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.

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)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

PROPOSED ACQUISITION OF 25% INTEREST IN SHANGHAI POWER

Financial Adviser to China Power International Development Limited

Deutsche Bank

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

CLSA
ASIA-PACIFIC MARKETS

A letter from the board of Directors of China Power International Development is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee of China Power International Development containing its recommendation to the Independent Shareholders is set out on pages 15 to 16 of this circular. A letter from CLSA Equity Capital Markets Limited containing its advice to the Independent Board Committee is set out on pages 17 to 43 of this circular.

A notice dated November 18, 2006 convening an EGM to be held on December 6, 2006 at 10:00 am at Concord Room I, 8/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong is set out on pages 49 to 50 of this circular. Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof and in, in such event, the relevant form of proxy shall be deemed to be revoked.

November 18, 2006

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 Sale Shares pursuant to the Acquisition Agreement, as further described in this circular
"Acquisition Agreement"	the conditional sale and purchase agreement dated November 2, 2006 entered into by the Company and CPI Group in relation to the Acquisition
"associates"	has the meaning given to it by the Listing Rules
"attributable capacity"	power generation capacity of a company proportional to its ownership of generating units or power plants, usually denominated in MW
"auxiliary power"	electricity consumed by a power plant in the course of generation
"Board"	the board of Directors
"CLSA" or "Independent Financial Adviser"	CLSA Equity Capital Markets Limited, the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders on the Acquisition
"Company"	China Power International Development Limited, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange
"CPDL"	China Power Development Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of CPI Holding
"CPI Group"	中國電力投資集團公司 (China Power Investment Corporation*), a wholly State-owned enterprise established by SASAC
"CPI Holding"	中國電力國際有限公司 (China Power International Holdings Limited*), a company incorporated in Hong Kong and a wholly-owned subsidiary of CPI Group
"Deutsche Bank"	Deutsche Bank AG, Hong Kong Branch, the financial adviser appointed to advise the Company in respect of the Acquisition
"Directors"	the directors of the Company

"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, amongst other things, the Acquisition Agreement and the transaction contemplated thereunder
"gross generation"	for a specified period, the total amount of electrical power produced by a power plant in that period including auxiliary power
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of 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
"kWh"	kilowatt-hour, a 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
"Latest Practicable Date"	November 13, 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MW"	megawatt, one million watts. The installed capacity of a power plant is generally expressed in MW
"net generation"	the actual amount of electricity sold by a power plant in a particular period of time, which equals gross generation less auxiliary power and losses incurred during the transmission from the power plant to the power grid
"PRC" or "China"	the People's Republic of China. Geographical reference 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
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	390,876,250 Shanghai Power Shares, representing 25% of the total issued share capital of Shanghai Power
"SASAC"	中華人民共和國國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council of the PRC*)
"SFO"	Securities and Futures Ordinance (Cap. 571) of Hong Kong
"Shanghai Power"	上海電力股份有限公司 (Shanghai Electric Power Co., Ltd.*), a company listed on the Shanghai Stock Exchange on October 29, 2003
Shanghai Power Option Deed	the option deed entered into between the Company and CPI Group on August 27, 2004, pursuant to which the Company was granted an option to acquire up to 25% equity interest in Shanghai Power
"Shanghai Power Shares"	ordinary shares with a nominal value of RMB 1.00 each in the share capital of Shanghai Power which are listed and traded on the Shanghai Stock Exchange
"State Council"	中華人民共和國國務院 (the State Council of the PRC*)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

* *English translation is for identification only.*

This circular contains translation of RMB into HK$ at the rate of RMB 1.00 to HK$0.990. The translation shall not be taken as representation that any amounts in RMB or HK$ could be converted at such rate or at any other rate.

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, 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

November 18, 2006

To the shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF 25% INTEREST IN SHANGHAI POWER

1. INTRODUCTION

As disclosed in its prospectus dated October 4, 2004, the Company entered into the Shanghai Power Option Deed with CPI Group on August 27, 2004, pursuant to which the Company was granted a call option to acquire up to 25% equity interest in Shanghai Power. The option is exercisable within 3 years from October 29, 2004.

On November 2, 2006, the Company announced that it exercised the call option under the Shanghai Power Option Deed and entered into the Acquisition Agreement with CPI Group on November 2, 2006, pursuant to which the Company conditionally agreed to acquire and CPI Group conditionally agreed to sell 25% of the total issued share capital of Shanghai Power as at the date of the Acquisition Agreement at a consideration of RMB4.26 per share. The total consideration is RMB 1,665,132,825 (equivalent to approximately HK$1,648,481,497).

The consideration for the sale of the Sale Shares was arrived at after arm's length negotiations between the Company and CPI Group. It was based on the net asset value per share of Shanghai Power as at June 30, 2006 (RMB 3.927 per share) and represents a discount of approximately 4.1% off the closing price of the A shares of Shanghai Power on November 2, 2006 (RMB 4.44 per share). The Acquisition will be financed from proceeds from its initial public offering in 2004 (which is in line with the intended use of proceeds stated in the Company's prospectus on October 4, 2004), the Company's working capital and external financing. The Company has not yet determined the detailed breakdown of the source of funding of the Acquisition. The Directors are of the view that the purchase price payable by the Company for the Acquisition and the other terms of the Acquisition Agreement are fair and reasonable, on normal commercial terms and that the Acquisition is in the interests of the Company and its shareholders as a whole.

As at the Latest Practicable Date, CPDL owns approximately 48.69% of the issued share capital of the Company and upon completion of the subscription under the placing, underwriting and subscription agreement between CPDL, the Company and Credit Suisse (Hong Kong) Limited (as placing agent) dated November 9, 2006 as referred to in the Company's announcement dated November 9, 2006, CPDL will own approximately 55.38% of the issued share capital of the Company, assuming that other than the 470,000,000 subscription shares, no further shares are issued or repurchased by the Company, and no shares are sold or purchased by CPDL between the Latest Practicable Date and completion of the subscription. CPDL is a wholly-owned subsidiary of CPI Holding, which is in turn wholly-owned by CPI Group. As the applicable percentage ratios for the Acquisition under Listing Rule 14.07 of the Listing Rules are below 25% but above 5%, the Acquisition constitutes a discloseable transaction of the Company. Further, as CPI Group is an indirect controlling shareholder of the Company, the Acquisition also constitutes a connected transaction of the Company and pursuant to Listing Rule 14A.17, is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the EGM.

Deutsche Bank is the 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. CLSA has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

The main purposes of this circular are to provide you with (i) details of the Acquisition, (ii) letters from the Independent Board Committee and from the Independent Financial Adviser, and (iii) a notice to shareholders of the Company convening an EGM to approve the terms of the Acquisition requiring Independent Shareholders' approval. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, apart from CPI Group and its associates, no other shareholder of the Company will be required to abstain from voting on the ordinary resolution for approving the Acquisition at the EGM.

2. THE ACQUISITION

i. Introduction

The Company and CPI Group entered into the Acquisition Agreement on November 2, 2006, pursuant to which the Company conditionally agreed to acquire and CPI Group conditionally agreed to sell 25% of its equity interest in Shanghai Power. The Acquisition was entered into after arm's length negotiations between the Company and CPI Group.

ii. Interest to be acquired

The Company will acquire from CPI Group 390,876,250 Shanghai Power Shares, representing 25% of the total issued share capital of Shanghai Power as at the date of the Acquisition Agreement.

The Sale Shares are subject to the undertaking given by CPI Group for the purpose of the equity division reform scheme of Shanghai Power, which took effect on November 25, 2005. CPI Group has undertaken with the holders of the A shares of Shanghai Power that: (i) during a period of 12 months commencing from the effective date of the reform scheme (the "**Prohibited Period**"), none of the Shanghai Power Shares held by CPI Group (including the Sale Shares) will be traded on the Shanghai Stock Exchange or otherwise transferred (except for the transfer pursuant to the exercise of the call option under the Shanghai Power Option Deed by the Company); the Shanghai Power Shares disposed of by CPI Group on the Shanghai Stock Exchange will not in aggregate exceed 5% of the total issued share capital of Shanghai Power during a period of 12 months from the expiry of the Prohibited Period, or exceed 10% of its total issued share capital during a period of 24 months from the expiry of the Prohibited Period; and (ii) during a period of 12 months from the expiry of the Prohibited Period, the consideration for disposing of the Shanghai Power Shares on the Shanghai Stock Exchange will not be less than RMB6 per share (provided that during the said period if any event occurs, such as declaration of dividends, issue of bonus shares and capitalisation of reserves, which shall have an effect on the price of Shanghai Power Shares, such minimum disposal price will be adjusted accordingly). In addition, under PRC laws and regulations, the Company may not transfer the Sale Shares within 3 years after acquiring such shares.

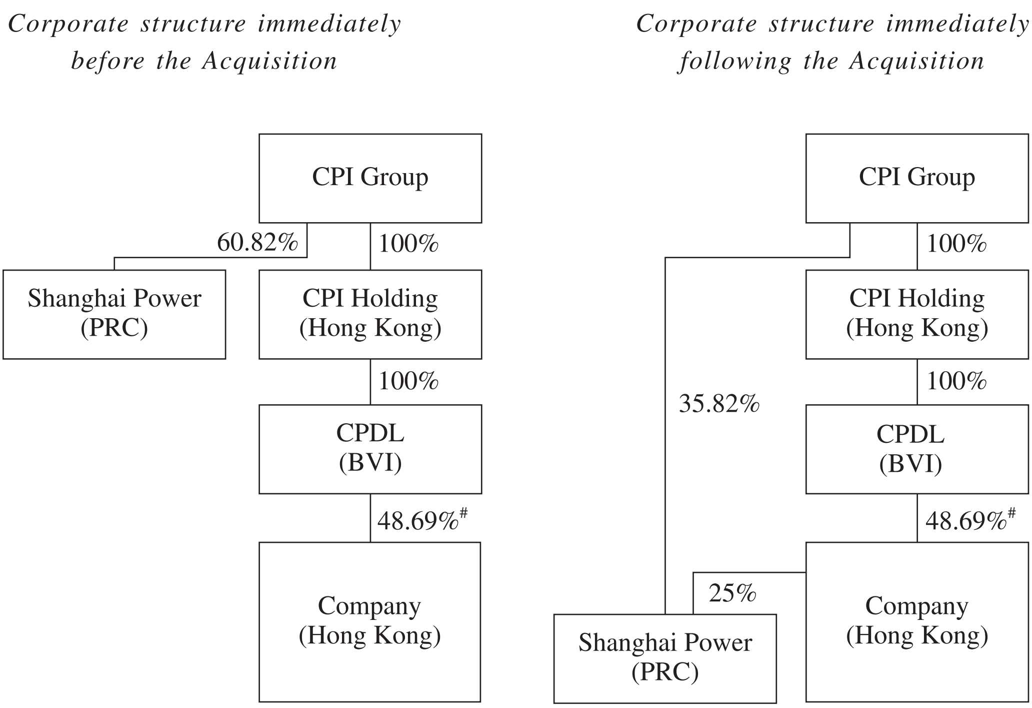
iii. Consideration

The consideration for the sale of the Sale Shares is RMB 4.26 per share. The total consideration is RMB 1,665,132,825 (equivalent to approximately HK$1,648,481,497), which will be payable by the Company in cash in two equal installments.

The consideration was arrived at after arm's length negotiations between the Company and CPI Group under the Acquisition Agreement. It was based on the net asset value per share of Shanghai Power as at June 30, 2006 (RMB 3.927 per share) and represents a discount of approximately 4.1% off the closing price of the A shares of Shanghai Power on November 2, 2006 (RMB4.44 per share). Based on the audited financial statements of Shanghai Power, which were prepared based on PRC GAAP, the consideration represents a premium of approximately 8.5% over the net asset value attributable to the Sale Shares as at June 30, 2006. The Acquisition will be financed from proceeds from its initial public offering in 2004 (which is in line with the intended use of proceeds stated in the Company's prospectus on October 4, 2004), the Company's working capital and external financing. The Company has not yet determined the detailed breakdown of the source of funding of the Acquisition.

The Directors are of the view that the consideration for the purchase of the Sale Shares and the other terms of the Acquisition Agreement are fair and reasonable, on normal commercial terms and that the Acquisition is in the interests of the Company and its shareholders as a whole.

iv. **Corporate Structure**



v. **Conditions of the Acquisition Agreement**

Completion of the Acquisition is conditional upon satisfaction of the following conditions on or before March 31, 2007 or a later date as agreed by the parties:

(i) completion of the financial, business and legal due diligence on Shanghai Power and the results thereof being reasonably satisfactory to the Company;

(ii) the obtaining of all necessary approvals from the PRC and other relevant governmental and regulatory authorities, including but not limited to SASAC and the Ministry of Commerce, for the Acquisition;

Upon completion of the subscription under the placing, underwriting and subscription agreement between CPDL, the Company and Credit Suisse (Hong Kong) Limited (as placing agent) dated November 9, 2006 as referred to in the Company's announcement dated November 9, 2006, CPDL will own approximately 55.38% of the issued share capital of the Company, assuming that other than the 470,000,000 subscription shares, no further shares are issued or repurchased by the Company, and no shares are sold or purchased by CPDL between the Latest Practicable Date and completion of the subscription.

(iii) the passing of an ordinary resolution by the Independent Shareholders approving the Acquisition Agreement and the transaction contemplated thereunder;

(iv) there has not been any material adverse change to the financial position, business operations or prospect of Shanghai Power since June 30, 2006;

(v) the representations and warranties of CPI Group are true and accurate and not misleading in any material respects at the time of completion of the Acquisition;

(vi) the representations and warranties of the Company are true and accurate and not misleading in any material respects at the time of completion of the Acquisition; and

(vii) completion of all relevant legal documentation, in form satisfactory to both the Company and CPI Group, for the Acquisition.

The conditions set out in paragraphs (i), (iv), (v) and (vii) (insofar as it applies to the obligations of CPI Group) may be waived by the Company, and the conditions set out in paragraphs (vi) and (vii) (insofar as it applies to the obligations of the Company) may be waived by CPI Group.

vi. **Board Representation**

Shanghai Power currently has 13 directors on the board. Upon completion of the Acquisition, pursuant to the articles of association of Shanghai Power, the Company will have the requisite right to nominate directors to the board of Shanghai Power, which is subject to the approval of shareholders of Shanghai Power. CPI Group has agreed to use its reasonable efforts to procure the election of such nominees pro rata to the Company's shareholding in Shanghai Power. The Company intends to nominate at least 2 directors to the board of Shanghai Power after the completion of the Acquisition.

vii. **Completion**

Pursuant to the Acquisition Agreement, within ten business days upon fulfilment (or waiver, where applicable) of all the above condition precedents (the last day on which all the conditions must be satisfied is March 31, 2007) or a date as agreed by the parties (the "First Payment Date"), the Company will pay to CPI Group 50% of the consideration, being RMB 832,566,412.5 (equivalent to approximately HK$824,240,748) in cash. The remaining 50% of the consideration will be payable in cash within one month of the First Payment Date. Upon payment of the consideration in full, the Sale Shares will be transferred and registered in the name of the Company which will become the second largest shareholder of Shanghai Power. The Company will account for its interest in Shanghai Power, which will be classified as an associated company, using the equity accounting method in its financial statements.

viii. **Termination**

The Company may terminate the Acquisition Agreement by written notice to CPI Group if prior to completion of the Acquisition:

(i) there has been a breach of the Acquisition Agreement by CPI Group;

(ii) there has been a breach of the representations and warranties of CPI Group; or

(iii) there has been a material adverse change to the financial position, business operations or prospects of Shanghai Power.

3. REASONS FOR AND BENEFITS OF THE ACQUISITION

Shanghai Power is the largest power provider in Shanghai and has in the past few years expanded itself in the East China region. The compounded annual growth rate of attributable capacity achieved by Shanghai Power from 2003 to 2005 was 23%.

The Acquisition represents a strategic opportunity for the Company to:

(i) enlarge the Company's operational scale significantly. Upon completion of the Acquisition, the attributable capacity of the Company will increase from 4,255MW to above 5,300MW (based on Shanghai Power's attributable capacity as at December 31, 2005), up by approximately 25%;

(ii) enter into a new and exciting market. The Acquisition introduces the Company's initial presence in the Shanghai market, a region with the highest GDP per capita in China. Shanghai recorded a growth rate of 12.4% in power consumption in 2005;

(iii) leverage on Shanghai Power's market leadership position. Shanghai Power is the largest power producer in Shanghai, accounting for more than 30% market share in terms of total controlled capacity in 2005. With its dominant size and proximity to end users, Shanghai Power enjoys competitive advantage and economies of scale;

(iv) enhance future capacity growth. Shanghai Power has already announced a number of projects under construction and development, including Huaihu Generation Company Limited ("Huaihu") (淮滬煤電有限公司項目), Phase III of Shanghai Waigaoqiao Power Plant (上海外高橋第三發電有限責任公司項目), Kanshan Power Plant (闞山發電廠), gas-fueled power project of Zhenhai Power Plant (浙江浙能鎮海天然氣發電有限責任公司項目) and technical upgrade project of Shanghai Wujing Thermal Power Plant (上海吳涇熱電廠的技術升級項目), with a contribution of additional attributable capacity of approximately 2,400 MW; and

(v) enjoy the expected improving financial performance of Shanghai Power. Shanghai Power is actively restructuring its businesses, as evidenced by the expected closedown of loss-making Shanghai Nanshi Power Plant (上海南市發電廠) by the end of 2007. The heat business of Shanghai Power has also turned around, from an operating loss of approximately RMB

15 million in the first half of 2005 to an operating profit of approximately RMB 46 million in the first half of 2006. In addition, on-going firm-wide cost management, proposed convertible bond refinancing and on-going technical upgrades may also further improve the financial performance of Shanghai Power.

The Company considers the Acquisition fits into its development strategy and it is now an ideal time to acquire the Sale Shares and tap on the growth potential of Shanghai Power. The Directors believe that the Acquisition will be beneficial to the Company and will have a positive impact on the Company's future prospects, thus benefiting the Company and its shareholders as a whole.

Both CPI Group and the Company have established a good track record in developing, investing, constructing, managing and operating large capacity plants nationwide. The Company has also accumulated substantial experience in overseas capital markets. After the Acquisition, the Company will become the second largest shareholder and CPI Group will remain as the largest shareholder of Shanghai Power, with an aggregate interest of 60.82% in Shanghai Power. Both CPI Group and the Company will share their business insights and corporate governance experience with Shanghai Power to achieve further synergies through the following:

a) exchanging views on management and capital market operations;

b) suggesting cost reduction solutions to Shanghai Power to further improve its operating efficiency; and

c) providing technical support to Shanghai Power.

As only approximately 16.2% of Shanghai Power's assets as at December 31, 2005 was land and buildings, the Company is of the view that the primary significance of the Acquisition is not Shanghai Power's capital value.

The Company currently does not have any intention to increase its shareholding interests in Shanghai Power after completion of the Acquisition.

4. FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, the profit attributable to the Sale Shares will contribute to the profit of the Company. Having considered Shanghai Power's operating performance and the synergies between the Group's and Shanghai Power's operations, the Directors are of the view that the Acquisition would have a positive impact on the future prospects of the Group.

5. INFORMATION ON SHANGHAI POWER

Shanghai Power was established on June 4, 1998 and listed on the Shanghai Stock Exchange on October 29, 2003. Principally involved in the production and supply of electricity and heat, Shanghai Power is the largest power producer in Shanghai in terms of total controlled capacity. Shanghai Power has four wholly-owned power plants as well as various investments in power plants in Shanghai and is gradually expanding to neighbouring areas such as Jiangsu, Anhui and Zhejiang, which are part of the East China electricity network. According to the State Electricity Regulatory Commission East China Bureau (國家電力監管委員會華東監管局), the East China electricity network is the largest electricity network in the PRC in terms of installed capacity. As at December 31, 2005, Shanghai Power has an attributable installed capacity of approximately 4,260 MW and a gross generation of approximately 22,554 GWh.

The major shareholders of Shanghai Power are CPI Group and East China Power Development Company (上海華東電力發展公司) with equity holdings of 60.82% and 18.92%, respectively. East China Power Development Company is a third party independent from the Company and its associates.

As the Sale Shares were transferred to CPI Group from Shanghai Municipal Electric Power Company (上海市電力公司) as part of the PRC government reform on electric power system, CPI Group did not incur any cost in acquiring the Sale Shares.

Shanghai Power currently has 4 wholly-owned power plants and investments in 7 operating power plants in Shanghai and Jiangsu, with a total attributable installed capacity of approximately 4,370MW. In addition, Shanghai Power has planned or commenced the construction of 4 power plants which have a total installed capacity of approximately 5,180MW and are expected to increase Shanghai Power's attributable installed capacity by approximately 2,150MW. Shanghai Power also plans to upgrade the Wujing Thermal Power Plant which is to replace smaller and less efficient power generating units. The upgrade plan is expected to increase Shanghai Power's attributable installed capacity by 250 MW.

Based on the audited financial statements of Shanghai Power, which were prepared based on PRC GAAP, the audited consolidated profits for each of the two years ended December 31, 2004 and December 31, 2005 and for the six months ended June 30, 2006 are as follows:

	Financial year ended 31 December 2004 *(RMB million)*	**Financial year ended 31 December 2005** *(RMB million)*	**Six months ended 30 June 2006** *(RMB million)*
Audited consolidated profit before taxation and minority interests	693.5	711.2	288.4
Audited consoildated profit after taxation and minoriy interests	395.6	397.8	191.9

Based on the 2006 interim report of Shanghai Power, the net asset value attributable to the Sale Shares as at June 30, 2006 was approximately RMB 1,535.1 million.

On June 22, 2006, the shareholders meeting of Shanghai Power approved a proposed offering of convertible bonds for an aggregate principal amount of RMB1,000 million with a term of 5 years. The convertible bonds will bear interest at an interest of 2.2% per annum for the first year, 2.5% per annum for the second year, 2.6% per annum for the third year, 2.7% per annum for the fourth year and 2.8% per annum for the fifth year. Upon expiry of 6 months from the date of issue, the convertible bonds will be eligible for conversion into new shares until the maturity date. This proposed offering is currently pending the approval from PRC regulatory authorities. Neither the conversion price nor any convertible price range of the convertible bonds has been determined. Therefore, the potential dilution impact on the 25% shareholding in Shanghai Power to be held by the Company arising from the conversion of the convertible bonds is yet to be determined.

The revenue and net profit except taxation and before minority interests of Shanghai Power for the year ended December 31, 2005, based on its audited financial statements which were prepared based on PRC GAAP, is RMB 7,480 million and RMB 711 million, respectively. The Company considers that (i) Shanghai Waigaoqiao Power Generation Company Limited (上海外高橋發電有限責任公司) ("Waigaoqiao") and Shanghai Caojing Thermal Power Company Limited (上海漕涇熱電有限責任公司) ("Caojing"), which have been consolidated into the above financial statements; and (ii) Shanghai Waigaoqiao Second Power Generation Company Limited (上海外高橋第二發電有限責任公司) ("Waigaoqiao II") and Shanghai Wujing Power Generation Compay Limited (上海吳涇發電有限責任公司), which have been proportionately consolidated into the above financial statements, should be accounted for using equity method of accounting as prescribed by Hong Kong Accounting Standard 31 "Interests in Joint Ventures" issued by the HKICPA. Under the memoranda and articles of association of Waigaoqiao and Caojing, the votes controlled by Shanghai Power on the boards of each of Waigaoqiao and Caojing are less than those required for passing resolutions for approving major financial and operational decisions (i.e. 66.7% in the case of Waigaoqiao and 80% in the case of Caojing). As Shanghai Power is not regarded as having "control" over the financial and operational decisions of these two companies, the Company considers that Waigaoqiao and Caojing should not be treated as consolidated subsidiaries but as jointy controlled entities of Shanghai Power under Hong Kong GAAP.

As for Waigaoqiao II, Wujing and Huaihu, which are also jointly controlled entities of Shanghai Power and have been accounted for in the accounts of Shanghai Power for the six months ended June 30, 2006 using proportionate consolidation under PRC GAAP, the Company will account for its interests in such jointly controlled entities under Hong Kong GAAP using the equity method of accounting (and not proportionate consolidation).

After taking into account these adjustments, the revised revenue and net profit except taxation and before minority interests of Shanghai Power for the year ended December 31, 2005 used by the Company in calculating the percentage ratios pursuant to the requirement under the Listing Rules, is approximately RMB 3,579 million and RMB 400 million, respectively. As at June 30, 2006, the total assets of Shanghai Power was approximately RMB 17,631 million under PRC GAAP and approximately RMB 10,583 million after making the above Hong Kong GAAP adjustments. The total liabilities of Shanghai Power as at June 30, 2006 was approximately RMB 9,392 million under PRC GAAP and approximately RMB 4,266 million under Hong Kong GAAP. Save for Waigaoqiao, Caojing, Waigaoqiao II, Wujing and Huaihu, the accounting treatment under Hong Kong GAAP for other entities held by Shanghai Power will not affect the Company's analysis and conclusion in any material respect. After performing some sensitivity analysis on the financial information of Shanghai Power, the Company has concluded that it is highly unlikely that there will be any other significant GAAP differences that would result in an increase in any percentage ratio up to 25% and therefore considers that the Acquisition should be treated as a discloseable transaction.

6. INFORMATION ON THE COMPANY AND CPI GROUP

The Company's principal activities are the development, construction, operation and management of power plants. Approximately 48.69% of the issued share capital of the Company is owned by CPDL as at the Latest Practicable Date. Upon completion of the subscription under the placing, underwriting and subscription agreement between CPDL, the Company and Credit Suisse (Hong Kong) Limited (as placing agent) dated November 9, 2006 as referred to in the Company's announcement dated November 9, 2006, approximately 55.38% of the issued share capital of the Company will be owned by CPDL, assuming that other than the 470,000,000 subscription shares, no further shares are issued or repurchased by the Company, and no shares are sold or purchased by CPDL between the Latest Practicable Date and completion of the subscription. CPDL is a wholly-owned subsidiary of CPI Holding, which is in turn wholly-owned by CPI Group. CPI Holding is a Hong Kong incorporated company focusing on power-related assets investment and development in China and abroad. CPI Group is one of the five national power generation groups in China, and operates coal-fired, hydroelectric and nuclear power plants in the PRC with an attributable installed capacity of 24,294 MW as of December 31, 2005. The Company is the flagship company and only listed subsidiary outside the PRC of CPI Group.

7. LISTING RULES IMPLICATIONS

As the applicable percentage ratios for the Acquisition under Listing Rule 14.07 are below 25% and above 5%, the Acquisition constitutes a discloseable transaction of the Company. Further, as CPI Group is an indirect controlling shareholder of the Company, the Acquisition also constitutes a connected transaction of the Company and, pursuant to Listing Rule 14A.17, is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the EGM.

Deutsche Bank is the financial adviser to the Company in respect of the Acquisition.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the Acquisition. CLSA has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, on whether the terms of the Acquisition Agreement are fair and reasonable, on normal commercial terms and in the interests of the shareholders of the Company as a whole.

8. EGM

An EGM will be held on December 6, 2006 at 10:00 am at Concord Room I, 8/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong, during which an ordinary resolution shall be proposed to the shareholders of the Company to approve the Acquisition Agreement and the transaction contemplated thereunder. CPI Group and its associates, being connected persons in respect of the Acquisition, will abstain from voting on the ordinary resolution to approve the Acquisition Agreement and the transactions contemplated thereunder. 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.

No voting trust, other agreement, arrangement or understanding was entered into by or binding upon CPI Group and its associates in respect of their beneficial interests in the Company.

9. RECOMMENDATION

The Directors consider that the terms of the Acquisition are fair and reasonable, on normal commercial terms and are in the interests of the Company and the shareholders as a whole. Accordingly, the Directors recommend the shareholders of the Company to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and the transaction contemplated thereunder.

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

November 18, 2006

To the Independent Shareholders

Dear Sir and Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular (the "Circular") dated November 18, 2006 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 other requires.

On November 2, 2006, the Board announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CPI Group agreed to sell, 25% interest in Shanghai Power, subject to certain conditions.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of the Acquisition are in the interest of the Company and its shareholders. CLSA has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the terms of the Acquisition.

The terms and reasons for the Acquisition are summarised in the Letter from the Board set out on pages 4 to 14 of the Circular.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Acquisition 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 as set out in the letter from CLSA on pages 17 to 43 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 are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution set out in the Notice of the EGM at the end of the Circular.

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

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

CLSA
ASIA-PACIFIC MARKETS

*To the Independent Board Committee
and the Independent Shareholders*

18 November 2006

Dear Sirs,

**Discloseable and Connected Transaction
Proposed Acquisition of 25% Interest in Shanghai Power**

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, details of which are contained in the circular dated 18 November 2006 (the "Circular") issued by the Company to its Shareholders, 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 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.

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. Further, as CPI Group is an indirect controlling shareholder of the Company, the Acquisition also constitutes a connected transaction of the Company and pursuant to Listing Rule 14A.17, is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the EGM.

In formulating our opinion with regard to the Acquisition, 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 dispatch of the Circular.

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

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Acquisition 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, 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. 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 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, 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 that, if known to us at the time we rendered our opinion, would have altered our opinion.

In addition, our opinion is also subject to the following qualifications:

a) We are instructed to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. As such, the scope of our review, and consequently, our opinion does not include any statement or opinion as to the merits or otherwise of the Acquisition;

b) We do not express any opinion or statement as to whether any similar terms or transactions akin to the terms proposed for the Acquisition are or might be available from any independent third parties, nor as to whether any independent third parties might offer similar transactions;

c) It is not possible to confirm whether or not the Acquisition is in the interests of each individual Independent Shareholder and each Independent Shareholder should consider his/her/its vote on the merits or otherwise of the Acquisition in light of his/her/its own circumstances and from his/her/its own point of view having regard to all the circumstances (and not only the financial perspectives offered in this letter) as well as his/her/its own investment objectives;

d) In preparing this letter and in giving any opinion or advice, we have only had regard to the Acquisition and necessarily circumstances thereof in connection with the Acquisition only, and not in connection with any other business plan, strategy or transaction, past or present, with regard to the Company or the Group as a whole, which falls beyond the scope of our opinion in connection with the Acquisition;

e) We express no opinion as to whether the Acquisition will be completed nor whether it will be successful;

f) Nothing contained in this letter should be construed as us expressing any view as to the trading price or market trends of any securities of the Company at any particular time;

g) Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any securities of the Company; and

h) We were not requested to and did not provide advice concerning the structure, the specific amount of consideration, the timing, pricing, size, feasibility, or any other aspects of the Acquisition.

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, except for its inclusion in the Circular and for references thereto in 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 is licensed by the Hong Kong Securities and Futures Commission to undertake Types 4 (advising on securities) and 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 arriving at our opinion, we have taken into consideration, among others, each of the following principal factors and reasons set out below. Our conclusions are based on the results of all analyses taken as a whole.

1. The Acquisition

On 2 November 2006, the Company announced that it exercised the call option under the Shanghai Power Option Deed (the "Shanghai Power Call Option") and entered into the Acquisition Agreement with CPI Group, pursuant to which the Company conditionally agreed to acquire and CPI

Group conditionally agreed to sell 390,876,250 Shanghai Power Shares (including the right to receive dividends to be declared and paid by Shanghai Power in respect of the financial year ending 31 December 2006), equal to 25% of the total issued share capital of Shanghai Power as at the date of the Acquisition Agreement for a consideration of RMB 4.26 (equivalent to approximately HK$ 4.22) per Sale Share, resulting in a total consideration of approximately RMB 1,665.13 million (equivalent to approximately HK$ 1,648.48 million) (the "Consideration").

Upon completion of the Acquisition, the Company will become the second largest shareholder of Shanghai Power, with the single largest shareholder being CPI Group, holding approximately 35.82% of the total number of Shanghai Power Shares outstanding as at the Latest Practicable Date. We are advised by the Directors that the Company currently does not have any intention to increase its shareholding interests in Shanghai Power after completion of the Acquisition.

2. **The Acquisition Agreement**

The Acquisition Agreement was entered into pursuant to the exercise of the Shanghai Power Option Deed. As disclosed in the Company's prospectus dated 4 October 2004, the Company entered into the Shanghai Power Option Deed with CPI Group on 27 August 2004, pursuant to which the Company was granted a call option, exercisable within 3 years from 29 October 2004, to acquire up to a 25% equity interest in Shanghai Power. As set out in the Shanghai Power Option Deed, the exercise price of the call option will, at the Company's election, be the price agreed upon between the parties either based on the then net asset value per Shanghai Power Share (which, as advised by Haiwen, the Company's PRC legal advisers, should be interpreted as being the latest audited net asset value per Shanghai Power Share at the time of exercise of the Shanghai Power Call Option), or based on the then prevailing market price per share attributable to the listed shares of Shanghai Power. We are advised by the Directors that the Company has elected to exercise the Shanghai Power Option Deed based on the latest audited net asset value per Shanghai Power Share, being the audited net asset value per Shanghai Power Share as at 30 June 2006. We are advised by the Directors that the Acquisition Agreement (including the Consideration) was negotiated and entered into on an arm's length basis between the Company and CPI Group.

Upon completion of the Acquisition, the Company will have the requisite right to nominate directors to the board of Shanghai Power pursuant to the articles of association of Shanghai Power, which is subject to the approval of Shanghai Power's shareholders. CPI Group has agreed to use its reasonable efforts to procure the election of such nominees pro rata to the Company's shareholding in Shanghai Power. As at the Latest Practicable Date, Shanghai Power had a total of 13 directors (including 5 independent directors). We understand from the Directors that the Company intends to nominate at least 2 directors to the board of Shanghai Power after the completion of the Acquisition.

As stated in the Letter from the Board, completion of the Acquisition will be subject to the satisfaction of certain conditions, such as the completion of financial, business and legal due diligence on Shanghai Power and results thereof being reasonably satisfactory to the Company and the obtaining of all necessary approvals, including approvals from the Independent Shareholders and the PRC and other relevant governmental and regulatory authorities for the Acquisition. The Acquisition Agreement will lapse if it does not become unconditional on or before 31 March 2007 or such later date as agreed by the Company and the CPI Group. Please refer to the Letter from the Board contained in the Circular for details of the conditions to which the Acquisition Agreement is subject.

Pursuant to the Acquisition Agreement, within 10 business days from the satisfaction (or waiver, where applicable) of all conditions to which the Acquisition Agreement is subject, the Company shall pay to CPI Group 50% of the Consideration (the "First Payment Date"), being approximately RMB832.57 million (or equivalent to approximately HK$824.24 million) in cash. The remaining 50% of the Consideration shall be payable in cash within one month of the First Payment Date. Upon payment of the Consideration in full, the Sale Shares shall be transferred and registered in the name of the Company, whereupon formal completion shall be deemed to have taken place and the Company will become the second largest shareholder of Shanghai Power. We understand from the Directors that the Consideration will be payable in RMB and consequently the Company will bear the risk of any potential exchange rate fluctuations.

Pursuant to the Acquisition Agreement, the Consideration and the total number of Shanghai Power Shares to be acquired by the Company are also subject to further adjustments and negotiations between the parties in the event that the total number of shares outstanding or the registered capital of Shanghai Power increases or decreases before the date on which the Sale Shares are registered in the name of the Company.

The Company may terminate the Acquisition Agreement by written notice to CPI Group if, prior to completion of the Acquisition, (i) there has been a breach of the Acquisition Agreement by CPI Group; (ii) there has been a breach of the representations and warranties of CPI Group; or (iii) there has been a material adverse change to the financial position, business operations or prospects of Shanghai Power.

3. **Information on Shanghai Power and Shanghai Power Shares**

As disclosed in the Letter from the Board contained in the Circular, Shanghai Power was established on 4 June 1998 and listed on the Shanghai Stock Exchange on 29 October 2003. Shanghai Power is the largest power producer in Shanghai in terms of total controlled capacity and is principally engaged in the production and supply of electricity and heat. Shanghai Power has four wholly-owned power plants as well as various investments in power plants in Shanghai and is gradually expanding to neighbouring provinces such as Jiangsu Province, Anhui Province and Zhejiang Province. Shanghai Power had an attributable installed capacity of approximately 4,260 MW as at 31 December 2005, and its gross electricity generation reached approximately 22,554 GWh for the year ended 31 December 2005.

As at the Latest Practicable Date, the major shareholders of Shanghai Power were CPI Group and East China Power Development Company, whose equity interest in Shanghai Power were 60.82% and 18.92% respectively. East China Power Development Company is a third party independent from the Company and its associates.

As at the Latest Practicable Date, the market closing price of Shanghai Power Shares was RMB 4.21 (or equivalent to approximately HK$ 4.17). Based on the total number of Shanghai Power Shares outstanding as at the Latest Practicable Date of approximately 1,563.5 million shares, the market capitalisation of Shanghai Power was approximately RMB 6,582.36 million (or equivalent to approximately HK$ 6,516.53 million).

3.1 *Installed capacity*

We are advised by the Directors that, as at the Latest Practicable Date, the installed capacity attributable to Shanghai Power's equity interests amounted to approximately 4,370 MW. In addition, Shanghai Power has interests in 4 power plants currently under construction which will have an aggregate attributable installed capacity of approximately 2,150 MW when completed. Shanghai Power also plans to make investments to upgrade Shanghai Wujing Thermal Power Plant (吳涇熱電廠) ("Wujing Power Plant"), which is expected to contribute an additional attributable installed capacity of 250 MW.

3.1.1 *Existing capacity*

As disclosed in various publicly available documents, such as the Shanghai Power prospectus dated 23 September 2003, published annual reports and interim reports and announcements made by Shanghai Power, the following table sets forth a list of power plants owned, controlled or invested in by Shanghai Power that are currently under operation.

Name of power plant	Equity interest owned by Shanghai Power	Fuel type	Total installed capacity (MW)	Attributable capacity (MW)	Location
Shanghai Nanshi Power Plant (南市發電廠) ("Nanshi Power Plant")	100%	Coal-fired	145	145	Shanghai
Shanghai Yangshupu Power Plant (楊樹浦發電廠)	100%	Coal-fired	359	359	Shanghai
Shanghai Minhang Power Plant (閔行發電廠)	100%	Coal-fired	815	815	Shanghai
Wujing Power Plant	100%	Coal-fired	350	350	Shanghai
Shanghai Wujing Power Generation Company Limited (上海吳涇發電有限責任公司)	50%	Coal-fired	600	300	Shanghai
Shanghai Wujing Second Power Generation Company Limited (上海吳涇第二發電有限責任公司)	49%	Coal-fired	1,200	588	Shanghai

Name of power plant	Equity interest owned by Shanghai Power	Fuel type	Total installed capacity (MW)	Attributable capacity (MW)	Location
Shanghai Waigaoqiao Power Generation Company Limited (上海外高橋發電有限責任公司)	51%	Coal-fired	1,200	612	Shanghai
Shanghai Caojing Thermal Power Company Limited (上海漕涇熱電有限責任公司)	36%	Gas-fired	606	218.2	Shanghai
Shanghai Waigaoqiao Second Power Generation Company Limited (上海外高橋第二發電有限責任公司)	20%	Coal-fired	1,800	360	Shanghai
Jiangsu Shangdian Jiawang Power Generation Company Limited (江蘇上電賈旺發電有限責任公司)	51%	Coal-fired	540	275.4	Jiangsu
Jiangsu Huadian Wangting Power Generation Company Limited (江蘇華電望亭天然氣發電有限責任公司)	45%	Gas-fired	780	351	Jiangsu

Shanghai Power is currently actively restructuring its businesses, including conducting on-going technology upgrades of existing generation units and replacing those older and less efficient generation units with new capacity construction. For example,

- Shanghai Power made an announcement on 9 July 2004 that it would close down Nanshi Power Plant, which is wholly owned by Shanghai Power and has a total installed capacity of 145 MW, by the end of this year. We are advised by the Directors that the expected de-commissioning of Nanshi Power Plant will be delayed to 2007 to avoid any interruption of operation for some of its industrial customers. Nanshi Power Plant supplies heat to certain industrial customers located in its proximity, some of whom have not found a replacement heat supplier yet.

- We also note from an announcement made by Shanghai Power on 12 September 2006 that Shanghai Power has recently obtained approval from the National Development and Reform Commission 國家發展和改革委員會 to upgrade Wujing Power Plant, which is wholly owned by Shanghai Power and currently owns and operates 6 coal-fired generation units with a total installed capacity of 350 MW. Pursuant to the approval, Shanghai Power will gradually de-commission the existing 6 generation units and at the same time build two new coal-fired generating units of 300 MW each in terms of installed capacity on the existing site. The referred upgrade plan is expected to require a total investment of RMB 3,050 million, of which RMB 610 million will be financed by Shanghai Power's internal resources. We are advised by the Directors that this upgrade plan is being undertaken by Shanghai Power to replace smaller and less efficient power generating units with more efficient generating units that utilize more advanced technology.

We are advised by the Directors that they believe these restructuring initiatives are beneficial to Shanghai Power's long-term business prospects and are expected to result in improved financial performance for Shanghai Power.

3.1.2 *Capacity under construction or to be constructed*

Based on various publicly available documents and the Directors' representations, Shanghai Power currently has the following power plants that are either under construction or planning:

Name of power plant	Fuel type	Nature of works	Equity interest owned by Shanghai Power	Installed capacity (MW)	Attributable capacity (MW)	Progress	Expected commencement of commercial operation
Wujing Power Plant	Coal-fired	Upgrade	100%	600	600	Construction expected to commence in 2006*	Commercial operation for unit I and unit II expected to commence in 2009 and 2010 respectively*
Zhejiang Zheneng Zhenhai Gas Power Generation Company Limited (浙江浙能鎮海天然氣發電有限責任公司)	Gas-fired	New-build	37.5%	780	292.5	Construction commenced in 2005	Timing of commencement of commercial operation to be decided upon finalisation of gas supply*
Shanghai Waigaoqiao Third Power Generation Company Limited (上海外高橋第三發電有限責任公司)	Coal-fired	New-build	30%	2,000	600	Construction commenced in 2006	Commercial operation expected to commence in 2008

Name of power plant	Fuel type	Nature of works	Equity interest owned by Shanghai Power	Installed capacity (MW)	Attributable capacity (MW)	Progress	Expected commencement of commercial operation
Jiangsu Xuzhou Kanshan Phase I (江蘇徐州闞山)	Coal-fired	New-build	55%	1,200	660	Construction commenced in 2005*	Commercial operation for unit I and unit II expected to commence in 2007 and 2008 respectively*
Huaihu Generation Company Limited (淮滬煤電有限公司) ("Huaihu") — Phase I Tianji Power Plant	Coal-fired	New-build	50%	1,200	600	Construction commenced in 2005	Commercial operation for unit I and unit II expected to commence in 2007 and 2008 respectively

* *based on Directors' representations*

3.2 ***Financial information on Shanghai Power***

Based on the audited financial statements of Shanghai Power prepared in accordance with PRC GAAP:

(a) its audited consolidated turnover for each of the two years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006 was approximately RMB 6,190.2 million, RMB 7,479.8 million and RMB 4,140.4 million, respectively;

(b) its audited consolidated profit after taxation and minority interests for each of the two years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006 was approximately RMB 395.6 million, RMB 397.8 million and RMB 191.9 million, respectively;

(c) its audited total asset value as at 31 December 2004, 31 December 2005 and 30 June 2006 was approximately RMB 13,694 million, RMB 14,133 million and RMB 17,631 million, respectively;

(d) its audited total liabilities as at 31 December 2004, 31 December 2005 and 30 June 2006 was approximately RMB 5,532 million, RMB 5,908 million and RMB 9,392 million, respectively; and

(e) its audited net asset value as at 31 December 2004, 31 December 2005 and 30 June 2006 was approximately RMB 6,188 million, RMB 6,261 million and RMB 6,140 million, respectively.

The Directors are of the view that certain entities, which have been treated as subsidiaries or jointly controlled entities and thus have been consolidated or proportionally consolidated into Shanghai Power's financial statements prepared in accordance with PRC GAAP, would have been accounted for using the equity method of accounting if Shanghai Power's financial statements had been prepared in accordance with HK GAAP, being the accounting policies adopted by the Company. The above Directors' view was reached based on their understanding of the differences between PRC GAAP and HK GAAP, including the different requirements under PRC GAAP and HK GAAP for a holding company to consolidate the accounts of an entity, where HK GAAP imposes more stringent requirements and interpretations on companies to be consolidated.

The following table summarises the most significant differences in accounting treatment between the accounting policies adopted by Shanghai Power under PRC GAAP and those adopted by the Company under HK GAAP in respect of the following entities. Please refer to the Letter from the Board contained in the Circular for further details.

Name of power plant	**Equity interest owned by Shanghai Power**	**Under PRC GAAP**	**Under HK GAAP**
Shanghai Waigaoqiao Power Generation Company Limited (上海外高橋發電有限責任公司) ("Waigaoqiao")	51%	Treated as subsidiaries and have been consolidated into Shanghai Power's financial statements	Shall be treated as jointly controlled entities based on the fact that votes controlled by Shanghai Power on the board of Waigaoqiao and Caojing are less than the number required to pass resolutions concerning major decisions. Jointly controlled entities shall be accounted for using the equity method under HK GAAP
Shanghai Caojing Thermal Power Company Limited (上海漕涇熱電有限責任公司) ("Caojing")	36%		

Name of power plant	Equity interest owned by Shanghai Power	Under PRC GAAP	Under HK GAAP
Shanghai Waigaoqiao Second Power Generation Company Limited (上海外高橋第二發電有限責任公司) ("Waigaoqiao II")	20%	Treated as jointly controlled entities and have been proportionally consolidated into Shanghai Power's financial statements	Jointly controlled entities shall be accounted for using the equity method under HK GAAP
Shanghai Wujing Power Generation Compay Limited (上海吳涇發電有限責任公司) ("Wujing")	50%		
Huaihu*	50%		

* *Huaihu has been proportionally consolidated into Shanghai Power's financial statements during the six-month period ended 30 June 2006.*

The financial information of Shanghai Power prepared under PRC GAAP and as adjusted by the Directors' estimates regarding the differences in accounting treatment between PRC GAAP and HK GAAP (as discussed above) is summarised in the table below. For information purposes only and on the basis that (i) had Waigaoqiao and Caojing been treated as jointly controlled entities rather than subsidiaries of Shanghai Power and accounted for using the equity method and (ii) had Waigaoqiao II, Wujing and Huaihu, being jointly controlled entities, been accounted for using the equity method in Shanghai Power's financial statements, the financial information of Shanghai Power is set out in the last column of the table below:

(RMB million)	**Financial information prepared under PRC GAAP**	**After taking into consideration the HK GAAP adjustments as summarised in the paragraph above**
Balance sheet information (as at 30 June 2006)		
Total assets	17,631	10,583
Total liabilities	9,392	4,266
Net asset value	6,140	6,140
Enterprise value*	14,742	9,138
Balance sheet information (as at 31 December 2005)		
Total assets	14,133	8,709
Total liabilities	5,908	2,441
Net asset value	6,261	6,261
Profit and Loss accounts information (for the year ended 31 December 2005)		
Turnover	7,480	3,579
EBIT	764	442
Net profit attributable to equity holders	398	398

* *Enterprise Value ("EV") was calculated based on the aggregate of (i) the equity value of Shanghai Power as implied by the consideration of RMB 4.26 per Shanghai Power Share pursuant to the Acquisition Agreement and (ii) the net indebtedness and minority interest of Shanghai Power as at 30 June 2006 based on (a) Shanghai Power's audited interim report for the six-month period ended 30 June 2006 prepared in accordance with PRC GAAP and (b) the Directors' estimates after taking into consideration the differences between PRC GAAP and HK GAAP as summarised above, respectively.*

Other than the above, the Directors are of the view that other differences between PRC GAAP and HK GAAP are unlikely to have any significant overall effect on Shanghai Power's financial position and operating results.

3.3 ***Lock-up restrictions***

We note that the Shanghai Power Shares proposed to be acquired by the Company are subject to an undertaking given by CPI Group pursuant to the equity division reform scheme (股權分置改革) completed by Shanghai Power in 2005.

We understand from the Directors that pursuant to the Guidelines on Reform of Listed Companies by Merging Shares (關於上市公司股權分置改革的指導意見) promulgated on 23 August 2005, mainland listed companies are encouraged to merge their tradable shares and non-tradable shares, such as State-owned shares or legal person shares (i.e. to implement the equity division reform scheme). Shanghai Power obtained shareholders' approval of its equity division reform scheme at a shareholders' meeting convened on 16 November 2005.

Pursuant to Shanghai Power's equity division reform scheme that took effect on 25 November 2005, CPI Group has undertaken that: (1) during a period of 12 months commencing from the effective date of the reform scheme (the "Prohibited Period"), none of the Shanghai Power Shares held by CPI Group (including the Sale Shares) will be traded on the Shanghai Stock Exchange or otherwise transferred (except for the transfer pursuant to the exercise of the Shanghai Power Option Deed); and any Shanghai Power Shares disposed of by CPI Group on the Shanghai Stock Exchange will not in aggregate exceed 5% of the total issued share capital of Shanghai Power during a period of 12 months from the expiry of the Prohibited Period, or exceed 10% of its total issued share capital during a period of 24 months from the expiry of the Prohibited Period; and (2) during a period of 12 months from the expiry of the Prohibited Period, the consideration for any Shanghai Power Shares sold on the Shanghai Stock Exchange will be no less than RMB 6 per share (adjusted as necessary for events such as declaration of dividends, issue of bonus shares and capitalisation of reserves).

Under Shanghai Power's equity division reform scheme, CPI Group has also undertaken to procure the Company to undertake the same obligations in the event that the Company exercises the Shanghai Power Option Deed.

In addition, pursuant to the Measures for the Administration of Strategic Investments in Listed Companies by Foreign Investors (外國投資者對上市公司戰略投資管理辦法) promulgated on 31 December 2005, the Company may not transfer the Sale Shares within 3 years after the Acquisition.

3.4 ***Convertible bonds and potential dilution effect***

On 22 June 2006, the shareholders of Shanghai Power approved a proposed offering of 5 year convertible bonds for an aggregate principal amount of RMB 1,000 million. The convertible bonds will bear interest at 2.2% per annum for the first year, 2.5% per annum for the second year, 2.6% per annum for the third year, 2.7% per annum for the fourth year and 2.8% per annum for the fifth year. As set out in the Letter from the Board contained in the Circular, neither the conversion price nor any range of conversation prices of the convertible bonds has been determined. However, the proposed terms of the convertible bonds provide that upon expiry of 6 months from the date of issue and until their maturity date, the convertible bonds will be eligible for conversion into new shares at the higher of (i) the arithmetic average of the market closing price of Shanghai Power Shares during the 20 trading days immediately prior to the date of the convertible bonds prospectus; and (ii) the average traded price of Shanghai Power Shares on the last trading day before the date of the convertible bonds prospectus, subject to an upward adjustment of up to 10% which will be jointly determined by the lead underwriters of the convertible bonds and the board of directors of Shanghai Power at the time of the offer. We understand that the proposed convertible bonds offering has been approved in principle by the Public Offering Review Committee (發行審核委員會) of the CSRC at a hearing held on 24 October 2006 and the convertible bonds offering is still subject to formal approval by the CSRC.

Half of the convertible bonds will be offered to the then existing shareholders of Shanghai Power on an assured entitlement basis. We are advised by the Directors that the Company has not decided on whether or not, or through entering into what arrangements if necessary, it will subscribe for any convertible bonds under its assured entitlement if the Acquisition is completed and the Company becomes the registered holder of a 25% equity interest in Shanghai Power before the issue of the convertible bonds.

For illustration purposes only, assuming all the convertible bonds were converted into Shanghai Power Shares at RMB 4.21 per share, being the market closing price of Shanghai Power as at the Latest Practicable Date, the Company's equity interest in Shanghai Power would be diluted to 21.70% if the Company chooses not to subscribe for any convertible bonds under its assured entitlement; and to 23.35% if the Company chooses to fully subscribe for the convertible bonds under its assured entitlement.

We also note that the issue of the convertible bonds may have a dilutive effect on the earnings per share and may have an impact on the financial results of Shanghai Power.

3.5 ***Historical price and current trading information***

We have reviewed the historical multiples of the market price per share to earnings per share ("P/E") of Shanghai Power Shares. The review indicated that the market closing prices per Shanghai Power Share as at 31 December 2003, 31 December 2004, and 31 December 2005, were RMB 10.70, RMB 7.03, and RMB 3.92 (or equivalent to approximately HK$ 10.59, HK$ 6.96 and HK$ 3.88) respectively. Based on the earnings per share, as reported in Shanghai Power's audited financial statements prepared in accordance with PRC GAAP dated 31 December 2003, 31 December 2004, and 31 December 2005, of RMB 0.2562, RMB 0.2530, and RMB 0.2544, Shanghai Power's current fiscal year ("CFY") P/E ratios as of 31 December 2003, 31 December 2004 and 31 December 2005 were 41.76x, 27.79x, and 15.41x.

Based on the average market closing price per Shanghai Power Share of RMB 9.54 for the year ended 31 December 2003, RMB 8.99 for the year ended 31 December 2004, and RMB 5.43 for the year ended 31 December 2005 (or equivalent to approximately HK$ 9.44, HK$ 8.90 and HK$ 5.37 respectively), the average CFY P/E ratios for the same periods were 37.22x, 35.52x, and 21.34x, respectively.

As at the Latest Practicable Date, the market closing price per Shanghai Power Share was RMB 4.21 (or equivalent to approximately HK$ 4.17), representing a P/E ratio of approximately 16.5x based on the earnings per share of Shanghai Power of RMB 0.2544 for the year ended 31 December 2005. The market capitalisation of Shanghai Power amounted to RMB 6,582.36 million (or equivalent to approximately HK$ 6,516.53 million) as at the Latest Practicable Date.

4. **Funding of the Acquisition**

The Company completed its initial public offering in October 2004 (the "IPO"). The net proceeds raised, after deducting underwriting commission and other listing related expenses, amounted to approximately HK$ 2,457 million. As described in the Company's prospectus dated 4 October 2004 and in its annual report for the year ended 31 December 2004, the Company specifically set aside IPO proceeds of approximately HK$ 1,651 million to fund future acquisitions. We understand from the Directors that, of the HK$ 1,651 million intended to be used to fund future acquisitions, approximately RMB 594 million (or equivalent to approximately HK$ 588.06 million) was used to acquire Shentou I Power Plant in 2005.

We note from the Company's interim report for the six months ended 30 June 2006 that the Company still retained part of the proceeds from the IPO, being approximately RMB 1,054 million (or equivalent to approximately HK$ 1,043.46 million) as at 30 June 2006, which will be used for capital investment, asset acquisition and general operational purposes for power plants under construction.

The Company had total cash and cash equivalent resources of approximately RMB 2,069 million (or equivalent to approximately HK$ 2,048.31 million) as at 30 June 2006 as disclosed in its unaudited condensed consolidated interim financial information for the six months ended 30 June 2006.

In addition, we note that the Company conducted a share placement on 9 November 2006, raising net proceeds of approximately HK$ 1,700 million. Pursuant to the announcement made by the Company on 10 November 2006 in relation to the share placement, the Company intends to apply all such net proceeds towards the acquisition and development of new power plant projects. However, we understand from the Directors that the Company does not currently intend to use the placement proceeds to fund the Acquisition.

We understand from the Directors that the Acquisition will be financed by a combination of the Company's internal cash resources, including the remaining balance of the IPO proceeds, and external financings. As disclosed in the Letter from the Board, the Company has not yet determined the detailed breakdown of the source of funding of the Acquisition. We are advised by the Directors that the Company will ensure that it has sufficient cash resources to fund the Acquisition.

5. **Reasons for the Acquisition**

The Directors represented in the Company's prospectus dated 4 October 2004 that, in deciding whether or not to exercise the Shanghai Power Call Option and to enter into the Acquisition Agreement with CPI Group, they would take into consideration various factors, including the operational results of Shanghai Power, the growth outlook of Shanghai Power, the general levels of power supply and power demand in the Shanghai area and the exercise price of the Shanghai Power Call Option.

As described in the Letter from the Board, Shanghai Power is the largest power provider in Shanghai and has in the past few years expanded its operations in the East China region. It has also achieved significant growth in installed capacity in recent years, with the compound annual growth rate of its attributable capacity reaching 23% from 2003 to 2005.

The Directors believe that the Acquisition represents a strategic opportunity for the Company:

(i) to enlarge the Company's operational scale significantly, with the Company's attributable capacity to be increased from 4,255MW to above 5,300MW (based on Shanghai Power's attributable installed capacity as at 31 December 2005), or an increase by approximately 25%, upon completion of the Acquisition;

(ii) to enter into a new market, with the Acquisition resulting in the Company's entry into the Shanghai market;

(iii) to leverage Shanghai Power's market leadership position;

(iv) to enhance future capacity growth, taking into consideration a number of projects under construction and development by Shanghai Power; and

(v) to enjoy the expected improving financial performance of Shanghai Power, in view of various developments recently undertaken by Shanghai Power.

Please also refer to the Letter from the Board contained in the Circular for further details. We note that the Directors are of the view that the Acquisition is consistent with the Company's development strategy and that they believe that now is an ideal time to acquire the Sale Shares and tap the growth potential of Shanghai Power. The Directors further believe that the Acquisition will be beneficial to the Company and will have a positive impact on the Company's future prospects, thus benefiting the Company and its shareholders as a whole.

6. Potential financial impact of the Acquisition

As disclosed in the Letter from the Board, the Directors are of the view that the Acquisition will have a positive impact on the future prospects of the Company based on Shanghai Power's operating performance and the synergies between the Company's and Shanghai Power's operations.

Upon completion of the Acquisition, the Company will account for its interest in Shanghai Power, which will be classified as an associated company, using the equity accounting method in its financial statements. As such, the Company's investment in a 25% equity interest of Shanghai Power will be stated at investment cost in the Company's balance sheet and the post-acquisition profit attributable to the Sale Shares will contribute to the profit of the Company. The Company will also recognise in its reserves account its share of any post-acquisition movements in Shanghai Power's reserves.

7. Consideration and Valuation

a) *Basis of Consideration*

As disclosed in the Letter from the Board contained in the Circular, the Consideration was arrived at after arm's length negotiations between the parties to the Acquisition Agreement with reference to the latest audited net asset value of Shanghai Power, as elected by the Company pursuant to the Shanghai Power Option Deed.

The Consideration, which will be satisfied by a combination of the Company's internal cash resources and external financing, was determined based on the net asset value per Shanghai Power Share as at 30 June 2006 audited by 岳華會計師事務所 (Yuehua Certified Public Accountants or "Yuehua") in accordance with PRC GAAP. Yuehua is the statutory auditor of Shanghai Power in the PRC.

The consideration of RMB 4.26 per Sale Share represents a premium of approximately 8.5% over the audited net asset value of Shanghai Power of RMB 3.9272 as at 30 June 2006. The Consideration also represents a premium of approximately 1.19% to the closing price of the Shanghai Power Shares of RMB 4.21 (or equivalent to approximately HK$ 4.17) as at the Latest Practicable Date.

b) ***Valuation of the Acquisition***

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

Valuation multiples of the Acquisition	**Based on financial information prepared under PRC GAAP**	**After taking into consideration the HK GAAP adjustments as summarised in section 3.2 of this letter ***
EV / sales	2.0 x	2.6x
EV / EBITDA	8.6 x	not available
EV / EBIT	19.3x	20.7x
Price / earnings	16.7 x	16.7 x
Price / net asset value	1.085 x	1.085 x
EV / MW	RMB 3.37 million	RMB 2.09 million

Notes:

* For the purpose of comparison, these valuation multiples were calculated based on the Directors' estimates of Shanghai Power's financial position and operating results after taking into consideration the differences between PRC GAAP and HK GAAP as summarised in the section entitled "3.2.Financial information on Shanghai Power" of this letter.

(i) Price refers to the equity value of Shanghai Power as implied by the consideration of RMB 4.26 per Shanghai Power Share pursuant to the Acquisition Agreement;

(ii) EBITDA and EBIT respectively refer to earnings before interest, tax, depreciation and amortisation expenses and earnings before interest and tax expenses of Shanghai Power;

(iii) Net asset value and earnings: Shanghai Power's net asset value and its net profit attributable to equity holders, being approximately RMB 6,140 million as at 30 June 2006 and RMB 397.8 million for the year ended 31 December 2005 respectively, would not be affected by the differences in accounting treatment as summarised in the section entitled "3.2.Financial information of Shanghai Power" of this letter; and

(iv) MW refers to the installed generation capacity in megawatt attributable to Shanghai Power, being approximately 4,370 MW as at the Latest Practicable Date.

c) ***Comparable companies analysis***

In formulating our opinion, we have considered the current market multiples of various comparable and listed companies based in the PRC based on their respective market price as at the Latest Practicable Date and their latest available financial statements. In selecting the comparable listed companies, we have identified and chosen the following three groups of companies.

(i) All of the major PRC electricity generation companies that are listed in Hong Kong (as set out in the table below). Such companies have power generating businesses and operations mainly based in the PRC and derive substantially all of their revenue from the PRC;

(ii) All of the PRC electricity generation companies that are listed on either the Shanghai or Shenzhen B share markets (as set out in the table below). As their shares are traded on the B share markets, the financial statements of these B-share listed companies are prepared in accordance with or adjusted to reflect IFRS or HK GAAP; and

(iii) The major PRC electricity generation companies that have A shares listed on either the Shanghai or Shenzhen stock exchanges and a current market capitalisation of not less than RMB 4,000 million (as set out in the table below). Certain companies in this group are also listed in Hong Kong or have listed B shares and thus are also included in (i) and (ii) above. We also note that the financial information, based on which relevant valuation multiples are calculated, of these comparable companies is prepared in accordance with PRC GAAP and there may be significant differences between PRC GAAP and the accounting principles adopted by those comparable companies referred to in (i) and (ii) above.

The following table sets out our findings:

		Mkt Cap (RMB million)	Accounting policies	EV/ Sales (x)	EV/ EBITDA (x)	EV/ EBIT (x)	P/E (x)	P/NAV (x)	Premium to NAV (%)	EV/MW (RMB million)
(i)	**Hong Kong listed PRC power companies**									
	Datang International Power Generation Co. Ltd	35,809.5	IFRS	4.6	11.1	18.1	15.2	1.944	94.4%	8.99
	China Resources Power Holding Company Limited	42,081.4	HK GAAP	8.6	12.6	14.8	14.4	3.048	204.8%	10.56
	The Company	**13,814.5**	**HK GAAP**	**3.8**	**14.6**	**20.3**	**20.9**	**2.011**	**101.1%**	**3.92**
	Huaneng Power Int'l Inc.	76,853.1	IFRS	3.2	9.1	16.1	15.8	1.961	96.1%	7.78
	Huadian Power International Corporation Limited	16,827.7	IFRS	4.2	5.2	20.3	15.8	1.314	31.4%	5.16
	Average for Hong Kong listed PRC power companies			**4.9**	**10.5**	**17.9**	**16.4**	**2.056**	**105.6%**	**7.28**
(ii)	**B-share listed PRC power companies**									
	Shenzhen Nanshan Power Station Co. Ltd	2,146.3	HK GAAP	1.4	13.9	39.3	71.7	1.463	46.3%	2.44
	Huadian Energy Co. Ltd	2,424.2	IFRS	1.9	6.3	14.5	21.2	0.709	-29.1%	2.32
	Zhejiang Southeast Electric Power Co. Ltd	7,268.2	IFRS	1.9	6.4	10.6	12.2	1.153	15.3%	3.62
	Guangdong Electric Power Development Co. Ltd (B)	12,369.4	HK GAAP	2.1	7.6	11.5	15.9	1.461	46.1%	5.70
	Average for B-share listed PRC power companies			**1.8**	**8.6**	**19.0**	**30.3**	**1.197**	**19.7%**	**3.52**
	Adjusted average for B-share listed PRC power companies			**2.0**	**6.8**	**12.2**	**16.5**	**1.108**	**10.8%**	**3.88**
(iii)	**A share listed PRC power companies**									
	Huaneng Power Int'l Inc. (A)	64,375.7	PRC GAAP	2.9	8.5	14.6	13.5	1.691	69.1%	8.36
	Huadian Power International Corporation Limited (A)	15,353.8	PRC GAAP	3.1	11.1	19.3	15.1	1.214	21.4%	8.47
	Guangdong Electric Power Development Co. Ltd (A)	12,366.2	PRC GAAP	2.3	8.5	13.1	17.2	1.497	49.7%	6.51
	Shanghai Power	**6,582.4**	**PRC GAAP**	**2.0**	**8.5**	**19.2**	**16.5**	**1.072**	**7.2%**	**3.35**
	Guangxi Guiguan Electric Power Co., Ltd.	6,647.7	PRC GAAP	4.9	12.2	22.8	30.3	2.172	117.2%	N/A
	Inner Mongolia MengDian HuaNeng Thermal Power Co	4,953.1	PRC GAAP	3.4	11.9	27.2	72.9	1.131	13.1%	3.70
	Shanxi Zhangze Electric Power Co Ltd.	4,774.8	PRC GAAP	2.7	12.3	29.4	19.9	2.412	141.2%	N/A
	SDIC Huajing Power Holdings Co., Ltd	4,677.6	PRC GAAP	3.7	6.8	11.2	12.3	3.174	217.4%	7.61
	Average for A-share listed PRC power companies			**3.1**	**10.0**	**19.6**	**24.7**	**1.795**	**79.5%**	**6.33**
	The Acquisition		PRC GAAP	**2.0**	**8.6**	**19.3**	**16.7**	**1.085**	**8.5%**	**3.37**
			Adjusted *	**2.6**	**N/A**	**20.7**	**16.7**	**1.085**	**8.5%**	**2.09**

Source: Bloomberg, the latest available full year audited financial statements and the latest available interim financial statements (either audited or unaudited) of the relevant companies as at the Latest Practicable Date

Notes:

* In calculating the adjusted valuation multiples of the Acquisition, Shanghai Power's financial data as adjusted by the Director's estimates of the differences between PRC GAAP and HK GAAP (as summarised in section 3.2 of this letter) was used. Please also refer to the section entitled "7.b Valuation of the Acquisition" of this letter for further information.

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 according to Bloomberg and the companies' respective annual report or interim report.

(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 information that is most recently available in the public domain, being extracted from (i) the interim reports for the six-month ended 30 June 2006 for all Hong Kong listed PRC power companies, all A-share listed PRC power companies and Shenzhen Nanshan Power Station Co. Ltd and (ii) the 2005 annual reports for the other three B share listed PRC power companies.

(iv) E or Earnings refer to net profit excluding extraordinary items according to the financial statements for the 2005 financial year.

(v) EBITDA refers to earnings before interest, tax, depreciation and amortisation expenses as according to the financial statements for the 2005 financial year.

(vi) EBIT refers to earnings before interest and tax expenses according to the financial statements for the 2005 financial year.

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

(viii) In calculating any valuation multiples relating to the Acquisition, we have derived the relevant multiples on the basis of the consideration of RMB 4.26 per Shanghai Power Share.

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

(x) N/A means not available

(xi) The adjusted average valuation multiples for B-share listed power companies were calculated after excluding extreme values, namely those valuation multiples related to Shenzhen Nanshan Power Station Co. Ltd. as certain valuation multiples (for example, the EV/EBIT multiple, the EV/EBITDA multiple and the P/E multiple) of this company are significantly higher than those of its B-share listed peers and subsequently distort the average numbers when included in the sample.

(xii) An exchange rate of RMB 1.02=HK$ 1.0 has been used

(xiii) An exchange rate of RMB 8.00=US$1.0 has been used

Based on the analysis of the transactions shown in the table above, we note the acquisition multiples (i.e. the EV/Sales multiple, the EV/EBITDA multiple, the EV/EBIT mulitple, the P/E multiple, the P/NAV multiple and the EV/MW multiple) of the Acquisition, including without limitation, the fact that the Consideration represents a premium of 8.5% to Shanghai Power's NAV as at 30 June 2006), are generally in line with and no less favourable to the average valuation of comparable Chinese power companies listed either in Hong Kong or in China (on either the A-share market or B-share market).

d) ***Comparable transactions analysis***

(i) *Transaction premium analysis*

We have looked into a number acquisition transactions announced in the past 24 months in the global electric power generation sector with both acquirer and target companies being power companies, where information is publicly available and the relevant interests acquired represented minority interests in listed companies. We have analysed the acquisition premium (represented as a percentage over the stock price) calculated based on the per share offer price to the stock price of the relevant target companies at 1-day, 1-week and 4-weeks price prior to the announcement dates.

The following table sets out our findings:

Date Announced	Country	Acquiror Name	Target Name	% of shares acquired	Premium - 1 day prior to announcement date	Premium - 1 week prior to announcement date	Premium - 4-weeks prior to announcement date
4-Aug-06	China	Sichuan Electric Power Corp	Leshan Electric Power Co Ltd	14.56	-49.58	-52.7	-54.37
27-Jul-06	China	Sichuan Hydropower Invest Mgmt	Sichuan Xichang Power	14.66	-47.53	-45.64	-49.01
28-Jun-06	Brazil	Interconexion Electrica SA	Cia de Transmissao de Energia	21.00	89.31	99.63	86.71
12-Apr-06	China	Sichuan Putong Indl Co Ltd	Sichuan Guangan AAA Pub Co Ltd	5.95	-46.78	-45.47	-43.73
9-Aug-05	Belgium	Suez SA	Electrabel SA	49.99	7.99	11.9	16.03
23-May-05	Italy	Holding Energia & Risorse	Modena Energia Territorio Ambiente SpA	29.00	8.65	5.6	15.3
17-Jan-05	Finland	Fortum Oyj	E ON Finland Oyj	34.20	45.45	45.45	45.45
Average					**1.07**	**2.68**	**2.34**
Average (China)					**-47.96**	**-47.94**	**-49.04**
Average (excluding China)					**37.85**	**40.65**	**40.87**
The Acquisition				**25.00**	**-4.05**	**1.67**	**-2.07**

Source: Thomson Financial

For acquisitions involving Chinese listed companies, we note that the average offer prices, as represented by the premia over (or discounts to) the target companies' stock prices at 1-day, 1-week and 4-weeks respectively prior to the announcement dates, are significantly lower than the transactions involving international target companies. We understand that the offer price for those relevant Chinese transactions were negotiated and announced before the announcement or completion of the equity division reform by the relevant target companies. Thus, the relevant interests transferred represent either State-owned shares or legal person shares that were subject to restrictions on transfer under PRC laws and could not be traded on the relevant stock exchanges. The discounts therefore reflect the lack of liquidity for the relevant interests transferred.

We note that Shanghai Power has completed its equity division reform scheme. Accordingly the Sale Shares to be acquired by the Company are fully tradeable on the Shanghai Stock Exchange, subject to the Company complying with the non-disposal obligations pursuant to (i) the undertakings given by CPI Group under the Shanghai Power's equity division reform scheme and (ii) the relevant lock-up requirements under PRC laws and regulations (please refer to the section entitled "3.3 Lock-up restrictions" of this letter for further details).

We note that the premia over (or discounts to) the market closing prices of Shanghai Power Shares prior to the announcement date as represented by the consideration of RMB 4.26 per Shanghai Power Share are significantly lower than the average premia if those relevant Chinese transactions are excluded.

(ii) *Transaction multiples analysis*

We have also reviewed the acquisition transactions in the Chinese coal-fired electric power generation sector which have taken place since 2004 where relevant information is publicly available. In selecting comparable transactions, we have focused on material transactions where the attributable installed capacity involved in the relevant acquisition was 500 MW or greater. The following table sets out our findings:

Announcement date	Acquirer	Seller	Accounting policies	Total installed capacity attributable to the target (MW)	Total installed capacity attributable to the acquisition (MW)	EV/ EBITDA (x)	P/E (x)	P/NAV (x)	EV/MW (RMB million)
27-Jul-06	China Resources Power Holding Company Limited	China Resources (Holdings) Limited	PRC GAAP	1,280	704	N/A	N/A	1.022	3.1
10-Jun-05	The Company	China Power Development Limited	HK GAAP	1,200	1,200	4.9	4.9	1.349	0.8
6-Jan-05	China Huaneng Group and CITIC	Siemens / HEW	IFRS	1,320	528	9.4	12.5	3.608	10.1
3-Nov-04	Huaneng Power International Inc.	China Huaneng Group	IFRS	1,200	780	9.0	10.8	2.200	3.8
6-Aug-04	Huadian Energy Co. Ltd	China Huadian Corporation	PRC GAAP	1,600	684	15.1	neg.	3.685	3.3
16-Apr-04	Huaneng Power International Inc.	China Huaneng Group	IFRS	4,833	3,036	5.7	8.7	1.710	3.8
Average				**1,905.5**	**1,155.3**	**9.8**	**10.7**	**2.801**	**5.3**
The Acquisition	**Based on PRC GAAP**			**4,373**	**1,093**	**8.6**	**16.7**	**1.085**	**3.4**
	Adjusted					**N/A**	**16.7**	**1.085**	**2.1**

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 indebtedness of the acquisition target in accordance with latest audited financial information that is available prior to the respective acquisition.

(iii) China Resources Power Holding Company Limited acquired from China Resources (Holdings) Company Limited the entire issued share capital of an investment holding company that holds a 55% equity interest in 阜陽華潤電力有限公司 (Fuyang China Resources Power Co., Ltd.), which is located in Anhui Province and owns and operates two 640 MW coal-fired power generating units that commenced operation in March and June 2006 respectively.

(iv) The Company acquired from China Power Development Limited the entire issued share capital of an investment holding company that owns 100% the power generation assets and operations of Shanxi Shentou I Power Plant, which is located in Shanxi Province and owns and operates six 200 MW coal-fired power generating units.

(v) 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.

(vi) 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.

(vii) 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 PRC GAAP.

(viii) 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.

From the above comparable transaction multiples analysis only, we note that the Acquisition's P/E multiple of 16.7 times is higher than, and thus compares less favorably to, the average P/E multiple of 10.7 times for those comparable transactions. However, we note that the Acquisition's P/E multiple is generally in line with and no less favorable to the average P/E multiples for comparable companies set out in the section entitled "3.c) Comparable companies analysis" above. Moreover, we note that save for the P/E multiple in the above analysis, the valuation multiples for the Acquisition compare favorably to the other 3 valuation multiples (i.e. the EV/EBIT multiple, the P/NAV multiple and the EV/MW multiple) of the comparable transactions.

SUMMARY

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

(i) the representation made by the Directors that the Acquisition Agreement was negotiated and entered into on an arm's length basis between the parties thereto;

(ii) the Directors' view that the Acquisition is consistent with the Company's strategy and represents a good opportunity for the Company to enlarge its operational scale; to enter into a new market; to leverage Shanghai Power's market leadership position; to enhance future capacity growth; and to enjoy the expected improving financial performance of Shanghai Power;

(iii) the fact that the Acquisition Agreement was entered into pursuant to the exercise of the Shanghai Power Option Deed and the Directors' view that now is an ideal time to acquire the Sale Shares and tap the growth potential of Shanghai Power;

(iv) the fact that that the Company has elected to exercise the Shanghai Power Call Option based on the latest audited net asset value per Shanghai Power Share pursuant to the pricing provision under the Shanghai Power Option Deed and that the Consideration represents a premium of approximately 8.5% over net asset value per Shanghai Power Share of RMB 3.927 as at 30 June 2006 as audited by Yuehua in accordance with PRC GAAP;

(v) the Directors' view that the Acquisition will have a positive impact on the future prospects of the Company based on Shanghai Power's operating performance and the synergies between the Company's and Shanghai Power's operations; and

(vi) the analysis of (i) the current market valuation multiples of comparable companies, (ii) the transaction premia of comparable transactions involving acquisitions of minority interests in listed power companies, and (iii) the transaction valuation multiples of comparable transactions involving acquisitions of Chinese coal-fired power companies as set out in the section entitled "Consideration and valuation" in this letter.

RECOMMENDATION

Having considered all the above principal factors and reasons, we consider as the date hereof that:

a) the terms of the Acquisition are on normal commercial terms;

b) the Acquisition is entered into in the ordinary and usual course of the business of the Company; and

c) the terms of the Acquisition are fair and reasonable and in the interests of the Company and its Shareholders (including the Independent Shareholders) as a whole.

Accordingly, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the Acquisition at the EGM to be convened on 6 December 2006, at 10:00 a.m..

This letter is provided to the Independent Board Committee and the Independent Shareholders of the Company in connection with and for the purposes of their evaluation of the Acquisition. In the event of inconsistency, the English text of this letter shall prevail over the Chinese text. This letter may not be disclosed, referred to, or communicated (in whole or part) to any third party for any purpose whatsoever except with our prior written approval. This letter may be reproduced in full in the Circular but may not otherwise be disclosed publicly in any manner without our prior written approval.

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited
Robert Reid
Managing Director

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 in this circular misleading.

2. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons have an interest or short position in the shares or underlying shares of the Company as follows which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries:

Name	**Number of shares**	**Percentage of shares held** *(%)*
CPDL	1,996,500,000(L)	63.68
CPI Holding	1,996,500,000(L)	63.68
CPI Group	1,996,500,000(L)	63.68

Notes:

(a) 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.

(b) CPDL is interested in a total of 1,996,500,000 shares in the Company due to the following reasons:

(i) CPDL legally and beneficially holds 1,526,500,000 shares in the Company; and

(ii) Pursuant to the placing, underwriting and subscription agreement between CPDL, the Company and Credit Suisse (Hong Kong) Limited (as placing agent) dated November 9, 2006 as referred to in the Company's announcement dated November 9, 2006, CPDL has agreed to subscribe for 470,000,000 shares of the Company upon completion of the subscription.

(c) The letter "L" denotes long position in the shares or underlying shares of the Company.

3. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, save as the options granted to our Directors under the Company's Pre-IPO Share Option Scheme as disclosed in the table below, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

Name	Date of Grant	Number of Shares subject to the option	Exercise price (HK$)
Wang Binghua	18 September 2004	1,495,400	2.53
Li Xiaolin	18 September 2004	1,661,500	2.53
Hu Jiandong	18 September 2004	996,900	2.53
Gao Guangfu	18 September 2004	207,700	2.53

4. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors was materially interested in any contract or arrangement entered into by any the Company or any of its subsidiaries since December 31, 2005, being the date to which the latest published audited financial statements of the Company were made up or subsisting at the Latest Practicable Date, and which was significant in relation to the business of the Company and its subsidiaries taken as a whole.

5. SERVICE CONTRACTS

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

6. COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their associates had any competing interests:

Name	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	Manager of the Department of Finance and Asset Management of CPI Group

7. EXPERT AND CONSENT

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

Names	Qualifications
CLSA	CLSA Equity Capital Markets Limited, a licensed corporation under the SFO, licensed to undertake Types 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders

As at the Latest Practicable Date, CLSA had given and had not withdrawn its written consent to the issue of this circular with the inclusions of its statement and references to its name in the form and context in which it is included.

As at the Latest Practicable Date, CLSA was not interested in the share capital of the Company and its subsidiaries and did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of the Company and its subsidiaries.

8. INTERESTS IN ASSETS

None of the Directors or the expert named in paragraph 7 of this Appendix had since December 31, 2005, 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 the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Company and its subsidiaries since December 31, 2005, the date to which the latest published audited accounts of he Company were made up.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was 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 Company or any of its subsidiaries.

11. MISCELLANEOUS

(a) The company secretary of the Company is Dr. Tse Hiu Tung, Sheldon, who is a solicitor of the High Court of Hong Kong.

(b) The qualified accountant of the Company is Hui Ka Chun, who is a fellow member of the Association of Chartered Certified Accountants and is an associate member of the Hong Kong Institute of Certified Public Accountants.

(c) The registered office of the Company is 6301, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(d) The head office of the Company is 6301, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(e) Computershare Hong Kong Investor Services Limited, the share registrar of the Company, is located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Slaughter and May at 47th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours (Saturdays and public holidays excepted) from the date of this circular until December 6, 2006 (both dates inclusive):

(a) the memorandum and articles of association of the Company;

(b) the Shanghai Power Option Deed;

(c) the Acquisition Agreement;

(d) the written consent of the Independent Financial Adviser;

(e) the letter from the Independent Financial Adviser; and

(f) the letter from the Independent Board Committee.

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

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

(Stock Code: 2380)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of China Power International Development Limited (the "Company") will be held at Concord Room I, 8/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on December 6, 2006 at 10:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the conditional sale and purchase agreement (the "Acquisition Agreement') dated November 2, 2006 between China Power Investment Corporation ("CPI Group") and the Company, a copy of which has been produced to the meeting marked "A" and has been initialled by the chairman of this meeting for the purpose of identification, pursuant to which, inter alia, CPI Group agreed to sell, and the Company agreed to purchase, 390,876,250 shares in the issued share capital of Shanghai Electric Power Co., Ltd. for a total consideration of RMB 1,665,132,825, and the transaction contemplated thereunder, be and are hereby generally and unconditionally approved, confirmed and ratified 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."

By Order of the Board
China Power International Development Limited
Tse Hiu Tung, Sheldon
Company Secretary

Hong Kong, November 18, 2006

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 shareholder of the Company.

2. Where there are joint registered holders of any share, any one such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders is present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, a form of proxy duly completed and signed in accordance with the instructions printed thereon together with the 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 Shops 1712-1716, 17th Floor, 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.