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## **China Power International Development Limited**

**中國電力國際發展有限公司**

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

**(Stock Code: 2380)**

### **Announcement**

#### **Discloseable and Connected Transaction**

#### **Proposed Acquisition of 25% Interest in Shanghai Power**

##### **The Acquisition Agreement**

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.

The Company announces 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 RMB 4.26 per share. The total consideration is RMB 1,665,132,825 (equivalent to approximately HK\$1,645,151,231).

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 (RMB4.44 per share). The Acquisition will be financed from proceeds from its initial public offering in 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 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.

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.

### **Financial Advisors**

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

The Company will establish 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.

### **General**

A circular containing, amongst other things, further information on the Acquisition, a letter from the Independent Board Committee, a letter from the independent financial adviser, and a notice to convene the EGM, will be despatched to the shareholders of the Company as soon as practicable. 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 resolution for approving the Acquisition at the EGM.

## **1. THE ACQUISITION**

### **(a) 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.

The Company 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.

### **(b) Interest to be acquired**

The Company has conditionally agreed to acquire from CPI Group 390,876,250 Sale 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 25 November 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.

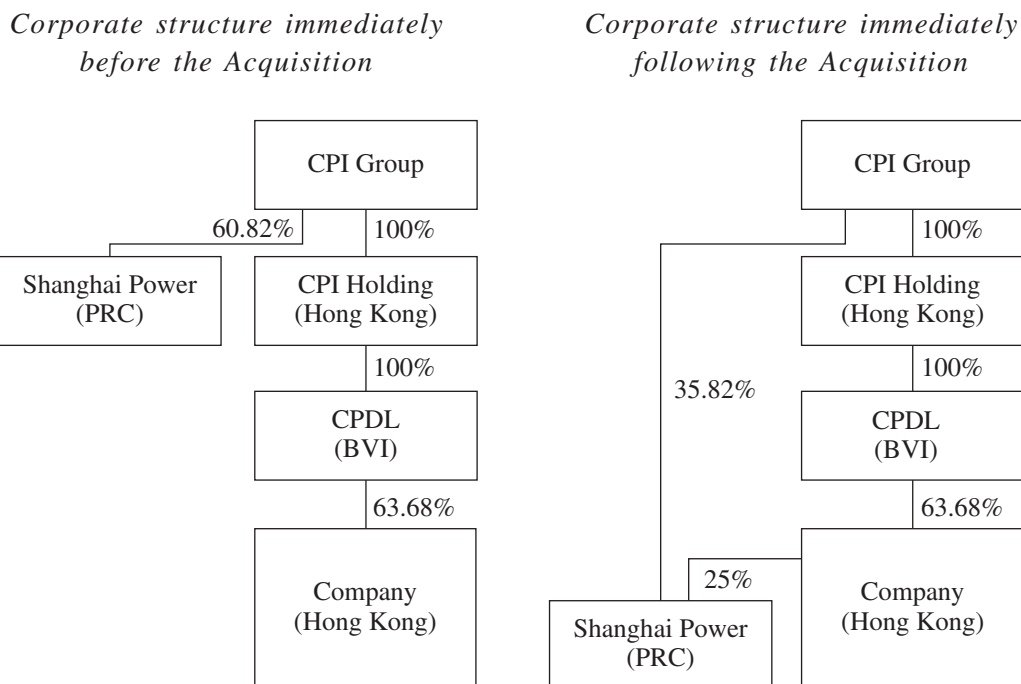
(c) **The Consideration**

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\$1,645,151,231), 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.

(d) **Corporate Structure**



(e) **Conditions of the Acquisition Agreement**

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

- (i) 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;
- (ii) the passing of an ordinary resolution by the Independent Shareholders approving the Acquisition Agreement and the transaction contemplated thereunder;
- (iii) there has not been any material adverse change to the financial position, business operations or prospect of Shanghai Power since June 30, 2006;
- (iv) the representations and warranties of CPI Group are true and accurate and not misleading in any material respect at the time of completion of the Acquisition;
- (v) the representations and warranties of the Company are true and accurate and not misleading in any material respect at the time of completion of the Acquisition; and
- (vi) 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 (iii), (iv) and (vi) (insofar as it applies to the obligations of CPI Group) above may be waived by the Company, and the conditions set out in paragraphs (v) and (vi) (insofar as it applies to the obligations of the Company) above may be waived by CPI Group.

**(f) 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.

**(g) Completion**

Pursuant to the Acquisition Agreement, within ten business days upon fulfillment (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\$822,575,615.6) 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.

**(h) 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 material adverse change to the financial position, business operations or prospect of Shanghai Power.

**2. 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, attributable capacity of the Company will increase from 4,255MW to above 5,300MW, 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 (關山發電廠), 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 2006. 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.

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

### **3. 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. As at December 31, 2005, Shanghai Power has an attributable installed capacity of 4,260 MW and a gross generation of 22,554 GWh.

The major shareholders of Shanghai Power are CPI Group and Shanghai 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.

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

|   | <b>Financial<br/>year ended<br/>31 December<br/>2004 (RMB<br/>million)</b> | <b>Financial<br/>year ended<br/>31 December<br/>2005 (RMB<br/>million)</b> | <b>Six months<br/>ended 30<br/>June 2006<br/>(RMB<br/>million)</b> |
|---|--|--|--|
| Audited consolidated profit before<br>taxation and minority interests | 693.5  | 711.2  | 288.4  |
| Audited consolidated profit after taxation<br>and minority 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 conversion 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 Company Limited (上海吳淞發電有限責任公司) (“Wujing”), 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 jointly 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. 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.

#### **4. INFORMATION ON THE COMPANY AND CPI GROUP**

The Company’s principal activities are the development, construction, operation and management of power plants. Approximately 63.68% of the issued share capital of the Company is owned by CPDL as at the date of this announcement. 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.



## 5. LISTING RULES IMPLICATIONS

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 of the Company) will be 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 and in the interests of the shareholders of the Company as a whole.

## 6. EGM

An EGM will be held on or about December 6, 2006 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.

A circular containing further information on the Acquisition, a letter from the Independent Board Committee, a letter from the independent financial adviser and a notice to convene the EGM, will be despatched to the shareholders of the Company as soon as practicable.

## DEFINITIONS

In this announcement, 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 announcement |
| “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  |
| “Board”                 | the board of Directors  |

|                               |   |
|-------------------------------|---|
| “CLSA”                        | 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 which holds approximately 63.68% equity interest in the Company    |
| “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 Holding 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 |
| “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 to be 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   |
| “Listing Rules”               | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |
| “PRC” or “China”              | the People’s Republic of China. Geographical reference in this announcement to the PRC excludes Hong Kong, the Macau Special Administrative Region and Taiwan   |
| “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)  |
| “Shanghai Power”             | 上海電力股份有限公司 (Shanghai Electric Power Co., Ltd.*), a joint stock limited company whose A shares are 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 a 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   |
| “Stock Exchange”             | The Stock Exchange of Hong Kong Limited   |

\* *English translation is for identification only.*

*This announcement contains translation of RMB into HK\$ at the rate of RMB1.00 to HK\$0.988. 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.*

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

Hong Kong, November 2, 2006

*As at the date of this announcement, the executive directors of the Company are Ms. Li Xiaolin and Mr. Hu Jiandong, the non-executive directors of the Company are Mr. Wang Binghua and Mr Gao Guangfu , and the independent non-executive directors of the Company are Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec.*