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)

2005 Annual Report

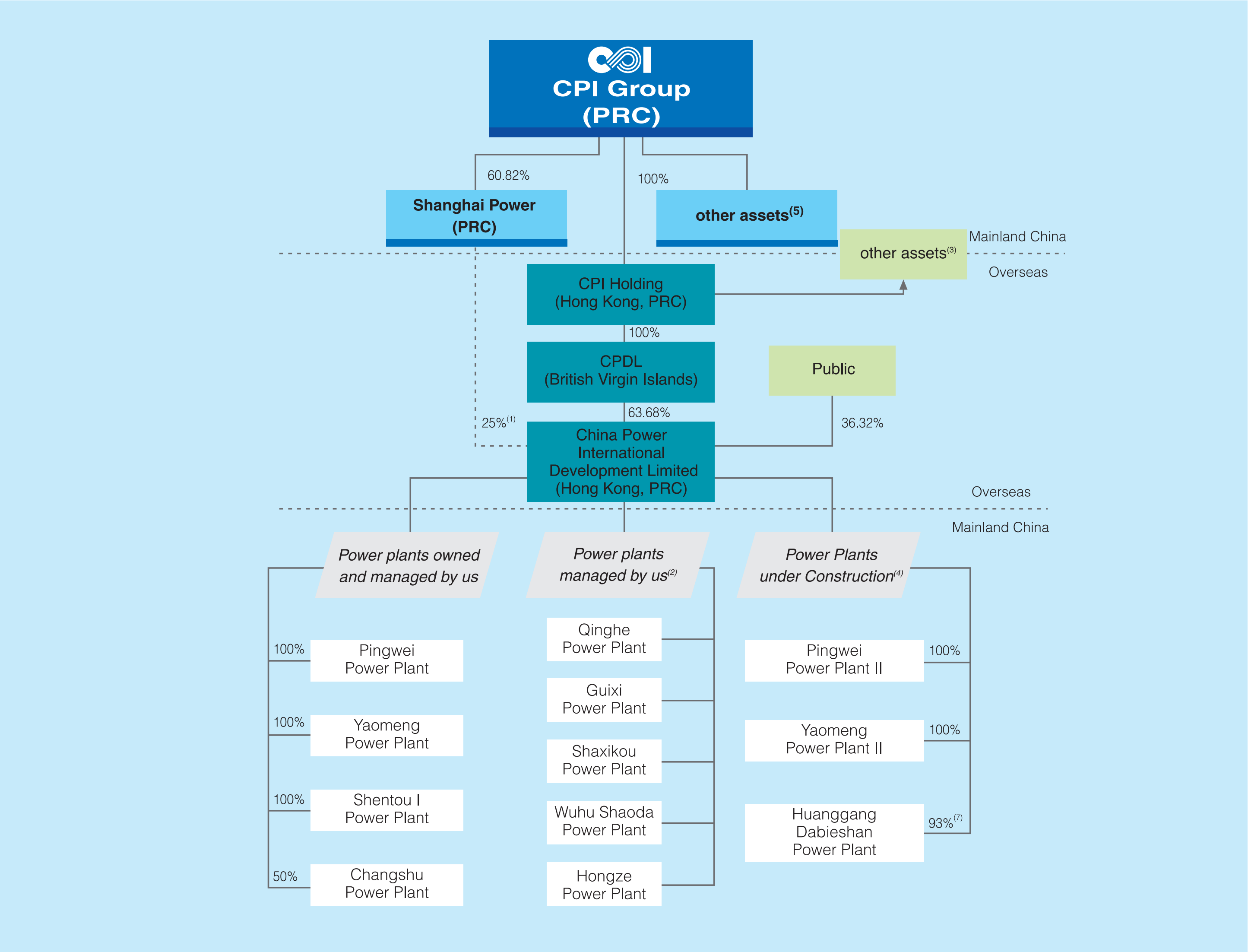
Contents

2005 Financial Highlights

	RMB
Earning per share	
Basic	0.21
Diluted	0.21
Turnover	4,361,718,000
Net profit	661,904,000
Shareholders' equity	6,808,389,000
Total assets	11,708,549,000
Bank balances and cash	2,187,943,000
Borrowings	3,601,000,000
Current ratio (times)	1.98
Quick ratio (times)	1.83
Debt to equity ratio (%)	52.89
EBITDA interest coverage (times)	8.48
Gross generation (GWh)	20,144*
Gross generation for the associated company (GWh)	7,515
Net generation (GWh)	18,701*
Net generation for the associated company (GWh)	7,132

* excluding the associated company

Group Structure



1. We have been granted a call option by CPI Group to acquire up to 25% equity interest in Shanghai Power.
2. We do not own any equity interest in any of the power plants managed by us. These power plants are managed by us pursuant to the management agreements with CPI Group and CPI Holding.
3. The other assets held by CPI Holding are located in Mainland China and Macau.
4. Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant will engage in power generation business upon completion of their construction.
5. The other assets held by CPI Group are located in Mainland China.
6. Please refer to the section headed "Technical Glossary and Definitions" in this annual report for the full names of the companies or power plants referred to in this Group Structure Chart.
7. The equity interest is calculated with reference to the attributable interest in its registered capital.

China Power International Development Limited develops, constructs, owns, operates and manages large power plants in China and is the flagship company of China Power Investment Corporation, one of the leading independent power-generating groups in China, with an attributable installed capacity of 4,255 MW in the operating power plants and an attributable installed capacity of 3,516 MW in the power plants under construction.

Company Profile

China Power International Development Limited (the "Company" or "China Power") was incorporated in Hong Kong with limited liability under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) on 24 March 2004 and is the flagship company of China Power Investment Corporation ("CPI Group"), one of the five leading national power-generating groups in the People's Republic of China (the "PRC" or "China").

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 15 October 2004. The stock code is 2380.

Being the only overseas incorporated and listed company among the five national power-generating groups, the Company's principal business is to develop, construct, own, operate and manage large power plants in the PRC.

At present, the Company and its subsidiaries (the "Group" or "we") own and operate the following power plants:

Pingwei Power Plant (100% ownership), Yaomeng Power Plant (100% ownership), Shentou I Power Plant (100% ownership) and Changshu Power Plant (50% ownership), which have a total installed capacity of 4,870 MW. The Group's attributable installed capacity in these power plants is 4,255 MW. The Company also manages five other power plants on behalf of CPI Group and CPI Holding, namely, Qinghe Power Plant (1,200MW), Guixi Power Plant (500MW), Shaxikou Power Plant (300MW), Wuhu Shaoda Power Plant (250MW) and Hongze Power Plant (30MW), which have a total installed capacity of 2,280 MW.

In addition, the total installed capacity of our three power plants which have been approved by the National Development and Reform Commission ("NDRC") of the PRC and are under construction, namely Pingwei Power Plant II (100% ownership), Yaomeng Power Plant II (100% ownership) and Huanggang Dabieshan Power Plant (93% ownership) will be 3,600 MW, of which our attributable installed capacity will be 3,516 MW.

OUR PARENT COMPANY – CPI GROUP

We are ultimately owned by CPI Group, which is one of the five national power-generating groups in China created pursuant to the restructuring of the power industry of the PRC in 2002. The power plants of CPI Group span 24 provinces, municipalities and autonomous regions with a total installed capacity of approximately 30 GW. As the flagship company of CPI Group, the Company is the only company within CPI Group with a mandate to develop, construct, operate and manage power plants across the PRC.

Company Profile

LOCATIONS OF POWER PLANTS


Jilin
Qinghe Power Plant
Liaoning
Beijing
Shentou I Power Plant
Shanxi
Shandong
Hongze Power Plant
Yaomeng Power Plant II
Yaomeng Power Plant
Shaanxi
Henan
Pingwei
Power Plant
Jiangsu
Changshu Power Plant
Shanghai
Shanghai Power
Pingwei Power Plant II
Hubei
Anhui
Wuhu Shaoda Power Plant
Huanggang
Dabieshan
Power Plant
Guixi Power Plant
Shaxikou Power Plant
Jiangxi
Fujian
South China Sea
Power plants under commercial operation
Power plants under management
Power plants under construction
Power company under call option

Corporate Information

Chairman of the Board:	Wang Binghua
Vice-Chairman of the Board and Chief Executive Officer:	Li Xiaolin
Executive Director and Executive Vice President:	Hu Jiandong
Non-Executive Director:	Gao Guangfu
Independent Non-Executive Directors:	Kwong Che Keung, Gordon Li Fang Tsui Yiu Wa, Alec
Qualified Accountant:	Io Cheok Kei, Rudy (CA, FCPA)
Company Secretary:	Tse Hiu Tung, Sheldon
Auditors:	PricewaterhouseCoopers
Legal Advisers:	Arculli Fong & Ng in association with King & Wood, PRC Lawyers
Registered Office:	Suite 6301, 63/F., Central Plaza 18 Harbour Road Wanchai, Hong Kong
Head Office and Principal Place of Business in Hong Kong:	Suite 6301, 63/F., Central Plaza 18 Harbour Road Wanchai, Hong Kong
Share Registrar and Transfer Office:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Company Website:	www.chinapower.hk
Stock Code:	2380

Major Events in 2005

REVIEW OF MAJOR CORPORATE EVENTS IN THE FIRST HALF OF THE YEAR

January	China Power announced that the gross generation for 2004 recorded a growth of 5.74%.
	Tariff on excess output (value-added tax included) of its associated company in Jiangsu Province, Changshu Power Plant, increased by 7% to RMB300/MWh.
March	China Power held its 2004 Annual Results Presentation in Hong Kong and announced that its net profit recorded a growth of 6.3%.
April	Annual General Meeting of China Power was held in Hong Kong.
	China Power announced that its gross generation for the first quarter recorded 3,506,427 MWh.
	China Power announced that approval had been granted by the NDRC in respect of Pingwei Power Plant II, its wholly-owned power plant.
May	China Power announced that the on-grid tariff (value-added tax included) of Yaomeng Power Plant and Pingwei Power Plant, its wholly-owned power plants, and Changshu Power Plant, its associated company, increased by RMB58.8/MWh, RMB28/MWh and RMB17.7/MWh respectively.
June	The power plants of China Power which were under construction entered into the Construction Project Management Agreements with CPI Management Company and the Equipment Agreements with CP Equipment Project Company.
	China Power, CPI Holding and CPDL entered into a conditional acquisition agreement for the acquisition of the power generation business of Shentou I Power Plant.

REVIEW OF MAJOR CORPORATE EVENTS IN THE SECOND HALF OF THE YEAR

July	China Power announced that, after technical upgrades in the first quarter of 2005, the No. 2 generation units of both Pingwei Power Plant and Changshu Power Plant achieved an increase in installed capacity by 30 MW, while coal consumption decreased significantly.
	China Power announced that gross generation for the first half of 2005 recorded 7,402,816 MWh.
	The acquisition of Shentou I Power Plant by China Power and certain connected transactions which were essential for the operation of Shentou I Power Plant were unanimously approved at an extraordinary general meeting of the Company.
August	China Power held its 2005 Interim Results Presentation in Hong Kong and announced that its net profit recorded RMB250,087,000.
October	China Power announced that gross generation for the first three quarters of 2005 recorded an increase of 13.3% when compared with the same period of 2004.
	CPI Group undertook to China Power that the split share structure reform of Shanghai Power and the undertakings to be given by CPI Group pursuant to the same shall not release CPI Group from its obligations under the Shanghai Power Option Deed, and China Power had also made certain undertakings.
	China Power announced that the registered capital and total investment of Pingwei Power Plant II, its subsidiary, had been increased from US$29,990,000 to US$150,000,000 and from US$29,990,000 to US$600,000,000 respectively.
December	China Power announced that the registered capital and total investment of Huanggang Dabieshan Power Plant, its subsidiary, had both been increased from RMB30,000,000 to RMB240,000,000 and the equity interest attributable to China Power had increased from 89% to 93%.
	China Power completed the acquisition of Shentou I Power Plant at a purchase price of RMB592,732,000.
	Approval was granted by the NDRC in respect of Yaomeng Power Plant II, a wholly-owned subsidiary of China Power, which marked the achievement of full approval by the State for the construction of the six 600 MW super critical power generation units in the first stage of the Group's power plants under construction, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant.

Letter to Shareholders

CHINA POWER International Development Limited, together with its subsidiaries and associated company, has over the years accumulated extensive experience in developing constructing, operating and managing power plants, and has built up a good reputation in the power industry and capital markets. With the steady growth of the national economy in China, the demand for electricity will remain strong and regulation of the market competition will continuously be improved. We will follow our objectives and strategies to leverage on the benefits of a centralized management of power plants, and add value to our existing assets and achieve the rapid development of the Company through acquisitions and constructions of power plants. We are confident of the prospects of the Group and we will strive to develop the Group into a prominent corporation in the power industry in China, thereby creating and enhancing shareholder value.

We strive to provide stable and reliable power supply.

To all shareholders:

It has always been our goal to maximize shareholder value.

The Company is the only overseas incorporated and listed company among the five national power-generating groups in China. We have accumulated over ten years of international operation experience since inception. Leveraging on our advantages of low operating costs and high growth potential, we are confident to develop into a leading independent power-generating company in China.

REVIEW OF 2005

2005 is the first full financial year following the listing of China Power. During the year, under the strategic direction of the Board and with a strong team spirit, the Group grasped the opportunities in the rapidly growing PRC power market and actively capitalizing on the fuel cost pass-through policy. Reinforcing its internal control, China Power established a management system focusing on risk management. We were committed to improving our operation and expediting our construction projects and technology development, focusing on safety production and environmental protection and leveraging on all kinds of resources. In order to strengthen our market position, we acquired Shentou I Power Plant and continued to seek expansion opportunities.

For 2005, China Power recorded a net profit of RMB661,904,000 and return on net assets of 9.71%. The gross generation reached 20.144 billion kWh and net generation coal consumption rate was 345.25 grams/kWh. The safety and production conditions were satisfactory and there have been improvements in our major economic and technology indicators.

Whilst we achieve satisfactory operating results and good return for shareholders, we have also contributed to the society by actively participating in various charitable activities.

OUTLOOK FOR 2006

It is expected that in 2006, the PRC government will try to increase the domestic demand and continue in a consistent manner to keep the macro economic policies and measures stable. With the accelerated pace of industrialization, urbanization, marketization and modernization, the national economy will maintain steady growth at a fast rate. We will continue to benefit from China's economic growth and further improvements in competition in the regional power markets. Despite this, we expect to face pressure from intensified competition in various regional power markets as well as risks arising from the increasing complexity of our operations. We face an enormous task in further expediting our expansion by asset acquisitions and construction of new power plants. The need for establishing a comprehensive management system that is able to cope with competition in the power market and regulations in the capital market so as to further boost our ability to compete and achieve sustainable development is indeed very pressing.

FOCUSES FOR 2006

ACHIEVE RAPID DEVELOPMENT WITH STRENGTHENED STRATEGIC MANAGEMENT

The Company will take a more practical approach in the formulation of the Group's strategic plans in accordance with the changing environment arising from the restructuring of energy sector and developments in the power market. A strategic framework and system will be established on the basis of core strategies and the progressive development of supporting systems, such as performance management system, in order to enhance the ability to implement strategies. Emphasis will be placed with the Company's coordinated development in both the capital markets and power markets. The Company will carefully plan the structure of power sources and the geographic distribution of power assets, as well as push ahead with its new power plant construction in a scheduled, systematic and focused manner. In addition, the

Company will also push ahead in capital market activities and take initiatives in mergers and acquisitions, as well as coordinate the developments of both existing assets and newly added assets, so as to achieve a comprehensive, coordinated and sustainable growth.

REINFORCE TEAM-BUILDING EFFORTS WITH PEOPLE-ORIENTED POLICY

By instilling the concept of "Talents are the most important resource", the Company will strive to enhance the overall quality of its staff. We will emphasize on the staff competency and performance evaluation indicators and focus on training in respect of operational management and capital operation. Appropriate systems will be established within the Company in respect of staff training and development, assessment, selection and promotion, incentive and discipline as well as turnover and secondment. We plan to sharpen our edge in coping with market competition, conducting capital operations and managing investor relations. By building up a comprehensive, consistent and systematic performance assessment system, we can ensure the availability of human resources, and enhance staff motivation and innovation, so as to lay down the foundation the Company's rapid and healthy development.

STABILIZE OPERATING RESULTS BY FOCUSING ON THE EVALUATION OF ASSETS OPERATING PERFORMANCE

We intend to improve and enhance our operating results by closely monitoring market demand and implementing cost control and refined management. Firstly, the Company will monitor closely the fuel cost pass-through policy and be well prepared for power pooling scheme in the regional markets. Secondly, the Company will further improve its assets operating performance assessment system in accordance with the regulation requirements for listed companies. Thirdly, the Company will strengthen the analysis of operating performance and economic operation, especially in implementing budget supervision and analysis, and objective management, refined management and procedural management. Fourthly, multiple measures will be implemented for the strict control over costs and expenses and the enhancement of fund utilization efficiency. Fifthly, the Company will strengthen the fuel and logistics management to ensure the stable supply of coal.

IMPROVE PRODUCTION SAFETY MANAGEMENT AND ENHANCE OPERATIONAL SAFETY AND RELIABILITY

Efforts will be committed to improve the safety management, supervision and assurance systems in all aspects to ensure operation safety. An effective work safety management system appropriate for the specific situation of the Group will first be established. In addition, we will develop and improve our on-grid electricity generation management system. The Company will devote increasing resources on technology development, so as to promote technology innovations and facilitate the progressing and implementation of the key technology projects. Full-scale tests and analyses on generation unit performance will be conducted under the principles of "safety, reliability, economic efficiency and environmental friendliness", so as to reduce energy consumption and sustain the enhancement of the economic performance, reliability and operating conditions of the facilities.

TACKLE MARKET COMPETITION AND ESTABLISH REGULATED AND SCIENTIFIC MANAGEMENT MECHANISM

We will reinforce internal reform and leverage on the new systems and mechanism and persistent efforts will be committed to promote system development and promote regulated, scientific and refined management with an aim of further improving the internal control system. Through the implementation of overall information technology plan, the Company will push ahead with the construction of information infrastructure, so as to establish a standardized information platform which serves as an essential element for modern management.

In conclusion, we will fully implement the decisions of the Board of the Company in all aspects. In line with our belief of "planning, procedures, revision and excellence", we aim to achieve regulated operation, refined management and rapid development, so as to establish and persistently improve our management system that is able to cope with competition in the power market and regulation in the capital market and enhance the profitability, sustainability and risk resistance of the Group in order to ensure that our investors will obtain long-term, stable and satisfactory returns.

Finally, on behalf of the Board, we would like to express our sincere gratitude towards our shareholders, business partners and friends for their concern and support extended to the Company, and to all our staff for their commitment, devotion and hard work made over the year.

Wang Binghua
Chairman of the Board

Li Xiaolin
Vice-Chairman of the Board and Chief Executive Officer

Hong Kong, PRC
16 March 2006

Expanding Our Asset Portfolio and Maximizing Shareholder Value

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

LI Xiaolin, 44, has been the vice-chairman of the Board, an executive Director and chief executive officer of the Company since March 2004 and a member of the investment and risk control committee of the Company since August 2004. Ms. Li is a senior engineer. She graduated from Tsinghua University with a Master of Engineering degree in power system and automation. She was a visiting scholar at the Sloan Business School of Massachusetts Institute of Technology in the United States. She also acts as the vice president of CPI Group, vice chairman, executive director and president of CPI Holding and director of Companhia de Elecricidade de Macau. She has served in positions including head of the International Economic and Trade Division of the Ministry of Electric Power Industry and associate head of the International Economic and Trade Division of the Ministry of Energy.

HU Jiandong, 42, has been an executive Director and executive vice president of the Company since March 2004 and a member of the investment and risk control committee of the Company since August 2004. Mr. Hu is a senior engineer. He graduated from Huazhong College of Technology with a Bachelor of Engineering degree in hydro-power station automation and received a Master of Economics degree in corporation management from Fudan University in 1993. Mr. Hu is also an executive director and vice president of CPI Holding. He has served in positions including director and vice president of Guangxi Power Company Limited and vice president of Guangxi Power Industry Bureau.

NON-EXECUTIVE DIRECTORS

WANG Binghua, 51, has been the chairman of the Board and a non-executive Director of the Company since March 2004 and the chairman of the investment and risk control committee of the Company since August 2004. Mr. Wang is a senior engineer at professor level. He graduated from Wuhan University of Water and Power Resources with a Master of Engineering degree in power system and automation. Mr. Wang also acts as the president of CPI Group and chairman of the board of CPI Holding. He has served in positions including vice president of China National Nuclear Corporation and head of the Power Generation and Transmission Department of the State Power Corporation.

GAO Guangfu, 43, has been a non-executive Director of the Company since March 2004 and a member of the investment and risk control committee of the Company since August 2004. Mr. Gao is a senior accountant. He graduated from Zhongnan University of Finance and Commerce at postgraduate level. He was also a visiting scholar at the Energy Economic and Policy Institute of the National Scientific Research Center of France. Mr. Gao also acts as the manager of Finance and Property Ownership Management Department of CPI Group and non-executive director of CPI Holding and director of Chongqing Jiulong Power Company Limited and Shanghai Power, two PRC-listed companies. He has served in positions including deputy manager of Finance and Property Ownership Management Department of the State Power Corporation and associate head of Price Department of the Economic Adjustment Division of the Ministry of Electric Power Industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KWONG Che Keung, Gordon, 56, has been an independent non-executive Director of the Company since March 2004 and the chairman of the audit committee of the Company and a member of the compensation and nomination committee of the Company since August 2004. Mr. Kwong is also an independent non-executive director of a number of companies listed on the Hong Kong Stock Exchange, namely Cosco International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Tom Online Inc., New World Mobile Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. From 1984 and 1998, Mr. Kwong was a partner of Pricewaterhouse and was a council member of the Hong Kong Stock Exchange from 1992-1997. He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales.

LI Fang, 44, has been an independent non-executive Director of the Company since March 2004 and a member of the audit committee of the Company and chairman of the compensation and nomination committee of the Company since August 2004. He graduated from Beijing University of Science and Technology with a Bachelor of Engineering degree and received his juris doctor degree from the School of Law of Arizona State University in the United States in 1995. He is also a council member of the China Reform Forum. Mr. Li has extensive experience in corporate finance. He was an executive director of Goldman Sachs (Asia) L.L.C. and a lawyer with Davis Polk and Wardwell.

TSUI Yiu Wa, Alec, 57, has been an independent non-executive Director of the Company since March 2004 and a member of the audit committee and the compensation and nomination committee of the Company since August 2004. He graduated from the University of Tennessee in the United States with a Bachelor of Science degree in industrial engineering and a Master of Engineering degree in industrial engineering and completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University in 1993. Mr. Tsui also acts as the chief executive of WAG Financial Services Group Limited , a director of the Hong Kong Securities Institute and an independent non-executive director of a number of listed companies in Hong Kong. He has substantial experience in the operations of listed companies in Hong Kong. He has served in positions including executive director and chief executive of the Hong Kong Stock Exchange, chief operating officer of the Hong Kong Exchanges and Clearing Limited and chief executive officer of the Regent Pacific Group .

SENIOR MANAGEMENT

GU Dake, 51, has been the executive vice president of the Company since March 2004. Mr. Gu is a senior engineer. He graduated from the Northeast China Institute of Electric Power Engineering with a major in thermal power. Mr. Gu also acts as the executive director, vice president and chief engineer of CPI Holding and chairman of the board of Yaomeng Power Plant, Yaomeng Power Plant II, Shentou I Power Plant and chairman and general manager of China Power International Maintenance Engineering Co., Ltd. He has served in positions including chief vice president and chief engineer of Beijing Guohua Power Limited and vice president of CLP Guohua Corporation.

WANG Zhiying, 48, has been the executive vice president of the Company since March 2004. Mr. Wang is a senior engineer at professor level. He graduated from the Northeast China Institute of Electric Power Engineering with a Bachelor of Engineering degree in power system and relaying protection. Mr. Wang also acts as the vice president of CPI Holding, chairman of the board of Pingwei Power Plant, Pingwei Power Plant II, Huanggang Dabieshan Power Plant and Huaxi Power Company Limited. He has served in positions including departmental manager, deputy chief engineer and chief engineer of CPI Holding and deputy manager of the Production Coordination Department and Integrated Planning Department in the Ministry of Electric Power Industry.

ZHAO Yazhou, 46, has been the executive vice president of the Company since March 2004. Mr. Zhao is a senior accountant. He studied technological economics at postgraduate level at the Harbin Institute of Technology and completed training courses for the chief accountants of major enterprises of the State Power Company at the National Accounting Institute. Mr. Zhao also acts as vice president and chief financial controller of CPI Holding and chairman of the board of Qinghe Power Plant, Liaoning Qinghe Power Maintenance Company Limited, Liaoning Qinghe Power Industrial Company Limited and Chang Shu Power Plant. He has served in positions including deputy chief accountant and manager of finance department of CPI Holding and head of the finance department of Heilongjiang Provincial Power Bureau.

IO Cheek Kei, Rudy, 45, has been the chief financial officer and qualified accountant of the Company since May 2004. He is a member of the Canadian Institute of Chartered Accountants and fellow member of the Hong Kong Institute of Certified Public Accountants. He graduated from the York University of Canada and Curtin University of Technology in Australia with an Honours Bachelor's degree in administrative studies and a Master of Business (IT) degree. He has served in positions including chief financial controller and company secretary of Tanrich Financial Holdings Limited, chief financial controller of China Everbright International Limited and New Epoch International Holdings Limited (an associate company of Henry Fok Ying Tung Group). He has also served at HSBC Insurance and Deutsche Bank. Mr. Io is also a committee member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants and the China's Committee of the Hong Kong General Chamber of Commerce.

ZHAO Xinyan, 43, has been the vice president of the Company since March 2004. He is also the manager of the Capital Markets and Investor Relations Department of the Company. Mr Zhao is a senior engineer. He graduated from Chongqing University with a Bachelor of Engineering degree in materials engineering. He also acts as an assistant to the president and manager of Capital Markets and Investors Relations Department of CPI Holding, chairman of the board of Wuhu Shaoda Power Plant, China Power International (Wuhu) Company Limited and Hongze Power Plant, vice chairman of the board of Changshu Power Plant, director of Wuhu Power Generating Company Limited and Huaxi Power Company Limited. He has served in positions including the deputy manager of the Financing Department and manager of the Planning Department of CPI Holding.

WANG Zichao, 35, has been the vice president of the Company since March 2004. He is also manager of the Strategic Planning Department of the Company. Mr. Wang is a senior engineer. He graduated from North China Electric Power University with a Master of Engineering degree in power system and automation. He also acts as an assistant to president and manager of Strategic Planning Department of CPI Holding, chairman of the board of Wuhu Power Generating Company Limited, vice chairman of the board of Zhongli Power Limited, director of Pingwei Power Plant, Changshu Power Plant, Pingwei Power Plant II, Huanggang Dabeishan Power Plant, Wuhu Shaoda Power Plant and China Power International (Wuhu) Company Limited. Mr. Wang has served as manager in various departments of CPI Holding.

LIU Genyu, 42, is the vice president of the Company. Mr. Liu is a senior engineer. He graduated from Tsinghua University with an Executive Master of Business and Administration degree. He is also an assistant to president and manager of the Intergrated Business Department of the CPI Holding. He has served in positions including vice president of Chongqing Jiulong Power Company Limited and lecturer of Harbin Power Vocation Technology College.

COMPANY SECRETARY

Dr. TSE Hiu Tung, Sheldon, 41, has been the company secretary of the Company since March 2004. He is admitted to practise law in Hong Kong, England and Wales and the PRC. Dr. Tse graduated with a Bachelor of Laws from Zhongshan University and a Master of Laws and a Doctor of Philosophy in Law from the University of London in the United Kingdom. Dr. Tse is a partner of the law firm Arculli Fong & Ng (in association with King & Wood, PRC Lawyers), the legal adviser on Hong Kong law to the Company. Dr. Tse is a member of the arbitrators' panel of the Guangzhou Arbitration Commission and a member of the Hong Kong Securities Institute.

Providing Green Energy and Serving Our Community

Management's Discussion and Analysis

OVERVIEW

The Company was incorporated in Hong Kong with limited liability under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) on 24 March 2004. We are the flagship company of CPI Group, one of the five national power-generating groups in the PRC.

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 15 October 2004. The stock code is 2380.

Being the only overseas incorporated and listed company among the five national power-generating groups, the Company's principal business is to develop, construct, own, operate and manage large power plants in the PRC.

Incorporated in Hong Kong with limited liability, the Company is the flagship company of CPI Group, one of the five national power- generating groups in the PRC.

BUSINESS REVIEW FOR 2005

Under the Board's leadership, the Company continued its endeavour to enhancing the value for the shareholders and promoting the steady and rapid growth of the Company in 2005 (the "Year"). In line with its development strategy and yearly target, the Company strengthened its management efforts in various aspects, such as assurance of stable power supply, safety production, energy conservation and reduction of consumption, tariff adjustment and power pooling ensuring the quality and price of coal, accelerating project development, promoting system development, enhancing production quality and efficiency and promoting environmental protection awareness. The Company also took initiatives in capital market activities and acquisitions. With the collective efforts of the management team, the Company fulfilled its promise to investors and capital market and successfully accomplished its operating goals for the Year.

(1) OPERATING ENVIRONMENT

During the Year, in line with its adoption of the scientific concept of development as the foremost guide, the PRC government further strengthened and refined its macroeconomic control measures and actively pushed ahead with reform and opening to the outside world. As a result, the national economy was put on a healthy growth track manifested by rapid development, high efficiency, stable prices and enhanced economic dynamism. The annual gross domestic product increased by 9.9% from the previous year. Supported by the stability and continued growth of the PRC economy, the domestic power sector maintained rapid growth. Total domestic power output and the consumption were 2,474.7 billion kWh and 2,468.9 billion kWh respectively, each representing a growth of 12.80% and 13.45% over the previous year.

Electricity generated by the Group's power plants and associated company was primarily supplied to the Eastern China Power Grid and Central China Power Grid, while electricity from Shentou I Power Plant, which was acquired during the Year, was supplied to the Northern China Power Grid. In 2005, net generation to Eastern China Power Grid, Central China Power Grid and Northern China Power Grid recorded a growth of 16.13%, 12.87% and 14.66% over the previous year respectively. The steady development of the PRC economy and the surging electricity demand created a favourable environment for the growth of business and operating results of the Group. However, rising fuel costs driven by high coal price exerted pressure on the operation of the Group.

(2) BUSINESS REVIEW

For the Year, consolidated turnover of the Group was approximately RMB4,361,718,000, representing an increase of approximately 30.12% from the previous year. Consolidated net profit attributable to equity holders of the Company was approximately RMB661,904,000 (including the Group's share of profit in an associated company), representing an increase of approximately 4.10% from RMB635,813,000 in the previous year. Basic earnings per share was approximately RMB0.21.

Gross generation of the Group (excluding the associated company) for the Year was approximately 20.144 billion kWh, which increased by approximately 28.27% from the previous year. Net generation of the Group (excluding the associated company) for the Year was approximately 18.701 billion kWh , which increased by approximately 26.90% from the previous year. Attributable installed capacity of the Company for the Year increased by 1,245 MW, laying down a solid foundation for the continued development of the Company.

1. POWER GENERATION

Operating installed capacity of the Group as at 31 December 2005 was 4,870 MW. Gross generation of the Group (excluding the associated company) was approximately 20.144 billion kWh, representing an increase of approximately 28.27% from the previous year. Net generation of the Group (excluding the associated company) was approximately 18.701 billion kWh, which increased by approximately 26.90% from the previous year.

The increase in the Group's power generation as compared with last year was attributable to:

- increase in demand for electricity, which could be reflected in an approximately 13.45% year-on-year growth in domestic power consumption during the Year from the previous year;
- increase in attributable installed capacity to the Company of 1,245 MW as a result of acquisition and technical upgrades;
- instillation of a mentality of "every watt counts" within the Company, along with the implementation of stringent production safety measures, management and control of unplanned outage and guarantee of supply of coal and electricity, so as to ensure the operation safety and stability of generation units with long production cycles;
- optimization of the maintenance schedule with reasonably adjusted time and frequency in accordance with the actual operation arrangement of the generation units; and
- improvement in facilities conditions after the general maintenance exercise in the first half of the Year. In particular, the production safety, stability and reliability of the generation units had shown substantial enhancement. At present, the equivalent availability factor of the generation units is approximately 90.81%.

OPERATION DATA OF THE GROUP'S POWER PLANTS

Operating conditions of the Group's major power plants during the Year were as follows:

PINGWEI POWER PLANT

Pingwei Power Plant has an installed capacity of 1,230 MW, and its gross generation and net generation are 8.242 billion kWh and 7.886 billion kWh respectively.

The following table sets out certain operation data of Pingwei Power Plant for each of the two years ended 31 December 2005 and 2004:

	For the year ended 31 December	
	2005	2004
Installed capacity (MW)	**1,230**	1,200
Average utilization hours (hours)	**6,701**	6,882
Gross generation (MWh)	**8,241,790**	8,258,600
Net generation (MWh)	**7,885,870**	7,914,950
Equivalent availability factor (%)	**88**	85
Net generation standard coal consumption rate (grams/kWh)	**332**	338

YAOMENG POWER PLANT

Yaomeng Power Plant has an installed capacity of 1,210 MW, and its gross generation and net generation are 7.689 billion kWh and 7.044 billion kWh respectively.

The following table sets out certain operation data of Yaomeng Power Plant for each of the two years ended 31 December 2005 and 2004:

	For the year ended 31 December	
	2005	2004
Installed capacity (MW)	**1,210**	1,210
Average utilization hours (hours)	**6,354**	6,153
Gross generation (MWh)	**7,688,883**	7,445,028
Net generation (MWh)	**7,043,766**	6,822,031
Equivalent availability factor (%)	**89**	89
Net generation standard coal consumption rate (grams/kWh)	**343**	347

SHENTOU I POWER PLANT

Shentou I Power Plant (results of which were consolidated with the Group's results since 1 July 2005) has an installed capacity of 1,200 MW, and its gross generation and net generation are 4.213 billion kWh and 3.771 billion kWh respectively.

The following table sets out certain operation data of Shentou I Power Plant for period from 1 July 2005 to 31 December 2005:

	For the period from 1 July 2005 to 31 December 2005
Installed capacity (MW)	**1,200**
Average utilization hours (hours)	**3,511**
Gross generation (MWh)	**4,213,110**
Net generation (MWh)	**3,771,359**
Equivalent availability factor (%)	**90**
Net generation standard coal consumption rate (grams/kWh)	**377**

CHANGSHU POWER PLANT

Changshu Power Plant has an installed capacity of 1,230 MW, and its gross generation and net generation are 7.515 billion kWh and 7.132 billion kWh respectively.

The following table sets out certain operation data of Changshu Power Plant for each of the two years ended 31 December 2005 and 2004:

	For the year ended 31 December	
	2005	2004
Installed capacity (MW)	**1,230**	1,200
Average utilization hours (hours)	**6,660***	6,693
Gross generation (MWh)	**7,514,500**	8,031,130
Net generation (MWh)	**7,132,140**	7,636,660
Equivalent availability factor (%)	**96**	90
Net generation standard coal consumption rate (grams/kWh)	**343**	347

* Pursuant to the provisions of "發電設備可靠性之評價規程" (Rules on the Reliability Evaluation of Power Generating Devices) issued by the China Electricity Council, the technical upgrade of No.2 generating unit of Changsu Power Plant constituted a major boiler upgrade and the outage during the technical upgrade period was counted towards the utilization hours during the Year.

The Group successfully controlled or reduced various costs and expenses by operating on a strict pre-set budget and exercising tightened control throughout the entire production process.

2. OPERATION MANAGEMENT

Consolidated turnover of the Group for the Year was approximately RMB4,361,718,000, representing an increase of approximately 30.12% over the previous year. Consolidated net profit was approximately RMB661,904,000 (including the Group's share of profit in an associated company), representing an increase of approximately 4.10% from the previous year. Earnings per share was approximately RMB0.21.

The increase in consolidated turnover was mainly attributable to:

- increase in net generation

  During the Year, installed capacity attributable to the Company increased by 1,245 MW as a result of acquisition and technical upgrades. Consequently, the Company's net generation increased by 26.90% from the previous year and its income increased correspondingly.

- increase in tariff

  In response to the implementation of the fuel cost pass-through policy, the Company reinforced its tariff initiatives and made active liaison efforts to tap on the tariff adjustment policy. Consequently, significant progress has been achieved.

- optimization of the power output structure

  During the Year, the Company optimized its power generation structure to increase the "effective output" and enhance its unit output efficiency. By prioritizing the utilization of generation units with lower fuel consumption and lower fuel costs whenever possible and increasing total output during peak consumption hours, the Group endeavoured to maintain the costs for power output at the most economical level.

The increase in consolidated net profit was mainly attributable to:

- increase in turnover

  The increase in on-grid generation and tariff contributed to a rise in turnover.

- stringent cost control

  During the Year, the Group successfully controlled or reduced various costs and expenses by operating on a strict pre-set budget and exercising tightened control throughout the entire production process. As a result, maintenance expenses, materials expenses and other operating expenses (excluding the costs of coal) of the Company's power plants, namely Pingwei Power Plant and Yaomeng Power Plant, for the Year decreased generally when compared with the previous year.

- energy saving and reduction in other consumption

  During the Year, the Group further enhanced its investments in technical upgrades and energy saving and reduction in other consumption. In particular, it focused on implementing measures to lower coal consumption in power generation, enhance operating efficiency of generating units and improve various energy consumption benchmarks. The average generation coal consumption rate of both Pingwei Power Plant and Yaomeng Power Plant, decreased by 3.37 grams/kWh from the previous year.

- tax concessions

  During the Year, the Group successfully leveraged on taxation policies and achieved a satisfactory result. In particular, Shentou I Power Plant secured the "two-year exemption and three-year concession" tax benefit and was exempted from enterprise income tax in 2005. Such tax concession enhanced the level of net profit.

3. BUSINESS EXPANSION

During the Year, breakthroughs were made in strengthening the management of the Group's existing assets as well as newly added assets from acquisitions and construction of power plants, which enhanced its ability for sustainable development.

- **ASSETS ACQUISITION**

  During the Year, the Company completed the acquisition of Shentou I Power Plant, a mine-mouth power plant located in proximity to a coal mine with a gross installed capacity of 1,200 MW. This represented the first successful acquisition by the Company since its listing. Total adjusted consideration for the acquisition was approximately RMB592,732,000. After the acquisition, the Group's gross installed capacity and the attributable installed capacity reached 4,870 MW and 4,255 MW respectively, representing an increase of approximately 32.7% and 39.3% compared with the pre-acquisition figures respectively.

  This acquisition provided the Group with attractive opportunities to expand both its scale and coverage of operation and strengthened the Group's profitability, risk resistance and competitiveness. It is believed that this attractive transaction and its potential profit will facilitate the Company in maximizing the value for shareholders.

- **POWER PLANTS CONSTRUCTION PROJECTS**

During the Year, the Group's power plants construction projects took full swing with substantive progress in project approvals and implementations according to schedule.

The progress of the Group's power plants construction projects was as follows:

- Project Approval

On 31 December 2005, the construction project of two 600 MW super-critical generation units of Yaomeng Power Plant II was approved by the NDRC. As a result, the construction projects of a total of six 600 MW super-critical generation units of Huanggang Dabieshan Power Plant, Pingwei Power Plant II and Yaomeng Power Plant II were all duly approved by the State.

- Construction in Progress

Pingwei Power Plant II: The project is under smooth progress. Operation of its two power generation units is scheduled to commence in the second and the third quarters of 2007 respectively.

Yaomeng Power Plant II: The project is under smooth progress. Operation of its two power generation units is scheduled to commence in the first and the second quarters of 2008 respectively.

Huanggang Dabieshan Power Plant: The project is under smooth progress. Operation of its two power generation units is scheduled to commence in the third and the fourth quarters of 2008 respectively.

- Investment Projects

Pingwei Power Plant II: project investment for the Year was RMB954,190,000, among which capital injection was RMB266,540,000. Accumulated investment since the commencement of the project was RMB1,372,790,000, among which capital injection was RMB335,990,000.

Yaomeng Power Plant II: project investment for the Year was RMB565,090,000, among which capital injection was RMB105,750,000. Accumulated investment since the commencement of the project was RMB791,310,000, among which capital injection was RMB165,290,000.

Huanggang Dabieshan Power Plant: project investment for the Year was RMB468,880,000, among which capital injection was RMB139,840,000. Accumulated investment since the commencement of the project was RMB602,530,000, among which capital injection was RMB159,840,000.

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING ("IPO") OF THE COMPANY

The shares of the Company have been listed on the Hong Kong Stock Exchange since 15 October 2004. The Company still retained part of the proceeds from the IPO, the balance of which was approximately RMB1,366,962,000 as at 31 December 2005. The balance was intended for capital injection of the power plants under construction, acquisition of assets and as general working capital.

The following table sets out details on the use of net proceeds from the IPO of the Company during the Year:

	RMB'000
General operating expenses	50,100
Acquisition of assets (Shentou I Power Plant)	594,204
Power plants under construction	493,460
Total	1,137,764

We had placed the unused net proceeds in short-term bank deposit.

4. FINANCIAL POSITION

OPERATING RESULTS

Overview

Turnover

The Group recorded consolidated turnover of approximately RMB4,361,718,000 for the Year, representing an increase of approximately 30.12% compared with the previous year. Increase in turnover was primarily attributable to the acquisition of Shentou I Power Plant, an increase in on-grid generation, improvement of power output structure and rise in average on-grid tariff.

Operating Costs

The Group recorded consolidated operating costs of approximately RMB3,739,626,000 for the Year, representing an increase of approximately 35.21% compared with the previous year. Increase in operating costs was primarily attributable to the increase arising from the acquisition of Shentou I Power Plant and rise in fuel costs. As a result of the rising price and fluctuating quality of coal supply during the Year, average standard unit coal price of the Group surged by RMB44.84/ton as compared with the previous year.

Fuel Costs

Fuel costs was a major component of the Group's operating costs, amounting to 70.92% of the total operating costs. Average standard unit coal price surged by RMB44.84/ton as compared with the previous year, while gross fuel costs and unit generation fuel costs surged by RMB826,341,000 and approximately RMB17.92/MWh respectively.

Depreciation

The Group's depreciation amounted to RMB320,488,000 for the Year, which was substantially the same as the previous year. This was primarily due to the fact that the increase in depreciation arising from the acquisition of Shentou I Power Plant in the Year was offset by the decrease in depreciation of certain assets which have been fully depreciated during the Year.

Staff Costs

The Group recorded staff costs of RMB315,112,000 for the Year, representing an increase of 20.08% from the previous year, which was mainly attributable to an increase in the number of staff following the acquisition of the Shentou I Power Plant.

Repairs and Maintenance

The Group recorded repairs and maintenance costs of RMB184,436,000 during the Year, representing an increase of 30.29% from the previous year, which was mainly attributable to an increase in assets following the acquisition of Shentou I Power Plant.

Other Net Operating Expenses

Other net operating costs of the Group amounted to RMB204,017,000 for the Year, representing an increase of 28.38% as compared with the previous year.

Operating Profit

Operating profit before finance costs of the Group for the Year amounted to RMB698,094,000, representing an increase of 14.79% as compared with the previous year.

Finance Costs

Finance costs of the Group for the Year amounted to RMB76,917,000, which was substantially the same as the previous year.

The Group actively capitalized on the tariff policy and optimized its maintenance schedule and frequency in order to maximize power generation during high tariff period.

Share of Profit in an Associated Company

The Group's share of profit in the associated company for the Year was RMB122,480,000, representing a decrease of 18.78% as compared with the previous year. The decrease was mainly due to insufficient tariff adjustment of Changshu Power Plant in the first half of the Year, rising fuel costs and a reduction in gross generation.

Taxation

Taxation of the Group for the Year increased by 77.64% from last year to RMB82,448,000. The increase was mainly attributable to revert of tax rate from 7.5% in last year to 15% in the Year upon expiry of the "two-year exemption and three-year concession" tax benefit previously enjoyed by Pingwei Power Plant and Yaomeng Power Plant.

Profit for the Year

During the Year, the Group boosted its turnover by 30.12% with a relatively high net profit of RMB661,904,000 as compared with last year, despite a relatively significant increase in coal price as compared with the previous year. This was the combined result of the Group's active support for implementation of the new tariff policy, optimization of its maintenance schedule and frequency in order to maximize power generation during high tariff periods, as well as the acquisition of Shentou I Power Plant.

Segment Information by Business

The Company is engaged in one major business in power generation, which is mainly to develop, construct, own, operate and manage large power plants within the PRC.

Segment Information by Geographical Location

The Group is principally engaged in power generation business within the PRC, with major assets and liabilities located in the PRC. Accordingly, no segment information by geographical location is presented.

Dividends/Profit Distributions

The Board recommended the Company to pay a final dividend of RMB0.079 per share for the Year.

Earnings Per Share

The calculation of basic and diluted earnings per share for the Year are based on the Group's profit for the Year of RMB661,904,000 (2004: RMB635,813,000 as restated). The basic earnings per share is based on the weighted average of 3,135,000,000 (2004: 2,315,901,639) shares in issue during the Year. The diluted earnings per share is based on 3,135,000,000 (2004: 2,315,901,639) shares which is the weighted average number of shares in issue during the Year plus the weighted average number of 518,646 (2004: 704,231) shares deemed to be issued at no consideration if all outstanding options had been exercised.

Principal Financial Ratios of the Group

Set out below are principal financial ratios of the Group for each of the two years ended 31 December 2005 and 2004:

	2005	2004
Debt to equity ratio (%)	**52.89**	32.23
Current ratio (times)	**1.98**	2.42
Quick ratio (times)	**1.83**	2.36
EBITDA interest coverage (times)	**8.48**	12.07

Calculation formula of the financial ratios:

Debt to equity ratio = total borrowings/balance of shareholders' equity interests at the end of the year

Current ratio = balance of current assets at the end of the year/balance of current liabilities at the end of the year

Quick ratio = (balance of current assets at the end of the year - inventories at the end of the year)/balance of current liabilities at the end of the year

EBITDA interest coverage = (profit before taxation + finance costs + depreciation and amortisation)/finance costs (including capitalized interest)

LIQUIDITY, FINANCIAL RESOURCES AND BORROWINGS

For the Year ended 31 December 2005, the Group derived its funds mainly from bank borrowings, dividends from the associated company and generated funds from operating activities, which amounted to approximately RMB2,311,324,000, RMB93,058,000 and RMB890,413,000 respectively. The Group's funds were mainly applied to its power plants under construction and capital expenditures of operating power plants, acquisition of Shentou I Power Plant (net of cash acquired) and repayment of bank loans, which amounted to RMB2,316,767,000, RMB567,891,000 and RMB825,500,000 respectively.

For the Year ended 31 December 2005, cash and cash equivalents of the Group amounted to RMB2,187,943,000, resulted from net cash inflow from operating activities of RMB664,634,000, net cash outflow from investment activities of RMB2,738,318,000 and net cash inflow from financing activities of RMB1,197,403,000.

CAPITAL EXPENDITURES

To further improve the safety and reliability, environment-friendliness and efficiency of its facilities, the Group and the associated company of the Company arranged 170 technical upgrade projects during the Year. In particular, the partial technical upgrade of steam generator circulation system of Pingwei Power Plant was completed in February 2005, which increased the capacity of Pingwei Power Plant's No. 2 generating unit by 30 MW to 630 MW. The capacity of No. 2 generating unit of Changshu Power Plant also increased by 30 MW to 330 MW as a result of technical and capacity upgrade projects on boiler, steam generator circulation system and power generator. Apart from an improvement in installed capacity, coal consumption also showed a remarkable decline. The two technical upgrade projects provide a guarantee for further increase in power generation and operating income for the Group in the future.

COMMITMENTS

Commitments are mainly related to purchases with respect to power plant construction projects and upgrade projects of existing power plants. As at 31 December 2005, the Group had outstanding capital commitments, amounting to approximately RMB19,170,000 (2004: RMB6,894,000) as authorised but not contracted for and RMB6,545,185,000 (2004: RMB4,678,114,000) as contracted but not provided for.

The Group's minimum lease payments in respect of land and buildings under irrevocable operating leases of terms not more than one year were RMB19,780,000 (2004: RMB15,066,000), whereas lease payments for leases of terms over one year but within five years were RMB9,202,000 (2004: RMB26,870,000).

The Group's future minimum rental income under irrevocable operating leases of terms not more than one year will be RMB4,659,000 (2004: RMB1,930,000), whereas the rental income for leases of terms over one year but within five years will be RMB4,659,000 (2004: RMB1,900,000).

DEBTS

Set out below are details of the bank and other borrowings of the Group for each of the two years ended 31 December 2005 and 2004:

	2005 **RMB'000**	2004 RMB'000
Short-term bank loans	**389,500**	592,676
Other short-term loans	**98,000**	—
Long-term bank loans maturing within a year	**400,000**	261,000
Long-term bank loans maturing in 1-2 years	**951,000**	270,000
Long-term bank loans maturing in 3-5 years	**464,000**	790,000
Long-term bank loans of over 5 years	**1,298,500**	93,000
Total amount of debts	**3,601,000**	2,006,676

The interest rates on the Group's bank loans, which currently range from 5.2% to 5.5%, are subject to adjustment in accordance with changes in the relevant regulations of the People's Bank of China.

Our debt to equity ratio for each of the two years ended 31 December 2005 and 2004 were 52.89% and 32.23% respectively.

On 31 May 2004, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant entered into syndicate loan agreements with a number of banks to obtain loan facilities amounting to approximately RMB11,400,000,000 in aggregate with respect to the power plants under construction. Approximately RMB2,373,000,000 was drawn down from such loan facilities by the power plants under construction as at 31 December 2005.

The Group incurred debts for general working capital. The Group currently does not use any derivative to change the nature of its debts for the purpose of managing its interest rate risk.

FOREIGN EXCHANGE RATE RISK

The Group collected most of its revenue in Renminbi, part of which were converted into foreign currencies for investments in or acquisition of interests from certain subsidiary companies, and for dividend distribution to the shareholders of the Company. Therefore, we have certain risk exposure to foreign exchange fluctuations.

The Renminbi is not a freely convertible currency. Subject to the exchange rate control imposed by the PRC government, international economic environment and supply and demand of Renminbi, the PRC government may take actions that could cause fluctuations in the exchange rates of Renminbi in the future. Fluctuations in exchange rates may positively or negatively affect the value of the Group's net assets, profits and any dividend declared upon translation or conversion into Hong Kong dollars. As at 31 December 2005, the exchange rate of HK$1 = RMB1.04 was adopted by the Group for conversion between Hong Kong dollars and Renminbi.

PLEDGE OF ASSETS

As at 31 December 2005, Pingwei Power Plant, a wholly-owned subsidiary of the Group, pledged its machinery with a net book value of approximately RMB1,102,000,000 (2004: nil) to a bank to secure bank loan granted to it in the amount of approximately RMB643,000,000 (2004: nil).

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no material contingent liabilities.

ENVIRONMENTAL PROTECTION

Our mission is "Providing green energy and serving our community". While striving for higher power generation, all power plants under the Group were in strict compliance with the environmental protection laws and regulations promulgated by the PRC government at State and local levels where our plants are located. In addition, the Group implemented three sets of environmental protection policies to regulate and reinforce its green initiatives.

During the Year, the total discharge fees paid by our power plants were approximately RMB12,080,000 for Pingwei Power Plant, approximately RMB26,850,000 for Yaomeng Power Plant, approximately RMB16,150,000 for Shentou I Power Plant (from 1 July 2005 to 31 December 2005), and approximately RMB25,700,000 for Changshu Power Plant. The significant growth in discharge fees as compared to last year was mainly attributable to the implementation of new PRC regulations on discharge fees on 1 July 2003, leading to an upward adjustment in 2005 as compared with 2004.

The Group and its associated company also intended to carry out environmental upgrade projects in accordance with the PRC environmental protection requirements. During the Year, the Group commenced preliminary environmental projects, which also involved the new power plants under construction. The construction of two sets of desulphurization facilities in the Changshu Power Plant will be completed in 2006. The feasibility report on the construction of desulphurization facilities in Pingwei Power Plant was approved while the same for Yaomeng Power Plant has also been submitted for approval. It is expected that the imminent commencement of these projects will contribute to reducing pollution as well as the discharge fees payable by the Group.

The Group provided appropriate emoluments and benefits to employees based on their respective duties, and set up a share option scheme as an incentive scheme for the senior management personnel and key employees so as to motivate and attract high-calibre employees.

EMPLOYEES

As at 31 December 2005, the Group and its associated company had a total of 7,827 full-time employees.

The number of staff increased by 29% from last year, mainly due to the acquisition of Shentou I Power Plant during the Year. In addition, the Group was in the midst of rapid expansion and engaged in extensive recruitment exercises for high-calibre employees. Besides, the Group has also provided necessary trainings to all employees.

The Group provided appropriate emoluments and benefits to all employees of its operating power plants based on their respective duties and pursuant to the labour laws and regulations of the PRC. In addition, the Company has set up a share option scheme for the Group's senior management and key employees and to motivate and attract high-calibre employees.

The Group determined the emoluments of its directors and employees based on their respective duties, performance, working experience and the prevailing market rates. The Company has set up a mandatory provident fund scheme and made fixed contribution for our employees in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong).

Outlook and Prospects for 2006

2006 is the first year of the Eleventh Five-Year Plan of the PRC, during which the Company will continue to intensify its reforms and speed up its development. The Company will carry out its business amidst hopes and pressure, and opportunities and challenges. The outlook for 2006 is set out below:

The PRC economy is anticipated to continue its steady growth in 2006. It is expected that the annual power generation will increase by approximately 12.1%, while electricity consumption nationwide will increase by approximately 11.8%. Such rapid increase in demand for electricity will open up new opportunities to the business development of the Company.

During 2005, the Company acquired of Shentou I Power Plant to supply power for the Northern China Power Grid. As such, the Group's power supply network extended from the Central China Power Grid and Eastern China Power Grid to Northern China Power Grid, which enhanced its risk resistance and ability for sustainable development.

During 2005, the NDRC implemented the fuel cost pass-through policy, under which the first round of tariff adjustment was carried out in May 2005. Accordingly, satisfactory adjustments were made to the on-grid tariffs of the power plants owned by the Company. Upon implementation of the adjusted tariffs under the policy in 2006, the fuel costs of the Group and its associated company will be compensated to a reasonable extent.

The Group will continue to improve its overall operation management standard, enhance the management of existing assets and enhance its profitability.

The Group will persist in closely monitoring the fuel market with an aim of securing stable fuel supply and exercising effective control over fuel costs and quality.

The Group will also continue to push ahead with the construction of power plants to ensure on-schedule completion and commencement of operation with expected or even better quality.

In addition, the Group will also continue to monitor the power market and be responsive to power pooling in various market segments in the future.

The Group will continue to explore investment opportunities, so as to attain business expansion and boost its profitability and the value for the shareholders.

In order to fulfil social responsibility and for brand building, the Group will continue to have concerns on issues relating to environmental protection and social welfare.

Nevertheless, the business of the Company will face several major difficulties in 2006, namely the impact of substantial increase in power supply arising from newly installed generating units on the utilization rate of equipment, high fuel costs, tightened environmental measures, as well as changes of overall operating environment. All of these may impact the profitability of the Group. In response, the Group will endeavour to improve its management standard and be well-prepared to overcome such unfavourable factors, so as to boost its production and profits as well as achieve enhanced economic efficiency.

The key objectives of the Company for 2006 are as follows:

1. To strengthen strategic and systemic management and achieve rapid growth.

2. To facilitate the growth of the Company by both acquisition and construction.

3. To focus on major issues identified in operation evaluation, improve operating efficiency of assets and maintain its operating results.

4. To enhance the production safety management system and improve the safety and reliability of operation.

5. To reinforce team-building efforts with people-oriented policy.

The Company will closely monitor the power market so as to tackle power pooling in the regional markets in future.

Optimizing Human Resources and Caring for All Staff

Corporate Governance Report

OVERVIEW

The Company puts great emphasis on corporate governance. We believe that improvement in corporate governance not only assists the Company in effective supervision and control on its business operation, but also attracts investment from international institutional investors, thereby creating and enhancing shareholder value.

In November 2004, the Hong Kong Stock Exchange issued amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Such amendments contained provisions of the Code on Corporate Governance Practices and Corporate Governance Report, which became effective for accounting periods commencing on or after 1 January 2005. The first inclusion of an official Corporate Governance Report of the Board in this annual report reflected the commitment of the Company in adopting good corporate governance.

CODE ON CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the Year, save for deviations from Code A4.1 as explained below.

BOARD OF DIRECTORS

The Board is the highest decision-making and managing body of the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as business strategies and budgets, major investments as well as mergers and acquisitions. The Directors have acknowledged that the principal responsibilities of the Board also include preparation of accounts, approving the results and business operation conditions of the Company to be published to the public on a regular basis.

The Board comprises Mr. Wang Binghua, the chairman of the Board and non-executive Director, Ms. Li Xiaolin, the vice-chairman of the Board, executive Director and chief executive officer, Mr. Hu Jiandong, an executive Director and the executive vice president, Mr. Gao Guangfu, a non-executive Director, and three independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec. Profiles of the Directors are set out in the section headed "Directors and Senior Management Profiles" of this annual report (Pages 15 to 21).

The non-executive Directors (the majority of which are independent directors) of the Company possess expertise in various industries. They are able to assist the management team in formulating the Group's development strategies, ensure that the preparation of financial and other mandatory reports by the Board are in strict adherence to appropriate systems in order to protect the interests of the shareholders and the Company. The Board has received annual confirmation of independence from each of the independent non-executive Directors and believed that, as at the date of this annual report, they were independent of the Company and complied with the relevant requirement of the Listing Rules.

The Board held several regular meetings during the Year to discuss the overall strategy, operating and financial performance of the Group. Matters subject to the decision or consideration of the Board included the overall strategy of the Group, material acquisitions and disposals, annual budget, annual and interim results, recommendations on appointment or re-election of Directors, material capital transactions and other material operations or financial issues. Before each Board meeting, sufficient notice of meeting was sent to each Director of the Company to promote the better attendance of the Directors. The Board held five meetings during 2005 (average attendance was 100%).

The Board has set up an Audit Committee, a Compensation and Nomination Committee as well as an Investment and Risk Control Committee to implement internal control and supervision on each relevant aspect of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 24 August 2004 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code which became effective on 31 December 2004. The primary duties of the Audit Committee are to review and monitor the financial reporting process and internal control systems of the Company and to make recommendations to the Board.

The Audit Committee comprises three members, namely, Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Kwong Che Keung, Gordon. For the purpose of reinforcing their independence, all members of the Audit Committee possess appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held four meetings during 2005 (average attendance was 100%). The committee conducted reviews with the senior management and internal and independent auditors of the Company on the internal and independent audit results, the accounting standards and practices adopted by the Group, the listing and legal requirements, as well as discussed matters relating to audit, internal control system, risk management and financial reporting (including recommendations to the Board on approval of annual results for 2004 and interim results for 2005).

COMPENSATION AND NOMINATION COMMITTEE

The Company established the Compensation and Nomination Committee on 24 August 2004. Its primary duties are to evaluate the performance of the Directors and senior management staff and to determine the specific remuneration packages for all executive Directors, including benefits in kind, pension and compensation, and compensation for lost of office or upon appointment, to make recommendations on the remuneration of non-executive Directors and to make recommendations in respect of the appointment and removal of members of the Board according to criteria such as educational background and work experience.

The Compensation and Nomination Committee comprises three members, namely Mr. Li Fang, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The committee is chaired by Mr. Li Fang.

The Compensation and Nomination Committee held two meetings during 2005 (average attendance was 100%) to review and make recommendations in respect of the reappointment of the retiring Directors at the last annual general meeting and the determination of Directors' remuneration.

INVESTMENT AND RISK CONTROL COMMITTEE

The Company established the Investment and Risk Control Committee on 24 August 2004. Its primary duties are to formulate our overall development plans and investment decision-making procedures, monitor the implementation of our strategic plans, provide trainings to the Board with regard to the strategies of the Company and assist the senior management in managing our internal and external risks.

The Investment and Risk Control Committee comprises four members, namely Mr. Wang Binghua, Ms. Li Xiaolin, Mr. Hu Jiandong and Mr. Gao Guangfu. The committee is chaired by Mr. Gao Guangfu. We are of the view that the two non-executive Directors, namely Mr. Wang Binghua and Mr. Gao Guangfu, will be able to discharge their duties in the committee effectively as:

- they possess extensive experience and knowledge in the power industry in the PRC, particularly in operation and management of power business. They are able to provide market expertise and advice to the Board;
- the Investment and Risk Control Committee will arrange for regular committee meetings and the senior management of the Company will provide periodic reports to the committee members to keep them informed of the latest operating conditions of the Company. In addition, the Company will also inform each committee member individually of any urgent matters; and
- the two executive Directors, namely Ms. Li Xiaolin and Mr. Hu Jiandong, will from time to time bring any relevant matters of the Company's business to the attention of all the committee members to ensure that the duties of the committee will be properly discharged.

The Investment and Risk Control Committee held two meetings during 2005 (average attendance was 100%).

Details of Director's attendance at the Board meetings and meetings of Board committees held in 2005 are set out in the following table:

Directors	Board Meeting	Audit Committee	Compensation and Nomination Committee	Investment and Risk Control Committee
	Attendance/Number of Meetings			
Executive Directors				
Li Xiaolin (Vice-chairman of the Board and chief executive officer)	5/5	—	—	2/2
Hu Jiandong (Executive vice president)	5/5	—	—	2/2
Non-executive Directors				
Wang Binghua (Chairman of the Board)	5/5	—	—	2/2
Gao Guangfu	5/5	—	—	2/2
Independent Non-executive Directors				
Kwong Che Keung, Gordon	5/5	4/4	2/2	—
Li Fang	5/5	4/4	2/2	—
Tsui Yiu Wa, Alec	5/5	4/4	2/2	—

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("Code of Conduct"), the terms of which are not less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2005.

Details of the Director's interests in securities of the Company as at 31 December 2005 are set out in the Report of the Board of Directors on page 52 in this annual report.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

For the financial year ended 31 December 2005, the positions of the chairman of the Board and the chief executive officer were served by Mr. Wang Binghua and Ms. Li Xiaolin respectively. The segregation of duties ensures a clear division between the chairman's responsibility to manage the Board and the chief executive officer's responsibility to manage the operations of the Company.

TERM OF OFFICE OF THE DIRECTORS

Code A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles"). In addition, as provided in the Articles of the Company, the executive Director who is also the chief executive officer of the Company shall not be subject to retirement by rotation, while all the other Directors will be subject to retirement at every annual general meeting after the annual general meeting in year 2007.

In order to achieve full compliance with the Code, the Company will stipulate a specific term of office for the non-executive Directors. The Company will also ensure that all Directors (with the exception of the executive Director who is also the chief executive officer of the Company) are subject to retirement by rotation and re-election at least once every three years. The Company is of the view that the position of chief executive officer is indispensable to the operation of the Company and the provision in the Articles excluding the chief executive officer from the requirement of retirement by rotation reflects the indispensable nature of such position with a view to minimising disruption caused to the operation of the Company.

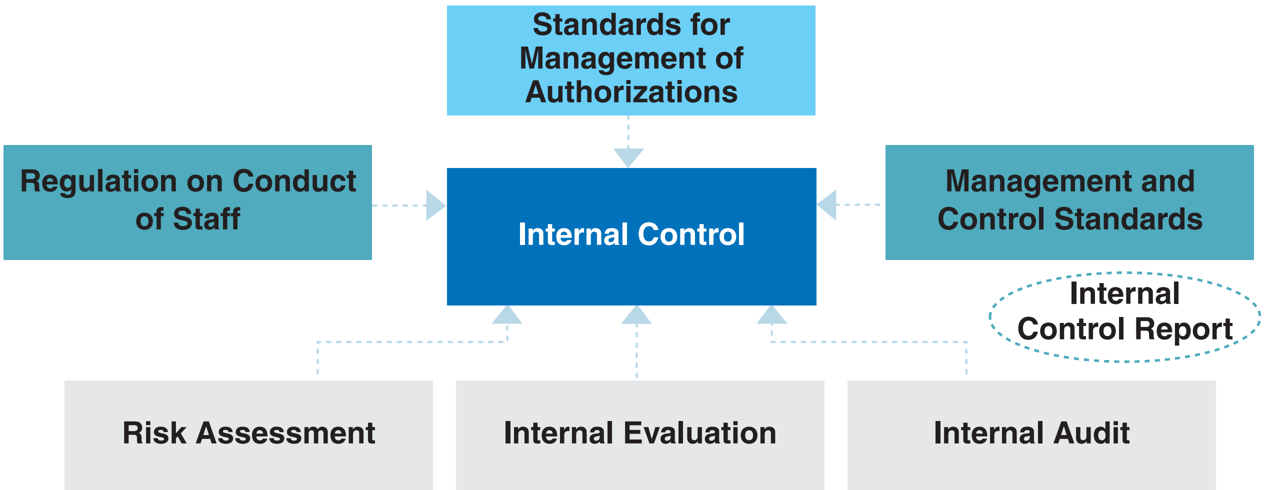
AUDITOR'S REMUNERATION

For the year ended 31 December 2005, the Company had reviewed the performance of PricewaterhouseCoopers as the Company's auditors (the "Auditors") and is considering their reappointment. For the year ended 31 December 2005, the audit fee payable to the Auditors amounted to approximately HK$3,300,000, while the fees for non-auditing services, including the review of interim reports and other services in connection with the acquisition of Shentou I Power Plant, amounted to approximately HK$3,400,000 in aggregate.

INTERNAL MONITORING SYSTEM

For the year ended 31 December 2005, the Company committed great efforts in strengthening its internal monitoring system. An independent internal control department has been established to evaluate and promote the setting up of the Company's internal control system. The principles of setting up the Company's internal control framework are to reinforce the internal supervision and control, constantly improve corporate governance structure and build up a corporate culture of integrity pursuant to the requirements of the Hong Kong Stock Exchange; establish an effective management and control system; carry out sustained evaluation on the adaptability of the internal control system and effectiveness of corporate management by means of auditing, investigation on conflicts of interests and evaluation of internal control, so as to constantly identify management risks and ensure smooth operation of the control system. A basic internal management and control system comprising eighteen sub-systems and 207 systems has been developed and completed based on the main management procedures of the Company that substantially covers every operational procedure of the Company. Monitoring systems including "Conflict of Interest Investigation System", "Standards for Management of Authorizations", "Risk Management and Assessment System" and "Internal Control Management Benchmark" were set up, which constantly arouse the staff's awareness of internal control.

The internal control framework of the Company is as follows:



The Company regularly reviews its internal control systems to ensure their sufficiency and efficiency.

IMPROVING CORPORATE TRANSPARENCY

Apart from reporting to the shareholders and investors on its operation and financial conditions semi-annually and annually, the Company also discloses regularly the key operating data such as electricity generation so that the investors will have a better understanding about the operation of the Company.

The Company also holds regular press conferences and meetings with financial analysts and investors, at which the Company's management will directly provide relevant information and data to the media, financial analysts, fund managers and investors, as well as answer their enquiries. The Company's management also arranges road shows to meet and communicate with fund managers and institutional investors around the world to enable them to have a better understanding about the achievements of the Company in its business and management.

In addition, the Company regularly publishes announcements and press releases in order to keep the investment public informed of the latest business development of the Company. The Company's management has been able to respond promptly to various questions raised by the media in a comprehensive and accurate manner. The Company's website has been constantly updated in order to provide the investors and the public with timely information about all aspects of the Company.

The Company has set up a Department of Capital Markets and Investor Relations which is responsible for promoting investor relations by providing the necessary information and services to the investors, promptly responding to their various enquiries and maintaining proactive and prompt communications with the investors. The Department of Capital Markets and Investor Relations is principally responsible for handling assets acquisition, financing, capital market research and investor relations management.

Report of the Board of Directors

The Directors have pleasure in presenting to our shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2005 (the "Accounts").

PRINCIPAL ACTIVITIES

The principal activity of the Group is to develop, construct, own, operate and manage large power plants in China. Particulars of the Company's principal subsidiaries are shown under Note 18 to the Accounts.

RESULTS AND DISTRIBUTION

The results of the Group for the Year are set out in the Consolidated Profit and Loss Account on page 62. The Board has recommended to pay a final dividend of RMB0.079 per share for the year ended 31 December 2005, with a total amount of RMB247,665,000.

PROPERTY, PLANT AND EQUIPMENT

During the Year, the Group acquired property, plant and equipment of approximately RMB1,085,246,000, mainly representing general power assets. Details of the movements in property, plant and equipment of the Group and the Company during the Year are set out in Note 15 to the Accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in Note 24 to the Accounts.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in Note 25 to the Accounts.

DISTRIBUTABLE RESERVE

According to Section 79B of the Companies Ordinance, as at 31 December 2005, the distributable reserve of the Company amounted to RMB690,726,000 (2004: RMB144,259,000 as restated).

DIRECTORS

The Directors who held office from the incorporation of the Company to the date of this report are set out in the section headed "Corporate information" in this annual report. Biographical details of the Directors are set out in the section headed "Directors and senior management profiles" in this annual report, and details of Directors' emoluments are set out in Note 14.

As at 31 December 2005, none of the Directors had a service contract with the Company or any subsidiaries which was not determinable by the employing company within one year without payment of compensation other than statutory compensation.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence. The Company considers all of its independent non-executive Directors independent.

SHARE OPTION SCHEMES

The Company has two share option schemes, namely the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") as follows:

(A) PRE-IPO SHARE OPTION SCHEME

The Company has conditionally approved and adopted the Pre-IPO Share Option Scheme on 24 August 2004. The purposes of the Pre-IPO Share Option Scheme are to attract and retain high-calibre personnel whom have contributed to the Company's long-term development and profitability and to motivate them to higher levels of performance by providing them with the opportunity to acquire equity in the Company.

The Pre-IPO Share Option Scheme ended on the date on which dealings in the shares commenced on the Hong Kong Stock Exchange (i.e. 15 October 2004). No further options may be granted after that date but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect.

As at the date of this annual report, a total of 12,234,500 shares (representing approximately 0.39% of the existing issued share capital of the Company) may be issued by the Company if all options which had been granted under the Pre-IPO Share Option Scheme have been exercised.

Save that the exercise price per share subject to the options granted under the Pre-IPO Share Option Scheme being the issue price per share under the IPO of the Company, the principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme. Grantees under the Pre-IPO Share Option Scheme were required to pay HK$1.00 to the Company as the nominal consideration of each option granted.

Each option has a 10-year exercise period within which there is a total vesting period of four years. Commencing form the first, second, third and fourth anniversaries of the offer date of an option, the relevant grantee may exercise up to 25%, 50% 75% and 100% respectively of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

The Company has used the Black-Scholes option pricing model (the "Model") to value the Pre-IPO Share Options during the Year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. As such, the fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the valuation model used.

The options granted pursuant to the Pre-IPO Share Option Scheme (the "Pre-IPO Share Options") were granted on 18 September 2004 to the Directors and senior management of the Company and on 11 October 2004 to certain other employees of the Company. The fair value of the Pre-IPO Share Options determined at the dates of grant using the Model were HK$9,875,200 and HK$4,006,000 respectively. Such value has been expensed regressively through the Group's profit and loss account over the four-year vesting period of the Pre-IPO Share Options commencing from the year ended 31 December 2004. During the Year, an amount of share option expense of RMB4,285,000 has been recognized, with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2005 are as follows:

Grantee and Position	Date of grant	Number of Shares subject to Options: As at 1 January 2005	Granted during the year	Lapsed or cancelled during the year	Exercised during the year	Outstanding as at 31 December 2005	Exercise period	Exercise price per shares (HK$)
WANG Binghua *Chairman of the Board and Non-Executive Director*	18 September 2004	1,495,400	—	—	—	1,495,400	17 September 2014	2.53
LI Xiaolin *Vice-Chairman of the Board, Executive Director and Chief Executive Officer*	18 September 2004	1,661,500	—	—	—	1,661,500	17 September 2014	2.53
HU Jiandong *Executive Director and Executive Vice President*	18 September 2004	996,900	—	—	—	996,900	17 September 2014	2.53
GAO Guangfu *Non-Executive Director*	18 September 2004	207,700	—	—	—	207,700	17 September 2014	2.53
GU Dake *Executive Vice President*	18 September 2004	872,300	—	—	—	872,300	17 September 2014	2.53
WANG Zhiying *Executive Vice President*	18 September 2004	872,300	—	—	—	872,300	17 September 2014	2.53
ZHAO Yazhou *Executive Vice President*	18 September 2004	872,300	—	—	—	872,300	17 September 2014	2.53
IO Cheok Kei, Rudy *Chief Financial Officer*	18 September 2004	415,400	—	—	—	415,400	17 September 2014	2.53
ZHAO Xinyan *Vice President*	18 September 2004	540,000	—	—	—	540,000	17 September 2014	2.53

Grantee and Position	Date of grant	Number of Shares subject to Options: As at 1 January 2005	Granted during the year	Lapsed or cancelled during the year	Exercised during the year	Outstanding as at 31 December 2005	Exercise period	Exercise price per shares (HK$)
WANG Zichao *Vice President*	18 September 2004	540,000	—	—	—	540,000	17 September 2014	2.53
TSE Hiu Tung, Sheldon *Company Secretary*	18 September 2004	207,700	—	—	—	207,700	17 September 2014	2.53
Other employees	11 October 2004	3,553,000	—	—	—	3,553,000	10 October 2014	2.53

(B) SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved and adopted by a resolution in writing passed by the Company's shareholders on 24 August 2004. The purposes of the Share Option Scheme are to attract and retain high-calibre personnel to provide them with the opportunity to acquire equity in the Company and to motivate them to higher levels of performance.

The Board may, at its absolute discretion, offer any employees, Directors (including executive and non-executive Directors other than independent non-executive Directors), chief executive and members of the management of the Company and the Group (the "Eligible Person") options to subscribe for Shares. Upon acceptance of the offer of an option, the grantee shall pay HK$1.00 to the Company as nominal consideration for the grant.

No option has been granted by the Company under the Share Option Scheme. As at the date of issue of this annual report, the total number of shares in respect of which options may be granted under the Share Option Scheme was 287,765,500, representing approximately 9.18% of the total number of shares in issue.

Except with the approval of the Company's independent shareholders at the general meeting, the total number of shares issued and to be issued upon the exercise of the options granted to or to be granted to each Eligible Person under the Share Option Scheme and other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Company's shares in issue.

The exercise price per share subject to the options granted under the Share Option Scheme shall be determined by the Board but shall be not less than the greater of:

(a) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date, which must be a business day, of the written offer of the option (the "Offer Date");

(b) the average closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date; and

(c) the nominal value of the shares.

In the event of a capitalization issue, rights issue, sub-division or consolidation of the shares or reduction of the capital of the Company whilst any option remains exercisable, the Company shall make such corresponding adjustments to the exercise price per share for the outstanding options.

An option may be exercised at any time during a period to be notified by the Board to each grantee, such period not to exceed ten years from the Offer Date of the relevant option. Options granted under the Share Option Scheme will have a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the Offer Date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the shares comprised in his or her option subject to any early vesting of options described in the following paragraphs:

(1) RIGHTS ON A GENERAL OFFER

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in similar manner) is made to the Company's shareholders, the Company shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantees shall be entitled to exercise the option in full (to the extent not already exercised) within 14 days after the date on which such general offer becomes or declared unconditional.

(2) RIGHTS ON SCHEMES OF COMPROMISE OR ARRANGEMENT

If, pursuant to the Companies Ordinance, a compromise or arrangement between the Company and its shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it dispatches to each shareholder or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his/her options in whole or in part prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

(3) RIGHTS ON A VOLUNTARY WINDING-UP

In the event of an effective resolution being passed for the voluntary winding-up of the Company or an order of the court is made for the winding-up of the Company, the Company shall give notice thereof ("winding-up notice") to all grantees on the same day as such resolution is passed or order is made. The grantee may by notice in writing to the Company within 21 days after the date of the winding-up notice elect to be treated as if the option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the grantee's notice, such notice to be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation pari passu with the Company's shareholders such sum as would have been received in respect of the Shares the subject of such election.

Unless otherwise terminated by the Board or the shareholders of the Company in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from 24 August 2004.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2005, save as disclosed below, none of the Directors or the Company's chief executive officer 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 Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO")) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Name	Capacity	Name of company in which interests are held	Date of grant	Number of underlying shares interested under physically settled equity derivatives	Percentage of issued share capital of the Company (%)	Long/Short position
WANG Binghua	Beneficial owner	the Company	18 September 2004	1,495,400	0.05	Long
LI Xiaolin	Beneficial owner	the Company	18 September 2004	1,661,500	0.05	Long
HU Jiandong	Beneficial owner	the Company	18 September 2004	996,900	0.03	Long
GAO Guangfu	Beneficial owner	the Company	18 September 2004	207,700	0.01	Long

Notes:

(1) The interests of the above Directors in the underlying shares of the Company represent the options granted to them under the Pre-IPO Share Option Scheme by the Company.

(2) None of the above Directors has any interests in the Company's securities (except for interests held under equity derivatives).

DIRECTOR'S INTEREST IN CONTRACTS

There is no contract of significance in which the Company, its subsidiaries, holding company or associated company was a party, and in which any Director of the Company had a material interest, subsisted at any time during the Year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2005, save as disclosed below, no person, not being a Director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which should be recorded in the register kept under Section 336 of the SFO.

Name	Capacity	Number of shares in which interested other than under equity derivatives[3]	Percentage of issued share capital of the Company(%)	Long/Short position
CPDL	Beneficial owner	1,996,500,000	63.68	Long
CPI Holding[1]	Interest of a controlled corporation	1,996,500,000	63.68	Long
CPI Group[2]	Interest of a controlled corporation	1,996,500,000	63.68	Long

Note:

(1) CPI Holding is the beneficial owner of the entire issued share capital of CPDL and therefore CPI Holding is deemed to be interested in the Shares owned by CPDL for the purposes of the SFO.

(2) CPI Group is the beneficial owner of the entire issued share capital of CPI Holding and therefore CPI Group is deemed to be interested in the Shares owned by CPDL for the purposes of the SFO.

(3) The above shareholders of the Company do not have any interest in the equity derivatives of the Company.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP

CONNECTED TRANSACTIONS

(A) SHENTOU I POWER PLANT ACQUISITION AGREEMENT

On 9 June 2005, the Company, CPI Holding and CPDL entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Company agreed to acquire and CPDL agreed to sell the entire issued share capital of Tianze Development Limited. Tianze Development Limited wholly-owns Shentou I Power Plant. The Company, CPI Holding and CPDL also agreed that the revenues, profits and losses of the power generation business of Shentou I Power Plant from 1 July 2005 would be attributable to the Company. An extraordinary general meeting was convened on 21 July 2005 at which the Acquisition Agreement was unanimously approved by the independent shareholders who attended the meeting. The acquisition was completed on 23 December 2005. The final adjusted consideration for the Acquisition was RMB592,732,000.

The total installed capacity of Shentou I Power Plant was 1,200 MW. The acquisition represented a good opportunity for the Company to enlarge its operating scale, expand its geographical scope, promote business development and improve financial performance, so as to benefit from the growth in the power industry in the PRC. In addition, the advantageous location of Shentou I Power Plant in coal-rich Shanxi province would enable the Group to benefit from proximity to coal supply and without the need to pay for long distance transportation or being subject to transportation capacity constraints.

Both CPI Holding and CPDL are wholly-owned subsidiaries of CPI Group, the ultimate controlling shareholder of the Company. Accordingly, the above transaction constituted a connected transaction of the Group under the Listing Rules.

(B) CONSTRUCTION PROJECT MANAGEMENT AGREEMENTS

Each of the power plants under construction, namely Yaomeng Power Plant II, Pingwei Power Plant II and Huanggang Dabieshan Power Plant ("Power Plants under Construction") and CPI Management Company entered into a construction project management agreement (the "Construction Project Management Agreement") on 1 June 2005, whereby each of the Power Plants under Construction engaged CPI Management Company as project manager to manage the projects which involve the construction of two 600 MW super-critical coal-fired power generation units for each of these power plants. Yaomeng Power Plant II, Pingwei Power Plant II and Huanggang Dabieshan Power Plant are owned by the Company as to 100%, 100% and 93% respectively.

The management fee payable by each of the Power Plants under Construction to CPI Management Company under the respective Construction Project Management Agreements is RMB45,000,000, amounting to an aggregate fee of RMB135,000,000. Depending on its performance, CPI Management Company may be entitled to additional bonus management fees estimated not to exceed RMB15,000,000 under each agreement or RMB45,000,000 in total.

CPI Management Company possesses the relevant experience and expertise in the management of large-scale power plant construction projects using advanced management systems and information technology systems. The Construction Project Management Agreements are for the purpose of constructing power plants with high-efficiency and low cost for the Group which will increase the Group's competitiveness upon commencement of their operation.

CPI Management Company is a branch company of CPI Group, the ultimate controlling shareholder of the Company. Accordingly, the Construction Project Management Agreements constitute connected transactions of the Group under the Listing Rules.

(C) EQUIPMENT AGREEMENTS

Each of the Power Plants under Construction and CP Equipment Project Company entered into an equipment agreement (the "Equipment Agreement") on 1 June 2005, whereby each of the Power Plants under Construction engaged CP Equipment Project Company to provide technical assistance and consultancy services relating to the purchases of the equipment and machinery required for each of the power plants, including assistance in the calling of tenders, supervision of the manufacture of the equipment and machinery and acting as agents for purchasing imported equipment and parts for each of the construction projects. The contracts came into effect on 1 June 2005 and will expire upon completion of the services and payment in full of all service fees.

The service fee payable by each of the Power Plants under Construction to CP Equipment Project Company under the respective Equipment Agreement is RMB12,000,000, amounting to an aggregate fee of RMB36,000,000.

CP Equipment Project Company possesses the relevant experience and expertise in sourcing equipment for the power plants. The Equipment Agreements are for the purpose of constructing new power plants for the Group which will increase the Group's power generating capacity.

CP Equipment Project Company is owned as to approximately 77.7% by CPI Group, the ultimate controlling shareholder of the Company. Accordingly, the Equipment Agreements constitute connected transactions of the Group under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

(A) MANAGEMENT AGREEMENT

The Company entered into a management agreement (the "Management Agreement") dated 1 July 2004 with CPI Group and CPI Holding in respect of the management of Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Shaoda Power Plant and Hongze Power Plant for a term of three years in return for a service fee.

The service fee payable by CPI Group and CPI Holding to the Company under the Management Agreement consists of the following three components:

- costs (including set-up, operational and other recurrent items to be incurred by the Company in managing the power plants) (the "Management Costs");
- a premium to cover estimated risks set at 15% of the Management Costs; and
- a profit/loss margin which is an incentive/penalty calculated by reference to the confirmed results of the power plants under management but which shall not exceed 15% of the Management Costs.

The first two components of the service fee are payable monthly in arrears. The profit/loss margin component is payable based on the annual evaluation of performance of the management but no later than 90 days after the end of each year. The service fee (excluding the profit/loss margin component) paid to the Company under the Management Agreement during the Year amounts to RMB14,531,000.

The service fee (excluding the profit/loss margin component) payable by CPI Group and CPI Holding may be adjusted according to changes in total installed capacity of the power plants under management. In addition, the service fee may be adjusted annually by reference to the following factors:

- the inflation rate of the previous year as published by the National Bureau of Statistics of China;
- the average percentage increase in salaries of the Company's employees as approved by the Board; and
- any change in the scope or nature of the management services.

Upon its expiry, the Management Agreement is renewable with the consent of the parties thereto.

Both CPI Group and CPI Holding are the controlling shareholders of the Company and the transactions under the Management Agreement therefore constitute continuing connected transactions of the Group under the Listing Rules.

(B) LAND LEASE AGREEMENTS

Each of Pingwei Power Plant and Yaomeng Power Plant entered into a land lease agreement with CPI Group on 27 August 2004 (the "Land Lease Agreements") to lease from CPI Group the land on which they are respectively situated. The land lease agreement with Yaomeng Power Plant was later supplemented on 24 September 2004. The basic terms of the above two land lease agreements are as follows:

	Area of leased land sq. m.	**Annual rent RMB**	**Lease commencement date**	**Lease expiry date**
Pingwei land lease agreement	4,438,189	6,980,000	1 August 2004	16 September 2019 (being the expiry date of the term of operation of Pingwei Power Plant)
Yaomeng land lease agreement	2,887,772	5,330,000	1 August 2004	26 August 2019 (being the expiry date of the term of operation of Yaomeng Power Plant)

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the above two Land Lease Agreements constitute continuing connected transactions of the Group under the Listing Rules.

(C) SERVICE AGREEMENTS

Tianze Development Limited, a wholly owned subsidiary of the Company, entered into a series of service agreements (the "Service Agreements") with certain subsidiaries of the CPI Group on 9 June 2005 to ensure the sustained operation of Shentou I Power Plant. The Service Agreements will expire on 31 December 2007 and the relevant terms are summarised below:

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

Service Agreement	Annual Cap (RMB millions) 2005	2006	2007	Basis of determination of the annual cap
Composite Ancillary Services Framework Agreement	19	19	19	The annual caps are determined with reference to Shentou I Power Plant's requirements for ancillary services and/or the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the transactions under the above Service Agreements constitute continuing connected transactions of the Group under the Listing Rules.

(D) LAND USE RIGHT LEASE AGREEMENT

On 9 June 2005, Tianze Development Limited entered into a land use right lease agreement (the "Land Use Right Lease Agreement") with CPI Group regarding the lease from CPI Group of a land with a area of approximately 2,925,019.15 sq. m. for a term of 20 years commencing from 1 July 2005. The annual rent for the period up to 31 December 2007 is fixed at RMB4,940,000. The rental amount is subject to review by the parties with reference to an independent valuation upon expiry of the said period.

Shentou I Power Plant is situated on a parcel of land allocated by the State to CPI Group. Accordingly, it is essential to entering into the Land Use Right Lease Agreement to ensure that Shentou I Power Plant is entitled to continue operating on the land.

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the transaction under the above Land Use Right Licensing Contract constitutes continuing connected transaction of the Group under the Listing Rules.

The Directors (including the independent non-executive Directors) confirm that during the Year, the continuing connected transactions under the Management Agreement, Land Lease Agreements, Service Agreements and the Land Use Right Lease Agreement set out above were carried out in the ordinary course of business of the Group, on normal commercial terms, in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Company and its shareholders as a whole.

The auditors of the Company have reviewed the relevant transactions and have confirmed in a letter to the Directors stating that:

i) the transactions have been approved by the Board;

ii) the details of the transactions were entered into in accordance with the relevant agreements and documents governing such transactions; and

iii) the aggregate values of the transactions did not exceed the relevant upper limits applicable to such transactions approved by the Hong Kong Stock Exchange.

The Company has obtained from the Hong Kong Stock Exchange waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Listing Rules for the Management Agreement and Land Lease Agreements which is valid until 31 December 2006. The Company has complied with the other relevant requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, no contracts of significance to which any of the Company, its subsidiaries, holding company or associated companies was a party subsisted at any time during the Year or at the end of the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 80.81% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 44.00% of the Group's total purchases.

For the year ended 31 December 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 100.00% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 48.48% of the Group's total turnover.

At no time during the Year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

PUBLIC FLOAT

As at the date of this annual report, based on public information available to the Company and to be best knowledge of the Directors, the Company maintained sufficient public float, being 25% of the issued share capital of the Company as required under the Listing Rules.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offered themselves for re-appointment.

On behalf of the Board
China Power International Development Limited

Li Xiaolin
Vice Chairman and Chief Executive Officer

Hong Kong, 16 March 2006

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 62 to 121 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 16th March 2006

Consolidated Profit and Loss Account

For the year ended 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Turnover	5	**4,361,718**	3,352,001
Other income	6	**76,002**	21,873
Fuel costs		**(2,652,216)**	(1,825,875)
Depreciation		**(320,488)**	(325,641)
Staff costs	10	**(315,112)**	(262,428)
Repairs and maintenance		**(184,436)**	(141,559)
Consumables		**(63,357)**	(51,321)
Other operating expenses, net		**(204,017)**	(158,918)
Operating profit	7	**698,094**	608,132
Finance costs	8	**(76,917)**	(77,285)
Share of profit of an associated company		**122,480**	150,805
Profit before taxation		**743,657**	681,652
Taxation	9	**(82,448)**	(46,413)
Profit for the year		**661,209**	635,239
Attributable to:			
Equity holders of the Company		**661,904**	635,813
Minority interests		**(695)**	(574)
		661,209	635,239
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	12	**0.21**	0.27
– diluted	12	**0.21**	0.27
Dividends/profit distributions	13	**247,665**	460,308

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**5,343,209**	3,526,136
Leasehold land prepayment	16	**18,904**	—
Goodwill	17	**166,939**	—
Prepayment for construction of power plants		**1,845,647**	614,126
Interest in an associated company	19	**835,860**	849,539
Deferred income tax assets	32	**12,893**	13,795
		8,223,452	5,003,596
Current assets			
Inventories	20	**265,871**	114,512
Accounts receivable	21	**803,779**	644,183
Prepayments, deposits and other receivables		**143,234**	174,893
Amount due from an intermediate holding company	22	**8,308**	15,352
Dividends receivable from an associated company		**75,962**	32,861
Cash and cash equivalents	23	**2,187,943**	3,064,224
		3,485,097	4,046,025
Total assets		**11,708,549**	9,049,621
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	**3,323,100**	3,323,100
Reserves	25	**3,485,289**	2,902,178
		6,808,389	6,225,278
Minority interests		**11,044**	2,726
Total equity		**6,819,433**	6,228,004
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	26	**2,713,500**	1,153,000
Long-term payable to a related company	27	**393,110**	—
Long-term payable to Shanxi Electric Power Corporation ("SEPC")	28	**19,979**	—
		3,126,589	1,153,000
Current liabilities			
Accounts payable	29	**286,644**	237,218
Other payables and accrued charges	30	**476,267**	328,824
Amount due to ultimate holding company	31	**91,665**	5,129
Current portion of long-term bank borrowings	26	**400,000**	261,000
Short-term bank and other borrowings	26	**487,500**	592,676
Profit distributions payable to an intermediate holding company		**—**	212,169
Taxation payable		**20,451**	31,601
		1,762,527	1,668,617
Total liabilities		**4,889,116**	2,821,617
Total equity and liabilities		**11,708,549**	9,049,621
Net current assets		**1,722,570**	2,377,408
Total assets less current liabilities		**9,946,022**	7,381,004

Li Xiaolin
Director

Hu Jiandong
Director

Balance Sheet

As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**5,303**	80
Investments in subsidiaries	18	**2,864,555**	1,761,293
Interest in an associated company	19	**552,500**	552,500
		3,422,358	2,313,873
Current assets			
Prepayments, deposits and other receivables		**7,987**	1,219
Amount due from an intermediate holding company	22	**8,308**	15,352
Dividends receivable		**429,345**	145,715
Cash and cash equivalents	23	**1,753,248**	2,551,685
		2,198,888	2,713,971
Total assets		**5,621,246**	5,027,844
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	**3,323,100**	3,323,100
Reserves	25	**2,271,208**	1,659,275
		5,594,308	4,982,375
LIABILITIES			
Current liabilities			
Other payables and accrued charges	30	**24,442**	45,469
Amount due to ultimate holding company	31	**2,496**	—
Total liabilities		**26,938**	45,469
Total equity and liabilities		**5,621,246**	5,027,844
Net current assets		**2,171,950**	2,668,502
Total assets less current liabilities		**5,594,308**	4,982,375

Li Xiaolin
Director

Hu Jiandong
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company				
		Share capital	**Other reserves (Note 25)**	**Accumulated losses**	**Minority interests**	**Total**
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January 2005, as previously reported as equity		3,323,100	4,733,603	(1,831,425)	—	6,225,278
Balance at 1st January 2005, as previously separately reported as minority interests		—	—	—	2,726	2,726
Effect of change in accounting policies – recognition of share-based compensation	2.1	—	7,390	(7,390)	—	—
Balance at 1st January 2005, as restated		3,323,100	4,740,993	(1,838,815)	2,726	6,228,004
Profit for the year		—	—	661,904	(695)	661,209
Employee share option benefits		—	4,285	—	—	4,285
Dividend relating to 2004		—	—	(83,078)	—	(83,078)
Contribution from minority shareholders of a subsidiary		—	—	—	9,013	9,013
Balance at 31st December 2005		3,323,100	4,745,278	(1,259,989)	11,044	6,819,433
Balance at 1st January 2004		2,226,000	3,158,082	(1,980,898)	—	3,403,184
Profit for the year, as previously reported		—	—	643,203	(574)	642,629
Effect of change in accounting policies – recognition of share-based compensation	2.1	—	7,390	(7,390)	—	—
Profit for the year, as restated				635,813		
Contribution from owner		—	67,895	—	—	67,895
Contribution from minority shareholders of a subsidiary		—	—	—	3,300	3,300
Issue of new shares		1,097,100	—	—	—	1,097,100
Premium on issue of shares		—	1,678,563	—	—	1,678,563
Share issuance expenses		—	(170,937)	—	—	(170,937)
Profit distributions		—	—	(377,230)	—	(377,230)
Profit distributions of an associated company		—	—	(116,500)	—	(116,500)
Balance at 31st December 2004		3,323,100	4,740,993	(1,838,815)	2,726	6,228,004

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	**2005** RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	**890,413**	905,798
Interest paid		**(133,083)**	(89,876)
PRC income tax paid		**(92,696)**	(21,066)
Net cash generated from operating activities		**664,634**	794,856
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	34	**(567,891)**	—
Purchase of property, plant and equipment		**(1,085,246)**	(366,878)
Prepayment for construction of power plants		**(1,231,521)**	(614,126)
Proceeds from disposal of property, plant and equipment		**1,333**	2,150
Cost incurred for disposal of property, plant and equipment		**(631)**	(169)
Dividend received		**93,058**	—
Interest received		**52,580**	12,135
Net cash used in investing activities		**(2,738,318)**	(966,888)
Cash flows from financing activities			
Drawdown of bank borrowings	33(b)	**2,311,324**	1,574,676
Repayment of bank borrowings	33(b)	**(825,500)**	(971,000)
Repayment of long-term payable to SEPC		**(2,187)**	—
Profit distributions to owner		**(212,169)**	(165,061)
Dividend paid		**(83,078)**	—
Contribution from owner		**—**	67,895
Contributions from minority shareholders of a subsidiary	33(b)	**9,013**	3,300
Issuance of new shares		**—**	2,775,663
Share issuance expenses		**—**	(170,937)
Net cash generated from financing activities		**1,197,403**	3,114,536
Net (decrease)/increase in cash and cash equivalents		**(876,281)**	2,942,504
Cash and cash equivalents at 1st January		**3,064,224**	121,720
Cash and cash equivalents at 31st December		**2,187,943**	3,064,224
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**2,187,943**	3,064,224

Notes to the Consolidated Accounts

1 General information

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

The principal activities of the Company and its subsidiaries (together the "Group") are principally engaged in the generation and sale of electricity, and the development of power plants in the People's Republic of China (the "PRC").

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

These consolidated accounts are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 16th March 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. These consolidated accounts have been prepared under the historical cost convention except that certain property, plant and equipment are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses; and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (if any).

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and 36 had no material effect on the Group's policies.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is an impairment, the impairment is expensed in the profit and loss account.

The adoption of HKAS 21 had no material effect to the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entities accounts.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKASs 32 and 39, the Group's loan and receivables are measured at amortised cost and the carrying amount of the assets is computed by discounting the future cash flows to the present value using the effective interest method. In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method. The adoption of HKASs 32 and 39 did not have any material financial impact to the Group.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the profit and loss account of the respective periods (Note 2.14).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, when applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

— HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

— HKFRS 3 – prospectively after the adoption date.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of HKFRS 2 resulted in:

	As at 31st December	
	2005	2004
	RMB'000	RMB'000
Increase in other reserves	**11,675**	7,390
Increase in accumulated losses	**(11,675)**	(7,390)

	For the year ended 31st December	
	2005	2004
	RMB'000	RMB'000
Increase in staff costs	**4,285**	7,390

There was no significant impact on the basic and diluted earnings per share from the adoption of HKFRS 2.

There was no impact to opening accumulated losses at 1st January 2004 from the adoption of HKFRS 2.

No early adoption of the following new Standards or Interpretations or Amendments that have been issued but are not yet effective. The Directors anticipate that the adoption of these Standards or Interpretations or Amendments will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation

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

(a) Subsidiaries

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the Company's equity holders therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of the respective entities' changes in equity since the date of the combination. The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(b) Associated company

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for by the equity method of accounting and is initially recognised at cost.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated accounts are presented in RMB, which is the Company's functional and presentation currency.

2 Summary of significant accounting policies *(Continued)*

2.3 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of an entity are treated as assets and liabilities of the entity and translated at the closing rate.

2 Summary of significant accounting policies *(Continued)*

2.4 Property, plant and equipment

Property, plant and equipment other than construction in progress (see note 2.5 below) are recognised initially at cost. Cost comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

Subsequent to the initial recognition, property, plant and equipment other than construction in progress are carried at their revalued amounts less subsequent accumulated depreciation and impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed on a regular basis with an interval of not more than five years. In the intervening years, the Directors review the carrying values of the assets and adjustment is made where they consider that there has been a material change.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are expensed in the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged. Upon the disposal of the assets, any revaluation reserve balance remaining attributable to the relevant asset is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease term
Buildings	8-45 years
Power generators and equipment	9-28 years
Electricity supply equipment	13-30 years
Tools, office and other equipment	3-18 years
Motor vehicles	2-12 years
Furniture and fixture	3-5 years

2 Summary of significant accounting policies *(Continued)*

2.4 Property, plant and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8). Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment losses do not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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

2.5 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.4 in this Section.

2.6 Leasehold land prepayments

Leasehold land prepayments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of leasehold land prepayments is calculated on a straight-line basis over the period of the land use rights.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (Note 2.8). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2 Summary of significant accounting policies *(Continued)*

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account.

2.9 Inventories

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

2.10 Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2 Summary of significant accounting policies *(Continued)*

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2 Summary of significant accounting policies *(Continued)*

2.14 Employee benefits

(a) Pension obligations

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

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

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.15 Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 Summary of significant accounting policies *(Continued)*

2.16 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made or received under operating leases are charged or credited to in the profit and loss account on a straight-line basis over the period of the lease.

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

2.18 Revenue recognition

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

Management fee income is recognised when services are rendered.

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

Interest income is recognised on a time proportion basis using the effective interest method.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors. The Group does not use derivative financial instruments for speculative purposes.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations primarily do not expose to material foreign exchange risk. The Group's borrowings and payables to holding companies are denominated in RMB. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB repayable within one year. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign currency risk is considered minimal.

Certain of the Group's bank deposits are denominated in currencies other than RMB, details of which have been disclosed in Note 23. RMB against USD and HK$ has been comparatively stable over the past few years. Since July 2005, RMB experienced certain appreciation which is the major reason for the significant exchange differences recognised by the Group for the year ended 31st December 2005. Depreciation or appreciation of USD and HK$ against RMB will affect the Group's financial position and results of operations.

(b) Credit risk

All the Group's sales of electricity were made to provincial electric power companies. The Group's historical experience in collection of accounts receivable from these provincial electric power companies indicates no significant recoverability problem.

(c) Liquidity risk

The Group's primary cash requirements have been for construction of power plants, additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances their working capital requirements through a combination of funds generated from operations, short-term and long-term bank loans.

The Directors believe that cash from operations and bank borrowings will be sufficient to meet the Group's operating cashflow. Due to the dynamic nature of the underlying businesses, the Group treasury aims at maintaining flexibility in funding by keeping credit lines available. The Directors believe that the Group has obtained sufficient general credit facilities from PRC banks for financing capital commitments in the near future and for working capital purposes.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 23. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 26. These borrowings expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, accounts receivable, prepayments, deposits and other receivables, and current financial liabilities including accounts payable, other payables and accrued charges, short-term borrowings and amounts due to holding companies and other related companies, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(i) Property, plant and equipment carried at valuation

Property, plant and equipment other than construction in progress are revalued by independent valuers on a regular basis with an interval of not more than five years. In the intervening years the Directors review the carrying values and adjustment is made where there has been a material change. In arriving at the valuation, assumptions and economic estimates have to be made.

4 Critical accounting estimates and judgements *(Continued)*

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment, other than construction in progress. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Impairment of assets

The Group tests annually whether goodwill has suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates (Note 17). Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

5 Turnover, revenues and segment information

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

	2005 **RMB'000**	2004 RMB'000
Sales of electricity	**4,361,718**	3,352,001

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

Segment information

The Group's principal activities are the generation and sale of electricity, and the development of power plants as a single business segment. Substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC except that certain cash and bank balances equivalent to approximately RMB1,471 million were deposited in certain banks in Hong Kong at 31st December 2005 (2004: approximately RMB2,552 million). Accordingly, no segment information is presented.

6 Other income

	2005 **RMB'000**	2004 RMB'000
Management fee income (Note 36)	**14,531**	6,884
Rental income	**3,921**	2,854
Interest income on bank deposits	**57,550**	12,135
	76,002	21,873

7 Operating profit

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

	2005	2004
	RMB'000	RMB'000
Amortisation of leasehold land prepayment	**193**	—
Auditors' remuneration	**4,078**	2,996
Depreciation of property, plant and equipment	**320,488**	325,641
Loss on disposal of property, plant and equipment	**2,872**	1,431
Net exchange loss	**40,422**	—
Operating lease rental in respect of		
— equipment	**—**	3,394
— leasehold land and buildings	**18,482**	6,443
Provision for other receivables	**—**	4,765
Staff costs including Directors' emoluments (Note 10)	**315,112**	262,428
Write-off of property, plant and equipment	**—**	7,478
Write-off of pre-operating expenses	**10,191**	13,555
Write-back of provision for other receivables	**(6,011)**	(4,393)
Write-back of provision for amount due from SEPC	**(30,000)**	—
Write-back of other payables	**(28,397)**	(8,870)

8 Finance costs

	2005	2004
	RMB'000	RMB'000
Interest expense on		
bank loans wholly repayable within five years	**121,165**	49,960
bank loans not wholly repayable within five years	**8,466**	39,916
other loans wholly repayable within five years	**2,406**	—
long-term payable to a related party wholly repayable within five years	**2,522**	—
	134,559	89,876
Less: Amounts capitalised in property, plant and equipment	**(57,642)**	(12,591)
	76,917	77,285

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The weighted average interest rate on such capitalised borrowings is approximately 5.3% (2004: 4.9%) per annum.

Notes to the Consolidated Accounts

9 Taxation

No Hong Kong profits tax has been provided as the Group did not have any assessable profit in Hong Kong for the year (2004: Nil).

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

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

	2005	2004
	RMB'000	RMB'000
PRC current income tax	**81,546**	42,589
Deferred taxation (Note 32)	**902**	3,824
	82,448	46,413

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

	2005	2004
	RMB'000	RMB'000
		(Restated)
Profit before taxation	**743,657**	681,652
Less: Share of profit of an associated company	**(122,480)**	(150,805)
	621,177	530,847
Calculated at the PRC statutory tax rate of 33% (2004: 33%)	**204,988**	175,180
Effect of different taxation rates	**2,255**	262
Effect of preferential tax rate	**(118,664)**	(99,142)
Effect of tax holiday	**(16,769)**	(41,309)
Income not subject to taxation	**(15,419)**	(4,782)
Expenses not deductible for taxation purposes	**26,057**	16,204
Taxation charge	**82,448**	46,413

Share of taxation attributable to the associated company for the year ended 31st December 2005 of RMB22,556,000 (2004: RMB12,799,000) are included in the consolidated profit and loss account as share of profit of an associated company.

Pursuant to the relevant PRC income tax rules and regulations, a special income tax rate of 15% has been granted to certain subsidiaries of the Group and the associated company as being foreign invested enterprises which are engaged in the energy, transportation or infrastructure activities. These companies are entitled to a two-year exemption from income tax starting from their first profit-making year and followed by a 50% reduction in income tax for the subsequent three years. Other than a subsidiary acquired by the Group during the year which was established in year 2005 and has been exempted from income tax in current year, the tax rate applicable to these companies for the year ended 31st December 2005 is 15% (2004: 7.5%).

10 Staff costs

	2005 RMB'000	2004 RMB'000 (Restated)
Wages, salaries and bonuses	**195,637**	140,971
Share options granted to directors and employees	**4,285**	7,390
Pension costs – defined contribution plans	**49,216**	38,666
Staff welfare	**65,974**	75,401
	315,112	262,428

11 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of RMB690,726,000 (2004: RMB144,259,000 as restated).

12 Earnings per share

The calculation of basic and diluted earnings per share for the year are based on the Group's profit for the year of RMB661,904,000 (2004: RMB635,813,000 as restated). The basic earnings per share is based on the weighted average of 3,135,000,000 (2004: 2,315,901,639) shares in issue during the year. The diluted earnings per share is based on 3,135,000,000 (2004: 2,315,901,639) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 518,646 (2004: 704,231) shares deemed to be issued at no consideration if all outstanding options had been exercised.

13 Dividends/profit distributions

	2005	2004
	RMB'000	RMB'000
Profit distributions (note (i))	**—**	377,230
Proposed final dividend of RMB0.079 (2004: RMB0.0265) per share (note (ii))	**247,665**	83,078
	247,665	460,308

Note:

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

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

(ii) The dividend paid during the year ended 31st December 2005 was HK$78,378,000 (or HK$0.025 per share) (equivalent to RMB83,078,000 (or RMB0.0265 per share)). A final dividend in respect of 2005 of RMB0.079 per share, amounting to a total dividend of RMB247,665,000 is to be proposed at the Annual General Meeting on 28th April 2006. These accounts do not reflect this dividend payable.

14 Emoluments for Directors and five highest paid individuals

(a) Directors' emoluments

The remuneration of each of the Directors of the Company for the year ended 31st December 2005 is set out below:

Name of Director	Fees	Basic salary, housing allowance, other allowances, share options and benefits in kind	Discretionary bonuses	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms. Li Xiaolin	—	1,470*	259	7	1,736
Mr. Hu Jiandong	—	1,005*	158	7	1,170
Non-executive directors					
Mr. Wang Binghua	208	599*	—	—	807
Mr. Gao Guangfu	125	146*	—	—	271
Independence non-executive directors					
Mr. Kwong Che Keung, Gordon	208	104	—	—	312
Mr. Li Fang	208	104	—	—	312
Mr. Tsui Yiu Wa, Alec	125	94	—	—	219

* Included in the amount were share-based compensation, which are determined based on the fair value of the share options granted to the relevant Directors at the date of grant and recognised over the vesting period. During the year ended 31st December 2005, none of these options has been exercised by the Directors.

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

(a) Directors' emoluments *(Continued)*

The remuneration of each of the Directors of the Company for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Basic salary, housing allowance, other allowances, share options and benefits in kind	Discretionary bonuses	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms. Li Xiaolin	—	1,543*	457	10	2,010
Mr. Hu Jiandong	—	963*	370	10	1,343
Non-executive directors					
Mr. Wang Binghua	170	905*	—	—	1,075
Mr. Gao Guangfu	106	126*	—	—	232
Independence non-executive directors					
Mr. Kwong Che Keung, Gordon	159	21	—	—	180
Mr. Li Fang	159	21	—	—	180
Mr. Tsui Yiu Wa, Alec	95	21	—	—	116

* Included in the amount were share-based compensation, which are determined based on the fair value of the share options granted to the relevant Directors at the date of grant and recognised over the vesting period. During the year ended 31st December 2004, none of these options has been exercised by the Directors.

None of the Directors of the Company waived any emoluments during the years ended 31st December 2004 and 2005.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 (2004: 4) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2004: 1) individual(s) during the year are as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances, share options and benefits in kind	**3,067**	1,047
Discretionary bonuses	**484**	127
Employer's contributions to pension schemes	**31**	8
	3,582	1,182

The emoluments fell within the following bands:

	Number of individual(s)	
	2005	2004
Nil to HK$1,000,000	**—**	1
HK$1,000,000 to HK$2,000,000	**3**	—

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

15 Property, plant and equipment

(a) Group

	Buildings RMB'000	Power generators and equipment RMB'000	Electricity supply equipment RMB'000	Tools and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation							
At 1st January 2005	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Additions	26,184	2,337	—	14,709	2,737	1,039,279	1,085,246
Acquisition of a subsidiary (Note 34)	356,409	448,591	66,438	23,680	940	159,831	1,055,889
Disposals	—	(2,100)	—	(4,403)	(260)	—	(6,763)
Write-off	—	—	—	(4,486)	—	—	(4,486)
Transfer	197,880	323,090	39,819	95,171	376	(656,336)	—
At 31st December 2005	**2,718,608**	**5,663,986**	**1,272,360**	**450,842**	**107,202**	**983,782**	**11,196,780**
Representing:							
Cost	645,161	795,170	112,717	145,877	8,045	983,782	2,690,752
Valuation	2,073,447	4,868,816	1,159,643	304,965	99,157	—	8,506,028
	2,718,608	**5,663,986**	**1,272,360**	**450,842**	**107,202**	**983,782**	**11,196,780**
Accumulated depreciation and impairment losses							
At 1st January 2005	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Depreciation charge for the year	70,280	189,893	30,929	26,263	3,123	—	320,488
Disposals	—	(1,010)	—	(2,024)	(155)	—	(3,189)
Write-off	—	—	—	(4,486)	—	—	(4,486)
At 31st December 2005	**1,124,554**	**3,533,955**	**897,532**	**217,918**	**79,612**	**—**	**5,853,571**
Net book value							
At 31st December 2005	**1,594,054**	**2,130,031**	**374,828**	**232,924**	**27,590**	**983,782**	**5,343,209**

15 Property, plant and equipment *(Continued)*

(a) Group *(Continued)*

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
At 1st January 2004	2,076,286	5,111,585	1,181,946	332,901	100,762	182,739	8,986,219
Additions	29	185	76	7,104	3,958	355,526	366,878
Disposals	(290)	(18,427)	(87)	(5,092)	(284)	—	(24,180)
Write-off	(2,549)	(222,242)	(22,216)	(13,955)	(1,061)	—	(262,023)
Transfer	64,659	20,967	6,384	5,213	34	(97,257)	—
At 31st December 2004	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Representing:							
Cost	64,688	21,152	6,460	12,317	3,992	441,008	549,617
Valuation	2,073,447	4,870,916	1,159,643	313,854	99,417	—	8,517,277
	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Accumulated depreciation and impairment losses							
At 1st January 2004	996,315	3,386,797	844,663	189,557	73,098	—	5,490,430
Depreciation charge for the year	60,362	190,535	43,516	26,532	4,696	—	325,641
Disposals	(1)	(16,108)	(74)	(4,431)	(154)	—	(20,768)
Write-off	(2,402)	(216,152)	(21,502)	(13,493)	(996)	—	(254,545)
At 31st December 2004	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Net book value							
At 31st December 2004	1,083,861	1,546,996	299,500	128,006	26,765	441,008	3,526,136

15 Property, plant and equipment *(Continued)*

(a) Group *(Continued)*

Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31st December 2005							
Cost	2,988,968	6,118,344	1,470,656	529,594	112,770	983,782	12,204,114
Accumulated depreciation and impairment losses	(1,299,128)	(3,666,680)	(846,587)	(314,131)	(83,711)	—	(6,210,237)
	1,689,840	**2,451,664**	**624,069**	**215,463**	**29,059**	**983,782**	**5,993,877**
At 31st December 2004							
Cost	2,408,495	5,352,932	1,364,399	407,471	109,067	441,008	10,083,372
Accumulated depreciation and impairment losses	(1,206,432)	(3,438,561)	(784,553)	(287,457)	(79,547)	—	(5,796,550)
	1,202,063	**1,914,371**	**579,846**	**120,014**	**29,520**	**441,008**	**4,286,822**

(a) As detailed in Note 2.4, property, plant and equipment other than construction in progress are recognised initially at cost and are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The latest independent valuation was performed by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.) and 中發國際評估有限公司 (DeveChina International Appraisals Co., Ltd.), independent valuers registered in the PRC, on a depreciated replacement cost basis as at 31st December 2003.

The Directors of the Company have reviewed the carrying value of the Group's property, plant and equipment as at 31st December 2005 and are of the opinion that the carrying amount is not materially different from the fair value.

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

(c) As at 31st December 2005, certain property, plant and equipment of the Group with carrying amount of approximately RMB1,102,000,000 (2004: Nil) was pledged as security for certain long-term bank borrowings of the Group (Note 26).

15 Property, plant and equipment *(Continued)*

(b) Company

	Leasehold improvements RMB'000	Office and other equipment RMB'000	Furniture and fixture RMB'000	Total RMB'000
Cost				
Upon incorporation on 24th March 2004	—	—	—	—
Additions	—	28	56	84
As at 31st December 2004 and at 1st January 2005	—	28	56	84
Additions	5,669	564	19	6,252
As at 31st December 2005	**5,669**	**592**	**75**	**6,336**
Accumulated depreciation and impairment losses				
Upon incorporation on 24th March 2004	—	—	—	—
Depreciation charge for the period	—	2	2	4
As at 31st December 2004 and at 1st January 2005	—	2	2	4
Depreciation charge for the year	945	70	14	1,029
As at 31st December 2005	**945**	**72**	**16**	**1,033**
Net book value				
As at 31st December 2005	**4,724**	**520**	**59**	**5,303**
As at 31st December 2004	—	26	54	80

Notes to the Consolidated Accounts

16 Leasehold land prepayment

	RMB'000
Cost	
As at 1st January 2005	—
Acquisition of a subsidiary (Note 34)	19,097
As at 31st December 2005	**19,097**
Accumulated amortisation	
As at 1st January 2005	—
Amortisation charge for the year	193
As at 31st December 2005	**193**
Net book value	
As at 31st December 2005	**18,904**
As at 31st December 2004	—

The leasehold land prepayment represents cost of the land use rights in respect of land located in the PRC where certain of the Group's construction in progress are built on. The remaining period of the land use rights is 49 years.

17 Goodwill

	RMB'000
Cost	
As at 1st January 2005	—
Acquisition of a subsidiary (Note 34)	166,939
As at 31st December 2005	**166,939**
Accumulated impairment	
As at 1st January 2005	—
Impairment expense	—
As at 31st December 2005	**—**
Net book value	
As at 31st December 2005	**166,939**
As at 31st December 2004	—

Goodwill is allocated to Shanxi Shentou Electric Power Company Limited, a subsidiary acquired by the Group during the year.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management. There are a number of assumptions and estimates involved in the preparation of the cashflow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and profit margin, timing of future capital expenditures, and discount rates used to reflect the risk involved. Management prepared the financial budgets reflecting actual and prior year performance and industry development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

18 Investments in subsidiaries

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted investments, at cost	**2,864,555**	1,761,293

During the year, the Company acquired certain subsidiaries amounting to approximately RMB610 million (Note 34) and made additional capital contribution to power plants under construction amounting to approximately RMB493 million.

The following is a list of the subsidiaries as at 31st December 2005:

Name of companies	Place of establishment and operation/date of establishment	Registered/ authorised/ paid up/issued capital	Equity interest attributable to the Group	Type of legal entity	Principal activities
Interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited	PRC 27th August 1999	RMB986,000,000/ RMB986,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited	PRC 17th September 1999	RMB970,000,000/ RMB970,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huainan Pingwei No.2 Electric Power Generating Company Limited	PRC 17th November 2003	USD150,000,000/ USD40,915,944	100%	Wholly foreign-owned enterprise	Development of power plants
Pingdingshan Yaomeng No.2 Power Generating Company Limited	PRC 28th November 2003	USD20,000,000/ USD20,000,000	100%	Wholly foreign-owned enterprise	Development of power plants
Huanggang Dabieshan Power Generating Company Limited	PRC 17th December 2003	RMB240,000,000/ RMB159,836,720	92%	Sino-foreign equity joint venture	Development of power plants
Tianze Development Limited ("Tianze")	British Virgin Islands 31st March 2005	USD50,000/ USD1	100%	Limited liability Company	Investment holding
Interests held directly:					
Shanxi Shentou Electric Power Company Limited	PRC 26th July 2005	RMB501,681,000/ RMB501,681,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity

19 Interest in an associated company

	Group	
	2005	2004
	RMB'000	RMB'000
Beginning of the year	**849,539**	848,095
Share of results		
– profit before taxation	**145,036**	163,604
– taxation	**(22,556)**	(12,799)
	122,480	150,805
Dividends	**(136,159)**	(149,361)
End of the year	**835,860**	849,539

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted investments, at cost	**552,500**	552,500

The following is the details of the associated company as at 31st December 2005:

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

19 Interest in an associated company *(Continued)*

The following is an extract of the operating results and financial position of Changshu Company, based on a set of unaudited management accounts of Changshu Company for the year prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 2.

	2005	2004
	RMB'000	RMB'000
Operating results		
Turnover	**2,074,106**	2,102,455
Profit before taxation	**290,073**	327,208
Profit after taxation	**244,960**	301,609
Financial position		
Property, plant and equipment	**2,225,646**	2,311,629
Current assets	**553,692**	528,326
Current liabilities	**(1,007,848)**	(1,076,072)
Long-term liabilities	**(99,770)**	(64,805)
Net assets	**1,671,720**	1,699,078

20 Inventories

	Group	
	2005	2004
	RMB'000	RMB'000
Coal and oil	**136,837**	31,622
Spare parts and consumables	**129,034**	82,890
	265,871	114,512

As at 31st December 2005, no inventories were stated at net realisable value (2004: Nil).

21 Accounts receivable

	Group	
	2005	2004
	RMB'000	RMB'000
Accounts receivable from provincial power companies (note (a))	**556,741**	411,494
Bills receivable (note (b))	**247,038**	232,689
	803,779	644,183

The carrying value of accounts receivable and bills receivable approximate their fair values due to the short term maturity.

Note:

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

	Group	
	2005	2004
	RMB'000	RMB'000
1 to 3 months	**537,297**	411,494
4 to 6 months	**19,444**	—
	556,741	411,494

(b) Bills receivable are normally with maturity period of 90 to 180 days (2004: 90 to 180 days).

22 Amount due from an intermediate holding company

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from CPIH	**8,308**	15,352	**8,308**	15,352

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

23 Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**803,418**	743,093	**373,723**	260,554
Time deposits with initial term of less than three months	**1,384,525**	2,321,131	**1,379,525**	2,291,131
	2,187,943	3,064,224	**1,753,248**	2,551,685
Denominated in:				
HK$	**1,471,301**	2,551,685	**1,471,301**	2,551,685
RMB	**644,225**	506,746	**281,937**	—
USD	**72,417**	5,793	**10**	—
	2,187,943	3,064,224	**1,753,248**	2,551,685

(i) The weighted average effective interest rate on short-term bank deposits, with maturity ranging from 1 to 3 months, was 2.3% and 1.3% per annum during the years ended 31st December 2005 and 2004 respectively. Cash at bank earns interest at floating rates based on daily bank deposit rates.

(ii) The Group's cash and cash equivalents denominated in RMB and USD are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24 Share Capital

(a) Authorised and issued capital

	Company	
	Number of shares	
	(in thousand)	RMB'000
Authorised:		
Upon incorporation on 24th March 2004 (note (i))	1,000	106
Consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each (note (ii))	(900)	—
Increase in authorised share capital (note (ii))	9,999,900	10,599,894
As at 31st December 2004 and 31st December 2005	10,000,000	10,600,000
Issued and fully paid:		
Upon incorporation on 24th March 2004 (note (i))	—	—
Allotted and issued on 24th August 2004 (note (i))	—	—
Consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each (note (ii))	—	—
Allotted and issued pursuant to the Reorganisation (note (iii))	2,100,000	2,226,000
Issue of shares for Global Offering (note (iv))	1,035,000	1,097,100
As at 31st December 2004 and 31st December 2005	3,135,000	3,323,100

Note:

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

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

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

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

24 Share Capital *(Continued)*

(a) Authorised and issued capital *(Continued)*

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

(b) Share Option Schemes

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

(i) Share Option Scheme

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

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

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

24 Share Capital *(Continued)*

(b) Share Option Schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme

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

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

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

During the year ended 31st December 2004, the Company granted options under the Pre-IPO Scheme to certain Directors and employees of the Group, which entitle them to subscribe for a total of 12,234,500 shares at HK$2.53 per share, upon payment of HK$1 per grant. Options granted are exercisable within a period of ten years within which there is a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the offer date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the Shares comprised in his or her option.

Details of the options granted under the Pre-IPO Scheme outstanding as at 31st December 2005 and 31st December 2004 are as follows:

	Date of grant	Expiry date	Exercise price	Number of shares subject to the options
Directors	18th September 2004	17th September 2014	HK$2.53	4,361,500
Senior management	18th September 2004	17th September 2014	HK$2.53	4,320,000
Other employees	11th October 2004	10th October 2014	HK$2.53	3,553,000
				12,234,500

Consideration in connection with all options granted were received. No share options were granted, lapsed, cancelled or exercised during the year. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

24 Share Capital *(Continued)*

(b) Share Option Schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme *(Continued)*

The fair values of options granted under the Pre-IPO Share Option Scheme determined using the Dividend Adjusted Black-Scholes Option Pricing Model were as follows:

	Date of grant of share option	
	18th September 2004	**11th October 2004**
Option value	HK$1.14	HK$1.13
Significant inputs into the valuation model:		
Exercise price	HK$2.53	HK$2.53
Share price at grant date	HK$2.53	HK$2.53
Expected volatility (Note)	43.71%	43.28%
Risk-free interest rate	4.40%	4.41%
Expected life of options	6.3 years	6.3 years
Expected dividend yield	0.99%	0.99%

Note:

The volatility of the underlying stock during the life of the options is estimated based on the historical volatility of the comparable companies for the past four years as of the respective valuation dates since there is no trading record of the Company's shares at the respective grant dates.

25 Reserves

Group

	Share premium RMB'000	Merger reserve (note (i)) RMB'000	Capital reserve (note (ii)) RMB'000	Revaluation reserve RMB'000	Statutory reserves (note (iii)) RMB'000	Share-based compen-sation reserve RMB'000	Accumulated losses (note (iv)) RMB'000	Total RMB'000
At 1st January 2005, as previously reported	1,507,626	350,395	2,293,848	443,762	137,972	—	(1,831,425)	2,902,178
Effect of change in accounting policies – recognition of share-based compensation	—	—	—	—	—	7,390	(7,390)	—
At 1st January 2005, as restated	1,507,626	350,395	2,293,848	443,762	137,972	7,390	(1,838,815)	2,902,178
Employee share option benefits	—	—	—	—	—	4,285	—	4,285
Profit for the year	—	—	—	—	—	—	661,904	661,904
2004 final dividend (Note 13)	—	—	—	—	—	—	(83,078)	(83,078)
At 31st December 2005	1,507,626	350,395	2,293,848	443,762	137,972	11,675	(1,259,989)	3,485,289
At 1st January 2004	—	282,500	2,293,848	443,762	137,972	—	(1,980,898)	1,177,184
Contribution from owner	—	67,895	—	—	—	—	—	67,895
Premium on issue of shares	1,678,563	—	—	—	—	—	—	1,678,563
Share issuance expenses	(170,937)	—	—	—	—	—	—	(170,937)
Profit for the year, as previously reported	—	—	—	—	—	—	643,203	643,203
Effect of change in accounting policies – recognition of share-based compensation	—	—	—	—	—	7,390	(7,390)	—
Profit for the year, as restated							635,813	
Profit distributions	—	—	—	—	—	—	(377,230)	(377,230)
Profit distributions of an associated company	—	—	—	—	—	—	(116,500)	(116,500)
At 31st December 2004	1,507,626	350,395	2,293,848	443,762	137,972	7,390	(1,838,815)	2,902,178

Note:

(i) Merger reserve

The merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the registered capital of the subsidiaries transferred to the Company pursuant to the Reorganisation of the Group took place in 2004.

25 Reserves *(Continued)*

Note:

(ii) Capital reserve

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

(iii) Statutory reserves

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

(iv) Accumulated losses

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

Company

	Share premium RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1st January 2005, as previously reported	1,507,626	—	151,649	1,659,275
Effect of change in accounting policies				
– recognition of share-based compensation	—	7,390	(7,390)	—
At 1st January 2005, as restated	1,507,626	7,390	144,259	1,659,275
Profit for the year	—	—	690,726	690,726
Employee share option benefits	—	4,285	—	4,285
Dividend relating to 2004	—	—	(83,078)	(83,078)
At 31st December 2005	1,507,626	11,675	751,907	2,271,208
Upon incorporation on 24th March 2004	—	—	—	—
Premium on issue of shares	1,678,563	—	—	1,678,563
Share issuance expenses	(170,937)	—	—	(170,937)
Profit for the period, as previously reported	—	—	151,649	151,649
Effect of change in accounting policies				
- recognition of share-based compensation	—	7,390	(7,390)	—
Profit for the period, as restated			144,259	
At 31st December 2004	1,507,626	7,390	144,259	1,659,275

26 Borrowings

Bank and other borrowings are analysed as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	**3,113,500**	1,414,000
Less: current portion of long-term bank borrowings	**(400,000)**	(261,000)
	2,713,500	1,153,000
Current		
Short-term bank borrowings	**389,500**	592,676
Short-term other borrowings	**98,000**	—
Current portion of long-term bank borrowings	**400,000**	261,000
	887,500	853,676
Total borrowings	**3,601,000**	2,006,676

As at 31st December 2005, long-term bank borrowings of RMB643,000,000 (2004: Nil) were secured by certain property, plant and equipment of the Group (Note 15).

All the Group's bank and other borrowings are denominated in RMB and the carrying amounts of these borrowings approximate their fair values.

26 Borrowings *(Continued)*

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

	Group	
	2005	2004
	RMB'000	RMB'000
Wholly repayable within five years	**1,815,000**	721,000
Not wholly repayable within five years	**1,298,500**	693,000
	3,113,500	1,414,000

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

	Group	
	2005	2004
	RMB'000	RMB'000
Within one year	**400,000**	261,000
In the second year	**951,000**	270,000
In the third to fifth year	**464,000**	790,000
After the fifth year	**1,298,500**	93,000
	3,113,500	1,414,000

The effective interest rates of the Group's bank borrowings are as follows:

	Group	
	2005	2004
Long-term bank borrowings, at floating rate	**5.5%**	5.5%
Short-term bank borrowings, at floating rate	**5.2%**	4.8%

Other borrowings represent loan from 華北電網財務有限公司 (Northern Power Grid Finance Company Limited), a financial institution approved by the relevant PRC authorities, which is unsecured, carries interest at 5.02% per annum and is repayable by 12th December 2006.

Notes to the Consolidated Accounts

27 Long-term payable to a related company

Balance represents the amounts payable to 中電投財務有限公司 ("CPI Financial Company" or "CPIF") which are unsecured and are repayable as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Repayable by 5th November 2008, bearing interest at 3.6% per annum	**122,815**	—
Repayable by 30th June 2010, bearing interest at 5.27% per annum	**270,295**	—
	393,110	—

The carrying amount of the long-term payable to CPIF approximates their fair values.

28 Long-term payable to SEPC

The long-term payable to SEPC ("山西省電力公司") is unsecured, bearing interest at 5.52% per annum and is repayable on 30 June 2010. The carrying amount of the long-term payable to SEPC approximates its fair value.

29 Accounts payable

	Group	
	2005	2004
	RMB'000	RMB'000
Accounts payable	**253,190**	202,460
Due to related companies	**33,454**	34,758
	286,644	237,218

The carrying value of accounts payable approximates their fair values due to the short term maturity.

29 Accounts payable *(Continued)*

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

	Group	
	2005	2004
	RMB'000	RMB'000
1 to 6 months	**260,774**	188,106
7 to 12 months	**1,430**	24,550
Over 1 year	**24,440**	24,562
	286,644	237,218

Amounts due to related companies mainly represent balances arising from transactions with those companies as detailed in Note 36 below.

30 Other payables and accrued charges

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction cost payable	**165,735**	38,463	**—**	—
Discharge fee payable	**9,849**	—	**—**	—
Insurance expense payable	**25,010**	21,149	**—**	—
Interest payable	**1,476**	21,000	**—**	—
Repair and maintenance expense payable	**21,135**	26,588	**—**	—
Salaries and staff welfare payable	**72,735**	88,607	**—**	—
Value added tax payable	**48,943**	66,731	**—**	—
Other taxes payable	**39,899**	5,259	**—**	—
Other accrued expenses	**91,485**	61,027	**24,442**	45,469
	476,267	328,824	**24,442**	45,469

31 Amount due to ultimate holding company

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

32 Deferred taxation

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

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

	Group	
	2005	2004
	RMB'000	RMB'000
At 1st January	**13,795**	17,619
Deferred tax charged to		
consolidated profit and loss account (Note 9)	**(902)**	(3,824)
At 31st December	**12,893**	13,795

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

	2005	2004
	RMB'000	RMB'000
Provision for other receivables	**8,422**	9,324
Provision for inventories obsolescence	**4,471**	4,471
	12,893	13,795
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered		
after more than 12 months	**12,893**	13,795

33 Notes to the consolidated cash flow statement

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

	2005	2004
	RMB'000	RMB'000
Profit before taxation	**743,657**	681,652
Share of results of an associated company	**(122,480)**	(150,805)
Interest expense	**134,559**	89,876
Interest income	**(57,550)**	(12,135)
Depreciation of property, plant and equipment	**320,488**	325,641
Amortisation of leasehold land prepayment	**193**	—
Loss on disposal of property, plant and equipment	**2,872**	1,431
Write-off of property, plant and equipment	**—**	7,478
Share-based compensation expense	**4,285**	7,390
Operating profit before working capital changes	**1,026,024**	950,528
Decrease/(increase) in accounts receivable	**5,008**	(183,147)
Decrease/(increase) in prepayments, deposits and other receivables	**61,338**	(152,322)
Increase in inventories	**(52,686)**	(16,660)
Decrease in amount due from an intermediate holding company	**7,044**	170,500
(Decrease)/increase in accounts payable	**(171,018)**	105,185
(Decrease)/increase in other payables and accrued charges	**(3,779)**	69,581
Increase/(decrease) in amount due to ultimate holding company	**18,482**	(37,867)
Cash generated from operations	**890,413**	905,798

33 Notes to the consolidated cash flow statement *(Continued)*

(b) Analysis of changes in financing during the year

	Long-term and short-term bank and other loans RMB'000	**Minority interests** RMB'000
Balance at 1st January 2004	1,403,000	—
New bank loans	1,574,676	—
Repayment of bank loans	(971,000)	—
Contributions from minority shareholders of a subsidiary	—	3,300
Minority shareholders' share of loss for the year	—	(574)
Balance at 31st December 2004	2,006,676	2,726
Acquisition of subsidiaries	108,500	—
New bank loans	2,311,324	—
Repayment of bank loans	(825,500)	—
Contributions from minority shareholders of a subsidiary	—	9,013
Minority shareholders' share of loss for the year	—	(695)
Balance at 31st December 2005	3,601,000	11,044

34 Business combinations

During the year, the Group acquired the entire share capital of Tianze, an investment holding company holding 100% interest in Shanxi Shentou Electric Power Company Limited, from China Power Development Limited, the immediate holding company of the Company.

The acquired business contributed revenue of RMB628,560,000 and net profit of RMB111,793,000 to the Group for the period from 1st July 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, the revenue contributed to the Group would have been RMB1,073,234,000, and the net profit contributed to the Group for the year would have been RMB35,207,000.

34 Business combinations *(Continued)*

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash consideration	592,732
– Direct costs relating to the acquisition	17,413
Total purchase consideration	610,145
Fair value of net assets acquired – shown as below	(443,206)
Goodwill (Note 17)	166,939

Goodwill arose from the acquisition is attributable to the anticipated profitability of the company's operations and the anticipated future operating synergies.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000
Cash and cash equivalents	26,313
Property, plant and equipment (Note 15)	1,055,889
Leasehold land prepayment (Note 16)	19,097
Inventories	98,673
Receivables	189,313
Payables	(354,249)
Amount due to ultimate holding company	(338,667)
Borrowings	(108,500)
Long-term payable to CPIF	(122,497)
Long-term payable to SEPC	(22,166)
Net assets acquired, at fair value	443,206
Purchase consideration	610,145
Purchase consideration payable	(15,941)
Cash and cash equivalents in subsidiary acquired	(26,313)
Cash outflow on acquisition	567,891

There were no acquisitions in the year ended 31st December 2004.

35 Commitments

(a) Capital commitments

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised but not contracted for in respect of				
– property, plant and equipment	**19,170**	6,894	**—**	—
Contracted but not provided for in respect of				
– property, plant and equipment	**6,545,185**	4,678,114	**—**	—
– investments in subsidiaries	**—**	—	**960,567**	135,595
	6,564,355	4,685,008	**960,567**	135,595

(b) Commitments under operating leases

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Land and buildings				
Not later than one year	**19,780**	15,066	**2,530**	2,677
Later than one year and not later than five years	**9,202**	26,870	**1,792**	14,560
	28,982	41,936	**4,322**	17,237

Generally, the Group's operating leases are for terms of 1 to 3 years.

35 Commitments *(Continued)*

(c) Future operating lease arrangements

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than one year	**4,659**	1,930	**—**	—
Later than one year and not later than five years	**4,659**	1,900	**—**	—
	9,318	3,830	**—**	—

36 Related party transactions

The Group is controlled by CPI Group which owns approximately 63.68% of the Company's shares. The remaining interests are widely held. The Directors regard China Power Investment Corporation as being the ultimate holding company.

Related parties refer to entities in which CPI Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or Directors or officers of the Company. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including CPI Group, its subsidiaries, associated companies and jointly controlled entities in the ordinary course of business. In accordance with the revised HKAS 24, "Related Party Disclosures" ("HKAS 24"), state-owned enterprises and their subsidiaries, other than entities under CPI Group (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither CPI Group nor the PRC government has published accounts.

36 Related party transactions *(Continued)*

The major related parties that had transactions with the Group were as follows:

Related parties	**Relationship with the Company**
CPI Group	Ultimate holding company
CPIH	Immediate holding company
CPIF	A company controlled by CPI Group
SEPC	Related party of the Company as defined under HKAS 24
Other related companies	Companies owned by certain individuals who are also employees or operational managers of certain subsidiaries of the Group
Other state-owned enterprises	Related parties of the Company as defined under HKAS 24

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

(i) Revenues

	Note	**2005** **RMB'000**	2004 RMB'000
Management fee from CPIH	(a)	**14,531**	6,884
Sales of electricity to other stated-owned enterprises	(b)	**4,361,718**	3,352,001

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

(b) Pursuant to the power purchase agreements entered into between the Group and the respective provincial power companies, which are regarded as state-owned enterprises, all the Group's sales of electric power were made to those electric power companies. Whilst these companies are related parties of the Group as defined under HKAS 24, the Directors are of the opinion that each party is operating independently; and the tariff rates are to be agreed with the respective electric power companies, subject to the approval of the relevant government authorities.

36 Related party transactions *(Continued)*

(ii) Expenses

	Note	**2005** **RMB'000**	2004 RMB'000
Operating lease rental in respect of land to CPI Group	(a)	**14,780**	5,129
Purchases of fuel, raw material and spare parts from other related companies	(b)	**94,826**	198,109
Services fees to other related companies	(c)	**112,300**	99,547
Construction costs to other related companies	(d)	**55,369**	17,288
Labor costs charged by other related companies	(e)	**8,976**	1,792
Purchases of coal from other state-owned enterprises	(f)	**1,880,447**	1,324,997
Interest expense to CPIF	(g)	**2,522**	—

(a) Rental expense in respect of certain land leased from CPI Group was charged in accordance with the terms of the relevant agreements.

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

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

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

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

(f) Purchases of coal form other state-owned enterprises were charged in accordance with the terms of the relevant agreements.

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

36 Related party transactions *(Continued)*

(iii) Key management compensation

	2005 RMB'000	2004 RMB'000
Basic salaries, housing allowances, other allowances, discretionary bonus and benefits in kind	**8,194**	3,874
Employer's contributions to pension scheme	**64**	29
Share-based compensation	**3,057**	3,019
	11,315	6,922

(iv) Year-end balances with related parties

	Note	As at 31st December 2005 RMB'000	31st December 2004 RMB'000
Accounts receivable from other state-owned enterprises (Note 21)	(a)	**803,779**	644,183
Amount due from CPIH (Note 22)	(a)	**8,308**	15,352
Long-term payable to CPIF (Note 27)	(a)	**393,110**	—
Long-term payable to SEPC (Note 28)	(a)	**19,979**	—
Payables to related companies (Note 29)	(a)	**33,454**	34,758
Amount due to CPI Group (Note 31)	(a)	**91,665**	5,129
Prepayments to other state-owned enterprises	(b)	**69,300**	—
Accounts payable to other state-owned enterprises	(c)	**53,229**	78,331

(a) The terms of balances with related parties are disclosed in Notes 21, 22, 27, 28, 29 and 31 respectively.

(b) Prepayments to other state-owned enterprises mainly relate to purchase prepayments made by the Group and are included under prepayments, deposits and other receivables. Balances are unsecured, interest free and shall be settled in accordance with the respective trading terms.

(c) Accounts payable to other state-owned enterprises mainly relate to purchase accruals made by the Group and are included under accounts payable. Balance are unsecured, interest free and will be settled in accordance with the respective trading terms.

36 Related party transactions *(Continued)*

(v) Others

	2005 **RMB'000**	2004 RMB'000
Acquisition of a subsidiary from CPI Group	**592,732**	—

37 Approval of accounts

The accounts were approved by the Board of Directors on 16th March 2006.

Five-Year Financial and Operations Summary

	2005	(as restated) 2004	2003	2002	2001
Consolidated profit and loss account (RMB million)					
Turnover	**4,361.7**	3,352.0	2,915.4	2,581.6	2,434.6
Profit before taxation	**743.7**	681.6	655.0	564.9	402.8
Taxation (charge)/credit	**(82.4)**	(46.4)	(49.8)	(38.9)	2.8
Profit after taxation	**661.2**	635.2	605.2	526.0	405.6
Minority interests	**0.7**	0.6	—	—	—
Net profit	**661.9**	635.8	605.2	526.0	405.6
Consolidated balance sheet (RMB million)					
Total assets	**11,708.5**	9,049.6	5,250.5	5,248.1	5,043.7
Total liabilities	**4,889.1**	2,821.6	1,847.4	1,954.5	1,822.7
Minority interests	**11.0**	2.7	—	—	—
Shareholders'/owner's equity	**6,808.4**	6,225.3	3,403.2	3,293.6	3,221.0
Total installed capacity (MW)	**4,870**	3,610	3,610	3,610	3,570
Attributable installed capacity (MW)	**4,255**	3,010	3,010	3,010	2,970
Consolidated installed capacity (MW)	**3,640**	2,410	2,410	2,410	2,370
Gross generation (MWh)	**20,143,783**	15,703,628	14,850,874	13,519,558	12,746,916
Net generation (MWh)	**18,700,995**	14,736,981	13,928,806	12,617,695	11,942,647
Average utilization hours	**6,529**	6,516	6,162	5,609	5,378
Equivalent availability factor (%)	**90.81**	87.2	89.1	87.2	91.3
Net generation standard coal consumption rate (grams/kWh)	**345.25**	342.3	342.2	345.7	347.9

Note: The Company was incorporated and registered in Hong Kong on 24th March 2004 and became the holding company of the Group as a result of a group reorganisation on 1st September 2004. The summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.

Technical Glossary and Definitions

"auxiliary power"	electricity consumed by a power plant in the course of generation
"average utilization hours"	for a specified period, the amount of electricity produced in such period (in MWh) divided by the average capacity in such period
"Board"	the board of Directors
"Changshu Power Plant"	江蘇常熟發電有限公司 (Jiangsu Changshu Electric Power Generating Company Limited*)
"CPDL"	China Power Development Limited（中國電力發展有限公司*）
"CPI Group"	中國電力投資集團公司 (China Power Investment Corporation*)
"CP Equipment Project Company"	中國電能成套設備有限公司 (China Power Equipment Project Co., Ltd*), a limited liability company incorporated in the PRC which is owned by CPI Group as to approximately 77.7%
"CPI Management Company"	中國電力投資集團公司工程建設管理分公司 (China Power Investment Corporation Construction Project Management Branch Company*), a branch company of CPI Group
"CPI Holding"	中國電力國際有限公司 (China Power International Holding Limited)
"Director(s)"	director(s) of the Company
"equivalent availability factor"	for a specified period, the ratio (usually expressed as a percentage) of the number of available hours in that period (reduced, in the case of hours in which the attainable generating capacity of such plant is less than the installed capacity, by the proportion of installed capacity not so attainable) to the total number of hours in that period
"gross generation"	for a specified period, the total amount of electrical power produced by a power plant in that period including auxiliary power
"Guixi Power Plant"	江西貴溪火力發電廠 (Jiangxi Guixi Coal-Fired Power Plant*)
"GW"	gigawatt, one million kilowatts
"GWh"	gigawatt-hour, one million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants

"Hongze Power Plant"	中電洪澤熱電有限公司 (Zhongdian Hongze Thermal Company Limited*)
"Huanggang Dabieshan Power Plant"	黃岡大別山發電有限責任公司 (Huanggang Dabieshan Power Company Limited*).
"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
"MW"	megawatt, one million watts. The installed capacity of a power plant is generally expressed in MW
"MWh"	megawatt-hour, one thousand kWh
"Pingwei Power Plant"	安徽淮南平圩發電有限責任公司 (Anhui Huainan Pingwei Electric Power Generating Company Limited*)
"Pingwei Power Plant II"	淮南平圩第二發電有限責任公司 (Huainan Pingwei No.2 Electrical Power Co., Ltd.*)
"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
"Qinghe Power Plant"	遼寧清河發電有限責任公司 (Liaoning Qinghe Electric Power Generating Company Limited*)
"Shanghai Power"	上海電力股份有限公司 (Shanghai Electric Power Co., Ltd.*)
"Shaxikou Power Plant"	福建沙溪口水力發電廠 (Fujian Shaxikou Hydro-Power Plant*)

"Shentou I Power Plant"	山西神頭發電有限責任公司 (Shanxi Shentou Power Generating Company Limited*)
"standard coal"	coal with an energy content of 7,000 kilocalories per kilogram
"super-critical"	a thermodynamic expression describing the state of a substance where there is no clear distinction between the liquid and the gaseous phase. Water reaches this state at a pressure above 22.1 megapascals (MPa)
"Wuhu Shaoda Power Plant"	蕪湖兆達電力開發有限公司 (Wuhu Shaoda Power Development Company Limited*)
"Yaomeng Power Plant"	平頂山姚孟發電有限責任公司 (Pingdingshan Yaomeng Power Generating Company Limited*)
"Yaomeng Power Plant II"	平頂山姚孟第二發電有限公司 (Pingdingshan Yaomeng No.2 Power Co., Ltd.*)

* *For identification purposes only*

Useful Information for Investors

RESULTS

The financial results of the Company for the year ended 31 December 2005 was published on 17 March 2006.

ANNUAL REPORTS

The 2005 Annual Report of the Company will be made available on our website www.chinapower.hk on 4 April 2006 and will be despatched to our shareholders on 4 April 2006.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 28 April 2006 at 10:30 am at Concord Room I, 8/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong. For details of the annual general meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about Tuesday, 4 April 2006.

The register of members will be closed from Monday, 24 April 2006 to Friday, 28 April 2006 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved at the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Share Registrar of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 21 April 2006.

LISTING

The Company's shares are listed on the Main Board of the Hong Kong Stock Exchange. The stock code is 2380.

SHAREHOLDERS' ENQUIRIES

For enquiries about share transfer and registration, please contact the share registrar of the Company:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel.: (852) 2862 8628
Fax: (852) 2865 0990

For enquiries from investors and analysts, please contact:

Mr. Zhao Xinyan *Vice President*	or	Mr. Shou Rufeng *Investor relations*

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