036
Prepayments, deposits and other receivables		174,893	22,571
Amount due from an intermediate holding company	18	15,352	185,852
Dividends receivable from an associated company		32,861	—
Cash and bank balances	19	3,064,224	121,720
		4,046,025	889,031
Current liabilities			
Accounts payable	20	237,218	132,033
Other payables and accrued charges	21	328,824	252,823
Amount due to ultimate holding company	22	5,129	42,996
Current portion of long-term bank borrowings	23	261,000	265,000
Short-term bank borrowings	23	592,676	45,000
Profit distributions payable to an intermediate holding company		212,169	—
Taxation payable		31,601	16,498
		1,668,617	754,350
Net current assets		2,377,408	134,681
Total assets less current liabilities		7,381,004	4,496,184
Non-current liabilities			
Long-term bank borrowings	23	1,153,000	1,093,000
Minority interests		2,726	—
NET ASSETS		6,225,278	3,403,184
Financed by:			
Share capital	25	3,323,100	2,226,000
Reserves	26	2,902,178	1,177,184
Shareholders' funds		6,225,278	3,403,184

Balance Sheet
As at 31 December 2004

	Note	**2004** RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	13	80
Investments in subsidiaries	14	1,761,293
Interest in an associated company	15	552,500
		2,313,873
Current assets		
Prepayments, deposits and other receivables		1,219
Amount due from an intermediate holding company	18	15,352
Dividends receivable		145,715
Cash and bank balances		2,551,685
		2,713,971
Current liabilities		
Other payables and accrued charges	21	45,469
Net current assets		2,668,502
NET ASSETS		4,982,375
Financed by:		
Share capital	25	3,323,100
Reserves	26	1,659,275
Shareholders' funds		4,982,375

Consolidated Cash Flow Statement
For the year ended 31 December 2004

	Note	**2004** RMB'000	**2003** RMB'000
Operating activities			
Net cash inflow generated from operations	27(a)	905,798	806,878
Interest paid		(89,876)	(85,038)
PRC income tax paid		(21,066)	(29,751)
Net cash inflow from operating activities		794,856	692,089
Investing activities			
Purchase of property, plant and equipment		(366,878)	(110,117)
Prepayment for construction of power plants		(614,126)	—
Proceeds from disposal of property, plant and equipment		2,150	88
Cost incurred for disposal of property, plant and equipment		(169)	(773)
Interest received		12,135	905
Net cash outflow from investing activities		(966,888)	(109,897)
Financing activities			
New bank loans	27(b)	1,574,676	130,000
Repayment of bank loans	27(b)	(971,000)	(190,000)
Profit distributions to owner		(165,061)	(408,669)
Contribution from owner		67,895	—
Contributions from minority shareholders of a subsidiary	27(b)	3,300	—
Issuance of new shares		2,775,663	—
Share issuance expenses		(170,937)	
Net cash inflow /(outflow) from financing activities		3,114,536	(468,669)
Increase in cash and cash equivalents		2,942,504	113,523
Cash and cash equivalents at 1 January		121,720	8,197
Cash and cash equivalents at 31 December		3,064,224	121,720
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		3,064,224	121,720

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Note	**2004** RMB'000	**2003** RMB'000
Total equity, at 1 January		3,403,184	3,293,573
Contribution from owner	26	67,895	—
Issue of shares for Global Offering	25(a)	1,097,100	—
Share premium on issue of shares	26	1,678,563	—
Share issuance expenses	26	(170,937)	—
Revaluation surplus of property, plant and equipment	26	—	22,305
Profit for the year	26	643,203	605,156
Profit distributions to then owner of the Group	10	(377,230)	(385,012)
Profit distributions of an associated company	26	(116,500)	(132,838)
Total equity, at 31 December		6,225,278	3,403,184

Notes to the Financial Statements

1 **Group Reorganisation and basis of preparation**

China Power International Development Limited (the "Company") was incorporated in Hong Kong on 24 March 2004 as a limited liability company under the Hong Kong Companies Ordinance.

Pursuant to a group reorganisation, which was completed on 1 September 2004 (the "Reorganisation"), in the preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group. The Company's shares were listed on the Stock Exchange on 15 October 2004.

The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the consolidated accounts of the Group for the year ended 31 December 2004 have been prepared using the merger basis of accounting as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

As the Company was only incorporated on 24 March 2004, there are no comparative figures in the Company's balance sheet as at 31 December 2003.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, certain property, plant and equipment are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses.

2 **Impact of recently issued Hong Kong Financial Reporting Standards**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3 **Principal accounting policies**

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of Directors, controls more than half of the voting power or holds more than half of the issued share capital.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3 **Principal accounting policies (Continued)**

(a) Group accounting (Continued)

(i) Consolidation (Continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated company

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The results of the associated company are accounted for by the Company on the basis of dividends received and receivable.

(iii) Translation of foreign currencies

The Company maintains its books and records in Hong Kong Dollar ("HK$") while all other companies now comprising the Group and the associated company maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than RMB at the balance sheet date are translated into RMB at rates of exchange ruling at the balance sheet date. Gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than RMB are recognised in the profit and loss account.

The balance sheet of the Company expressed in HK$ is translated at the rate of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(b) Property, plant and equipment

Property, plant and equipment other than construction in progress (see note (c) below) are recognised initially at cost which comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

3 **Principal accounting policies (Continued)**

(b) Property, plant and equipment (Continued)

Subsequent to the initial recognition, property, plant and equipment other than construction in progress are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed on a regular basis with an interval of not more than five years. In the intervening years, the Directors review the carrying values of the assets and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve; decreases in valuation are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged. Upon the disposal of the assets, any revaluation reserve balance remaining attributable to the relevant asset is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

Depreciation is calculated on a straight-line basis to write-off the cost or revalued amount of each asset less accumulated impairment losses over its estimated useful life, taking into account its estimated residual value. The estimated useful lives are as follows:

Buildings	8-45 years
Power generators and equipment	9-28 years
Electricity supply equipment	13-30 years
Tools, office and other equipment	3-18 years
Motor vehicles	2-12 years
Furniture and fixtures	3-5 years

Expenditure incurred after the property, plant and equipment have been put into operation, such as repair and maintenance and overhaul costs, to restore its normal working condition is charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(c) Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 3 (b) above.

3 **Principal accounting policies (Continued)**

(d) Inventories

Inventories comprise coal, oil, consumable supplies and spare parts held for consumption and usage and are stated at the lower of weighted average cost and net realisable value after provision for obsolete items, and are expensed to fuel costs or repair and maintenance expense when used, or capitalised to property, plant and equipment when installed, as appropriate. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location and condition.

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks with a maturity of three months or less from date of investment.

(g) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Employee benefits

(i) Pension obligations

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers.

For employees in Mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial governments in the People's Republic of China (the "PRC") based on 20% of the relevant employees' monthly salaries and wages. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

3 **Principal accounting policies (Continued)**

(h) Employee benefits (Continued)

(ii) Equity compensation benefits

Share options are granted to certain Directors and employees as an incentive. The financial impact of share options granted under the relevant share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or lapsed, are removed from the register of outstanding options.

(i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made or received under operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease periods.

(k) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

3 **Principal accounting policies (Continued)**

(m) Revenue recognition

Sales of electricity are recognised when electricity is generated and transmitted to the power grids operated by the respective provincial power grid companies.

Management fee income is recognised when services are rendered.

Operating lease rental income is recognised on a straight-line basis over the lease periods.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

4 **Turnover, revenues and segment information**

The Group is principally engaged in the generation and sale of electricity, and the development of power plants. Revenues recognised during the year are as follows:

	2004	**2003**
	RMB'000	RMB'000
Turnover		
Sales of electricity	3,352,001	2,915,382
Other revenues		
Management fee income (Note 29)	6,884	—
Rental income	2,854	2,430
Interest income on bank deposits	12,135	905
	21,873	3,335
Total revenues	3,373,874	2,918,717

Pursuant to the power purchase agreements entered into between the Group and the respective provincial power grid companies, all the Group's sales of electric power were made to these power grid companies. The tariff rates are to be agreed with the respective power grid companies, subject to the approval of the relevant government authorities.

Segment information

The Group's principal activities are the generation and sale of electricity, and the development of power plants as a single business segment. Substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC. Accordingly, no segment information is presented.

5 **Operating profit**

Operating profit is stated after charging/(crediting) the following:

	2004	2003
	RMB'000	RMB'000
Auditors' remuneration	2,996	502
Depreciation of property, plant and equipment	325,641	373,758
Staff costs excluding Directors' emoluments (Note 8)	252,543	226,892
Loss on disposal of property, plant and equipment	1,431	12,354
Operating lease rental in respect of		
- equipment	3,394	3,015
- leasehold land and buildings	6,443	—
Provision for inventory obsolescence	—	7,808
Provision for other receivables	4,765	9,551
Write-off of property, plant and equipment	7,478	2,007
Write-off of pre-operating expenses	13,555	—
Write-back of provision for other receivables	(4,393)	—
Write-back of other payables	(8,870)	—
Write-back of previous revaluation deficits of property, plant and equipment	—	(27,947)

6 **Finance costs**

	2004	2003
	RMB'000	RMB'000
Interest expense on		
bank loans wholly repayable within five years	49,960	42,241
bank loans not wholly repayable within five years	39,916	42,797
	89,876	85,038
Less: amounts capitalised in property, plant and equipment	(12,591)	—
	77,285	85,038

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. Interest rate on such capitalised borrowings is approximately 4.9% per annum.

7 Taxation

No Hong Kong profits tax has been provided as the Group did not have any assessable profit in Hong Kong for the year (2003: Nil).

The provision for PRC current income tax is calculated based on the statutory tax rate of 33% of the assessable income for the year except as disclosed below.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004	**2003**
	RMB'000	RMB'000
PRC current income tax	42,589	38,021
Deferred taxation (Note 24)	3,824	(911)
	46,413	37,110
Share of taxation attributable to the associated company	12,799	12,716
	59,212	49,826

Pursuant to the relevant PRC income tax rules and regulations, a special income tax rate of 15% has been granted to certain subsidiaries of the Group and the associated company as being foreign invested enterprises which are engaged in the energy, transportation or infrastructure activities. In addition, being sino-foreign joint venture enterprises historically and as approved by the respective local tax bureaus, these companies are entitled to a two-year exemption from income tax starting from their first profit-making year and followed by a 50% reduction in income tax for the subsequent three years.

These companies were established towards the end of 1999 and have been exempted from income tax in 2000 and 2001. After the two-year tax exemption period, these companies are subjected to a reduced tax rate of 7.5% for the years ended 31 December 2002, 2003 and 2004.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the country where the Group principally operates as follows:

	2004	**2003**
	RMB'000	RMB'000
Profit before taxation	701,841	654,982
Calculated at the PRC statutory tax rate of 33% (2003: 33%)	231,608	216,144
Effect of different taxation rates	(1,068)	—
Effect of preferential tax rate	(128,592)	(117,896)
Effect of tax holiday	(53,579)	(49,125)
Income not subject to taxation	(9,212)	(10,545)
Expenses not deductible for taxation purposes	20,055	11,248
Taxation charge	59,212	49,826

8 **Staff costs**

	2004	**2003**
	RMB'000	RMB'000
Wages, salaries and bonuses	138,496	129,873
Contributions to pension plans	38,646	30,272
Staff welfare	75,401	66,747
	252,543	226,892

9 **Profit attributable to shareholders**

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB151,649,000 (2003:Nil).

10 **Dividend/profit distributions**

	2004	**2003**
	RMB'000	RMB'000
Profit distributions (note (i))	377,230	385,012
Final dividend, proposed, HK$0.025 (equivalent to RMB0.0265) per share (note (ii))	83,078	—
	460,308	385,012

Note:

(i) The profit distributions disclosed for the year ended 31 December 2004 represent dividends from certain subsidiaries of the Group in connection with their profits for the period from 1 January 2004 to 30 September 2004 attributed to China Power International Holding Limited ("CPI Holding"), an intermediate holding company of the Company, pursuant to the Reorganisation Agreement.

The profit distributions disclosed for the year ended 31 December 2003 represent dividends declared by the relevant subsidiaries of the Group to their then owner prior to the completion of the Reorganisation of the Group.

The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not meaningful.

(ii) At a meeting held on 14 March 2005, the Directors proposed a final dividend of HK$0.025 per share (equivalent to RMB0.0265 per share). This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

11 **Earnings per share**

The calculation of basic and diluted earnings per share for the year are based on the Group's profit for the year of RMB643,203,000. The basic earnings per share is based on the weighted average of 2,315,901,639 shares in issue during the year and the diluted earnings per share is based on 2,315,901,639 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 704,231 shares deemed to be issued at no consideration if all outstanding options had been exercised.

The calculation of basic earnings per share for 2003 is based on the Group's profit for the year of RMB605,156,000 and the weighted average number of 2,100,000,000 shares.

12 **Emoluments for Directors and five highest paid individuals**

(a) Directors' emoluments

Details of emoluments paid and payable to the Directors of the Company in respect of their services rendered for managing the business of the Group during the year are as follows:

	2004	**2003**
	RMB'000	RMB'000
Fees:		
Executive Directors	—	—
Non-executive Directors	276	—
Independent non-executive Directors	413	—
	689	—
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	959	994
Discretionary bonuses	827	543
Contributions to pension schemes	20	103
	1,806	1,640
	2,495	1,640

None of the Directors of the Company waived any emoluments during the years ended 31 December 2003 and 2004.

12 **Emoluments for Directors and five highest paid individuals (Continued)**

(a) Directors' emoluments (Continued)

The emoluments of the Directors of the Company fell within the following band:

	Number of Directors	
	2004	**2003**
Nil to RMB1,060,000 (equivalent to HK$1,000,000)	7	7

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 4 (2003: 4) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2003: 1) individual during the year are as follows:

	2004	**2003**
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	795	237
Discretionary bonuses	127	—
Contributions to pension schemes	8	20
	930	257

The emoluments fell within the following band:

	Number of Individual	
	2004	**2003**
Nil to RMB1,060,000 (equivalent to HK$1,000,000)	1	1

(c) During the year, no emoluments have been paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 Property, plant and equipment

(a) Group

Cost or valuation	Buildings RMB'000	Power generators and equipment RMB'000	Electricity supply equipment RMB'000	Tools and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2004	2,076,286	5,111,585	1,181,946	332,901	100,762	182,739	8,986,219
Additions	29	185	76	7,104	3,958	355,526	366,878
Disposals	(290)	(18,427)	(87)	(5,092)	(284)	—	(24,180)
Write-off	(2,549)	(222,242)	(22,216)	(13,955)	(1,061)	—	(262,023)
Transfers	64,659	20,967	6,384	5,213	34	(97,257)	—
As at 31 December 2004	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Representing:							
Cost	64,688	21,152	6,460	12,317	3,992	441,008	549,617
Valuation	2,073,447	4,870,916	1,159,643	313,854	99,417	—	8,517,277
	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Accumulated depreciation and impairment losses							
As at 1 January 2004	996,315	3,386,797	844,663	189,557	73,098	—	5,490,430
Depreciation charge for the year	60,362	190,535	43,516	26,532	4,696	—	325,641
Disposals	(1)	(16,108)	(74)	(4,431)	(154)	—	(20,768)
Write-off	(2,402)	(216,152)	(21,502)	(13,493)	(996)	—	(254,545)
As at 31 December 2004	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Net book value							
As at 31 December 2004	1,083,861	1,546,996	299,500	128,006	26,765	441,008	3,526,136
As at 31 December 2003	1,079,971	1,724,788	337,283	143,344	27,664	182,739	3,495,789
Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:							
As at 31 December 2004							
Cost	2,408,495	5,352,932	1,364,399	407,471	109,067	441,008	10,083,372
Accumulated depreciation and impairment losses	(1,206,432)	(3,438,561)	(784,553)	(287,457)	(79,547)	—	(5,796,550)
	1,202,063	1,914,371	579,846	120,014	29,520	441,008	4,286,822
As at 31 December 2003							
Cost	2,356,058	5,655,740	1,392,856	427,450	111,047	182,739	10,125,890
Accumulated depreciation and impairment losses	(1,156,362)	(3,497,093)	(756,049)	(293,545)	(78,198)	—	(5,781,247)
	1,199,696	2,158,647	636,807	133,905	32,849	182,739	4,344,643

13 **Property, plant and equipment (Continued)**

(b) Company

	Office and other equipment	Furniture and fixture	Total
	RMB'000	RMB'000	RMB'000
Cost			
Upon incorporation on 24 March 2004	—	—	—
Additions	28	56	84
As at 31 December 2004	28	56	84
Accumulated depreciation and impairment losses			
Upon incorporation on 24 March 2004	—	—	—
Depreciation charge for the period	2	2	4
As at 31 December 2004	2	2	4
Net book value			
As at 31 December 2004	26	54	80

(c) Property, plant and equipment of the Group other than construction in progress are recognised initially at cost and are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The latest independent valuation was performed by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.) and 中發國際評估有限公司 (DeveChina International Appraisals Co., Ltd.), independent valuers registered in the PRC, on a depreciated replacement cost basis as of 31 December 2003.

The Directors of the Company have reviewed the carrying value of the Group's property, plant and equipment as at 31 December 2004 and are of the opinion that the carrying amount is not materially different from the fair value.

(d) The Group's buildings are situated on leasehold land in the PRC leased from China Power Investment Corporation (中國電力投資集團) ("CPI Group" or the "ultimate holding company") which held the rights on the leasehold land under long-term leases.

14 **Investments in subsidiaries**

	Company 2004
	RMB'000
Unlisted investments, at cost	1,761,293

14 **Investments in subsidiaries (Continued)**

The following is a list of the subsidiaries as at 31 December 2004:

Name of companies	Place of establishment and operation/date of establishment	Registered/ paid up capital	Equity interest attributable to the Group	Type of legal entity	Principal activities
Subsidiaries — interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited	PRC 27th August 1999	RMB986,000,000/ RMB986,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited	PRC 17th September 1999	RMB970,000,000/ RMB970,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huainan Pingwei No.2 Electric Power Generating Company Limited	PRC 17th November 2003	USD12,000,000/ USD8,400,000	100%	Wholly foreign-owned enterprise	Development of power plants
Pingdingshan Yaomeng No.2 Power Generating Company Limited	PRC 28th November 2003	USD20,000,000/ USD7,200,000	100%	Wholly foreign-owned enterprise	Development of power plants
Huanggang Dabieshan Power Generating Company Limited	PRC 17th December 2003	RMB30,000,000/ RMB30,000,000	89%	Sino-foreign equity joint venture	Development of power plants

15 **Interest in an associated company**

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Share of net assets, unlisted at cost	849,539	848,095	—
Unlisted investment, at cost	—	—	552,500
	849,539	848,095	552,500

15 **Interest in an associated company (Continued)**

The following is the details of the associated company as at 31 December 2004:

Name of company	Place of establishment and operation/date of establishment	Registered/ paid up capital	Equity interest attributable to the Group	Type of legal entity	Principal activity
Associated company — interest held directly:					
Jiangsu Changshu Electric Power Generating Company Limited ("Changshu Company")	PRC 15th September 1999	RMB1,105,000,000	50%	Sino-foreign equity joint venture	Generation and sale of electricity

The following is an extract of the operating results and financial position of Changshu Company, based on a set of unaudited management accounts of Changshu Company for the year prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 3.

	2004 RMB'000	**2003** RMB'000
Operating results		
Turnover	2,102,455	1,923,887
Profit before taxation	327,208	272,836
Profit after taxation	301,609	247,404
Financial position		
Property, plant and equipment	2,311,629	2,462,237
Current assets	528,326	450,436
Current liabilities	(1,076,072)	(1,166,713)
Long-term liabilities	(64,805)	(49,770)
Net assets	1,699,078	1,696,190

16 **Inventories**

	Group	
	2004 RMB'000	**2003** RMB'000
Coal and oil	31,622	23,001
Spare parts and consumables	82,890	74,851
	114,512	97,852

As at 31 December 2004, no inventories were stated at net realisable value (2003: Nil).

17 **Accounts receivable**

	Group	
	2004	**2003**
	RMB'000	RMB'000
Accounts receivable from provincial power companies (note (a))	411,494	365,937
Bills receivable (note (b))	232,689	95,099
	644,183	461,036

Note:

(a) The Group normally granted 30 to 60 days credit period to the provincial power companies from the end of the month in which the sales are made. The ageing analysis of the accounts receivable is as follows:

	Group	
	2004	**2003**
	RMB'000	RMB'000
1 to 3 months	411,494	365,937

(b) Bills receivable are normally with maturity period of 90 to 180 days (2003: 30 to 180 days).

18 **Amount due from an intermediate holding company**

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Amount due from CPI Holding	15,352	185,852	15,352

The amount due from an intermediate holding company is unsecured, interest free and is repayable on demand.

19 **Cash and bank balances**

As at 31 December 2004, approximately RMB512,539,000 (2003: RMB121,720,000) of the Group's cash and bank balances were denominated in RMB and placed with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of these funds out of Mainland China is subjected to the exchange control restrictions imposed by the PRC government.

20 **Accounts payable**

	Group	
	2004	**2003**
	RMB'000	RMB'000
Accounts payable	202,460	105,336
Due to related companies	34,758	26,697
	237,218	132,033

The normal credit period for accounts payable generally ranges from 60 to 180 days. Ageing analysis of accounts payable is as follows:

	Group	
	2004	**2003**
	RMB'000	RMB'000
1 to 6 months	188,106	128,126
7 to 12 months	24,550	3,553
Over 1 year	24,562	354
	237,218	132,033

Amounts due to related companies mainly represent balances arising from transactions with those companies as detailed in Note 29 below.

21 **Other payables and accrued charges**

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Interest payable	21,000	57,548	—
Salaries and staff welfare payable	82,206	75,566	—
Repair and maintenance expense payable	26,588	21,071	—
Insurance expense payable	21,149	16,819	—
Construction cost payable	38,463	28,669	—
Value added tax payable	66,731	36,319	—
Accrued share issuance costs	42,183	—	42,183
Other taxes payable	5,259	4,281	—
Others	25,245	12,550	3,286
	328,824	252,823	45,469

22 **Amount due to ultimate holding company**

The amount due to ultimate holding company is unsecured, interest free and is repayable on demand.

23 **Bank borrowings**

Bank borrowings are analysed as follows:

	Group	
	2004	**2003**
	RMB'000	RMB'000
Current		
Short-term bank borrowings	592,676	45,000
Non-current		
Long-term bank borrowings	1,414,000	1,358,000
Less: current portion of long-term bank borrowings	(261,000)	(265,000)
	1,153,000	1,093,000

The repayment terms of the non-current bank borrowings are analysed as follows:

	Group	
	2004	**2003**
	RMB'000	RMB'000
Wholly repayable within five years	721,000	615,000
Not wholly repayable within five years	693,000	743,000
	1,414,000	1,358,000

The Group's non-current bank borrowings were repayable as follows:

	Group	
	2004	**2003**
	RMB'000	RMB'000
Within one year	261,000	265,000
In the second year	270,000	405,000
In the third to fifth year	790,000	495,000
After the fifth year	93,000	193,000
	1,414,000	1,358,000

At 31 December 2004, all bank borrowings are unsecured. Included in non-current borrowings at 31 December 2003 were a bank loan guaranteed by a related company amounted to RMB55 million. The guarantee was released during 2004.

24 **Deferred taxation**

Deferred taxation are calculated in full on temporary differences under the liability method using the taxation rate which is expected to apply at the time of reversal of the temporary differences.

The movement on the deferred tax assets account is as follows:

	Group	
	2004	**2003**
	RMB'000	RMB'000
At 1 January	17,619	16,708
Deferred tax (charged)/credited to consolidated profit and loss account (Note 7)	(3,824)	911
At 31 December	13,795	17,619

The deferred tax assets are provided, prior to offsetting of balances within the same tax jurisdiction, in respect of:

	2004	**2003**
	RMB'000	RMB'000
Provision for other receivables	9,324	9,983
Provision for inventories obsolescence	4,471	7,636
	13,795	17,619

The amounts shown in the consolidated balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	13,795	17,619

25 **Share Capital**

(a) Authorised and issued capital

	Company	
	Number of shares (in thousand)	RMB'000
Authorised:		
Upon incorporation on 24 March 2004 (note (i))	1,000	106
Consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each (note (ii))	(900)	—
Increase in authorised share capital (note (ii))	9,999,900	10,599,894
As at 31 December 2004	10,000,000	10,600,000
Issued and fully paid:		
Upon incorporation on 24 March 2004 (note (i))	—	—
Allotted and issued on 24 August 2004 (note (i))	—	—
Consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each (note (ii))	—	—
Allotted and issued pursuant to the Reorganisation (note (iii))	2,100,000	2,226,000
Issue of shares for Global Offering (note (iv))	1,035,000	1,097,100
As at 31 December 2004	3,135,000	3,323,100

Note:

(i) The Company was incorporated on 24 March 2004 with an authorised capital of 1,000,000 shares of HK$0.1 each. On the date of incorporation, 1 subscriber share of HK$0.1 was issued at par for cash.

On 24 August 2004, nine shares of HK$0.1 each were allotted, issued and credited as fully paid at par by the Company to its immediate holding company. These shares rank pari passu in all respect with the share in issue.

(ii) Pursuant to a resolution passed by the Company on 24 August 2004, the nominal value of the Company's authorised and issued share capital was increased from HK$0.1 each to HK$1 each by the consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each. On the same date, the authorised share capital of the Company was increased from 100,000 shares of HK$1 each to 10,000,000,000 shares of HK$1 each by the creation of an additional 9,999,900,000 shares of HK$1 each. These shares rank pari passu in all respects with the then existing shares.

(iii) On 1 September 2004, pursuant to the Reorganisation, the Company allotted and issued 2,099,999,999 shares of HK$1 each to its immediate holding company at par, all of which were credited as fully paid, in consideration for the transfer of the relevant interests in the companies now comprising the Group and the associated company, and became the holding company of the Group. These shares rank pari passu in all respects with the then existing shares.

25 **Share Capital (Continued)**

(a) Authorised and issued capital (Continued)

(iv) On 14 October 2004, the Company completed a global offering of 900,000,000 shares with a par value of HK$1 each at a price of HK$2.53 in cash for an aggregate consideration of HK$2,277 million (equivalent to approximately RMB2,414 million). These shares commenced trading on the Stock Exchange on 15 October 2004. On 21 October 2004, pursuant to the terms of the over-allotment option, the Company issued an additional 135,000,000 shares with a par value of HK$1 each at a price of HK$2.53 per share in cash for an aggregate consideration of HK$342 million (equivalent to approximately RMB362 million). All these shares rank pari passu in all respects with the then existing shares.

(b) Share Option Schemes

Pursuant to the written resolutions passed by the shareholders of the Company on 24 August 2004, two share option schemes, namely, Share Option Scheme (the "Option Scheme") and Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") were approved and adopted by the Company.

(i) Share Option Scheme

Under the Option Scheme, the Board of Directors of the Company may at its absolute discretion, offer any employees, directors (including executive and non-executive directors other than independent non-executive directors), chief executive and members of the management of the Company and the Group (the "Eligible Person") options to subscribe for shares of the Company (the "Shares"). Options may be granted without initial payment except the payment of HK$1 as nominal consideration for the grant. The exercise price of the share option shall be not less than the greater of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date, which must be a business day, of the written offer of the option (the "Offer Date"); (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date; and (c) the nominal value of the Shares.

The maximum number of Shares which may be issued upon the exercise of all options under the Option Scheme which have been granted and have neither lapsed nor been cancelled or exercised in full and all outstanding options granted and yet to be exercised under any other schemes of the Company or any of its subsidiaries (including the Pre-IPO Scheme) shall not exceed such number of Shares as shall represent 30% of the Company's issued share capital from time to time. The maximum number of Shares in respect of which options may be granted to any Eligible Person in any 12-month period shall not exceed 1% of the Shares in issue.

No option was granted by the Company under the Option Scheme since its adoption.

25 **Share Capital (Continued)**

(b) Share Option Schemes (Continued)

(ii) Pre-IPO Share Option Scheme

The principal terms of the Pre-IPO Scheme are substantially the same as the terms of the Option Scheme except for the followings:

(a) the subscription price per Share shall be the offer price per Share on the initial public offering of the Company; and

(b) no options will be offered or granted upon the commencement of dealings in the Shares on the Stock Exchange.

During the year, the Company granted options under the Pre-IPO Scheme to certain Directors and employees of the Group, which entitle them to subscribe for a total of 12,234,500 shares at HK$2.53 per share, upon payment of HK$1 per grant. Options granted are exercisable within a period of ten years within which there is a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the offer date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the Shares comprised in his or her option.

Details of the options granted under the Pre-IPO Scheme outstanding as at 31 December 2004 are as follows:

	Date of Grant	Exercise price	Number of Shares subject to the options
Directors	18 September 2004	HK$2.53	4,361,500
Senior management	18 September 2004	HK$2.53	4,320,000
Other employees	11 October 2004	HK$2.53	3,553,000
			12,234,500

Consideration in connection with all options granted during the year were received.

No share options were cancelled during the year.

26 **Reserves**

Group

	Share premium RMB'000	**Merger reserve** (note (i)) RMB'000	**Capital reserve** (note (ii)) RMB'000	**Revaluation reserve** RMB'000	**Statutory reserves** (note (iii)) RMB'000	**Accumulated losses** (note (iv)) RMB'000	**Total** RMB'000
At 1 January 2003	—	282,500	2,293,848	421,457	65,850	(1,996,082)	1,067,573
Revaluation surplus of property, plant and equipment	—	—	—	22,305	—	—	22,305
Profit for the year	—	—	—	—	—	605,156	605,156
Transfer	—	—	—	—	72,122	(72,122)	—
Profit distributions (Note 10)	—	—	—	—	—	(385,012)	(385,012)
Profit distributions of an associated company	—	—	—	—	—	(132,838)	(132,838)
At 31 December 2003	—	282,500	2,293,848	443,762	137,972	(1,980,898)	1,177,184
Company and subsidiaries	—	282,500	1,977,952	443,762	122,344	(1,944,969)	881,589
Associated company	—	—	315,896	—	15,628	(35,929)	295,595
At 31 December 2003	—	282,500	2,293,848	443,762	137,972	(1,980,898)	1,177,184
At 1 January 2004	—	282,500	2,293,848	443,762	137,972	(1,980,898)	1,177,184
Contribution from owner	—	67,895	—	—	—	—	67,895
Premium on issue of shares	1,678,563	—	—	—	—	—	1,678,563
Share issuance expenses	(170,937)	—	—	—	—	—	(170,937)
Profit for the year	—	—	—	—	—	643,203	643,203
Profit distributions (Note 10)	—	—	—	—	—	(377,230)	(377,230)
Profit distributions of an associated company	—	—	—	—	—	(116,500)	(116,500)
At 31 December 2004	1,507,626	350,395	2,293,848	443,762	137,972	(1,831,425)	2,902,178
Company and subsidiaries	1,507,626	350,395	1,977,952	443,762	122,344	(1,796,940)	2,605,139
Associated company	—	—	315,896	—	15,628	(34,485)	297,039
At 31 December 2004	1,507,626	350,395	2,293,848	443,762	137,972	(1,831,425)	2,902,178
Representing:							
Proposed final dividend	—	—	—	—	—	83,078	83,078
Others	1,507,626	350,395	2,293,848	443,762	137,972	(1,914,503)	2,819,100
	1,507,626	350,395	2,293,848	443,762	137,972	(1,831,425)	2,902,178

26 **Reserves (Continued)**

Company

	Share premium RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Upon incorporation on 24 March 2004	—	—	—
Premium on issue of shares	1,678,563	—	1,678,563
Share issuance expenses	(170,937)	—	(170,937)
Profit for the period	—	151,649	151,649
At 31 December 2004	1,507,626	151,649	1,659,275

Note:

(i) Merger reserve

The merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the registered capital of the subsidiaries transferred to the Company pursuant to the Reorganisation.

(ii) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected by the then owner of the subsidiaries of the Group and the associated company; and the registered capital of these companies upon their establishment.

(iii) Statutory reserves

Statutory reserves are non-distributable and the transfers to these funds are determined by the board of directors of the relevant PRC subsidiaries and associated company in accordance with the relevant laws and regulations in Mainland China.

(iv) Accumulated losses

Accumulated losses retained by the Company and subsidiaries and the associated company mainly represent deficits from revaluation of certain property, plant and equipment of certain subsidiaries and the associated company which have been accounted for in the Group's consolidated profit and loss account in prior years. In the local statutory accounts of the relevant subsidiaries and associated company, revaluation deficits have been dealt with in the respective company's capital reserves in accordance with the relevant local accounting rules and regulations. Profit distributions made by these companies were based on the distributable reserves as reported in the statutory accounts of the respective companies.

27 **Notes to the consolidated cash flow statements**

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2004	**2003**
	RMB'000	RMB'000
Profit before taxation	701,841	654,982
Share of results of an associated company	(163,604)	(136,418)
Interest expense	89,876	85,038
Interest income	(12,135)	(905)
Depreciation of property, plant and equipment	325,641	373,758
Loss on disposal of property, plant and equipment	1,431	12,354
Write-off of property, plant and equipment	7,478	2,007
Write-back of previous revaluation deficits of property, plant and equipment	—	(27,947)
Operating profit before working capital changes	950,528	962,869
(Increase)/decrease in accounts receivable	(183,147)	46,043
Increase in prepayments, deposits and other receivables	(152,322)	(7,097)
(Increase)/decrease in inventories	(16,660)	9,942
Increase in amounts due to related companies	—	3,658
Decrease/(increase) in amount due from an intermediate holding company	170,500	(185,852)
Increase/(decrease) in accounts payable	105,185	(17,414)
Increase/(decrease) in other payables and accrued charges	69,581	(5,271)
Decrease in amount due to ultimate holding company	(37,867)	—
Net cash inflow generated from operations	905,798	806,878

27 **Notes to the consolidated cash flow statements (Continued)**

(b) Analysis of changes in financing during the year:

	Long-term and short-term bank loans	Minority interests
	RMB'000	RMB'000
Balance at 1 January 2003	1,463,000	—
New bank loans	130,000	—
Repayment of bank loans	(190,000)	—
Balance at 31 December 2003	1,403,000	—
New bank loans	1,574,676	—
Repayment of bank loans	(971,000)	—
Contributions from minority shareholders of a subsidiary	—	3,300
Minority shareholders' share of loss for the year	—	(574)
Balance at 31 December 2004	2,006,676	2,726

28 **Commitments**

(a) Capital commitments

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Authorised but not contracted for in respect of			
- property, plant and equipment	6,894	67,045	—
Contracted but not provided for in respect of			
- property, plant and equipment	4,678,114	135,010	—
- investments in subsidiaries	—	—	135,595
	4,685,008	202,055	135,595

28 **Commitments (Continued)**

(b) Commitments under operating leases

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Land and buildings			
Not later than one year	15,066	—	2,677
Later than one year and not later than five years	26,870	—	14,560
	41,936	—	17,237

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Equipment			
Not later than one year	—	2,597	—
Later than one year and not later than five years	—	79	—
	—	2,676	—

(c) Future operating lease arrangements

Future aggregate minimum lease receipts under non-cancellable operating leases in respect of buildings are as follows:

	Group		Company
	2004	**2003**	**2004**
	RMB'000	RMB'000	RMB'000
Not later than one year	1,930	71	—
Later than one year and not later than five years	1,900	100	—
	3,830	171	—

29 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant transactions with related companies which, in the opinion of the Directors, were carried out in the normal course of the Group's business are as follows:

	Note	**2004**	**2003**
		RMB'000	RMB'000
Revenues:			
Management fee from an intermediate holding company	(i)	6,884	—
Expenses:			
Operating lease rental in respect of land to ultimate holding company	(ii)	5,129	—
Purchases of fuel, raw materials and spare parts from related companies	(iii)	198,109	647,396
Services fees to related companies	(iv)	99,547	95,603
Construction costs to related companies	(v)	17,288	8,981
Labor costs charged by related companies	(vi)	1,792	3,137

The related companies referred to in items (iii) to (vi) above are companies owned by certain individuals who are also employees or operational managers of certain subsidiaries of the Group.

Note:

(i) Management fee from an intermediate holding company in connection with the Group's services rendered for management of certain power plants on behalf of the holding company was charged in accordance with the terms of the relevant agreements.

(ii) Rental expense in respect of certain land leased from ultimate holding company was charged in accordance with the terms of the relevant agreements.

(iii) Purchases of goods were charged in accordance with the terms of the relevant agreements.

(iv) Services fees mainly related to repair and maintenance services and transportation services which were carried out at mutually agreed prices.

(v) Construction costs were payable in accordance with the terms of contracts.

(vi) Labor costs were charged on a cost reimbursement basis.

Items (i) and (ii) also constitute connected transactions as defined under the Rules Governing the Listing of Securities on The Sock Exchange of Hong Kong Limited.

30 **Ultimate holding company**

The Directors regard China Power Investment Corporation, a company established in the PRC, as being the ultimate holding company.

31 **Approval of accounts**

The accounts were approved by the board of Directors on 14 March 2005.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT DECEMBER 31, 2004

Set out below is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group as at December 31, 2004 which has been prepared for the purpose of illustration as if the Proposed Acquisition had been completed on December 31, 2004. The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at December 31, 2004, and the audited balance sheet of Shentou Number One Power Generation Plant as at December 31, 2004 as extracted from Appendix III to this Circular, after making pro forma adjustments that are necessary. The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to provide the unaudited pro forma financial information of the Enlarged Group as if the Proposed Acquisition had been completed on December 31, 2004. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at December 31, 2004, or at any future date.

			Pro forma Adjustments in relation to			
	The Group RMB'000	**Shentou Number One Power Generation Plant** RMB'000 (Note1)	**Non-Acquired Items** RMB'000 (Note2)	**Acquisition Adjustments** RMB'000	(Note 3)	**Pro Forma Enlarged Group** RMB'000
ASSETS						
Non-current assets						
Property, plant and equipment	3,526,136	1,170,543	(61,936)	—		4,634,743
Prepayment for construction of power plants	614,126	—	—	—		614,126
Interest in an associated company	849,539	—	—	—		849,539
Deferred taxation assets	13,795	—	—	—		13,795
Goodwill	—	—	—	145,292	(c)	145,292
	5,003,596	1,170,543	(61,936)	145,292		6,257,495
Current Assets						
Inventories	114,512	49,814	(1,532)	—		162,794
Accounts receivable	644,183	153,418	—	—		797,601
Prepayments, deposits and other receivables	174,893	10,186	(4,752)	—		180,327
Amount due from an intermediate holding company	15,352	—	—	—		15,352
Dividends receivable from an associated company	32,861	—	—	—		32,861
Cash and bank balances	3,064,224	179,302	(30,000)	(560,000)	(b)	2,653,526
	4,046,025	392,720	(36,284)	(560,000)		3,842,461

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT DECEMBER 31, 2004 (CONTINUED)

	The Group	Shentou Number One Power Generation Plant	Pro forma Adjustments in relation to Non-Acquired Items	Pro forma Adjustments in relation to Acquisition Adjustments	(Note 3)	Pro Forma Enlarged Group
	RMB'000	RMB'000 (Note1)	RMB'000 (Note2)	RMB'000		RMB'000
Current liabilities						
Accounts payable	237,218	145,293	—	—		382,511
Other payables and accrued charges	328,824	108,663	(2,319)	—		435,168
Amount due to CPI Group	5,129	138,372	—	—		143,501
Amounts due to related companies	—	15,219	—	—		15,219
Current portion of long-term bank borrowings	261,000	—	—	—		261,000
Short-term bank and other borrowings	592,676	108,500	—	—		701,176
Profit distributions payable to an intermediate holding company	212,169	—	—	—		212,169
Taxation payable	31,601	—	—	—		31,601
	1,668,617	516,047	(2,319)	—		2,182,345
Net current assets/(liabilities)	2,377,408	(123,327)	(33,965)	(560,000)		1,660,116
Total assets less current liabilities	7,381,004	1,047,216	(95,901)	(414,708)		7,917,611
Non-current liabilities						
Long-term bank borrowings	1,153,000	—	—	—		1,153,000
Minority interests	2,726	—	—	—		2,726
Long-term payable to CPI Group	—	266,312	—	—		266,312
Long-term loan payable to a subsidiary of CPI Group	—	—	—	270,295	(a)	270,295
NET ASSETS	6,225,278	780,904	(95,901)	(685,003)		6,225,278
SHAREHOLDERS' FUNDS/OWNER'S EQUITY	6,225,278	780,904	(95,901)	(685,003)		6,225,278

Notes to unaudited pro forma statement of assets and liabilities of the Enlarged Group

1. The balances are extracted from the audited balance sheet of Shentou Number One Power Generation Plant as at December 31, 2004 as set out in Appendix III to this Circular.

2. The pro forma adjustments relating to Non-Acquired Items represent certain assets and liabilities included in the balance sheet of Shentou Number One Power Generation Plant as at December 31, 2004 as per Appendix III but will not be transferred to Tianze Development Limited ("Tianze") pursuant to the Restructuring in connection with the Proposed Acquisition. For the purpose of this unaudited pro forma financial information, the amounts of the Non-Acquired Items are identified in accordance with the terms of the Restructuring and are based on the financial position as at December 31, 2004. These Non-Acquired Items are excluded from the unaudited pro forma statement of assets and liabilities of the Enlarged Group and a corresponding net amount is deducted from the owner's equity.

   The final amounts of these pro forma adjustments will be determined by reference to the carrying amounts of the Non-Acquired Items at June 30, 2005 which may be different from the amounts disclosed in this Appendix.

3. (a) Pursuant to the Restructuring as approved by the relevant government authorities, the assets and liabilities of Shentou Number One Power Generation Plant other than the Non-Acquired Items (the "Power Generation Business") will be transferred to Tianze for its formation of a wholly foreign-owned enterprise ("Shentou WOFE") to carry out the power generation business except that an amount included in the net assets of the Power Generation Business as at December 31, 2004 of RMB270,295,174 will be converted into a long-term loan payable to a subsidiary of CPI Group, hence reducing the net assets of the Power Generation Business being contributed to Shentou WOFE by the same amount. Such long-term loan payable by Shentou WOFE will be unsecured, carrying interest at approximately 5.3% per annum and repayable by year 2010.

   (b) Payment of purchase consideration in connection with the Proposed Acquisition of RMB560,000,000 satisfied by internal cash resources.

   (c) Upon completion of the Restructuring and the Proposed Acquisition, the Group will apply the purchase method to account for the acquisition in the consolidated accounts of the Enlarged Group. In applying the purchase method, the identifiable assets and liabilities of Tianze to be acquired by the Group (the "Acquired Items") will be accounted for on the consolidated balance sheet of the Enlarged Group at their fair values at the date of completion. Any goodwill or negative goodwill arising on the acquisition will be determined as the excess or deficit of the purchase consideration incurred by the Group over the Group's interests in the fair value of the Acquired Items at the date of completion. For the purpose of preparing the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the fair value of the Acquired Items as at December 31, 2004, after taking into account of item (a) above, are applied in calculating the estimated goodwill arising from the acquisition. Since the fair value of the Acquired Items at the date of completion may be substantially different from their fair values as at December 31, 2004, the actual goodwill arising from the acquisition may be different from the estimated goodwill as shown above.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(B) REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a letter from PricewaterhouseCoopers, Certified Public Accountants, the independent reporting accountants, prepared for the purpose of incorporation in this Circular in respect of the unaudited pro forma statement of assets and liabilities of the Enlarged Group.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
China Power International Development Limited

Dear Sirs

We report on the unaudited pro forma financial information of China Power International Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 141 to 143 under the heading of "Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at December 31, 2004" in Appendix V to the Company's circular dated 30 June 2005 (the "Circular") in connection with the proposed acquisition of the entire share capital of Tianze Development Limited ("Tianze"), a company incorporated by China Power Development Limited to undertake certain assets and liabilities relating to the power generation business of Shentou Number One Power Generation Plant. The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Tianze resulting in the formation of an enlarged group (the "Enlarged Group") might have affected the relevant financial information of the Group as at 31 December 2004.

Responsibilities

It is the responsibility of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out in Section I. (A) of Appendix V to the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 31 December 2004, or at any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

II. OTHER FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) INDEBTEDNESS

Borrowings

As at the close of business on April 30, 2005, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding borrowings as follows:

	April 30, 2005
	RMB million
Short-term bank borrowings	710.5
Current portion of long-term borrowings	251.0
Long-term bank borrowings, net of current portion	1,104.0
Other loans	228.0
Total debt	2,293.5

The bank loans bear interest at rates ranging from 4.8% to 6.1% per annum. The interest rates of those bank loans are subject to adjustment by the lenders in accordance with changes in relevant PBOC regulations.

The bank loans are all denominated in Renminbi. The Enlarged Group does not face exchange rate fluctuations exposure when the loan amounts are drawn down and used in the PRC. However, from time to time, the Enlarged Group may need foreign currencies to make offshore investments or pay out dividends to shareholders and would face certain exposure to foreign exchange fluctuations in this regard.

The Enlarged Group's other loans represent loans from CPI Group and 華北電網財務有限公司 (Northern Power Grid Finance Company Limited*) of RMB130 million and RMB98 million respectively, and bear interest at rates of 3.6% and 5.0% per annum respectively.

As at December 31, 2004, the Enlarged Group's gearing ratio (calculated as total interest-bearing debt divided by total assets) is approximately 24.9%.

Guarantees

As at April 30, 2005, Shentou I Power Plant had provided a guarantee in respect of a bank loan of approximately RMB1.3 million taken out by an Associate of the Enlarged Group. This guarantee will be released prior to completion of the Acquisition.

Disclaimer

Save as aforesaid and apart from intra-group guarantees and normal trade payables in the ordinary course of business, the Directors of the Company confirm that the Enlarged Group did not have any mortgages, charges, debenture, loan capital, debt securities, loans, bank overdraft or other similar indebtedness, hire purchase commitments or finance lease, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at April 30, 2005.

Capital commitments

As at December 31, 2004, the Enlarged Group's capital commitments contracted but not provided for were RMB4,703 million.

(B) WORKING CAPITAL

The Directors of the Company are of the opinion that after taking into account the proceeds raised from the initial public offering completed in October 2004 and financing from financial institutions, the Enlarged Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As of the Latest Practicable Date:

(i) the following options have been granted to our Directors under the Company's Pre-IPO Share Option Scheme:

Name	Date of Grant	Number of Shares subject to the option	Exercise price *(HK$)*
Wang Binghua	18.09.2004	1,495,400	2.53
Li Xiaolin	18.09.2004	1,661,500	2.53
Hu Jiandong	18.09.2004	996,900	2.53
Gao Guangfu	18.09.2004	207,700	2.53
Total		4,361,500	

(ii) save as disclosed herein, none of the Directors or chief executive of the Company had any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which are (1) 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 he is taken or deemed to have under such provisions of SFO), (2) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (3) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange;

(iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group since December 31, 2004, being the date to which the latest published audited financial statements of the Company were made up or subsisting at the date of the circular, and which was significant in relation to the business of the Enlarged Group taken as a whole;

(iv) none of the Directors or any professional advisers named in paragraph 10 of this Appendix had since December 31, 2004, being the date to which the latest published audited financial statements of the Company were made up, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(v) save as disclosed below, none of the directors and their associates had any competing interests:

	Position with Company	**Other Interests**
Wang Binghua	Chairman and Non-executive director	President of CPI Group; Chairman of CPI Holding
Li Xiaolin	Vice-chairman, Executive Director and chief executive officer	Vice-president of CPI Group; executive director and president of CPI Holding
Hu Jiandong	Executive Director and Executive Vice-president	Executive Director and Vice-president of CPI Holding
Gao Guangfu	Non-executive Director	Director of Chongqing Jiulong Power Company Limited and Shanghai Electric Power, Ltd.

CPI Group, CPI Holding, Chongqing Jiulong Power Company Limited and Shanghai Electric Power, Ltd. own and operate power plants in the PRC.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors were aware, the following persons had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO , or who is, directly or indirectly, interested in 10 per cent, or more of the issued share capital carrying rights to vote at general meetings of the Company:

	No. of Shares	**Percentage of Shares held(%)**
CPDL	1,996,500,000	63.68
CPI Holding	1,996,500,000	63.68
CPI Group	1,996,500,000	63.68

Note:

Because of the fact that CPI Holding and CPI Group directly or indirectly control all the voting rights of the issued share capital of CPDL, in accordance with the SFO, the interests of CPDL are deemed to be and have therefore been included in, the interests of CPI Holding and CPI Group.

Save as disclosed herein, the Directors were not aware of anyone who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent, or more of the issued share capital carrying rights to vote at general meetings of the Company.

4. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

5. SERVICE CONTRACTS

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

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular, and are or may be material:

(a) the reorganization agreement dated August 27, 2004 between the Company, CPI Holding and CPI Group regarding the reorganization of the Company carried out in preparation for the Company's initial public offering;

(b) the Shanghai Power Option Deed dated August 27, 2004 between CPI Group and the Company pursuant to which the Company was granted an option to purchase up to 25% equity interest in Shanghai Electric Power Co., Ltd at the price agreed upon based on the then net asset value per share or the then prevailing market price per share attributable to such listed shares, taking into account certain factors more fully set out in the deed;

(c) the Trade Mark License Agreement dated August 27, 2004 between CPI Group and the Company pursuant to which, the Company was granted irrevocable, royalty-free and non-exclusive licenses to use certain trade marks and the right to sub-license the same to any company in which the Company directly or indirectly (i) has 30% or more of the voting rights; (ii) owns 30% or more of its registered share capital; or (iii) controls the composition of the board of directors, at no consideration, for a term of 3 years;

(d) an equity transfer agreement dated July 31, 2004 between CPI Holding and the Company in respect of the transfers by CPI Holding of equity interests in certain power companies to the Company in consideration for the issue and allotment of 2,099,999,999 Shares;

(e) a bank loan guarantee dated January 30, 2004 provided to Bank of China, Huainan Branch by Anhui Huainan Pingwei Electric Power Generating Company Limited in favour of Huainan Pingwei No. 2 Electric Power Generating Company in respect of an unsecured loan of RMB120,000,000. The guarantee was discharged in February 2005;

(f) a bank loan guarantee dated February 5, 2004 provided to Industrial and Commercial Bank of China, Pingdingshan Branch by Pingdingshan Yaomeng Power Generating Company Limited in favour of Pingdingshan Yaomeng No. 2 Power Generating Company Limited in respect of an unsecured loan of RMB116,300,000;

(g) the strategic placing agreement dated September 18, 2004 entered into between our Company, Merrill Lynch and Ellington Investments Pte. Ltd., an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited, for the acquisition of Shares at the initial public offering price;

(h) the placing agreement dated September 17, 2004 entered into between our Company, Merrill Lynch and Janking Investment Limited, a wholly-owned subsidiary of Henderson Financial Enterprises Ltd., for the acquisition of Shares at the initial public offering price;

(i) the Hong Kong underwriting agreement dated September 30, 2004, entered into between the Company, CPI Holding, CPDL and the underwriters named therein;

(j) the purchase agreement dated October 8, 2004 entered into between the Company, CPI Holding, CPDL and the international underwriters named therein;

(k) the Acquisition Agreement;

(l) the loan agreement dated June 8, 2005 between the Target Holding Company and China Power Finance Company Limited, a company controlled by CPI Group pursuant to which CP Finance agreed to advance RMB130 million to Shanxi Shentou Power Generation Company Limited to be established in the PRC on normal commercial terms and on an unsecured basis;

(m) the loan agreement dated June 8, 2005 between the Target Holding Company and China Power Finance Company Limited pursuant to which China Power Finance Company Limited agreed to advance RMB270,295,174 to Shanxi Shentou Power Generation Company Limited to be established in the PRC on normal commercial terms and on an unsecured basis;

(n) the indemnity agreement dated June 9, 2005 between the CPDL, CPI Holding and the Company pursuant to which CPDL and CPI Holding, jointly and severally, undertake to indemnify the Company and the Target Holding Company against certain losses suffered by them as a result of the Acquisition or the Restructuring;

(o) the land lease agreement dated June 9, 2005 between the Target Holding Company and CPI Group; and

(p) the management agreement between CPI Group, CPI Holding and the Company effective July 1, 2004.

7. FINANCIAL AND TRADING POSITION

Coal prices for Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant increased in the first few months of 2005, resulting in an increase in fuel cost and operating expenses. With effect from May 1, 2005, pursuant to the coal price-tariff linkage policy, on-grid tariffs applicable for Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant have been increased, which helps to alleviate coal price pressures.

8. MATERIAL ADVERSE CHANGE

Save as disclosed herein, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since December 31, 2004, being the date of the latest published audited financial statements of the Company.

9. CONSENTS

Merrill Lynch (Asia Pacific) Limited, China Merchants Securities (HK) Co., Ltd, CLSA, PricewaterhouseCoopers and Sallmanns Far East Ltd. have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports and letters (if any), as the case may be, and references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Merrill Lynch (Asia Pacific) Limited, China Merchants Securities (HK) Co., Ltd, CLSA, PricewaterhouseCoopers and Sallmanns Far East Ltd had any shareholding in any member of the CPI Group and none of them had any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the CPI Group.

10. QUALIFICATIONS OF EXPERTS

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

Names	**Qualifications**
Merrill Lynch (Asia Pacific) Limited	A corporation deemed to be licensed under the SFO for Type 1 regulated activity (dealing with securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance)
PricewaterhouseCoopers	Certified public accountants
Sallmanns (Far East) Limited	Independent professional valuer
CLSA	A licensed corporation under the SFO, licensed by the Securities and Futures Commission to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities under the SFO.

11. SENIOR MANAGEMENT JOINING THE COMPANY AFTER THE ACQUISITION AND OTHER EMPLOYMENT RELATED INFORMATION

None of the members of the senior management of the Target Holding Company or Shentou I Power Plant will join the Company immediately following the completion of the Acquisition.

As at December 31, 2004, the Company, its subsidiaries and associated company had a total of 6,606 full time employees. Please refer to pages 115 and 116, pages 120 to 122 and pages 132 and 133 for further information on remuneration of employees and the Company's share option schemes.

12. MISCELLANEOUS

(a) The Company Secretary is Tse Hiu Tung, Sheldon, who is a solicitor of the High Court of Hong Kong.

(b) The registered office of the Company is 6301, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(c) The head office is Suite 6301, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

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

(e) The English text of this circular and form of proxy shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Freshfields Bruckhaus Deringer at 11th Floor, 2 Exchange Square, Central, Hong Kong during normal business hours on any business day from the date of this circular until July 20, 2005:

(a) the Acquisition Agreement;

(b) the memorandum and articles of association of the Company;

(c) the material contracts referred to in paragraph 6 in this Appendix;

(d) the technical repair and maintenance framework agreement;

(e) the fuel and chemical processing framework agreement;

(f) the non-power generation facilities maintenance framework agreement;

(g) the composite ancillary services framework agreement;

(h) the letters of consent referred to in paragraph 9 in this Appendix;

(i) the accountants' report from PricewaterhouseCoopers on the financial information of Shentou I Power Plant dated June 30, 2005, the text of which is set out in Appendix III to this circular;

(j) the report from PricewaterhouseCoopers on the pro forma financial information of the Enlarged Group dated June 30, 2005, the text of which is set out in Appendix V to this circular;

(k) the letter from Sallmanns (Far East) Limited on property valuation dated June 30, 2005, the text of which is set out in Appendix I to this circular;

(l) the letter from Sallmanns (Far East) Limited on equipment and machinery valuation dated June 30, 2005, the text of which is set out in Appendix II to this circular;

(m) the letter from CLSA dated June 30, 2005, the text of which is set out on pages 39 to 64 of this circular;

(n) the audited financial statements of the Company and its subsidiaries for each of the two financial years immediately preceding the issue of this circular, including all notes, certificates or information required by the Companies Ordinance; and

(o) a copy of this circular.

CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED

中國電力國際發展有限公司

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

(Stock Code: 2380)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of China Power International Development Limited (the "Company") will be held at Island Ballroom A, 5/F, Island Shangri La, Pacific Place, Supreme Court Road, Central, Hong Kong on July 21, 2005 at 10:30 a.m., for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the conditional sale and purchase agreement (the "Acquisition Agreement") dated June 9, 2005 between China Power International Holding Limited ("CPI Holding"), China Power Development Limited ("CPDL") and the Company, a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked "A", pursuant to which, inter alia, CPDL agreed to sell, and the Company agreed to purchase, the entire issued share capital of Tianze Development Limited for a total purchase price of RMB560,000,000 (subject to an adjustment in certain specified circumstances as set out in the circular of the Company dated June 30, 2005), is hereby generally and unconditionally approved and that the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Acquisition Agreement."

2. "**THAT** subject to the passing of Ordinary Resolution No. 1 set out above, each of the prospective connected transactions referred to in section 7(b) in the Letter from the Board in the circular of the Company dated June 30, 2005 (the "Circular"), namely the technical repair and maintenance framework agreement, the fuel and chemical processing services framework agreement, the non-power generation facilities maintenance framework agreement and the composite ancillary services agreement, and the annual caps for each such prospective connected transaction for the years ending December 31, 2005, December 31, 2006 and December 31, 2007 as set out in the Circular, are hereby generally and unconditionally approved and that the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to each of the prospective connected transactions referred to in section 7(b) in the Letter from the Board in the Circular."

By Order of the Board
Tse Hiu Tung, Sheldon
Company Secretary

Hong Kong, June 30, 2005

Notes:

1. A shareholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more but (not exceeding two) proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or at any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or at any adjourned meeting should the shareholder so wishes.

3. Only shareholders of the Company whose names appear on the Register of Members of the Company on July 19, 2005 or their proxies are entitled to attend the Extraordinary General Meeting. All transfer documents, accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by close of trading on July 18, 2005.