
IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



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)

GLOBAL OFFERING

Number of Shares offered pursuant to Global Offering: 990,000,000 (comprising 900,000,000 Offer Shares to be offered by the Company and 90,000,000 Offer Shares to be offered by the Selling Shareholder, each subject to adjustment and the Over-allotment Option)

Number of International Placing Shares: 891,000,000 (subject to adjustment and the Over-allotment Option)

Number of Hong Kong Offer Shares: 99,000,000 (subject to adjustment)

Maximum Offer Price: HK\$2.60 per Share payable in full on application in Hong Kong dollars, subject to refund on final pricing

Nominal Value: HK\$1.00 each

Stock Code: 2380

Global Coordinator, Sole Bookrunner and Sponsor



Merrill Lynch Far East Limited

Joint Lead Managers

Merrill Lynch Far East Limited

China Merchants Securities (HK) Co., Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph entitled "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the documents referred to above.

The Offer Price is expected to be fixed by agreement between the Global Coordinator, on behalf of the Underwriters, the Selling Shareholder and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around October 8, 2004 and, in any event, not later than October 13, 2004. The Offer Price will be not more than HK\$2.60 and is currently expected to be not less than HK\$2.10 unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$2.60 for each Share together with a brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price should be lower than HK\$2.60.

The Global Coordinator, on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus (which is HK\$2.10 to HK\$2.60 per Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the offer price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections entitled "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company, the Selling Shareholder and the Global Coordinator on behalf of the Underwriters by October 13, 2004, the Global Offering (including the Hong Kong Public Offering) will not proceed.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that dealing in the Shares is scheduled to commence on the Stock Exchange. Such grounds are set out in the section entitled "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

October 4, 2004

EXPECTED TIMETABLE⁽¹⁾

Application lists open ⁽²⁾	11:45 a.m. on Thursday, October 7, 2004
Latest time to lodge white and yellow Application Forms	12:00 noon on Thursday, October 7, 2004
Latest time to give electronic application instructions to HKSCC ⁽³⁾	12:00 noon on Thursday, October 7, 2004
Application lists close	12:00 noon on Thursday, October 7, 2004
Price Determination Date ⁽⁴⁾	Friday, October 8, 2004
Announcement of the Offer Price, indication of the level of interest in the International Placing and the application results and basis of allocation of the Hong Kong Offer Shares (with successful applicants' identification document numbers) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on	Thursday, October 14, 2004
Dispatch of share certificates in respect of wholly or partially successful applications on ⁽⁵⁾⁽⁶⁾	Thursday, October 14, 2004
Dispatch of refund checks in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications on or before ⁽⁶⁾	Thursday, October 14, 2004
Dealings in Shares on the Stock Exchange to commence on	Friday, October 15, 2004

⁽¹⁾ All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section entitled "Structure of the Global Offering" in this prospectus.

⁽²⁾ If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, October 7, 2004, the application lists will not open on that day. See the section entitled "How to Apply for Hong Kong Offer Shares—Member of the Public: Time for Applying for Hong Kong Offer Shares—4. Effect of bad weather on the opening of the application lists" in this prospectus.

⁽³⁾ Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares—Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

⁽⁴⁾ The Price Determination Date is expected to be on or about Friday, October 8, 2004, and in any event will be no later than Wednesday, October 13, 2004. If, for any reason, the Offer Price is not agreed by Wednesday, October 13, 2004, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

⁽⁵⁾ Share certificates for the Offer Shares are expected to be issued on Thursday, October 14, 2004 but will only become valid certificates of title at 8:00 a.m. on Friday, October 15, 2004 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled "Underwriting" in this prospectus has not been exercised.

⁽⁶⁾ If you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated on your Application Form that you wish to collect your refund check(s) (where applicable) and share certificate(s) (where applicable) personally, you may collect your refund check(s) (where applicable) and your share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, October 14, 2004 or any other date notified by us in the newspapers as the date of dispatch of share certificate(s)/refund check(s). If you are an individual who elects for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which elects for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected share certificate(s) and refund check(s)

EXPECTED TIMETABLE⁽¹⁾

will be dispatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. If you have applied for less than 1,000,000 Hong Kong Offer Shares or have applied for 1,000,000 Hong Kong Offer Shares or more but have not indicated in the Application Form that you wish to collect share certificate(s) and/or refund check(s) in person, your share certificate(s) (if applying by using a white Application Form) and/or refund check(s) (if applicable) will be sent to the address on the Application Form on Thursday, October 14, 2004 by ordinary post and at your own risk. For further information, you should refer to the section entitled "How to Apply for Hong Kong Offer Shares" in this prospectus.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, you should refer to the section entitled "Structure of the Global Offering" in this prospectus.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section entitled "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the flagship company of CPI Group, one of the leading independent power producers in China. Our principal business is to develop, construct, own, manage and operate large power plants in China. We believe our significant experience and capability in developing, constructing, managing and operating power plants will enable us to take advantage of the opportunities presented by China's power market. We are ultimately controlled by CPI Group, which is one of the five national power generating groups in China created pursuant to the restructuring of the PRC power industry in 2002. CPI Group has power plants with a total installed capacity of approximately 30 GW spanning 17 provinces, municipalities and autonomous regions. As CPI Group's flagship company, we are the only company within CPI Group with the mandate to develop, construct, manage and operate power plants nationwide within the PRC. Among China's five national power generating groups, we will be the only listed vehicle incorporated outside mainland China immediately following the completion of the Global Offering. Accordingly, compared to companies incorporated in the PRC, we enjoy a higher level of flexibility in tapping the international capital markets and adopting well structured incentive plans to better align the interests of management with those of our shareholders in order to maximize shareholder value.

We have a 100% ownership interest in two of our three high-capacity coal-fired power plants under commercial operation, namely, Pingwei Power Plant and Yaomeng Power Plant, and we are the 50% owner and single largest shareholder in our remaining power plant under commercial operation, namely, Changshu Power Plant. These three power plants have a total installed capacity of 3,610 MW. The installed capacity attributable to our ownership interests in the three power plants under commercial operation is 3,010 MW. We operate all of our power plants under commercial operation and will also operate all of our planned power plants in the future. Our power plants under commercial operation had an average equivalent availability factor of approximately 90% in 2003.

Our power plants under commercial operation are advantageously located in certain more affluent regions of China which have high GDP growth rates. Two of our power plants under commercial operation are mine-mouth power plants while our remaining power plant under commercial operation has a dedicated port facility on the Yangtze River. The strategic locations of our power plants facilitate the transport of coal to us, helping us to substantially reduce the transportation component of our coal cost and to ensure a more timely and reliable coal supply to our power plants.

Given our management expertise in operating large power plants and our status as the flagship company of CPI Group, since July 1, 2004 we have been entrusted to manage additional power generation assets by CPI Group and CPI Holding. We have entered into the Management Agreement with CPI Group and CPI Holding to manage six power plants on their behalves, namely, Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant, which have a total installed capacity of 3,465 MW. We believe that by managing

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these additional power plants, we will gain first-hand knowledge about the local power markets where these power plants operate and new development opportunities in these markets, evaluate these power plants as potential investment targets, and leverage our experience and expertise in managing power plants to improve the operational and financial performance of these power plants before making our investment decisions.

To reinforce our position as CPI Group's flagship company, CPI Group and CPI Holding have granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option). In addition, CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power, a company listed on the Shanghai Stock Exchange and currently controlled by CPI Group. As of December 31, 2003, Shanghai Power's net installed capacity was 2,809 MW. Assuming that we fully exercise our call option, the net installed capacity attributable to our equity interest in Shanghai Power would be 702 MW.

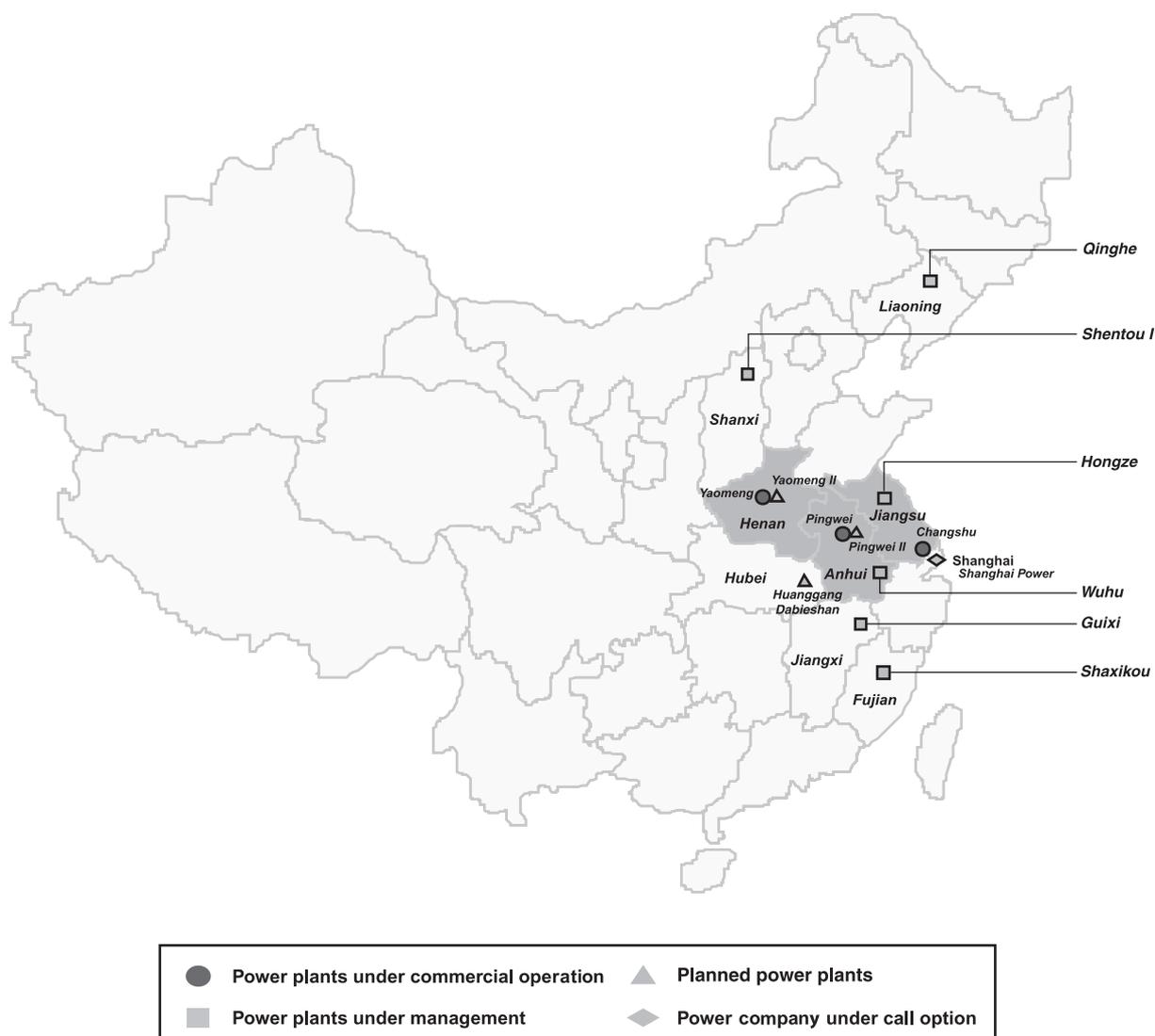
With a view to capturing the increasing demand for power in China driven by rapid economic growth, we plan to build three additional power plants, namely, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant, two of which will be adjacent to our power plants under commercial operation. These planned power plants, when completed, will have a total installed capacity of 3,600 MW, of which 3,468 MW will be attributable to our ownership interests therein. We intend to operate all three of our planned power plants.

Our combined financial statements are prepared on the basis as if our current group structure had been in existence throughout the three years ended December 31, 2001, 2002 and 2003 and the six-month periods ended June 30, 2003 and 2004. As Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant are not yet in commercial operation, in our combined financial statements, Pingwei Power Plant and Yaomeng Power Plant accounted for all of our combined turnover in 2001, 2002, 2003 and during the six-month periods ended June 30, 2003 and 2004. The following table shows the breakdown of our combined turnover for the periods presented.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(RMB millions)				
Pingwei Power Plant	1,246.7	1,356.3	1,604.1	757.1	1,015.9
Yaomeng Power Plant	1,187.9	1,225.3	1,311.3	677.7	649.0
Total turnover	2,434.6	2,581.6	2,915.4	1,434.8	1,664.9

SUMMARY

The map below shows the location of our power plants.



PRINCIPAL STRENGTHS

We believe that we have the following principal strengths:

We benefit from our affiliation with CPI Group and CPI Holding and expect to enjoy a high level of flexibility as a listed subsidiary incorporated outside of mainland China.

Before the Global Offering, we were indirectly wholly-owned by CPI Group, which after the completion of the Global Offering will continue to be our ultimate controlling shareholder. We are designated as CPI Group's flagship company, being the only company within CPI Group with the mandate to develop, construct, manage and operate power plants nationwide within the PRC. CPI Group and CPI Holding have granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and the right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including

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CPI Group's remaining shares in Shanghai Power which are not the subject of our call option). In addition, we have been granted a call option by CPI Group to acquire up to a 25% equity interest in Shanghai Power. We expect that our affiliation with CPI Group and CPI Holding and our preferential rights and call option will enable us to take advantage of the PRC's growing power market and implement our development strategy.

Among China's five national power generating groups, we will be the only listed vehicle incorporated outside mainland China immediately following the completion of the Global Offering. As such, compared to companies incorporated in the PRC, we expect to have a higher level of flexibility in tapping the international capital markets and acquiring interests in non-PRC companies which own power assets in the PRC. Through our PRC-incorporated subsidiaries or associated company, we can also access the domestic capital markets to finance our local operations and capital expenditure in the PRC. We also have a more flexible incentive plan and compensation scheme which are designed to align the interests of management with those of our shareholders to enhance shareholder value.

We have, and will have, control of and at least 50% of the ownership interest in our operational and planned power plants.

We have a 100% ownership interest in each of Pingwei Power Plant and Yaomeng Power Plant, and we have a 50% ownership interest in Changshu Power Plant, making us the largest shareholder of that power plant. We will invest in and own a 100% ownership interest in each of Pingwei Power Plant II and Yaomeng Power Plant II, and an 89% ownership interest in Huanggang Dabieshan Power Plant. Since we are the controlling or sole shareholder of and manage our operational and planned power plants, we are able to standardize the management in all of our power plants and to make and implement operational, investment and financing decisions more effectively and timely.

Our power plants are advantageously located in more affluent regions with high GDP growth rates or near coal mines.

Our three operational power plants and two of our planned power plants are located in Anhui Province, Henan Province and Jiangsu Province. The local economies in Anhui, Henan and Jiangsu are already enjoying rapid growth and have a high demand for electricity. In addition, our power plants are well-positioned to obtain coal quickly and efficiently. Pingwei Power Plant and Yaomeng Power Plant, two of our three power plants under commercial operation, are mine-mouth power plants. Pingwei Power Plant II and Yaomeng Power Plant II, two of our three planned power plants, will also be mine-mouth power plants. Changshu Power Plant is located next to the Yangtze River and has a dedicated port facility, while Huanggang Dabieshan Power Plant will be located near existing railroads. The strategic locations of these power plants reduce both the transportation cost of coal and our reliance on State-allocated transportation resources which are in short supply from time to time, thus increasing the reliability of the coal supply to our power plants.

We enjoy a high level of operational efficiency.

We focus on investing in and developing high-capacity and highly efficient coal-fired power plants and enhancing the position of our power plants in the relevant power grids. Large system

SUMMARY

configurations allow us to produce electricity more efficiently and at a lower per unit operating cost than smaller configurations. Both Yaomeng Power Plant and Changshu Power Plant consist of 300 MW level generating units and Pingwei Power Plant consists of 600 MW generating units. In addition, all of our planned power plants will consist of 600 MW super-critical generating units with similar equipment configurations.

We have a rigorous cost control program.

We exercise tight control over our costs in all stages and aspects of the development, construction, management and operation of our power plants. Effective cost control is one goal of our budgeting process, which in respect of a financial year may begin as early as three months prior to the start of such year at each of our operational power plants. Through our rigorous budgeting process and our significant experience in the development, construction, management and operation of large-scale and highly efficient coal-fired power plants, we have achieved a set of performance parameters designed to help us achieve lower costs and higher operating efficiency.

We have an experienced and professional management team motivated to create shareholder value.

We have a highly professional management team that has significant experience in developing, constructing, managing, operating and acquiring power plants in China. Most of our management team members have substantial experience in power plant management, financial planning or human resources management, as well as extensive industry knowledge and expertise in power generation technology. Our management team is also highly motivated towards creating shareholder value. We have adopted certain incentive programs, namely the Pre-IPO Share Option Scheme, the Share Option Scheme and the Performance Unit Plan, for our management and key employees. These incentives schemes are designed to align the interests of our management and key employees with those of our shareholders and, in doing so, reinforce our management's motivation towards creating shareholder value.

DEVELOPMENT STRATEGY

We are the flagship company of CPI Group, one of the leading independent power producers in China. We have significant experience in developing, managing and operating large power plants. We intend to reinforce our position by increasing the installed capacity and power output of our power plants, while delivering growth in shareholder value. To achieve our goal, we will pursue the following strategies:

Leverage our close relationship with and strong support from CPI Group and CPI Holding.

We plan to capitalize on our close relationship with CPI Group and CPI Holding in acquiring new assets. CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power. CPI Group and CPI Holding have also granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power assets or power projects (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in

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Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option). We believe that these rights may help reduce our development risks, shorten construction periods, better control our costs and help us achieve returns to our shareholders within the shortest possible time. In addition, we also plan to leverage the governmental relationship, financial, technical and management resources of CPI Group to expedite and achieve our growth.

Expand and upgrade existing power plants.

We plan to increase our total installed capacity and power output by expanding and upgrading our existing power plants. We believe that we can benefit from lower construction costs and shorter development periods by sharing certain common facilities, such as coal loading and unloading and storage facilities, with our existing power plants. We currently plan to expand two of our existing power plants, Pingwei Power Plant and Yaomeng Power Plant through the construction of Pingwei Power Plant II and Yaomeng Power Plant II, both of which are in the initial preparation stages. We expect that, when completed, Pingwei Power Plant II and Yaomeng Power Plant II will have total installed capacity of 2,400 MW and will significantly increase our power generating capacity. In addition, we are constantly seeking ways to upgrade our system to improve the generation efficiency of our three power plants under commercial operation. We completed a major upgrade of the Unit 1 generator at our Yaomeng Power Plant in 2002, which increased the installed capacity and reduced the unit coal consumption of that generator. We are currently planning to upgrade the Unit 2 generator at our Changshu Power Plant at the end of 2004 and the Unit 2 generator at our Yaomeng Power Plant in the future, which we expect will improve the operating efficiency and reduce the unit coal consumption of those generators.

Expand, develop and acquire power plants in advantageous locations.

We plan to expand, develop or acquire power plants located in the areas with these characteristics:

- high economic growth, high electricity demand and insufficient power supply;
- easy access to large coal mines, railways or ports; and
- close proximity to power consumption load centers.

We believe that focusing on such advantageous locations will help us maintain high utilization rates and low fuel costs, including fuel transportation costs, and ensure the priority dispatch of power.

Emphasize the development of high-capacity, highly efficient and environmentally-friendly power plants.

We plan to develop and construct high-capacity and highly efficient coal-fired power plants, for example, power plants with 600 MW units. These plants typically operate more efficiently than lower-capacity plants by reducing coal consumption and help us achieve economies of scale. While we expect to focus on constructing and acquiring large and medium-sized base-load coal-fired power plants, we may also invest in large base-load or peak-load hydro-electric power plants in the future to diversify our fuel sources and accelerate our growth.

SUMMARY

In addition, we plan to install desulphurization equipment at all six of our planned 600 MW generating units at our planned power plants, which would significantly reduce the emissions of sulphur dioxide, hence reducing discharge fees payable by those power plants. Newly constructed power plants with installed desulphurization equipment are also expected to enjoy higher on-grid tariffs than new power plants constructed without installed desulphurization equipment.

Pursue further development and acquisition opportunities through the management of power plants for CPI Group and CPI Holding.

Since July 1, 2004, we have been managing six power plants for CPI Group and CPI Holding and will continue seeking further opportunities in this area. As most of the power plants we manage for CPI Group and CPI Holding are located in different geographic regions from the power plants we currently operate, we will be able to gain first-hand knowledge of a wider range of local power markets and new development opportunities in these markets. Our management of the six power plants will also help us evaluate these power plants as potential investment targets, over which we have preferential rights to acquire.

Implement rigorous cost control measures on an ongoing basis.

We closely monitor our operating costs through our vigorous cost control program, and we plan to invest in, improve and upgrade our production facilities, technology and operational processes to increase productivity, where possible, and to achieve savings in fuel cost, repair and maintenance expenses and selling, general and administrative expenses. As part of our ongoing effort to achieve cost savings and improve efficiency, we may further streamline our power companies by outsourcing our repair and maintenance activities and certain other supporting services. We also intend to implement a set of competitive bidding procedures and rules in our selection of contractors for our planned power plants so as to obtain competitive construction prices, shorten construction periods and reduce capital investment costs.

SUMMARY INFORMATION ON OUR POWER PLANTS

The following table summarizes key operating data for our power plants as at the date of this prospectus.

Power Plants under Commercial Operation

<u>Power Plants</u>	<u>In-Service Date</u>	<u>Fuel Type</u>	<u>Total Installed Capacity (MW)</u>	<u>Our Ownership (%)</u>	<u>Capacity Attributable to Us (MW)</u>
Anhui					
Pingwei Power Plant	Unit 1: 1990 Unit 2: 1993	Coal	2 x 600	100	1,200
Henan					
Yaomeng Power Plant	Unit 1: 1975 Unit 2: 1980 Unit 3: 1985 Unit 4: 1986	Coal	1 x 310 3 x 300	100	1,210
Jiangsu					
Changshu Power Plant	Units 1 and 2: 1993 Units 3 and 4: 1994	Coal	4 x 300	50	600
Total			3,610		3,010

SUMMARY

Power Plants under Management

<u>Power Plants</u>	<u>In-Service Date</u>	<u>Fuel Type</u>	<u>Total Installed Capacity (MW)</u>	<u>CPI Group/ CPI Holding Ownership (%)</u>	<u>Capacity Attributable to CPI Group/ CPI Holding (MW)</u>
Liaoning					
Qinghe Power Plant	Unit 1: 1970 Unit 2: 1971 Units 3 and 4: 1974 Units 5, 6 and 7: 1977 Unit 8: 1984	Coal	4 x 100 4 x 200	100	1,200
Shanxi					
Shentou I Power Plant	1981 - 1987	Coal	6 x 200	100	1,200
Jiangxi					
Guixi Power Plant	1985 - 1987	Coal	4 x 125	100	500
Fujian					
Shaxikou Power Plant . .	1991	Hydro	4 x 75	100	300
Anhui					
Wuhu Power Plant	Unit 1: 1996 Unit 2: 1997	Coal	2 x 125	45	112.5
Jiangsu					
Hongze Power Plant . . .	Unit 1: 1995 Unit 2: 1996	Coal	2 x 7.5	60	9
Total			3,465		3,322

Power Company under Call Option

<u>Company</u>	<u>Fuel Type</u>	<u>Net Installed Capacity (MW)⁽²⁾</u>	<u>Net Installed Capacity Attributable to Us (MW)⁽³⁾</u>
Shanghai Power ⁽¹⁾	Coal	2,809	702

- (1) CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power.
- (2) Net installed capacity refers to installed capacity attributable to Shanghai Power's equity interests as of December 31, 2003. Shanghai Power has three power plants currently under construction which will have net installed capacity of 927 MW when completed. In addition, on April 23, 2004, Shanghai Power announced the acquisition from CPI Group of a 50% equity interest in Shanghai Wujing Power Generation Limited, which has a total installed capacity of 600 MW. Upon the completion of all such construction and the acquisition, Shanghai Power's net installed capacity will increase to 4,036 MW.
- (3) Represents net installed capacity attributable to us assuming the full exercise of our call option. Upon Shanghai Power completing construction of its three new power plants and the acquisition of a 50% equity interest in Shanghai Wujing Power Generation Limited and assuming the full exercise of our call option, the net installed capacity attributable to us from Shanghai Power will increase to 1,009 MW.

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Planned Power Plants

<u>Power Plants</u>	<u>Estimated In-Service Date</u>	<u>Estimated Total Investment (RMB millions)</u>	<u>Total Installed Capacity When Completed (MW)</u>	<u>Our Ownership (%)</u>	<u>Capacity Attributable to Us When Completed (MW)</u>
Anhui					
Pingwei Power Plant II	Unit 1: 2007 Unit 2: 2008	4,643	2 x 600	100	1,200
Henan					
Yaomeng Power Plant II	Unit 1: 2007 Unit 2: 2008	4,692	2 x 600	100	1,200
Hubei					
Huanggang Dabieshan Power Plant ⁽¹⁾	Unit 1: 2008 Unit 2: 2009	4,977	2 x 600	89	1,068
Total			<u>3,600</u>		<u>3,468</u>

(1) The estimated total investment amount relates to the entire investment amount in the power plant and not the investment amount attributable to our equity interest in the power plant.

Our power plants under commercial operation and power plants under management have been selected by us on the basis of a variety of factors, including their historical ownership and management, their installed capacity, their geographical locations, the degree of independence in their operations and accounting and other criteria affecting their suitability for equity injection into a listed entity. For further details on our selection criteria, please refer to the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Selection of Power Plants” in this prospectus.

For information on the delineation between our business and the businesses of CPI Group and CPI Holding and competition between our power plants and the power plants retained by CPI Group and CPI Holding, please refer to the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Delineation of Business and Competition” in this prospectus.

SUMMARY

SELECTED FINANCIAL INFORMATION

The following table sets forth selected income statement and other financial information of our Company for the three years ended December 31, 2003 and the six-month periods ended June 30, 2003 and 2004 derived from the historical financial statements included in the Accountants' Report as set out in Appendix I to this prospectus. The results of operations of our associated company, Changshu Company, are not included in our combined operating profit, but are reflected in our combined profit and loss accounts as "share of results of an associated company". The historical financial statements are prepared in accordance with HK GAAP and on the basis set out in the section entitled "Financial Information—Management's Discussion and Analysis of Results of Operations—Basis of Presentation".

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(RMB millions)				
Turnover	2,434.6	2,581.6	2,915.4	1,434.8	1,664.9
Other revenues	3.9	2.7	3.3	1.5	2.0
Total revenues	2,438.5	2,584.3	2,918.7	1,436.3	1,666.9
Fuel costs	(1,044.2)	(1,189.8)	(1,315.6)	(628.6)	(815.4)
Depreciation	(438.1)	(368.2)	(373.8)	(188.4)	(187.7)
Staff costs	(240.5)	(187.8)	(226.9)	(103.1)	(115.9)
Repairs and maintenance	(124.3)	(136.4)	(156.2)	(82.2)	(75.0)
Consumables	(55.2)	(50.3)	(63.8)	(25.6)	(32.0)
Other operating expenses, net	(194.2)	(158.2)	(178.8)	(79.4)	(90.3)
Operating profit	342.0	493.6	603.6	329.0	350.6
Finance costs	(89.8)	(83.0)	(85.0)	(41.9)	(40.1)
Share of results of an associated company	150.6	154.3	136.4	85.5	90.8
Profit before taxation	402.8	564.9	655.0	372.6	401.3
Taxation credit/(charge)	2.8	(38.9)	(49.8)	(30.2)	(31.5)
Minority interests	—	—	—	—	0.1
Profit attributable to shareholders	405.6	526.0	605.2	342.4	369.9
Adjusted EBITDA ⁽¹⁾	968.1	1,015.4	1,120.7	602.5	628.1

⁽¹⁾ Adjusted EBITDA refers to earnings, including our share of profit from our associated company, before minority interests, interest income, interest expense, income taxes, exchange losses or gains, depreciation and amortization, provisions for inventories and doubtful debt, impairment of long-term investments and impairment of property, plant and equipment.

We believe that adjusted EBITDA provides useful additional information regarding our results of operations. In the Asia-Pacific region, there are power producers with a size of operation comparable to ours that adopt different accounting standards and are subject to different tax rates. In order to provide you with an opportunity to compare our performance with that of our peers, we have included our adjusted EBITDA numbers with a view to reducing or eliminating certain differences arising from differences in accounting standards. In particular, we believe these differences relate to treatments towards accounting for investment in associated companies, capitalization of borrowing costs, foreign exchange gains and losses, depreciation and amortization, impairment of long-term investments and property, plant and equipment. You are advised that adjusted EBITDA is not considered to be a measure of performance recognized under HK GAAP and should consider our profit after taxation as disclosed above. Because all companies do not calculate these financial measures in the same manner, our presentation may not be comparable to other similarly titled measures reported by other companies.

SUMMARY

DIVIDEND POLICY

In the absence of unforeseen circumstances, our Directors intend to recommend a final dividend of not less than HK\$0.024 (RMB0.025) per Share in respect of the year ending December 31, 2004. Such final dividend is intended to reflect our performance for the three months ending December 31, 2004.

Prior to the Global Offering and pursuant to the Reorganization Agreement, we agreed to distribute the Special Dividend to CPI Holding to be funded from our internally generated cash flow. Purchasers of our Shares in the Global Offering will not be entitled to this Special Dividend.

In the future, our Directors currently intend to recommend distributing at least 25% of our annual distributable earnings as cash dividends. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will be based on the recommendation of our Directors in accordance with our Articles of Association, and will depend upon our results of operations, cash flows, financial condition, the payment by subsidiaries of cash dividends to us, future prospects, distributable reserves, the provisions of relevant laws and other factors which our Directors may consider important. In addition, any final dividend for a financial year is subject to the approval of our shareholders.

Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means our Directors may consider appropriate.

PROFIT FORECAST

Forecast for the year ending December 31, 2004

Forecast profit after taxation and minority interests but before extraordinary items ⁽¹⁾	not less than RMB633 million
Forecast earnings per Share ⁽²⁾	
(a) Pro forma fully diluted ⁽³⁾	RMB0.21 (HK\$0.20)
(b) Weighted average ⁽⁴⁾	RMB0.27 (HK\$0.25)

(1) The above profit forecast has been prepared on the basis of the audited combined results of the Company for the six months ended June 30, 2004, and a forecast of the combined results of the Company for the remaining six months ending December 31, 2004.

(2) Solely for your convenience, forecast earnings per Share is converted into Hong Kong dollars at the PBOC Rate of HK\$1.00 to RMB1.0607 prevailing on August 31, 2004. You should not construe such conversion as a representation that the Renminbi amounts could actually be converted into HK dollar amounts at the rate indicated or at all.

(3) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the unaudited forecast profit after taxation and minority interests but before extraordinary items for the year ending December 31, 2004, assuming that we had been listed since January 1, 2004 and a total of 3,012,234,500 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-allotment Option will not be exercised, and the Shares issued pursuant to the Reorganization and to be issued pursuant to the Global Offering were issued on January 1, 2004 and a total of 12,234,500 Shares were allotted and issued under the Pre-IPO Share Option Scheme on January 1, 2004.

(4) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit after taxation and minority interests but before extraordinary items for the year ending December 31, 2004. This calculation assumes that (i) the Shares issued pursuant to the Reorganization were issued on January 1, 2004; (ii) a total of 12,234,500 Shares were also allotted and issued under the Pre-IPO Share Option Scheme on January 1, 2004; (iii) the Shares to be issued pursuant to the Global Offering will be issued on October 15, 2004; and (iv) the Over-allotment Option will not be exercised.

SUMMARY

OFFER STATISTICS

	<u>Based on an Offer Price of HK\$2.10</u>	<u>Based on an Offer Price of HK\$2.60</u>
Market capitalization of our Shares ⁽¹⁾	HK\$6,300 million	HK\$7,800 million
Prospective price/earnings multiple:		
(a) on a pro forma fully diluted basis ⁽²⁾	10.5 times	13.0 times
(b) on a weighted average basis ⁽³⁾	8.4 times	10.4 times
Unaudited pro forma net tangible asset per Share ⁽⁴⁾	HK\$1.78 (RMB1.89)	HK\$1.92 (RMB2.04)

- (1) The calculation of market capitalization is based on 3,000,000,000 Shares expected to be in issue following completion of the Global Offering, assuming no exercise of the Over-allotment Option.
- (2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis at the respective offer prices of HK\$2.10 and HK\$2.60, assuming that we had been listed since January 1, 2004 and a total of 3,012,234,500 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-allotment Option will not be exercised, and the Shares issued pursuant to the Reorganization and to be issued pursuant to the Global Offering were issued on January 1, 2004 and a total of 12,234,500 Shares were allotted and issued under the Pre-IPO Share Option Scheme on January 1, 2004.
- (3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective offer prices of HK\$2.10 and HK\$2.60, assuming that (i) the Shares issued pursuant to the Reorganization were issued on January 1, 2004; (ii) a total of 12,234,500 Shares were also allotted and issued under the Pre-IPO Share Option Scheme on January 1, 2004; (iii) the Shares to be issued pursuant to the Global Offering will be issued on October 15, 2004; and that (iv) the Over-allotment Option will not be exercised.
- (4) The unaudited pro forma net tangible asset value per Share is calculated after making the adjustments referred to in the section entitled “Financial Information—Unaudited Pro Forma Net Tangible Assets” in this prospectus and on the basis of a total of 3,000,000,000 Shares expected to be in issue following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$2.35 (being the mid-point of our offer price range of HK\$2.10 to HK\$2.60 per Share), the unaudited pro forma net tangible asset per Share will be increased to HK\$1.87, while the forecast earnings per Share on a pro forma fully diluted basis will be diluted to HK\$0.19.

USE OF PROCEEDS

The net proceeds of the Global Offering that we expect to receive from subscription for the Offer Shares (after deducting the underwriting fees and estimated expenses payable by us and assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$1,970 million (RMB2,090 million), assuming an Offer Price of HK\$2.35 per Share, being the mid-point of the stated range of the Offer Price of between HK\$2.10 and HK\$2.60 per Share, or if the Over-allotment Option is exercised in full, approximately HK\$2,276 million (RMB2,414 million), assuming the same mid-point Offer Price as above.

We currently intend to use the proceeds from the Global Offering to further our development strategy of increasing installed capacity and power output while delivering growth in shareholder value. To achieve this objective, we expect to set aside approximately HK\$850 million (RMB900 million) of the net proceeds from the Global Offering for investments in, and pre-operating expenses of, our planned power plants namely, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant. The balance amount of the net proceeds (assuming the mid-point Offer Price of HK\$2.35 per Share),

SUMMARY

estimated to be approximately HK\$1,120 million (RMB1,188 million), is expected to be used substantially for future acquisitions, though we may utilize approximately HK\$50 million (RMB53 million) from such amount for general corporate purposes. Although we have yet to identify specific acquisition targets, they may include power assets of CPI Group or CPI Holding pursuant to an exercise of our preferential rights or our call option to acquire up to a 25% equity interest in Shanghai Power. Should one or more investment opportunities present themselves and there is sufficient internally generated cash flow to meet our obligations in respect of investments in, and pre-operating expenses of, our planned power plants as and when they fall due, we may use all or a portion of the HK\$850 million (RMB900 million) set aside for investments in, and pre-operating expenses of, our planned power plants to fund such future acquisitions. We will comply with the relevant disclosure requirements under the Companies Ordinance and the Listing Rules in respect of any future acquisition that we make.

Net proceeds approximately of HK\$306 million (RMB325 million) (assuming the mid-point Offer Price of HK\$2.35 per Share) that we estimate we would receive from subscriptions for additional Shares in the event the Over-allotment Option is exercised in full, will be used for future acquisitions and general corporate purposes.

Pending the use of the net proceeds from the Global Offering for the purposes described above, and to the extent permitted under relevant PRC and Hong Kong laws and regulations, we intend to invest the proceeds in short term demand deposits and/or money-market instruments.

We will not receive any of the proceeds from the sale of 90,000,000 Offer Shares by the Selling Shareholder under the International Placing. Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.35 per Share, being the mid-point of the stated range of the Offer Price of between HK\$2.10 and HK\$2.60 per Share, and after deducting the underwriting fees and estimated expenses payable by the Selling Shareholder, the Selling Shareholder will receive total net proceeds of approximately HK\$196 million, or if the Over-allotment Option is exercised in full, approximately HK\$227 million, assuming the same mid-point Offer Price. These net proceeds will be remitted to the national social security fund in accordance with PRC government requirements.

In the event of any material modification to the use of proceeds as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required by the Stock Exchange and/or the SFC.

SUMMARY OF RISK FACTORS

We believe that there are certain risks involved in our operations. They can be categorized into: (i) risks relating to the Company and the PRC power industry, (ii) risks relating to the PRC and (iii) risks relating to the Global Offering. Please refer to the section entitled “Risk Factors” in this prospectus for a more detailed discussion of these risks.

Risks Relating to the Company and the PRC Power Industry

- Our revenue and profit may be adversely affected by the PRC government’s control over tariffs.
- Reductions in dispatched output may adversely affect our revenue and profit.
- Increases in fuel costs and disruption in fuel supply or shortage of transportation resources may adversely affect our profit and the normal operation of our power plants.

SUMMARY

- Regulatory reform of the PRC power industry may adversely affect our business.
- Delays in power plant development or acquisition may adversely affect our expansion plans.
- If we are unable to successfully exercise our call option over the equity interest in Shanghai Power, our future growth and operational results may be negatively impacted.
- The construction of power plants is subject to risks which could give rise to delays or cost overruns.
- We require substantial capital for investing in or acquiring new power plants and failure to obtain capital on reasonable commercial terms will increase our financing costs and cause delay in our expansion plans.
- Operating power plants involves many risks and we may not have sufficient insurance coverage to cover the economic losses if any of our power plant's ordinary operation is interrupted.
- We face increasing competition from existing and new power plants, which could reduce our average utilization hours, limit our growth opportunities and adversely affect our revenues and profitability.
- We may encounter difficulties in controlling our costs should the PRC government adopt stricter environmental laws.
- We do not possess the title certificates in respect of certain land and buildings occupied by us.
- Our dividend distributions to our existing shareholder prior to the completion of the Global Offering should not be treated as indicative of our future dividend policy; nor can we provide any assurance on the amount of future distributions, if any.

Risks Relating to the PRC

- Interpretation and implementation of PRC laws and regulations involves significant uncertainties.
- PRC economic, political and social conditions as well as government policies could adversely affect our business.
- Our PRC tax benefits may not continue in the future.
- Fluctuations of the Renminbi could materially affect our financial condition and results of operations.

Risks Relating to the Global Offering

- There has been no prior public market for our Shares; the liquidity and market price of our Shares may be volatile.
- We will continue to be controlled by CPI Group through CPI Holding. Their interests may differ from those of our other shareholders.
- Forward-looking information may prove inaccurate.

SUMMARY

- We cannot guarantee the accuracy of facts and other statistics with respect to the PRC, the PRC economy, and the PRC power industry contained in this prospectus.
- Because the Offer Price per Share of our Shares is higher than our net tangible assets per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain technical terms are explained in the section entitled “Technical Glossary” in this prospectus.

“Application Form(s)”	white application form(s) and yellow application form(s) or, where the context so requires, either of them
“Articles of Association”	the articles of association of the Company, as amended and adopted on August 24, 2004
“Board of Directors” or “Board”	our board of Directors
“CAGR”	compounded annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Changshu Company”	江蘇常熟發電有限公司 (Jiangsu Changshu Electric Power Generating Company Limited*)
“Changshu Power Plant”	the power plant wholly-owned by Changshu Company
“Company” and “our Company”	China Power International Development Limited (中國電力國際發展有限公司), a company incorporated in Hong Kong with limited liability under the Companies Ordinance on March 24, 2004 and, except where the context otherwise requires, all of its subsidiaries or, where the context refers to any time prior to its incorporation, the businesses which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it pursuant to the Reorganization in contemplation of the Global Offering
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Corporate Investor”	Janking Investment Limited, a wholly-owned subsidiary of Henderson Financial Enterprises Ltd, which is itself a private company wholly-owned by Dr. Lee Shau Kee

DEFINITIONS

“Corporate Placing”	the placing of Offer Shares to the Corporate Investor as part of the International Placing, the details of which are set out in the section entitled “Structure of the Global Offering—The International Placing—The Corporate Placing”
“CPDL”	China Power Development Limited (中國電力發展有限公司*), a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of CPI Holding
“CPI Group”	中國電力投資集團公司 (China Power Investment Corporation*), a wholly State-owned enterprise established by the State Council of the PRC and which is under the supervision of the SASAC and, where the context otherwise requires, all companies in which it owns a 50% or more equity interest, including CPI Holding and our Company
“CPI Holding”	China Power International Holding Limited (中國電力國際有限公司), a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of CPI Group
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission*), a regulatory body responsible for the supervision and regulation of the PRC national securities market
“Director(s)”	the director(s) of our Company
“Electric Power Law”	中華人民共和國電力法 (Electric Power Law of the PRC*) adopted by the Standing Committee of the 8th National People’s Congress on December 28, 1995, and effective as of April 1, 1996
“Global Coordinator”	Merrill Lynch Far East Limited
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Guixi Power Plant”	江西貴溪火力發電廠 (Jiangxi Guixi Coal-Fired Power Plant*)
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HK GAAP”	accounting principles generally accepted in Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Offer Shares”	the 99,000,000 new Shares being offered by our Company for subscription under the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer by our Company of Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section entitled “Structure of the Global Offering”) for cash at the Offer Price and on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section entitled “Underwriting—Underwriters—Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated September 30, 2004 relating to the Hong Kong Public Offering entered into among our Company, CPI Holding, the Selling Shareholder, the Global Coordinator and the Hong Kong Underwriters
“Hongze Company”	中電洪澤熱電有限公司 (Zhongdian Hongze Thermal Company Limited*)
“Hongze Power Plant”	the power plant wholly-owned by Hongze Company
“Huanggang Dabieshan Company”	黃岡大別山發電有限責任公司 (Huanggang Dabieshan Power Generating Company Limited*)
“Huanggang Dabieshan Power Plant”	the planned power plant wholly-owned by Huanggang Dabieshan Company
“International Placing”	the offering of the International Placing Shares by our Company and the Selling Shareholder outside the United States (including to institutional and professional investors in Hong Kong (other than to retail investors in Hong Kong), the Strategic Placing, the Corporate Placing and a public offering without listing to investors, including retail investors, in Japan), and in the United States to QIBs in reliance on Rule 144A, as further described in the section entitled “Structure of the Global Offering”
“International Placing Shares”	the 801,000,000 new Shares being offered by our Company and the 90,000,000 Shares being offered by the Selling Shareholder pursuant to the International Placing together, where relevant with any additional Shares offered pursuant to any exercise of the Over-allotment Option
“International Underwriters”	the underwriters led by Merrill Lynch, who are expected to enter into the International Underwriting Agreement as purchasers to underwrite the International Placing

DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement relating to the International Placing, which is expected to be entered into among our Company, CPI Holding, the Selling Shareholder, the Global Coordinator and the International Underwriters on or around October 8, 2004
“Joint Lead Managers”	Merrill Lynch and China Merchants Securities (HK) Co., Limited
“Listing Date”	the date, expected to be on or about October 15, 2004, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Management Agreement”	the agreement entered into between the Company, CPI Group and CPI Holding effective July 1, 2004 in respect of the management of Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant
“Merrill Lynch”	Merrill Lynch Far East Limited, which is deemed to be licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
“Ministry of Commerce”	the PRC Ministry of Commerce* (中國商務部), the PRC government agency responsible for the administration of domestic and international trade, foreign investment and international economic cooperation
“NDRC”	中國國家發展和改革委員會 (the National Development and Reform Commission of the PRC*), the PRC government agency responsible for developing national economic strategies and long term economic plans and for reporting economic and social development to the PRC National People’s Congress
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) at which Offer Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering and the International Placing, to be determined as described in the section entitled “Structure of the Global Offering—Determining the Offer Price” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares

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“Over-allotment Option”	the option to be granted by the Selling Shareholder and our Company to the International Underwriters exercisable by the Global Coordinator on behalf of the International Underwriters pursuant to the International Underwriting Agreement to require the Selling Shareholder to sell up to an aggregate of 13,500,000 additional Shares and our Company to allot and issue up to an aggregate of 135,000,000 additional Shares, representing in aggregate approximately 15% of the initial Offer Shares, at the Offer Price, solely to cover over-allocations in the International Placing, if any, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering
“PBOC”	中國人民銀行 (The People’s Bank of China*), the central bank of the PRC
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by PBOC based on the previous day’s China interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets
“Pingwei Company”	安徽淮南平圩發電有限責任公司 (Anhui Huainan Pingwei Electric Power Generating Company Limited*)
“Pingwei II Company”	淮南平圩第二發電有限責任公司 (Huainan Pingwei No. 2 Electric Power Generating Company Limited*)
“Pingwei Power Plant”	the power plant wholly-owned by Pingwei Company
“Pingwei Power Plant II”	the planned power plant wholly-owned by Pingwei II Company
“PRC” or “China”	the People’s Republic of China. Except where the context otherwise requires, geographical references in this prospectus to the PRC or China exclude Hong Kong, Macau and Taiwan
“PRC GAAP”	the relevant accounting principles and financial regulations applicable to PRC enterprises
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally approved and adopted by our Company on August 24, 2004, details of which are set out in the section entitled “5. Pre-IPO Share Option Scheme” in Appendix VII to this prospectus

DEFINITIONS

“Price Determination Date”	the date, expected to be on or around Friday, October 8, 2004 and, in any event, not later than Wednesday, October 13, 2004, on which the Offer Price is fixed for the purposes of the Global Offering
“QIBs”	“qualified institutional buyers” within the meaning of Rule 144A
“Qinghe Company”	遼寧清河發電有限責任公司 (Liaoning Qinghe Electric Power Generating Company Limited*)
“Qinghe Power Plant”	the power plant wholly-owned by Qinghe Company
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Period”	our financial years ended December 31, 2001, 2002 and 2003 and the six-month periods ended June 30, 2003 and 2004
“Reorganization Agreement”	the agreement dated August 27, 2004 entered into between our Company, CPI Group and CPI Holding in respect of the Reorganization
“Reorganization”	the reorganization of our Company carried out in preparation for the listing of the Shares, which is described in the section entitled “Business—Reorganization” in this prospectus
“RMB”, “Rmb” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SASAC”	中國國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council*)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Selling Shareholder”	CPDL
“SERC”	中國國家電力監管委員會 (State Electricity Regulatory Commission of the PRC*)
“SETC”	中國國家經濟貿易委員會 (State Economic and Trade Commission of the PRC*), a former ministry of the PRC government which was dissolved in 2003
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai Power”	上海電力股份有限公司 (Shanghai Electric Power Co., Ltd.*)
“Shaoda Company”	蕪湖兆達電力開發有限公司 (Wuhu Shaoda Power Development Company Limited*)

DEFINITIONS

“Share Option Scheme”	our Company’s share option scheme, the principal terms of which are summarized in the section entitled “6. Share Option Scheme” in Appendix VII to this prospectus
“Share(s)”	ordinary share(s) of par value HK\$1.00 each in our share capital
“Shaxikou Power Plant”	福建沙溪口水力發電廠 (Fujian Shaxikou Hydro-Power Plant*)
“Shentou I Power Plant”	山西神頭第一發電廠 (Shanxi Shentou No. 1 Power Plant*)
“Special Dividend”	the dividend to be declared and paid by us in an amount equal to the distributable profits of Pingwei Company and Yaomeng Company for the nine-month period from January 1, 2004 to September 30, 2004, and subject to the requisite approval of the board of directors of Changshu Company being obtained, 50% of the distributable profits of Changshu Company for the nine-month period from January 1, 2004 to September 30, 2004
“Sponsor”	the sponsor for the listing of the Shares on the Stock Exchange, being Merrill Lynch Far East Limited
“State Council”	中國國務院 (the State Council of the PRC*)
“State Plan”	the plan devised and implemented by the relevant authorities of the PRC government in relation to the economic and social development of the PRC
“Strategic Investor”	Ellington Investments Pte. Ltd., an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited, which is an investment holding company incorporated in Singapore and wholly-owned by the Minister for Finance, Incorporated of Singapore
“Strategic Placing”	the placing of Offer Shares to the Strategic Investor as part of the International Placing, the details of which are set out in the section entitled “Structure of the Global Offering—The International Placing—The Strategic Placing”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

DEFINITIONS

“United States” or “U.S.”	the United States of America
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States of America
“VAT”	value-added tax
“we”, “us” or “our”	China Power International Development Limited and, except where the context otherwise requires, all of its subsidiaries and/or any other entities in which China Power International Development Limited has invested or holds not less than 50% equity interest, or where the context refers to any time prior to its incorporation, the business which its predecessors and/or the predecessors of its present subsidiaries and/or other entities in which China Power International Development Limited has invested or holds not less than 50% equity interest, were engaged in and which were subsequently assumed by China Power International Development Limited pursuant to the Reorganization in contemplation of the Global Offering
“Wuhu Power Plant”	the Wuhu Power Plant Phase IV wholly-owned by Shaoda Company
“Yaomeng Company”	平頂山姚孟發電有限責任公司 (Pingdingshan Yaomeng Power Generating Company Limited*)
“Yaomeng II Company”	平頂山姚孟第二發電有限公司 (Pingdingshan Yaomeng No. 2 Power Generating Company Limited*)
“Yaomeng Power Plant”	the power plant wholly-owned by Yaomeng Company
“Yaomeng Power Plant II”	the planned power plant wholly-owned by Yaomeng II Company

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

TECHNICAL GLOSSARY

“auxiliary power”	electricity consumed by a power plant in the course of generation
“available hours”	for a specified period, the total number of hours in such period less the total number of hours attributable to scheduled maintenance and planned overhauls as well as to forced outages, adjusted for partial capacity outage hours
“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
“demand”	for an integrated power system, the amount of power demanded by consumers of energy at any point in time
“dispatch”	the schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a plant means to direct the plant to operate
“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
“excess and other output”	the amount by which the total output of a power plant in a particular year exceeds its planned output for such year but does not include output subject to competitive bidding. Excess output is subject to on-grid tariffs approved by the PRC government. Other output refers to output other than the planned output, excess output and the output subject to competitive bidding
“gross generation”	for a specified period, the total amount of electrical power produced by a power plant in that period including auxiliary power
“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
“installed capacity”	the manufacturers’ rated power output of a generating unit or a power plant, usually denominated in MW
“kV”	kilovolt. One thousand volts
“kW”	kilowatt. One thousand watts

TECHNICAL GLOSSARY

“kWh”	kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“mine-mouth power plants”	power plants that are located on the site of coal mines
“MW”	megawatt. One million watts. The installed capacity of power plants is generally expressed in MW
“MWh”	megawatt-hour. One thousand kWh
“net generation”	for a specified period, the total amount of power produced by a power plant less auxiliary power
“output subject to competitive bidding”	the amount of output sold pursuant to on-grid tariffs subject to competitive bidding
“planned output”	the actual amount of electricity sold by a power plant in accordance with annually determined target gross generation level in a particular year, which equals total output less excess and other output and output subject to competitive bidding
“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)
“ton”	metric ton
“total output”	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
“TWh”	terawatt-hour. One billion kWh

RISK FACTORS

You should carefully consider these risks, together with all of the other information in this prospectus, before you decide to purchase any Offer Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO THE COMPANY AND THE PRC POWER INDUSTRY

Our revenue and profit may be adversely affected by the PRC government's control over tariffs.

We are restricted to making electricity sales only to the local power grids to which our power plants are connected. Prior to April 2001, the on-grid tariffs for our planned output were designed to enable us to recover all operating and debt servicing costs and to earn a reasonable profit. Since April 2001, however, the PRC government has started to gradually implement a new on-grid tariff-setting mechanism based on the operating terms of power plants as well as the average costs of comparable power plants. Based on our experience, the determination of such average costs usually takes into consideration various factors such as:

- construction costs, which vary according to the capacities of the individual power plants;
- operating and administrative expenses, such as labor and fuel costs;
- maintenance and repair costs of power plants; and
- interest expenses on outstanding debts.

The on-grid tariffs for our planned output and excess output are subject to a review and approval process involving the relevant provincial government authority and the NDRC. Any future reductions in our tariffs, or our inability to raise tariffs (for example, to cover any increased costs we may have to incur) as a result of the new on-grid tariff-setting mechanism or otherwise, may adversely affect our revenue and profit.

In addition, the PRC government started an experiment at the end of 1998 to effect power sales through competitive bidding in some provinces. The on-grid tariffs for power sold through competitive bidding may be lower than the pre-approved on-grid tariffs for planned output. If this occurs, or if the relevant government authority reduces our on-grid tariffs for planned output to levels below our projections, our revenue and profit may be adversely affected.

Reductions in dispatched output may adversely affect our revenue and profit.

The output that each of our power plants generates is subject to the local demand for power and the amount of power to be dispatched to the grids. The amount of power to be dispatched is set and controlled by the relevant provincial governmental authorities. Reductions in the amount of power that we may dispatch to levels below our projections would adversely affect our revenue and profit.

Increases in fuel costs and disruption in fuel supply or shortage of transportation resources may adversely affect our profit and the normal operation of our power plants.

Fuel costs accounted for 49.8%, 56.9% and 56.8% of the operating costs of our power plants under commercial operation (excluding Changshu Power Plant) in 2001, 2002 and 2003 respectively, and 56.8% and 61.9% in the six-month periods ended June 30, 2003 and 2004

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respectively. The weighted-average standard coal price per ton that we paid, exclusive of VAT, for our three power plants under commercial operation increased from approximately RMB269 in 2001 to RMB296 in 2002, RMB301 in 2003 and RMB366 in the six months ended June 30, 2004. In the past, our power plants under commercial operation obtained coal through a combination of purchases pursuant to allocations coordinated under the State Plan and procurements in the open market. The PRC government allocations helped assure priority in the receipt of certain limited resources such as transportation services required to transport our coal supplies. In 2002, the PRC government announced policies aimed at eliminating guideline prices for coal used in electricity generation. Accordingly, we expect that the price of coal used in electricity generation will become more subject to market forces. There is no assurance that there will not be any interruption or disruption in, or change in the terms of, our coal supplies, or that there will be sufficient coal in the open market or sufficient transportation resources available to us to meet our future requirements. There is also no assurance that any increases in coal costs will be reflected in or offset by increased tariffs. Such events may adversely affect our profit and the normal operation of our power plants.

Regulatory reform of the PRC power industry may adversely affect our business.

All of our power plants are subject to PRC governmental and power grid regulations in virtually all aspects of our operations, including the amount and timing of electricity generation, the setting of on-grid tariffs, the performance of scheduled maintenance, compliance with power grid control and dispatch directives and environmental protection. The PRC power industry has experienced and is expected to continue to experience ongoing regulatory reforms.

In December 2002, the PRC government began to implement a major restructuring of the PRC power industry. Following the restructuring, the State Power Corporation was reorganized, as a result of which two power grid companies and five large independent power generation groups were formed. Each of the five power generation groups now owns approximately 30 GW of generation capacity, and they compete among themselves and with other independent power producers in the PRC power market. In addition, the SERC was established in December 2002 as the main regulatory body for the power industry to further implement the policy of separating power generation from transmission and distribution, supervise the operation of the PRC power industry and promote orderly competition. Given the rapid regulatory changes in the PRC power industry, there is no assurance that this industry-wide restructuring will not have a material negative impact on our business.

Delays in power plant development or acquisition may adversely affect our expansion plans.

We invest in, develop, acquire and manage power plants in China. The process of identifying potential opportunities for development or acquisition of power plants, obtaining government approvals, completing acquisition or construction and commencing commercial operations requires time, effort and costs. Our continued success depends on our ability to secure, in a timely and cost-effective manner, the required PRC government and other approvals, acquisition documents, construction contracts, fuel supply and transportation agreements, power sales contracts and dispatch agreements. Any delay or failure to secure any of the required approvals, permits or agreements may increase costs or delay or prevent the commercial operation or integration of the affected power plant. Mechanical, technical or

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design problems may also delay our power plant development and construction. Two of our three planned power plants, namely, Pingwei Power Plant II and Yaomeng Power Plant II, are still in the process of obtaining the requisite PRC governmental approvals for the projects. There is no assurance that our projects or acquisitions will secure all necessary approvals, permits or agreements in a timely manner or at all, or that there will be no mechanical, technical or design problem in connection with our projects or acquisitions.

If we are unable to successfully exercise our call option over the equity interest in Shanghai Power, our future growth and operational results may be negatively impacted.

We have been granted a call option by CPI Group to acquire up to a 25% equity interest in Shanghai Power exercisable within 3 years from October 29, 2004, following the expiry of the undertaking by CPI Group not to dispose of its equity interest in Shanghai Power. For further details of this call option, please refer to the sections entitled “Business—Description of Power Plants—Power Company under Call Option” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Connected Transactions Which Are Not Continuing Connected Transactions—Shanghai Power Option Deed” in this prospectus. Pursuant to the call option deed, the exercise price per share of this call option will at our election be either the price agreed upon based on the then net asset value per share, or the then market value per share attributable to the listed shares of Shanghai Power, discounted to take into consideration factors such as the lack of liquidity of the State-owned shares which are the subject of the call option. Accordingly, the exercise price of the call option may be subject to further negotiations between CPI Group and our Company.

We believe that our call option to acquire a stake in Shanghai Power enhances our growth potential and we intend to exercise the call option as soon as possible subject to our evaluation of this investment opportunity. However, the exercise of the call option is subject to our being able to obtain approvals from our independent shareholders and from the SASAC, the CSRC and the Ministry of Commerce. Further, shareholders of Shanghai Power are required to approve amendments to Shanghai Power’s articles of association to include us as a shareholder when we exercise the call option. There is no assurance that we will obtain regulatory approvals in a timely manner and at an exercise price that would necessarily result in such acquisition being accretive to our earnings or net assets with immediate effect. Furthermore, there is no assurance that we would be able to obtain the approval of our independent shareholders or the shareholders of Shanghai Power or that we would be able to secure the requisite financing in a timely manner, or on terms that are favorable to us or at all. If we are unable to successfully exercise the call option at a reasonable price, our future growth and operational results may be negatively affected.

The construction of power plants is subject to risks which could give rise to delays or cost overruns.

The construction of a power plant, including its ancillary facilities, such as transmission lines or substations, may be adversely affected by many factors commonly associated with the construction of infrastructure projects that are beyond our control, including but not limited to:

- shortages of equipment, materials or labor;
- work stoppages and labor disputes;

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- weather conditions;
- natural disasters;
- accidents;
- unforeseen engineering, design, environmental or geological problems;
- delays in receiving requisite approvals, licenses or permits; and
- unanticipated cost increases,

any of which could give rise to delays or cost overruns. Construction delays of any of our power plants can result in loss or delayed receipt of revenues, increase in financing costs, or failure to meet profit and earnings projections. Additionally, the failure to complete construction according to specifications can result in reduced plant efficiency, higher operating costs and reduced or delayed earnings.

We require substantial capital for investing in or acquiring new power plants and failure to obtain capital on reasonable commercial terms will increase our financing costs and cause delay in our expansion plans.

Key components of our growth strategy include the construction of new power plants and the acquisition of power plants and related development rights from CPI Group, CPI Holding or other companies on commercially reasonable terms. Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- credit availability from banks or other lenders;
- investor confidence in us; and
- the continued performance of our power plants.

Although we have historically been able to obtain financing on terms acceptable to us, there can be no assurance that financing for construction of new power plants and future power plant acquisitions will be available on terms acceptable to us or at all, which could increase our financing costs and cause delay in our expansion plans.

Operating power plants involves many risks and we may not have sufficient insurance coverage to cover the economic losses if any of our power plant's ordinary operation is interrupted.

Operating power plants involves many risks and hazards which may adversely affect profitability, including but not limited to:

- breakdown, failure or substandard performance of equipment;
- improper installation or operation of equipment;
- labor disturbances;
- natural disasters;
- environmental hazards; and
- industrial accidents.

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We maintain insurance coverage that is typical in the electric power industry in China and in amounts that we believe to be adequate. Our insurance, however, may not provide adequate coverage in certain circumstances. In particular, in accordance with industry practice in the PRC, we do not currently carry business interruption insurance or any third party liability insurance to cover claims in respect of bodily injury or property or environmental damage arising from accidents on our property or relating to our operation. Although each of our power plants has a good record of safe operation, there is no assurance that the afore-mentioned incidents will not occur in the future.

We face increasing competition from existing and new power plants, which could reduce our average utilization hours, limit our growth opportunities and adversely affect our revenues and profitability.

Following the restructuring of the PRC power industry in 2002, CPI Group became one of the PRC's five national independent power generation groups. In addition, there are provincial, local and other power generation companies in the PRC. The other four large national independent power producers have similar capacities and similar competitive strengths as CPI Group, and we compete with them as well as other power companies for opportunities to develop power plants and for the coal and capital required to develop and operate our power plants. In addition, there is intense competition for more dispatched output and higher on-grid tariffs in the PRC power market. In this respect, we compete against various players, including power plants owned by large power companies and smaller local power plants that are located in the markets where we operate. If we are not successful in meeting this competition or if the increase in generation capacity from the construction of new power plants outpaces the increase in power requirements, resulting in supply exceeding demand, our average utilization hours may be reduced, our growth opportunities may be limited and our revenues and profitability may be adversely affected.

We may encounter difficulties in controlling our costs should the PRC government adopt stricter environmental laws.

Our power plants, like all coal-fired power plants, discharge pollutants into the environment and are subject to the PRC government's environmental protection laws and regulations, which generally require the payment of discharge fees. Pursuant to recently promulgated PRC regulations, discharge fees payable by power plants for the emission of sulphur dioxide will increase significantly during the three-year period beginning July 1, 2003. Power plants with desulphurization equipment are expected to pay substantially lower discharge fees. Our power plants under commercial operation currently do not have installed desulphurization equipment. These laws and regulations also impose fines for violations of laws, regulations or decrees and provide for the possible closure by the PRC government of any power plant which fails to comply with orders requiring it to cease or rectify the activities causing environmental damage. Although we believe our power plants are currently in full compliance with all relevant environmental laws, regulations and local standards in the PRC, if the PRC government adopts stricter environmental laws, regulations or local or international standards in the future, we will need to incur additional costs to comply with stricter environmental requirements, which will increase our operating costs and may harm our business and profitability.

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We do not possess the title certificates in respect of certain land and buildings occupied by us.

As of July 31, 2004, we occupied approximately 12.58 million m² of land and approximately 587,497m² of property premises in the PRC for use as industrial buildings, administration offices and staff quarters at our power plants under commercial operation throughout China. Of the properties occupied by Yaomeng Power Plant, Yaomeng Company has not yet obtained the relevant land use right certificates for 22 parcels of land, nor has it obtained the building ownership certificates for 67 buildings. Similarly, in respect of the properties occupied by Pingwei Power Plant, Pingwei Company has not yet obtained the relevant land use right certificate for one parcel of land, nor has it obtained the building ownership certificates for 34 buildings. In respect of Changshu Power Plant, Changshu Company has not yet obtained the requisite building ownership certificates for 14 buildings. Altogether, around 5% of the land and 11% of the buildings that our power plants occupy lack title certificates. Most of these properties are not used for our core power production activities.

We commenced the application process to obtain the relevant land use right certificates and building ownership certificates for properties used for our power production activities in April 2004 and are still in discussion with relevant authorities for the other properties. However, based on advice from our PRC legal adviser, our Directors are of the view that there are uncertainties as to whether we can obtain the relevant certificates in a timely manner, or at all. In addition, there is no assurance that our use and occupation of the relevant land and buildings will not be challenged. If we cannot obtain the relevant certificates in a timely manner and our legal right to use or occupy the relevant land and buildings is challenged, we may have to vacate the land and buildings, which may interrupt the operations we conduct on the affected land or in the affected buildings.

Our dividend distributions to our existing shareholder prior to the completion of the Global Offering should not be treated as indicative of our future dividend policy; nor can we provide any assurance on the amount of future distributions, if any.

We declared dividends in the amount of RMB420.8 million, RMB312.1 million and RMB385.0 million for the years ended December 31, 2001, 2002 and 2003 respectively. In connection with our Reorganization and in preparation for this Global Offering, we agreed that the Special Dividend will be distributed to CPI Holding. The dividends we declared or the Special Dividend we agreed to distribute prior to the Global Offering were not made in accordance with our dividend policy as described in the section entitled “Financial Information—Dividend Policy”. Purchasers of our Shares in the Global Offering will not be entitled to participate in the above dividends, and the amounts of distributions that we have declared historically are not indicative of the dividends that we may pay in the future.

RISKS RELATING TO THE PRC

Interpretation and implementation of PRC laws and regulations involves significant uncertainties.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign

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investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. In particular, the PRC power industry is a highly regulated industry. Many aspects of our business such as the amount and timing of electricity generation and the setting of on-grid tariffs are subject to negotiations with the PRC government and are contingent upon obtaining the relevant government authority's approval. As the PRC legal system and the PRC power industry develop, we cannot assure you that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our business operations. For a more detailed discussion of our risks associated with the uncertainty in the restructuring of the PRC power industry, please refer to the risk factor entitled “—Risks Relating to the Company and the PRC Power Industry—Regulatory reform of the PRC power industry may adversely affect our business” in this section of the prospectus.

PRC economic, political and social conditions as well as government policies could adversely affect our business.

All of our power plants are located in China. As a result, our businesses, operations and financial conditions are subject to the political, economic and social conditions, laws, regulations and policies in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, economic growth rate, control of foreign exchange and allocation of resources.

For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. These economic reform measures have and will continue to subject the electric power market and our operations to some degree of uncertainty.

In addition, the growth of electricity demand in China depends heavily on economic growth in the country. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth of electricity demand may also slow down, and our business prospects may be adversely affected.

Our PRC tax benefits may not continue in the future.

According to the relevant PRC enterprise income tax regulations, our power plants enjoy preferential tax treatment pursuant to which they are entitled to a two-year full exemption from, and a three-year 50% reduction in, State enterprise income tax commencing in the first year of positive accumulated earnings. As enterprises with foreign investment engaged in the energy industry, our power plants further enjoy a preferential State enterprise income tax rate of 15% instead of the normal rate of 30%. China's entry into the World Trade Organization may eventually result in the elimination of all preferential tax treatment. If the preferential tax rates applicable to our power plants are eliminated, our financial condition may be adversely affected.

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Fluctuations of the Renminbi could materially affect our financial condition and results of operations.

We collect all of our revenues in Renminbi, some of which need to be converted into foreign currencies to (i) purchase foreign-made equipment and parts for repair and maintenance, (ii) make investments in certain joint ventures or acquire interests from other companies, and (iii) pay out dividends to our shareholders. The value of the Renminbi fluctuates and is subject to changes in China's political and economic conditions. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong and U.S. dollars has been based on PBOC Rates, which are set daily based on the previous day's China interbank foreign exchange market rates and with reference to current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi into U.S. dollars has generally been stable. Any devaluation of the Renminbi, however, may increase our financing costs and may also adversely affect the value of, and dividends, if any, payable on our Shares in foreign currency terms. In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under the PRC's foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade may be made in foreign currencies without prior government approval except for certain procedural requirements. However, strict foreign exchange controls continue for most capital account transactions. For further information on our foreign exchange risks and certain exchange rates, see the section entitled "Financial Information—Qualitative and Quantitative Disclosures about Market Risk—Foreign Exchange Rate Risk" in this prospectus.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares; the liquidity and market price of our Shares may be volatile.

Prior to the Global Offering, there was no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between us, the Selling Shareholder and the Underwriters, and may differ from the market prices for the Shares after the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid, public trading market for our Shares. In addition, the price and trading volume of our Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows may affect the volume and price at which our Shares will be traded.

We will continue to be controlled by CPI Group through CPI Holding. Their interests may differ from those of our other shareholders.

Immediately after the completion of the Global Offering, CPI Holding, through its wholly-owned subsidiary, CPDL, will own an aggregate of approximately 67% of our Shares, or approximately 64% if the Over-allotment Option is exercised in full. CPI Group, through its control of CPI Holding, or CPI Holding, may cause us to effect corporate transactions which might be in conflict with our other shareholders' interests. For further details regarding our controlling shareholder, please refer to the section entitled "Substantial Shareholders and Selling Shareholder" in this prospectus. Furthermore, our controlling shareholders are in a position to:

- subject to applicable laws and regulations, control the Board of Directors of our Company;

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- subject to the provisions of our Articles of Association, cause us to adopt amendments to our Articles of Association; and
- otherwise determine the outcome of our corporate actions requiring shareholders' approval, including election and removal of Directors, merger, consolidation or sale of our assets, or, subject to applicable laws and regulations, cause us to effect corporate transactions that do not require the approval of our shareholders.

There is no assurance that CPI Group and CPI Holding will always vote on shareholders' resolutions in a way that benefits all of our other shareholders.

Forward-looking information may prove inaccurate.

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “anticipate”, “believe”, “estimate”, “expect”, “going forward” and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected.

We cannot guarantee the accuracy of facts and other statistics with respect to the PRC, the PRC economy, and the PRC power industry contained in this prospectus.

Facts and other statistics in this prospectus relating to the PRC, the PRC economy and the PRC power industry have been derived from various government publications and obtained in communications with various PRC government agencies that we believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. These facts and other statistics include the facts and statistics included in the sections entitled “Information on the PRC Power Industry”; “Business—Description of Power Plants—Power Plants under Commercial Operation—Power Plants Selling Power to Anhui Province—An Overview of Anhui Province”; “Business—Description of Power Plants—Power Plants under Commercial Operation—Power Plants Selling Power to Henan Province—An Overview of Henan Province”; “Business—Description of Power Plants—Power Plants under Commercial Operation—Power Plants Selling Power to Jiangsu Province—An Overview of Jiangsu Province”; “Business—Description of Power Plants—Planned Power Plants—Description of Our Planned Power Plants—Overview of Hubei Province”; and “Financial Information—Management’s Discussion and Analysis of Results of Operations—Factors Affecting Our Results of Operations and Financial Condition—Economic growth in China and in the provinces in which we operate”. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to

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statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

Because the Offer Price per Share of our Shares is higher than our net tangible assets per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.

The Offer Price per Share of our Shares is higher than the net tangible assets per Share issued to CPDL as part of the Reorganization. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the unaudited pro forma net tangible assets of HK\$0.50 per Share assuming an Offer Price of HK\$2.35 (being the mid-point of the stated offer price range of between HK\$2.10 and HK\$2.60) and assuming no exercise of the Over-allotment Option, and CPDL will receive an increase in the net tangible assets per Share for its Shares. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to our Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

CONSENT OF THE CSRC

According to PRC laws and regulations, the Global Offering and the listing of the Shares must be approved by the CSRC, the regulatory body responsible for the supervision of the PRC national securities market. CSRC has given its consent to the Global Offering and the making of the application to list the Shares on the Stock Exchange. In granting such consent, the CSRC accepts no responsibility for the financial soundness of our Company nor the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offering of initially 99,000,000 Hong Kong Offer Shares and the International Placing of initially 891,000,000 International Placing Shares, subject, in each case, to reallocation on the basis as described in the section entitled "Structure of the Global Offering" in this prospectus.

This prospectus is published solely in connection with the Hong Kong Public Offering. The listing of the Shares on the Stock Exchange is sponsored by Merrill Lynch. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. One of the conditions is that the Offer Price must be agreed among our Company, the Selling Shareholder and the Global Coordinator, on behalf of the Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Placing is fully underwritten by the International Underwriters.

The Offer Price is expected to be fixed by agreement among our Company, the Selling Shareholder and the Global Coordinator, on behalf of the Underwriters, on the Price Determination Date, which is expected to be on or around Friday, October 8, 2004, and in any event no later than Wednesday, October 13, 2004. If, for any reason, the Offer Price is not agreed between our Company, the Selling Shareholder and the Global Coordinator, on behalf of the Underwriters, the Global Offering will lapse. For further information about the determination of the Offer Price, please refer to the section entitled "Structure of the Global Offering—Determining the Offer Price" in this prospectus. For information about the Underwriters and the underwriting arrangements, see the section entitled "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF THE OFFER SHARES

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms, and on the terms and subject to the conditions set out herein and therein. We have not authorized anyone to provide any

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Global Coordinator, the Underwriters or any of their respective directors, affiliates or advisers, or any other person involved in this Global Offering.

No action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

Each person subscribing for or acquiring the Offer Shares will be required to confirm, or be deemed by his subscription for or acquisition of the Offer Shares to confirm that, he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States, or to, or for the account or benefit of, U.S. persons, except in the United States to QIBs in reliance on Rule 144A or outside the United States in reliance on Regulation S.

The Offer Shares are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of this Global Offering and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in this Global Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or pursuant to another exemption from, or in a transaction not subject to, such registration requirements. Terms used above have the meanings as defined in Regulation S and Rule 144A under the U.S. Securities Act.

Neither the U.S. Securities and Exchange Commission nor any state securities commission in the United States or any other U.S. regulatory authority has approved or disapproved of the Offer Shares or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offence in the United States.

Canada

The distribution of the Offer Shares in Canada is being made on a private placement basis. Accordingly, any resale of such Offer Shares must be made in accordance with an exemption from the registration and prospectus requirements of applicable securities laws, which vary depending on the province. The Company is not a reporting issuer in any province or territory of Canada. Purchasers of the Shares are advised to seek legal advice prior to any resale of the Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

United Kingdom

This prospectus has not been approved by an authorized person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold and, prior to the expiry of a period of six months from the latest date of the issue of the Offer Shares, the Offer Shares may not be offered or sold to any persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Shares except in circumstances in which section 21(1) of the FSMA does not apply to the Company.

Japan

It is expected that a public offering without a listing of the Offer Shares will be made in Japan. The Offer Shares may not be offered or sold directly or indirectly in Japan or to or for the account of any resident of Japan, except in accordance with the terms and conditions of a public offering without listing of the Offer Shares in Japan stated in the securities registration statement filed on September 21, 2004 with the Japanese authority under or pursuant to any exemption from the registration requirements of the Securities and Exchange Law of Japan and otherwise in compliance with applicable provisions of Japanese law. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Sections 274 and 275 of the Securities and Futures Act (Chapter 289 of Singapore) (the “Singapore Securities and Futures Act”). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Singapore Securities and Futures Act; (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Singapore Securities and Futures Act; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Securities and Futures Act.

PRC

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. This prospectus may not be circulated or distributed in the PRC and the Offer Shares are not being offered and may not be offered or sold directly or indirectly in

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

the PRC to, or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, the Offer Shares may only be offered or sold to natural or legal persons in Taiwan, Hong Kong or Macau or any country or region other than the PRC, whether by means of this prospectus or otherwise.

France

This prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Regulations no. 98-01 and 98-08 of the *Commission des opérations de bourse* (“COB”) and has therefore not been submitted to the COB for prior approval.

It is made available only to qualified investors and/or to a limited circle of investors (as defined in Article L.411-2 of the French *Code monétaire et financier* and in the Decree no. 98-880 dated October 1, 1998), on the condition that it shall not be passed on to any person nor reproduced (in whole or in part), that investors act for their own account in accordance with the terms set out by the said decree and undertake not to retransfer, directly or indirectly, the securities in France, other than in compliance with applicable laws and regulations (Articles L.411-1, L.412-1 and L.621-8 of the French *Code monétaire et financier*) and that, in the case of an offering to a limited circle of investors, comprising more than 100 investors, such investors have testified that they have personal family or personal business ties to a member of the governing body of the Company.

Denmark

This prospectus has not been filed with or approved by the Danish Securities Council or any other regulatory authority in the Kingdom of Denmark. The Offer Shares may not be offered or sold, directly or indirectly, in Denmark, except in compliance with the Danish Executive Order No. 166 of March 13, 2003 on the First Public Offer of Certain Securities issued under Chapter 12 of the Danish Act on Trading in Securities.

Germany

This prospectus is not a Securities Selling Prospectus within the meaning of the German Securities Prospectus Act of September 9, 1998 and has not been filed with and approved by the German Federal Supervisory Authority or any other competent German authority under the relevant laws, and the Offer Shares may not be offered or sold and copies of this prospectus or any document relating to the Offer Shares may not be distributed directly or indirectly in Germany except to persons falling within the scope of section 2 number (1) (persons who as part of their profession, occupation or business, purchase or sell securities for their own account or for the account of third parties), (2) (a restricted circle of persons) and (3) (employees by their employer or related group of companies) of the German Securities Sales Prospectus Act of 9 September 1998.

Italy

The Offer Shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the Offer Shares may not be distributed in Italy except to qualified investors (*operatori qualificati*), as defined by Articles 25 and 31(2) of *Commissione Nazionale*

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

per le Società e la Borsa (“CONSOB”) Regulation no. 11522 of 1 July 1998 as subsequently modified (“Regulation 11522”), except for individuals referred to in Article 31(2) of Regulation 11522 who exercise administrative, managerial or supervisory functions at a registered securities dealing firm (a *Società di Intermediazione Mobiliare*, or *SIM*), management companies (*società di gestione del risparmio*) authorized to manage individual portfolios on behalf of third parties and fiduciary companies authorized to manage individual portfolios pursuant to Article 60(4) of Legislative Decree no. 415 of 23 July 1996 and may not be reproduced or redistributed or passed on, directly or indirectly, to any other person or published in whole or in part. Any offer of the Offer Shares or distribution of copies of this prospectus in Italy must be made solely by entities which are duly authorized to conduct such activities in Italy and must be in full compliance with the provisions contained in Legislative Decree no. 58 of 24 February 1998, Legislative Decree no. 385 of 1 September 1993 and any other applicable laws and regulations and possible requirements or limitations which may be imposed by the Italian competent authorities.

Netherlands

The Offer Shares may not be offered, sold, transferred or delivered in or from within the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, and neither this prospectus nor any other document in respect of the Global Offering may be distributed or circulated in the Netherlands, other than to individuals or legal entities who or which trade or invest in securities in the conduct of a profession or business within the meaning of the article 2 of the Exemption Regulation issued pursuant to the Netherlands Securities Transactions Supervision Act 1995 (*Vrijstellingsregeling wet toezicht effectenverkeer 1995*) and its implementing regulations (which includes banks, brokers, securities institutions, insurance companies, pension funds, investment institutions, other institutional investors and other parties including treasury departments of commercial enterprises and finance companies of groups which are regularly active in the financial markets in a professional manner).

Norway

This prospectus has not been approved by or registered with the Oslo Stock Exchange under Chapter 5 of the Norwegian Securities Trading Act 1997, and the Offer Shares may not be offered or sold to any persons in Norway in any way that would constitute an offer to the public other than to persons who invest in securities as part of their professional activity and who are registered with the Oslo Stock Exchange in this capacity, or otherwise only in circumstances where an exemption from the duty to publish a prospectus under the Norwegian Securities Trading Act 1997 shall be applicable.

Spain

This prospectus has not been registered with the Comisión Nacional del Mercado de Valores, and no public offer for sale of the Offer Shares will be promoted in the Kingdom of Spain. The Offer Shares may not be offered or sold in the Kingdom of Spain, except in accordance with the requirements of the Spanish securities market law (Ley 24/1988, de 28 de Julio, del Mercado de Valores), as amended, and Royal Decree 291/1992, on Issues and Public Offerings for the Sale of Securities (Real Decreto 291/1992, de 27 de marzo, sobre Emisiones y Ofertas Públicas de Venta de Valores), as amended, and the decrees and regulations issued thereunder.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Sweden

This prospectus has not been registered or approved by the Swedish Financial Supervisory Authority, and the Offer Shares may not be offered or sold to persons in Sweden except to a “closed circle” of not more than 200 pre-selected, non-substitutable investors, under the Swedish Financial Instruments Trading Act (“*lag (1991: 980) om handel med finansiella instrument*”).

Switzerland

Each underwriter will be deemed to have acknowledged that (i) this prospectus does not constitute a prospectus within the meaning of Article 652a and Article 1156 of the Swiss Code of Obligations (Schweizerisches Obligationenrecht); and (ii) none of the Global Offering and the Offer Shares has been or will be approved by any Swiss regulatory authority.

Australia

This prospectus is not a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth) (the “Australian Corporations Act”), has not been lodged with the Australian Securities and Investments Commission and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. Accordingly, (i) the offer of Offer Shares under this prospectus is only made to persons to whom it is lawful to offer Offer Shares without disclosure under Chapter 6D of the Australian Corporation Act under one or more exemptions set out in section 708 of the Australian Corporations Act, (ii) this prospectus is made available in Australia only to those persons as set forth in clause (i) above and (iii) the offeree must be sent a notice stating in substance that by accepting this offer, the offeree represents that the offeree is such a person as set forth in clause (i) above and unless permitted under the Australian Corporations Act, agrees not to sell or offer for sale within Australia any Offer Share sold to the offeree within 12 months after its transfer to the offeree under this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for listing of and permission to deal in our Shares, including the Offer Shares, any additional Offer Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option and any Shares which may be issued pursuant to the exercise of the options that were conditionally granted under the Pre-IPO Share Option Scheme and that may be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on Friday, October 15, 2004.

Save as disclosed in this prospectus, no part of our share or loan capital is listed or dealt in on any other stock exchange. We are not seeking or proposing to seek a listing of, or permission to list, our share or loan capital on any other stock exchange.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day after any trading day. You should seek the advice of your stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in, the Shares (or exercising rights attaching to them) under the laws of the place of your operations, domicile, residence, citizenship or incorporation. We emphasize that none of the Global Coordinator, the Underwriters, the Selling Shareholder or our Company, or any of our or their respective directors, affiliates or advisers or any other person or party involved in the Global Offering accepts responsibility for your tax effects or liability resulting from your subscription for, purchase, holding or disposal of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

STAMP DUTY

All Offer Shares sold pursuant to applications made in the Hong Kong Public Offering are expected to be registered on our share register to be maintained in Hong Kong. Dealings in our Offer Shares will be subject to Hong Kong stamp duty. For further details about Hong Kong stamp duty, please refer to Appendix V to this prospectus.

The Selling Shareholder will be responsible for all Hong Kong stamp duties charged at an *ad valorem* rate of 0.2% of the Offer Price and payable in connection with the sale of the Offer Shares offered by it in the International Placing, including the additional Shares to be offered by it pursuant to any exercise of the Over-allotment Option.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator, as stabilizing manager, or any person acting for it, may over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the day on which dealing in Shares first commences on the Stock Exchange. Any such market purchases will be effected in compliance with all applicable laws and regulatory requirements. However there is no obligation on the Global Coordinator or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

absolute discretion of the Global Coordinator or any person acting for it and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the total number of Shares that may be issued (by the Company) and sold (by the Selling Shareholder) upon exercise of the Over-allotment Option, being 148,500,000 Shares in aggregate, which is 15% of the number of Offer Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilization) Rules includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for shares pursuant to the over-allotment option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares for the sole purpose of preventing or minimizing any reduction in the market price, (v) selling shares to liquidate a long position held as a result of those purchases and (vi) offering or attempting to do anything described in (ii), (iii) or (v).

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Global Coordinator, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Global Coordinator, or any person acting for it, will maintain the long position is at the discretion of the Global Coordinator and is uncertain. In the event that the Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the Shares for a period longer than the stabilizing period, which begins on the day on which dealing in the Shares first commences on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on or before Saturday, November 6, 2004. As a result, demand for the Shares, and its market price, may fall after the end of the stabilizing period.

The Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

Any stabilizing action taken by the Global Coordinator, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid by subscribers or purchasers for the Shares.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedure for the Hong Kong Offer Shares is set out in the section entitled “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering” in this prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi into Hong Kong dollars have been made at the rate of HK\$1.00 to RMB1.0607, the PBOC Rate prevailing on August 31, 2004.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Directors

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
LI Xiaolin	Flat C, 14th Floor No. 1 Tai Hang Road Tai Hang Hong Kong	Chinese
HU Jiandong	Flat E, 10th Floor, Tower 5 Pacific Palisades 1 Braemar Hill Road North Point Hong Kong	Chinese
<i>Non-Executive Directors</i>		
WANG Binghua	Room 901, Block 2 Guo Xin Jia Yuan No. 20 Shou Ti Nan Road Haidian District Beijing People's Republic of China	Chinese
GAO Guangfu	Room 1502, Block 13 Chun Shu Yuan Xuanwu District Beijing People's Republic of China	Chinese
<i>Independent Non-Executive Directors</i>		
KWONG Che Keung, Gordon	House 2, Palm Cove Villas 28 Ng Fai Tin Hang Hau Wing Lung Road Clearwater Bay Kowloon Hong Kong	British
LI Fang	17-207 Wan Ke City Garden Shunyi District Beijing People's Republic of China	American
TSUI Yiu Wa, Alec	11A, Branksome 3 Tregunter Path Mid-Levels Hong Kong	British

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Global Coordinator, Sole Bookrunner and Sponsor	Merrill Lynch Far East Limited 17th Floor, Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
Joint Lead Managers	Merrill Lynch Far East Limited 17th Floor, Asia Pacific Finance Tower 3 Garden Road Central Hong Kong China Merchants Securities (HK) Co., Limited 48th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Auditors and reporting accountants	PricewaterhouseCoopers 22nd Floor, Prince's Building 10 Chater Road Central Hong Kong
Legal advisers to the Company	<i>as to Hong Kong and U.S. law</i> Allen & Overy 9th Floor, Three Exchange Square 8 Connaught Place Central Hong Kong <i>as to PRC law</i> Haiwen & Partners Room 1711, Beijing Silver Tower No. 2 Dong San Huan North Road Chaoyang District Beijing 100027 People's Republic of China
Legal advisers to the Underwriters	<i>as to Hong Kong and U.S. law</i> Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>as to PRC law</i> Jingtian & Gongcheng 15th Floor, The Union Plaza 20 Chaoyangmenwai Street Beijing 100020 People's Republic of China
Legal advisers to the Selling Shareholder	<i>as to Hong Kong law</i> Fong & Ng <i>(in association with King & Wood, PRC Lawyers and Goodmans)</i> Suite 1101, 11th Floor, 9 Queen's Road Central Hong Kong
Independent property valuer	Sallmanns (Far East) Limited 22/F, Siu On Centre 188 Lockhart Road Hong Kong
Receiving banker	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Suite 5306, 53/F, Central Plaza 18 Harbour Road Wanchai Hong Kong
Head office and principal place of business	Suite 5306, 53/F, Central Plaza 18 Harbour Road Wanchai Hong Kong
Company secretary	TSE Hiu Tung, Sheldon (<i>Solicitor</i>)
Qualified accountant	IO Cheok Kei, Rudy CA, FCPA
Authorized representatives	HU Jiandong Flat E, 10th Floor, Tower 5 Pacific Palisades 1 Braemar Hill Road North Point Hong Kong TSE Hiu Tung, Sheldon Flat F, 25th Floor, Tower 8 The Belcher's 89 Pok Fu Lam Road Hong Kong
Audit committee	KWONG Che Keung, Gordon (<i>Chairman</i>) LI Fang TSUI Yiu Wa, Alec
Principal bankers	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong China Construction Bank 25 Jinrong Street Xicheng District Beijing 100032 People's Republic of China Industrial and Commercial Bank of China 55 Fuxingmennei Street Xicheng District Beijing 100032 People's Republic of China
Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong

INFORMATION ON THE PRC POWER INDUSTRY

The information in the section below has been derived from various government and publications or obtained from communications with various PRC government agencies unless otherwise indicated and has not been prepared or independently verified by us or the Underwriters or any of their respective affiliates or advisers. The information may not be consistent with other information compiled within or outside the PRC. We have taken reasonable care in the compilation and reproduction of the information.

OVERVIEW OF THE PRC ECONOMY

As a result of the economic reforms that began in 1978, China has experienced significant economic growth. Between 1978 and 2003, China's GDP grew at a CAGR of 9.4%, making China one of the fastest growing economies in the world. China's GDP in 2003 reached RMB11,669 billion and RMB5,877 billion for the six months ended June 30, 2004. According to the tenth five-year plan for national economy and social development covering 2001 to 2005 adopted by the PRC government, the PRC government expects to achieve an average 7% annual GDP growth in the years 2001 to 2005.

The rate of growth of the power industry has been generally comparable to the rate of economic growth in China since 1980. However, since 1999, the electricity output in China has been growing at a higher rate than China's GDP. The faster growth of the electricity output has largely been driven by the rapid growth of the electricity-consumption heavy industries and also by rising residential power demand as per capita income has increased.

<u>Year</u>	<u>GDP Growth Rate (%)</u>	<u>Electricity Output Growth Rate (%)</u>	<u>Electricity Production Elasticity</u>
1998	7.8	2.9	0.37
1999	7.1	6.3	0.89
2000	8.0	9.4	1.18
2001	7.5	8.6	1.15
2002	8.0	11.7	1.46
2003	9.1	15.5	1.70

Source: China Statistics Yearbook 2003 and the National Bureau of Statistics of China website.

THE PRC POWER INDUSTRY

Background and Restructuring of the PRC Power Industry

Beginning in January 1997, the PRC power industry underwent a restructuring pursuant to the PRC government policy to separate government functions from the enterprises. As a result of this restructuring, the State Power Corporation was established in January 1997 to assume from the Ministry of Electric Power the ownership of power generation assets and virtually all of the high voltage power transmission grids and local power distribution networks in the PRC previously owned by the Ministry of Electric Power. The State Power Corporation was responsible for the investment, development, construction, management, operation and ownership of power plants, the inter-connections of interprovincial and interregional power grids, and the transmission of power across regions.

Pursuant to resolutions passed by the Ninth National People's Congress in March 1998, the Ministry of Electric Power was dissolved in March 1998, and the SETC assumed the governmental and administrative functions formerly exercised by the Ministry of Electric Power. The Electric Power Bureau was established within the SETC and given the

INFORMATION ON THE PRC POWER INDUSTRY

responsibility of promoting reform policies and regulations, formulating development strategies, specifying technical requirements and industry practice and supervising the operation of the power industry.

As a result of further restructuring of the PRC power industry, in December 2002, the State Power Corporation was reorganized into two power grid companies and five large independent power generation groups. The two power grid companies are the State Grid Corporation of China and China Southern Power Grid Company. China Southern Power Grid Company owns and manages interprovincial high voltage power transmission grids and local power distribution networks in Guangdong, Guizhou, Yunnan and Hainan provinces, and Guangxi Zhuang Autonomous Region. The State Grid Corporation of China owns and manages five regional power grid companies, namely, Northeast China, North China, East China, Central China and Northwest China power grids, which in turn own and operate interprovincial high voltage power transmission grids and local power distribution networks. The State Grid Corporation of China also manages the Tibet Power Grid.

As of 2002, the five large independent power generation groups owned and managed approximately 45% and the State Grid Corporation of China and China Southern Power Grid Company owned and managed approximately 3.2% of the total power generation capacity available in the PRC. The remaining 51.8% was primarily owned by provincial, local and other power companies. The table below sets out the approximate generation capacity in China controlled by the five large independent power generation groups:

<u>Power Generation Groups</u>	<u>Net Installed Capacity⁽¹⁾</u>	<u>Total Installed Capacity</u>
	(GW)	(GW)
CPI Group	22.2	30.2
Datang Group	21.2	32.5
Huadian Group	21.2	31.3
Guodian Group	20.5	30.8
Huaneng Group	19.4	38.0
Others	—	193.8
Total	—	356.6

Source: China Electric Power Yearbook 2003.

⁽¹⁾ Net installed capacity refers to installed capacity attributable to each power generation group's equity interests.

Pursuant to the on-going reform of the electric power industry, a new industry regulator, the SERC, was established under the State Council in December 2002. The main responsibilities of the SERC include ensuring fair competition in the electric power industry, monitoring the quality and standard of power plant production, administering electric power business permits and handling electric power market disputes.

Prior to March 2003, the former State Development and Planning Commission had the primary authority to review and approve all project proposals and feasibility studies for major power projects and their on-grid tariffs. Pursuant to the resolutions passed by the Tenth National People's Congress in March 2003, the former State Development and Planning Commission and the former Electric Power Bureau under the former SETC were merged into the newly-formed NDRC. Together with the SERC, the NDRC has assumed all of the authorities from the

INFORMATION ON THE PRC POWER INDUSTRY

former State Development and Planning Commission and the Electric Power Bureau under the former SETC regarding their respective functions in regulating the power industry.

Supply and Demand for Power in the PRC

In 2001, 2002, 2003 and the six months ended June 30, 2004, total annual electricity generation in the PRC amounted to 1,483.9 TWh, 1,654.2 TWh, 1,908.0 TWh and 990.9 TWh, respectively. The table below sets forth information regarding the installed capacity, annual percentage increase in installed capacity, electricity generation, annual percentage increase in electricity generation and utilization hours in China for the years 1998 through 2003.

Year	Installed Capacity	Increase in Installed Capacity	Electricity Generation	Increase in Electricity Generation	Utilization Hours ⁽¹⁾
	(MW)	(%)	(TWh)	(%)	(hours)
1998	277,289	9.1	1,157.7	2.1	4,175.1
1999	298,768	7.7	1,233.1	6.5	4,127.4
2000	319,321	6.9	1,368.4	11.0	4,285.6
2001	338,612	6.0	1,483.9	8.4	4,382.2
2002	356,570	5.3	1,654.2	11.5	4,639.2
2003	391,000	9.7	1,908.0	15.3	4,879.8

Source: *China Electric Power Yearbook 2003; Analysis and Research on China's Electricity Market 2004 Spring Report.*

⁽¹⁾ Electricity generation divided by installed capacity.

At the end of 2003, China had an aggregate installed generation capacity of approximately 391 GW, the second largest in the world. However, the installed capacity of China's power plants is still insufficient to meet current and expected future demand for power. Since 2000, China's total electricity generation has been growing at a faster rate than its installed capacity, resulting in increasing utilization hours. In addition, the following table highlights that, while the economic growth rate in the PRC is among the highest of the countries and regions presented, the PRC has the lowest per capita installed capacity and the lowest levels of electricity consumption among the countries and regions presented.

	2002 per Capita Installed Capacity ⁽¹⁾	2002 per Capita Consumption ⁽¹⁾	2002 per Capita GDP ⁽²⁾	Real GDP Growth Rate ⁽²⁾			
	(Watts)	(kWh)	(US\$)	1999	2000	2001	2002
				(%)			
United States	2,942	12,692	36,006	4.1	3.8	0.3	2.4
Japan	1,871	7,636	31,407	0.1	2.8	0.4	0.3
Singapore	1,849	7,188	20,886	6.4	9.4	(2.4)	2.3
Hong Kong	1,709	5,599	23,800	3.4	10.2	0.5	2.3
South Korea	1,144	5,614	10,006	10.9	9.3	3.1	6.4
China	264	1,138	989	7.1	8.0	7.5	8.0

Sources:

⁽¹⁾ *United States Department of Energy, Energy Information Administration.*

⁽²⁾ *World Bank, China Statistical Yearbook 2003.*

According to the revised tenth five-year plan, China aims to bring its total electricity generation capacity to 430 GW by 2005. The type and geographic distribution of the new power plants will in large part be planned in accordance with the geographic distribution of natural resource reserves in China and the economic development policies of the PRC government.

Electricity Shortage in the PRC

Electricity demand and consumption in the PRC has been increasing significantly over the last several years owing to the rapid economic growth, which had led to higher standards of living and increased levels of industrial activity. The peak periods for power use in China are morning and evening when industrial, commercial and residential use is the highest, with a dip at dawn and mid-day. While power plants operate at less than full capacity during off-peak periods, virtually all available power plants operate at full capacity during peak periods, subject to grid-wide safety reserve margins. Also, in recent years, the demand for electricity has become higher in the winter and summer seasons as electric heaters and air conditioners have replaced the traditional means of heating in the winter and cooling in the summer in many parts of China.

This increasing demand for and consumption of electricity has brought about a severe power shortage in the PRC. In 2003, many provinces throughout China experienced power shortages because the rate of increase in demand for and consumption of electricity had far exceeded the corresponding rate of increase in power generation and supply. According to the *China Electric Power News*, 21 out of 31 provinces, autonomous regions and municipalities in China used administrative measures to restrict electric power consumption due to insufficient power supply in 2003. Many of these provinces also experienced blackouts as a result of the serious power shortage. In the first half of 2004, due to continued increase in power demand as a result of strong GDP growth and high temperatures in the summer season, the power shortage in China persisted, and 24 out of 31 provinces, autonomous regions and municipalities took administrative measures to restrict electric power consumption.

On-grid Tariff-setting Mechanisms

Different on-grid tariffs are applicable to planned output, excess output and output subject to competitive bidding. In general, the on-grid tariffs for planned output and excess output are subject to a review and approval process involving the relevant provincial price bureaus and the NDRC. Each year, the relevant provincial government agency will forecast the electricity demand in the region based on projected economic growth, electricity consumption and power supply to determine the total electricity output, including estimating the total amount of planned output and excess output. Pursuant to such estimates, each power plant and the power purchaser reach an agreement on the amount of the current year's planned output and excess output. Additional output is either subject to the competitive bidding of on-grid tariffs or tariffs for other output agreed upon between each power plant and the provincial power grid.

The Electric Power Law, which came into effect in 1996, provides the general principles for determining tariffs which are intended to provide reasonable compensation for costs as well as a reasonable return, to share expenses fairly and to promote the construction of power projects. Before April 2001, power plants with foreign investment (including our power plants) were generally allowed to charge and collect on-grid tariffs for planned output which were designed to enable the power producers to recover all operating and debt servicing costs and to earn a fixed rate of return on the net fixed assets or a reasonable profit.

In April 2001, the former State Development and Planning Commission, a predecessor to the NDRC, issued a notice containing guidelines for tariff reforms. Pursuant to the notice, a new on-grid tariff-setting mechanism, based on the operating term of power plants as well as the

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average costs of comparable power plants that were constructed during the same period within the same provincial power grid, was gradually implemented. The new on-grid tariff-setting mechanism was intended to replace the old mechanism for setting on-grid tariffs for planned output. Based on our experience, the determination of average costs under the new mechanism usually takes into consideration various factors such as:

- construction costs, which vary according to the capacities of the individual power plants;
- operating and administrative expenses, such as labor and fuel costs;
- maintenance and repair costs of power plants; and
- interest expenses on outstanding debts.

In addition, at the end of 1998, the PRC government started an experiment to effect power sales through competitive bidding in several provinces. As the PRC power industry continues to undergo reform, we believe that the portion of output subject to competitive bidding on-grid tariffs will increase in the long-term. Accordingly, we believe there is opportunity to capture a significant share of the increasingly market-oriented, competitive and developed PRC power market. However, in the past, the on-grid tariffs for power sold through competitive bidding were generally lower than the pre-approved on-grid tariffs for planned output. According to the tariffs reform plan approved by the State Council, in the long-term on-grid tariffs will be determined by market competition.

Transmission and Dispatch

All electricity produced in China is dispatched by the power grids, except for electricity generated by units not connected to a grid. Negotiations are undertaken with the relevant PRC government agencies annually to determine the volume of output to be dispatched. The electric power dispatch to each grid is administered by dispatch centers owned and operated by the power grids.

The main system for the dispatch, transmission and distribution of power in China consists of the five existing interprovincial power grids owned by the State Grid Corporation of China and one newly-formed interprovincial power grid owned by the China Southern Power Grid Company. The table below shows the aggregate installed capacity of the power plants connected to the power grids as at September 30, 2003 and the total electricity generated on those grids during the nine months ended September 30, 2003.

<u>Power Grid</u>	<u>Installed Capacity as at September 30, 2003</u>	<u>Electricity Generation during the nine months ended September 30, 2003</u>
	(MW)	(TWh)
East China Power Grid	78,123.6	285.73
North China Power Grid	81,046.7	268.98
Central China Power Grid	76,539.8	188.18
Southern Grid	66,832.5	172.50
Northeast Power Grid	40,579.7	127.84
Northwest Power Grid	28,545.0	74.47

Source: Analysis and Research on China's Electricity Market 2003 Autumn Report.

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While China's energy resources, such as coal and hydroelectric resources, are principally located in the northern, central and south-western inland provinces, its regions with high electricity consumption are located in the eastern and southern coastal areas. Because of plans to develop large power plants in areas with significant energy sources, the expansion of China's electricity transmission capabilities is of major importance. The PRC government plans to expand the interconnected power grids to permit the transmission of electricity generated at mine-mouth power plants and hydroelectric power plants over long distances.

In order to achieve a more efficient and rational dispatch of electric power, the State Council issued, with effect from November 1, 1993, the Regulations on the Administration of Electric Power Dispatch to Networks and Grids (the "Dispatch Regulations"). Under the Dispatch Regulations, dispatch centers were established at each of five levels: the national dispatch center, the dispatch centers of the interprovincial power grid, the dispatch centers of the provincial power grid, the dispatch centers of the power grid of municipalities under provinces and the dispatch centers of the county power grid. Dispatch centers are responsible for determining production levels for the various power plants connected to the grid. To effect this determination, each power plant receives on a daily basis from its local dispatch center an expected output schedule for the following day, based on expected demand, the weather and other factors.

The dispatch centers must dispatch electric power in compliance with the power consumption schedule. The power consumption schedule is generally determined according to, among other factors:

- power supply agreements entered into between a power grid and large or primary electricity customers, where such agreements take into account the electric power generation and consumption plans formulated annually by the PRC government;
- dispatch agreements entered into between a dispatch center and each power plant subject to its dispatch;
- interconnection agreements between power grids; and
- the actual conditions of the grid, including equipment capabilities and safety reserve margins.

West to East Power Transmission Program

China's increasing power demand has put immense pressure on power supply in certain areas, especially in the relatively developed coastal regions like Shanghai and Guangdong. To cope with the problem of power supply, China launched a west to east power transmission program in the late 1990s, which aims to transmit primarily hydro-electricity from the resource rich western regions to the economically developed eastern regions of the PRC. This program is one of China's major strategies in energy development and an important step for developing the western regions.

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Electricity Sources

The table below sets forth, for each of the years 2001, 2002, 2003 and the six months ended June 30, 2004, the amount of electricity generated in the PRC by the type of power plant in absolute terms and as a percentage of total gross production.

	2001		2002		2003		Six months ended June 30, 2004	
	TWh	%	TWh	%	TWh	%	TWh	%
Thermal ⁽¹⁾	1,204.5	81.2	1,352.2	81.7	1,580.0	82.8	836.1	84.4
Hydroelectric power ⁽²⁾	261.1	17.6	274.6	16.6	283.0	14.8	127.8	12.9
Nuclear and others ⁽³⁾	18.3	1.2	27.4	1.7	45.0	2.4	27.0	2.7
Total gross production	1,483.9	100.0	1,654.2	100.0	1,908.0	100.0	990.9	100.0

Sources: China Electricity Yearbook 2002 and 2003; Analysis and Research on China's Electricity Market 2004 Spring Report; website of State Power Information Network

- (1) Estimated total electricity generation from all thermal power plants.
- (2) Includes pumped storage facilities which pump water into reservoirs during off-peak periods using electricity from the grid. The water is released to generate hydroelectric power during peak demand periods.
- (3) Nuclear power plants include Daya Bay Nuclear Power Plant and Qinshan Phase I Nuclear Power Plant.

Coal Supply

China is the world's largest producer of coal with an output of approximately 1,667 million tons in 2003 according to PRC government statistics. Because of China's extensive domestic coal resources and its desire to minimize dependence on foreign sources of energy supplies, we expect that coal will remain the main fuel source for electricity generation in China for the foreseeable future.

A portion of the coal used in the generation of electricity is allocated to power plants by the PRC government in accordance with the State Plan. In recent years, the PRC has experimented with a variety of methods of setting coal prices. In 1996, the government began to allow coal prices to fluctuate within a range around a reference price for coal allocated under the State Plan to be used in electricity generation, and set maximum allowable prices in various coal-producing areas for coal used in electricity generation. In 2002, the PRC government announced policies aimed at eliminating guideline prices for coal used in electricity generation. We expect that the price of coal used in electricity generation will become more subject to market forces in the future. However, the PRC government may still from time to time administer measures which will affect coal prices should market conditions for coal supply require. In August 2004, NDRC issued a notice on temporary interventional measures to be imposed on thermal coal prices for certain regions, including Henan, Anhui and Shanxi provinces, that restricted negotiations of coal prices by power enterprises and coal suppliers to within an 8% range around the actual settlement prices of coal as of the end of May 2004. Please see the section entitled "Financial Information—Management's Discussion and Analysis of Results of Operations—Factors Affecting Our Results of Operations and Financial Condition" for a further discussion on the NDRC notice.

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Most of the coal used in China's power industry must be transported by railroads from inland coal mines to power plants located in inland provinces or to the coast for forwarding to the populous and industrial centers concentrated in China's coastal regions. China's railway transportation capacity is generally insufficient to satisfy its increasing industrial and commercial transportation needs brought about by the fast growing economy. As a result, railway transportation is also allocated by the PRC government.

The NDRC sponsors and coordinates annual sales conferences to make allocations for coal purchases which are attended by representatives of coal purchasers and sellers, the railway authorities and the shipping companies. At these conferences, coal-fired power plants obtain allocations for coal on a plant-by-plant basis. Each power plant then signs supply contracts with the coal producers and with the railway and shipping companies for the amount of coal and transportation allocated.

Environmental Regulation

All power plants in China are subject to the PRC Environmental Protection Law, the regulations of the State Council issued thereunder, the PRC Law on the Prevention and Treatment of Water Pollution, the PRC Law on the Prevention and Treatment of Air Pollution, the Emission Standards of Air Pollutants for Thermal Power Plants as revised with effect from January 1, 2004 (the "New Emission Standards") and the PRC Law on Ocean Environment Protection (collectively the "National Environmental Laws"), and the environmental rules promulgated by the local governments in whose jurisdictions our various power plants are located (the "Local Environmental Rules"). According to the National Environmental Laws, the State Environmental Protection Administration sets national pollutants emission standards and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards.

The relevant laws and regulations generally impose discharge fees for polluting substances. These laws and regulations also impose fines for violations of laws, regulations or decrees and provide for possible closure by the central or local government of any power plant which fails to comply with orders requiring it to cease or rectify the activities causing environmental damage.

Each power plant must be tested and approved by local environmental agencies before commissioning, and is subject to continuous government monitoring after commissioning.

The Administration Regulation on Levy and Use of Discharge Fees promulgated by the State Council together with two implementing rules (collectively, the "New Discharge Fees Regulations") came into effect on July 1, 2003. According to the New Discharge Fees Regulations, the discharge fees payable by power plants for the emission of sulphur dioxide will increase significantly during the three-year period beginning July 1, 2003, and starting from July 1, 2005, the discharge fees for emission of sulphur dioxide will be comparable to the general discharge fees for the emission of air pollutants. In addition, no discharge fees were payable for the emission of nitrous oxide before July 1, 2004, but starting from July 1, 2004, the discharge fees for the emission of nitrous oxide became comparable to the general discharge fees for emission of air pollutants. The New Discharge Fees Regulations also provide that the amount of sulphur dioxide discharged by power plants with installed capacities of over

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300 MW shall be evaluated and determined by the environmental protection administrative authorities at the respective levels of the provinces, autonomous regions and municipalities directly under the PRC government. Power plants with desulphurization equipment are expected to pay substantially less discharge fees.

Pursuant to the New Emission Standards, starting from January 1, 2005, for thermal power plants completed and in operation before December 31, 1996, the average concentration of sulphur dioxide discharged by all the thermal boilers of a power plant shall not exceed 2100mg per cubic meter, and for thermal power plants completed and in operation during the period from January 1, 1997 to December 31, 2004, the concentration of sulphur dioxide discharged by each thermal boiler shall not exceed 2100mg per cubic meter.

Approval Process of New Power Projects

Prior to March 2003, project proposals and feasibility studies for major new power plants undertaken by foreign investment enterprises were required to be submitted to the former State Development and Planning Commission and the State Council for approval. In March 2003, the newly-formed NDRC assumed all of the authority from the former State Development and Planning Commission over the review and approval of major new power projects.

Prior to March 2003, the establishment of enterprises with foreign investment to undertake power projects was also subject to governmental approvals from the former Ministry of Foreign Trade and Economic Cooperation or its designated authorities. Since March 2003, approval from the newly-formed Ministry of Commerce or its designated authorities has been required.

Major new power plants were generally required to obtain prior approval from the State Development and Planning Commission prior to November 2002 before commencing construction. On November 1, 2002, the State Council abolished the requirement for a construction permit for energy projects which are not State-invested, significant in size or do not fall within a category restricted by the State.

On July 19, 2004, the State Council issued its decision entitled "Reform of the Investment System" which changes the approval process for investments in the PRC. Depending on the types of investments, investments are subject to one of three types of procedures: a full approval procedure (審批制), a verification procedure (核准制), and a filing for the record procedure (備案制).

According to the State Council decision, coal-fired power plant projects without PRC government funding are subject to the verification procedure which involves the review and verification by the investment regulatory authority of the State Council and, if the project is classified as important, additional review and verification by the State Council. Verification review by the NDRC and the Ministry of Commerce or local government will also be necessary if foreign investment is involved. Applicants are only required to submit project application reports instead of the project proposals, feasibility studies and application reports for commencing construction as required previously. The types of specified investments that qualify for the verification procedure are subject to change by the State Council.

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The SERC currently plans to implement a market access system in the power industry. If the market access system is implemented, our power plants may be required to obtain power generation permits and to register with the SERC or its designated authorities.

Rules and Regulations Directly Applicable to Our Operations in the PRC

Operation

The main PRC laws and regulations applicable to our power plants' operations include the Electric Power Law of the People's Republic of China (中華人民共和國電力法), the Regulations on the Administration of Electric Power Dispatched to Networks and Grids (電網調度管理條例) and its implementation rules, and the Notice on Rectifying and Standardizing Some Relevant Issues Concerning Tariff Regulation (關於規範電價管理有關問題的通知).

Approvals

The main PRC laws and regulations applicable to the approvals of power projects with foreign investment include Notice on Strengthening the Approval of Major Projects of Enterprises with Foreign Investment (關於加強外資企業重大項目審批工作的通知), the Notice on the Extension of the Limits of Power Vested with the Inland Provinces, Autonomous Regions, Municipalities Separately Listed in the State Plan and the Departments Concerned under the State Council in Examining and Approving Foreign Investment Absorption (關於擴大內地省、自治區、計劃單列市和國務院有關部門等單位吸收外商直接投資項目審批權限的通知), the Advices on Further Encouraging Current Foreign Investment (關於當前進一步鼓勵外商投資的意見), the Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向規定), the Industry Guiding Catalogue of Foreign Investment (外商投資產業指導目錄) and the Reform of the Investment System of the State Council (國務院關於投資體制改革的決定).

Sino-foreign joint ventures and wholly foreign owned enterprises

The main PRC laws and regulations applicable to sino-foreign equity joint ventures include the Law of the People's Republic of China on Sino-foreign Joint Ventures (中華人民共和國中外合資經營企業法) and its implementation rules. The main PRC laws and regulations applicable to wholly foreign owned enterprises include the Law of the People's Republic of China on Enterprises with Foreign Investment (中華人民共和國外資企業法) and its implementation rules. The enterprise with foreign investment must obtain the approval of the Ministry of Commerce or its designated authority for its establishment and also needs to register with the relevant PRC industrial and commercial administrative departments for its establishment in accordance with the Regulations of the People's Republic of China on Company Registration (中華人民共和國公司登記管理條例).

Taxation

The main PRC taxation laws and regulations applicable to enterprises with foreign investment engaged in power generation include the Income Tax Law of the People's Republic of China of Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and its implementation rules, the State Council's Circular on Expanding Application Scope of Income Tax Preferential Treatment on

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Enterprises with Foreign Investment Engaged in Energy or Traffic Infrastructure Projects (國務院關於擴大外商投資企業從事能源交通基礎設施項目稅收優惠規定適用範圍的通知), and the Provisional Regulation of the People's Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例) and its implementation rules.

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HISTORY AND DEVELOPMENT

Our Company was incorporated as a limited liability company in Hong Kong on March 24, 2004. We were formed to serve as the flagship company of CPI Group and to develop, construct, own, manage and operate power plants in the PRC. We are a wholly-owned subsidiary of CPI Holding, which was incorporated in 1994 and is itself a wholly-owned subsidiary of the CPI Group. CPI Group was established as a wholly-owned enterprise by the State Council in 2003 as part of the restructuring of the power industry in the PRC. CPI Group develops, invests in, operates and controls power generation assets, and conducts sale of power. CPI Group is under the supervision of the SASAC, which acts as a nominee shareholder of the State-owned shares and supervises the management of State-owned assets on behalf of the PRC government.

Prior to the restructuring of the PRC power industry in 2002, the State Power Corporation was designated as the principal investor, operator and manager of State-owned electric power assets in China on behalf of the State Council. The State Power Corporation was established by the State Council on January 16, 1997. Its responsibilities included managing and monitoring its subsidiaries, raising funds to finance and invest in power projects, operating large power plants, planning, constructing, dispatching and managing the national power network, and ensuring safe, economic and high-quality operations in all PRC power networks.

CPI Holding was originally established as a wholly-owned company of the Ministry of Electric Power. Following the restructuring of the PRC power industry in January 1997, it became a wholly-owned subsidiary of the State Power Corporation. CPI Holding acted as the State Power Corporation's only financing vehicle incorporated overseas and played a key role in the State Power Corporation's overall objectives to adopt international practices and tap the international financial markets. In 1999, the State Power Corporation, acting through CPI Holding and various other subsidiaries, participated in setting up the following three companies to control key power generation assets in Henan, Anhui and Jiangsu provinces:

- Yaomeng Company, in which CPI Holding and the State Power Corporation, through the Henan Provincial Power Company, held 60% and 40% equity interests respectively;
- Pingwei Company, in which CPI Holding and the State Power Corporation, through the Anhui Provincial Power Company, held 60% and 40% equity interests respectively; and
- Changshu Company, in which CPI Holding and the State Power Corporation, through the Jiangsu Provincial Power Company, held 30% and 20% equity interests respectively.

In 2002, the PRC power industry was restructured as part of PRC government efforts to break up state monopolies, separate regulators from the industries that they oversee, and establish regulatory agencies with clear mandates to guarantee the sustainable development of utilities and fair competition. As part of this restructuring, the State Power Corporation's power generation assets were divided among five national power generation groups, one of which is CPI Group. Each national power generation group has no more than 40 GW of installed capacity.

Pursuant to the restructuring of the PRC power industry, CPI Group's assets span 17 provinces, municipalities and autonomous regions. CPI Group controls power generation assets with a total installed capacity of approximately 30 GW, of which coal-fired generation units accounted for 22.2 GW or 69.3%, hydro-electric generation units accounted for 7.9 GW or 26.3%, and nuclear generation units accounted for 1.4 GW or 4.5% of total installed capacity as of December 2003.

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Pursuant to the PRC power industry restructuring in 2002, the State Power Corporation transferred its 100% equity interest in CPI Holding to CPI Group, transforming CPI Holding into a wholly-owned subsidiary of CPI Group. The State Power Corporation also injected the following equity interests into CPI Group:

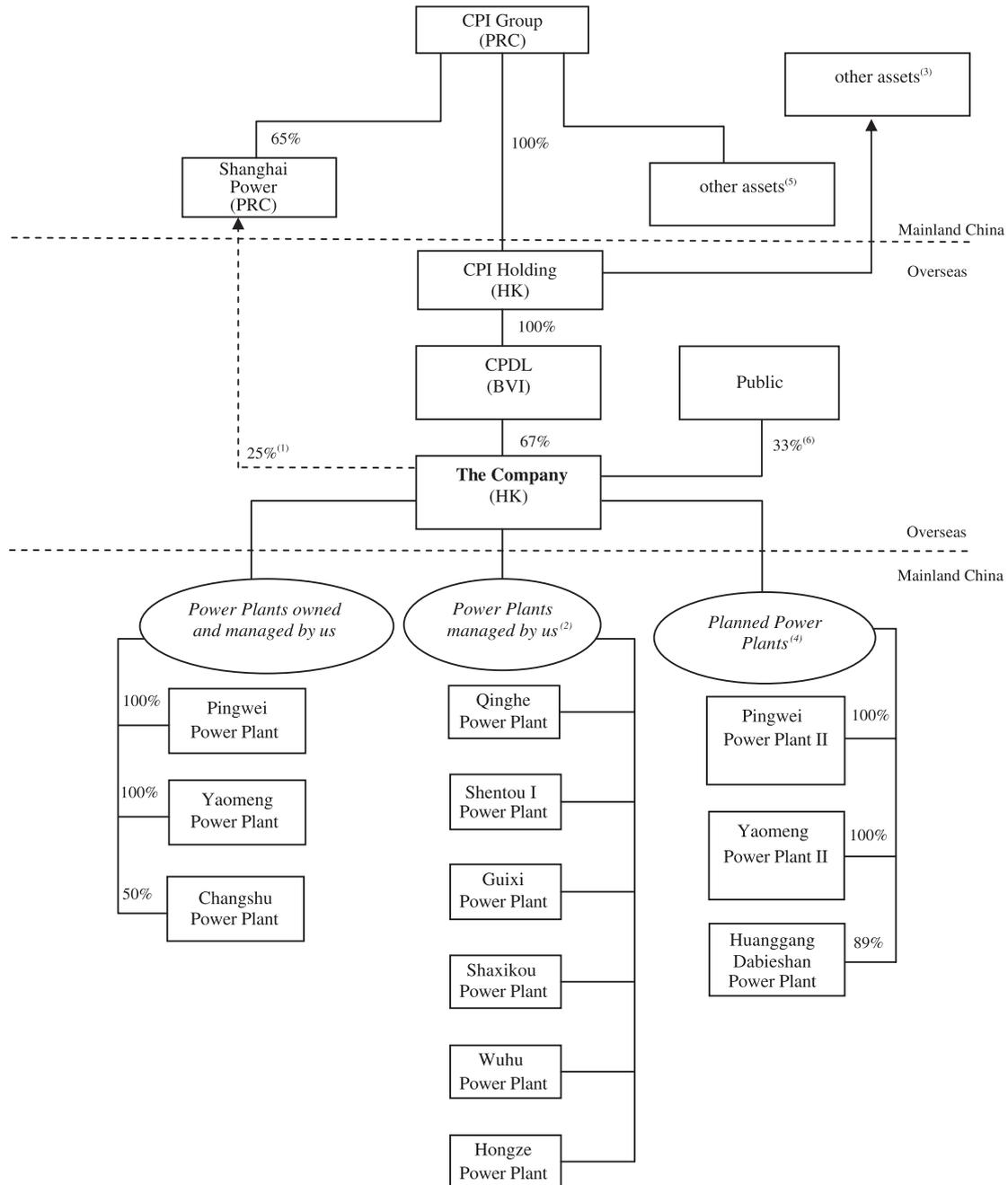
- a 40% equity interest in Pingwei Company;
- a 40% equity interest in Yaomeng Company; and
- a 20% equity interest in Changshu Company.

On August 30, 2004, these equity interests were subsequently transferred by CPI Group to CPI Holding, after which CPI Holding owned a 100% equity interest in each of Pingwei Company and Yaomeng Company, and a 50% equity interest in Changshu Company. As part of the Reorganization and on September 1, 2004, these equity interests were transferred to our Company. In consideration of these transfers of equity interests, our Company allotted 2,099,999,999 Shares to CPDL on September 1, 2004.

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REORGANIZATION

The following chart sets forth our corporate structure after the Reorganization and the completion of the Global Offering:



⁽¹⁾ We have been granted a call option by CPI Group to acquire up to a 25% equity interest in Shanghai Power. Please refer to the sections entitled “Business—Description of Power Plants—Power Company under Call Option” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Connected Transactions Which Are Not Continuing Connected Transactions—Shanghai Power Option Deed” in this prospectus for a detailed description of Shanghai Power and the call option.

⁽²⁾ We do not own any shareholding interest in any of these power plants managed by us. These power plants are managed by us pursuant to the Management Agreement with CPI Group and CPI Holding. Please refer to the sections entitled “Business—Description of Power Plants—Power Plants under Management” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Continuing Connected Transactions Exempt from Independent Shareholders’ Approval Requirements—Management Agreement” for a discussion of the material terms of the Management Agreement.

⁽³⁾ The other assets held by CPI Holding are located in the PRC and Macau.

⁽⁴⁾ Each of Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant, upon completion of construction, will engage in the business of electric power generation.

⁽⁵⁾ The other assets held by CPI Group are located in the PRC.

⁽⁶⁾ Includes the Offer Shares to be sold to the Strategic Investor and the Corporate Investor and assumes that the Over-allotment Option is not exercised.

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We underwent the Reorganization in preparation for the listing on the Stock Exchange pursuant to which:

- (1) CPDL was incorporated in the British Virgin Islands on March 11, 2004 by CPI Holding as its wholly-owned subsidiary.
- (2) We were incorporated in Hong Kong on March 24, 2004 by CPDL as its wholly-owned subsidiary.
- (3) On August 30, 2004, CPI Group transferred its 40% equity interest in each of Pingwei Company and Yaomeng Company and its 20% equity interest in Changshu Company to CPI Holding.
- (4) On August 18, 19 and 20, 2004, CPI Holding transferred its 100% equity interest in Yaomeng II Company, its 89% equity interest in Huanggang Dabieshan Company and its 100% equity interest in Pingwei II Company to us, respectively. On September 1, 2004, CPI Holding transferred its 100% equity interest in each of Pingwei Company and Yaomeng Company and its 50% equity interest in Changshu Company to us.
- (5) In consideration of the transfers of equity interests mentioned in (4), we allotted and issued a total of 2,099,999,999 Shares to CPDL on September 1, 2004.
- (6) We agreed to distribute the Special Dividend to CPI Holding.

As a result of the Reorganization, our current corporate structure was formed. We own a 100% equity interest in each of Pingwei Company and Yaomeng Company, a 50% equity interest in Changshu Company, a 100% equity interest in each of Pingwei II Company and Yaomeng II Company and an 89% equity interest in Huanggang Dabieshan Company.

As part of the Reorganization, the following additional transactions took place:

- (7) CPI Group granted to us a call option to acquire up to a 25% equity interest in Shanghai Power. Please refer to the sections entitled “Business—Description of Power Plants—Power Company under Call Option” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Shanghai Power Option Deed” in this prospectus for a detailed description of Shanghai Power and the call option.
- (8) We have entered into a Management Agreement effective July 1, 2004 with CPI Group and CPI Holding to manage six power plants on their behalves, namely, Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant. Please refer to the sections entitled “Business—Description of Power Plants—Power Plants under Management” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Management Agreement” in this prospectus for a detailed description of the Management Agreement and these power plants under management.
- (9) CPI Group and CPI Holding have granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group’s remaining shares in Shanghai Power which are not the subject of our call option). For details relating to these preferential rights, please refer to the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions” in the prospectus.

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COMPANY OVERVIEW

We are the flagship company of CPI Group, one of the leading independent power producers in China. Our principal business is to develop, construct, own, manage and operate large power plants in China. We believe our significant experience and capability in developing, constructing, managing and operating power plants will enable us to take full advantage of the opportunities presented by China's power market. We are ultimately controlled by CPI Group, which is one of the five national power generating groups in China created pursuant to the restructuring of the PRC power industry in 2002. CPI Group has power plants with a total installed capacity of approximately 30 GW spanning 17 provinces, municipalities and autonomous regions. As CPI Group's flagship company, we are the only company within CPI Group with the mandate to develop, construct, manage and operate power plants nationwide within the PRC. Among China's five national power generating groups, we will be the only listed vehicle incorporated outside mainland China immediately following the completion of the Global Offering. Accordingly, compared to companies incorporated in the PRC, we enjoy a higher level of flexibility in tapping international capital markets and adopting well structured incentive plans to better align the interests of management with those of our shareholders in order to maximize shareholder value.

We have a 100% ownership interest in two of our three high-capacity coal-fired power plants under commercial operation, namely, Pingwei Power Plant and Yaomeng Power Plant, and we are the 50% owner and single largest shareholder in our remaining power plant under commercial operation, namely, Changshu Power Plant. These three power plants have a total installed capacity of 3,610 MW. The installed capacity attributable to our ownership interests in the three power plants under commercial operation is 3,010 MW. We operate all of our power plants under commercial operation and will also operate all of our planned power plants in the future. Our power plants under commercial operation had an average equivalent availability factor of approximately 90% in 2003.

Our power plants under commercial operation are advantageously located in certain more affluent regions of China which have high GDP growth rates. Two of our power plants under commercial operation are mine-mouth power plants while our remaining power plant under commercial operation has a dedicated port facility on the Yangtze River. The strategic locations of our power plants facilitate the transport of coal to us, helping us to substantially reduce the transportation component of our coal cost and to ensure a more timely and reliable coal supply to our power plants. Please refer to the subsection entitled “—Description of Power Plants—Power Plants under Commercial Operation” for a detailed description of these power plants under commercial operation.

Given our management expertise in operating large power plants and our status as the flagship company of CPI Group, since July 1, 2004 we have been entrusted to manage additional power generation assets by CPI Group and CPI Holding. We have entered into the Management Agreement with CPI Group and CPI Holding to manage six power plants on their behalves, namely, Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant, which have a total installed capacity of 3,465 MW. Please refer to the subsection entitled “—Description of Power Plants—Power Plants under Management” for a detailed description of these power plants under our management. We believe that by managing these additional power plants, we will gain first-hand knowledge about the local power markets where these power plants operate and new development opportunities in these markets, evaluate these power plants as potential investment targets, and leverage our experience and expertise in managing power plants to improve the operational and financial performance of these power plants before making our investment decisions.

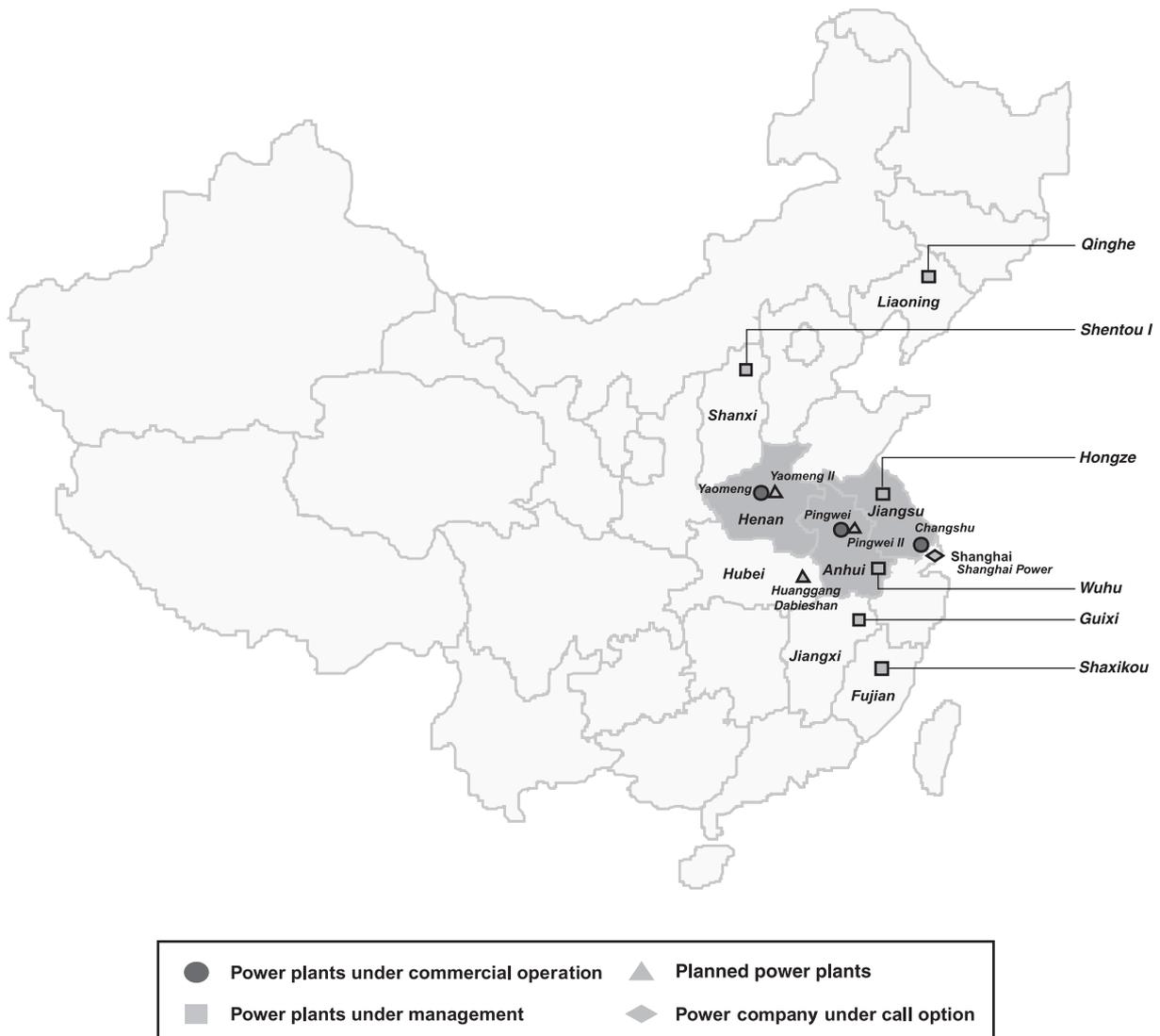
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To reinforce our position as CPI Group's flagship company, CPI Group and CPI Holding have granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option). In addition, CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power, a company listed on the Shanghai Stock Exchange and currently controlled by CPI Group. As of December 31, 2003, Shanghai Power's net installed capacity was 2,809 MW. Assuming that we fully exercise our call option, the net installed capacity attributable to our equity interest in Shanghai Power would be 702 MW. Please refer to the sections entitled "—Description of Power Plants—Power Company under Call Option" and "CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Connected Transactions Which Are Not Continuing Connected Transactions—Shanghai Power Option Deed" for a detailed description of Shanghai Power and the call option.

With a view to capturing the increasing demand for power in China driven by rapid economic growth, we plan to build three additional power plants, namely, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant, two of which will be adjacent to our power plants under commercial operation. These planned power plants, when completed, will have a total installed capacity of 3,600 MW, of which 3,468 MW will be attributable to our ownership interests therein. We intend to operate all three of our planned power plants. Please refer to the subsection entitled "—Description of Power Plants—Planned Power Plants" below for a detailed description of our planned power plants.

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The map below shows the location of our power plants.



PRINCIPAL STRENGTHS

We believe that we have the following principal strengths:

We benefit from our affiliation with CPI Group and CPI Holding and expect to enjoy a high level of flexibility as a listed subsidiary incorporated outside of mainland China.

Before the Global Offering, we were indirectly wholly-owned by CPI Group, which after the completion of the Global Offering will continue to be our ultimate controlling shareholder. We are designated as CPI Group's flagship company, being the only company within CPI Group with the mandate to develop, construct, manage and operate power plants nationwide within the PRC. CPI Group and CPI Holding have granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and the right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining

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shares in Shanghai Power which are not the subject of our call option). In addition, we have been granted a call option by CPI Group to acquire up to a 25% equity interest in Shanghai Power. We expect that our affiliation with CPI Group and CPI Holding and our preferential rights and call option will enable us to take advantage of the PRC's growing power market and implement our development strategy.

Among China's five national power generating groups, we will be the only listed vehicle incorporated outside mainland China immediately following the completion of the Global Offering. As such, compared to companies incorporated in the PRC, we will have a higher level of flexibility in tapping the international capital markets and acquiring interests in non-PRC companies which own power assets in the PRC. Through our PRC-incorporated subsidiaries or associated company, we can also access the domestic capital markets to finance our local operations and capital expenditures in the PRC. We also have a more flexible incentive plan and compensation scheme which are designed to align the interests of management with those of our shareholders to enhance shareholder value.

We have, and will have, control of and at least 50% of the ownership interest in our operational and planned power plants.

We have a 100% ownership interest in each of Pingwei Power Plant and Yaomeng Power Plant, and we have a 50% ownership interest in Changshu Power Plant, making us the largest shareholder of that power plant. We will invest in and own a 100% ownership interest in each of Pingwei Power Plant II and Yaomeng Power Plant II, and an 89% ownership interest in Huanggang Dabieshan Power Plant. Since we are the controlling or sole shareholder of and manage our operational and planned power plants, we are able to standardize the management in all of our power plants and to make and implement operational, investment and financing decisions more effectively and timely.

Our power plants are advantageously located in more affluent regions with high GDP growth rates or near coal mines.

Our three operational power plants and two of our planned power plants are located in Anhui Province, Henan Province and Jiangsu Province. The local economies in Anhui, Henan and Jiangsu are already enjoying rapid growth and have a high demand for electricity. In addition, our power plants are well-positioned to obtain coal quickly and efficiently. Pingwei Power Plant and Yaomeng Power Plant, two of our three power plants under commercial operation, are mine-mouth power plants. Pingwei Power Plant II and Yaomeng Power Plant II, two of our three planned power plants, will also be mine-mouth power plants. Changshu Power Plant is located next to the Yangtze River and has a dedicated port facility, while Huanggang Dabieshan Power Plant will be located near existing railroads. The strategic locations of these power plants reduce both the transportation cost of coal and our reliance on State-allocated transportation resources which are in short supply from time to time, thus increasing the reliability of the coal supply to our power plants.

We enjoy a high level of operational efficiency.

We focus on investing in and developing high-capacity and highly efficient coal-fired power plants and enhancing the position of our power plants in the relevant power grids. Large system

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configurations allow us to produce electricity more efficiently and at a lower per unit operating cost than smaller configurations. Both Yaomeng Power Plant and Changshu Power Plant consist of 300 MW level generating units and Pingwei Power Plant consists of 600 MW generating units. In addition, all of our planned power plants will consist of 600 MW super-critical generating units with similar equipment configurations.

We have a rigorous cost control program.

We exercise tight control over our costs in all stages and aspects of the development, construction, management and operation of our power plants. Effective cost control is one goal of our budgeting process, which in respect of a financial year may begin as early as three months prior to the start of such year at each of our operational power plants. Through our rigorous budgeting process and our significant experience in the development, construction, management and operation of large-scale and highly efficient coal-fired power plants, we have achieved a set of performance parameters designed to help us achieve lower costs and higher operating efficiency.

We have an experienced and professional management team motivated to create shareholder value.

We have a highly professional management team that has significant experience in developing, constructing, managing, operating and acquiring power plants in China. Most of our management team members have substantial experience in power plant management, financial planning or human resources management, as well as extensive industry knowledge and expertise in power generation technology. Our management team is also highly motivated towards creating shareholder value. We have adopted certain incentive programs, namely the Pre-IPO Share Option Scheme, the Share Option Scheme and the Performance Unit Plan, for our management and key employees. These incentives schemes are designed to align the interests of our management and key employees with those of our shareholders and, in doing so, reinforce our management's motivation towards creating shareholder value.

DEVELOPMENT STRATEGY

We are the flagship company of CPI Group, one of the leading independent power producers in China. We have significant experience in developing, managing and operating large power plants. We intend to reinforce our position by increasing the installed capacity and power output of our power plants, while delivering growth in shareholder value. To achieve our goal, we will pursue the following strategies:

Leverage our close relationship with and strong support from CPI Group and CPI Holding.

We plan to capitalize on our close relationship with CPI Group and CPI Holding in acquiring new assets. CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power. CPI Group and CPI Holding have also granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power assets or power projects (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in

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Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option). We believe that these rights may help reduce our development risks, shorten construction periods, better control our costs and help us achieve returns to our shareholders within the shortest possible time. In addition, we also plan to leverage the governmental relationship, financial, technical and management resources of CPI Group to expedite and achieve our growth.

Expand and upgrade existing power plants.

We plan to increase our total installed capacity and power output by expanding and upgrading our existing power plants. We believe that we can benefit from lower construction costs and shorter development periods by sharing certain common facilities, such as coal loading and unloading and storage facilities, with our existing power plants. We currently plan to expand two of our existing power plants, Pingwei Power Plant and Yaomeng Power Plant through the construction of Pingwei Power Plant II and Yaomeng Power Plant II, both of which are in the initial preparation stages. We expect that, when completed, Pingwei Power Plant II and Yaomeng Power Plant II will have total installed capacity of 2,400 MW and will significantly increase our power generating capacity. In addition, we are constantly seeking ways to upgrade our system to improve the generation efficiency of our three power plants under commercial operation. We completed a major upgrade of the Unit 1 generator at our Yaomeng Power Plant in 2002, which increased the installed capacity and reduced the unit coal consumption of that generator. We are currently planning to upgrade the Unit 2 generator at our Changshu Power Plant at the end of 2004 and the Unit 2 generator at our Yaomeng Power Plant in the future, which we expect will improve the operating efficiency and reduce the unit coal consumption of those generators.

Expand, develop and acquire power plants in advantageous locations.

We plan to expand, develop or acquire power plants located in the areas with these characteristics:

- high economic growth, high electricity demand and insufficient power supply;
- easy access to large coal mines, railways or ports; and
- close proximity to power consumption load centers.

We believe that focusing on such advantageous locations will help us maintain high utilization rates and low fuel costs, including fuel transportation costs, and ensure the priority dispatch of power.

Emphasize the development of high-capacity, highly efficient and environmentally-friendly power plants.

We plan to develop and construct high-capacity and highly efficient coal-fired power plants, for example, power plants with 600 MW units. These plants typically operate more efficiently than lower-capacity plants by reducing coal consumption and help us achieve economies of scale. While we expect to focus on constructing and acquiring large and medium-sized base-load coal-fired power plants, we may also invest in large base-load or peak-load hydro-electric power plants in the future to diversify our fuel sources and accelerate our growth.

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In addition, we plan to install desulphurization equipment at all six of our planned 600 MW generating units at our planned power plants, which would significantly reduce the emissions of sulphur dioxide, hence reducing discharge fees payable by those power plants. Newly constructed power plants with installed desulphurization equipment are also expected to enjoy higher on-grid tariffs than new power plants constructed without installed desulphurization equipment.

Pursue further development and acquisition opportunities through the management of power plants for CPI Group and CPI Holding.

Since July 1, 2004, we have been managing six power plants for CPI Group and CPI Holding and will continue seeking further opportunities in this area. As most of the power plants we manage for CPI Group and CPI Holding are located in different geographic regions from the power plants we currently operate, we will be able to gain first-hand knowledge of a wider range of local power markets and new development opportunities in these markets. Our management of the six power plants will also help us evaluate these power plants as potential investment targets, over which we have preferential rights to acquire.

Implement rigorous cost control measures on an ongoing basis.

We closely monitor our operating costs through our vigorous cost control program, and we plan to invest in, improve and upgrade our production facilities, technology and operational processes to increase productivity, where possible, and to achieve savings in fuel cost, repair and maintenance expenses and selling, general and administrative expenses. As part of our ongoing effort to achieve cost savings and improve efficiency, we may further streamline our power companies by outsourcing our repair and maintenance activities and certain other supporting services. We also intend to implement a set of competitive bidding procedures and rules in our selection of contractors for our planned power plants so as to obtain competitive construction prices, shorten construction periods and reduce capital investment costs.

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SUMMARY INFORMATION ON OUR POWER PLANTS

The following table summarizes key operating data for our power plants as at the date of this prospectus.

Power Plants under Commercial Operation

<u>Power Plants</u>	<u>In-Service Date</u>	<u>Fuel Type</u>	<u>Total Installed Capacity (MW)</u>	<u>Our Ownership (%)</u>	<u>Capacity Attributable to Us (MW)</u>
Anhui					
Pingwei Power Plant	Unit 1: 1990 Unit 2: 1993	Coal	2 x 600	100	1,200
Henan					
Yaomeng Power Plant	Unit 1: 1975 Unit 2: 1980 Unit 3: 1985 Unit 4: 1986	Coal	1 x 310 3 x 300	100	1,210
Jiangsu					
Changshu Power Plant	Units 1 and 2: 1993 Units 3 and 4: 1994	Coal	4 x 300	50	600
Sub-total			3,610		3,010

Power Plants under Management

<u>Power Plants</u>	<u>In-Service Date</u>	<u>Fuel Type</u>	<u>Total Installed Capacity (MW)</u>	<u>CPI Group/ CPI Holding Ownership (%)</u>	<u>Capacity Attributable to CPI Group/ CPI Holding (MW)</u>
Liaoning					
Qinghe Power Plant	Unit 1: 1970 Unit 2: 1971 Units 3 and 4: 1974 Units 5, 6 and 7: 1977 Unit 8: 1984	Coal	4 x 100 4 x 200	100	1,200
Shanxi					
Shentou I Power Plant	1981 - 1987	Coal	6 x 200	100	1,200
Jiangxi					
Guixi Power Plant	1985 - 1987	Coal	4 x 125	100	500
Fujian					
Shaxikou Power Plant	1991	Hydro	4 x 75	100	300
Anhui					
Wuhu Power Plant	Unit 1: 1996 Unit 2: 1997	Coal	2 x 125	45	112.5
Jiangsu					
Hongze Power Plant	Unit 1: 1995 Unit 2: 1996	Coal	2 x 7.5	60	9
Sub-total			3,465		3,322

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Power Company under Call Option

<u>Company</u>	<u>Fuel Type</u>	<u>Net Installed Capacity (MW)⁽²⁾</u>	<u>Net Installed Capacity Attributable to Us (MW)⁽³⁾</u>
Shanghai Power ⁽¹⁾	Coal	2,809	702

- (1) CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power.
- (2) Net installed capacity refers to installed capacity attributable to Shanghai Power's equity interests as of December 31, 2003. Shanghai Power has three power plants currently under construction which will have net installed capacity of 927 MW when completed. In addition, on April 23, 2004, Shanghai Power announced the acquisition from CPI Group of a 50% equity interest in Shanghai Wujing Power Generation Limited, which has a total installed capacity of 600 MW. Upon the completion of all such construction and the acquisition, Shanghai Power's net installed capacity will increase to 4,036 MW.
- (3) Represents net installed capacity attributable to us assuming the full exercise of our call option. Upon Shanghai Power completing construction of its three new power plants and the acquisition of a 50% equity interest in Shanghai Wujing Power Generation Limited and assuming the full exercise of our call option, the net installed capacity attributable to us from Shanghai Power will increase to 1,009 MW.

Planned Power Plants

<u>Power Plants</u>	<u>Estimated In-Service Date</u>	<u>Estimated Total Investment (RMB millions)</u>	<u>Total Installed Capacity When Completed (MW)</u>	<u>Our Ownership (%)</u>	<u>Capacity Attributable to Us When Completed (MW)</u>
Anhui					
Pingwei Power Plant II	Unit 1: 2007 Unit 2: 2008	4,643	2 x 600	100	1,200
Henan					
Yaomeng Power Plant II	Unit 1: 2007 Unit 2: 2008	4,692	2 x 600	100	1,200
Hubei					
Huanggang Dabieshan Power Plant ⁽¹⁾	Unit 1: 2008 Unit 2: 2009	4,977	2 x 600	89	1,068
Total			<u>3,600</u>		<u>3,468</u>

- (1) The estimated total investment amount relates to the entire investment amount in the power plant and not the investment amount attributable to our equity interest in the power plant.

DESCRIPTION OF POWER PLANTS

Set forth below are descriptions of our power plants under commercial operation, power plants under management, power company under call option and planned power plants. We have derived the economic data and power supply data for each of the provinces in which our power plants supply power from different sources, including the websites of National Bureau of Statistics of China and State Grid Corporation, China Statistical Yearbook and the Analysis and Research on China Power Market 2004 Spring Report published by the State Grid Corporation.

We own our power plants through entities that are either our wholly-owned subsidiaries or sino-foreign equity joint ventures. A sino-foreign equity joint venture is a limited liability joint venture company that has both Chinese and foreign investors.

We manage and operate all the power companies that we wholly own. We also manage and operate the joint venture power generating company in which we have a 50% equity interest. We currently do not have any plans to increase our shareholding in the joint venture.

Power Plants under Commercial Operation***Power Plant Selling Power to Anhui Province****An Overview of Anhui Province*

Economic Data. Anhui Province is located in the eastern part of China and has a land area of approximately 139,000 square kilometers. Its population at the end of 2003 was approximately 61.6 million people, representing approximately 4.8% of the total population of China.

From 1993 through 2003, Anhui Province's GDP increased from RMB106.9 billion to RMB397.3 billion, representing a CAGR of 14.0%. For the six months ended June 30, 2004, Anhui Province's GDP was RMB226.1 billion, representing a growth of 13.5% over the corresponding period in 2003. Its gross industrial value-add in 2003 was RMB144.6 billion, representing an increase of 12% from 2002.

Power Supply. Anhui Province's electricity supply principally comes from thermal power sources within the province. As at June 30, 2004, the total installed capacity of all power plants in Anhui Province was 10,240 MW. Total power generation in the province amounted to 28.9 TWh of electricity for the six months ended June 30, 2004 and 54.8 TWh of electricity in 2003. In 2003, Anhui Province consumed 44.5 TWh of electricity, a 14% increase over the previous year's consumption of 39 TWh. For the six months ended June 30, 2004, Anhui Province consumed 23.9 TWh of electricity, a 16.6% increase over the corresponding period in 2003.

According to the Notice on Resolution of Power Tariff Issues for East China Power Grid, effective June 15, 2004, the average on-grid tariff for planned output and excess output for all coal-fired power plants connected to Anhui provincial power grid, inclusive of VAT, is approximately RMB326 per MWh and RMB317 per MWh, respectively.

Pingwei Power Plant

Pingwei Power Plant is located in Huainan City, Anhui Province. Prior to the Reorganization, CPI Group and CPI Holding owned 40% and 60% equity interests respectively in Pingwei Company, the company that owns Pingwei Power Plant. Following the Reorganization, Pingwei Company became our wholly-owned subsidiary. We manage and operate the Pingwei Power Plant. The board of directors of Pingwei Company consists of five directors, all of whom we appoint.

Pingwei Power Plant has an installed capacity of 1,200 MW and consists of two 600 MW coal-fired units, which commenced commercial operations in May 1990 and June 1993, respectively. These units were made by PRC manufacturers. We are currently planning to overhaul the Unit 2 generator in the last quarter of 2004 as part of Pingwei Power Plant's overhaul and repair and maintenance cycle. Pingwei Power Plant sells all of its electricity to the Anhui provincial power grid owned by East China Power Grid Company.

Pingwei Power Plant is a mine-mouth power plant and it purchases its coal supply primarily from producers located in Panji district in Huainan City. The coal is transported by railroad from these producers to the Pingwei Power Plant, which typically stores 20,000 to 80,000 tons of coal on site.

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In 2003, Pingwei Power Plant purchased 90% of its total consumption of coal pursuant to PRC government allocations and purchased the rest from the coal market in Anhui. The weighted average cost of standard coal per ton (exclusive of VAT) for Pingwei Power Plant in 2001, 2002, 2003 and the six months ended June 30, 2004 was approximately RMB297, RMB307, RMB307 and RMB347, respectively.

The following table shows certain operating statistics for Pingwei Power Plant for the three years ended December 31, 2001, 2002 and 2003 and the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
Installed capacity (MW)	1,200	1,200	1,200	1,200	1,200
Average utilization hours	5,014	5,450	6,192	2,885	3,612
Gross generation (MWh)	6,017,200	6,539,500	7,430,474	3,462,351	4,334,300
Net generation (MWh)	5,711,450	6,205,310	7,095,360	3,313,470	4,160,820
Equivalent availability factor (%)	91	89	88	88	90
Net generation standard coal consumption rate (grams/kWh)	346	344	340	338	338

On July 1, 2003, the New Discharge Fees Regulations came into effect in China. See “Information on the PRC Power Industry—Environmental Regulation” for a detailed discussion on the New Discharge Fees Regulations. Pingwei Power Plant has not installed desulphurization equipment. The annual levy on Pingwei Power Plant was approximately RMB3.4 million in 2003, and using a calculation based on the New Discharge Fees Regulations, we estimate that the annual levy may increase up to approximately RMB30 million by 2006. We intend to install desulphurization equipment at Pingwei Power Plant in the future at an appropriate time to be decided by our management.

Power Plant Selling Power to Henan Province

An Overview of Henan Province

Economic Data. Henan Province is located in central China and has a land area of approximately 167,000 square kilometers. Its population at the end of 2003 was approximately 96.7 million people, representing approximately 7.5% of the total population of China.

From 1993 through 2003, Henan Province’s GDP increased from RMB166.3 billion to RMB702.6 billion, representing a CAGR of 15.5%. For the six months ended June 30, 2004, Henan Province’s GDP was RMB397.5 billion, representing a growth of 13.9% over the corresponding period in 2003. Its gross industrial value-add in 2003 was RMB303.4 billion, representing an increase of 17% from 2002.

Power Supply. Henan Province’s electricity supply principally comes from thermal power sources within the province and, to a lesser extent, is imported from the Central China Power Grid. As at July 31, 2003, the total installed capacity of all power plants in Henan Province was 19,278 MW. Total power generation in the province amounted to 57.3 TWh of electricity for the six months ended June 30, 2004 and 98.8 TWh of electricity in 2003. In 2003, Henan Province consumed 104.2 TWh of electricity, a 14% increase over the previous year’s

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consumption of 91.6 TWh. For the six months ended June 30, 2004, Henan Province consumed 57.1 TWh of electricity, a 14.9% increase over the corresponding period in 2003.

According to the Notice on Resolution of Power Tariff Issues for Central China Power Grid, effective June 15, 2004, the average on-grid tariff for planned output and excess output for all coal-fired power plants connected to Henan provincial power grid, inclusive of VAT, is approximately RMB294 per MWh and RMB260 per MWh, respectively.

Yaomeng Power Plant

Yaomeng Power Plant is located in Pingdingshan City, Henan Province. Prior to the Reorganization, CPI Group and CPI Holding owned 40% and 60% equity interests, respectively, in Yaomeng Company, the company that owns Yaomeng Power Plant. Yaomeng Company became our wholly-owned subsidiary following the Reorganization. We manage and operate Yaomeng Power Plant. The board of directors of Yaomeng Company consists of five directors, all of whom we appoint.

Yaomeng Power Plant has an installed capacity of 1,210 MW and consists of one 310 MW and three 300 MW coal-fired units, which commenced commercial operations in September 1975, November 1980, December 1985 and December 1986, respectively. Units 1 and 2 were made by PRC manufacturers while Units 3 and 4 were made by foreign manufacturers. We completed a major upgrade of Unit 1 in 2002, which reduced the coal consumption of that generator. We are currently planning to upgrade the Unit 2 generator in the future, which we expect will improve the operating efficiency and reduce the unit coal consumption of that generator. Yaomeng Power Plant sells all of its electricity to the Henan provincial power grid owned by Central China Power Grid Company.

Yaomeng Power Plant is a mine-mouth power plant and it purchases its coal supply primarily from the coal mines in Pingdingshan City. The coal is transported by railroad and road from these coal mines to the Yaomeng Power Plant, which typically stores 20,000 to 80,000 tons of coal on site.

In 2003, Yaomeng Power Plant purchased 73% of its total consumption of coal pursuant to PRC government allocations and purchased the rest from the open market in Henan. The weighted average cost of standard coal per ton (exclusive of VAT) for Yaomeng Power Plant in 2001, 2002, 2003 and the six months ended June 30, 2004 was approximately RMB210, RMB240, RMB244 and RMB288, respectively.

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The following table shows certain operating statistics for Yaomeng Power Plant for the three years ended December 31, 2001, 2002 and 2003 and the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
Installed capacity (MW)	1,170	1,210	1,210	1,210	1,210
Average utilization hours	5,752	5,769	6,133	3,154	2,976
Gross generation (MWh)	6,729,716	6,980,058	7,420,400	3,816,600	3,600,700
Net generation (MWh)	6,231,197	6,412,385	6,833,446	3,515,370	3,303,370
Equivalent availability factor (%)	92	86	90	90	86
Net generation standard coal consumption rate (grams/kWh)	350	348	344	341	344

Yaomeng Power Plant has not yet installed desulphurization equipment. The annual levy on Yaomeng Power Plant was approximately RMB8.5 million in 2003, and using a calculation based on the New Discharge Fees Regulations, we estimate that the annual levy may increase up to approximately RMB44 million by 2006. We intend to install desulphurization equipment at Yaomeng Power Plant in the future at an appropriate time to be decided by our management.

Power Plant Selling Power to Jiangsu Province

An Overview of Jiangsu Province

Economic Data. Jiangsu Province is located on the eastern China coast and has a land area of approximately 102,600 square kilometers. Its population at the end of 2003 was approximately 74.1 million people, representing approximately 5.7% of the total population of China. Jiangsu Province has traditionally been one of the more developed areas of the PRC in terms of industry, commerce and agriculture, and benefits from its proximity to Shanghai, a major industrial and commercial center in the PRC. Jiangsu Province is well connected by land and river transportation to other parts of the PRC.

From 1993 through 2003, Jiangsu Province's GDP increased from RMB299.8 billion to RMB1,245.2 billion, representing a CAGR of 15.3%. For the six months ended June 30, 2004, Jiangsu Province's GDP was RMB675.7 billion, representing a growth of 15.1% over the corresponding period in 2003. Its gross industrial value-add in 2003 was RMB595.5 billion, representing an increase of 18% from 2002.

Power Supply. Jiangsu Province's electricity supply principally comes from thermal power sources within the province and, to a lesser extent, is imported from the East China Power Grid. As at December 31, 2003, the total installed capacity of all power plants in Jiangsu Province was 22,080 MW. Total power generation in the province amounted to 69.8 TWh of electricity for the six months ended June 30, 2004 and 127.8 TWh of electricity in 2003. In 2003, Jiangsu Province consumed 150.5 TWh of electricity, a 21% increase over the previous year's consumption of 124.5 TWh. For the six months ended June 30, 2004, Jiangsu Province consumed 83.7 TWh of electricity, a 22.8% increase over the corresponding period in 2003.

According to the Notice on Resolution of Power Tariff Issues for East China Power Grid, effective June 15, 2004, the average on-grid tariff for planned output and excess output for all

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coal-fired power plants connected to Jiangsu provincial power grid, inclusive of VAT, is approximately RMB344 per MWh and RMB280 per MWh, respectively.

Changshu Power Plant

Changshu Power Plant is located in Suzhou City, the load center of the Jiangsu provincial power grid in Jiangsu Province. Prior to the Reorganization, CPI Group and CPI Holding owned 20% and 30% equity interests respectively in Changshu Company, the joint venture company that owns Changshu Power Plant. Following the Reorganization, we own a 50% equity interest in Changshu Company. We are the single largest owner of Changshu Company and are in charge of its management and operation. We currently do not have any plans to increase our shareholding in Changshu Company. Our joint venture partners are Jiangsu Guoxin Assets Management Group Company Limited and Suzhou Trust and Investment Company Ltd., each of which holds a 25% equity interest in Changshu Company. Both of these entities are independent of the Company (save for their respective interests in Changshu Company). Each of the Jiangsu government, the ultimate beneficial owner of Jiangsu Guoxin Assets Management Group Company Limited, and Suzhou International Development Group, the ultimate beneficial owner of Suzhou Trust and Investment Company Ltd., has fully paid up its share of the registered capital of Changshu Company. The joint venture agreement has a term of 20 years starting from September 1999. Pursuant to the joint venture agreement, the board of directors of Changshu Company consists of 10 directors, five of whom we appoint. We also appoint the chairman of the board.

Changshu Power Plant has an installed capacity of 1,200 MW and consists of four 300 MW coal-fired units, which commenced commercial operations in July and December 1993 and April and November 1994, respectively. The installed capacity attributable to our ownership is 600 MW. All four units of Changshu Power Plant were made by PRC manufacturers. Changshu Power Plant sells all of its electricity to the Jiangsu provincial power grid owned by East China Power Grid Company.

Changshu Power Plant purchases its coal supply primarily from producers located in the provinces of Shanxi, Jiangsu and Hebei. The coal is transported by railroad and sea from these producers to Changshu Power Plant, which typically stores 30,000 to 100,000 tons of coal on site.

In 2003, Changshu Power Plant purchased 60% of its total consumption of coal pursuant to PRC government allocations and purchased the rest from the open market in China. The weighted average cost of standard coal per ton (exclusive of VAT) for Changshu Power Plant in 2001, 2002, 2003 and the six months ended June 30, 2004 was approximately RMB304, RMB339, RMB345 and RMB451, respectively.

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The following table shows certain operating statistics for Changshu Power Plant for each of the three years ended December 31, 2001, 2002 and 2003 and the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
Installed capacity (MW)	1,200	1,200	1,200	1,200	1,200
Average utilization hours	5,133	6,128	6,624	3,264	3,427
Gross generation (MWh)	6,159,295	7,352,970	7,948,366	3,916,570	4,112,110
Net generation (MWh)	5,827,549	6,978,847	7,540,615	3,718,700	3,922,330
Equivalent availability factor (%)	87	88	91	93	91
Net generation standard coal consumption rate (grams/kWh)	351	350	350	349	346

Changshu Power Plant plans to upgrade its Unit 2 generator at the end of 2004. We expect that this upgrade, when completed, will increase the plant's capacity by 30 MW to 1230 MW as well as reduce its unit coal consumption. We also expect that this upgrade will enhance its ability to generate electricity during peak hours.

Changshu Power Plant currently does not have installed desulphurization equipment. The annual levy on Changshu Power Plant was approximately RMB7.5 million in 2003, and using a calculation based on the New Discharge Fees Regulations, we estimate that the annual levy may increase up to approximately RMB40 million by 2006. We plan to start installing desulphurization equipment for two of the generating units at Changshu Power Plant by 2005. If the desulphurization equipment is installed, we expect that the discharge fee at Changshu Power Plant will be significantly reduced.

Organization of Power Plants under Commercial Operation

In addition to power generation operations, our power plants under commercial operation also provide other services such as repair and maintenance and employee welfare related services. We are organizing each power plant's operations and its related work force under three main divisions, namely: power generation operations, repair and maintenance activities and other supporting services.

Power Plants under Management

We have entered into the Management Agreement effective July 1, 2004 with CPI Group and CPI Holding to manage six power plants on their behalves, namely, Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant. Under the Management Agreement, each of CPI Group and CPI Holding entrusted to us the managing power that each of them has in the six power plants. The Management Agreement has a term of three years and is renewable with the consent of all parties. By entrusting us with the management of these six power plants, CPI Group and CPI Holding hope to be able to leverage our experienced team and our management expertise gained through operating our existing three major power plants to help enhance and improve the operating efficiency of the power plants under management. The total installed capacity of these six power plants is 3,465 MW. We do not have any shareholding interest in these six power plants under management.

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To the extent not exceeding the managing power that each of CPI Group and CPI Holding has in these six power plants, our scope of services under the Management Agreement in respect of these six power plants includes:

- planning and implementing new developments and the yearly budget of the respective power plants; and
- production management, sales management, engineering management, financial management, fuel supply management and human resources management of the respective power plants.

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

- costs (including set-up, operational and other recurrent items to be incurred by us in managing the power plants) (“Management Costs”), amounting to RMB6 million for the period from July 1, 2004 to December 31, 2004;
- a premium to cover estimated risks set at 15% of the Management Costs, amounting to RMB0.9 million for the period from July 1, 2004 to December 31, 2004; 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 incentive/penalty shall therefore not exceed RMB0.9 million for the period from July 1, 2004 to December 31, 2004.

The first two components of the service fee are payable monthly in arrears. The profit/loss margin component is payable based the annual evaluation of performance of our management but no later than 90 days after the end of each year. The service fee (excluding the profit/loss margin component) for the period from July 1, 2004 to December 31, 2004 payable under the Management Agreement amounts to RMB6.9 million.

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 the salaries of the Company’s employees as approved by our Board; and
- any changes in the scope or nature of the management services.

We believe that the Management Agreement is beneficial to the long term development of our Company. As most of the power plants subject to the Management Agreement are located in different geographic regions from the power plants we currently own, we believe we will be able to obtain first-hand knowledge of the local power markets and new development opportunities in these markets. In addition, our experience in managing these plants will help us decide whether to exercise our preferential rights to purchase them and, should we decide to do so, will facilitate a smooth transfer of ownership of these power plants. Currently we intend to

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manage these six power plants and evaluate them as potential investment targets until such time when we consider it in the best interest of the Company and our shareholders to acquire any of these power plants pursuant to the preferential rights granted to us.

Qinghe Power Plant

Qinghe Power Plant, which is located in Liaoning Province, consists of four 100 MW and four 200 MW coal-fired units. Qinghe Power Plant purchases its coal supply primarily from producers located in Heilongjiang Province, Liaoning Province and Inner Mongolia Autonomous Region. Qinghe Power Plant sells all of its electricity to the Liaoning provincial power grid owned by Northeast China Power Grid Company. Qinghe Power Plant's total output in 2003 was 6,650,910 MWh.

Shentou I Power Plant

Shentou I Power Plant, which is located in Shanxi Province, consists of six 200 MW coal-fired units. Shentou I Power Plant is a mine-mouth power plant, and its coal supply is primarily purchased from producers located in Shanxi Province. Shentou I Power Plant sells all of its electricity to the Shanxi provincial power grid owned by the North China Power Grid Company. Shentou I Power Plant's total output in 2003 was 8,006,780 MWh.

Guixi Power Plant

Guixi Power Plant is located in Jiangxi Province and consists of four 125 MW coal-fired units. Guixi Power Plant primarily purchases its coal supply from producers located in Anhui, Henan, and Shanxi provinces. Guixi Power Plant sells all of its electricity to the Jiangxi provincial power grid owned by the Central China Power Grid Company. Guixi Power Plant's total output in 2003 was 3,085,930 MWh.

Shaxikou Power Plant

Shaxikou Power Plant is located in Fujian Province and consists of four 75 MW hydro-powered units. The water supply for Shaxikou Power Plant is primarily procured from Sha River. Shaxikou Power Plant sells all of its electricity to the Fujian provincial power grid owned by the East China Power Grid Company. Shaxikou Power Plant's total output in 2003 was 740,740 MWh.

Wuhu Power Plant

Wuhu Power Plant is located in Anhui Province and consists of two 125 MW coal-fired units. Wuhu Power Plant purchases its coal supply from producers locally. Wuhu Power Plant supplies all of its electricity to the southern part of Anhui Province. Wuhu Power Plant's total output in 2003 was 1,544,570 MWh.

Hongze Power Plant

Hongze Power Plant is located in Jiangsu Province and consists of two 7.5 MW coal-fired units. Hongze Power Plant supplies most of its electricity to the Huai An City power grid. Hongze Power Plant's total output in 2003 was 113,600 MWh.

Power Company under Call Option

As the flagship company of CPI Group, we are the only company within CPI Group with the mandate to develop, construct, manage and operate power plants nationwide within the PRC. To establish a foothold in the important Shanghai market and following negotiations with CPI Group, on August 27, 2004, we entered into an option deed with CPI Group, pursuant to which CPI Group granted us an option for us or any of our wholly-owned subsidiaries to acquire up to a 25% equity interest in Shanghai Power. Shanghai Power is currently controlled by CPI Group which owns a 64.56% equity interest in it. Shanghai Power is currently listed on the domestic A-share market.

The Shanghai Power option deed need not be registered with any PRC regulatory authority. No consent from other existing shareholders of Shanghai Power is needed for the grant of the call option to us. Our PRC legal adviser has also advised us that the grant of the call option by CPI Group to us does not violate any PRC laws and regulations. However, our exercise of the call option will require approvals from the SASAC, the CSRC and the Ministry of Commerce. Further, shareholders of Shanghai Power must, by a two-thirds majority of those present at a shareholders' meeting, approve appropriate amendments to Shanghai Power's articles of association to include us as a shareholder of Shanghai Power. CPI Group will not be required to abstain from voting on such resolution. CPI Group has given us an undertaking to exercise all its voting rights representing all its equity interest in favor of a resolution concerning amendments to Shanghai Power's articles of association to include us as a shareholder when we decide to exercise the call option.

Shanghai Power Option Deed

We may exercise the call option at any time within three years from October 29, 2004, following the expiry of the undertaking by CPI Group not to dispose of its equity interest in Shanghai Power.

The exercise of the call option is at the discretion of our Board of Directors. Pursuant to the option deed, the exercise price per share of the call option will, at our election, be either the price agreed upon based on the then net asset value per share, or the then prevailing market price per share attributable to the listed shares of Shanghai Power, taking into consideration the following factors:

- the lack of liquidity of the shares under the call option, as they are "State-owned" shares which are subject to restrictions on transfer under PRC laws and cannot be traded on the Shanghai Stock Exchange; and
- relevant PRC laws and regulations, which currently require that the exercise price per share shall not be lower than the net asset value per share. "Net asset value per share" is not clearly defined under PRC laws and regulations; however it is likely that reference will be made to the latest audited net asset value of Shanghai Power.

Subject to the prevailing PRC laws and regulations which require that the exercise price per share be no less than the then net asset value per share, we intend to achieve as large a discount to the prevailing market price as possible in negotiating the exercise price for the shares under the call option.

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Our Directors will consider the following criteria in deciding whether or not to exercise the call option, among others:

- the operational results of Shanghai Power;
- the growth outlook of Shanghai Power;
- the general levels of power supply and power demand in the Shanghai area; and
- the exercise price.

Our independent non-executive directors will also review any proposal to exercise the option before any decision is made.

The exercise of the call option after the listing of our Shares on the Stock Exchange would constitute a connected transaction under the Listing Rules. In addition, pursuant to Rule 14A.70(3), the non-exercise of the call option will be treated as if the option was exercised and would constitute a connected transaction. As required by Chapter 14A of the Listing Rules, we will comply with the relevant reporting, announcement and/or independent shareholders' approval requirements concerning the connected transaction constituted by the exercise of the call option. We will also make an appropriate announcement if a decision not to exercise the call option is made, or if the call option lapses without being exercised, and will comply with other relevant reporting and/or independent shareholders' approval requirements concerning the connected transaction constituted by the non-exercise of the call option.

We believe that our holding of the call option to acquire a stake in Shanghai Power enhances our growth potential. We intend to complete our evaluation of this investment opportunity and, should we be satisfied with the result, exercise all or part of the call option as soon as possible. In any event, we believe the three-year exercise period will give us sufficient time to properly evaluate the investment opportunity as well as allow us some flexibility to determine an appropriate time to make the investment. At present, we do not intend to subsequently sell any equity interest in Shanghai Power acquired pursuant to an exercise of the call option. For further details of the Shanghai Power option deed, please refer to the section entitled "CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Connected Transactions Which Are Not Continuing Connected Transactions—Shanghai Power Option Deed" in this prospectus.

Shanghai Power

Shanghai Power was listed on the Shanghai Stock Exchange on October 29, 2003. According to Shanghai Power's 2003 annual report, Shanghai Power had two substantial shareholders as of December 31, 2003, namely, CPI Group (which owned 64.56%) and Shanghai East China Power Development Company (which owned approximately 20%). Shanghai East China Power Development Company is independent of both the Company and CPI Group. The remainder of the outstanding shares were owned by public shareholders (approximately 15%). Currently neither we nor our subsidiaries hold any shareholding interest in Shanghai Power.

As of December 31, 2003, Shanghai Power had equity interests in six coal-fired power plants located in Shanghai, with a net installed capacity of 2,809 MW. Its coal supply is primarily purchased from producers located in Shanxi Province, Inner Mongolia Autonomous Region,

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Henan Province and Anhui Province. Shanghai Power sells its electricity to the Shanghai power grid owned by the East China Power Grid Company. Based on Shanghai Power's 2003 annual report, Shanghai Power's total output for 2003 was 19,330,000 MWh.

On April 23, 2004, Shanghai Power announced its acquisition of a 50% equity interest in Shanghai Wujing Power Generation Limited from CPI Group. Shanghai Wujing Power Generation Limited has a total installed capacity of 600 MW.

In addition, according to the announcement of results for the six months ended June 30, 2004 filed with the Shanghai Stock Exchange, Shanghai Power has equity interests in the following power plants under construction:

<u>Power Plants under Construction</u>	<u>Total Installed Capacity When Completed</u>	<u>Shanghai Power's Equity Interest When Completed</u>	<u>Capacity attributable to Shanghai Power When Completed</u>
	(MW)	%	(MW)
Shanghai Waigaoqiao II Power Limited	1,800	20	360
Shanghai Caojing Thermal Electric Power Limited	600	36	216
Jiangsu Huadian Wangting Natural Gas Power Limited	780	45	351

Upon the completion of the construction and the acquisition referred to above and assuming the full exercise of our call option, Shanghai Power's net installed capacity will increase to 4,036 MW and net capacity attributable to us will increase to 1,009 MW.

Based on the announced results of Shanghai Power for the six months ended June 30, 2004 prepared according to PRC GAAP (which might be materially different if they had been compiled in accordance with HK GAAP), the net asset value of Shanghai Power as of June 30, 2004 was RMB6,027 million, and the net asset value per share was RMB3.85. Based on the average closing prices for Shanghai Power shares between January 1, 2004 and June 30, 2004 and the total number of shares (including State-owned shares) outstanding as of June 30, 2004, the average total market capitalization of Shanghai Power over this period was approximately RMB16,099 million.

Planned Power Plants

Description of Our Planned Power Plants

We have plans to build three additional power plants, namely, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant. Based on the preliminary feasibility studies we submitted to the PRC government, our estimated total investment in each of these three planned power plants is RMB4,643 million, RMB4,692 million and RMB4,977 million, respectively. Please also see the section entitled "Financial Information—Liquidity and Capital Resources—Capital Expenditures" for more information on our estimated capital expenditures for 2004, 2005 and 2006 on these three planned power plants. We plan to fund our construction of each of the three planned power plants with about 80% debt and 20% equity.

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The table below sets forth key operating data for the three planned power plants.

<u>Power Plants</u>	<u>Estimated In-Service Date</u>	<u>Estimated Total Investment (RMB millions)</u>	<u>Total Installed Capacity When Completed (MW)</u>	<u>Our Ownership (%)</u>	<u>Capacity Attributable to Us When Completed (MW)</u>
Anhui					
Pingwei Power Plant II	Unit 1: 2007 Unit 2: 2008	4,643	2 x 600	100	1,200
Henan					
Yaomeng Power Plant II	Unit 1: 2007 Unit 2: 2008	4,692	2 x 600	100	1,200
Hubei					
Huanggang Dabieshan Power Plant	Unit 1: 2008 Unit 2: 2009	4,977	2 x 600	89	1,068
Total			<u>3,600</u>		<u>3,468</u>

We have obtained the verification of the State Council under the new verification procedure for our Huanggang Dabieshan Power Plant project and we are still in the process of obtaining the requisite PRC governmental approvals for our remaining two planned power plants projects. As approvals for the projects are subject to the discretion of the PRC government which considers, among other things, PRC policies and macro-economic factors, uncertainties exist as to whether and when the PRC government will approve these two projects. Please see the section entitled “Risk Factors—Risks Relating to the Company and the PRC Power Industry—Delays in power plant development or acquisition may adversely affect our expansion plans” in this prospectus. However, at present we have not received any indication from the relevant PRC governmental authorities that such approvals will not be granted. In addition, our PRC legal adviser is of the view that our Company’s application for approvals does not violate prevailing PRC laws and regulations. We do not believe there will be any material impact on our existing operations in the event that the approvals cannot be obtained, since we do not expect our planned power plants to come into commercial operation before 2007. In the event that we do not obtain these approvals within a reasonable period or at all, CPI Group and CPI Holding have undertaken, pursuant to the Reorganization Agreement, to indemnify us for all direct losses incurred in connection therewith (excluding any profits that might have been generated from such planned power plants). Further, in the event that the requisite approvals are not obtained, we plan to use the portion of the net proceeds received from the Global Offering and intended for our investments in, and pre-operating expenses of, our planned power plants for future acquisitions and general corporate purposes.

On July 19, 2004, the State Council issued its decision entitled “Reform of the Investment System” which changes the approval process for investments in the PRC. According to this decision, coal-fired power plant projects are subject to the review of the investment regulatory authority of the State Council among other authorities under a new streamlined verification procedure. Please refer to the sections entitled “—Procedures for Development of Power Plants prior to Commencing Commercial Operation” below and “Information on the PRC Power Industry—The PRC Power Industry—Approval Process of New Power Projects” in this prospectus for further details on the State Council decision.

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Pingwei Power Plant II

Pingwei Power Plant II is located in Huainan City, Anhui Province, and will consist of two 600 MW super-critical coal-fired units. We have obtained the NDRC approval for the project proposal and are still waiting for further verification as required under the new verification procedure. We currently expect the first and second generating units at Pingwei II Power Plant to commence commercial operation in 2007 and 2008, respectively. Pingwei II Company was incorporated on November 17, 2003 to hold Pingwei Power Plant II. Pingwei II Company was wholly-owned by CPI Holding prior to the Reorganization. Pursuant to the Reorganization, CPI Holding has transferred to us its entire equity interest in this company.

Yaomeng Power Plant II

Yaomeng Power Plant II is located in Pingdingshan City, Henan Province, and will consist of two 600 MW super-critical coal-fired units. The project proposal was submitted to the NDRC in March 2003 and is pending final approval. We currently expect the first and second generating units at Yaomeng II Power Plant to commence commercial operation in 2007 and 2008, respectively. Yaomeng II Company was incorporated on November 28, 2003 to hold Yaomeng Power Plant II. Yaomeng II Company was wholly-owned by CPI Holding prior to the Reorganization. Pursuant to the Reorganization, CPI Holding has transferred to us its entire equity interest in this company.

Huanggang Dabieshan Power Plant

We plan to construct Huanggang Dabieshan Power Plant in Huanggang City, Hubei Province. Huanggang Dabieshan Power Plant will initially consist of two 600 MW super-critical coal-fired units. Huanggang Dabieshan Company was incorporated on December 17, 2003 to hold Huanggang Dabieshan Power Plant. We own an 89% equity interest in Huanggang Dabieshan Power Plant. Our joint venture partners are Huanggang Investment Company Limited, Hubei Power Development Company Ltd. and Macheng State Asset Management Company Limited, each of which is an independent third party to our Company (save for their respective interests in Huanggang Dabieshan Company). We have obtained the verification of the State Council for this project under the new verification procedure. We currently expect the first and second generating units at Huanggang Dabieshan Power Plant to commence commercial operation in 2008 and 2009, respectively.

Overview of Hubei Province

Economic Data. Hubei Province is located in central China and has a land area of approximately 185,900 square kilometers. Its population in 2003 was approximately 60.0 million people, representing approximately 4.6% of the total population of the PRC. From 1993 through 2003, Hubei Province's GDP increased from RMB142.4 billion to RMB539.6 billion, representing a CAGR of 14.2%. For the six months ended June 30, 2004, Hubei Province's GDP was RMB280.0 billion, representing a growth of 11.9% over the corresponding period in 2003.

Power Supply. Most of Hubei Province's electricity is generated by coal-fired and hydro-powered power plants. As at December 31, 2003, the total installed capacity of all power plants in Hubei Province was 19,711 MW. The power plants in the province generated 48.9 TWh of

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electricity during the six months ended June 30, 2004 and 78.3 TWh of electricity in 2003. In 2003, Hubei Province consumed approximately 62.9 TWh of electricity, a 12% increase over the previous year's 56.2 TWh. For the six months ended June 30, 2004, Hubei Province consumed 32.2 TWh of electricity, a 10.2% increase over the corresponding period in 2003.

According to the Notice on Resolution of Power Tariff Issues for Central China Power Grid, effective June 15, 2004, the average on-grid tariff for planned output and excess output for all coal-fired power plants in Hubei Province, inclusive of VAT, is approximately RMB346 per MWh and RMB260 per MWh, respectively.

OUR PREFERENTIAL DEVELOPMENT AND ACQUISITION RIGHTS

Pursuant to the Reorganization Agreement, CPI Group has designated us as its flagship company for developing, constructing, operating and acquiring future power plants in the PRC. In this respect, CPI Group and CPI Holding have granted us the following preferential rights:

- preferential rights to take up opportunities that CPI Group or CPI Holding may from time to time obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), subject to the restrictions imposed by relevant agreements or laws and regulations, if any; and
- in the event that CPI Group or CPI Holding wishes to dispose of power plants, power assets or power projects that it may from time to time own in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option), including new power plants or assets acquired by them in the future, the right of first refusal to acquire such power plants, power assets or power projects on terms comparable to those offered by a third party or negotiated at arms-length.

We believe that these preferential rights from CPI Group, one of the five national power generating groups in China, and CPI Holding, will provide us with opportunities for the development, construction, operation and acquisition of power plants in the PRC as well as allow us to obtain quality power assets from CPI Group and CPI Holding.

PROCEDURES FOR DEVELOPMENT OF POWER PLANTS PRIOR TO COMMENCING COMMERCIAL OPERATION

The process of identifying potential opportunities for power plants, obtaining government approvals, completing construction and commencing commercial operations is lengthy. We believe we have the expertise required to identify promising power plant projects and to secure the required PRC government approvals.

Internal Investment Analysis and Feasibility Study

When we identify an opportunity to develop a power plant, we conduct a study to determine if the opportunity is consistent with our overall business strategy. We may also consider undertaking the opportunity with a joint venture partner if doing so would result in more efficient use of our capital resources or would facilitate the development of the project. In addition, we consider the following factors: the growth of electricity demand in the province where the proposed power plant is located; the increase in supply of electricity in the local area, including the addition of new generation capacity; the average tariff of power plants of similar

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types and capacity; sources of fuel supply; the related transportation channels and the respective costs; and the location of the local load center and connection to the local power grid. Based on a preliminary analysis, we prepare and submit to our project evaluation committee an investment proposal and an in-depth feasibility study for the approval of that committee.

When we identify a potential investment opportunity, we may sign a letter of intent with potential partners, which is typically non-binding and subject to further internal analysis and approval.

Approval Process

Prior to March 2003, foreign investment enterprises proposing to undertake major new power plant projects were generally required to submit project proposals and feasibility studies to the former State Development and Planning Commission and the State Council for approval. In March 2003, the NDRC was created to replace the former State Development and Planning Commission and assumed its authority over the review and approval of major new power plants. Approval by the Ministry of Commerce or its designated authority is also required when foreign investment is involved. We have obtained the necessary approvals for all of our power plants under commercial operation. We have also obtained all licenses, permits and certificates necessary to conduct our operations from the relevant governmental bodies in the PRC. We have not breached any PRC laws and regulations applicable to us the result of which would, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition.

On July 19, 2004, the State Council issued its decision entitled “Reform of the Investment System” which changes the approval process for investments in the PRC. Depending on the types of investments, investments are subject to one of three types of procedures: a full approval procedure (審批制), a verification procedure (核准制), and a filing for the record procedure (備案制).

According to the State Council decision, coal-fired power plant projects without PRC government funding are subject to the verification procedure which involves the review and verification by the investment regulatory authority of the State Council and, if the project is classified as important, additional review and verification by the State Council. Verification review by the NDRC and the Ministry of Commerce or local government will also be necessary if foreign investment is involved. Applicants are only required to submit project application reports instead of the project proposals, feasibility studies and application reports for commencing construction as required previously. The types of specified investments qualified for the verification procedure are subject to change by the State Council. We believe the streamlined procedure will result in a shorter approval period for our future power projects.

Permits

To develop a new power plant, we need to obtain the requisite permits before commencing construction of the project. These permits generally include business licenses and approvals related to plant site, land use rights and environmental protection.

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Power Plant Construction, Start-up and Operation

After a generating unit is constructed, the contractor tests its installation and system functioning. Following these tests, the contractor puts the unit through a continuous trial run. After a unit successfully passes the continuous trial run, the contractor delivers the unit to us, at which time the unit is ready to enter into commercial operation.

ON-GRID TARIFFS

We charge and collect on-grid tariffs from our customers. Our tariffs are calculated on the basis of planned output, excess and other output, and output subject to competitive bidding.

Since April 2001, the PRC government started to gradually implement a new on-grid tariff-setting mechanism based on the operating term of power plants as well as the average costs of comparable power plants that were constructed during the same period within the same provincial power grid. This new mechanism was intended to replace the old tariff-setting mechanism which was designed to enable power plants to recover all operating and debt service costs and to earn a reasonable profit or a fixed rate of return on the net fixed assets. Based on our experience, the determination of the average costs under the new mechanism usually takes into consideration factors such as the following:

- construction costs, which vary according to the capacities of the individual power plants;
- operating and administrative expenses, such as labor and fuel costs;
- maintenance and repair costs of power plants; and
- interest expenses on outstanding debts.

One of the long-term goals of the Electric Power Law, which contains the general principles for determining tariffs, is to apply comparable tariffs to electricity of comparable quality dispatched to the same power grid. However, tariff differences still exist for electricity generated by power plants with similar capacity and dispatched to the same power grid. Because we make power plant investments based on conservative projections of future average on-grid tariffs, and because we exercise strict control over our construction, operation and financing costs, we believe that we will continue to generate a competitive return and recover our operating and financing costs under the new tariff-setting mechanism.

As an important element of China's power industry reform, some provinces have experimented in competitive bidding for on-grid tariffs. In the past, the on-grid tariffs for power sold through competitive bidding were generally lower than those for planned output.

In 2003, we sold approximately 76.9%, 22.5% and 0.6% of our total output through planned output, excess and other output and competitive bidding, respectively.

POWER SALES

The power industry in the PRC is structured such that almost every power plant sells all of the electricity it generates to its respective provincial grid company. All of our power plants under commercial operation sell their output pursuant to power sale agreements to the power grids to which they are connected. Accordingly, each power plant's sole customer is its respective provincial power grid. Specifically, Pingwei Power Plant sells its electricity to the Anhui provincial power grid under the

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East China Power Grid Company, Yaomeng Power Plant sells its electricity to the Henan provincial power grid under the Central China Power Grid Company, and Changshu Power Plant sells its electricity to the Jiangsu provincial power grid under the East China Power Grid Company. East China Power Grid Company is our Company's largest customer, whose purchase accounts for more than 50% of our total turnover. Sales to East China Power Grid Company and Central China Power Grid Company account for 100% of our Company's total turnover. While the power sale agreements typically have varying terms, the on-grid tariffs are reviewed and determined by the provincial price bureaus and approved by the NDRC. Each year the relevant provincial government agency issues guidelines on the planned output and excess output for each of our power plants under commercial operation with reference to the average utilization hours of comparable generating units in the same province. Pursuant to these guidelines, each of our power plants under commercial operation and each of their respective power purchasers reach agreement on the amount of the current year's planned output and excess output.

None of our Directors, their associates or our existing shareholder has any interest in our major customers.

Credit Terms

Our sales are mainly settled in RMB by either cash or notes. We generally grant credit terms ranging from 30 to 60 days to our customers.

Power Sales by Our Power Plants under Commercial Operation

The table below sets forth the average realized tariffs, exclusive of VAT, of our power plants under commercial operation for each of the three years ended December 31, 2003 and the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(RMB/MWh)				
Pingwei Power Plant					
Planned output	248	244	242	244	245
Excess and other output	121	176	199	198	244
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Weighted average realized tariff	218	219	226	228	244
Yaomeng Power Plant					
Planned output	195	195	192	193	196
Excess and other output	128	156	179	180	220
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Weighted average realized tariff	191	191	192	193	196
Changshu Power Plant					
Planned output	291	287	282	286	291
Excess and other output	145	164	185	163	217
Output subject to competitive bidding ⁽²⁾	160	157	187	190	—
Weighted average realized tariff	274	254	255	251	279

⁽¹⁾ Pingwei Power Plant and Yaomeng Power Plant operate in regions in China where the competitive pricing scheme has not been implemented.

⁽²⁾ The pilot competitive pricing scheme in Jiangsu Province in which Changshu Power Plant operates was terminated in 2003.

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In June 2004, the NDRC issued a Notice on Resolution of Power Tariff Issues for Central China Power Grid and a Notice on Resolution of Power Tariff Issues for East China Power Grid which are intended, among other things, to further standardize power output and tariff regulations for the power industry in China and adjust the tariffs applicable to these two power grids. For changes applicable to Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant, please see the section entitled “Financial Information—Factors Affecting Our Results of Operations and Financial Condition” in this prospectus.

COMPETITION AND DISPATCH

Each power plant in China produces power in accordance with the directions of the particular dispatch centers to which such power plant is linked. A dispatch center is required to dispatch electricity pursuant to the Dispatch Regulations, and in accordance with such dispatch center’s agreements with power plants subject to its dispatch. We compete against various entities, including power plants owned by large power companies and smaller local power plants that are located in the markets where we operate, as well as other power plants, on the basis of various factors, including proximity to load centers and capacity of generating units. We believe our power plants, which have capacity levels that are relatively large for the markets in which they operate, are well positioned to compete against smaller and less efficient competitors in these markets.

Each of our power plants under commercial operation has entered into a dispatch agreement with the power grid to which it is connected. Our dispatch agreements primarily provide the detailed technical requirements for power generation and dispatch. Dispatch agreements are usually for an indefinite term but are subject to review annually.

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The table below sets forth the planned output, excess and other output, output subject to competitive bidding and total output of each of our power plants under commercial operation for each of the three years ended December 31, 2003 and the six-month periods ended June 30, 2003 and 2004.

	Years ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	MWh				
Pingwei Power Plant					
Planned output	4,384,250	3,895,980	4,480,200	2,184,160	2,573,970
Excess and other output	1,327,200	2,309,330	2,615,160	1,129,310	1,586,850
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Total dispatch	5,711,450	6,205,310	7,095,360	3,313,470	4,160,820
Yaomeng Power Plant					
Planned output	5,820,630	5,762,369	6,577,777	3,379,928	3,237,368
Excess and other output	410,567	650,016	255,669	135,442	66,002
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Total dispatch	6,231,197	6,412,385	6,833,446	3,515,370	3,303,370
Changshu Power Plant					
Planned output	5,073,258	5,139,761	5,450,575	2,651,350	3,284,690
Excess and other output	209,356	1,277,346	1,970,130	947,440	637,640
Output subject to competitive bidding ⁽²⁾	544,935	561,740	119,910	119,910	—
Total dispatch	5,827,549	6,978,847	7,540,615	3,718,700	3,922,330

(1) Pingwei Power Plant and Yaomeng Power Plant operate in regions in China where the competitive pricing scheme has not been implemented.

(2) The pilot competitive pricing scheme in Jiangsu Province in which Changshu Power Plant operates was terminated in 2003.

FUEL SUPPLY

All of our power plants under commercial operation are fueled by coal. We purchase most of the coal supply for our power plants from a large number of coal producers in Shanxi Province, Anhui Province and Henan Province. Two of our power plants under commercial operation, Pingwei Power Plant and Yaomeng Power Plant, are mine-mouth power plants. Two of our planned power plants, Pingwei Power Plant II and Yaomeng Power Plant II, will also be mine-mouth power plants.

The weighted average of the standard coal prices per ton, exclusive of VAT, for our three power plants under commercial operation, including transportation costs and miscellaneous expenses, were approximately RMB269, RMB296, RMB301 and RMB366 in 2001, 2002, 2003 and the six months ended June 30, 2004, respectively.

In August 2004, the NDRC issued a notice on temporary interventional measures to be imposed on thermal coal prices for certain regions, which allowed coal suppliers and power enterprises to negotiate coal prices within an 8% range around the actual settlement prices calculated as of the end of May 2004. Please see the section entitled “Financial Information—Management’s Discussion and Analysis of Results of Operations—Factors Affecting Our Results of Operations and Financial Condition” for further discussion on the NDRC notice.

We participate in coal allocations under the State Plan by attending the annual sales conferences sponsored and coordinated by the NDRC. At these conferences, our coal-fired power plants obtain

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allocations for coal on a plant-by-plant basis. Each of our power plants then signs supply contracts with the coal producers and with the railway and shipping companies for the amount of coal and transportation allocated to us. The purpose of participating in the coal allocation under the State Plan is to secure a stable fuel supply and related transportation arrangements. In 2003, the volume of coal allocated to us at the annual sales conference represented approximately 90%, 73% and 60% of the fuel supply at Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant, respectively.

Any requirement in excess of allocations by the PRC government is procured on the open market. Historically, we have been able to purchase sufficient coal on the open market to meet our requirements. Our purchases are mainly settled in RMB by cash. Credit terms granted by our suppliers generally range from 60 to 180 days.

Our largest coal supplier is Huainan Mining Group, which supplied more than 45% of the Company's (excluding Changshu Power Plant) coal consumption in 2003. On a combined basis, the Company's two coal suppliers, and two coal agents through which the Company procured its coal in the open market, accounted for all of the Company's (excluding Changshu Power Plant) coal consumption in 2003. The three largest coal suppliers for Changshu Power Plant are Datong Coal Mine Group Co. Ltd., Xuzhou Mining Group Co. Ltd. and Kailuan Group Co. Ltd., which in aggregate supplied more than 50% of Changshu's coal consumption in 2003.

None of our Directors, their associates or our existing shareholder has any interest in our major suppliers.

REPAIR AND MAINTENANCE

Each of our power plants has a timetable for routine maintenance, regular inspections and repairs. These timetables and the procedures for the repair and maintenance of generating units are established by each project company pursuant to the relevant regulations promulgated by the PRC government. Under our procedures, generating units with a capacity of 300 MW or more are currently operating on a cycle of four to six years. At the end of each operating cycle, we generally carry out an overhaul lasting approximately 40 to 70 days.

ENVIRONMENTAL COMPLIANCE

Power plants in China are subject to the National Environmental Laws and the Local Environmental Rules. Under the National Environmental Laws, the State Environmental Protection Administration sets national pollutants emission standards. Local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards.

On July 1, 2003, the New Discharge Fees Regulations came into effect. According to the New Discharge Fees Regulations, the discharge fees payable by power plants for the emission of sulphur dioxide will increase significantly during the three-year period beginning July 1, 2003. Beginning on July 1, 2005, the discharge fees for emission of sulphur dioxide will be comparable to the general discharge fees for emission of air pollutants. The New Discharge Fees Regulations also provide that the amount of sulphur dioxide discharged by power plants with installed capacities of over 300 MW shall be evaluated and determined by the environmental protection administrative authorities at the respective levels of the provinces, autonomous regions and municipalities directly under the PRC government. This will affect all of our power plants under commercial operation since all of the

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generating units at these power plants have installed capacities of 300 MW and above. The environmental protection administrative authority at Jiangsu Province has evaluated and determined the amount of sulphur dioxide to be discharged by Changshu Power Plant. While the amount of sulphur dioxide to be discharged by each of Pingwei Power Plant and Yaomeng Power Plant has not yet been evaluated and determined, we expect this to be performed by the relevant environmental protection administrative authorities at each of Anhui Province and Henan Province, respectively. The implementation of the New Discharge Fees Regulations will require us to increase our capital expenditures to ensure compliance with these stricter environmental regulations. Please refer to the section entitled “Risk Factors—Risks Relating to the Company and the PRC Power Industry—We may encounter difficulties in controlling our costs should the PRC government adopt stricter environmental laws” in this prospectus for a more detailed discussion of our risks associated with environmental regulations.

Our power plants have adopted measures to control the discharge of different emissions into the atmosphere. Each power plant has a waste water treatment facility to treat water used by the power plant before it is released into the reservoir or the river. We pay discharge fees based on measurements made at the discharge points of each plant where waste is released. In 2001, 2002 and 2003, our three power plants under commercial operation paid discharge fees to local governments of approximately RMB13.2 million, RMB13.4 million and RMB22.6 million, respectively. The increase in 2003 was primarily due to the fact that some local governments started to implement the New Discharge Fees Regulations, as a result of which higher rates for discharge fees were applied and the discharge fees were collected for the actual amount of discharge, rather than only for the amount of discharge in excess of a certain threshold as was the case prior to implementation of the new regulations.

We believe that the environmental protection systems and facilities of our power plants are adequate to comply with applicable PRC national and local environmental protection regulations. In addition, each of our power plants has its own environment protection office and staff responsible for monitoring and operating its environmental protection equipment. We have not materially breached any environmental laws or regulations applicable to us. However, the PRC government may impose additional, stricter regulations similar to the New Emission Standards and the New Discharge Fees Regulations which would require additional expenditures on compliance with environmental regulations.

INSURANCE

Our power plants currently maintain with the People’s Insurance Company of China and other insurance companies approximately RMB13.5 billion of coverage on our property, plant and equipment.

In accordance with industry practice in the PRC, our power plants do not currently carry any third party liability insurance to cover claims in respect of personal injury or property or environmental damage arising from accidents on our property or relating to our operations. Our power plants do not carry business interruption insurance either, which is not customarily carried by power companies in the PRC. We believe that the insurance coverage of our power plants is adequate and is standard for the power industry in China. Please refer to the section entitled “Risk Factors—Risks relating to the Company and the PRC Power Industry—Operating power plants involves many risks and we may not have sufficient insurance coverage to cover the economic losses if any of our power plant’s ordinary operation is interrupted.”

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LEGAL PROCEEDINGS AND OTHERS

We are not currently a defendant in any material litigation, claim, administrative action or arbitration, and we confirm, after making due inquiries, that there is no pending or threatened proceeding which we believe would have a material adverse effect on our operations or financial condition.

We have not suffered any serious breakdown, failure or substandard performance of equipment, improper installation or operation of equipment, labor disturbance, natural disaster, environmental hazard and industrial accident during the past three years.

In 2003, China National Audit Office (“CNAO”) conducted an audit with respect to the affairs and assets of certain State-owned enterprises which included assets previously under the management of the State Power Corporation, including CPI Holding and some power plants controlled by CPI Holding. In August 2004, CNAO issued an audit decision report to CPI Holding, which found that during 2000 to 2002, our associated company, Changshu Company, had allowed several companies to use some land or assets not related to its power generation activities or power that it generated, at less than full commercial rates. In the view of CNAO, Changshu Company should have collected approximately RMB23 million more for such transactions had it charged full commercial rates consistent with certain financing regulations. Our PRC legal adviser is of the opinion that charging less than full commercial rates would be inconsistent with certain financing regulations. As a result, Changshu Company was requested to adjust the relevant accounts, collect the RMB23 million fees that should have been charged, and pay approximately RMB4.7 million in associated taxes on such fees. In accordance with the findings referred to above, Changshu Company has made appropriate adjustments and arrangements, collected the fees, and paid the associated taxes. As the findings in this CNAO report resulted in an increase of income to our Company and because of the small proportion of Changshu Company’s assets involved, we believe the findings in this CNAO report will not have a material impact on our operations or financial condition.

PROPERTIES

Our registered office, head office and principal place of business is located at Suite 5306, 53/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. We lease this property from an independent third party.

Pursuant to the Reorganization, we have obtained or leased certain properties from CPI Group and CPI Holding for use by our power plants under commercial operation. For some of the properties, we have not yet obtained the relevant land use right certificates or building ownership certificates. Below is a description of the properties used by each of our power plants under commercial operation.

- **Properties used by Pingwei Power Plant**

Pursuant to the Reorganization, Pingwei Company entered into a land lease agreement with CPI Group, under which Pingwei Company leased from CPI Group a total of five parcels of land with a total area of 4,438,189m². See the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Continuing Connected Transaction Exempt from Independent Shareholders’ Approval Requirements—Land Lease Agreements” for further details. Pingwei Company owns 134 buildings with a total gross floor area of approximately 195,353m² on these five parcels of land. Pingwei Company has obtained building ownership certificates in respect with all these buildings.

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Besides the land and buildings referred to above, Pingwei Company currently occupies one parcel of land with a total area of 45,800m², for which Pingwei Company has not yet obtained the relevant land use right certificate. On this parcel of land, Pingwei Company also occupies 34 buildings with a total gross floor area of 4,123m², for which Pingwei Company has not obtained the necessary building ownership certificates.

- **Properties used by Yaomeng Power Plant**

Pursuant to the Reorganization, Yaomeng Company entered into a land lease agreement with CPI Group, under which Yaomeng Company leased from CPI Group a total of 27 parcels of land with a total area of 2,887,772m². See the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Continuing Connected Transaction Exempt from Independent Shareholders’ Approval Requirements—Land Lease Agreements” for further details. Yaomeng Company owns 93 buildings with a total gross floor area of approximately 152,438m² on these 27 parcels of land. Yaomeng Company has obtained building ownership certificates in respect of all these buildings.

Besides the land and buildings referred to above, Yaomeng Company currently occupies 22 parcels of land with a total area of 627,115m², for which Yaomeng Company has not obtained the relevant land use right certificates yet. On these 22 parcels of land, Yaomeng Company also occupies 67 buildings with a total gross floor area of 53,389m², for which Yaomeng Company has not obtained the necessary building ownership certificates.

- **Properties used by Changshu Power Plant**

Changshu Company currently occupies seven parcels of land with a total area of 4,580,873m². On these seven parcels of land, Changshu Company also owns 145 buildings with a total gross floor area of 174,033m². Changshu Company has obtained all necessary land use right certificates and building ownership certificates in respect of all these land and buildings.

Besides the land and buildings referred to above, Changshu Company currently occupies 14 buildings with a total gross floor area of 8,161m², for which Changshu Company has not obtained the necessary building ownership certificates.

Altogether, as of July 31, 2004, we occupied approximately 12.58 million m² of land and owned approximately 587,497m² of property premises in the PRC for use by Yaomeng Power Plant, Pingwei Power Plant and Changshu Power Plant. Among these properties, we have not obtained proper title certificates for 23 parcels of land with a total area of approximately 672,915m², and 115 buildings with a total gross area of approximately 65,673m². Our Directors consider that these properties lacking proper title certificates are not crucial to us and the defects in title will not have a material impact on our operations for the reasons described below:

- (i) At Yaomeng Power Plant, the 22 parcels of land without land use rights certificates and the 67 buildings without building ownership certificates are used for transportation, storage, residential and recreational facilities and other ancillary non-production activities;
- (ii) At Pingwei Power Plant, the one parcel of land without land use right certificate and the 34 buildings without building ownership certificates are used for residential purposes which are unrelated to our production activities;

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- (iii) At Changshu Power Plant, the 14 residential and office units without building ownership certificates are used for non-production activities; and
- (iv) altogether, the land and buildings mentioned in (i) to (iii) above represent only a small percentage (approximately 5% and 11%) of the total area and gross floor area of land and buildings that we occupy, respectively.

In preparation for the Global Offering, we began evaluating the process for and possibility of obtaining all necessary certificates at the early stage of the Reorganization and have obtained most of the certificates, in particular for the properties related to our production activities. As regards the remaining properties, we have applied for the relevant land use rights certificates and building ownership certificates for properties related to our production activities at Pingdingshan Land Administration Bureau and Pingdingshan Building Administration Bureau in April 2004, and are still in discussion with other relevant authorities in relation to other properties. Based on advice from our PRC legal adviser, our Directors are of the view that there may be uncertainties as to whether we can obtain the relevant certificates in a timely manner or at all. In addition, there is no assurance that our use and occupation of the relevant land and buildings will not be challenged. Please see the section entitled “Risk Factors—Risks relating to the Company and the PRC Power Industry—We do not possess the title certificates in respect of certain land and buildings occupied by us” in this prospectus. CPI Group and CPI Holding have undertaken to indemnify us against all losses, claims, charges or expenses arising out of any dispute as to our legal rights to use and occupy the relevant land and properties and any delay or failure to obtain the relevant certificates.

CPI GROUP/CPI HOLDING AND THEIR RELATIONSHIP WITH US

GENERAL

CPI Holding, established on October 6, 1994, became a wholly-owned subsidiary of the State Power Corporation following the PRC power industry restructuring in January 1997. It acted as the State Power Corporation's only financing vehicle incorporated overseas and played a key role in the State Power Corporation's overall objectives to adopt international practices and tap the international financial markets. Since 1999, it has held substantial equity interests in, among others, Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant, which are located in Anhui Province, Henan Province and Jiangsu Province, respectively.

CPI Group was established in 2003 as one of the leading independent power generation groups in China to hold power generation assets distributed by the State Power Corporation pursuant to the restructuring of the PRC power industry. Its assets span 17 provinces, municipalities and autonomous regions, including power generation assets with a total installed capacity of approximately 30 GW. As of December 2003, coal-fired generation units accounted for 22.2 GW or 69.3%, hydro-electric generation units accounted for 7.9 GW or 26.3%, and nuclear generation units accounted for 1.4 GW or 4.5% of CPI Group's total installed capacity.

Pursuant to the PRC power industry restructuring, CPI Holding became a wholly-owned subsidiary of CPI Group when the State Power Corporation transferred its entire equity interest in CPI Holding to CPI Group in 2004. In addition, a 40% equity interest in Yaomeng Company, a 40% equity interest in Pingwei Company and a 20% equity interest in Changshu Company previously held by provincial power companies owned by the State Power Corporation were also transferred to CPI Group.

THE REORGANIZATION

Pursuant to the Reorganization:

- (1) On August 30, 2004, CPI Group transferred its 40% equity interest in each of Pingwei Company and Yaomeng Company and its 20% equity interest in Changshu Company to CPI Holding.
- (2) On August 18, 19 and 20, 2004, CPI Holding transferred its 100% equity interest in Yaomeng II Company, its 89% equity interest in Huanggang Dabieshan Company and its 100% equity interest in Pingwei II Company to us, respectively. On September 1, 2004, CPI Holding transferred its 100% equity interest in each of Pingwei Company and Yaomeng Company and its 50% equity interest in Changshu Company to us.
- (3) CPI Group granted to us a call option to acquire up to a 25% equity interest in Shanghai Power. Please refer to the sections entitled "Business—Description of Power Plants—Power Company under Call Option" and "—Connected Transactions—Connected Transactions Which Are Not Continuing Connected Transactions—Shanghai Power Option Deed" in this prospectus for a detailed description of Shanghai Power and this call option.
- (4) We have entered into the Management Agreement effective July 1, 2004 with CPI Group and CPI Holding to manage six power plants on their behalves, namely, Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant. Please refer to the sections entitled "Business—Description of Power Plants—Power Plants under Management" and "—Connected Transactions—Continuing Connected Transactions Exempt from Independent Shareholders' Approval Requirements—Management Agreement" in this prospectus for a detailed description of these power plants under management.

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- (5) CPI Group and CPI Holding have granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option). For details relating to these preferential rights, please refer to the subsection below entitled “—Connected Transactions—Connected Transactions Which Are Not Continuing Connected Transactions—Reorganization Agreement” in this prospectus.
- (6) We agreed to distribute the Special Dividend to CPI Holding.

Since our incorporation on March 24, 2004, all our issued share capital is beneficially held by CPDL which, in turn, is wholly-owned by CPI Holding. As part of the Reorganization, in consideration of the transfers mentioned in (2) above, we further allotted and issued a total of 2,099,999,999 Shares to CPDL on September 1, 2004. CPDL will remain our sole shareholder until the completion of the Global Offering, pursuant to which approximately 33% of our entire issued share capital will then be held by the public, assuming the Over-allotment Option is not exercised.

SELECTION OF POWER PLANTS

We have three power plants under commercial operation, namely Pingwei Power Plant (in Anhui Province) and Yaomeng Power Plant (in Henan Province), in each of which we have a 100% ownership interest, and Changshu Power Plant (in Jiangsu Province) in which we have a 50% ownership interest. In addition, we have six power plants under management and a call option to acquire up to a 25% equity interest in Shanghai Power, a company listed on the Shanghai Stock Exchange and which owns six power plants in the Shanghai municipality.

We have selected the power plants under commercial operation and the power plants under management based principally on their historical ownership and management, their installed capacity, their geographical locations and other criteria affecting suitability for inclusion into a listed entity such as independence in their operations and accounting.

- Historical reason

CPI Holding, which was incorporated in 1994, pre-dates CPI Group, which was formed in 2003 pursuant to the restructuring of the State Power Corporation. Compared to CPI Group, CPI Holding has had a longer history in owning and managing power plants. Thus, power plants owned and managed by CPI Holding, which CPI Holding had acquired extensive knowledge of and experience with, took precedence in our selection of power plants.

- Large-scale power plants

We also considered the installed capacity of each power plant, relative to the installed capacity of the other power plants owned and managed by CPI Group and CPI Holding. Among power plants owned by CPI Group and CPI Holding, we preferred power plants with higher installed capacity capable of generating power more efficiently over power plants that have lower installed capacity.

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- Geographical locations

Where possible, we selected power plants located in areas of high economic growth, high electricity demand and insufficient power supply. Further, power plants under management were also selected based on their geographical locations to expand our Company's geographical coverage in the PRC and to allow our Company to obtain first-hand knowledge of the local power markets and new development opportunities in these markets.

- Suitability Factors

We examined the operations of each power plant to determine its suitability for inclusion in our portfolio. Prior to the restructuring of the power industry, power plants owned by the State Power Corporation and the power grids to which they were connected were both generally operated as part of the provincial power companies and were both subject to an internal settlement system with the provincial power companies. The output of each power plant was determined by the relevant power grid and not by the power plant itself. Furthermore, as both such power plants and the power grids to which they supplied power were treated as internal units of the provincial power companies, no charge rate was assigned to output supplied by the power plant to the power grid. Financial statements were also maintained at the provincial power company level, not at the power plant level. Pursuant to the separation of power generation operations from transmission and dispatch operations, power plants transferred to CPI Group by the State Power Corporation that were not independently operated and accounted for, are undergoing restructuring to become power producers that are independently operated and accounted for. Prior to their full transformation into independent power producers, we do not include these power plants in our portfolio of assets.

Power Plants under Commercial Operation

Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant were primarily selected because of historical reason and their relatively high total installed capacity. Together with Qinghe Power Plant, they formed the core assets of CPI Holding prior to the Reorganization and were under the management of CPI Holding since 1999. Each of them has a total installed capacity of about 1,200 MW and is considered a large-scale power plant compared with the other power plants owned by CPI Group and CPI Holding. Each of them is also the largest power plant of CPI Group in terms of installed capacity in the respective provinces they are located.

We did not include Qinghe Power Plant in our Company at this stage primarily because it is undergoing a restructuring process, which commenced in September 2003, to streamline its business operations by spinning-off its non-core operations and related work-force from its core power generating operations. The internal restructuring is expected to complete before the end of 2004. Prior to the completion of Qinghe Power Plant's internal restructuring, we believe it is not appropriate to include it as part of our portfolio of power plants under commercial operation. We however manage Qinghe Power Plant for CPI Holding under the Management Agreement to leverage our extensive knowledge and experience derived from having managed Qinghe Power Plant in the past.

Power Plants under Management

We have selected Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Hongze Power Plant and Wuhu Power Plant for management primarily because of their geographical locations.

Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant and Shaxikou Power Plant are located in the provinces of Liaoning, Shanxi, Jiangxi and Fujian, respectively. By managing these power plants, we would have an opportunity to gain first-hand knowledge of a wider coverage of local power markets and new development opportunities in these markets. In addition, unlike the coal-fired power plants owned by us, Shaxikou Power Plant is a hydro power plant. We want to gain experience in operating Shaxikou Power Plant to better assess the viability of expanding our operations to hydro power plants in the future. Further, in terms of relative size, Shentou I Power Plant is considered a large-scale power plant with a total installed capacity of 1,200 MW.

We currently manage but do not own Shentou I Power Plant, Guixi Power Plant and Shaxikou Power Plant. We consider these plants unsuitable for equity ownership at present because these power plants are still in the process of being transformed into power producers that operate independently and such power plants only recently commenced separate financial accounting.

Wuhu Power Plant is in Anhui Province (where Pingwei Power Plant is located) and Hongze Power Plant is in Jiangsu Province (where Changshu Power Plant is located). Entrusting these power plants to us for management will allow us to avoid any potential competition with our power plants located in these regions. Wuhu Power Plant and Hongze Power Plant, with an installed capacity of 250 MW and 15 MW respectively, have not been injected into our Company as they are smaller in scale compared with our power plants under commercial operation and do not accord with our business strategy.

Shanghai Power Call Option and Preferential Rights

CPI Group has granted to us a call option to acquire up to a 25% equity interest in Shanghai Power. This gives us an opportunity to reap the benefits of being a substantial shareholder of Shanghai Power, which had equity interests in six power plants in the Shanghai municipality with total net installed capacity of 2,809 MW as of December 31, 2003.

In addition, each of CPI Group and CPI Holding has granted us the following preferential rights:

- preferential rights to take up opportunities that CPI Group or CPI Holding may from time to time obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), subject to the restrictions imposed by relevant agreements or laws and regulations, if any; and
- in the event CPI Group or CPI Holding wishes to dispose of power plants, power assets or power projects that they may from time to time own in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option), including new power plants or power assets acquired by them in the future, the right of first refusal to acquire such power plants,

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power assets or power projects on terms comparable to those offered by a third party or negotiated at arms-length.

These preferential rights accord with our flagship status and will strengthen our position as the only company within CPI Group with the mandate to develop, construct, manage and operate power plants nationwide within the PRC.

By comparison, except for Shanghai Power, which has been granted similar preferential rights to acquire assets in Shanghai by CPI Group, the other listed companies in which CPI Group has interests, namely Chongqing Jiulong Power Limited (listed on the Shanghai Stock Exchange) and Shanxi Zhangze Electric Power Co., Ltd (listed on Shenzhen Stock Exchange), have not been given similar preferential rights. CPI Group intends to treat Shanghai Power, Chongqing Jiulong Power Limited, and Shanxi Zhangze Electric Power Co., Ltd. as regional power companies, as opposed to nationwide power companies. Accordingly, we will not face any competition from these other listed companies to buy quality assets from CPI Group or CPI Holding in the PRC (except, in the case of CPI Group, in Shanghai).

Before we exercise any of our preferential rights to acquire any power plants or power assets from CPI Group or CPI Holding,

- we will seek the view of an independent financial adviser as to the fairness of the transfer price (if required under Chapter 14A of the Listing Rules); and
- our independent non-executive Directors will separately review (a) whether the Company should exercise the preferential rights and acquire the relevant power plants or power assets and (b) whether the terms and conditions of the acquisition are fair and reasonable and in the interest of our Company as a whole.

Any acquisition we make pursuant to the exercise of our preferential rights to acquire assets from the CPI Group will also constitute a connected transaction under the Listing Rules and we will ensure that all the relevant requirements under Chapter 14A of the Listing Rules are complied with.

DELINEATION OF BUSINESS AND COMPETITION

Excluded Businesses

After the Reorganization, CPI Holding will own the following assets that have not been injected into our Company:

- a 100% equity interest in Qinghe Company located in Liaoning Province;
- a 45% equity interest in Shaoda Company which owns Wuhu Power Plant located in Anhui Province;
- a 60% equity interest in Hongze Company which owns Hongze Power Plant located in Jiangsu Province;
- a 100% equity interest in Shentou I Power Plant located in Shanxi Province;
- a 100% equity interest in Guixi Power Plant located in Jiangxi Province; and
- a 100% equity interest in Shaxikou Power Plant located in Fujian Province.

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After the Reorganization, CPI Group will continue to have equity interests in some power project companies and power plants in the PRC, including the provinces or municipality of Henan, Jiangsu, Liaoning, Shanxi, Jiangxi and Shanghai. Thus, save for Henan Province and Jiangsu Province, CPI Group's power plants are located in different geographical regions from our power plants under commercial operation.

The following table shows the power plants owned by CPI Holding and CPI Group in Anhui Province, Henan Province and Jiangsu Province, where our power plants under commercial operation are located.

Location	Our power plants	Power plants of CPI Holding (excluding power plants owned by us)	Power plants of CPI Group (excluding power plants owned by us and CPI Holding)
Anhui Province	Pingwei Power Plant Coal-fired 1,200 MW total installed capacity	Wuhu Power Plant ⁽¹⁾ Coal-fired 250 MW total installed capacity	nil
Henan Province	Yaomeng Power Plant Coal-fired 1,210 MW total installed capacity	nil	9 power plants Coal-fired 887 MW total installed capacity (of which the largest has a total installed capacity of 270MW)
Jiangsu Province	Changshu Power Plant Coal-fired 1,200 MW total installed capacity	Hongze Power Plant ⁽¹⁾ Coal-fired 15 MW total installed capacity	1 power plant under construction Nuclear —

⁽¹⁾ Pursuant to the Management Agreement, we have been managing these power plants since July 1, 2004 on behalf of CPI Holding. The management term is for a period of three years and is renewable by mutual agreement.

No Competition with the Excluded Businesses

General

We believe there is generally no competition between our power plants under commercial operation and the power plants retained by CPI Group and CPI Holding due to the following reasons.

- There is a power shortage in a majority of areas in China.

The PRC is facing an electricity supply shortage in a majority of areas, including the provinces of Henan, Anhui and Jiangsu in which our power plants under commercial operation are located. We expect this situation to continue in the near future, as demand for and consumption of electricity continues to outpace power supply due to rapid economic growth.

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- Most of the power plants retained by CPI Group and CPI Holding are located in different geographical areas from and are connected to different power grids than our power plants.

Except for CPI Holding's Hongze Power Plant and Wuhu Power Plant, located in Jiangsu Province and Anhui Province, respectively, our power plants are located in, and supply power to, different geographical regions from the power plants of CPI Holding. As regards the power plants retained by CPI Group, except for nine power plants in Henan Province and one nuclear power plant in Jiangsu Province, CPI Group's other power plants are located in and supply power to different geographical areas. As each power plant is only connected and supplies power to a particular local power grid, the power plants retained by CPI Group and CPI Holding which are located in different provinces and connected to different power grids than our power plants are unable to supply power directly to the same power grids as our power plants (though the power grids themselves may transmit power to power grids in other provinces). Accordingly, such power plants are unable to compete directly with our power plants under commercial operation.

- Planned output and excess output are largely pre-determined.

Even if the power plants retained by CPI Group and CPI Holding are located in the same geographical regions as our power plants under commercial operation, there is little competition on production levels since planned output and excess output, which comprise a substantial portion of the output of our power plants, are largely pre-determined by the relevant local provincial governments. Based on guidelines issued by the relevant provincial government agencies with reference to the average utilization hours of the comparable generating units in the relevant provinces, every year, our power plants and the relevant power grid companies agree in advance on the planned output and excess output for the current year.

Power Plants Retained by CPI Holding

We believe no competition arises between our power plants under commercial operation and the power plants of CPI Holding for the reasons described in the subsection entitled “—No Competition with the Excluded Businesses—General”.

In particular, we believe no competition arises between our power plants under commercial operation and Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant and Shaxikou Power Plant as these power plants are located in different geographical regions from the locations of our power plants.

As for Wuhu Power Plant and Hongze Power Plant, although they are located in the respective provinces where Pingwei Power Plant and Changshu Power Plant are located, we believe there is no competition because:

- Anhui Province, where Pingwei Power Plant is located, faces electricity shortages; and
- Jiangsu Province, where Changshu Power Plant is located, faces electricity shortages. Further, power generated by Hongze Power Plant is mainly supplied to the Huai An City power grid whereas Changshu Power Plant supplies power to the Jiangsu provincial power grid which transmits electricity throughout the whole Jiangsu Province.

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Pursuant to the Management Agreement, CPI Holding and CPI Group have entrusted to us the management power that they have in each of Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Hongze Power Plant and Wuhu Power Plant. By relinquishing management of these power plants to us, CPI Holding no longer manages any other power plants, with the result that no competition arises between CPI Holding and ourselves.

Power Plants Retained by CPI Group

Similarly, we believe no competition arises between our power plants under commercial operation and the power plants of CPI Group for the reasons described in the subsection entitled “—No Competition with the Excluded Businesses—General”.

In particular, save for nine power plants in Henan Province and one nuclear power plant in Jiangsu Province, CPI Group’s other power plants are located in and supply power to different geographical areas.

Although CPI Group has power plants in Henan Province and Jiangsu Province, we believe there is no competition as both Henan Province and Jiangsu Province currently face electricity shortages. Further, compared to Yaomeng Power Plant in Henan Province, CPI Group’s nine power plants are much smaller in scale, with the largest having an installed capacity of 270 MW and the nine power plants having a total installed capacity of 887 MW. We do not regard these plants as significant competitors. Moreover, there is limited room for competition as the planned output and excess output of each power plant are largely pre-determined by the relevant local provincial governments.

Delineation and Future Acquisitions

We believe there is a clear delineation between our Company’s business and the businesses of CPI Group and CPI Holding because:

- pursuant to the Management Agreement, CPI Holding has entrusted to us the management of all its power plants (including Shentou I Power Plant, Guixi Power Plant and Shaxikou Power Plant which it will wholly-own upon due transfers by CPI Group to CPI Holding pursuant to the Reorganization). After the completion of the Reorganization, CPI Holding will no longer manage or operate any power plants and will function mainly as a holding company; and
- except for nine power plants in Henan Province and a nuclear power plant in Jiangsu Province, CPI Group’s other power plants are all located in different geographical areas from where our power plants are located. Our business is therefore clearly delineated from the business of CPI Group by geographical regions. Further, CPI Group’s power plants in Henan Province are relatively smaller in scale compared to Yaomeng Power Plant. CPI Group’s nuclear power plant in Jiangsu Province is also distinguishable from Changshu Power Plant, which is a coal-fired power plant.

Under the Reorganization Agreement, we have been granted the following preferential rights:

- preferential rights to take up opportunities that CPI Group or CPI Holding may from time to time obtain to acquire, develop or invest in new power plants, power projects or power

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assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, Shanghai), subject to the restrictions imposed by relevant agreements or laws and regulations, if any; and

- in the event CPI Group or CPI Holding wishes to dispose of power plants, power assets or power projects that they may from time to time own in the PRC (except, in the case of CPI Group, Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option), including new power plants or power assets acquired by them in the future, the right of first refusal to acquire such power plants, power assets or power projects on terms comparable to those offered by a third party or negotiated at arms-length.

We currently intend to consider one or more of the following criteria, among others when selecting power plants for injection into our Company in the future pursuant to the preferential rights:

- we intend to select power plants located in the regions where we have gained sufficient knowledge and experience in operating power plants, where there is high economic growth, high electricity demand and insufficient power supply, where there is easy access to large coal mines, railways or ports or which are close to power consumption load centers;
- we intend to select the types of power plants we have experience managing, being coal-fired power plants and hydro power plants;
- we intend to select large capacity and highly efficient power plants that will give us a competitive advantage in the regions we operate in; and
- we intend to select power plants we believe will enhance shareholder value. This may exclude power plants that require restructuring, or are undergoing restructuring.

CONNECTED TRANSACTIONS

Prior to listing of our Shares, we have entered into the following “connected transactions” (as defined in the Listing Rules):

Connected Transactions Which Are Not Continuing Connected Transactions

Details of connected transactions of the Company which are not continuing connected transactions under Chapter 14A of the Listing Rules are set out below.

Reorganization Agreement

As part of the Reorganization, the Company has entered into the Reorganization Agreement, pursuant to which, among other things, the injections of certain equity interests referred to in the section entitled “Business—Reorganization” in this prospectus were effected. In addition, CPI Group and CPI Holding have also granted the following preferential rights to the Company:

- preferential rights to take up opportunities that CPI Group or CPI Holding may from time to time obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI

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Group, in Shanghai), subject to the restrictions imposed by relevant agreements or laws and regulations, if any; and

- in the event CPI Group or CPI Holding wishes to dispose of any power plants, power assets or power projects that they may from time to time own in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group's remaining shares in Shanghai Power which are not the subject of our call option), including new power plants or assets acquired by them in the future, the right of first refusal to acquire such power plants, power assets or power projects on terms comparable to those offered by a third party or negotiated at arm's length.

The grant of the preferential rights pursuant to the Reorganization does not constitute a continuing connected transaction. Whenever a connected transaction is entered into as a result of the exercise of the preferential rights or pursuant to other new agreements entered into in the future, the Company may, depending on the nature and value of such transaction, be subject to, and will fully comply with, relevant reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Any such transactions should not be continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Shanghai Power Option Deed

As part of the Reorganization, the Company entered into the Shanghai Power option deed with CPI Group on August 27, 2004, pursuant to which the Company was granted an option to acquire up to a 25% equity interest in Shanghai Power. The option is exercisable within 3 years from October 29, 2004, following the expiry of the undertaking by CPI Group not to dispose of its equity interest in Shanghai Power. Subject to compliance with PRC laws and regulations and the Company securing the approvals of the SASAC, the CSRC and the Ministry of Commerce for the exercise of the call option, the exercise price of the call option will, at our election, be either the price agreed upon based on the then net asset value per share, or the then prevailing market price per share attributable to the listed shares of Shanghai Power, taking into consideration the following factors:

- the lack of liquidity of the shares under the call option, as they are "State-owned" shares which are subject to restrictions on transfer under PRC laws and cannot be traded on the Shanghai Stock Exchange; and
- relevant PRC laws and regulations, which currently require that the exercise price per share shall not be lower than the net asset value per share. "Net asset value per share" is not clearly defined under PRC laws and regulations; however it is likely that reference will be made to the latest audited net asset value of Shanghai Power.

At present, we do not intend to subsequently sell any equity interest in Shanghai Power acquired pursuant to an exercise of the option.

The Shanghai Power option deed was entered into pursuant to the Reorganization and does not constitute a continuing connected transaction. The exercise of the call option after the listing of our Shares on the Stock Exchange would constitute a connected transaction under the Listing Rules. In addition, pursuant to Rule 14A.70(3), the non-exercise of the call option will be treated as if the option was exercised and would constitute a connected transaction. As required

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by Chapter 14A of the Listing Rules, we will comply with the relevant reporting, announcement and/or independent shareholders' approval requirements concerning the connected transaction constituted by the exercise of the call option. We will also make an appropriate announcement if a decision not to exercise the call option is made, or if the call option lapses without being exercised, and will comply with other relevant reporting and/or independent shareholders' approval requirements concerning the connected transaction constituted by the non-exercise of the call option.

In the view of our Directors (including our independent non-executive Directors), the connected transactions above have been entered into on commercial terms that are better than those entered into in our usual and ordinary course of business and are in the interest of our shareholders as a whole.

Continuing Connected Transaction Exempt from the Reporting, Announcement and Independent Shareholders' Approval Requirements

Details of our continuing connected transaction which is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules are set out below. Our Directors (including our independent non-executive Directors) consider that the trade mark license agreement mentioned below was entered into (i) on normal commercial terms, (ii) in the ordinary course of our business and (iii) on terms that are fair and reasonable and in the interest of our shareholders as a whole.

Trade Mark License Agreement

We entered into a trade mark license agreement with CPI Group on August 27, 2004, under which we were granted irrevocable, royalty-free and non-exclusive licenses to use certain trade marks and the right to sub-license the same to any company in which we directly or indirectly (i) have 30% or more of the voting rights; (ii) own 30% or more of the registered share capital or (iii) control the composition of its board of directors, at no consideration for a term of three years commencing August 27, 2004, the date of the agreement. Details of the trade marks being licensed are set out in the section headed "4. Further Information about our Business—B. Intellectual Property Rights" in Appendix VII to this prospectus. CPI Group has made a commercial decision not to transfer the relevant trade marks to us because CPI Group needs to use such trade marks for its business operations in the PRC.

The connected transaction above falls within the exemption under Rule 14A33(3)(a) of the Listing Rules on the basis that each of the applicable relevant percentage ratios is, on an annual basis, less than 0.1%. Accordingly, such transaction will be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions Exempt from Independent Shareholders' Approval Requirements

Based on the respective proposed maximum aggregate annual values set out below, the continuing connected transactions under the following agreements fall within the threshold in Rule 14A.34 of the Listing Rules. Hence, the following continuing connected transactions are

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only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

In the view of our Directors (including our independent non-executive Directors), the maximum aggregate annual values in respect of each of the following continuing connected transactions for each of 2004, 2005 and 2006 are fair and reasonable. In addition, our Directors (including our independent non-executive Directors) consider that each of the following continuing connected transactions were entered into (i) on normal commercial terms, (ii) in the ordinary course of our business and (iii) on terms that are fair and reasonable and in the interest of our shareholders as a whole.

Management Agreement

We have entered into the Management Agreement with CPI Group and CPI Holding effective July 1, 2004 to manage Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant in return for a service fee. Pursuant to the Management Agreement, CPI Group and CPI Holding have entrusted the managing power that they have in each of these six power plants to us for a term of three years. Upon its expiry, the Management Agreement is renewable with the consent of all parties thereto. CPI Group is in the process of transferring all its ownership interests in Shentou I Power Plant, Guixi Power Plant and Shaxikou Power Plant to CPI Holding pursuant to the Reorganization.

To the extent not exceeding the managing power that each of CPI Group and CPI Holding has in these six power plants, our scope of services under the Management Agreement in respect of these six power plants includes:

- planning and implementing new developments and the yearly budgets of the respective power plants; and
- production management, sales management, engineering management, financial management, fuel supply management and human resources management of the respective power plants.

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

- costs (including set-up, operational and other recurrent items to be incurred by us in managing the power plants) ("Management Costs"), amounting to RMB6 million for the period from July 1, 2004 to December 31, 2004;
- a premium to cover estimated risks set at 15% of the Management Costs, amounting to RMB0.9 million for the period from July 1, 2004 to December 31, 2004; 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 incentive/penalty shall therefore not exceed RMB0.9 million for the period from July 1, 2004 to December 31, 2004.

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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 our management but no later than 90 days after the end of each year. The service fee (excluding the profit/loss margin component) for the period from July 1, 2004 to December 31, 2004 payable under the Management Agreement amounts to RMB6.9 million.

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 our Board; and
- any change in the scope or nature of the management services.

We, CPI Group and CPI Holding have determined the service fee payable under the Management Agreement on the basis of commercial arm's length negotiation. Please refer to the section entitled "Business—Description of Power Plants—Power Plants under Management" in this prospectus.

The maximum aggregate annual value in respect of this connected transaction for each of the years 2004, 2005 and 2006 is RMB16 million, RMB18 million and RMB20 million, respectively. Given that there have been no historical values for this connected transaction, the Directors arrived at these maximum aggregate annual values by assuming that annual adjustment will result in a RMB2 million increase in the maximum aggregate annual value each year. On the basis of such annual caps, the applicable percentage ratios set out in Rule 14.07 of the Listing Rules will not exceed 2.5%.

Land Lease Agreements

Each of Pingwei Company and Yaomeng Company entered into a land lease agreement with CPI Group on August 27, 2004 to lease the land on which Pingwei Power Plant and Yaomeng Power Plant are respectively situated from CPI Group. The land lease agreement with Yaomeng Company was later supplemented on September 24, 2004. The basic terms of the land lease agreements are as follows:

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

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The annual rent payable by Pingwei Company and Yaomeng Company to CPI Group in relation to the leased land is determined by reference to market rates. The maximum aggregate annual value of the rent payable by Pingwei Company and Yaomeng Company (calculated based on the annual rent payable under the land lease agreements) for each of 2004, 2005 and 2006 is about RMB13,000,000. Because there have been no historical values for these connected transactions, our Directors determined the aforesaid maximum aggregate annual value based on comparable market rates for the leased land. Sallmanns (Far East) Limited, the independent property valuer of the Company, has reviewed the land lease agreements and has confirmed that the rental payments by Pingwei Company and Yaomeng Company to CPI Group contemplated therein are currently in line with market rates. On the basis of such annual caps, the applicable percentage ratios set out in Rule 14.07 of the Listing Rules will not exceed 2.5%.

Continuing Connected Transactions—Waiver

After the Global Offering and the listing of the Shares, the Company will continue to enter into or carry out the transactions contemplated by the Management Agreement and the land lease agreements, and these transactions will constitute continuing connected transactions of the Company under the Listing Rules. These continuing connected transactions are exempt from the independent shareholders' approval requirements but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules. Given their recurring nature and the fact that the respective agreements for each of these continuing connected transactions were entered into prior to the listing of the Shares, the Directors consider that strict compliance with the announcement requirements would be impractical and would add additional administrative costs to the Company. Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Listing Rules for these continuing connected transactions. We will comply with the other relevant requirements under Chapter 14A of the Listing Rules, including the proposed annual caps for these continuing connected transactions.

The Sponsor is of the opinion that the maximum aggregate annual values of these continuing connected transactions are fair and reasonable and these continuing connected transactions for which a waiver is sought are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable, and in the interests of our shareholders as a whole.

Independence of Our Company

Our Directors are satisfied that we will be able to carry on our business independently of CPI Group and CPI Holding after the Global Offering. The bases for our Directors' view are described below.

Independence of Our Power Plants' Operations

None of the general managers of our power plants under commercial operation holds any position within CPI Group or CPI Holding. In addition, none of the directors of the holding companies of our power plants under commercial operation holds any position within CPI Group. Although some directors of these holding companies hold positions in CPI Holding, their positions in CPI Holding will not conflict with their roles as directors of these holding companies as CPI Holding has entrusted the management of all power plants owned by it in the

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PRC to us and will not manage or operate any power plants immediately after the Global Offering.

Moreover, our Company is completely independent of CPI Group and CPI Holding in key areas of operation including the supply of fuel, the sale of output and our financial position as (i) our coal procurement arrangements are made with coal suppliers independently from CPI Group, CPI Holding and their associates; (ii) the power sale and dispatch arrangements of our power plants are made with power grid companies independently from CPI Group, CPI Holding and their associates; and (iii) we are financially independent of CPI Group, CPI Holding and their associates.

Independence of Our Company's Management

Independence of Our Directors

The board of directors (or its equivalent) of each of CPI Group, CPI Holding and the Company are described below.

CPI Group CPI Group does not have a board of directors. Its management comprises six members in total, with Wang Binghua as president and Ding Zhongzhi, Meng Zhenping, Shi Chengliang, Zhang Xiaolu and Li Xiaolin as vice-presidents. Four vice-presidents of CPI Group, namely Ding Zhongzhi, Meng Zhenping, Shi Chengliang and Zhang Xiaolu, do not have any role in our Company.

CPI Holding The board of directors of CPI Holding comprises seven members, with three executive directors, namely Li Xiaolin, Hu Jiandong and Gu Dake and four non-executive directors, namely Wang Binghua (also chairman of its board of directors), Gao Guangfu, Yang Yi and Guan Qihong.

Our Company Our Board comprises seven members, with Wang Binghua as Chairman, two executive Directors, namely Li Xiaolin and Hu Jiandong, two non-executive Directors, namely Wang Binghua and Gao Guangfu, and three independent non-executive Directors, namely, Kwong Che Keung, Gordon, Li Fang and Tsui Yiu Wa, Alec.

Of our executive Directors, Li Xiaolin and Hu Jiandong also hold the following positions in CPI Group and/or CPI Holding:

<u>Director</u>	<u>Positions with Our Company</u>	<u>Positions with CPI Group</u>	<u>Positions with CPI Holding</u>
Li Xiaolin	Vice-Chairman of the Board, Executive Director and Chief Executive Officer	Vice President	Executive Director and President
Hu Jiandong	Executive Director and Executive Vice President	—	Executive Director and Vice President

Notwithstanding their positions in CPI Group and/or CPI Holding, we are satisfied that these Directors are able to perform their roles in our Company independently as (i) our Directors who also serve as directors of CPI Holding will not find their independence compromised by their concurrent positions since CPI Holding will not manage any power plants immediately after the

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Global Offering, and (ii) the position of Li Xiaolin in CPI Group should not affect her independence as our Director since her responsibility in CPI Group is only in relation to bond issuance, fund raising, strategic investments and capital market activities of CPI Group, while her role in our Company involves responsibility for the overall operation, management and development of our Company's business.

Save for the positions held by Li Xiaolin and Hu Jiandong in CPI Group and/or CPI Holding, none of the Directors has any interest in the power plants of CPI Holding and CPI Group. In addition, neither CPI Holding nor any of the Directors has any interest in any business apart from the business of the Company, which competes or is likely to compete, either directly or indirectly, with the Company's business.

Moreover, each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she act for the benefit of our Company and not allow any conflict between his or her duties as Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and CPI Group or CPI Holding, our interested Directors would refer the matter to our Company's independent non-executive Directors and, where necessary, abstain from voting at the relevant Board meeting. Our Directors who hold positions with CPI Group or CPI Holding would also abstain from voting at the relevant board meeting of CPI Group or CPI Holding in respect of such transaction where there is a potential conflict of interest.

Independence of Our Senior Management

None of our senior management holds any position in CPI Group. Five members of our senior management (namely, Gu Dake, Wang Zhiying, Zhao Yazhou, Wang Zichao and Zhao Xinyan) hold positions in CPI Holding. As CPI Holding has entrusted the management of all power plants owned by it to us, it will not manage or operate any power plants immediately after the Global Offering. We are satisfied that our senior management's roles in CPI Holding will not affect their ability to carry on our Company's business independently.

DIRECTORS, MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our current Directors and senior officers:

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Wang Binghua	49	Chairman of the Board and Non-Executive Director
Li Xiaolin	43	Vice-Chairman of the Board, Executive Director and Chief Executive Officer
Hu Jiandong	41	Executive Director and Executive Vice President
Gao Guangfu	41	Non-Executive Director
Kwong Che Keung, Gordon	55	Independent Non-Executive Director
Li Fang	42	Independent Non-Executive Director
Tsui Yiu Wa, Alec	55	Independent Non-Executive Director
Gu Dake	50	Executive Vice President
Wang Zhiying	47	Executive Vice President
Zhao Yazhou	45	Executive Vice President
Io Cheok Kei, Rudy	43	Chief Financial Officer and Qualified Accountant
Zhao Xinyan	42	Vice President
Wang Zichao	33	Vice President
Tse Hiu Tung, Sheldon	39	Company Secretary

The majority of the Directors and senior management of the Company have been continuously involved in the management of the Company's business throughout the Relevant Period and thereafter. Prior to the Reorganization, CPI Holding was responsible for formulating overall business plans and strategies for our power plants. The general manager of each of our power plant holding companies was responsible for implementing the plans and strategies relating to the relevant power plant and are in charge of the day-to-day management of the business of such power plant. After the Reorganization, the Company has assumed the roles previously undertaken by CPI Holding. The members of the board of directors and the general manager of each of our power plant holding companies remain substantially the same and their respective roles in the holding company of each of the power plants also remain unchanged. In particular, Ms. Li Xiaolin, vice-chairman of the Board, executive director and chief executive officer of the Company, has been continuously in charge of the overall operation and management of the business of the Company throughout the Relevant Period. Ms. Li, together with Mr. Ding Zhongzhi, were the only two executive directors of CPI Holding since January 2000. Mr. Ding ceased to be an executive director in March 2003. Throughout the Relevant Period, Ms. Li has played a pivotal role in the management and development of the Company's business and will continue to lead the Company in developing its business.

DIRECTORS

Executive Directors

LI Xiaolin, 43, has been the vice-chairman of the Board, executive director and chief executive officer of our Company since March 2004. She is also a vice president of CPI Group, an executive director and president of CPI Holding and a director of Companhia de Electricidade de Macau. Ms. Li has over 20 years of extensive experience in the power industry in the PRC, especially in power investment and management. Prior to joining CPI Holding in October 1994, she served as the head of the International Economic and Trade Department of the Ministry of Electric Power, an associate head of the International Economic and Trade Department of the

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Ministry of Energy and an engineer of the Equipment Introduction Office of Beijing Power Supply Bureau. Ms. Li is a senior engineer. She graduated from Tsinghua University with a Master of Engineering degree in electricity power systems and automation in 1988. She was also a visiting scholar at the Sloan Business School of Massachusetts Institute of Technology in the United States.

HU Jiandong, 41, has been an executive director and an executive vice president of our Company since March 2004. He is also an executive director and a vice president of CPI Holding. Mr. Hu has over 20 years of extensive experience in the power industry in the PRC. Prior to joining CPI Holding in November 2001, he held a number of managerial positions in China's power institutions, including director and vice president of Guangxi Power Company Limited, vice president of Guangxi Power Industry Bureau, head of Enterprise Management and Laws Department of Guangxi Power Industry Bureau, head of Marketing and Sales Department of Guangxi Power Company Limited, deputy dean of Guangxi Power Industry Research Institute and associate head of Guangxi Dahua Hydropower Plant. He also served in the Ministry of Electric Power Industry and the State Power Corporation. Mr. Hu is a senior engineer. He graduated from the Huazhong College of Technology in 1983 with a Bachelor of Engineering degree in hydro-power station automation and from Fudan University in 1993 with a Master of Economics degree in corporation management.

Non-Executive Directors

WANG Binghua, 49, has been the chairman of the Board and a non-executive director of our Company since March 2004. He is also the president of CPI Group and the chairman of the board of CPI Holding. Mr. Wang has over 27 years of extensive experience in the power industry in the PRC. Prior to joining CPI Holding in March 2003, he worked as a vice president of China National Nuclear Corporation, the head of the Power Generation and Transmission Department of the State Power Corporation, and president and chief engineer of Jilin Provincial Power Industry Bureau. Prior to that, he was also the president of Liaoning Jinzhou Power Generation Plant, and a vice president and the chief engineer of Qinghe Power Plant. Mr. Wang is a senior engineer at professor level. He graduated from Shenyang Power School in 1974 in power generation and transformation and from Wuhan University of Water and Power Resources in 1999 with a Master of Engineering degree in power systems and automation.

GAO Guangfu, 41, has been a non-executive director of our Company since March 2004. He is also a manager of the Finance and Property Ownership Management Department of CPI Group and a non-executive director of CPI Holding. He has over 22 years of extensive experience in the power industry in the PRC, especially in finance and property ownership management. Prior to joining CPI Holding in March 2003, Mr. Gao served as the deputy manager of the Finance and Property Ownership Management Department of the State Power Corporation, associate head of the Price Department of the Economic Adjustment Division of the Ministry of Electric Power Industry, chief officer of the Economic Adjustment Division of the Ministry of Energy and an officer of the Finance Department of the Ministry of Water and Power Industry. Mr. Gao is a senior accountant. He graduated from Zhongnan University of Finance and Commerce at postgraduate level in 1987. He was also a visiting scholar at the Energy Economic and Policy Institute of the National Scientific Research Center of France.

DIRECTORS, MANAGEMENT AND EMPLOYEES

Independent Non-Executive Directors

KWONG Che Keung, Gordon, 55, has been an independent non-executive director of our Company since March 2004. Mr. Kwong is currently a non-executive director of COSCO Pacific Limited and COSCO International Holdings Limited, and is also an independent non-executive director of a number of listed companies in Hong Kong (Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Vision Century Corporation 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 Henderson China Holdings Limited). Mr. Kwong has extensive experience in professional accounting and businesses in relation to listed companies in Hong Kong. He was a council member of the Stock Exchange from 1992 to 1997 and had served as convenor of its Compliance Committee and Listing Committee. He was an audit partner of Price Waterhouse from 1984 to 1998 and, thereafter, he was an executive director and a vice president of COSCO (Hong Kong) Group Limited, an executive director of COSCO Pacific Limited and the managing director of COSCO International Holdings Limited. Mr. Kwong graduated from the University of Hong Kong with a Bachelor of Social Science degree in 1972 and qualified as a chartered accountant in England and Wales in 1977.

LI Fang, 42, has been an independent non-executive director of our Company since March 2004. He is also the president of Tianbo Investment and Management Company, and serves as a council member of the present China Reform and Opening Policy Forum. He has extensive experience in corporate investment and management. Mr. Li worked as the president of Beiya Group, an executive director of Goldman Sachs and an attorney in a U.S. law firm, Davis Polk & Wardwell. Mr. Li is an attorney admitted to practice in the State of New York. He graduated from the University of Science and Technology, Beijing, with a Bachelor of Engineering degree in 1984, and from the Law School of Arizona State University with a juris doctor degree in 1995.

TSUI Yiu Wa, Alec, 55, has been an independent non-executive director of our Company since March 2004. Mr. Tsui is also the chief executive of WAG Financial Services Group Limited, a director and the chairman of the Hong Kong Securities Institute and an independent non-executive director of a number of listed companies in Hong Kong (including Industrial & Commercial Bank of China (Asia) Limited, Citic 21CN Company Limited, Vertex Communications & Technology Group Limited, China Chengtong Development Group Ltd, COSCO International Holdings Limited and Stockmartnet Holdings Ltd.). He has extensive experience in businesses in relation to listed companies in Hong Kong. Mr. Tsui was an executive director of the Finance & Operations Services Division of the Stock Exchange, the chief executive of the Stock Exchange and the chief operating officer of Hong Kong Exchanges and Clearing Limited. He was also the chief executive of iRegent Group Limited. He graduated from the University of Tennessee in the United States with a Bachelor of Science degree in industrial engineering in 1975 and a Master of Engineering degree in industrial engineering in 1976 and has completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University in 1993.

DIRECTORS, MANAGEMENT AND EMPLOYEES

Senior Management

GU Dake, 50, has been an executive vice president of our Company since March 2004. He is also an executive director, a vice president and the chief engineer of CPI Holding and chairman of the board of Yaomeng Company and Yaomeng II Company. Mr. Gu has extensive experience in the power industry in the PRC. Prior to joining our Company, he served as the chief vice president and chief engineer of Beijing Guohua Power Limited and a vice president of CLP Guohua Corporation. Prior to that, Mr. Gu served as the president of Tianjin Panshan Power Generation Limited, chief engineer of Guohua Power Corporation, president of Tianjin Panshan Power Generation Plant and deputy chief engineer of Jilin Changshan Thermal Power Plant. Mr. Gu is a senior engineer. He graduated from the Northeast China Institute of Electric Power Engineering with a major in thermal power.

WANG Zhiying, 47, has been an executive vice president of our Company since March 2004. He is also a vice president of CPI Holding, chairman of the board of Pingwei Company, Pingwei II Company, Huanggang Dabieshan Company and Huaxi Company, respectively. Since he joined CPI Holding in November 1994, Mr. Wang had served as a departmental manager, a deputy chief engineer and the chief engineer. Prior to that, he served as a deputy manager of the production coordination department and integrated planning department in the Ministry of Electric Power Industry. 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.

ZHAO Yazhou, 45, has been an executive vice president of our Company since March 2004. He is also a vice president and the chief financial controller of CPI Holding; chairman of the board of Qinghe Company, Liaoning Qinghe Power Maintenance Company Limited, Liaoning Qinghe Power Industrial Company Limited and Wuhu Power Generating Company Limited, respectively. Since he joined CPI Holding in December 1998, Mr. Zhao had served as the deputy chief accountant and finance department manager. Prior to that, he served as the head of the finance department of Heilongjiang Provincial Power Bureau and the chief accountant of Harbin Thermal Power Plant. Mr. Zhao is a senior accountant. He studied technological economics at the 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.

IO Cheok Kei, Rudy, 43, has been the chief financial officer and qualified accountant of our Company since May 2004. He is a member of Canada's Chartered Accountants and is a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Io has extensive experience in finance, accounting and merger and acquisitions. Prior to joining our Company, Mr. Io was a director of a regional corporate finance company. Mr. Io was also the 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). Mr. Io had also worked at Carlingford Insurance (now HSBC Insurance) and European Asian Bank (now Deutsche Bank AG). He 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, and the Zone II Chairperson of the Lions Clubs International District 303 China, Hong Kong and Macau for the year 2003-2004. Mr. Io graduated from the

DIRECTORS, MANAGEMENT AND EMPLOYEES

York University of Canada and the Curtin University of Technology of Australia with an Honours Bachelor's degree in administrative studies and a Master of Business (IT) degree, respectively.

ZHAO Xinyan, 42, has been a vice president of our Company since March 2004. He is also an assistant to the president and a manager of the Capital Market Department of CPI Holding, a vice chairman of the board of Changshu Company, a director of Shaoda Company, chairman of the board of Hongze Company and a director of Huaxi Company. Mr. Zhao has extensive experience in international capital markets financing and power investment in the PRC. Since he joined CPI Holding in March 1995, Mr. Zhao had served as a deputy manager of the Financing Department and subsequently the manager of the Planning Department. Prior to joining CPI Holding, Mr. Zhao had worked in the infrastructure construction industry for a long period of time and had worked overseas as a specialist for the PRC government. Mr. Zhao is a senior engineer. He graduated from Chongqing University with a Bachelor of Engineering degree in construction materials.

WANG Zichao, 33, has been a vice president of our Company since March 2004. He is also an assistant to president and a manager of the Planning and Development Department of CPI Holding, chairman of the board of Shaoda Company, a director of Wuhu Power Generating Company Limited, Changshu Company and Pingwei II Limited, respectively. He was also a vice chairman of the board of Zhongli Limited. Since he joined CPI Holding in March 1995, Mr Wang had served as the manager of a number of departments. Mr. Wang graduated from the North China Institute of Electric Power Engineering with a Master of Engineering degree in power systems and automation.

Company Secretary

Dr. TSE Hiu Tung, Sheldon, 39, has been the company secretary of our Company since March 2004. Dr. Tse is also a partner at a law firm, Fong & Ng, practising corporate and commercial law and has over 10 years' experience in corporate finance, mergers and acquisitions, private equity transactions, joint ventures and regulatory matters relating to doing business in China. Dr. Tse is admitted to practice law in Hong Kong, England & Wales and the PRC. He graduated with a Bachelor of Laws from Zhongshan University in Guangzhou in 1986 and a Master of Laws and a Doctor of Philosophy in law from the University of London in England in 1989 and 1993, respectively. He is appointed to the arbitrators' panel of the Guangzhou Arbitration Commission and is also a member of the Hong Kong Securities Institute. Fong & Ng are legal advisers on Hong Kong law to the Selling Shareholder in this Global Offering.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee on August 24, 2004 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code of Best Practice set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Company.

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

DIRECTORS, MANAGEMENT AND EMPLOYEES

Compensation and Nomination Committee

Our Company established a compensation and nomination committee on August 24, 2004. The primary duties of the compensation and nomination committee are to evaluate the performance and make recommendations on the remuneration of our senior management, evaluate and make recommendations in relation to our Performance Unit Plan and recommend Board candidates to the Board of Directors.

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

Investment and Risk Control Committee

Our Company established an investment and risk control committee on August 24, 2004. The primary duties of the investment and risk control committee are to formulate our overall development plans and investment decision-making procedures, monitor the implementation of our strategic plans, provide training to the Board of Directors with regard to our strategies and assist the management in managing our internal and external risks.

The investment and risk control committee comprises 4 members, namely Wang Binghua, Li Xiaolin, Hu Jiandong and Gao Guangfu. This committee is chaired by Wang Binghua. We are of the view that the two non-executive Directors, namely Wang Binghua and 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 power business and management areas. They are able to provide market expertise and advice to the Board of Directors;
- the committee will arrange for regular committee meetings and the management of our Company will provide periodic reports to the committee members to keep them informed of our business operations in a timely manner. In addition, we will inform each committee member individually of any contingent matters; and
- the two executive Directors, namely Li Xiaolin and Hu Jiandong, will bring any relevant matters of our Company's business to the attention of all the committee members to ensure that the duties of the committee will be properly discharged.

EMPLOYEES

As at June 30, 2004, we had a total of 6,661 employees. Set out below is a breakdown of the number of our employees by function as at June 30, 2004:

	The Company, its subsidiaries and associated company	
	Number of employees	% of total
Senior management	31	0.5%
Technical and engineering	1,400	21.0%
Finance, accounting and administration	373	5.6%
Operations and others	4,857	72.9%
Total	<u>6,661</u>	<u>100%</u>

DIRECTORS, MANAGEMENT AND EMPLOYEES

As at June 30, 2004, our power plants under commercial operation had a total of 6,620 employees. Set out below is the number of employees we had at each of our power plants under commercial operation as at December 31, 2002 and 2003 and June 30, 2004:

	As at December 31,		As at
	2002	2003	June 30, 2004
Pingwei Power Plant	2,046	2,024	2,004
Yaomeng Power Plant	2,873	2,857	2,836
Changshu Power Plant	1,814	1,799	1,780

We enter into employment contracts with our employees. None of our power plants has experienced any strikes or other labor disputes which affected the operations of any of our power plants.

We recruit our managerial personnel from the open market. We provide technical training to all new employees and continued training for all employees.

The compensation of employees includes salaries, bonuses and various subsidies. We pay welfare for the employees at our power plants under commercial operation in accordance with PRC labor regulations.

We have adopted a performance unit plan (the “Performance Unit Plan”) as an incentive scheme for our employees. The eligible grantees under the Performance Unit Plan are directors, senior management and other employees of our Company, and employees of our Company’s holding companies, subsidiaries and associated companies. Under the Performance Unit Plan, by the end of the performance period, each eligible grantee will be awarded a cash bonus based on the performance units previously granted to the grantee and the value of those units as determined by the grantee’s actual performance against the set performance targets.

We also have a medical clinic and a school at Pingwei Company, and a hospital and a school at Yaomeng Company. Such facilities are operated for the benefit of our employees at these two plants.

DIRECTORS’ COMPENSATION

The aggregate amount of compensation (including fees, salaries, contribution to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonus) which were paid to the Directors during the three years ended December 31, 2001, 2002 and 2003 was approximately RMB167,000, RMB429,000 and RMB1,640,000 respectively.

Save as disclosed above, no other payments have been paid or are payable by us to the Directors in respect of the three years ended December 31, 2003.

Under the arrangements currently in force, the aggregate remuneration of the Directors for the year ending December 31, 2004 is estimated to be approximately RMB2,500,000.

RETIREMENT BENEFIT SCHEMES

Hong Kong

We participate in a provident fund scheme (the “MPF Scheme”) registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the

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“MPF Ordinance”) for all of our employees in Hong Kong. The scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

Under the MPF Scheme, we and the employees of our Company have to contribute an amount equals to 5% of the relevant income of such employee to the scheme, subject to a maximum level of the monthly relevant income of HK\$20,000. If an employee’s monthly income is less than HK\$5,000, he is not required to contribute but may elect to do so, but we must still contribute 5% of the employee’s monthly relevant income. Contributions from us are 100% vested in such employee immediately but, subject to limited exceptions, all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65. Our contributions to the MPF Scheme can be used to offset any long service payments or severance payments payable and are deductible for profits tax purposes.

PRC

Our employees in the PRC participate in a State-managed retirement pension scheme operated by the respective local municipal government. The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees. Our only obligation is to contribute at a rate of 20% of payroll expenses to the scheme.

Pre-IPO Share Option Scheme and Share Option Scheme

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. For details of the options conditionally granted under these schemes, please refer to the sections entitled “8. Disclosure of Interests—C. Directors’ interests and short positions in the issued share capital of our Company and our associated corporations”, “5. Pre-IPO Share Option Scheme” and “6. Share Option Scheme” in Appendix VII to this prospectus.

SUBSTANTIAL SHAREHOLDERS AND SELLING SHAREHOLDER

As of the date of this prospectus, our Company's entire issued share capital is beneficially owned by CPDL as follows:

<u>Name</u>	<u>Capacity/ Nature of Interest</u>	<u>Number and Class of Securities</u>	<u>Approximate % of Shareholding</u>
CPDL	Beneficial owner	2,100,000,000 Shares	100%

As far as the Directors are aware, immediately following the completion of the Global Offering (without taking into account the exercise of the Over-allotment Option) and taking no account of any Share which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme, the following persons will have an interest or short position in the Shares or underlying shares of the Company that is to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company:

<u>Name</u>	<u>Capacity/ Nature of Interest</u>	<u>Number and Class of Securities</u>	<u>Approximate % of Shareholding</u>
CPDL	Beneficial owner	2,010,000,000 Shares	67%
CPI Holding ⁽¹⁾	Interest of a controlled corporation	2,010,000,000 Shares	67%
CPI Group ⁽²⁾	Interest of a controlled corporation	2,010,000,000 Shares	67%

(1) CPI Holding is the beneficial owner of all the issued shares in CPDL and therefore CPI Holding is deemed, or taken to be, interested in these Shares which are beneficially owned by CPDL for the purposes of the SFO.

(2) CPI Group is the beneficial owner of all the issued shares in CPI Holding and therefore, CPI Group is deemed or taken to be interested in these Shares which are beneficially owned by CPDL for the purposes of the SFO.

In accordance with relevant PRC regulations, CPDL is selling 90,000,000 Shares (assuming the Over-allotment Option is not exercised), representing approximately 9.1% of the total number of Offer Shares offered in the Global Offering. The sale of these Offer Shares by CPDL has been approved by the CSRC. All net proceeds from the sale of these 90,000,000 Offer Shares will be remitted to the State Social Security Fund in accordance with the relevant PRC government requirements. Please refer to the section entitled "Future Plans and Use of Proceeds of the Global Offering—Use of Proceeds" in this prospectus.

None of the Directors is a legal or beneficial owner of any Shares. We are not aware of any arrangement that may at a subsequent date result in a change of control of our Company.

CPI Group, CPI Holding and CPDL have undertaken to abide by certain restrictions on the disposal of the Shares after the listing. Please see the section entitled "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering" in this prospectus.

SHARE CAPITAL

The following is a description of our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Global Offering.

	<u>HK\$</u>
<i>Authorized share capital:</i>	
10,000,000,000 Shares of HK\$1.00 each	10,000,000,000
<i>Shares in issue immediately prior to Global Offering:</i>	
2,100,000,000	2,100,000,000
<i>Shares to be issued in the Global Offering:</i>	
900,000,000	900,000,000
<i>Shares in issue immediately after the completion of the Global Offering:</i>	
<u>3,000,000,000 Shares</u>	<u>3,000,000,000</u>

ASSUMPTION

The above table assumes that the Global Offering becomes unconditional. It takes no account of:

- the exercise by the International Underwriters of the Over-allotment Option;
- any Shares which may be issued pursuant to the mandate referred to in the subsection entitled “—General Mandate to Issue Shares” below;
- any Shares which may be repurchased by us pursuant to the mandate referred to in the subsection entitled “—General Mandate to Repurchase Shares” below; or
- any Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and Share Option Scheme (please refer to sections entitled “Pre-IPO Share Option Scheme” and “Share Option Scheme” in Appendix VII to this prospectus).

If the Over-allotment Option is exercised in full, we will have approximately 3,135,000,000 Shares in issue after the Global Offering.

RANKING

The Offer Shares will rank equally with all Shares now in issue or to be issued and will qualify for all dividends, income or other distributions or any other rights and benefits attaching or accruing to the Shares after the completion of the Global Offering.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. Under the Pre-IPO Share Option Scheme, certain persons are conditionally granted options immediately prior to the Listing Date to subscribe for Shares. For principal terms of the schemes, please refer to the sections entitled “5. Pre-IPO Share Option Scheme” and “6. Share Option Scheme” in Appendix VII to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

If the Global Offering becomes unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or exercise of any subscription rights under the Pre-IPO Share Option Scheme or the Share Option Scheme or similar arrangement, any scrip dividend scheme or similar arrangement or any adjustment of rights to subscribe for Shares under options and warrants, or a specific authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering; and
- (b) the aggregate nominal value of our Company's share capital repurchased by us (if any).

The general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of our next annual general meeting;
- (b) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held; and
- (c) it is varied or revoked by an ordinary resolution of our shareholders in a general meeting.

For further details of this general mandate, please refer to the section entitled "1. Further Information about Our Company—C. Written resolutions of our shareholder" in Appendix VII to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

If the Global Offering becomes unconditional, the Directors have also been granted a general unconditional mandate to exercise all powers of our Company to repurchase up to 10% of our Company's share capital in issue immediately following the completion of the Global Offering.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the Listing Rules. A summary of the Listing Rules is set out in the section entitled "7. Share Repurchase Mandate" in Appendix VII to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of our next annual general meeting;
- (b) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held; and
- (c) it is varied or revoked by an ordinary resolution of our shareholders in a general meeting.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial information, including the notes thereto, as set forth in the accountants' report in Appendix I to this prospectus. Our combined financial information was audited by PricewaterhouseCoopers, certified public accountants, in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. We have prepared the combined financial information on the basis set out in note 2 of Appendix I and under accounting principles generally accepted in Hong Kong, which differ in certain material aspects from generally accepted principles in other jurisdictions, including the United States.

The summary financial information covering the profit and loss account, balance sheets and material notes of our associated company will be included in our annual and periodic financial statements after listing.

This prospectus contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which involve risks and uncertainties. For factors that could cause or contribute to such differences, please refer to the section entitled "Risk Factors" in this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Overview

We are the flagship company of CPI Group, one of the leading independent power producers in China. Our principal business is to develop, construct, own, manage and operate large power plants in China. We derive our revenue primarily from the sale of electricity which our power plants generate and dispatch to the power grids to which they are connected.

We have a 100% ownership interest in two of our three high-capacity coal-fired power plants under commercial operation and we are the 50% owner and single largest shareholder in our remaining power plant under commercial operation. These three power plants have a total installed capacity of 3,610 MW. The installed capacity attributable to our ownership interests in our three power plants under commercial operation is 3,010 MW.

In addition, pursuant to the Management Agreement effective July 1, 2004, CPI Group and CPI Holding have entrusted the managing power that they have in six power plants to us. The management fees we will earn under the Management Agreement will contribute to our turnover in the future.

Basis of Presentation

Our combined financial statements and operating data present, and the discussion and analysis in this prospectus pertain to, the results of operations of the assets and businesses of Pingwei Company, Yaomeng Company and Changshu Company, which were historically 100%, 100%, and 50%, respectively, owned by State Power Corporation. State Power Corporation held 60% equity interest in each of Pingwei Company and Yaomeng Company through CPI Holding and held the remaining 40% equity interest in each of Pingwei Company and Yaomeng Company through relevant provincial power companies, which were later transferred to CPI Group. After the incorporation of our Company in March 2004, we assumed a 100% equity interest in each of Pingwei Company and Yaomeng Company and a 50% equity interest in Changshu Company.

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We currently own a 100% equity interest in each of Pingwei Company and Yaomeng Company and a 50% equity interest in Changshu Company. As all these companies were historically under the common control of the State Power Corporation with the same shareholding percentage, the audited combined results of our Company for each of 2001, 2002 and 2003 and the six-month periods ended June 30, 2003 and 2004, as well as the following discussion, have been prepared as if we owned our current equity interests in these companies throughout these periods.

In addition, we also assumed a 100% equity interest in each of Pingwei II Company and Yaomeng II Company and an 89% equity interest in Huanggang Dabieshan Company. These companies are included in our combined financial statements. The planned power plants owned by these companies have not started commercial operation or generated any results of operations yet.

Factors Affecting Our Results of Operations and Financial Condition

The following factors have affected our past, and may affect our future, results of operations and our financial condition:

- *Economic growth in China and in the provinces in which we operate*

We expect that our financial results will continue to be affected by the overall growth of the economy in China and in the provinces in which we operate. Our power plants under commercial operation are located in provinces with GDP growth rates that are higher than the national average. The following table shows the GDP growth rates for 2001, 2002, 2003 and the six months ended June 30, 2004 for the country as a whole and for the provinces in which our plants under commercial operation are located.

	2001	2002	2003	Compound annual growth rate (2000-2003)	Six months ended June 30, 2004 ⁽¹⁾
			(%)		
GDP Growth Rate					
Anhui	8.3	8.9	9.2	8.8	13.5
Henan	9.1	9.5	10.5	9.7	13.9
Jiangsu	10.2	12.5	13.5	12.1	15.1
Nationwide	7.5	8.0	9.1	8.2	9.7

⁽¹⁾ Percentage growth over the corresponding period in 2003.

FINANCIAL INFORMATION

The rise in economic activity in China has led to a greater nationwide demand for energy in general and electricity in particular. This increasing demand for and consumption of electricity has recently resulted in a severe power shortage in the PRC. In 2003, the rate of increase in electricity demand and consumption far exceeded the rate of increase in power generation and supply, causing periodic power shortages in many provinces throughout the PRC. The total output of our power plants under commercial operation has shown a significant increase from 2001 to 2003. The following table shows the level of output at each of our power plants under commercial operation for 2001, 2002, 2003 and the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(MWh)				
Pingwei Power Plant					
Planned output	4,384,250	3,895,980	4,480,200	2,184,160	2,573,970
Excess and other output	1,327,200	2,309,330	2,615,160	1,129,310	1,586,850
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Total output	5,711,450	6,205,310	7,095,360	3,313,470	4,160,820
Yaomeng Power Plant					
Planned output	5,820,630	5,762,369	6,577,777	3,379,928	3,237,368
Excess and other output	410,567	650,016	255,669	135,442	66,002
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Total output	6,231,197	6,412,385	6,833,446	3,515,370	3,303,370
Changshu Power Plant					
Planned output	5,073,258	5,139,761	5,450,575	2,651,350	3,284,690
Excess and other output	209,356	1,277,346	1,970,130	947,440	637,640
Output subject to competitive bidding ⁽²⁾	544,935	561,740	119,910	119,910	—
Total output	5,827,549	6,978,847	7,540,615	3,718,700	3,922,330

(1) Pingwei Power Plant and Yaomeng Power Plant operate in regions in China where the competitive pricing scheme has not been implemented.

(2) The pilot competitive pricing scheme in Jiangsu Province in which Changshu Power Plant operates was terminated in 2003.

The NDRC issued the Notice on Resolution of Power Tariff Issues for Central China Power Grid and the Notice on Resolution of Power Tariff Issues for East China Power Grid which, effective from June 15, 2004, standardized the annual utilization hours to 5,500 hours for gross generation applicable to planned output of coal-fired power plants connected to the provincial power grids located within Henan and Jiangsu provinces. The annual utilization hours of Pingwei Power Plant was also adjusted to 5,500 hours. The standardization of the utilization hours to 5,500 hours resulted in annual targeted gross generation for planned output of 6,600,000 MWh, 6,655,000 MWh, and 6,600,000 MWh for Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant respectively.

See the sections entitled “Information on the PRC Power Industry—The PRC Power Industry—Supply and Demand for Power in the PRC” and “Business—Competition and Dispatch” for detailed discussions on power supply and demand in China and dispatch determination in China, respectively.

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● *On-grid Tariffs*

Our revenue is primarily derived from the sale of output by our power plants to the power grids to which they are connected at separate on-grid tariffs for planned output and for excess and other output. Our turnover and profit are directly affected by changes in on-grid tariff levels. The following table sets forth the average realized tariffs exclusive of VAT, of our power plants under commercial operation for 2001, 2002, 2003 and the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(RMB per MWh)				
Pingwei Power Plant					
Planned output	248	244	242	244	245
Excess and other output	121	176	199	198	244
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Weighted average realized	218	219	226	228	244
Yaomeng Power Plant					
Planned output	195	195	192	193	196
Excess and other output	128	156	179	180	220
Output subject to competitive bidding ⁽¹⁾	—	—	—	—	—
Weighted average realized	191	191	192	193	196
Changshu Power Plant					
Planned output	291	287	282	286	291
Excess and other output	145	164	185	163	217
Output subject to competitive bidding ⁽²⁾	160	157	187	190	—
Weighted average realized	274	254	255	251	279

(1) Pingwei Power Plant and Yaomeng Power Plant operate in regions in China where the competitive pricing scheme has not been implemented.

(2) The pilot competitive pricing scheme in Jiangsu Province in which Changshu Power Plant operates was terminated in 2003.

From 2001 to 2003, the average on-grid tariff for planned output at our power plants under commercial operation decreased as a result of a decrease in the debt servicing expenses, which was a consideration used for setting our on-grid tariffs. The decrease in such expenses was caused by our periodic repayment and reduction in our outstanding amount of bank loans.

On-grid tariffs for excess output have been rising since 2001 due to the increase in demand for electricity and the government's efforts at adjusting and standardizing on-grid tariffs for excess output in accordance with demand and supply balance of power markets. Furthermore, as an important element of China's power industry reform, competitive bidding for on-grid tariffs has been implemented on an experimental basis in certain provinces. While on-grid tariffs subject to competitive bidding are generally lower than tariffs for planned output and excess and other output, on-grid tariffs subject to competitive bidding have been also rising due to the increase in demand for electricity.

The setting of on-grid tariffs is subject to PRC governmental and power grid regulations. Before April 2001, the on-grid tariffs for our planned output were designed to enable us to recover all operating and debt service costs and to earn a reasonable profit. Since April 2001, the PRC government started to gradually implement a new on-grid tariff-setting mechanism

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based on the operating term of power plants as well as the average costs of comparable power plants. Based on our experience, such average costs usually take into consideration factors such as:

- construction costs, which vary according to the capacities of the individual power plants;
- operating and administrative expenses, such as labor and fuel costs;
- maintenance and repair costs of power plants; and
- interest expenses on outstanding debts.

Beginning in June 2004, the PRC government has assessed the on-grid tariffs for new power plants in operations based on the new on-grid tariff-setting mechanism.

In 2004, the PRC government implemented two rounds of changes to on-grid tariffs. With effect from January 1, 2004, in response to increases in fuel costs, the PRC government approved a national tariff increase of RMB7.0 (inclusive of VAT) per MWh for planned output of coal-fired power plants. Further, the NDRC issued the Notice on Resolution of Power Tariff Issues for Central China Power Grid and the Notice on Resolution of Power Tariff Issues for East China Power Grid which, effective from June 15, 2004, adjusted on-grid tariffs for planned output and excess output to mitigate the effects of increases in fuel costs. As a result, on-grid tariff changes, exclusive of VAT for planned output ranged from 0% to 1% or from RMB0 per MWh to RMB3 per MWh for Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant. On-grid tariffs exclusive of VAT for excess output increased by approximately RMB27 per MWh, RMB43 per MWh and RMB34 per MWh for Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant, respectively, from the previous approved on-grid tariffs. In addition, a requirement for Yaomeng Power Plant to pay an on-grid service fee of RMB3 per MWh in respect of its total output to the power grid company has been terminated. We believe that provided other factors which may affect our revenues remain the same, the changes resulting from the NDRC notices will have an overall positive impact on our revenues, and will help to alleviate increased cost pressures due to higher coal prices.

Please refer to the sections entitled “Information on the PRC Power Industry—The PRC Power Industry—On-grid Tariff-setting Mechanisms”, “Business—On-grid Tariffs” and “Business—Power Sales” for a detailed discussion of the tariff structure in China.

- ***Cost of Fuel***

All of our power plants under commercial operation are, and all of our planned power plants will be, fueled by coal. Substantially all of our cost of fuel consists of our coal costs, which price includes the cost of transporting of coal and related costs. Fuel costs accounted for 49.8%, 56.9%, 56.8% and 61.9% of our power plants’ operating costs, excluding Changshu Power Plant, in 2001, 2002, 2003 and the six months ended June 30, 2004, respectively.

We purchase most of the coal supply for our power plants from various coal producers in Shanxi Province, Anhui Province, and Henan Province. Our Yaomeng Power Plant and Pingwei Power Plant are mine-mouth power plants. In addition, our Changshu Power Plant has a dedicated port facility on the Yangtze River that gives us convenient access to coal delivery. Our planned power plants, Yaomeng Power Plant II and Pingwei Power Plant II, will also be

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mine-mouth power plants. The strategic locations of our plants help reduce our operating expenses by reducing the transportation component in the coal price and our reliance on State-allocated transportation resources, which are in short supply from time to time.

As fuel costs account for a significant portion of our power plants' operating costs, fluctuations in coal prices and coal supply would affect our results of operation. Historically, coal prices in the PRC fluctuate from year to year. The following table shows our weighted average standard coal prices, exclusive of VAT, for our three power plants under commercial operation from 2001 to 2003 as well as for the six-month periods ended June 30, 2003 and 2004.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(RMB per ton)				
Weighted average standard coal price	269	296	301	296	366

During the first six months of 2004, coal price increased substantially in China due to a rising demand for coal as well as a shortage of transportation capacity. To alleviate the pressure of increasing coal costs on power enterprises, in August 2004, NDRC issued a notice on temporary interventional measures to be imposed on thermal coal prices for certain regions, including Henan, Anhui and Shanxi provinces, where our power plants under commercial operation purchase all or part of their coal supply. According to the notice, power enterprises and coal suppliers are allowed to negotiate coal prices within an 8% range around the actual settlement prices calculated as at the end of May 2004. We believe the implementation of the notice will contain the increase of coal price within a controllable range.

In addition, in 2004, to help alleviate the effects of increases in fuel costs, the PRC government implemented two rounds of tariff changes which came into effect on January 1, 2004 and June 15, 2004. Please refer to the subsection entitled “—Factors Affecting Our Results of Operations and Financial Condition—On-grid Tariffs” for further details.

If we were required to purchase all our coal at the market price, our results of operation would have been more susceptible to the volatility of the coal prices. On the basis of a simple extrapolation, a 1% decrease in our weighted average standard coal price for our three power plants under commercial operation for the year ended December 31, 2003, assuming all other conditions had remained constant, would result in our profit before taxation increasing by approximately RMB17.7 million. On the other hand, a 1% increase in our weighted average standard coal price for our three power plants under commercial operation for the year ended December 31, 2003, assuming all other conditions had remained constant, would result in our profit before taxation decreasing by approximately RMB17.7 million. However, we believe this simple extrapolation does not take into account the dynamic relationship among coal price, on-grid tariffs and on-grid tariffs' impact on the PRC economy in general. We believe that the PRC government's recent intervention to regulate coal prices was intended to stabilize this relationship which had been strained by increases in coal price earlier this year and to ensure that power consuming public would not have to contend with further increases in on-grid tariffs in the near future. We believe we would benefit from such intervention which contains coal price increases and limits its impact on our financial condition.

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For further information on coal supply in China and its impact on our operations, please refer to the sections entitled “Risk Factors—Risks Relating to the Company and the PRC Power Industry—Increases in fuel costs and disruption in fuel supply or shortage of transportation resources may adversely affect our profit and the normal operation of our power plants” and “Information on the PRC Power Industry—The PRC Power Industry—Coal Supply” in this prospectus.

- ***Repair and Maintenance***

Our repair and maintenance program is an important part of our business operations. We perform routine maintenance on our generators, facilities and equipment on an ongoing basis. We also schedule a major overhaul of each generator every four to six years depending on the age and working condition of the generator and the related facilities. Our budgeting process, which normally occurs during the fourth quarter of each year with respect to the following year, includes our planning for repair and maintenance and major overhauls. Our decision to undertake a major overhaul of a particular generator depends on a number of factors, including:

- the age and working condition of our generator and the related facilities; and
- electricity demands, market condition and economic feasibility.

We prepare detailed repair and maintenance schedules and assign responsibility to specific individuals. Throughout the year, we also review the schedules and make necessary adjustments based on prevailing market conditions and electricity demands.

Our repair and maintenance will require substantial costs. In addition, when a generator is undergoing a major overhaul, it is taken out of operation for a period of 40 to 70 days. As a result, our results of operations and financial condition will be affected.

We generally charge expenses of periodic repair and maintenance, including major overhauls, to the profit and loss account in the period in which they are incurred, but we capitalize expenditures on upgrades if we are satisfied that such expenditures would result in an increase in the future economic benefits of our power plants.

- ***Cost of Labor***

Our staff costs (excluding Changshu Power Plant) accounted for 11.5%, 9.0%, 9.8% and 8.8% of our total operating expenses (excluding Changshu Power Plant) in 2001, 2002, 2003, and the six months ended June 30, 2004, respectively. Our staff costs comprise expenses attributable to employees and include, among others, wages, salaries, bonuses and various contributions to pensions and retirement plans. We make contributions to various municipal and provincial pension plans on behalf of the employees at our power plants in accordance with PRC labor regulations. In 2003, these contributions amounted to approximately 13.3% of total staff costs. In addition, our staff costs include termination payments and early retirement benefits.

- ***Taxation***

Our power plants are subject to PRC income tax on an individual basis. The normal provision for PRC State enterprise income tax is calculated at the rate of 30% of the assessable income as

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determined in accordance with the relevant PRC income tax rules and regulations. However, enterprises with foreign investment that are engaged in the energy, transportation or infrastructure industries, upon approval by State Administration of Taxation, enjoy a preferential State enterprise income tax rate of 15%. The holding companies of all of our power plants under commercial operation currently enjoy this preferential tax rate. In accordance with current laws and regulations, the holding companies of all of our planned power plants also qualify for this preferential tax rate. PRC laws and regulations currently in force have not stipulated any time limitation for the application of this 15% preferential tax rate. In addition, because the companies holding our power plants under commercial operation operate as enterprises with foreign investment, they are further exempt from PRC State enterprise income tax for two years starting from the first year they make assessable profits and are granted a 50% reduction in tax for three years thereafter. The companies holding our power plants under commercial operation were established in 1999 and were exempt from PRC state income tax in 2000 and 2001. These companies were granted a reduced tax rate of 7.5% in 2002, 2003 and 2004. In accordance with current laws and regulations, the holding companies of all of our planned power plants also qualify for such tax benefits.

With effect from 2005, the companies holding our current power plants under commercial operation will be subject to the 15% tax rate for State enterprise income tax.

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Results of Operations

The following table sets forth our selected income statement and other financial information for 2001, 2002, 2003 and the six-month periods ended June 30, 2003 and 2004, as derived from the Accountants' Report in Appendix I to this prospectus. The results of operations of our associated company, Changshu Company, are not included in our combined operating profit, but are reflected in our combined profit and loss accounts as "Share of results of an associated company". The financial information contained herein and in the Accountants' Report in Appendix I to this prospectus is prepared on the basis set out in note 2 of Appendix I under HK GAAP and is presented as if the current group structure had been in existence, and we had owned a 100% equity interest in each of Pingwei Company and Yaomeng Company, and a 50% equity interest in Changshu Company, throughout the periods presented.

	Year ended December 31,						Six months ended June 30,			
	2001	% of Revenue	2002	% of Revenue	2003	% of Revenue	2003	% of Revenue	2004	% of Revenue
	(RMB millions)	%	(RMB millions)	%	(RMB millions)	%	(RMB millions)	%	(RMB millions)	%
Turnover	2,434.6	99.8%	2,581.6	99.9%	2,915.4	99.9%	1,434.8	99.9%	1,664.9	99.9%
Other revenues	3.9	0.2%	2.7	0.1%	3.3	0.1%	1.5	0.1%	2.0	0.1%
Total revenues	2,438.5	100.0%	2,584.3	100.0%	2,918.7	100.0%	1,436.3	100.0%	1,666.9	100.0%
Fuel costs	(1,044.2)	42.8%	(1,189.8)	46.0%	(1,315.6)	45.1%	(628.6)	43.8%	(815.4)	48.9%
Depreciation	(438.1)	18.0%	(368.2)	14.2%	(373.8)	12.8%	(188.4)	13.1%	(187.7)	11.3%
Staff costs	(240.5)	9.9%	(187.8)	7.3%	(226.9)	7.8%	(103.1)	7.2%	(115.9)	7.0%
Repairs and maintenance	(124.3)	5.1%	(136.4)	5.3%	(156.2)	5.4%	(82.2)	5.7%	(75.0)	4.5%
Consumables	(55.2)	2.3%	(50.3)	1.9%	(63.8)	2.2%	(25.6)	1.8%	(32.0)	1.9%
Other operating expenses, net	(194.2)	8.0%	(158.2)	6.1%	(178.8)	6.1%	(79.4)	5.5%	(90.3)	5.4%
Operating profit	342.0	14.0%	493.6	19.1%	603.6	20.7%	329.0	22.9%	350.6	21.0%
Finance costs	(89.8)	3.7%	(83.0)	3.2%	(85.0)	2.9%	(41.9)	2.9%	(40.1)	2.4%
Share of results of an associated company	150.6	6.2%	154.3	6.0%	136.4	4.7%	85.5	6.0%	90.8	5.4%
Profit before taxation	402.8	16.5%	564.9	21.9%	655.0	22.4%	372.6	25.9%	401.3	24.1%
Taxation credit/(charge)	2.8	0.1%	(38.9)	1.5%	(49.8)	1.7%	(30.2)	2.1%	(31.5)	1.9%
Minority interests	—	—	—	—	—	—	—	—	0.1	—
Profit attributable to shareholders	405.6	16.6%	526.0	20.4%	605.2	20.7%	342.4	23.8%	369.9	22.2%
Adjusted EBITDA ⁽¹⁾	968.1	39.7%	1,015.4	39.3%	1,120.7	38.4%	602.5	41.9%	628.1	37.7%

- (1) Adjusted EBITDA refers to earnings, including our share of profit from our associated company, before minority interests, interest income, interest expense, income taxes, exchange losses or gains, depreciation and amortization, provisions for inventories and doubtful debt, impairment of long-term investments and impairment of property, plant and equipment.

We believe that adjusted EBITDA provides useful additional information regarding our results of operations. In the Asia Pacific region, there are power producers with a size of operation comparable to ours that adopt different accounting standards and are subject to different tax rates. In order to provide you with an opportunity to compare our performance with that of our peers, we have included our adjusted EBITDA number with a view to reducing or eliminating certain differences arising from differences in accounting standards. In particular, we believe these differences relate to treatments of accounting for investment in associated companies, capitalization of borrowing costs, foreign exchange gains and losses, depreciation and amortization, impairment of long-term investments and property, plant and equipment. You are advised that adjusted EBITDA is not considered to be a measure of performance recognized under HK GAAP and are also advised to consider our profit after taxation as disclosed above. Because all companies do not calculate these financial measures in the same manner, our presentation may not be comparable to other similarly titled measures reported by other companies.

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Turnover. Our turnover consists of proceeds from the sale of electricity. Our turnover is net of surtaxes and VAT payable by us. Sales of electricity are recognized when electricity is generated and transmitted to the power grids operated by the respective regional or provincial electric power companies.

Other revenues. Our other revenues include mainly operating leases and interest income. Operating lease income is recognized on a straight line basis over the lease periods and interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating expenses. Our cost of sales include mainly costs of fuel (principally coal costs), depreciation charges, staff cost, repairs and maintenance, consumables and other operating expenses. We account for cost of fuel used in our generation of electricity over any accounting period on a weighted average basis. Depreciation relates primarily to the plants and equipment that we own and is calculated on a straight-line basis. Staff costs include wages, bonuses and other compensation-related costs for employees involved in operating our power plants. Repairs and maintenance charges consist of expenses relating to the upkeep and repair of our plants and equipment, recorded upon receipt of the services. Consumables relate to parts and supplies used in daily repair and maintenance of our plant and equipment. Other operating expenses include impairment provisions on fixed assets, water used during the electricity generation process, loss on disposal of fixed assets, on-grid service fees, environmental cleanup fees, provisions for obsolescence of materials and supplies and other assorted operating expense not otherwise categorized.

Finance costs. Our finance costs is primarily comprised of interest expenses for bank loans and other short-term and long-term indebtedness.

Share of results of associated company. Our share of profit of an associated company refers to our share of profit before taxation of Changshu Company, a company in which we have had a 50% equity stake after the Reorganization.

Minority interests. The minority interest refers to the 11% minority equity interest in Huanggang Dabieshan Company that we do not own. We currently own 89% of Huanggang Dabieshan Company.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Turnover

Our turnover increased by 16.0% from RMB1,434.8 million in the six months ended June 30, 2003 to RMB1,664.9 million in the six months ended June 30, 2004 due to an increase in turnover of RMB258.8 million at our Pingwei Power Plant, partially offset by a decrease in turnover of RMB28.7 million at our Yaomeng Power Plant.

Pingwei Power Plant's turnover increased by 34.2% from RMB757.1 million in the six months ended June 30, 2003 to RMB1,015.9 million for the same period in 2004. The increase in turnover at Pingwei Power Plant was primarily due to an increase in total output from 3,313,470 MWh in the six months ended June 30, 2003 to 4,160,820 MWh for the same period in 2004, combined with an increase in the weighted average tariff realized from RMB228 per

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MWh in six months ended June 30, 2003 to RMB244 per MWh for the same period in 2004. Our increase in total output at Pingwei Power Plant was due to an increase of 389,810 MWh in planned output and an increase of 457,540 MWh in excess and other output as a result of greater demand for electricity. The increase in the weighted average tariff realized at our Pingwei Power Plant was primarily due to an increase of tariffs realized for excess and other output from RMB198 per MWh in the six months ended June 30, 2003 to RMB244 per MWh for the same period in 2004 as a result of higher demand for electricity from the East China region.

Yaomeng Power Plant's turnover decreased by 4.2% from RMB677.7 million in the six months ended June 30, 2003 to RMB649.0 million for the same period in 2004. The decrease in turnover at Yaomeng Power Plant was primarily due to a decrease in total output from 3,515,370 MWh in the six months ended June 30, 2003 to 3,303,370 MWh in the same period in 2004, primarily caused by a scheduled major maintenance on the Unit 3 generator that decommissioned it for 21 days in January 2004. The decrease in turnover was partially offset by an increase in the weighted average tariff realized from RMB193 per MWh in the six months ended June 30, 2003 to RMB196 per MWh in the same period in 2004 as a result of the national increase of tariff for planned output by the PRC government commencing January 2004.

Operating expenses

Our operating expenses increased by 18.9% from RMB1,107.3 million in the six months ended June 30, 2003 to RMB1,316.3 million for the same period in 2004. The increase in total operating expenses was largely due to the increase in fuel costs, as well as increases in staff costs, consumables, and other operating expenses.

Fuel cost increased by 29.7% from RMB628.6 million in the six months ended June 30, 2003 to RMB815.4 million for the same period in 2004 due to an increase in fuel cost of RMB145.3 million at our Pingwei Power Plant and a smaller increase in fuel cost of RMB41.5 million at our Yaomeng Power Plant. The rise in fuel costs was attributable to a greater consumption of fuel due to our higher total output at our Pingwei Power Plant and an increase in coal prices as a result of an increase in coal demand in China. Please see the subsection entitled “—Factors Affecting Our Results of Operations and Financial—Cost of Fuel” for a further discussion on the coal price.

Our depreciation expense remained stable, decreasing slightly by 0.4% from RMB188.4 million in the six months ended June 30, 2003 to RMB187.7 million in the same period in 2004.

Our staff cost increased by 12.4% from RMB103.1 million in the six months ended June 30, 2003 to RMB115.9 million in the same period in 2004. The increase was primarily attributable to an increase of staff cost of RMB13.5 million at our Pingwei Power Plant. The increase was primarily due the implementation of a performance-based incentive program, pursuant to which we paid compensation linked to the performance of Pingwei Power Plant in 2003 during the first six months ended June 30, 2004.

Our repairs and maintenance expense decreased by 8.8% from RMB82.2 million in the six months ended June 30, 2003 to RMB75.0 million for the same period in 2004. The decrease

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was primarily attributable to a higher repairs and maintenance expense incurred at our Pingwei Power Plant caused by major maintenance performed on the Unit 1 generator in the six months ended June 30, 2003.

Our consumables increased by 25.0% from RMB25.6 million in the six months ended June 30, 2003 to RMB32.0 million for the same period in 2004. The increase was attributable to increase of consumables in both Pingwei Power Plant and Yaomeng Power Plant primarily as a result of increase in maintenance activities (excluding major maintenance) in the six months ended June 30, 2004 compared with the same period in 2003.

Our other operating expenses increased by 13.7% from RMB79.4 million in the six months ended June 30, 2003 to RMB90.3 million for the same period in 2004, primarily due to a RMB9.2 million and RMB6.3 million increase of environmental protection expenses in Yaomeng Power Plant and Pingwei Power Plant, respectively, partially offset by a RMB9.9 million decrease of on-grid service fees in Pingwei Power Plant as a result of the cancellation of such fees.

Share of results of an associated company

Our share of results of our associated company increased by 6.2% from RMB85.5 million in the six months ended June 30, 2003 to RMB90.8 million in the same period in 2004 due to an increase in net income at Changshu Power Plant. The operating income at Changshu Power Plant remained stable, decreasing slightly by 1.8% from RMB205.6 million in the six months ended June 30, 2003 to RMB202.0 million in the same period in 2004. This is because increases in fuel costs offset the increase in turnover. Fuel costs increased from RMB441.5 million in the six months ended June 30, 2003 to RMB612.0 million in the same period in 2004 primarily as a result of increases in coal prices. Turnover also increased due to a combination of an increase in total output from 3,718,700 MWh in the six months ended June 30, 2003 to 3,922,330 MWh in the same period in 2004, and an increase in the weighted average tariff realized from RMB251 per MWh in the six months ended June 30, 2003 to RMB279 per MWh in the same period in 2004. The increase in net income was primarily caused by a RMB14.2 million decrease in financing costs from RMB34.7 million in the six months ended June 30, 2003 to RMB20.5 million in the same period in 2004 as a result of repayment of bank loans. Please see footnote 13 to the Accountants' Report for further information on our share of results of an associated company.

Taxation

Our taxation expenses remained stable, increasing by 4.3% from RMB30.2 million in the six months ended June 30, 2003 to RMB31.5 million in the same period in 2004. The change was caused by an increase in taxation at Pingwei Power Plant from RMB10.6 million in the six months ended June 30, 2003 to RMB18.0 million in the same period in 2004, partially offset by a decrease in taxation at Yaomeng Power Plant from RMB13.3 million in the six months ended June 30, 2003 to RMB6.7 million in the same period in 2004.

Profit attributable to shareholders

Our profit attributable to shareholders increased by 8.0% from RMB342.4 million in the six months ended June 30, 2003 to RMB369.9 million for the same period in 2004.

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Year ended December 31, 2003 compared to year ended December 31, 2002

Turnover

Our turnover increased by 12.9% from RMB2,581.6 million in 2002 to RMB2,915.4 million in 2003. RMB247.8 million of the increase was due to an increase in turnover at Pingwei Power Plant and RMB86.0 million of the increase was due to an increase in turnover at Yaomeng Power Plant.

Pingwei Power Plant's turnover increased by 18.3% from RMB1,356.3 million in 2002 to RMB1,604.1 million in 2003. The increase was primarily due to an increase in total output from 6,205,310 MWh in 2002 to 7,095,360 MWh in 2003 and also to an increase in weighted average tariff realized from RMB219 per MWh in 2002 to RMB226 per MWh in 2003. Our increase in total output at Pingwei Power Plant was due to increases in planned output and excess output as a result of greater demand for electricity. Our increases in weighted average tariff realized at Pingwei Power Plant was due to the increase from RMB176 per MWh to RMB199 per MWh in tariffs for excess and other output, partially offset by a decrease from RMB244 per MWh to RMB242 per MWh in tariffs from planned output.

Yaomeng Power Plant's turnover increased by 7.0% from RMB1,225.3 million in 2002 to RMB1,311.3 million in 2003. The increase was primarily due to an increase in total output from 6,412,385 MWh in 2002 to 6,833,446 MWh in 2003 and also a slight increase in weighted average tariff realized from RMB191 per MWh in 2002 to RMB192 per MWh in 2003. Our increase in total output at Yaomeng Power Plant was due to an increase in planned output as a result of greater demand for electricity offset by a decrease in excess output. Our increase in weighted average tariff at Yaomeng Power Plant was due to the increase from RMB156 per MWh to RMB179 per MWh in tariffs for excess and other output, partially offset by a slight decrease from RMB195 per MWh to RMB192 per MWh in tariffs for planned output.

Operating expenses

Our total operating expenses increased by 10.7% from RMB2,090.7 million in 2002 to RMB2,315.1 million in 2003. The increase in total operating expenses was largely attributable to increases in fuel costs and also to increases in staff costs, repairs and maintenance and other operating expenses.

Fuel costs increased by 10.6% from RMB1,189.8 million in 2002 to RMB1,315.6 million in 2003. This rise was attributable to our greater consumption of fuel due to our higher total output combined with an increase in coal prices reflecting a rising demand for coal in China.

Our depreciation expense remained stable, increasing by 1.5% from RMB368.2 million in 2002 to RMB373.8 million in 2003.

Our staff costs increased 20.8% from RMB187.8 million in 2002 to RMB226.9 million in 2003. Our rise in staff costs was due to the implementation of performance-based incentive systems at both our Pingwei Power Plant and Yaomeng Power Plant.

Our repair and maintenance costs increased by 14.5% from RMB136.4 million in 2002 to RMB156.2 million in 2003. The increase was a result of an increase of RMB8.0 million at Pingwei Power Plant and an increase of RMB11.8 million at Yaomeng Power Plant due to

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increased repair and maintenance requirements associated with increased output at both plants and our efforts to increase our efficiency in anticipation of increased output in 2004.

Our other operating expenses increased by 13.0% from RMB158.2 million in 2002 to RMB178.8 million in 2003 as a result of a RMB66.9 million increase at Pingwei Power Plant, partially offset by a RMB46.3 million decrease at Yaomeng Power Plant. The increase in other operating expenses at Pingwei Power Plant was primarily a result of the increase in on-grid service fees and environmental cleanup fees due to increased total output in 2003. The decrease in other operating expenses at Yaomeng Power Plant was primarily due a revaluation gain of RMB73.2 million from a revaluation of fixed assets conducted in relation to the Global Offering as required by the relevant PRC regulation, partially offset by increases in other miscellaneous operating expenses not otherwise categorized, provisions for other receivables and environmental cleanup fees due to higher electricity output in 2003.

Share of results of an associated company

Our share of results of our associated company decreased by 11.6% from RMB154.3 million in 2002 to RMB136.4 million in 2003. The decrease was due to a RMB49.9 million deficit on valuation of fixed assets, conducted in relation to the Global Offering as required by the relevant PRC regulations, an increase in fuel cost from RMB830.9 million in 2002 to RMB909.1 million in 2003 as a result of an increase in output, and an increase in other operating expenses, partially offset by an increase in revenue at Changshu Power Plant as a result of an increase in total output from 6,978,847 MWh in 2002 to 7,540,615 MWh in 2003. See footnote 13 to the Accountants' Report for further information on our share of results of an associated company.

Taxation

Our taxation expense increased by 28.0% from RMB38.9 million in 2002 to RMB49.8 million in 2003. This increase was largely due to an increase in taxation at Pingwei Power Plant from RMB10.0 million in 2002 to RMB20.5 million in 2003 due to a higher profit before taxation in 2003.

Profit attributable to shareholders

Our profit attributable to shareholders increased by 15.1% from RMB526.0 million in 2002 to RMB605.2 million in 2003.

Year ended December 31, 2002 compared to year ended December 31, 2001

Turnover

Our turnover increased by 6.0% from RMB2,434.6 million in 2001 to RMB2,581.6 million in 2002 due to an increase in turnover of RMB109.6 million at Pingwei Power Plant and of RMB37.4 million at Yaomeng Power Plant.

Pingwei Power Plant's turnover increased by 8.8% from RMB1,246.7 million in 2001 to RMB1,356.3 million in 2002. The increase in turnover at Pingwei Power Plant was primarily due to an increase in total output from 5,711,450 MWh in 2001 to 6,205,310 MWh in 2002, and

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an increase in weighted average tariff realized from RMB218 per MWh in 2001 to RMB219 per MWh in 2002. Our increase in total output at Pingwei Power Plant was due to increases in excess and other output, partially offset by smaller decreases in planned output. Our increases in weighted average tariff at Pingwei Power Plant was due to the increase from RMB121 per MWh to RMB176 per MWh in tariffs for excess and other output, partially offset by a slight decrease from RMB248 per MWh to RMB244 per MWh in tariffs for planned output.

Yaomeng Power Plant's turnover increased by 3.1% from RMB1,187.9 million in 2001 to RMB1,225.3 million in 2002. The increase in turnover at Yaomeng Power Plant was due primarily to an increase in total output from 6,231,197 MWh in 2001 to 6,412,385 MWh in 2002. Our increase in total output at Yaomeng Power Plant was due to an increase in excess and other output, partially offset by a slight decrease in planned output. Our weighted average tariff realized at Yaomeng Power Plant remained steady at RMB191 per MWh for both years.

Operating expenses

Our total operating expenses remained stable, decreasing slightly by 0.3% from RMB2,096.5 million in 2001 to RMB2,090.7 million in 2002. Our decrease in total operating expenses was largely attributable to decreases in other operating expenses, staff costs and depreciation, partially offset by increases in fuel costs and repairs and maintenance.

Our fuel costs increased by 13.9% from RMB1,044.2 million in 2001 to RMB1,189.8 million in 2002. Our rise in fuel costs was attributable to our greater consumption of fuel due to our higher total output, combined with an increase in coal prices reflecting a rising demand for coal in China.

Our depreciation expense decreased 16.0% from RMB438.1 million in 2001 to RMB368.2 million in 2002 as a result of accelerated depreciation for Unit 1 at the Yaomeng Power Plant in 2001 to reflect the major overhaul and upgrade of the Unit 1 generator in 2002.

Our staff costs decreased 21.9% from RMB240.5 million in 2001 to RMB187.8 million in 2002. Our decrease in staff costs was attributable to a decrease of RMB60.3 million at our Yaomeng Power Plant. Our staff costs at Yaomeng Power Plant were higher in 2001 primarily as a result of payments for early retirement and termination benefits for approximately 400 employees in 2001.

Our repair and maintenance costs increased 9.7% from RMB124.3 million in 2001 to RMB136.4 million in 2002. These costs increased primarily as a result of a rise in repair and maintenance costs incurred at Pingwei Power Plant due to increased repair and maintenance requirements associated with increased output.

Our other operating expenses decreased by 18.5% from RMB194.2 million in 2001 to RMB158.2 million in 2002 due to decreases of RMB39.8 million at Pingwei Power Plant, partially offset by an increase of RMB3.8 million at Yaomeng Power Plant. The decrease at Pingwei Power Plant was due to a RMB12.6 million provision on impairment of fixed assets in 2001 as a result of the identification of certain non-generation assets and other equipment that were impaired, and due to a provision for obsolescence of materials and supplies in the amount of RMB26.8 million in 2001.

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Share of results of an associated company

Our share of results of our associated company increased 2.5% from RMB150.6 million in 2001 to RMB154.3 million in 2002 due to a higher net income at Changshu Power Plant. The net income of Changshu Power Plant increased as a result of higher turnover due to an increase in total output from 5,827,549 MWh in 2001 to 6,978,847 MWh in 2002, partially offset by an increase in fuel cost from RMB623.1 million in 2001 to RMB830.9 million in 2002. See footnote 13 to the Accountant's Report for further information on the share of results of our associated company.

Taxation

Our taxation expense increased from a tax credit of RMB2.8 million in 2001 to a tax expense of RMB38.9 million in 2002. In 2001, our power plants under commercial operation were still in the tax exempt period. Beginning in 2002 our power plants under commercial operation became subject to a reduced tax rate of 7.5%. We incurred tax expenses of RMB16.3 million and RMB10.0 million at Yaomeng Power Plant and Pingwei Power Plant in 2002, respectively.

Profit attributable to shareholders

Our profit attributable to shareholders increased by 29.7% from RMB405.6 million in 2001 to RMB526.0 million in 2002.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have met our working capital and other capital requirements principally from cash generated by operating activities. The remainder of our requirements have been met through long- and short-term debt. Following the Global Offering, we expect to fund our foreseeable expenditures and development plans with loan facilities provided by banks and internally generated cash flows as well as net proceeds from the Global Offering. For a discussion of the risks relating to our financing requirements, please refer to the section entitled "Risk Factors—Risks Relating to the Company and the PRC Power Industry—We require substantial capital for investing in or acquiring new power plants and failure to obtain capital on reasonable commercial terms will increase our financing costs and cause delay in our expansion plans" in this prospectus.

The following table presents selected cash flow data from our combined cash flow statements for 2001, 2002 and 2003 and for the six-month periods ended June 30, 2003 and 2004.

	December 31,			June 30,	
	2001	2002	2003	2003	2004
	(RMB thousands)				
Net cash inflow from operating activities	575,793	476,427	692,089	155,362	384,876
Net cash (outflow) from investing activities	(184,606)	(303,239)	(109,897)	(18,578)	(384,857)
Net cash (outflow)/inflow from financing activities	(390,007)	(191,650)	(468,669)	(60,000)	205,178
Cash and cash equivalents at end of the year/period	26,659	8,197	121,720	84,981	326,917

On May 31, 2004, Pingwei II Company, Yaomeng II Company and Huanggang Dabieshan Company entered into syndicated loan agreements with several banks to obtain loan facilities of approximately RMB11.4 billion in the aggregate for the construction of their respective planned power plants. The

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loan agreements will become effective from the later of (i) July 1, 2004 (in the case of Pingwei II Company), October 1, 2004 (in the case of Yaomeng II Company) and November 1, 2005 (in the case of Huanggang Dabieshan Company) and (ii) the date of the approval of the feasibility study report of the relevant power plant issued by the NDRC. The loans facilities have a term of 15 years and will bear interest at floating rates that are 10% lower than the prevailing PBOC rates.

Operating Activities

Net cash generated from operating activities in the six months ended June 30, 2004 increased by RMB229.5 million to RMB384.9 million from RMB155.4 million for the same period in 2003. This increase resulted primarily from a decrease in amount due from intermediate holding companies in the amount of RMB105.2 million in the six months ended June 30, 2004 compared with an increase in the amount of RMB90.7 million in the same period in 2003, an increase in accounts payable in the amount of RMB40.5 million in the six months ended June 30, 2004 compared with a decrease in the amount of RMB44.2 million in the same period in 2003, an increase in other payables and accrued charges in the amount of RMB39.9 million compared with an increase in the amount of RMB43.0 million in the same period in 2003, and a decrease in amount due to related companies in the amount of RMB36.9 million in the six months ended June 30, 2004 compared with a decrease in the amount of RMB63.0 million in the same period in 2003. The increases in net cash generated from operating activities were partially offset by an increase in accounts receivable in the amount of RMB199.9 million in the six months ended June 30, 2004 compared with an increase in the amount of RMB133.2 million in the same period in 2003.

The decrease in amount due from intermediate holding companies in the amount of RMB105.2 million in the six months ended June 30, 2004 corresponds to a reduction of the same amount due from CPI Holding as a result of the settlement of the current account balance with CPI Holding in the six months ended June 30, 2004. The increase in accounts payable in the amount of RMB40.5 million in the six months ended June 30, 2004 was due to increased operating expenses as a result of increased electricity generation in the six months ended June 30, 2004. The increase in other payables and accrued charges in the amount of RMB39.9 million was primarily due to the accrual of expenses related to the Global Offering in the amount of RMB33.7 million in the six months ended June 30, 2004. The decrease in amount due to related companies in the amount of RMB36.9 million in the six months ended June 30, 2004 corresponds to a reduction in the amount due to CPI Group as a result of the settlement of the inter-company balances in the six months ended June 30, 2004. The increase in accounts receivable in the amount of RMB199.9 million in the six months ended June 30, 2004 was caused by an increase in accounts receivable from provincial power grid companies as a result of increase in turnover in the six months ended June 30, 2004.

Net cash generated from operating activities in 2003 increased by RMB215.7 million, or 45.3%, to RMB692.1 million from RMB476.4 million in 2002. This increase resulted primarily from an increase of RMB101.5 million in operating profit before working capital changes in 2003, a decrease in accounts receivables of RMB46.0 million in 2003 compared with an increase in accounts receivable of RMB422.5 million in 2002, and an increase in profits tax paid of RMB15.3 million due to higher pre-tax earnings in 2003.

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Our accounts receivable rose in 2002 primarily because of higher total revenues during 2002 compared to 2001 and an increase in accounts receivable of RMB243.8 million in Pingwei Power Plant, which had an accounts receivable balance of RMB18.7 million in 2001 compared with RMB262.5 million in 2002. The accounts receivable balance at Pingwei Power Plant was extremely low in 2001 due to the offsetting of the accounts receivable for the on-grid electricity sold to the Anhui Provincial Power Company against the compensation payable to the same entity. The compensation payable arose as a result of an agreement by CPI Holding to compensate the Anhui Provincial Power Company for the transfer of its 60% equity interest in Pingwei Power Plant from Anhui Provincial Power Company to CPI Holding. The compensation amount was fully paid in 2001.

Net cash generated from operating activities in 2002 fell by RMB99.4 million, or 17.3%, to RMB476.4 million from RMB575.8 million in 2001. This decrease resulted primarily from an increase of RMB422.5 million in accounts receivables in 2002 compared with a decrease of RMB37.2 million in accounts receivable in 2001, an increase of RMB12.5 million in other payables and accrued charges in 2002 compared with a decrease of RMB111.1 million in the same account in 2001, and a decrease in amounts due to related companies of RMB15.8 million in 2002 compared with a decrease of RMB89.3 million in the same account in 2001.

Our other payables and accrued charges decreased substantially in 2001 primarily due to the amount of interest payable at Pingwei Power Plant that was accrued but not yet paid at the end of 2000. Amounts due to related companies decreased substantially in 2001 due to profit distribution announced but not yet paid at the end of 2001.

Investing Activities

Net cash used in investing activities in the six months ended June 30, 2004 was RMB384.9 million, a substantial increase as compared with RMB18.6 million in the same period in 2003. The net cash used in investing activities in the six months ended June 30, 2004 primarily resulted from prepayment for purchase of production equipment in the amount of RMB323.3 million for the planned power plants under construction, and expenditure on upgrade of production equipment in the amount of RMB62.8 million for Pingwei Power Plant and Yaomeng Power Plant. Please see subsection entitled “—Capital Expenditures” below for details.

Net cash used in investing activities in 2003 was RMB109.9 million, which primarily resulted from capital expenditures of RMB110.1 million. Net cash used in investing activities in 2002 was RMB303.2 million, which primarily resulted from capital expenditures of RMB303.6 million. Net cash used in investing activities in 2001 was RMB184.6 million, which primarily resulted from capital expenditures of RMB186.0 million. Please see section entitled “—Capital Expenditures” below for details.

Financing Activities

Net cash generated from financing activities was RMB205.2 million in the six months ended June 30, 2004, which primarily consisted of new bank loans drawn down in the amount of RMB477.7 million, equity contribution from our shareholder in the amount of RMB68.2 million and from the minority shareholders of Huanggang Dabieshan Company in the amount

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of RMB3.3 million, and were partially offset by repayment of bank loans in the amount of RMB344.0 million. A majority of the new loans drawn down and all of the equity contribution from our shareholder and the minority shareholders of Huanggang Dabieshan Company were used to finance the construction of our planned power plants. In contrast, net cash used in financing activities was in the amount of RMB60.0 million for the same period in 2003 resulting from repayment of bank loans in the amount of RMB135.0 million, partially offset by new bank loans drawn down in the amount of RMB75.0 million.

Net cash used in financing activities in 2003 was RMB468.7 million. Net cash used in financing activities in 2003 consisted of repayment of bank loans in the amount of RMB190.0 million and the distribution of RMB408.7 million in profits to shareholders, partially offset by new bank loans drawn down in the amount of RMB130.0 million.

Net cash used in financing activities in 2002 was RMB191.7 million, which was the result of repayment of bank loans in the amount of RMB681.0 million, and the distribution of RMB286.7 million in profits to shareholders, partially offset by new bank loans drawn down in the amount of RMB776.0 million.

Net cash used in financing activities was RMB390.0 million in 2001, which was the result of repayment of bank loans in the amount of RMB375.5 million and the distribution of RMB397.5 million in profits to shareholders, partially offset by new bank loans drawn down in the amount of RMB383.0 million.

Capital Expenditures

Our principal requirements for capital expenditures are in relation to the construction of our planned power plants, the acquisition of power plants, as well as the expansion and upgrade of our existing power plants.

Our capital expenditures in the six months ended June 30, 2004 amounted to RMB386.1 million, which were primarily incurred for our planned power plants. In particular, we invested RMB140.6 million in Pingwei II Power Plant, RMB116.5 million in Yaomeng II Power Plant and RMB74.4 million in Huanggang Dabieshan Power Plant. The capital expenditures incurred for Pingwei Power Plant and Yaomeng Power Plant in the six months ended June 30, 2004 amounted to RMB54.6 million, which mainly consisted of our investment in equipment upgrades.

Our capital expenditures in 2003 amounted to RMB110.1 million and consisted primarily of RMB103.2 million related to construction in progress, of which RMB55.0 million was incurred at Pingwei Power Plant, and RMB48.2 million was incurred at Yaomeng Power Plant. Capital expenditures at Pingwei Power Plant resulted from upgrades of production facilities and management information system. Capital expenditures at Yaomeng Power Plant resulted from the acquisition of land for coal ash disposal, upgrades made to its Unit 3 generator and the prepayment of other construction projects.

Our capital expenditures in 2002 amounted to RMB303.6 million and consisted primarily of RMB296.0 million related to construction in progress, of which RMB52.0 million was incurred

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at the Pingwei Power Plant and RMB244.0 million was incurred at Yaomeng Power Plant. Pingwei Power Plant incurred expenditures related to improvements on its building facilities and upgrades made to its Unit 1 and Unit 2 generators. Yaomeng Power Plant incurred expenditures related to the technical upgrades of its Unit 1 generator, improvements to its building facilities and pre-payment of other construction projects.

Our capital expenditures in 2001 amounted to RMB186.0 million and consisted primarily of RMB167.8 million related to construction in progress, of which RMB21.6 million was incurred at Pingwei Power Plant and RMB146.2 million was incurred at Yaomeng Power Plant. Pingwei Power Plant incurred expenditures related to the improvements made to its building facilities and upgrades to its fire prevention system. Yaomeng Power Plant incurred expenditures related to the technical upgrades to its Unit 1 and Unit 4 generators, and pre-payments of other construction projects.

The following table shows our current estimate of capital expenditures for 2004, 2005 and 2006 for:

- upgrades associated with our current power plants under commercial operation aimed at increasing operational efficiency, including lowering unit coal consumption and reducing emissions; and
- construction of our planned power plants based on our prior experience in constructing plants of the same size and technology (assuming that all necessary approvals and consents are obtained and assuming that both equipment and financing are obtainable on a timely basis and that construction proceeds on a schedule typical of other power plants of the same size and technology).

	2004	2005	2006
	(RMB millions)		
Existing power plants			
Pingwei Power Plant	133	43	48
Yaomeng Power Plant	70	75	70
Changshu Power Plant ⁽¹⁾	106	202	120
Planned power plants			
Pingwei II Power Plant	668	1,442	1,411
Yaomeng II Power Plant	451	1,343	1,504
Huanggang Dabieshan Power Plant ⁽¹⁾	277	385	1,250

⁽¹⁾ The capital expenditure amounts relate to the entire investment amounts in the power plants, and not amounts attributable to our equity interests in the power plants.

We will fund upgrades to our existing power plants using our cash generated from operations. For our planned power plants, we plan to utilize a ratio of 80% debt and 20% equity to fund our construction. In this respect, we have secured additional loan facilities of approximately RMB11.4 billion in aggregate, through project companies established for each planned power plant, to partially fund our planned power plants in the future. Loans under the facilities will bear interest at floating rates that are 10% lower than the prevailing PBOC rates and are repayable over a term of 15 years. We may also consider future fund raising to satisfy the capital requirements of the planned power plants.

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The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions and other factors. Any expansion of our generating capacity beyond the power plants or projects listed above will require substantial additional debt or equity funding. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong, and the PRC government's policies relating to foreign currency borrowings.

Working Capital

Taking into account the net proceeds available to us from the Global Offering and our operating cash flow, we confirm, after due and careful enquiry, that we have sufficient working capital for our present requirements, that is, for at least the next 12 months from the date of publication of this prospectus.

Inventory Analysis

The following table sets forth a summary of our turnover of average inventory for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(days)				
Turnover of average inventory ⁽¹⁾	36	28	24	27	18

⁽¹⁾ Average inventory equals inventory at the beginning of the period plus inventory at the end of the period divided by 2. Turnover of average inventory (in days) equals average inventory divided by total sum of fuel costs, repairs and maintenances and consumables multiplied by 365 days for the three years ended December 31, 2001, 2002 and 2003, and multiplied by 180 days for the six-month periods ended June 30, 2003 and 2004.

In 2001 and 2003, we made a provision for inventory obsolescence in the amount of RMB26.8 million and RMB7.8 million, respectively. No provision was made for inventory obsolescence in 2002 and for the six months ended June 30, 2004.

The turnover of average inventory decreased from 27 days in the six months ended June 30, 2003 to 18 days in the six months ended June 30, 2004, primarily as a result of increased output in the six months ended June 30, 2004.

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Accounts Receivable and Accounts Payable

Our accounts receivable represent the receivables from sales of electricity to the relevant provincial power grid companies. Our accounts payable represent the purchase of coal and other raw materials from various suppliers. The following table sets forth the turnover of our average accounts receivable and average accounts payable for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(days)				
Turnover of average accounts receivable ⁽¹⁾	33	48	61	72	61
Turnover of average accounts payable ⁽²⁾	37	40	39	36	34

⁽¹⁾ Average accounts receivable equals accounts receivable at the beginning of the period plus accounts receivable at the end of the period divided by 2. Turnover of average accounts receivable (in days) equals average accounts receivable divided by revenue for the relevant period and multiplied by 365 days for the three years ended December 31, 2001, 2002 and 2003, and multiplied by 180 days for the six-month periods ended June 30, 2003 and 2004.

⁽²⁾ Average accounts payable equals accounts payable at the beginning of the period plus accounts payable at the end of the period divided by 2. Turnover of average accounts payable (in days) equals average accounts payable divided by fuel cost and multiplied by 365 for the three years ended December 31, 2001, 2002 and 2003, and multiplied by 180 days for the six-month periods ended June 30, 2003 and 2004.

We have not made any provision for accounts receivables during the three years ended December 31, 2003 and the six-month periods ended June 30, 2003 and 2004.

The turnover of average accounts receivable increased from 33 days in 2001 to 48 days in 2002 due to an increase of RMB243.8 million in accounts receivable in Pingwei Power Plant, from RMB18.7 million in 2001 to RMB262.5 million in 2002. The extremely low accounts receivable balance at Pingwei Power Plant in 2001 was because the accounts receivable for the on-grid electricity sold to the Anhui Provincial Power Company was largely offset by the compensation payable to the same entity in relation to the transfer by Anhui Provincial Power Company of its equity interest in Pingwei Power Plant to CPI Holding.

The turnover of average accounts receivable increased from 48 days in 2002 to 61 days in 2003 due to an increase in average accounts receivable from RMB340.4 million as at December 31, 2002 to RMB484.1 million as at December 31, 2003. The low average accounts receivable as at December 31, 2002 was largely due to the unusually low accounts receivable balance of Pingwei Power Plant as at December 31, 2001.

The turnover of average accounts receivable increased from 48 days for the year ended December 31, 2002 to 72 days for the six months ended June 30, 2003 primarily due to the low average accounts receivable as at ended December 31, 2002, as well as the high accounts receivable balance as at June 30, 2003 for Yaomeng Power Plant. The turnover of average accounts receivable decreased from 72 days for the six months ended June 30, 2003 to 61 days for the year ended December 31, 2003 primarily due to the management's continuous efforts to reduce accounts receivable to improve working capital.

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INDEBTEDNESS

Our bank borrowings as at December 31, 2001, 2002, 2003, June 30, 2004 and August 31, 2004, the date being the latest practicable date, are set forth below:

	December 31,			June 30, 2004	August 31, 2004
	2001	2002	2003		
	(RMB millions)				
Short-term bank borrowings	170.0	55.0	45.0	267.7	287.7
Current portion of long-term bank borrowings	170.0	—	265.0	105.0	121.0
Long-term bank borrowings, net of current portion	1,028.0	1,408.0	1,093.0	1,164.0	1,158.0
Total debt	1,368.0	1,463.0	1,403.0	1,536.7	1,566.7

Currently, our bank loans bear interest at rates ranging from 4.5% to 5.8% per annum. The interest rates of our bank loans are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. As of June 30, 2004, RMB40.0 million of our bank borrowings were guaranteed by Huainan Changhua Electric Company, a company owned by individuals who are also employees or operational managers of a subsidiary of our Company. Such guarantee was released on September 10, 2004.

Our gearing ratio as of December 31, 2001, 2002, 2003 and June 30, 2004 was 27%, 28%, 27% and 26%, respectively.

On May 31, 2004, each of Pingwei II Company, Yaomeng II Company and Huanggang Dabieshan Company entered into a syndicated loan agreement with several banks to obtain loan facilities aggregating approximately RMB11.4 billion for the construction of the planned power plant that they respectively own. No amount has been drawn down under the loan facilities yet.

CRITICAL ACCOUNTING POLICIES

Our financial information is prepared under the historical cost convention, except that, as disclosed below, certain property, plant and equipment are stated at revalued amount less accumulated depreciation and accumulated impairment losses. The principal accounting policies adopted in arriving at our financial information, which conform to Statements of Standard Accounting Practices issued by the Hong Kong Institute of Certified Public Accountants and HK GAAP, are as follows:

Property, Plant and Equipment

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

Subsequent to the initial recognition, property, plant and equipment other than construction in progress are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed regularly with an interval of not more than five years. In the intervening years, the Directors review the carrying values of the assets and make adjustments where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the combined profit and loss account.

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Any subsequent increases are credited to the combined profit and loss account up to the amount previously charged. Upon the disposal of the assets, any revaluation reserve balance remaining attributable to the relevant asset is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

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

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

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

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

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

Inventories

Inventories comprise coal, oil, consumable supplies and spare parts held for consumption and usage and are stated at the lower of weighted average cost or net realizable value after provision for obsolete items, and are expensed to fuel costs or repair and maintenance expense when used, or capitalized to properties, 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. We have not adopted a general inventory provision policy. We will make provision for inventory obsolescence only when we identify specific inventories, mainly spare parts, as obsolete.

Accounts Receivable

Provision is made against account receivable to the extent they are considered to be doubtful. Accounts receivable in the combined balance sheet are stated net of such provision. We do not make general provisions for accounts receivable.

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Provision

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

Deferred Taxation

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

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

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

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks, commodities risks and inflation risks in the normal course of business.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. Our loans bear interest rates that are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

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The following table presents the expected outstanding balance of, and weighted average interest rates on, our existing long-term bank loans as of June 30, 2004, on the dates presented:

	As of December 31					
	2004	2005	2006	2007	2008	Thereafter
	(RMB equivalent in millions, except interest rates)					
Bank Borrowings:						
Total loans outstanding	1,199	898	628	343	193	93
Weighted average interest rate ⁽¹⁾	5.57%	5.64%	5.66%	5.76%	5.76%	5.76%

⁽¹⁾ The weighted average interest rates for our loans are calculated based on the rates reported as of December 31, 2003 and assuming no adjustments are made to the rates as a result of changes in relevant PBOC regulations.

Foreign Exchange Rate Risk

We collect all of our revenues in Renminbi, some of which need to be converted into foreign currencies to (i) purchase foreign-made equipment and parts for repair and maintenance, (ii) make investments in certain joint ventures or acquire interests from other companies, and (iii) pay out dividends to our shareholders. Therefore we have certain exposure to foreign exchange fluctuations.

The Renminbi is not a freely convertible currency. The PRC government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare. Please refer to the section entitled “Risk Factors—Risks Related to the PRC—Fluctuations of the Renminbi could materially affect our financial condition and results of operations.”

Commodity Risk

We are exposed to fluctuations in the prices of the raw materials we require for the production of electricity, mainly coal. As a result of changes in PRC regulations, the price of coal used in electricity generation is becoming more subject to market forces and may fluctuate from time to time. Fuel costs accounted for 56.8% of our operating costs in 2003 and 61.9% of our operating costs in the six months ended June 30, 2004. The average standard coal price per ton for our power plants under commercial operation increased from approximately RMB269 in 2001 to RMB296 in 2002 and to RMB301 in 2003 and to RMB366 in the six months ended June 30, 2004.

Inflation Risk

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, the change in consumer price index in China was 0.4%, 0.7%, -0.8% and 1.2% for the years 2000, 2001, 2002 and 2003, respectively. We have not been materially and adversely affected by the recent inflationary and deflationary pressures in China.

FINANCIAL INFORMATION

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that they are not aware of any circumstances which, had we been required to comply with Chapter 13 of the Listing Rules, would give rise to a disclosure requirement under Chapter 13 of the Listing Rules.

PROFIT FORECAST

Based on the audited combined results of the Company for the six months ended June 30, 2004 and a forecast of the combined results of the Company for the remaining six months ending December 31, 2004, both prepared on the basis that the current group structure had been in existence throughout the whole financial year ending December 31, 2004, and in the absence of unforeseen circumstances, we forecast that our profit after tax and minority interests but before extraordinary items for the year ending December 31, 2004 will not be less than RMB633 million. We are not aware of any extraordinary items which have arisen in respect of the year ending December 31, 2004.

On a weighted average basis based on the above profit forecast and assuming that (i) the Shares issued pursuant to the Reorganization were issued on January 1, 2004; (ii) a total of 12,234,500 Shares were also allotted and issued under the Pre-IPO Share Option Scheme on January 1, 2004; (iii) the Shares to be issued pursuant to the Global Offering will be issued on October 15, 2004; and that (iv) the Over-allotment Option will not be exercised, the forecast earnings per Share on a weighted basis are equivalent to RMB0.27, representing weighted average price to earnings multiples of 8.4 times and 10.4 times based on the Offer Prices of HK\$2.10 and HK\$2.60 per Share respectively. On a pro forma fully diluted basis and on the assumption that the Global Offering had been completed and a total of 3,012,234,500 Shares were in issue and outstanding throughout the year ending December 31, 2004 (taking no account of any Share that may be issued pursuant to the exercise of the Over-allotment Option but assuming that a total of 12,234,500 Shares were allotted and issued under the Pre-IPO Share Option Scheme on January 1, 2004), the forecast earnings per Share on a pro forma fully diluted basis for the year ending December 31, 2004 would be RMB0.21, representing fully diluted price to earnings multiples of approximately 10.5 times and 13.0 times based on the Offer Prices of HK\$2.10 and HK\$2.60 per Share respectively.

DIVIDEND POLICY

In the absence of unforeseen circumstances, our Directors intend to recommend a final dividend of not less than HK\$0.024 (RMB0.025) per Share in respect of the year ending December 31, 2004. Such final dividend is intended to reflect our performance for the three months ending December 31, 2004.

Prior to the Global Offering and pursuant to the Reorganization Agreement, we agreed to distribute the Special Dividend to CPI Holding to be funded from our internally generated cash flow. Purchasers of our Shares in the Global Offering will not be entitled to this Special Dividend.

In the future, our Directors currently intend to recommend distributing at least 25% of our annual distributable earnings as cash dividends. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will be based on the recommendation of our Directors in accordance with our Articles of Association, and will depend upon our results of operations, cash flows, financial condition, the payment by subsidiaries of cash dividends to us, future prospects, distributable reserves, the provisions of relevant laws and other factors which our Directors may

FINANCIAL INFORMATION

consider important. In addition, any final dividend for a financial year is subject to the approval of our shareholders.

Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means our Directors may consider appropriate.

DISTRIBUTABLE RESERVE

As at June 30, 2004, the Company did not have any reserves available for distribution to the shareholders of the Company.

UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma net tangible assets of the Company is prepared based on our audited combined net tangible assets as at June 30, 2004 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus and adjusted as described below:

	Audited combined net tangible assets as at June 30, 2004	Add: Estimated net proceeds from the Global Offering	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible assets per Share
	RMB millions	RMB millions ⁽¹⁾	RMB millions	RMB ⁽²⁾⁽³⁾
Based on an Offer Price of HK\$ 2.10 per Share	<u>3,807</u>	<u>1,859</u>	<u>5,666</u>	<u>1.89</u>
Based on an Offer Price of HK\$ 2.60 per Share	<u>3,807</u>	<u>2,320</u>	<u>6,127</u>	<u>2.04</u>

⁽¹⁾ The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.10/HK\$2.60 per Share, after deduction of the underwriting fees and other relevant expenses payable by the Company. No account has been taken of the Shares which may be issued upon the exercise of the Over-allotment Option.

⁽²⁾ The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 3,000,000,000 Shares, being the total number of Shares expected to be in issue immediately after completion of the Global Offering as mentioned in section entitled "Share Capital" in the prospectus, are in issue on June 30, 2004 taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

⁽³⁾ Pursuant to the Reorganization Agreement, the Company agreed that certain future dividends from certain subsidiaries and an associated company in connection with the profits of these companies for the period from January 1, 2004 to September 30, 2004, shall be attributable to CPI Holding, the intermediate holding company of the Company. Please refer to the subsection entitled "—Dividend Policy" in this prospectus. The calculation of the unaudited pro forma net tangible assets per Share had not taken into account the distribution of this Special Dividend, which, when distributed, will reduce the unaudited pro forma net tangible assets value per Share.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in our financial or trading position since June 30, 2004 (being the date of our latest audited combined financial results as set out in the Accountants' Report in Appendix I to this prospectus).

FUTURE PLANS AND USE OF PROCEEDS OF THE GLOBAL OFFERING

FUTURE PLANS

We are the flagship company of CPI Group, one of the leading independent power producers in China, and have significant experience in developing, managing and operating large power plants. We intend to reinforce our position by increasing installed capacity and power output, while delivering growth in shareholder value. To achieve our goal, we will pursue the following strategies:

- leverage our close relationship with and strong support from CPI Group;
- expand and upgrade existing power plants;
- expand, develop and acquire power plants in advantageous locations;
- emphasize the development of high-capacity, highly efficient and environmentally-friendly power plants;
- pursue further development and acquisition opportunities through the management of power plants for CPI Group and CPI Holding; and
- implement rigorous cost control measures on an ongoing basis.

For a detailed description of our future plans and strategies, please refer to the section entitled “Business—Development Strategy” in this prospectus.

USE OF PROCEEDS

The net proceeds of the Global Offering that we expect to receive from subscription for the Offer Shares (after deducting underwriting fees and estimated expenses payable by us and assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$1,970 million (RMB2,090 million), assuming an Offer Price of HK\$2.35 per share, being the mid-point of the stated range of the Offer Price of between HK\$2.10 and HK\$2.60 per share, or if the Over-allotment Option is exercised in full, approximately HK\$2,276 million (RMB2,414 million), assuming the same mid-point Offer Price as above.

We currently intend to use the proceeds from the Global Offering to further our development strategy of increasing installed capacity and power output while delivering growth in shareholder value. To achieve this objective, we expect to set aside approximately HK\$850 million (RMB900 million) of the net proceeds from the Global Offering for investments in, and pre-operating expenses of, our planned power plants namely, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant. The balance amount of net proceeds (assuming the mid-point Offer Price of HK\$2.35 per Share), estimated to be approximately HK\$1,120 million (RMB1,188 million), is expected to be used substantially for future acquisitions, though we may utilize approximately HK\$50 million (RMB53 million) from such amount for general corporate purposes. Although we have yet to identify specific acquisition targets, they may include power assets of CPI Group or CPI Holding pursuant to an exercise of our preferential rights or our call option to acquire up to a 25% equity interest in Shanghai Power. Should one or more investment opportunities present themselves and there is sufficient internally generated cash flow to meet our obligations in respect of investments in, and pre-operating expenses of, our planned power plants as and when they fall due, we may use all or a portion of the HK\$850 million (RMB900 million) set aside for investments in, and pre-operating expenses of, our planned power plants to fund such future acquisitions. We will comply with the relevant disclosure requirements under the Companies Ordinance and the Listing Rules in respect of any future acquisition that we make.

FUTURE PLANS AND USE OF PROCEEDS OF THE GLOBAL OFFERING

Net proceeds of approximately HK\$306 million (RMB325 million) (assuming the mid-point Offer Price of HK\$2.35 per Share) that we estimate we would receive from subscriptions for additional Shares in the event the Over-allotment Option is exercised in full, will be used for future acquisitions and general corporate purposes.

Pending the use of the net proceeds from the Global Offering for the purposes described above, and to the extent permitted under relevant PRC and Hong Kong laws and regulations, we intend to invest the proceeds in short term demand deposits and/or money-market instruments.

We will not receive any of the proceeds from the sale of 90,000,000 Offer Shares by the Selling Shareholder under the International Placing. Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.35 per Share, being the mid-point of the stated range of the Offer Price of between HK\$2.10 and HK\$2.60 per Share, and after deducting the underwriting fees and estimated expenses payable by the Selling Shareholder, the Selling Shareholder will receive total net proceeds of approximately HK\$196 million, or if the Over-allotment Option is exercised in full, approximately HK\$227 million, assuming the same mid-point Offer Price. These net proceeds will be remitted to the national social security fund in accordance with PRC government requirements.

In the event of any material modification to the use of proceeds as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required by the Stock Exchange and/or the SFC.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

Merrill Lynch Far East Limited
China Merchants Securities (HK) Co., Limited
BOCI Asia Limited
CITIC Capital Markets Limited
Credit Suisse First Boston (Hong Kong) Limited
DBS Asia Capital Limited
J.P. Morgan Securities (Asia Pacific) Limited
VC Capital Limited
China Everbright Securities (HK) Limited
Dao Heng Securities Ltd.
ICEA Capital Limited

International Underwriters

Merrill Lynch Far East Limited
China Merchants Securities (HK) Co., Limited
Nomura International (Hong Kong) Limited
Credit Suisse First Boston (Hong Kong) Limited
J.P. Morgan Securities Ltd.
DBS Asia Capital Limited
Cazenove Asia Limited
ECM Libra Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on September 30, 2004. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and our Company agreeing on the Offer Price), the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

UNDERWRITING

Grounds for Termination

The obligation of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares is subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of Hong Kong, the PRC, Japan, Singapore, the United Kingdom, the Netherlands, France, Germany, Italy, the U.S., Canada and Australia (“Relevant Jurisdictions”); or
 - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national or international financial, political, military, industrial, economic, currency or equity securities markets or conditions or any monetary or trading settlement system (including but not limited to a change in the system under which the value of the Hong Kong currency or the Renminbi is linked to that of the currency of the U.S.) in any of the Relevant Jurisdictions; or
 - (iii) any suspension or material limitation in trading in shares or securities generally on the New York Stock Exchange or the Stock Exchange, or a material disruption has occurred in commercial banking or securities settlement or clearance services or procedures in any of the Relevant Jurisdictions; or
 - (iv) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or currency exchange rates in any of the Relevant Jurisdictions; or
 - (v) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Company, or our subsidiaries and associated company (taken as a whole); or
 - (vi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at Federal or New York State level or otherwise), or any other Relevant Jurisdictions; or
 - (vii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or calamity or crisis involving any of the Relevant Jurisdictions or any escalation thereof, or the declaration by any of the Relevant Jurisdictions of a national emergency or war, or the occurrence of any other calamity or crisis; or
 - (viii) any material litigation or claim being instigated against any of our Company, our subsidiaries and associated company; or
 - (ix) any event of force majeure, including without limitation, act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, labor dispute, strike or lock-out involving any of the Relevant Jurisdictions,

UNDERWRITING

which, in the sole opinion of the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (A) is or is likely to be materially adverse to the business, financial or other condition or prospects of our Company or our subsidiaries and associated company (taken as a whole) or, in the case of paragraph (iv) above, to any present or prospective shareholder of our Company in his/her/its capacity as such; or
 - (B) has or is likely to have a material adverse effect on the success of the Global Offering or the level of Hong Kong Offer Shares being applied for or accepted or the distribution of Hong Kong Offer Shares; or
 - (C) makes it inadvisable, inexpedient or impracticable to proceed with the Global Offering or the delivery of the Hong Kong Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there comes to the notice of the Global Coordinator any matter or event showing any of the warranties given or to be given by the Company, CPI Holding and the Selling Shareholder in the Hong Kong Underwriting Agreement to be or would be when given, breached, untrue or misleading which, in the sole opinion of the Global Coordinator, is material; or
- (c) there comes to the notice of the Global Coordinator any breach on the part of the Company, CPI Holding or the Selling Shareholder of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement which, in the sole opinion of the Global Coordinator, is material; or
- (d) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Company pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement,

then the Global Coordinator may in its absolute discretion, upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering, the Over-allotment Option or the Share Option Scheme, at any time during the period of six months from the Listing Date, we will not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options, rights, interests or encumbrances over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or have any intention to do so.

We have undertaken to each of the Global Coordinator, the Hong Kong Underwriters and the Sponsor pursuant to the Hong Kong Underwriting Agreement, and will undertake to each of the Global Coordinator and the International Underwriters pursuant to the International Underwriting Agreement, that, and each of CPI Holding and the Selling Shareholder has

UNDERWRITING

undertaken to each of the Global Coordinator, the Hong Kong Underwriters and the Sponsor pursuant to the Hong Kong Underwriting Agreement and will undertake to each of the Global Coordinator and the International Underwriters pursuant to the International Underwriting Agreement, and CPI Group has undertaken to each of the Global Coordinator, the Hong Kong Underwriters and the International Underwriters pursuant to a letter of undertaking, to procure that, except pursuant to the Global Offering, the Over-allotment Option, the Pre-IPO Share Option Scheme or the Share Option Scheme, at any time up to and including the date falling six months from the Listing Date, we will not, without the Global Coordinator's prior written consent and unless in compliance with the requirements of the Listing Rules offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, interest, encumbrance or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of our share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, and further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the date falling six months after the Listing Date, we will take all reasonable steps to ensure that such issue or disposal will not create a disorderly or false market for the Shares.

Each of CPI Holding and the Selling Shareholder has undertaken to each of the Global Coordinator, the Hong Kong Underwriters and the Sponsor pursuant to the Hong Kong Underwriting Agreement, and will undertake to each of the Global Coordinator and the International Underwriters pursuant to the International Underwriting Agreement, and CPI Group has undertaken to each of the Global Coordinator, the Hong Kong Underwriters and the International Underwriters pursuant to a letter of undertaking, that, except pursuant to the Global Offering, the Over-allotment Option, the Pre-IPO Share Option Scheme or the Share Option Scheme, at any time up to and including the date falling six months after the Listing Date, it will not, without the Global Coordinator's prior written consent and unless in compliance with the requirements of the Listing Rules offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, interest, encumbrance or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of:

- (i) any of our Company's share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital; or
- (ii) any direct or indirect interest in any company or entity holding or interested in (directly or indirectly) any of the Company's share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital,

whether any of the foregoing transactions is to be settled by delivery of share capital of such other securities, in cash or otherwise.

UNDERWRITING

Pursuant to Rule 10.07 of the Listing Rules, CPI Group has undertaken to the Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option:

- (i) it will not, and it will procure that none of its subsidiaries will, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, in the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which CPI Group or any of its subsidiaries is shown by this prospectus to be, directly or indirectly, the beneficial owner (the “Parent Shares”); and
- (ii) it will not, without the prior written consent of the Stock Exchange, in the period of six months commencing on the date on which the period referred to in (i) above expires dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, CPI Group or any of its subsidiaries would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

CPI Group has further undertaken to the Company, the Global Coordinator, the Sponsor and the Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option, it will, and it will procure that its subsidiaries will, at any time during the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform the Company, the Global Coordinator, the Sponsor and the Stock Exchange of:

- (i) any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or other share capital of the Company beneficially owned by it or any of its subsidiaries and the number of such Shares or other securities so pledged or charged; and
- (ii) any indication received by it or any of its subsidiaries, either verbal or written, from any pledgee or chargee of any Shares or other share capital of the Company pledged or charged that any of such Shares or other share capital of the Company will be disposed of.

The Company will, upon receipt of notice of any matter in (i) or (ii) above from CPI Group or its subsidiaries, notify the Stock Exchange and disclose such matters by way of an announcement published in the newspapers.

International Placing

In connection with the International Placing, we, CPI Holding and the Selling Shareholder expect to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares or procure purchasers for such International Placing Shares.

We and the Selling Shareholder intend to grant to the International Underwriters the Over-allotment Option, exercisable by the Global Coordinator on behalf of the International

UNDERWRITING

Underwriters at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Selling Shareholder to sell up to an aggregate of 13,500,000 additional Shares and us to allot and issue up to an aggregate of 135,000,000 additional Shares, representing in aggregate approximately 15% of the initial Offer Shares, at the Offer Price per Share solely to cover over-allocations in the International Placing, if any.

We, CPI Holding and the Selling Shareholder have agreed to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

Commission

The Hong Kong Underwriters will receive a commission of 2.5% of the aggregate Offer Price payable for the initial Hong Kong Offer Shares, out of which they will pay any sub-underwriting commissions. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay to the International Underwriters an underwriting commission at the rate applicable to the International Placing Shares. In addition, we may, in our sole discretion, pay a bonus to both or either of the Joint Lead Managers. We will pay such fee, commission and bonus (if any) in connection with the Hong Kong Public Offering and the International Placing, together with the Stock Exchange listing fees, the Stock Exchange trading fee, SFC transaction levy, investor compensation levy, legal and other professional fees, printing, and other expenses relating to the Global Offering, which are estimated to amount to approximately HK\$145 million in aggregate assuming the mid-point Offer Price of HK\$2.35 per Share. The Selling Shareholder will be responsible for all Hong Kong stamp duties charged at an *ad valorem* rate of 0.2% of the Offer Price and payable in connection with the sale of the Offer Shares offered by it in the Global Offering, including the additional Shares to be offered by the Selling Shareholder pursuant to any exercise of the Over-allotment Option.

We, CPI Holding and the Selling Shareholder have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their proper performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' Interests in Our Company

Save for their respective obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in our Company or any other member of our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Company.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

STRUCTURE OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$2.60 and is expected to be not less than HK\$2.10 unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay, on application, the maximum Offer Price of HK\$2.60 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% investor compensation levy. This means that for every board lot of 1,000 Offer Shares, you should pay HK\$2,626.31 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$2.60, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee, SFC transaction levy and investor compensation levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. Further details are set out in the section entitled “How to Apply for Hong Kong Offer Shares” in this prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by agreement among our Company, the Selling Shareholder and the Global Coordinator, on behalf of the Underwriters on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, October 8, 2004 and, in any event, no later than Wednesday, October 13, 2004.

The Offer Price will not be more than HK\$2.60 per Offer Share and is expected to be not less than HK\$2.10 per Offer Share. The Offer Price will fall within the offer price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Global Coordinator, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company and the Selling Shareholder, reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of the reduction in the number of Offer Shares and/or the indicative offer price range.

Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by the Global Coordinator, the Selling Shareholder and us, will be fixed within such revised offer price range. In this notice, we will also confirm or revise, as appropriate, the working capital statement, the issue statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. **If you have already submitted an application for Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application, even if the number of Offer Shares and/or the offer price range is reduced.** If we do not publish a notice in the South China

STRUCTURE OF THE GLOBAL OFFERING

Morning Post and the Hong Kong Economic Times of a reduction in the number of Offer Shares and/or the indicative offer price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Global Coordinator, the Selling Shareholder and us, will be within the offer price range as stated in this prospectus.

If we and the Selling Shareholder are unable to reach an agreement with the Global Coordinator (on behalf of the Underwriters) on the Offer Price by Wednesday, October 13, 2004, the Global Offering will not proceed and will lapse.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Placing and the application results and basis of allotment of the Hong Kong Offer Shares, on Thursday, October 14, 2004.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the International Placing and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day after such lapse.

In the above situation, we will return all application monies to the applicants, without interest and on the terms set out in the section entitled "How to Apply for Hong Kong Offer Shares" in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

We expect to issue share certificates for the Offer Shares on Thursday, October 14, 2004. However, these share certificates will only become valid certificates of title on 8:00 a.m. on Friday, October 15, 2004, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled “Underwriting” in this prospectus has not been exercised.

THE GLOBAL OFFERING

The Global Offering consists of the Hong Kong Public Offering and the International Placing. We intend to initially make available up to 990,000,000 Offer Shares under the Global Offering, of which 891,000,000 Offer Shares will be conditionally placed pursuant to the International Placing and the remaining 99,000,000 Offer Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under the subsection entitled “—The Hong Kong Public Offering”).

Of the total 990,000,000 Offer Shares comprised in the Global Offering (assuming the Over-allotment Option is not exercised), we are offering 900,000,000 Offer Shares and the Selling Shareholder is offering 90,000,000 Offer Shares. The 900,000,000 Offer Shares initially being offered by us in the Global Offering will represent 30% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option.

You may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but you may not apply under both of these methods for the Offer Shares. In other words, you may only receive Shares under either the International Placing or the Hong Kong Public Offering, but not under both of these methods. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Placing will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A and to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S (including a public offer without listing in Japan, the Strategic Placing and the Corporate Placing). Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Allocation of the International Placing Shares pursuant to the International Placing will be determined by the Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its International Placing Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We intend to make the allocation on a pro-rata basis, although we may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

In connection with the Global Offering, we and the Selling Shareholder intend to grant the Over-allotment Option to the Global Coordinator on behalf of the International Underwriters. The Over-allotment Option gives the Global Coordinator the right exercisable at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require (i) the Selling Shareholder to sell up to an aggregate of 13,500,000 additional Shares and (ii) us to allot and issue up to an aggregate of 135,000,000 additional Shares, representing in aggregate 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Placing, if any. The Global Coordinator may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Global Coordinator exercises the Over-allotment Option in full, the additional Shares will represent approximately 4.7% of our enlarged Share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In order to facilitate the settlement of over-allocations in connection with the International Placing, the Global Coordinator may choose to borrow Shares from the Selling Shareholder under a stock borrowing arrangement between the Global Coordinator and the Selling Shareholder, or acquire Shares from other sources. A waiver has been granted by the Stock Exchange to the Selling Shareholder from strict compliance with Rule 10.07(1) of the Listing Rules which restricts the disposal of shares by controlling shareholders following a new listing, in order to allow the Selling Shareholder to enter into such stock borrowing arrangement. The waiver is subject to the conditions that any Shares which may be made available to the Global Coordinator pursuant to such arrangements will be on the terms that (i) they will only be used for settlement of over-allocations in the International Placing; (ii) they will be limited to the maximum aggregate number of Shares which may be issued and allotted by the Company or sold by the Selling Shareholder upon full exercise of the Over-allotment Option; and (iii) the same number of Shares so borrowed must be returned to the Selling Shareholder no later than three business days following the earlier of (a) the last date on which the additional Shares may be issued and allotted by the Company or sold by the Selling Shareholder pursuant the Over-allotment Option, and (b) the day on which full exercise of the Over-allotment Option is completed.

The Selling Shareholder will not receive any payment or benefit in respect of such stock borrowing arrangement. The stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Placing is expected to be fully underwritten by the International Underwriters. The Hong

STRUCTURE OF THE GLOBAL OFFERING

Kong Public Offering and the International Placing are subject to the conditions set out in the section entitled “Underwriting—Underwriting Arrangements and Expenses” in this prospectus. In particular, we, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) must agree on the Offer Price. The Hong Kong Underwriting Agreement was entered into on September 30, 2004 and, subject to an agreement on the Offer Price between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and us, the International Underwriting Agreement is expected to be entered into on October 8, 2004. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are conditional upon each other.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement and described in the subsection entitled “—Conditions of the Global Offering” in this prospectus) for the subscription in Hong Kong of, initially, 99,000,000 Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 3.3% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools for allocation purposes:

- (i) Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee, the SFC transaction levy and the investor compensation levy payable) or less; and
- (ii) Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee, the SFC transaction levy and the investor compensation levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of the Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 99,000,000 Offer Shares initially included in the Hong Kong Public Offering (that is, 49,500,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Placing, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

STRUCTURE OF THE GLOBAL OFFERING

We will reject multiple applications within pool A or pool B, and between the two pools. Our Directors, the Hong Kong Underwriters and us will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Placing, and to identify and reject indications of interest under the International Placing from investors who have received Shares in the Hong Kong Public Offering.

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to the following adjustments in the event of over-subscription under the Hong Kong Public Offering:

- (i) If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then International Placing Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 297,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- (ii) If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of International Placing Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 396,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- (iii) If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of International Placing Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 495,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In the event of over-subscription under the Hong Kong Public Offering, the Offer Shares to be subscribed for by the Strategic Investor and the Corporate Investor in the International Placing will not be reduced by any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Global Coordinator may reallocate to the International Placing all or any unsubscribed Hong Kong Offer Shares in such numbers as they deem appropriate.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

The number of the Offer Shares to be initially offered for subscription or sale under the International Placing will be 891,000,000 Offer Shares (comprising 801,000,000 Offer Shares and 90,000,000 Offer

STRUCTURE OF THE GLOBAL OFFERING

Shares to be offered by the Company and the Selling Shareholder, respectively), representing 90% of the Offer Shares initially offered under the Global Offering and 29.7% of our enlarged issued share capital immediately after the completion of the Global Offering assuming the Over-allotment Option is not exercised.

Pursuant to the International Placing, the International Placing Shares will be conditionally placed on behalf of us by the International Underwriters or through selling agents appointed by them. The International Placing Shares will be placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Placing Shares in Hong Kong, Europe and other jurisdictions outside the United States (other than the PRC) in offshore transactions in reliance on Regulation S and in the United States with QIBs in reliance on Rule 144A. The International Placing will also include a public offer without listing to investors (including retail investors) in Japan, the Strategic Placing and the Corporate Placing. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Global Coordinator so as to allow it to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from applying for Hong Kong Offer Shares under the Hong Kong Public Offering.

The Strategic Placing

As part of the International Placing, Merrill Lynch and we have entered into a strategic placing agreement with the Strategic Investor for the subscription by the Strategic Investor for 90,000,000 Offer Shares at the Offer Price, representing 3% of our total issued share capital immediately following the completion of the Global Offering (9.09% of the initial number of Offer Shares available under the Global Offering) (assuming the Over-allotment Option is not exercised). The sale of Offer Shares to the Strategic Investor is underwritten by Merrill Lynch.

The Strategic Investor is an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited (“Temasek”), which is an investment holding company incorporated in Singapore and wholly-owned by the Minister for Finance, Incorporated of Singapore. Temasek manages a diversified global portfolio, and has investments ranging from energy, resources and utilities, transport and logistics, banking and financial services, telecommunications and media, infrastructure and engineering to pharmaceuticals and biosciences. Its energy, resources and utilities investments include Singapore Power Limited, the sole operator of the electricity and gas transmission and distribution networks in Singapore, and PowerSeraya Limited, Senoko Power Limited and Tuas Power Ltd, which are three of the largest generation companies in Singapore. In addition to its operations in Singapore, Singapore Power Limited also owns several overseas assets including the electricity transmission network in Victoria, Australia.

We believe that Temasek’s interest in us coupled with its investments in the energy, resources and utilities sectors will help to raise our profile in the international markets, and may present us with potential business opportunities. If and when opportunities present themselves in the future, we may consider further arrangements for the parties’ mutual benefit.

STRUCTURE OF THE GLOBAL OFFERING

Condition Precedent

The Strategic Investor's subscription obligation is conditional upon the Underwriting Agreements being entered into and having become unconditional.

Restrictions on Disposals by the Strategic Investor

The Strategic Investor has agreed that, without the prior written consent of ourselves and Merrill Lynch, it will not (either directly or indirectly) for a period of six months following the subscription for Offer Shares, dispose of any Shares, and thereafter, for a period of six months, dispose of more than 50% of the Shares, subscribed for pursuant to the International Placing.

The Strategic Investor will remain an indirect wholly-owned subsidiary of Temasek for the duration of the twelve-month lock-up period.

The Corporate Placing

As part of the International Placing, Merrill Lynch and we have entered into a placing agreement with the Corporate Investor for the subscription by the Corporate Investor for such number of Offer Shares at the Offer Price, as shall be equal to the lower of (a) US\$25 million divided by the Offer Price and (b) 3% of our total issued share capital immediately following the completion of the Global Offering (9.09% of the initial number of Offer Shares available under the Global Offering) (assuming the Over-allotment Option is not exercised). Assuming the mid-point Offer Price of HK\$2.35, the Corporate Investor will subscribe for 82,978,723 Offer Shares, representing approximately 8.4% of the initial number of Offer Shares available under the Global Offering. The sale of Offer Shares to the Corporate Investor is underwritten by Merrill Lynch.

The Corporate Investor is a wholly-owned subsidiary of Henderson Financial Enterprises Ltd, which is itself a private company wholly-owned by Dr. Lee Shau Kee.

Condition Precedent

The Corporate Investor's subscription obligation is conditional upon the Underwriting Agreements being entered into and having become unconditional.

Restrictions on Disposals by the Corporate Investor

The Corporate Investor and Dr. Lee Shau Kee have each agreed that, without the prior written consent of ourselves and Merrill Lynch, they will not (either directly or indirectly) for a period of six months following the subscription for Offer Shares, dispose of any Shares (or any direct or indirect interest in any company or entity holding any Shares) subscribed for pursuant to the International Placing, other than transfers to another company which is and will remain wholly-owned (directly or indirectly) by Dr. Lee Shau Kee or his close family members (namely his spouse, children, grand-children, parents and siblings) and on the basis that the transferee will be subject to the restrictions on disposals imposed on the Corporate Investor.

HOW TO APPLY FOR HONG KONG OFFER SHARES

There are two ways to make an application for Hong Kong Offer Shares. You may either use an Application Form or you may electronically instruct HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by **giving electronic application instructions** to HKSCC.

WHICH APPLICATION METHOD TO USE

- Use a **white** Application Form if you want the Hong Kong Offer Shares issued in your own name.
- Use a **yellow** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.
- Instead of using a **yellow** Application Form, you may **electronically** instruct HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Offer Shares are not available to our Directors, Chief Executive Officer or any of their respective associates (as defined in the Listing Rules).

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **white** Application Form and a prospectus from:

Any participant of the Stock Exchange

or

Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48th Floor, One Exchange Square
8 Connaught Place, Central
Hong Kong

or

BOCI Asia Limited
10th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

CITIC Capital Markets Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

or

Credit Suisse First Boston (Hong Kong) Limited
21st Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

DBS Asia Capital Limited
16th Floor, Man Yee Building
68 Des Voeux Road, Central
Hong Kong

or

HOW TO APPLY FOR HONG KONG OFFER SHARES

J.P. Morgan Securities (Asia Pacific) Limited

28th Floor, Chater House
8 Connaught Road, Central
Hong Kong

VC Capital Limited

38th Floor, The Centrium
60 Wyndham Street, Central
Hong Kong

or

China Everbright Securities (HK) Limited

36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

Dao Heng Securities Ltd.

12th Floor, The Centre
99 Queen's Road, Central
Hong Kong

or

ICEA Capital Limited

42nd Floor, Jardine House
1 Connaught Place, Central
Hong Kong

or any of the following branches of **Bank of China (Hong Kong) Limited**:

Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	Taikoo Shing Branch	Shop G1012, Yiu Sing Mansion, Taikoo Shing
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
Kowloon	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Stage 6 Mei Foo Branch	Shop N47-49 Mount Sterling Mall, Mei Foo Sun Chuen
	Tsim Sha Tsui East Branch	Shop G02-03, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui
New Territories	Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan
	Lek Yuen Branch	No. 1, Fook Hoi House, Lek Yuen Estate, Shatin
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **yellow** Application Form and a prospectus from:

- the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128–140 Queen’s Road Central, Hong Kong.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker’s cashier order(s) to you at your own risk at the address stated in the Application Form.

If your application is made through a duly authorized attorney, we and the Global Coordinator will have discretion to accept it, subject to any conditions we think fit, including evidence of the authority of your attorney.

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

1. GENERAL

CCASS Participants may give **electronic application instructions** to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or the CCASS Internet System at <https://ip.ccass.com> (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

HKSCC’s Customer Service Centre
Upper Ground Floor, V-Heun Building
128–140 Queen’s Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your broker or custodian, to the Company and our registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

2. GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC TO APPLY FOR HONG KONG OFFER SHARES BY HKSCC NOMINEES ON YOUR BEHALF

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for Hong Kong Offer Shares,

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus; and
- (ii) HKSCC Nominees does the following things on behalf of each of the persons:
 - **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf;
 - **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that the person has not applied for or taken up any International Placing Shares under the International Placing nor otherwise participated in the International Placing;
 - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) **declares** that it has given only one set of **electronic application instructions** for the benefit of that other person, and that it is duly authorized to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by the Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if that person makes a false declaration;
 - **authorizes** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificates and/or refund monies in accordance with arrangements separately agreed between the Company and HKSCC;
 - **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
 - **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker to give **electronic application instructions** on that person's behalf;
 - **agrees** that the Company, the Hong Kong Underwriters and any other parties involved in the Hong Kong Public Offering are liable only for the information and representations contained in this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;
- **agrees** to disclose that person's personal data to the Company and its agents and any information which they require about that person;
- **agrees** that that person cannot revoke **electronic application instructions** before November 2, 2004. This agreement will take effect as a collateral contract with the Company and will become binding when that person gives the instructions and such collateral contract will be in consideration of the Company agreeing that it will not offer any Offer Shares to any person before October 7, 2004 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before November 2, 2004 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the press announcement on results of the Hong Kong Public Offering published by the Company; and
- **agrees** to the arrangement, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares.

3. EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, you each jointly and severally) are deemed to do the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- **instruct** and **authorize** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;
- **instruct** and **authorize** HKSCC to arrange for payment of the maximum Offer Price, brokerage, transaction levy, investor compensation levy and trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or the Offer Price is less than the maximum Offer Price per Hong Kong Offer Share initially paid on application, refund of the application money by crediting your designated bank account; and
- **instruct** and **authorize** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. MINIMUM APPLICATION AMOUNT AND PERMITTED MULTIPLES

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the multiples set out in the table on each Application Form.

5. MULTIPLE APPLICATIONS

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application. Please refer to the sub-section entitled “—How Many Applications You May Make” below in this section for further details.

6. ALLOCATION OF HONG KONG OFFER SHARES

For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

7. PERSONAL DATA

The section of the Application Form entitled “Personal Data” applies to any personal data held by the Company and the share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

8. WARNING

The subscriptions of Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company and the Global Coordinator take no responsibility for the applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **white** or **yellow** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, October 7, 2004.

HOW TO APPLY FOR HONG KONG OFFER SHARES

HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Offer Shares only if you are a nominee, in which case you may lodge more than one application in your own name on behalf of different owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed. All of your applications will be rejected as multiple applications if you, or you and any joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC; or
- apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC; or
- apply (whether individually or jointly) on one **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC for more than 50% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offering.

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **white** or **yellow** Application Form or through giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or through giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person’s agent.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange. **Statutory control in relation to a company** means you:

- control the composition of the board of directors of that company;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

MEMBERS OF THE PUBLIC: TIME FOR APPLYING FOR HONG KONG OFFER SHARES

1. White or yellow Application Forms

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, October 7, 2004, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited listed on page 169 of this prospectus at the following times:

Monday, October 4, 2004	—	9:00 a.m. to 4:00 p.m.
Tuesday, October 5, 2004	—	9:00 a.m. to 4:00 p.m.
Wednesday, October 6, 2004	—	9:00 a.m. to 4:00 p.m.
Thursday, October 7, 2004	—	9:00 a.m. to 12:00 noon

2. Electronic application instructions to HKSCC via CCASS

CCASS Broker/Custodian Participants should input **electronic application instructions** at the following times on the following dates:

Monday, October 4, 2004	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, October 5, 2004	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, October 6, 2004	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, October 7, 2004	—	9:00 a.m. to 12:00 noon

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic applicant instructions** from 9:00 a.m. on Monday, October 4, 2004 until 12:00 noon on Thursday, October 7, 2004 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, October 7, 2004, or, if the application lists are not open on that day, by the time and date stated in paragraph (4) below.

3. Application lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, October 7, 2004.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists. No allocation of any of the Hong Kong Offer Shares will be made later than Tuesday, November 2, 2004.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, October 7, 2004. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon of that day.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

PUBLICATION OF RESULTS

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **white** and **yellow** Application Forms and by giving **electronic application instructions** to HKSCC via CCASS, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of the Hong Kong Offer Shares successfully applied for, will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, October 14, 2004.

HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$2.60 per Offer Share. You must also pay a brokerage fee of 1.0%, the Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and an investor compensation levy of 0.002%. You must pay the maximum Offer Price, brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy in full when you apply for the Offer Shares. This means that for every board lot of 1,000 Offer Shares you must pay HK\$2,626.31 at the time of application. The Application Forms have tables showing the exact amount payable for certain multiples of Offer Shares. You must pay the amount payable upon application for the Offer Shares by a check or a banker’s cashier order in accordance with the terms set out in the Application Forms.

If your application is successful, the brokerage fee will be paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the trading fee will be paid to the Stock Exchange and the transaction levy and investor compensation levy will be paid to the Stock Exchange collecting on behalf of the SFC.

If the Offer Price as finally determined is less than HK\$2.60 per Offer Share, we will refund the specific difference, including the brokerage fee, the Stock Exchange trading fee, the SFC transaction levy and the investor compensation levy attributable to the surplus application monies. We will not pay interest on any refunded amount. Details of the procedure for refund are contained below in the subsection entitled “—Dispatch/Collection of Share Certificates and Refund of Application Monies” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allocated Hong Kong Offer Shares are set out in notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you.

If your application is revoked

By depositing an Application Form or submitting **electronic application instructions** to HKSCC, you agree that you cannot revoke your application before Tuesday, November 2, 2004. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit **electronic application instructions** to HKSCC. This collateral contract will be in consideration of our agreeing that we will not offer any Offer Shares to any person before Thursday, October 7, 2004 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application before Tuesday, November 2, 2004 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

At the full discretion of our Company or our agents

We and our agents have full discretion to reject or accept any application, or to accept only part of an application. We, and the Hong Kong Underwriters in their capacity as agents for us, and their respective agents or nominees, do not have to give any reason for any rejection or acceptance.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application;
- your application form is not filled in correctly in accordance with the instructions;
- your payment is not made correctly;
- you pay by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation; or
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) any International Placing Shares; or
- we believe that by accepting your application, it would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction.

If your application is not accepted

Your application (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**) will not be accepted if either:

- the Hong Kong Underwriting Agreement or International Underwriting Agreement does not become unconditional; or
- the Hong Kong Underwriting Agreement or International Underwriting Agreement is terminated in accordance with its respective terms.

If the allotment of Hong Kong Offer Shares is void

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing of the application lists.

COMMENCEMENT OF DEALINGS IN OUR SHARES ON THE STOCK EXCHANGE

Dealings in our Shares on the Stock Exchange is expected to commence on Friday, October 15, 2004. Our Shares will be traded on the Stock Exchange in board lots of 1,000 Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

HOW TO APPLY FOR HONG KONG OFFER SHARES

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application.

Your application monies, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee, SFC transaction levy and investor compensation levy, will be refunded without interest if:

- your application is rejected, not accepted or only accepted in part;
- the Offer Price as finally determined is less than the offer price per Share (excluding brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy thereon) initially paid on application;
- the conditions of the Global Offering are not fulfilled in accordance with the section entitled “Structure of the Global Offering—Conditions of the Global Offering” in this prospectus; or
- any application is revoked or any allocation pursuant thereto has become void.

It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

If you have given **electronic application instructions** to HKSCC via CCASS, your refunds (if any) will be credited to your designated bank account or the designated bank account of the designated CCASS Participant through which you are applying on Thursday, October 14, 2004. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can check the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, October 14, 2004 or in the activity statement made available to you by HKSCC.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **yellow** Application Forms or by **electronic application instructions** to HKSCC where share certificates will be deposited into CCASS as described below under the subsection “—Deposit of Share Certificates into CCASS”).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **white** Application Forms: (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful; and/or
- for applicants on **white** and **yellow** Application Forms, a refund check or refund checks crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial offer price per Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including related brokerage fee at the rate of 1.0%, a Stock Exchange trading fee of 0.005%, a SFC transaction levy of 0.005% and an investor compensation levy of 0.002% but without interest.

Part of your Hong Kong Identity Card number/passport number, or, in the case of joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you will be printed on the refund check, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund check.

In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Global Coordinator, applications for certain small denominations of Hong Kong Offer Shares may be eliminated in a pre-balloting. In such circumstances, the checks accompanying such applications on Application Forms will not be presented for clearing.

Subject as mentioned below, refund checks for surplus application monies (if any) and share certificates for successful applicants under **white** Application Forms are expected to be posted on Thursday, October 14, 2004. We reserve the right to retain any share certificates and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

If you are applying for 1,000,000 Hong Kong Offer Shares or more on a **white** or **yellow** Application Form and have indicated your intention on your Application Form to collect your refund check(s) (where applicable) and/or (for applicants using **white** Application Forms) share certificate(s) (where applicable) from the share registrar, Computershare Hong Kong Investor Services Limited, and have provided all information required by your Application Form, you may collect (where applicable) your refund check(s) and (where applicable) share certificate(s) from the share registrar, Computershare Hong Kong Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, October 14, 2004 or any other date notified by us in the newspapers as the date of dispatch of share certificates/refund checks. If you are an individual who elects for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which elects for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable

HOW TO APPLY FOR HONG KONG OFFER SHARES

to the share registrar. If you do not collect your refund check(s) and share certificate(s), they will be dispatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares or if you have applied for 1,000,000 Hong Kong Offer Shares or more on a **white** or **yellow** Application Form but have not indicated in your Application Form that you wish to collect your share certificate(s) (where applicable) and/or refund check(s) in person, your share certificate(s) (if applying by using a **white** Application Form) and/or refund check(s) (if applicable) will be sent to the address on your Application Form on Thursday, October 14, 2004 by ordinary post and at your own risk.

DEPOSIT OF SHARE CERTIFICATES INTO CCASS

If you apply for Hong Kong Offer Shares using a **yellow** Application Form or by giving **electronic application instructions** to HKSCC, and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you at the close of business on Thursday, October 14, 2004, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

We expect to publish the application results of CCASS Investor Participants using **yellow** Application Form and the application results of CCASS Participants applying by giving **electronic application instructions** to HKSCC (and where the CCASS Participant is a broker or custodian, we shall include information (where supplied) relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong Business Registration number for corporations) on Thursday, October 14, 2004. If you are a CCASS Investor Participant and applying by giving **electronic application instructions** to HKSCC, you can also check your application result via the CCASS Phone System and CCASS Internet System on Thursday, October 14, 2004. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, October 14, 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) immediately after the credit of the Hong Kong Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

The following is the text of a report, prepared for the purpose of inclusion in this Prospectus, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.



羅兵咸永道會計師事務所

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

The Directors
China Power International Development Limited
Merrill Lynch Far East Limited

4 October 2004

Dear Sirs

We set out below our report on the financial information relating to China Power International Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2003 and the six-month periods ended 30 June 2003 and 2004 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 4 October 2004 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Hong Kong on 24 March 2004 as a limited liability company under the Companies Ordinance of Hong Kong. Pursuant to a group reorganization as detailed in the section headed "The Reorganization" in Appendix VII of the Prospectus (the "Reorganization"), which was completed on 1 September 2004, the Company became the holding company of the subsidiaries and the associated company set out below:

<u>Name of companies</u>	<u>Place of establishment and operation / date of establishment</u>	<u>Registered capital</u>	<u>Equity interest attributable to the Group</u>	<u>Name of PRC statutory auditors during the Relevant Periods</u>	<u>Principal activities</u>
Subsidiaries—interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited ("Yaomeng Company") (Wholly foreign-owned enterprise)	People's Republic of China ("PRC") 27 August 1999	RMB986,000,000	100%	China Rightson Certified Public Accountants (中瑞華恆信會計師事務所)	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited ("Pingwei Company") (Wholly foreign-owned enterprise)	PRC 17 September 1999	RMB970,000,000	100%	China Rightson Certified Public Accountants (中瑞華恆信會計師事務所)	Generation and sale of electricity
Pingdingshan Yaomeng No.2 Power Generating Company Limited ("Yaomeng II Company") (Wholly foreign-owned enterprise)	PRC 28 November 2003	USD20,000,000	100%	N/A (note)	Development of power plants
Huainan Pingwei No.2 Electric Power Generating Company Limited ("Pingwei II Company") (Wholly foreign-owned enterprise)	PRC 17 November 2003	USD12,000,000	100%	N/A (note)	Development of power plants
Huanggang Dabieshan Power Generating Company Limited ("Huanggang Dabieshan Company") (Sino-foreign equity joint venture)	PRC 17 December 2003	RMB30,000,000	89%	N/A (note)	Development of power plants

<u>Name of companies</u>	<u>Place of establishment and operation / date of establishment</u>	<u>Registered capital</u>	<u>Equity interest attributable to the Group</u>	<u>Name of PRC statutory auditors during the Relevant Periods</u>	<u>Principal activities</u>
Associated company—interest held directly:					
Jiangsu Changshu Electric Power Generating Company Limited (“Changshu Company”) (Sino-foreign equity joint venture)	PRC 15 September 1999	RMB1,105,000,000	50%	China Rightson Certified Public Accountants (中瑞華恆信會計師事務所)	Generation and sale of electricity

Note:

These companies are newly established and therefore no statutory audit has been performed.

All companies now comprising the Group and the associated company have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company, Yaomeng II Company, Pingwei II Company and Huanggang Dabieshan Company since the date of their incorporation as these companies were newly incorporated and have not been involved in any significant business transactions other than the Reorganization. We have, however, reviewed all significant transactions of these companies since the respective dates of their incorporation.

The management accounts of the subsidiaries and the associated company have been prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises (“PRC GAAP”). The management accounts of the Company have been prepared in accordance with accounting principles generally accepted in Hong Kong. For the purpose of this report, the Directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods, on the basis as set out in Note 2 of Section II below (“Combined Financial Statements”). We have carried out an independent audit on the Combined Financial Statements of the Group for the Relevant Periods in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial information as set out in Sections I to IV (the “Financial Information”) has been prepared based on the Combined Financial Statements of the Group on the basis set out in Note 2 of Section II below. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA. The Directors of the respective companies, during the Relevant Periods, are responsible for preparing the financial statements of the respective companies which give a true and fair view. The Directors of the Company are responsible for preparing the Combined Financial Statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The Directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in Note 2 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31 December 2001, 2002 and 2003 and at 30 June 2004 and of the combined results and cash flows of the Group for the Relevant Periods.

I COMBINED FINANCIAL STATEMENTS

Combined profit and loss accounts

	Note	Year ended 31 December			For the six months ended 30 June	
		2001	2002	2003	2003	2004
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	2,434,611	2,581,601	2,915,382	1,434,754	1,664,927
Other revenues	4	3,902	2,696	3,335	1,460	2,023
Fuel costs		(1,044,191)	(1,189,757)	(1,315,620)	(628,644)	(815,361)
Depreciation		(438,099)	(368,175)	(373,758)	(188,396)	(187,710)
Staff costs	8	(240,455)	(187,784)	(226,892)	(103,056)	(115,910)
Repairs and maintenance		(124,321)	(136,415)	(156,158)	(82,234)	(75,007)
Consumables		(55,163)	(50,358)	(63,842)	(25,568)	(31,998)
Other operating expenses, net		(194,269)	(158,291)	(178,845)	(79,397)	(90,302)
Operating profit	5	342,015	493,517	603,602	328,919	350,662
Finance costs	6	(89,747)	(82,974)	(85,038)	(41,875)	(40,098)
		252,268	410,543	518,564	287,044	310,564
Share of results of an associated company		150,564	154,335	136,418	85,477	90,760
Profit before taxation		402,832	564,878	654,982	372,521	401,324
Taxation credit/(charge)	7	2,807	(38,889)	(49,826)	(30,157)	(31,496)
Profit after taxation		405,639	525,989	605,156	342,364	369,828
Minority interests		—	—	—	—	141
Profit attributable to owner		405,639	525,989	605,156	342,364	369,969
Profit distributions	9	(420,772)	(312,059)	(385,012)	—	—

I COMBINED FINANCIAL STATEMENTS

Combined balance sheets

	Note	Group				Company
		As at 31 December			As at 30 June	As at 30 June
		2001	2002	2003	2004	2004
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS						
Non-current assets						
Property, plant and equipment	12	3,800,194	3,735,597	3,495,789	3,370,618	—
Prepayment for purchase of property, plant and equipment		—	—	—	323,262	—
Interest in an associated company	13	856,789	857,232	848,095	932,017	—
Deferred tax assets	23	16,708	16,708	17,619	17,619	—
		<u>4,673,691</u>	<u>4,609,537</u>	<u>4,361,503</u>	<u>4,643,516</u>	<u>—</u>
Current assets						
Inventories	14	106,221	107,794	97,852	89,323	—
Accounts receivable	15	173,811	507,079	461,036	660,973	—
Prepayments, deposits and other receivables	16	39,313	15,474	22,571	43,001	580
Amount due from an intermediate holding company	17	24,002	—	185,852	80,637	—
Cash and bank balances	18	26,659	8,197	121,720	326,917	—
		<u>370,006</u>	<u>638,544</u>	<u>889,031</u>	<u>1,200,851</u>	<u>580</u>
Current liabilities						
Accounts payable	19	110,292	149,447	132,033	172,497	—
Other payables and accrued charges	20	243,060	255,594	250,323	290,237	33,672
Amounts due to related companies	21	92,266	65,496	45,496	8,632	1,556
Current portion of long term bank borrowings	22	170,000	—	265,000	105,000	—
Short term bank borrowings	22	170,000	55,000	45,000	267,676	—
Taxation payable		9,034	20,971	16,498	26,123	—
		<u>794,652</u>	<u>546,508</u>	<u>754,350</u>	<u>870,165</u>	<u>35,228</u>
Net current (liabilities)/assets		<u>(424,646)</u>	<u>92,036</u>	<u>134,681</u>	<u>330,686</u>	<u>(34,648)</u>
Total assets less current liabilities		<u>4,249,045</u>	<u>4,701,573</u>	<u>4,496,184</u>	<u>4,974,202</u>	<u>(34,648)</u>
Non-current liabilities						
Long term bank borrowings	22	1,028,000	1,408,000	1,093,000	1,164,000	—
Minority interests		—	—	—	3,172	—
NET ASSETS/(LIABILITIES)		<u>3,221,045</u>	<u>3,293,573</u>	<u>3,403,184</u>	<u>3,807,030</u>	<u>(34,648)</u>
OWNER'S EQUITY	24	<u>3,221,045</u>	<u>3,293,573</u>	<u>3,403,184</u>	<u>3,807,030</u>	<u>(34,648)</u>

I COMBINED FINANCIAL STATEMENTS

Combined cash flow statements

	Note	Year ended 31 December			For the six months ended 30 June	
		2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000	2004 RMB'000
Operating activities						
Net cash inflow generated from operations	25(a)	665,540	573,862	806,878	215,757	440,007
Interest paid		(89,747)	(82,974)	(85,038)	(41,875)	(40,098)
PRC income tax paid		—	(14,461)	(29,751)	(18,520)	(15,033)
Net cash inflow from operating activities		<u>575,793</u>	<u>476,427</u>	<u>692,089</u>	<u>155,362</u>	<u>384,876</u>
Investing activities						
Purchase of property, plant and equipment		(186,048)	(303,594)	(110,117)	(18,967)	(62,828)
Prepayment for purchase of property, plant and equipment		—	—	—	—	(323,262)
Proceeds for disposal of property, plant and equipment		198	2,731	88	—	276
Cost incurred for disposal of property, plant and equipment		(703)	(3,103)	(773)	—	—
Interest received		1,947	727	905	389	957
Net cash outflow from investing activities		<u>(184,606)</u>	<u>(303,239)</u>	<u>(109,897)</u>	<u>(18,578)</u>	<u>(384,857)</u>
Financing activities						
New bank loans	25(b)	383,000	776,000	130,000	75,000	477,676
Repayment of bank loans	25(b)	(375,450)	(681,000)	(190,000)	(135,000)	(344,000)
Profit distributions to owner		(397,557)	(286,650)	(408,669)	—	—
Contribution from owner		—	—	—	—	68,189
Contributions from minority shareholders of a subsidiary	25(b)	—	—	—	—	3,313
Net cash (outflow)/inflow from financing activities		<u>(390,007)</u>	<u>(191,650)</u>	<u>(468,669)</u>	<u>(60,000)</u>	<u>205,178</u>
Increase/(decrease) in cash and cash equivalents		1,180	(18,462)	113,523	76,784	205,197
Cash and cash equivalents at beginning of year/period		<u>25,479</u>	<u>26,659</u>	<u>8,197</u>	<u>8,197</u>	<u>121,720</u>
Cash and cash equivalents at end of year/period		<u>26,659</u>	<u>8,197</u>	<u>121,720</u>	<u>84,981</u>	<u>326,917</u>
Analysis of the balances of cash and cash equivalents						
Cash and bank balances		<u>26,659</u>	<u>8,197</u>	<u>121,720</u>	<u>84,981</u>	<u>326,917</u>

I COMBINED FINANCIAL STATEMENTS

Combined statements of changes in equity

	Note	Year ended 31 December			For the six months ended 30 June	
		2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000	2004 RMB'000
Total owner's equity, at beginning of year/period		3,579,620	3,221,045	3,293,573	3,293,573	3,403,184
Contribution from owner		—	—	—	—	68,189
Revaluation surplus of property, plant and equipment		—	—	22,305	—	—
Profit for the year/period		405,639	525,989	605,156	342,364	369,969
Share issuance costs		—	—	—	—	(34,312)
Profit distributions		(420,772)	(312,059)	(385,012)	—	—
Profit distributions of an associated company		(343,442)	(141,402)	(132,838)	—	—
Total owner's equity, at end of year/period	24	<u>3,221,045</u>	<u>3,293,573</u>	<u>3,403,184</u>	<u>3,635,937</u>	<u>3,807,030</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**1 Group Reorganization and principal activities**

The Company was incorporated in Hong Kong on 24 March 2004 as a limited liability company under the Companies Ordinance of Hong Kong as a result of a group reorganization of China Power International Holding Limited (“CPI Holding”) and China Power Investment Corporation (中國電力投資集團公司) (“CPI Group” or the “ultimate holding company”) and in the preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”).

CPI Holding was incorporated as a limited liability company in Hong Kong on 6 October 1994 as a wholly-owned subsidiary of the Ministry of Electric Power. Following the restructuring of the PRC power industry in January 1997, CPI Holding became a wholly-owned subsidiary of the State Power Corporation (“the SPC”).

In 1999, CPI Holding and certain provincial power companies (the “Provincial Power Companies”), which are also wholly-owned subsidiaries of the SPC, set up Pingdingshan Yaomeng Power Generating Company Limited (“Yaomeng Company”) and Anhui Huainan Pingwei Electric Power Generating Company Limited (“Pingwei Company”), each of which is owned by CPI Holding and the respective Provincial Power Companies as to 60% and 40%, respectively. In the same year, CPI Holding also set up Jiangsu Changshu Electric Power Generating Company Limited (“Changshu Company”) with the respective provincial power company and certain local governmental investment companies with an attributable interest of 30%, 20% and 50% respectively. Yaomeng Company, Pingwei Company and Changshu Company are collectively referred to in this report as the “Operating Power Plants”.

From 2002, the PRC power industry was restructured such that the SPC’s power generation assets were reorganized into five national power generation groups, one of which was CPI Group. CPI Group was established as a wholly state-owned enterprise with independent legal person status on 31 March 2003 by the State Council to undertake the development of, investment in, operation and control of power generation assets, and sale of power. It operates under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) which performs the government’s investor responsibilities.

As a result of the restructuring of the power industry in the PRC, CPI Group took over various power generation assets from power plants that had previously been wholly-owned or controlled by the SPC, including its interests previously held through the Provincial Power Companies as to 40% interests in Yaomeng Company and Pingwei Company, and 20% interests in Changshu Company. CPI Holding also became a wholly-owned subsidiary of CPI Group.

In accordance with the reorganization agreement entered into among the Company, CPI Holding and CPI Group dated 27 August 2004 (the “Reorganization Agreement”), CPI Group transferred its respective interests in the Operating Power Plants to CPI Holding in exchange for certain issued share capital in CPI Holding and in turn, on 1 September 2004, the Company issued 2,099,999,999 shares of HK\$1.00 per share to China Power Development Limited, a wholly-owned subsidiary of CPI Holding, in exchange for the entire interests in the Operating Power Plants, representing 100% interests in Yaomeng Company and Pingwei Company and a 50%

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**1 Group Reorganization and principal activities (continued)**

interest in Changshu Company, together with its 100% interests in Pingdingshan Yaomeng No.2 Power Generating Company Limited (“Yaomeng II Company”) and Huainan Pingwei No.2 Electric Power Generating Company Limited (“Pingwei II Company”), and 89% interests in Huanggang Dabieshan Power Generating Company Limited (“Huanggang Dabieshan Company”). Yaomeng II Company, Pingwei II Company and Huanggang Dabieshan Company are collectively referred to in this report as the “Power Plants under construction”.

Yaomeng II Company and Pingwei II Company were set up by CPI Holding as wholly foreign-owned enterprises in 2003, while Huanggang Dabieshan Company was set up by CPI Holding and certain local governmental investment companies in 2003 as a sino-foreign joint venture company.

2 Basis of preparation

For the purpose of this report, the combined profit and loss accounts, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods include the financial information of the companies now comprising the Group and the associated company as if the current group structure had been in existence throughout the Relevant Periods.

The combined balance sheets of the Group as at 31 December 2001, 2002 and 2003 and 30 June 2004 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates.

All significant intra-group transactions and balances, if any, have been eliminated on combination.

3 Principal accounting policies

The Financial Information in this report is prepared under the historical cost convention, except that, as disclosed in the accounting policies below, certain property, plant and equipment are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The principal accounting policies adopted in arriving at the Financial Information, which conform to Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants are set out below. HKFRS 1, “First-time Adoption of Hong Kong Financial Reporting Standards” has been applied in preparing this Financial Information.

(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 of the voting power or holds more than half of the issued share capital.

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

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**3 Principal accounting policies (continued)****(b) Associated companies**

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

The combined profit and loss account includes the Group's share of the results of the associated company for the Relevant Periods, and the combined balance sheet include the Group's share of the net assets of the associated company. Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(c) Property, plant and equipment

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

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

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

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

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

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**3 Principal accounting policies (continued)****(c) Property, plant and equipment (continued)**

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

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

(d) Construction in progress

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

(e) Inventories

Inventories comprise coal, oil, consumable supplies and spare parts held for consumption and usage and are stated at the lower of weighted average cost or net realizable value after provision for obsolete items, and are expensed to fuel costs or repair and maintenance expense when used, or capitalized to properties, 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.

(f) Accounts receivable

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

(g) Cash and cash equivalents

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

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**3 Principal accounting policies (continued)****(h) Provisions**

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

(i) Employee benefits***Pension obligations***

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

Compensations for employee termination and early retirement are recognized in the period when the Group entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

(j) Deferred taxation

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

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

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

(k) Operating leases

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

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**3 Principal accounting policies (continued)****(l) Borrowing costs**

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

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

(m) Translation of foreign currencies

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

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

(n) Contingent liabilities

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

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

(o) Revenue recognition

Sales of electricity is recognized when electricity is generated and transmitted to the power grids operated by the respective regional or provincial electric power companies.

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

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

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

4 Turnover, revenues and segment information

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

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover					
Sales of electricity	2,434,611	2,581,601	2,915,382	1,434,754	1,664,927
Other revenues					
Rental income	1,955	1,969	2,430	1,071	1,066
Interest income on bank deposits	1,947	727	905	389	957
	3,902	2,696	3,335	1,460	2,023
Total revenues	2,438,513	2,584,297	2,918,717	1,436,214	1,666,950

Pursuant to the power purchase agreements entered into between the Group and the Provincial Power Companies, substantially all the Group's sales of electric power were made to the Provincial Power Companies. The tariff rates are to be agreed with the respective Provincial Power Companies on an annual basis, subject to the approval of the relevant government authorities (also see Note 27).

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. All of the Group's assets and liabilities are principally located in the PRC and operations for each of the Relevant Periods were substantially in the PRC. Accordingly, no segment information for the Relevant Periods is presented.

5 Operating profit

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

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Auditors' remuneration	290	243	502	121	165
Depreciation of property, plant and equipment	438,099	368,175	373,758	188,396	187,710
Staff costs excluding Directors' emoluments (Note 8)	240,455	187,784	226,892	103,056	115,910
Loss on disposal of property, plant and equipment	5,487	388	12,354	110	13
Operating lease rental in respect of equipment	4,090	3,370	3,015	1,508	1,358
Provision for other receivables	—	—	9,551	—	—
Provision for inventories obsolescence	26,775	—	7,808	—	—
Write-off of property, plant and equipment	1,160	—	2,007	—	—
Provision for impairment of property, plant and equipment (included in other operating expenses)	12,573	—	—	—	—
Write-back of previous revaluation deficits of property, plant and equipment	—	—	(27,947)	—	—

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

6 Finance costs

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest expense on					
bank loans wholly repayable within five years	34,913	40,177	42,241	20,477	24,116
bank loans not wholly repayable within five years . . .	54,834	42,797	42,797	21,398	19,958
	89,747	82,974	85,038	41,875	44,074
Less: Amounts capitalized in property, plant and equipment	—	—	—	—	(3,976)
	89,747	82,974	85,038	41,875	40,098

Amounts capitalized are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. Interest rate on such capitalized borrowings is approximately 4.6% per annum.

7 Taxation (credit)/charge

No Hong Kong profit tax has been provided as the Group did not have any assessable profit in Hong Kong during the Relevant Periods.

The provision for PRC current income tax is calculated based on the statutory tax rate of 33% of the assessable income of each of the companies now comprising the Group during the Relevant Periods except as disclosed below.

The amount of taxation (credited)/charged to the combined profit and loss account represents:

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PRC current income tax	—	26,398	38,021	23,897	24,658
Deferred taxation (Note 23)	(2,807)	—	(911)	—	—
	(2,807)	26,398	37,110	23,897	24,658
Share of taxation attributable to the associated company	—	12,491	12,716	6,260	6,838
	(2,807)	38,889	49,826	30,157	31,496

Pursuant to the relevant PRC income tax rules and regulations, a special income tax rate of 15% has been granted to certain subsidiaries of the Group and the associated company as being foreign invested enterprises which are engaged in the energy, transportation or infrastructure activities. In addition, being sino-foreign joint venture enterprises historically and as approved by the respective local tax bureaus, these companies are entitled to a two-year exemption from income tax starting from their first profit-making year and followed by a 50% reduction in income tax for the subsequent three years. These companies were established towards the end of 1999 and have been exempted from income tax in 2000 and 2001.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

7 Taxation (credit)/charge (continued)

After the two-year tax exemption period mentioned above, these companies are subjected to a reduced tax rate of 7.5% for the years ended 31 December 2002 and 2003, and for the year ending 31 December 2004.

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

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	402,832	564,878	654,982	372,521	401,324
Calculated at the statutory tax rate of 33%	132,935	186,410	216,144	122,932	132,437
Effect of preferential tax rate	(72,510)	(101,678)	(117,896)	(67,054)	(73,009)
Effect of tax holiday	(60,425)	(42,367)	(49,125)	(27,939)	(30,420)
Tax credit granted by tax authorities	—	(2,145)	—	—	—
Income not subject to taxation	—	(4,197)	(10,545)	(1,135)	(736)
Expenses not deductible for taxation purposes	—	2,866	11,248	3,353	3,224
Others	(2,807)	—	—	—	—
Tax (credit)/charge	(2,807)	38,889	49,826	30,157	31,496

8 Staff costs

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	102,212	110,601	129,873	59,892	63,026
Contributions to pension plans (note (a))	21,619	26,514	30,272	13,707	18,090
Compensations for termination and early retirement (note (b))	73,491	—	—	—	—
Staff welfare	43,133	50,669	66,747	29,457	34,794
	240,455	187,784	226,892	103,056	115,910

Note

- (a) The employees of the Group in the PRC participate in various pension plans organized by the relevant municipal and provincial governments under which the Group is obliged to make monthly defined contributions to these plans based on 18% to 20% depending upon the applicable local regulations, of the employees' monthly salaries and wages for the Relevant Periods. The Group has no further obligation for payment of retirement and other post-retirement benefits beyond these contributions.
- (b) Certain employees of the Group were directed to retire early or their employment services were terminated during the Relevant Periods. Compensations for employee termination and early retirement are recognized in the combined profit and loss account in the period in which the Group entered into an agreement specifying the terms, or after the individual employee has been advised of the specific terms. These specific terms vary among the terminated or early retired employees depending on various factors including position, length of services and locality of the employee concerned.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**9 Profit distributions**

No dividend has been declared or paid by the Company since its incorporation. Profit distributions disclosed during the Relevant Periods represent dividends declared by the relevant subsidiaries of the Group to their then shareholders prior to the completion of the Reorganization of the Group.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

10 Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 2 above.

11 Emoluments for Directors and five highest paid individuals**(a) Directors' emoluments**

The Company was not incorporated until 24 March 2004. Accordingly, there were no emoluments paid and payable by the Company to the Directors of the Company during the Relevant Periods. The aggregate amounts of emoluments paid and payable to the Directors of the Company in respect of their services rendered for managing the business of the Group during the Relevant Periods are as follows:

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Basic salaries, housing allowances, other allowances and benefits in kind	117	307	994	464	739
Discretionary bonuses	40	98	543	414	459
Contributions to pension schemes	10	24	103	53	56
	<u>167</u>	<u>429</u>	<u>1,640</u>	<u>931</u>	<u>1,254</u>

None of the Directors of the Company waived any emoluments paid by the companies now comprising the Group during the Relevant Periods.

No emoluments were paid to independent non-executive Directors during the Relevant Periods.

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

	Number of Directors				
	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

11 Emoluments for Directors and five highest paid individuals (continued)

(b) Five highest paid individuals

During the Relevant Periods, the five highest paid individuals included 1, 2, 4, 4 and 4 Directors for the years ended 31 December 2001, 2002 and 2003, and the six months ended 30 June 2003 and 2004, respectively whose emoluments are included in Note 11(a) above. The aggregate amounts of emoluments of the remaining 4, 3, 1, 1 and 1 individual(s) for the years ended 31 December 2001, 2002 and 2003, and the six months ended 30 June 2003 and 2004, respectively are as follows:

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	539	507	237	105	169
Contributions to pension schemes	53	44	20	10	14
	<u>592</u>	<u>551</u>	<u>257</u>	<u>115</u>	<u>183</u>

The emoluments fell within the following band:

	Number of individual(s)				
	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	<u>4</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>

(c) During the Relevant Periods, no emoluments have been paid by the companies now comprising 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.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

12 Property, plant and equipment

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							
As at 1 January 2001	2,133,361	4,939,757	1,131,184	315,042	93,876	87,373	8,700,593
Additions	2,960	2,330	1,866	4,812	6,296	167,784	186,048
Disposals	(5,415)	(2,221)	—	(1,603)	(8,347)	—	(17,586)
Write-off	—	—	—	—	—	(1,160)	(1,160)
Transfers	3,451	25,902	1,063	19,431	—	(49,847)	—
As at 31 December 2001	2,134,357	4,965,768	1,134,113	337,682	91,825	204,150	8,867,895
Representing:							
Cost	6,411	28,232	2,929	24,243	6,296	204,150	272,261
Valuation (on a depreciated replacement cost basis as of 31 December 2000)	2,127,946	4,937,536	1,131,184	313,439	85,529	—	8,595,634
As at 31 December 2001	2,134,357	4,965,768	1,134,113	337,682	91,825	204,150	8,867,895
Accumulated depreciation and impairment losses							
As at 1 January 2001	881,945	2,839,097	638,774	199,861	69,956	—	4,629,633
Depreciation charge for the year	71,305	254,240	58,026	50,926	3,602	—	438,099
Impairment charge	—	—	—	12,573	—	—	12,573
Disposals	(3,216)	(1,430)	—	(1,276)	(6,682)	—	(12,604)
As at 31 December 2001	950,034	3,091,907	696,800	262,084	66,876	—	5,067,701
Net book value							
As at 31 December 2001	1,184,323	1,873,861	437,313	75,598	24,949	204,150	3,800,194
Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:							
Cost	2,323,019	5,760,963	1,379,158	506,651	103,857	204,150	10,277,798
Accumulated depreciation and impairment losses	(1,021,614)	(3,414,671)	(655,030)	(370,829)	(72,354)	—	(5,534,498)
As at 31 December 2001	1,301,405	2,346,292	724,128	135,822	31,503	204,150	4,743,300

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

12 Property, plant and equipment (continued)

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							
As at 1 January 2002	2,134,357	4,965,768	1,134,113	337,682	91,825	204,150	8,867,895
Additions	278	1,014	29	3,826	2,471	295,976	303,594
Disposals	(7,320)	(370,712)	(12,781)	(63,641)	(943)	—	(455,397)
Transfers	37,433	273,642	23,651	56,863	—	(391,589)	—
As at 31 December 2002	2,164,748	4,869,712	1,145,012	334,730	93,353	108,537	8,716,092
Representing:							
Cost	44,122	302,888	26,609	84,932	8,767	108,537	575,855
Valuation (on a depreciated replacement cost basis as of 31 December 2000)	2,120,626	4,566,824	1,118,403	249,798	84,586	—	8,140,237
	2,164,748	4,869,712	1,145,012	334,730	93,353	108,537	8,716,092
Accumulated depreciation and impairment losses							
As at 1 January 2002	950,034	3,091,907	696,800	262,084	66,876	—	5,067,701
Depreciation charge for the year	67,433	214,303	53,686	29,217	3,536	—	368,175
Disposals	(7,320)	(370,712)	(12,781)	(63,640)	(928)	—	(455,381)
As at 31 December 2002	1,010,147	2,935,498	737,705	227,661	69,484	—	4,980,495
Net book value							
As at 31 December 2002	1,154,601	1,934,214	407,307	107,069	23,869	108,537	3,735,597
Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:							
Cost	2,353,410	5,664,907	1,390,057	503,699	105,385	108,537	10,125,995
Accumulated depreciation and impairment losses	(1,085,484)	(3,270,693)	(699,257)	(338,673)	(75,185)	—	(5,469,292)
	1,267,926	2,394,214	690,800	165,026	30,200	108,537	4,656,703

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

12 Property, plant and equipment (continued)

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							
As at 1 January 2003	2,164,748	4,869,712	1,145,012	334,730	93,353	108,537	8,716,092
Additions	79	686	507	4,074	1,596	103,175	110,117
Disposals	(2,166)	(19,220)	—	(64,869)	(877)	—	(87,132)
Write-off	—	—	(1,147)	(19,936)	—	(2,007)	(23,090)
Transfers	4,735	7,599	3,444	6,245	4,943	(26,966)	—
Reclassification	—	1,768	(5)	(1,763)	—	—	—
Revaluation	(91,110)	251,040	34,135	74,420	1,747	—	270,232
As at 31 December 2003	2,076,286	5,111,585	1,181,946	332,901	100,762	182,739	8,986,219
Representing:							
Cost	—	—	—	—	—	182,739	182,739
Valuation (on a depreciated replacement cost basis as of 31 December 2003)	2,076,286	5,111,585	1,181,946	332,901	100,762	—	8,803,480
	2,076,286	5,111,585	1,181,946	332,901	100,762	182,739	8,986,219
Accumulated depreciation and impairment losses							
As at 1 January 2003	1,010,147	2,935,498	737,705	227,661	69,484	—	4,980,495
Depreciation charge for the year	68,115	218,434	54,609	29,187	3,413	—	373,758
Disposals	(994)	(4,575)	—	(56,541)	(610)	—	(62,720)
Write-off	—	—	(1,147)	(19,936)	—	—	(21,083)
Revaluation	(80,953)	237,440	53,496	9,186	811	—	219,980
As at 31 December 2003	996,315	3,386,797	844,663	189,557	73,098	—	5,490,430
Net book value							
As at 31 December 2003	1,079,971	1,724,788	337,283	143,344	27,664	182,739	3,495,789
Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:							
Cost	2,356,058	5,655,740	1,392,856	427,450	111,047	182,739	10,125,890
Accumulated depreciation and impairment losses	(1,156,362)	(3,497,093)	(756,049)	(293,545)	(78,198)	—	(5,781,247)
	1,199,696	2,158,647	636,807	133,905	32,849	182,739	4,344,643

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS

12 Property, plant and equipment (continued)

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							
As at 1 January 2004	2,076,286	5,111,585	1,181,946	332,901	100,762	182,739	8,986,219
Additions	29	50	68	2,141	2,750	57,790	62,828
Disposals	(290)	—	—	—	—	—	(290)
Transfers	3,060	919	—	1,581	—	(5,560)	—
As at 30 June 2004	2,079,085	5,112,554	1,182,014	336,623	103,512	234,969	9,048,757
Representing:							
Cost	3,089	969	68	3,722	2,750	234,969	245,567
Valuation (on a depreciated replacement cost basis as of							
31 December 2003)	2,075,996	5,111,585	1,181,946	332,901	100,762	—	8,803,190
	2,079,085	5,112,554	1,182,014	336,623	103,512	234,969	9,048,757
Accumulated depreciation and impairment losses							
As at 1 January 2004	996,315	3,386,797	844,663	189,557	73,098	—	5,490,430
Depreciation charge for the period	34,198	109,530	28,920	13,123	1,939	—	187,710
Disposals	(1)	—	—	—	—	—	(1)
As at 30 June 2004	1,030,512	3,496,327	873,583	202,680	75,037	—	5,678,139
Net book value							
As at 30 June 2004	1,048,573	1,616,227	308,431	133,943	28,475	234,969	3,370,618
Had the property, plant and equipment been carried at cost less							
accumulated depreciation and impairment losses, the carrying							
amounts would have been:							
Cost	2,358,857	5,656,709	1,392,924	431,172	113,797	234,969	10,188,428
Accumulated depreciation and impairment losses	(1,190,559)	(3,606,623)	(784,969)	(306,668)	(80,137)	—	(5,968,956)
	1,168,298	2,050,086	607,955	124,504	33,660	234,969	4,219,472

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

12 Property, plant and equipment (continued)

- (a) The property, plant and equipment of the Group other than the construction in progress were stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The valuations were carried out by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.) (“CEA”) and 中發國際評估有限公司 (DeveChina International Appraisals Co., Ltd.) (“DeveChina”), independent valuers registered in the PRC.
- (b) The Group's buildings are situated on leasehold land in the PRC leased from CPI Group which held the rights on these leasehold land under long term leases.

13 Interest in an associated company

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
				RMB'000
Share of net assets, unlisted at cost	856,789	857,232	848,095	932,017

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 Relevant Periods prepared by the management of the Group in accordance with accounting principles generally accepted in Hong Kong.

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating results					
Turnover	1,593,442	1,775,511	1,923,887	934,779	1,092,412
Fuel costs	(623,134)	(830,883)	(909,081)	(441,473)	(611,951)
Depreciation	(248,713)	(249,435)	(247,466)	(124,483)	(120,685)
Staff costs	(82,488)	(88,261)	(97,983)	(54,579)	(55,552)
Repairs and maintenance	(77,090)	(74,966)	(89,987)	(39,162)	(39,247)
Others	(260,889)	(223,296)	(306,534)	(104,128)	(83,456)
Profit before taxation	301,128	308,670	272,836	170,954	181,521
Profit after taxation	301,128	283,689	247,404	158,433	167,845

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
				RMB'000
Financial position				
Property, plant and equipment	2,887,510	2,680,717	2,462,237	2,371,951
Current assets	498,641	461,638	450,436	660,194
Current liabilities	(628,401)	(743,719)	(1,166,713)	(1,118,664)
Long term liabilities	(1,044,172)	(684,172)	(49,770)	(49,447)
Net assets	1,713,578	1,714,464	1,696,190	1,864,034

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

14 Inventories

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
Coal and oil	29,087	35,762	23,001	21,537
Spare parts and consumables	77,134	72,032	74,851	67,786
	<u>106,221</u>	<u>107,794</u>	<u>97,852</u>	<u>89,323</u>

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

15 Accounts receivable

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
Accounts receivable from Provincial Power Companies (note (a))	131,956	413,134	365,937	545,524
Accounts receivable from a related company (note (a))	—	18,442	—	—
	<u>131,956</u>	<u>431,576</u>	<u>365,937</u>	<u>545,524</u>
Bills receivable (note (b))	41,855	75,503	95,099	115,449
	<u>173,811</u>	<u>507,079</u>	<u>461,036</u>	<u>660,973</u>

Note:

- (a) During the Relevant Periods, 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. Credit terms granted to the related company are similar to those granted to the Provincial Power Companies. The ageing analysis of the accounts receivable is as follows:

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
1 to 3 months	<u>131,956</u>	<u>431,576</u>	<u>365,937</u>	<u>545,524</u>

- (b) Bills receivable are normally with maturity date of 30 to 180 days.

16 Prepayments, deposits and other receivables

	Group			Company
	As at 31 December			As at
	2001	2002	2003	30 June
Prepayment to suppliers	6,838	2,398	8,285	24,952
Sundry deposits	7,681	2,694	7,448	5,283
Value added tax recoverable	13,419	617	—	—
Others	11,375	9,765	6,838	12,766
	<u>39,313</u>	<u>15,474</u>	<u>22,571</u>	<u>43,001</u>
	<u>580</u>	<u>580</u>	<u>580</u>	<u>580</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

17 Amount due from an intermediate holding company

	Group			Company
	As at 31 December			As at 30 June
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from CPI Holding	24,002	—	185,852	80,637

The amount due from an intermediate holding company represents current account balance with CPI Holding during the Relevant Periods which is unsecured and interest free. CPI Holding agreed to settle any outstanding balances prior to the listing of the Group using its internally generated cash flows. The Directors are of the opinion that these balances are not expected to be recurring after the listing of the Group.

18 Cash and bank balances

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

19 Accounts payable

	As at 31 December			As at 30 June
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	78,362	100,611	105,336	138,266
Due to related companies	31,930	48,836	26,697	34,231
	110,292	149,447	132,033	172,497

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

	As at 31 December			As at 30 June
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
1 to 6 months	106,039	146,263	128,126	145,491
7 to 12 months	1,656	356	3,553	26,134
Over 1 year	2,597	2,828	354	872
	110,292	149,447	132,033	172,497

Amounts due to related companies mainly represent balances arising from transactions with those companies as detailed in Note 27 below.

These transactions are entered into at terms agreed with both parties in the ordinary course of business with reference to those entered into with other independent third parties, where applicable, and are recurrent in nature.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

20 Other payables and accrued charges

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2001	2002	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest payable	112,152	77,548	57,548	57,548	—
Salaries and staff welfare payable	69,784	62,894	75,566	78,356	—
Repair and maintenance expense payable	19,938	20,980	21,071	24,403	—
Insurance expense payable	10,106	13,875	16,819	15,468	—
Construction cost payable	9,109	48,280	28,669	26,800	—
Value added tax payable	2,193	10,215	36,319	29,585	—
Accrued share issuance costs	—	—	—	33,672	33,672
Discharge fees payable	—	—	—	8,884	—
Other taxes payable	2,696	2,893	4,281	2,267	—
Others	17,082	18,909	10,050	13,254	—
	<u>243,060</u>	<u>255,594</u>	<u>250,323</u>	<u>290,237</u>	<u>33,672</u>

21 Amounts due to related companies

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2001	2002	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to Provincial Power Companies	47,651	2,500	2,500	2,500	—
Amounts due to CPI Holding	44,615	62,996	—	1,556	1,556
Amounts due to CPI Group	—	—	42,996	4,576	—
	<u>92,266</u>	<u>65,496</u>	<u>45,496</u>	<u>8,632</u>	<u>1,556</u>

The amounts due to related companies mainly represent current account balances with group companies during the Relevant Periods which are unsecured and interest free. The Group agreed to fully settle any outstanding balances prior to the listing of the Group using internally generated cash flows. The Directors are of the opinion that these balances are not expected to be recurrent after the listing of the Group.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

22 Bank borrowings

Bank borrowings are analyzed as follows:

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
Current				RMB'000
Short term bank borrowings	170,000	55,000	45,000	267,676
Non-current				
Long term bank borrowings	1,198,000	1,408,000	1,358,000	1,269,000
Less: current portion of long term bank borrowings	(170,000)	—	(265,000)	(105,000)
	<u>1,028,000</u>	<u>1,408,000</u>	<u>1,093,000</u>	<u>1,164,000</u>

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

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
Wholly repayable within five years	315,000	665,000	615,000	576,000
Not wholly repayable within five years	883,000	743,000	743,000	693,000
	<u>1,198,000</u>	<u>1,408,000</u>	<u>1,358,000</u>	<u>1,269,000</u>

At the respective balance sheet dates, the Group's non-current bank borrowings were repayable as follows:

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
Within one year	170,000	—	265,000	105,000
In the second year	30,000	305,000	405,000	376,000
In the third to fifth year	505,000	760,000	495,000	595,000
After the fifth year	493,000	343,000	193,000	193,000
	<u>1,198,000</u>	<u>1,408,000</u>	<u>1,358,000</u>	<u>1,269,000</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

22 Bank borrowings (continued)

Certain bank borrowings of the Group were guaranteed by the following parties:

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
One of the Provincial Power Companies:				RMB'000
Anhui Provincial Electric Power Company	883,000	743,000	—	—
A company with common management:				
淮南常華電力實業總公司 (Huainan Changhua Electric				
Company)	15,000	55,000	55,000	40,000
An intermediate holding company:				
CPI Holding	—	—	—	44,500
Minority shareholders	—	—	—	5,500
Among subsidiaries within the Group	—	—	—	236,300
	<u>898,000</u>	<u>798,000</u>	<u>55,000</u>	<u>326,300</u>
Corresponding borrowing facilities utilized	<u>898,000</u>	<u>798,000</u>	<u>55,000</u>	<u>307,676</u>

Huainan Changhua Electric Company is a company owned by certain individuals who are also employees or operational managers of a subsidiary of the Group. Such guarantees, together with those provided by CPI Holding, are expected to be released upon successful listing of the Group.

23 Deferred taxation

Deferred taxation is 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:

	As at 31 December			As at
	2001	2002	2003	30 June
	RMB'000	RMB'000	RMB'000	2004
At beginning of year/period	13,901	16,708	16,708	17,619
Deferred taxation credited to combined profit and loss account				
(Note 7)	2,807	—	911	—
At end of year/period	<u>16,708</u>	<u>16,708</u>	<u>17,619</u>	<u>17,619</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

23 Deferred taxation (continued)

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

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Provision for other receivables	8,550	8,550	9,983	8,550	9,983
Provision for inventories obsolescence	8,158	8,158	7,636	8,158	7,636
	<u>16,708</u>	<u>16,708</u>	<u>17,619</u>	<u>16,708</u>	<u>17,619</u>

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

Deferred tax assets to be recovered after more than 12 months	<u>16,708</u>	<u>16,708</u>	<u>17,619</u>	<u>16,708</u>	<u>17,619</u>
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There was no material unprovided deferred tax liabilities during the Relevant Periods.

24 Owner's equity

As disclosed in Note 2 above, the combined financial statements have been prepared as if the current group structure had been in existence throughout the Relevant Periods. Owner's equity during the Relevant Periods represents the combined equities of the companies now comprising the Group. At 30 June 2004, the owner's equity also included the issued share capital of the Company as detailed below:

	<u>Company</u> As at 30 June 2004
Authorized 1,000,000 ordinary shares of HK\$0.1 each	<u>HK\$100,000</u>
Issued and fully paid 1 ordinary share of HK\$0.1	<u>HK cents 10</u>

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

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

25 Notes to the combined cash flow statements

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

	Year ended 31 December			For the six months ended 30 June	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	402,832	564,878	654,982	372,521	401,324
Share of results of an associated company	(150,564)	(154,335)	(136,418)	(85,477)	(90,760)
Interest expense	89,747	82,974	85,038	41,875	40,098
Interest income	(1,947)	(727)	(905)	(389)	(957)
Depreciation of property, plant and equipment	438,099	368,175	373,758	188,396	187,710
Loss on disposal of property, plant and equipment	5,487	388	12,354	110	13
Write-off of property, plant and equipment	1,160	—	2,007	—	—
Provision for impairment of property, plant and equipment	12,573	—	—	—	—
Write-back of previous revaluation deficits of property, plant and equipment	—	—	(27,947)	—	—
Operating profit before working capital changes	797,387	861,353	962,869	517,036	537,428
Decrease/(increase) in accounts receivable	37,231	(422,466)	46,043	(133,249)	(199,937)
Decrease/(increase) in prepayments, deposits and other receivables	11,543	23,839	(7,097)	(6,729)	(54,742)
Decrease/(increase) in inventories	29,355	(1,573)	9,942	(6,364)	8,529
(Decrease)/increase in amounts due to related companies	(89,311)	(15,772)	3,658	(62,996)	(36,864)
(Increase)/decrease in amount due from an intermediate holding company	(18,463)	76,792	(185,852)	(90,699)	105,215
Increase/(decrease) in accounts payable	8,862	39,155	(17,414)	(44,236)	40,464
(Decrease)/increase in other payables and accrued charges	(111,064)	12,534	(5,271)	42,994	39,914
Net cash inflow generated from operations	<u>665,540</u>	<u>573,862</u>	<u>806,878</u>	<u>215,757</u>	<u>440,007</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

25 Notes to the combined cash flow statements (continued)

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

	Long-term and short- term bank loans	Minority interests
	RMB'000	RMB'000
At 1 January 2001	1,360,450	—
New bank loans	383,000	—
Repayment of bank loans	(375,450)	—
Balance at 31 December 2001	1,368,000	—
New bank loans	776,000	—
Repayment of bank loans	(681,000)	—
Balance at 31 December 2002	1,463,000	—
New bank loans	130,000	—
Repayment of bank loans	(190,000)	—
Balance at 31 December 2003	1,403,000	—
New bank loans	477,676	—
Repayment of bank loans	(344,000)	—
Contributions from minority shareholders of a subsidiary	—	3,313
Minority shareholders' share of loss for the period	—	(141)
Balance at 30 June 2004	<u>1,536,676</u>	<u>3,172</u>

26 Commitments

(a) Capital commitments for property, plant and equipment

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2001	2002	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Authorized but not contracted for	87,449	96,902	67,045	94,048	—
Contracted but not provided for	175,215	104,810	135,010	2,758,199	—
	<u>262,664</u>	<u>201,712</u>	<u>202,055</u>	<u>2,852,247</u>	<u>—</u>

(b) Commitments under operating leases

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

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2001	2002	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Buildings					
Not later than one year	—	—	—	829	829
Later than one year and not later than five years	—	—	—	1,209	1,209
	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,038</u>	<u>2,038</u>

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

26 Commitments (continued)

(b) Commitments under operating leases (continued)

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2001	2002	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equipment					
Not later than one year	593	2,818	2,597	1,239	—
Later than one year and not later than five years	—	—	79	40	—
	<u>593</u>	<u>2,818</u>	<u>2,676</u>	<u>1,279</u>	<u>—</u>

(c) Future operating lease arrangements

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

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2001	2002	2003	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	1,930	1,971	71	71	—
Later than one year and not later than five years	1,900	171	100	65	—
	<u>3,830</u>	<u>2,142</u>	<u>171</u>	<u>136</u>	<u>—</u>

27 Related party transactions

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

Set out below is a summary of significant transactions with related companies which, in the opinion of the Directors, were conducted on normal commercial terms and were carried out in the normal course of the Group's business during the Relevant Periods. Save as disclosed in note (v) below, these transactions are recurrent in nature.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS

27 Related party transactions (continued)

The aggregate income and expenses arising from these significant related party transactions are summarized as follows:

	Note	Year ended 31 December			For the six months ended 30 June	
		2001	2002	2003	2003	2004
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues:						
Sales of electricity to:						
Provincial Power Companies	(i) & (v)	2,434,611	2,565,838	2,915,382	1,434,754	1,664,927
Companies with common management	(i)	—	15,762	—	—	—
Expenses:						
Purchases of fuel, raw materials and spare parts from:						
Companies with common management	(i)	722,226	802,694	647,396	416,383	118,224
Services fees to:						
Provincial Power Companies	(ii) & (v)	34,656	34,799	37,264	18,954	6,996
Companies with common management	(ii)	70,277	80,672	95,603	34,671	47,534
Construction costs to:						
Companies with common management	(iii)	7,092	40,530	8,981	1,215	94
Labor costs charged by:						
Companies with common management	(iv)	9,434	2,060	3,137	638	821

Note:

- (i) Sales of electricity and purchases of goods were charged in accordance with the terms of the relevant agreements.
- (ii) Services fees mainly related to repair and maintenance services and transportation services which were carried out at mutually agreed prices.
- (iii) Construction costs were payable in accordance with the terms of contracts.
- (iv) Labor costs were charged on a cost reimbursement basis.
- (v) As a result of the restructuring of the power industry in 2002, the Directors are of the opinion that the Provincial Power Companies are no longer referred to as related parties of the Group with effect from 1 January 2003 and transactions thereof are no longer referred to as related party transactions accordingly. For the purpose of this report, significant transactions with Provincial Power Companies for the periods after 1 January 2003 were included to provide additional information.

II NOTES TO THE COMBINED FINANCIAL STATEMENTS**28 Distributable reserves**

As at 30 June 2004, the Company did not have any reserves available for distribution to the shareholders of the Company at that date.

29 Ultimate holding company

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

III SUBSEQUENT EVENTS

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

Pursuant to a resolution passed by the Company on 24 August 2004, the nominal value of the Company's authorized 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 authorized 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 existing shares.

- (b) Subsequent to 30 June 2004 and up to the date of this report, the companies now comprising the Group underwent the Reorganization in preparation for the listing of the shares of the Company on the Stock Exchange. On 1 September 2004, 2,099,999,999 shares of HK\$1 each were further allotted and issued at par by the Company to its immediate holding company, all of which were credited as fully paid, in consideration for the transfer of the relevant interests in the Operating Power Plants and the Power Plants under constructions to the Company, and became the holding company of the Group. These shares rank pari passu in all respects with the shares in issue.

Pursuant to the Reorganization, CPI Group also granted the Company a call option to acquire up to 25% equity interest in Shanghai Electric Power Co., Ltd. ("Shanghai Power"), a company listed on the Shanghai Stock Exchange in the PRC. The option in whole or in part is exercisable from time to time within three years from 29 October 2004. The exercise price for the shares of Shanghai Power under the call option shall be determined, at the time of exercise, with reference to the then net asset value or prevailing market price per share of Shanghai Power.

- (c) Subsequent to 30 June 2004, the Group entered into certain significant agreements with its holding companies:
- (i) With effect from 1 July 2004, the Group entered into a management agreement with CPI Group and CPI Holding pursuant to which the Group is entrusted to manage a number of power plants on behalf of CPI Holding for a term of three years in return for an annual service fee of not more than RMB16 million, RMB18 million and RMB20 million for the years ended 31 December 2004, 2005 and 2006 respectively.

III SUBSEQUENT EVENTS

- (ii) On 27 August 2004, the Group entered into a land lease agreement with CPI Group pursuant to which CPI Group leases certain land to the Group for a period up to year 2019, at an aggregate annual rental of approximately RMB13 million subject to a review in year 2006.
- (d) Pursuant to the Reorganization, the Company agreed that certain future dividends from Pingwei Company, Yaomeng Company and Changshu Company in connection with the profits of these companies for the period from 1 January 2004 to 30 September 2004 shall be attributable to CPI Holding. Such dividends will be paid by the respective companies using their internally generated cash flows.

Apart from the aforesaid, no other material events took place after 30 June 2004.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2004.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the Accountants' Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants of the Company as set out in Appendix I to the Prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of the Prospectus and the Accountants' Report of the Group set out in Appendix I to the Prospectus.

A. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2004. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Unaudited forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004 (Note 1) . . .	<u>not less than RMB633 million</u>
Unaudited pro forma forecast earnings per Share—fully diluted (Note 2)	<u>RMB0.21</u>

Notes:

1. The forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004 is extracted from the Profit Forecast as set out in the subsection headed "Profit Forecast" under the section headed "Financial Information" in the Prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December 2004 has been prepared are summarized in Appendix III to this Prospectus.

The forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December 2004 prepared by the Directors is based on the audited combined results of the Group for the six months ended 30 June 2004 and a forecast of the combined results of the Group for the remaining six months ending 31 December 2004. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004. The forecast has been prepared on the basis of the accounting policies consistent in all material respect with those currently adopted by the Group as summarized in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is based on the unaudited forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December 2004, assuming that the Global Offering had been completed on 1 January 2004 and a total of 3,012,234,500 Shares in issue during the entire year. The calculation of the fully diluted number of shares are calculated assuming that (i) the Over-allotment Option is not exercised, and (ii) a maximum of 12,234,500 Shares will be allotted and issued under the Pre-IPO Shares Option Scheme.

B. UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma net tangible assets of the Group is prepared based on the audited combined net tangible assets of the Group as at 30 June 2004, as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus and adjusted as described below.

The unaudited pro forma net tangible assets has been prepared to illustrate the effect of the Global Offering on the net tangible assets of the Group as at 30 June 2004 as if it had taken place on 30 June 2004. This unaudited pro forma net tangible assets has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group following the Global Offering.

	Audited combined net tangible assets of the Group as at 30 June 2004	Add: Estimated net proceeds from the Global Offering	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible assets per Share
	RMB'000	RMB'000 (Note 1)	RMB'000	RMB (Notes 2) and (Note 3)
Based on an Offer Price of HK\$2.10 per Share	<u>3,807,030</u>	<u>1,859,381</u>	<u>5,666,411</u>	<u>1.89</u>
Based on an Offer Price of HK\$2.60 per Share	<u>3,807,030</u>	<u>2,320,457</u>	<u>6,127,487</u>	<u>2.04</u>

Notes:

1. The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.10/HK\$2.60 per Share, after deduction of the underwriting fees and other relevant expenses payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of the Over-allotment Option.
2. The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 3,000,000,000 Shares, being the total number of Shares expected to be in issue immediately after completion of the Global Offering, are in issue on 30 June 2004 taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
3. Pursuant to the Reorganization Agreement, the Company agreed that certain future dividends from certain subsidiaries and an associated company in connection with the profits of these companies for the period from 1 January 2004 to 30 September 2004, shall be attributable to China Power International Holding Limited, an intermediate holding company of the Company. The calculation of the unaudited pro forma net tangible assets per Share had not taken into account the distribution of this special dividend, which, when distributed, will reduce the unaudited pro forma net tangible assets per Share.

C. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, PricewaterhouseCoopers, for the purpose of incorporation in this Prospectus. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom.



羅兵咸永道會計師事務所

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

4 October 2004

The Directors
China Power International Development Limited

Dear Sirs

We report on the unaudited pro forma financial information of China Power International Development Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages II-1 to II-2 under the headings of “Unaudited Pro Forma Forecast Earnings Per Share” and “Unaudited Pro Forma Net Tangible Assets” in Appendix II of the Company’s prospectus dated 4 October 2004 in connection with the Global Offering of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the Global Offering might have affected the relevant financial information of the Group.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”).

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

Basis of opinion

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

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

The unaudited pro forma financial information has been prepared on the bases set out on pages II-1 to II-2 for illustrative purpose only and, because of its nature, it may not be indicative of:

- the earnings per share of the Group for any future periods, or
- the financial position of the Group at any future date.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December 2004 is set out in the subsection headed “Profit Forecast” under the section headed “Financial Information” in this Prospectus.

A. Bases and assumptions

The Directors have prepared the forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December 2004 based on the audited combined results of the Group for the six months ended 30 June 2004 and a forecast of the results of the Group for the six months ending 31 December 2004. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarized in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus and is based on the following principal assumptions:

1. there will be no material changes in existing political, legal (including changes in legislation, laws or regulations, government policies or rules), regulatory, fiscal, market or economic conditions in the PRC, in which the Group carries on businesses;
2. there will be no material changes in inflation, interest rates and exchange rates from those prevailing as at the date of the Prospectus;
3. there will be no material changes in the bases or rates of taxation or duties in the PRC;
4. the Group is not materially and adversely affected by any of the risk factors set out in the section headed “Risk Factors” of this Prospectus; and
5. the Group’s operation and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.

B. Letter from the Reporting Accountants

The following is the text of a letter, prepared for inclusion in this Prospectus, received by the Directors from the Company's reporting accountants, PricewaterhouseCoopers, in connection with the forecast of our combined profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004.



羅兵咸永道會計師事務所

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

4 October 2004

The Directors
China Power International Development Limited
Merrill Lynch Far East Limited

Dear Sirs

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the combined profit after taxation and minority interests but before extraordinary items of China Power International Development Limited (the "Company") and its subsidiaries (collectively referred to in this letter as the "Group") for the year ending 31 December 2004 (the "Profit Forecast") as set out in the subsection headed "Profit Forecast" under the section headed "Financial Information" in the prospectus of the Company dated 4 October 2004 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the audited combined results of the Group for the six months ended 30 June 2004 and a forecast of the combined results of the Group for the remaining six months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2004.

In our opinion, the Profit Forecast, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our Accountants' Report dated 4 October 2004 the text of which is set out in Appendix I of the Prospectus.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

C. Letter from the Sponsor

The following is the text of a letter, prepared for inclusion in this Prospectus, received by the Directors from the Company's Sponsor, Merrill Lynch Far East Limited, in connection with the forecast of our combined profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004.



Merrill Lynch Far East Limited
17th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Hong Kong

4 October 2004

The Directors
China Power International Development Limited

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of China Power International Development Limited (the "Company") and its subsidiaries (together the "Group") for the year ending 31 December 2004 (the "Profit Forecast") as set out in the subsection headed "Profit Forecast" in the section headed "Financial information" in the prospectus issued by the Company dated 4 October 2004. The forecast has been prepared based on the audited combined results of the Group for the six months ended 30 June 2004 and a forecast of the combined results of the Group for the remaining six months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31st December 2004.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 4 October 2004 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Merrill Lynch Far East Limited
Romnesh Lamba
Director

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 July, 2004 of the property interests of the Group.



Sallmanns



Corporate valuation and consultancy
www.sallmanns.com

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4 October 2004

The Board of Directors
China Power International Development Limited

Suite 5306, 53/F, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which China Power International Development Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the properties as at 31 July, 2004 (the “date of valuation”).

Wherever possible, our valuation of the property interests represent the open market value which we would define as intended to mean “an opinion of the best price at which the sale of an interest in properties would have been completed unconditionally for cash consideration on the date of valuation, assuming:-

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the properties and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

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

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

We have valued the property interests in Property Nos. 2, 3, 4 and 7 by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Due to the nature of the buildings and structures of the property interests in Property Nos. 1, 5 and 6, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement.” This opinion of value does not necessarily represent the amount that might be realized from the disposal of the subject property in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for property without a known used market.

The property interest in Group III rented and occupied by the Company has no commercial value due mainly to the short term nature of the interest or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

In valuing the property interests, we have complied with all the requirements contained in Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000.

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

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries where possible. We have relied on the advice given by the Company’s PRC legal adviser—Haiwen & Partners (“Haiwen”), concerning the validity of the Group’s titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans

handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

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

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

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

Our valuations are summarised below and the valuation certificate is attached.

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

Note: Paul L. Brown is a Chartered Surveyor who has 21 years' experience in the valuation of properties in the PRC and 24 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I—PROPERTY INTERESTS HELD BY A JOINT VENTURE COMPANY
OF THE GROUP IN THE PRC

<u>No. Property</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>	<u>Interest attributable to the Group</u>	<u>Capital value of property interests attributable to the Group as at 31 July, 2004 RMB</u>
1. Land, various buildings and structures of Changshu Power Plant Changshu City Jiangsu Province The PRC	No Commercial Value	50%	No Commercial Value
2. No. 128 Donghuan Road Suzhou City Jiangsu Province The PRC	No Commercial Value	50%	No Commercial Value
3. Flat F, Level 18 South Entrance of Songbai Gongyu No. 15 of 431 Nong Beijing Dong Road Shanghai The PRC	No Commercial Value	50%	No Commercial Value
4. Room 402 Entrance 1, Block 17 District 2 of Yiyuan Ju No. 4 Cuiwei Road Haidian District Beijing The PRC	No Commercial Value	50%	No Commercial Value
Sub-Total:			<u>Nil</u>

APPENDIX IV

PROPERTY VALUATION

GROUP II—PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

<u>No. Property</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>	<u>Interest attributable to the Group</u>	<u>Capital value of property interests attributable to the Group as at 31 July, 2004 RMB</u>
5. Land, various buildings and structures of Yaomeng Power Plant Pingdingshan City Henan Province The PRC	No Commercial Value	100%	No Commercial Value
6. Land, various buildings and structures of Pingwei Power Plant Huainan City Anhui Province The PRC	No Commercial Value	100%	No Commercial Value
Sub-Total:			Nil

GROUP III—PROPERTY INTEREST RENTED BY THE GROUP IN HONG KONG

<u>No. Property</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>	<u>Interest attributable to the Group</u>	<u>Capital value of property interests attributable to the Group as at 31 July, 2004 RMB</u>
7. Suite 5306, 53/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	No Commercial Value	100%	No Commercial Value
Sub-Total:			Nil
Grand Total:			Nil

VALUATION CERTIFICATE

GROUP I—PROPERTY INTERESTS HELD BY A JOINT VENTURE
COMPANY OF THE GROUP IN THE PRC

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
1. Land, various buildings and structures of Changshu Power Plant Changshu City Jiangsu Province The PRC	<p>The property comprises 7 parcels of land with a total site area of approximately 4,580,872.6m² on which are constructed</p> <p>156 buildings and 245 structures completed in various stages between 1990 and 2002.</p> <p>The buildings of the property have a total gross floor area of approximately 181,672.2m².</p> <p>Major buildings and structures of the property include power station buildings, buildings and structures for ash disposal, fuel handling, chemical water treatment, and water supply, and ancillary and management buildings, dormitory buildings.</p>	The property is currently occupied by Changshu Company as an operational power plant.	No Commercial Value

Notes:

- According to 7 State-Owned Land Use Rights Certificates, 7 parcels of land of the property with a total site area of approximately 4,580,872.6m² were administratively allocated to Jiangsu Changshu Electric Power Generating Company Limited (“Changshu Company”), a 50% owned joint venture company of the Group. According to the opinion given by the Company’s PRC legal adviser, the land use rights of the land are legally owned by Changshu Company. However, the allocated land cannot be transferred, sublet or mortgaged without the formal approval by local land administration bureau. For this reason, in our valuation, we have attributed no commercial value to the land use rights of the property.
- Pursuant to an Equity Joint-venture Contract dated 12 August, 1999, Changshu Company was established by China Power International (Holdings) Company Limited, Jiangsu Guoxin Assets Management Group Company Limited and Suzhou Trust and Investment Company Limited. In accordance with the agreement, Changshu Company was 30% owned by China Power International (Holdings) Company Limited and the joint-venture period was for a term of 20 years commencing from the date of issuing the Business License.
- Pursuant to an Approval Document (Shang He Pi No. 2004 486) dated 10 August, 2004, issued by the PRC Ministry of Commerce, the state has transferred a 20% interest in Changshu Company to China Power International (Holdings) Company Limited, and then China Power International (Holdings) Company Limited has transferred its 50% interest in Changshu Company to the Company.

4. According to the opinion given by the Company's PRC Legal adviser, 50% interest of Changshu Company is legally owned by the Company.
5. Pursuant to 145 Building Ownership Certificates, 145 buildings of the property with a total gross floor area of approximately 174,033m² are owned by Changshu Company. As the Company is prohibited from transferring, subletting or mortgaging the land on which these buildings and structures are situated, we have attributed no commercial value to these buildings and structures. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings and structures (ignoring any legal constraints as mentioned above) as at the date of valuation is RMB605,494,000. As advised by the Group, the above buildings of the property are not subject to mortgage or any other material encumbrances.
6. According to the opinion of the Company's PRC legal adviser, the Company has not obtained the building ownership certificates of the remaining 11 buildings with a total gross floor area of approximately 7,639.2m². As such, we have attributed no commercial value to these buildings.

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
2. No. 128 Donghuan Road Suzhou City Jiangsu Province The PRC	<p>The property comprises an office unit on level 1 of a 6-storey office building completed in about 1998.</p> <p>The property has a gross floor area of approximately 175.21m².</p>	The property is currently occupied by Changshu Company for office purposes.	No Commercial Value

Notes:

1. According to the opinion of the Company's PRC legal adviser, Changshu Company has not obtained the building ownership certificate of the property. Thus, we have attributed no commercial value to the property.
2. As advised by the Group, the property is not subject to mortgage or any other material encumbrances.

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
3. Flat F, Level 18 South Entrance of Songbai Gongyu No.15 of 431 Nong Beijing Dong Road Shanghai The PRC	The property comprises an office unit on level 18 of a 18-storey composite building completed in about 1990. The property has a total gross floor area of approximately 114m ² .	The property is currently occupied by Changshu Company for office purposes.	No Commercial Value

Notes:

1. According to the opinion of the Company's PRC legal adviser, Changshu Company has not obtained the building ownership certificate of the property. Thus, we have attributed no commercial value to the property.
2. As advised by the Group, the property is not subject to mortgage or any other material encumbrances.

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
4. Room 402 Entrance 1, Block 17 District 2 of Yiyuan Ju No. 4 Cuiwei Road Haidian District Beijing The PRC	The property comprises an office unit on level 4 of a 5-storey office building completed in about 1998. The property has a gross floor area of approximately 232.55m ² .	The property is currently occupied by Changshu Company for office purposes.	No Commercial Value

Notes:

1. According to the opinion of the Company's PRC legal adviser, Changshu Company has not obtained the building ownership certificate of the property. Thus, we have attributed no commercial value to the property.
2. As advised by the Group, the property is not subject to mortgage or any other material encumbrances.

VALUATION CERTIFICATE

GROUP II—PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
5. Land, various buildings and structures of Yaomeng Power Plant Pingdingshan City Henan Province The PRC	<p>The property comprises 49 parcels of land with a total site area of approximately 3,514,887.45m² on which are constructed</p> <p>160 buildings and 114 structures completed in various stages between 1971 and 2002.</p> <p>The buildings of the property have a total gross floor area of approximately 205,826.63m²</p> <p>Major buildings and structures of the property include power station buildings, buildings and structures for ash disposal, fuel handling, chemical water treatment, and water supply, and ancillary and management buildings, dormitory buildings.</p>	The property is currently occupied by Yaomeng Company as an operational power plant.	No Commercial Value

Notes:

- Pursuant to 27 State-owned Land Use Rights Certificates, the land use rights of 27 parcels of land of the property with a total site area of approximately 2,887,772m² were obtained by China Power Investment Corporation (“CPI Group”) by way of state authorization to operate for terms expiring either on 29 July, 2054 or 29 July, 2034. CPI Group has legally obtained the rights authorized by the state to operate the land of the property (known as the “State Authorized Land”).
- Pursuant to a land lease agreement dated 27 August, 2004 entered into between CPI Group and Pingdingshan Yaomeng Power Generating Company Limited (“Yaomeng Company”) (as supplemented by a supplemental land lease agreement dated 24 September, 2004 between the same parties), Yaomeng Company has leased from CPI Group a total of 27 parcels of land with a total area of approximately 2,887,772m² for a term commencing from 1 August, 2004 and expiring on the expiry date of the term of operation of Yaomeng Company for industrial use at an annual rental of RMB5,330,000 with rent renewable per three years based on an independent valuer’s opinion at a level not higher than the market rent as mutually agreed by both parties. According to the opinion given by the Company’s PRC legal adviser, Yaomeng Company has obtained the right to use the land. Due to lack of substantial profit rent, in our valuation, we have attributed no commercial value to the land under the lease agreement.
- For the rest of 22 parcels of land of the property with a total site area of approximately 627,115.45m², it is confirmed by the Company that the proper Land Use Rights Certificates have not been obtained. According to the opinion given by the Company’s PRC legal adviser, Yaomeng Company has not obtained the relevant Land Use Rights Certificates. For this reason, we have also attributed no commercial value to the land.

4. Pursuant to 93 Building Ownership Certificates, 93 buildings with a total gross floor area of approximately 152,437.96m² erected on the 27 parcels of State Authorized Land are vested in Yaomeng Company. According to the opinion given by the Company's PRC legal adviser, the Group has the legal rights to occupy, use and sublet these buildings. As these buildings and structures are situated on State Authorized Land, we have attributed no commercial value to them. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the above buildings and structures (ignoring any legal constraints as mentioned above) as at the date of valuation is RMB388,829,000. As advised by the Group, the above buildings are not subject to mortgage or any other material encumbrances.
5. According to the opinion given by the Company's PRC legal adviser, Yaoming Company has not obtained the building ownership certificates of the remaining 67 buildings of the property with a total gross floor area of approximately 53,388.67m² erected on the 22 parcels of land without proper land use rights certificates. Thus, we have attributed no commercial value to these buildings.

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
6. Land, various buildings and structures of Pingwei Power Plant Huainan City Anhui Province The PRC	<p>The property comprises 6 parcels of land with a total site area of approximately 4,483,988.90m² on which are constructed</p> <p>168 buildings and 99 structures completed in various stages between 1985 and 2003.</p> <p>The buildings of the property have a total gross floor area of approximately 199,476.58m².</p> <p>Major buildings and structures of the property include the power station buildings, buildings and structures for ash disposal, fuel handling, chemical water treatment, and water supply, and ancillary and management buildings, dormitory buildings.</p>	The property is currently occupied by Pingwei Company as an operational power plant.	No Commercial Value

Notes:

- Pursuant to 5 State-owned Land Use Rights Certificates, the land use rights of 5 parcels of land of the property with a total site area of approximately 4,438,189.2m² were obtained by China Power Investment Corporation ("CPI Group") by way of state authorization to operate for a term of 50 years expiring on 1 August, 2054. CPI Group has legally obtained the rights authorized by the state to operate the land of the property (known as the "State Authorized Land").
- Pursuant to a land lease agreement dated 27 August, 2004 entered into between CPI Group and Anhui Huainan Pingwei Electric Power Generating Company Limited ('Pingwei Company'), Pingwei Company has leased from CPI Group a total of 5 parcels of land with a total area of approximately 4,438,189.20m² for a term commencing from 1 August, 2004 and expiring on the expiry date of the term of operation of Pingwei Company for industrial use at an annual rental of RMB6,980,000 with rent renewable per three years based on an independent valuer's opinion at a level not higher than the market rent as mutually agreed by both parties. According to the opinion given by the Company's PRC legal adviser, Pingwei Company has obtained the right to use the land. Due to lack of substantial profit rent, in our valuation, we have attributed no commercial value to the land under the lease agreement.
- For the remaining 1 parcel of land of the property with a site area of approximately 45,799.70m², Pingwei Company has not obtained the relevant Land Use Rights Certificates. As such, we have also attributed no commercial value to the land.
- Pursuant to 134 Building Ownership Certificates, 134 buildings with a total gross floor area of approximately 195,353.1m² erected on the 5 parcels of State Authorized Land are owned by Pingwei Company. According to the opinion given by the Company's PRC legal adviser, the Group has the legal rights to occupy, use and sublet these buildings. As these buildings and structures are situated on State Authorized Land, we have attributed no commercial value to them. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the above buildings and structures (ignoring any

legal constraints as mentioned above) as at the date of valuation is RMB714,154,000. As advised by the Group, the above buildings are not subject to mortgage or any other material encumbrances.

5. According to the opinion given by the Company's PRC legal adviser, Pingwei Company has not obtained the building ownership certificates of the remaining 34 buildings of the property with a total gross floor area of approximately 4,123.48m² erected on the parcel of land without proper land use rights certificate. Thus we have attributed no commercial value to these buildings.

VALUATION CERTIFICATE

GROUP III—PROPERTY INTEREST RENTED BY THE GROUP IN HONG KONG

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital Value in existing state as at 31 July, 2004 RMB</u>
7. Suite 5306, 53/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	<p>The property is an office unit on the 53rd Floor of a 75-storey office building completed in about 1991.</p> <p>The property has a leasable floor area of approximately 4,073 sq.ft.</p> <p>The property is leased to the Company from an independent party for a term of 3 years commencing from 16 May, 2004, at a monthly rent of HK\$65,168, exclusive of management fee, rates, water and electricity charges.</p>	The property is currently occupied by the Group as office.	No commercial value

The following discussion is a summary of certain anticipated tax consequences of the operations of our Company and of an investment in the Shares under Hong Kong tax laws and the PRC income tax laws. The discussion does not deal with all possible tax consequences relating to our Company's operations or to an investment in the Shares. In particular, the discussion does not address the tax consequences under state, local and other (e.g. non-Hong Kong and non-Chinese) tax laws. Accordingly, each prospective investor should consult his or her tax adviser regarding the tax consequences of an investment in the Shares. The discussion is based upon law and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change.

PRC TAXATION

Dividends from our China operations

Under current PRC tax laws, regulations and rulings, dividends paid by our PRC subsidiaries or associated company, which are enterprises with foreign investment, to us are currently exempt from PRC withholding or income tax.

Dividends paid by our Company to its investors

Our Company is not incorporated in the PRC. Under current PRC law, even though we have significant operating subsidiaries and associated company in the PRC, the distribution of dividends to our overseas investors such as yourself is not currently subject to PRC tax.

Transfer or disposition of our Shares

As our Company is not incorporated in the PRC, under current PRC law, any transfer or disposition of our Shares by an overseas investor such as yourself does not trigger PRC tax liabilities.

HONG KONG TAXATION

Dividends

Under the current practice of the Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Dividends distributed to our shareholders are free of withholding taxes as there are no withholding taxes in Hong Kong.

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations as the rate of 17.5% and on individuals at a maximum rate of 16.0%. Gains from sales of the Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the *ad valorem* rate of 0.1% of the consideration for, or (or if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5. Where a sale or purchase of Shares is effected by a person who is not a resident in Hong Kong and any stamp duty payable on the contract notes is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty.

The Selling Shareholder will be responsible for all Hong Kong stamp duties charged at an *ad valorem* rate of 0.2% of the Offer Price and payable in connection with the sale of the Offer Shares offered by it in the Global Offering, including the additional Shares to be offered by the Selling Shareholder pursuant to any exercise of the Over-allotment Option.

Estate duty

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. The Shares are regarded as property situated in Hong Kong for estate duty purposes and accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of the Shares.

The existing Articles of Association of the Company were adopted on August 24, 2004 and became effective on August 24, 2004. The following is a summary of certain provisions of the Articles:

1. Alteration of capital

The Company may from time to time by ordinary resolution increase its capital by the creation of new shares of such amount as may be deemed expedient.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (b) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (c) sub-divide its existing shares or any of them into shares of smaller amount than is fixed by its memorandum of association and the resolution may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have such preferred or other special rights, or may have such qualified or deferred rights or be subject to such restrictions, as the Company has power to attach to new shares,

subject nevertheless to the provisions of the Companies Ordinance and every other ordinance affecting the Company (together, the "Statutes").

Subject to the provisions of the Statutes and the Articles, the Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any other undistributable reserve in any way.

2. Variation of rights

Whenever the capital of the Company is divided into different classes of shares, all or any of the special rights or privileges attached to any class may (whether or not the Company is being wound up) be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of such shares. The provisions of the Articles relating to general meetings of the Company or to the proceedings at general meetings shall apply *mutatis mutandis* to every such separate general meeting, except that the necessary quorum shall be two or more persons holding or representing by proxy not less than one-third in nominal amount of the issued shares of the class, that every holder of shares of the class shall be entitled on a poll to one vote for every share of the class held by him, that any holder of shares of the class present in person or by proxy may demand a poll and that at an adjourned meeting one person holding shares of the class present in person or by proxy shall be a quorum.

3. Votes of members

Subject to any special rights or restrictions as to voting for the time being attached to any shares and to the provisions of the Articles, on a show of hands every member who is present in person at a general

meeting of the Company shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

Where any member is, under the rules prescribed by the Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

Where a member is a recognized clearing house (within the meaning of the Securities and Futures Ordinance) or its nominee, it may authorise any person or persons as it thinks fit to act as its proxy (or proxies) or representative or representatives at any general meeting of the Company or at any separate meeting of any class of members of the Company provided that, if more than one person is so authorised, the instrument of proxy or authorisation must specify the number and class of shares in respect of which each such person is so authorised. Notwithstanding anything contained in the Articles, each person so authorised, and any instrument of proxy or authorisation signed by any officer of the recognized clearing house, shall be deemed to have been duly authorised without further evidence of the facts. The person so authorised will be entitled to exercise the same power on behalf of the recognized clearing house (or its nominee) as if such person was the registered holder of the shares of the Company held by that recognized clearing house (or its nominee) present at the meeting in person, including (without limitation) the right to vote individually on a show of hands or on a poll and to demand or concur in demanding a poll.

4. Method of voting and demand for poll

- (1) Subject to the rules prescribed by the Stock Exchange from time to time, at every general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or immediately after the declaration of the result of the show of hands) a poll be demanded by:
 - (a) the chairman of the meeting; or
 - (b) at least three members present in person or by proxy having the right to vote on the resolution; or
 - (c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or
 - (d) a member or members present in person or by proxy holding shares conferring the right to attend and vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right,

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

- (2) A demand for a poll may, before the poll is taken, be withdrawn but only with the consent of the chairman of the meeting and the demand so withdrawn shall not be taken to have invalidated the result of a show of hands declared before the demand was made. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn, the meeting shall continue as if the demand had not been made.

- (3) Unless a poll be so demanded (and the demand is not withdrawn), a declaration by the chairman of the meeting that a resolution has been carried, or has been carried by a particular majority, or lost, or not carried by a particular majority, shall be conclusive, and an entry to that effect in the books of proceedings of the Company shall be conclusive evidence thereof, without proof of the number or proportion of the votes recorded in favor of or against such resolution.

5. Directors

Unless otherwise determined by an ordinary resolution of the members of the Company, the number of Directors (other than alternate Directors) shall be not less than two and there shall be no maximum number of Directors. A Director need not be a member of the Company.

The Company may by ordinary resolution appoint any person to be a Director, either to fill a casual vacancy or as an additional Director. The Board of Directors may appoint one or more Directors to hold any executive office or offices under the Company (including that of Chairman, Chief Executive Officer or Executive Vice President) for such period (subject to the Statutes and the applicable rules prescribed by the Stock Exchange from time to time) and on such terms as it may decide and may revoke or terminate any appointment so made without prejudice to any claim for damages for breach of any contract of service between the Director and the Company.

Without prejudice to the power of the Company in general meeting in accordance with any of the provisions of the Articles to appoint any person to be a Director, the Board of Directors may, at any time, and from time to time, appoint any person to be a Director, either to fill a casual vacancy or by way of addition to their number. Any Director so appointed by the Board of Directors shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for reappointment but shall not be taken into account in determining the Director or the number of Directors who are to retire by rotation.

At every annual general meeting after the annual general meeting in year 2007, one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from office, but, if there are fewer than three Directors who are subject to retirement by rotation, they shall retire. The President who is also an executive Director shall not whilst holding office as a Director be subject to retirement by rotation or be taken into account in determining the number of Directors to retire at each annual general meeting. Subject to the Statutes and the Articles, the Directors to retire by rotation on each occasion shall be those who have been longest in office since their last appointment or reappointment, but as between persons who became or were last re-appointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Board of Directors at the start of business on the date of the notice convening the annual general meeting and no Director shall be required to retire or be relieved from retiring by reason of any change in the number or identity of the Directors after that time on the date of the notice but before the close of the meeting. A retiring Director shall (unless he is removed from office or his office is vacated in accordance with the Articles) retain office until the close of the meeting at which he retires or (if earlier) when a resolution is passed at that meeting not to fill the vacancy or to appoint another person in his place or the resolution to re-appoint him is put to the meeting and lost. A retiring

Director shall be eligible for reappointment. Subject to the Articles, if the Company, at any meeting at which a Director retires in accordance with the Articles by rotation or otherwise, does not fill the office vacated by such Director, the retiring Director, if willing to act, shall be deemed to be re-appointed, unless at the meeting a resolution is passed not to fill the vacancy or to appoint another person in his place or unless the resolution to re-appoint him is put to the meeting and lost.

The Company may by ordinary resolution remove any Director before his period of office has expired notwithstanding anything in the Articles or in any agreement between him and the Company.

The Board of Directors may meet together for the dispatch of business, adjourn and otherwise regulate its meetings as it thinks fit and may determine the quorum necessary for the transaction of business. Subject to the Articles, and until otherwise determined by the Directors, two Directors shall be a quorum.

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting.

The Directors shall also be paid out of the funds of the Company all their traveling, hotel and other expenses reasonably and properly incurred by them in and about the discharge of their duties, including their expenses of traveling to and from meetings of the Board of Directors, or committee meetings, or general meetings (subject always to the provisions of any agreement between the Company and any Director).

The Board of Directors may grant special remuneration to any Director who, being called upon, shall perform any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration (if any) as a Director, and may be made payable by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board of Directors may decide.

6. Directors' interests

Subject to the Statutes, no Director or intending Director shall be disqualified by his office from entering into any contract with the Company, either with regard to his tenure of any office or position in the management, administration or conduct of the business of the Company or as vendor, purchaser or otherwise, nor (subject to the interest of the Director being duly declared) shall any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested, be liable to be avoided, nor shall any Director so interested be liable to account to the Company for any benefit resulting from the contract by reason of such Director holding that office or of the fiduciary relationship thereby established by his holding that office.

A Director may hold any other office or place of profit with the Company (except that of the auditor) in conjunction with his office of Director for such period (subject to the Statutes) and upon such terms as the Board of Directors may decide and may be paid such extra remuneration for so doing (whether by way of salary, commission, participation in profits or otherwise) as the Board of Directors may decide, either in addition to or in lieu of any remuneration under any other provision of the Articles.

Any Director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

Any Director may continue to be or become a member or director of, or hold any other office or place of profit under, any other company in which the Company may be interested, and no such Director shall be accountable for any dividend, remuneration, superannuating payment or other benefits received by him as a member or director of, or holder of any other office or place of profit under, any such other company. The Board of Directors may also cause any voting power conferred by the shares in any other company held or owned by the Company or any power of appointment to be exercised in such manner in all respects as it thinks fit (including the exercise of the voting power or power of appointment in favour of the appointment of the Directors or any of them as directors or officers of the other company or in favour of the payment of remuneration to the directors or officers of the other company).

A Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall, if his interest in such contract or proposed contract is material, declare the nature of his interest at a meeting of the Board of Directors at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board of Directors after he knows that he is or has become so interested. For this purpose, a general notice given to the Board of Directors by a Director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any other contract which may after the date of the notice be made with that company or firm, or (b) he is to be regarded as interested in any contract which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest in relation to any such contract but no such notice shall be effective unless either it is given at a Board of Directors' meeting or the Director takes reasonable steps to secure that it is brought up and read at the next Board of Directors' meeting after it is given.

A Director shall not vote (or be counted in the quorum at a meeting) in respect of any resolution concerning his own appointment (including fixing or varying its terms), or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested but, where proposals are under consideration concerning the appointment (including fixing or varying its terms), or the termination of the appointment, of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, those proposals may be divided and a separate resolution may be put in relation to each Director and in that case each of the Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution unless it concerns his own appointment or the termination of his own appointment.

A Director shall not vote (or be counted in the quorum at a meeting) in relation to any resolution relating to any contract or arrangement or other proposal in which he or any of his associates (as defined in the Listing Rules) has a material interest and, if he purports to do so, his vote shall not be counted, but this prohibition shall not apply and a Director may vote (and be counted in the quorum) in respect of any resolution concerning any one or more of the following matters:

- (a) the giving to him or any of his associates of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself or any of his

associates has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (c) any issue or offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase in respect of which the Director or any of his associates is or may be entitled to participate in his capacity as a holder of any such securities or as underwriter or sub-underwriter;
- (d) any contract in which he or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
- (e) any contract concerning any other company in which he or any of his associates is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which he or any of his associates is beneficially interested in shares of that company, provided that he and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
- (f) any contract concerning the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme of the Company or any of its subsidiaries under which the Directors or any of their associates may benefit;
- (g) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
- (h) any contract for the benefit of employees of the Company or of any of its subsidiaries under which the Director or any of his associates benefits in a similar manner to the employees and which does not accord to any Director or any of his associates as such any privilege or advantage not accorded to the employees to whom the contract relates; and
- (i) any contract for the purchase or maintenance for any Director or Directors of insurance against any liability.

For the purposes of this article, (a) references to a contract include references to any proposed contract and to any transaction or arrangement whether or not constituting a contract; and (b) "subsidiary" has the same meaning as defined in the Listing Rules.

7. Borrowing powers

The Board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge the whole or any part of its undertaking, property and assets (both present and future) and uncalled capital of the Company and (subject, to the extent applicable, to the provisions of the Statutes) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

8. Dividends

Subject to the provisions of the Statutes, the Company may, from time to time, by ordinary resolution declare a dividend to be paid to the members, according to their rights and interests in the profits, and may fix the time for payment of such dividend but no dividend shall exceed the amount recommended by the Board of Directors.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on the share; and (b) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

The Board of Directors may pay such interim dividends as appear to the Board of Directors to be justified by the financial position of the Company and may also pay any dividend payable at a fixed rate at intervals settled by the Board of Directors whenever the financial position of the Company, in the opinion of the Board of Directors, justifies its payment.

The Board of Directors may, with the authority of an ordinary resolution of the Company, offer any holders of shares the right to elect to receive further shares, credited as fully paid, instead of cash in respect of all (or some part) of any dividend specified by the ordinary resolution (a "scrip dividend") in accordance with the provisions of the Articles. The Board of Directors shall not make a scrip dividend available unless the Company has sufficient unissued shares and undistributed profits or reserves to give effect to elections which could be made to receive that scrip dividend.

With the authority of an ordinary resolution of the Company and on the recommendation of the Board of Directors payment of any dividend may be satisfied, wholly or in part, by the distribution of specific assets and in particular of paid-up shares or debentures of any other company. Where any difficulty arises with the distribution, the Board of Directors may settle the difficulty as it thinks fit and, in particular, may issue fractional certificates (or ignore fractions), fix the value for distribution of the specific assets or any part of them, determine that cash payments be made to any members on the basis of the value so fixed in order to secure equality of distribution, and vest any of the specific assets in trustees on such trusts for the persons entitled to the dividend as the Board of Directors may think fit.

The Board of Directors may deduct from any dividend or other moneys payable to any person (either alone or jointly with another) on or in respect of a share all such sums as may be due from him (either alone or jointly with another) to the Company on account of calls or otherwise in relation to shares of the Company.

All unclaimed dividends, interest or other sums payable may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. Any dividend unclaimed after a period of six years from the date it became due for payment shall be forfeited and shall revert to the Company. The payment of any unclaimed dividend, interest or other sum payable by the Company on or in respect of any share into a separate account shall not constitute the Company a trustee in respect of it.

9. Transfer of shares

Subject to the Statutes and the restrictions in the Articles, a member may transfer all or any of his shares by an instrument of transfer in any usual form or in any other form which the Board of Directors may approve. The instrument of transfer of a share shall be signed by or on behalf of the transferor and the transferee (provided that the Board of Directors may dispense with the signing of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so), and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect of the Share. The machine imprinted signature on an instrument of transfer may be accepted by the Company for the purpose of such transfer subject to any terms which the Company may impose. Shares of different classes shall not be comprised in the same instrument of transfer. All instruments of transfer which shall be registered may be retained by the Company. Nothing contained in the Articles shall preclude the Board of Directors from recognising a renunciation of the allotment of any share by the allottee in favour of some other person.

The Board of Directors may, in its absolute discretion and without assigning any reason therefor, refuse to register any transfer in respect of any share which is not fully paid up or on which the Company has a lien.

The Board of Directors may also refuse to register any transfer unless:

- (a) the instrument of transfer is in respect of only one class of shares;
- (b) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (c) subject to the Statutes, the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board of Directors may reasonably require to prove the title of the intending transferor or his right to transfer the shares; and
- (d) the instrument of transfer is accompanied by payment of such fee, not exceeding the maximum amount prescribed by the Stock Exchange from time to time, as the Board of Directors may from time to time require.

If the Board of Directors refuses to register any transfer of any share, it shall, within two months after the date on which the transfer was lodged with the Company, send to the transferor and the transferee notice of the refusal.

10. Purchase of own shares

Subject to the provisions of the Statutes and any rules prescribed by the Stock Exchange from time to time, the Company may purchase its own shares of any class in the capital of the Company, including any redeemable shares or warrants or other securities carrying a right to subscribe for or purchase shares of the Company issued by the Company and, should the Company acquire its own shares or warrants or other such securities, neither the Company nor the Board of Directors shall be required to select the shares or warrants to be acquired ratably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares or warrants. In the case of purchases of redeemable shares, purchases not made through the market or by tender shall be limited to a maximum price and if purchases are by tender, tenders shall be available to all shareholders holding redeemable shares of the Company alike.

1. FURTHER INFORMATION ABOUT OUR COMPANY**A. Incorporation**

We were incorporated in Hong Kong under the Companies Ordinance as a limited liability company on March 24, 2004. Our registered office is at Suite 5306, 53/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. We were incorporated as a wholly-owned subsidiary of CPDL and are subject to the laws of Hong Kong. A summary of our Articles of Association is set out in Appendix VI to this prospectus.

B. Changes in share capital

As at the date of incorporation on March 24, 2004, our Company's authorized share capital was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, of which one share of HK\$0.10 was allotted, issued and credited as fully paid to CPDL as the sole subscriber. We further issued and allotted nine shares of HK\$0.10 to CPDL on August 24, 2004.

Pursuant to the written resolutions of our shareholder dated August 24, 2004, (1) we consolidated every 10 shares of HK\$0.10 each in the share capital of our Company into one Share; and (2) our Company's authorized share capital was increased to HK\$10,000,000,000 by the creation of an additional 9,999,900,000 Shares which rank pari passu with the existing Shares.

Save as disclosed in this appendix, there has been no alteration in our Company's share capital since our date of incorporation.

C. Written resolutions of our shareholder

On August 24, 2004, written resolutions were passed by our shareholder pursuant to which, among other matters:

- (a) we adopted the Articles of Association and converted into a public company;
- (b) subject to and conditional upon the Stock Exchange granting approval for the listing of and permission to deal in the Shares falling to be issued pursuant to the exercise of any options under the Pre-IPO Option Scheme, the rules of the Pre-IPO Share Option Scheme were approved and adopted and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Scheme and to do all acts and things as they may consider necessary or expedient to implement the rules of the Pre-IPO Share Option Scheme;
- (c) subject to and conditional upon the Stock Exchange granting approval for the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares falling to be issued pursuant to the exercise of any such options, the rules of the Share Option Scheme were approved and adopted (subject to such amendments as may be approved by the Stock Exchange) and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and to do all acts and things as they may consider necessary or expedient to implement the rules of the Share Option Scheme;

- (d) conditional on the conditions as stated in the section entitled “Structure of the Global Offering—Conditions of the Global Offering”:
- (i) the Global Offering and the Over-allotment Option were approved and the Directors were authorized to allot and issue Shares pursuant to the Global Offering and any Shares which may be required to be issued if the Over-allotment Option is exercised;
 - (ii) a general mandate was given to the Directors to allot, issue and deal with unissued Shares, save that, otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue, the exercise of any subscription rights under the options granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or similar arrangement, any scrip dividend scheme or similar arrangement, any adjustment of rights to subscribe for Shares under options and warrants or a specific authority granted by our shareholders, such mandate is limited to Shares with an aggregate nominal amount not exceeding the sum of (A) 20% of the aggregate nominal amount of our Company’s share capital in issue immediately following the completion of the Global Offering, including Shares which may be issued upon the exercise of the Over-allotment Option, and (B) the aggregate nominal amount of our Company’s share capital which may be repurchased by us under the authority referred to in paragraph (iii) below, such mandate to remain in effect until the conclusion of our next annual general meeting, the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held, or it is varied or revoked by an ordinary resolution of our shareholders in general meeting, whichever occurs first; and
 - (iii) a general mandate was given to the Directors to exercise all powers of our Company to repurchase, on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such aggregate nominal amount of Shares as shall not exceed 10% of the aggregate nominal amount of our Company’s share capital in issue immediately following the completion of the Global Offering, including Shares which may be issued upon the exercise of the Over-allotment Option, such mandate to remain in effect until the conclusion of our next annual general meeting, the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held, or it is varied or revoked by an ordinary resolution of our shareholders in general meeting, whichever occurs first.

2. THE REORGANIZATION

The Reorganization, which was effected in preparation for the listing of the Shares on the Stock Exchange, involved the following:

- (1) CPDL was incorporated in the British Virgin Islands on March 11, 2004 by CPI Holding as its wholly-owned subsidiary.
- (2) We were incorporated in Hong Kong on March 24, 2004 by CPDL as its wholly-owned subsidiary.
- (3) On August 30, 2004, CPI Group transferred its 40% equity interest in each of Pingwei Company and Yaomeng Company and its 20% equity interest in Changshu Company to CPI Holding.

- (4) On August 18, 19 and 20, 2004, CPI Holding transferred its 100% equity interest in Yaomeng II Company, its 89% interest in Huanggang Dabieshan Company and its 100% equity interest in Pingwei II Company to us, respectively. On September 1, 2004, CPI Holding transferred its 100% equity interest in each of Pingwei Company and Yaomeng Company and its 50% interest in Changshu Company to us.
- (5) In consideration of the transfers of equity interests mentioned in (4) above, we allotted and issued a total of 2,099,999,999 Shares to CPDL on September 1, 2004.
- (6) We agreed to distribute the Special Dividend to CPI Holding.
- (7) CPI Group granted to us a call option to acquire up to a 25% equity interest in Shanghai Power. Please refer to the sections entitled “Business—Description of Power Plants—Power Company under Call Option” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transaction—Shanghai Power Option Deed” in this prospectus for a detailed description of Shanghai Power and the call option.
- (8) We entered into the Management Agreement effective July 1, 2004 with CPI Group and CPI Holding to manage six power plants on their behalves, namely, Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Power Plant and Hongze Power Plant. Please refer to the sections entitled “Business—Description of Power Plants—Power Plants under Management” and “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions—Management Agreement” in this prospectus for a detailed description of these power plants under management.
- (9) CPI Group and CPI Holding granted to us preferential rights to take up opportunities that they may obtain to acquire, develop or invest in new power plants, power projects or power assets (except those fueled by nuclear energy) in the PRC (except, in the case of CPI Group, in Shanghai), and a right of first refusal to acquire power plants or power assets that they own or may own in the future, in the PRC (except, in the case of CPI Group, in Shanghai, but including CPI Group’s remaining shares in Shanghai Power which are not the subject of our call option). For details relating to these preferential rights, please refer to the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions” in this prospectus.

3. OUR SUBSIDIARIES/PROJECT COMPANIES**A. Investments in subsidiaries/project companies**

Our subsidiaries and associated company are referred to in the Accountants' Report, the text of which is set out in Appendix I. As at the date of this prospectus, we have interests in the following subsidiaries/project companies, jointly controlled entities and associates. The total investment and registered capital of each of the project companies are based on the certificate of approval and business license of each of the project companies. The particulars of such companies are as follows:

(a) 安徽淮南平圩發電有限責任公司 (Anhui Huainan Pingwei Electric Power Generating Company Limited*)

(A) Date of incorporation:	September 17, 1999
(B) Place of incorporation:	PRC
(C) Nature:	Wholly foreign-owned enterprise
(D) Term:	20 years
(E) Registered office:	Huainan City Anhui Province, China
(F) Total investment:	RMB3,234,459,200
(G) Registered capital:	RMB970,000,000 which has been fully and timely paid up
(H) Equity holder:	The Company (100%)
(I) Directors:	5 (all from the Company)
(J) Principal activities:	Owning and operating 2 coal-fired power generation units, generating and selling electricity to power grids, and managing other products and services relating to electricity

(b) 平頂山姚孟發電有限責任公司 (Pingdingshan Yaomeng Power Generating Company Limited*)

(A) Date of incorporation:	August 27, 1999
(B) Place of incorporation:	PRC
(C) Nature:	Wholly foreign-owned enterprise
(D) Term:	20 years
(E) Registered office:	Pinghu Road, Zhanhe District Pingdingshan City Henan Province, China
(F) Total investment:	RMB3,286,656,900

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|---------------------------|---|
| (G) Registered capital: | RMB986,000,000 which has been fully and timely paid up |
| (H) Equity holder: | The Company (100%) |
| (I) Directors: | 5 (all from the Company) |
| (J) Principal activities: | Owning and operating 4 coal-fired power generation units, generating and selling electricity to power grids, and managing other products and services relating to electricity |
- (c) 江蘇常熟發電有限公司 (Jiangsu Changshu Electric Power Generating Company Limited*)
- | | |
|-----------------------------|--|
| (A) Date of incorporation: | September 15, 1999 |
| (B) Place of incorporation: | PRC |
| (C) Nature: | Sino-foreign equity joint venture |
| (D) Term: | 20 years |
| (E) Registered office: | No. 128, Donghuan Road
Suzhou City
Jiangsu Province, China |
| (F) Total investment: | RMB4,419,361,496 |
| (G) Registered capital: | RMB1,105,000,000 which has been fully and timely paid up |
| (H) Equity holders: | The Company (50%)
江蘇省國信資產管理集團有限公司 (Jiangsu Guoxin Assets Management Group Company Limited*) 25%
蘇洲信託投資有限公司 (Suzhou Trust and Investment Company Ltd.*) 25% |
| (I) Directors: | 10 (5 from the Company, 2 from
江蘇省國信資產管理集團有限公司
(Jiangsu Guoxin Assets Management Group Company Limited*) and 3 from
蘇洲信託投資有限公司 (Suzhou Trust and Investment Company Ltd.*)) |
| (J) Principal activities: | Generating and selling electricity to power grids, and managing other products and services relating to electricity |

- (d) 淮南平圩第二發電有限責任公司 (Huainan Pingwei No. 2 Electric Power Generating Company Limited*)
- (A) Date of incorporation: November 17, 2003
- (B) Place of incorporation: PRC
- (C) Nature: Wholly-foreign owned enterprise
- (D) Term: 30 years
- (E) Registered office: Pingwei Township, Panji District
Huainan City
Anhui Province, China
- (F) Total investment: US\$29,990,000
- (G) Registered capital: US\$12,000,000, of which
US\$8,400,000 has been timely
paid up. The remainder of the
registered capital will be
contributed in three years from the
date of incorporation in
accordance with the articles of
association
- (H) Equity holder: The Company (100%)
- (I) Directors: 5 (all from the Company)
- (J) Principal activities: Generating electricity,
maintenance and technical
services, producing and selling
other products relating to
electricity
- (e) 平頂山姚孟第二發電有限公司 (Pingdingshan Yaomeng No. 2 Power Generating Company Limited*)
- (A) Date of incorporation: November 28, 2003
- (B) Place of incorporation: PRC
- (C) Nature: Wholly foreign-owned enterprise
- (D) Term: 45 years
- (E) Registered office: Dianchang Road
Pingdingshan City
Henan Province, China
- (F) Total investment: US\$29,990,000

(G) Registered capital:	US\$20,000,000, of which US\$7,200,000 has been timely paid up. The remainder of the registered capital will be contributed in three years from the date of incorporation in accordance with the articles of association
(H) Equity holder:	The Company (100%)
(I) Directors:	5 (all from the Company)
(J) Principal activities:	Power plant construction, generating and selling electricity, and managing products relating to electricity
(f) 黃岡大別山發電有限責任公司 (Huanggang Dabieshan Power Generating Company Limited*)	
(A) Date of incorporation:	December 17, 2003
(B) Place of incorporation:	PRC
(C) Nature:	Sino-foreign equity joint venture
(D) Term:	30 years
(E) Registered office:	Huangzhou District, Huanggang City, Hubei Province, China
(F) Total investment:	RMB30,000,000
(G) Registered capital:	RMB30,000,000, which has been fully and timely paid up
(H) Equity holders:	The Company (89%) 黃岡市投資公司 (Huanggang Investment Company Limited*) (6%) 湖北省電力開發公司 (Hubei Power Development Company Ltd.*) (3%) 麻城市國有資產經營有限公司 (Macheng City State-owned Assets Management Company Limited*) (2%)
(I) Directors:	9 (6 from the Company and 1 from each of the other equity holders stated above)
(J) Principal activities:	Constructing, owning and operating power plants and generating and selling electricity

* English translation is for identification purposes only.

B. Changes in share capital

Save as disclosed in this appendix, there has been no alteration in the share capital of any of our subsidiaries/project companies within the two years preceding the date of this prospectus.

4. FURTHER INFORMATION ABOUT OUR BUSINESS**A. Summary of material contracts**

The following contracts, not being contracts in the ordinary course of business, have been entered into by us and/or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Reorganization Agreement, details of which are set out in the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions”;
- (b) the Shanghai Power Option Deed, details of which are set out in the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions”;
- (c) the Trade Mark License Agreement, details of which are set out in the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions”;
- (d) an equity transfer agreement dated July 22, 2004 between CPI Group and CPI Holding in respect of the transfer by CPI Group of its 40% equity interest in each of Pingwei Company, Yaomeng Company and Qinghe Company and its 20% equity interest in Changshu Company to CPI Holding;
- (e) an equity transfer agreement dated July 31, 2004 between CPI Holding and the Company in respect of the transfer by CPI Holding of its entire equity interest in each of Pingwei Company, Yaomeng Company, Pingwei II Company, and Yaomeng II Company, its 50% equity interest in Changshu Company and its 89% equity interest in Huanggang Dabieshan Company to the Company;
- (f) a bank loan guarantee dated January 30, 2004 provided to Bank of China, Huainan Branch by Pingwei Company in favor of Pingwei II Company in respect of an unsecured loan of RMB120,000,000 taken out by Pingwei II Company;
- (g) a bank loan guarantee dated February 5, 2004 provided to Industrial and Commercial Bank of China, Pingdingshan Branch by Yaomeng Company in favor of Yaomeng II Company in respect of an unsecured loan of RMB116,300,000 taken out by Yaomeng II Company;
- (h) the strategic placing agreement dated September 18, 2004 entered into between our Company, Merrill Lynch and the Strategic Investor, further details of which are set out in the section entitled “Structure of the Global Offering—The International Placing—The Strategic Investor”;
- (i) the placing agreement dated September 17, 2004 entered into between our Company, Merrill Lynch and the Corporate Investor, further details of which are set out in the section entitled “Structure of the Global Offering—The International Placing—The Corporate Placing”; and
- (j) the Hong Kong Underwriting Agreement, details of which are set out in the section entitled “Underwriting—Underwriting Arrangements and Expenses” in this prospectus.

B. Intellectual property rights

CPI Group is applying for the registration of the trade marks  and **CPI** in Hong Kong and the PRC (the “Trade Marks”).

Pursuant to a trade mark licence agreement dated August 27, 2004 between the Company and CPI Group, the Company was granted irrevocable, royalty-free and non-exclusive licences for a period of three years from August 27, 2004, the date of that agreement, to use the Trade Marks and the rights to sub-licence the same to any company in which the Company directly or indirectly (i) have 30% or more of the voting rights; (ii) own 30% or more of the registered share capital or (iii) control the composition of its board of directors.

Details of the Trade Marks are as follows:

<u>Trade mark</u>	<u>(Note) Class(es)</u>	<u>Territory of registration</u>	<u>Date of application</u>	<u>Application number</u>
	1, 39	Hong Kong	April 4, 2004	300191970
	1	PRC	March 24, 2004	HZT/0403240017
	6	PRC	March 24, 2004	HZT/0403240018
	7	PRC	March 24, 2004	HZT/0403240019
	9	PRC	March 24, 2004	HZT/0403240020
	11	PRC	March 24, 2004	HZT/0403240021
	17	PRC	March 24, 2004	HZT/0403240022
	19	PRC	March 24, 2004	HZT/0403240023
	35	PRC	March 24, 2004	HZT/0403240024
	36	PRC	March 24, 2004	HZT/0403240025
	39	PRC	March 24, 2004	HZT/0403240026
	42	PRC	March 24, 2004	HZT/0403240027
	CPI	1, 6, 7, 9, 11, 17, 19, 35, 36, 37, 39, 40, 42	Hong Kong	April 4, 2004
1		PRC	March 24, 2004	HZT/0403240006
6		PRC	March 24, 2004	HZT/0403240007
7		PRC	March 24, 2004	HZT/0403240008
9		PRC	March 24, 2004	HZT/0403240009
11		PRC	March 24, 2004	HZT/0403240010
17		PRC	March 24, 2004	HZT/0403240011
19		PRC	March 24, 2004	HZT/0403240012
35		PRC	March 24, 2004	HZT/0403240013
36		PRC	March 24, 2004	HZT/0403240014
39		PRC	March 24, 2004	HZT/0403240015
42		PRC	March 24, 2004	HZT/0403240016

Note:

Class	Specification in Hong Kong
1	Electricity, electric energy, energy generated from nuclear fusion, materials for foundry molding.
6	Metal reinforcement materials for concrete, metal clips for cables and pipelines, metal poles for electric wire, non-insulated copper wire, metal construction materials, aluminum alloy blocks and falls, hoop steel, cables for elevated cable cars, metal wire-mesh screen, metal binding wire for agricultural purposes.
7	Equipment for engine boilers, boilers for power stations and their ancillary facilities, fuel conversion devices for combustion engines, energy saving devices, wind power equipment, hydraulic power equipment, static electricity industrial equipment, electronic industrial equipment, static electricity annihilators, hydraulic power generators and motors.

Class	Specification in Hong Kong
9	Integrated circuits, electric wire connecting junctions (electricity), power distribution panels (electricity), cables, remote controllers, automation devices for power stations, machinery equipment for computerized operational devices, remote control electric power devices for industrial operations, electric power devices for commutation, remote control electric-powered facilities for railroad switch.
11	Illuminators, illuminating apparatuses and devices, illuminator protecting devices, illuminating equipment for vehicles, cooling equipment and devices, sterilizing equipment, air-conditioning equipment, electric heaters, frictional lighters for igniting gas, fuel and nuclear neutralizing material processors.
17	Composition for preventing heat radiation, heat insulation materials for boilers, waterproof heat insulation powder, insulation materials, sealing devices for joints, insulation oil for transformers, mine wool (insulators), cable insulators, insulation for power grids, insulation rubberized fabric and tapes.
19	Non-metal rods for electric source circuits, non-metal building structures, non-metal braces, non-metal rods for power transmission lines, non-metal construction materials, non-metal construction wallboards, non-metal molding, plastic pipes for construction purposes, aluminum and plastic boards (mainly consisting of plastic), fire resisting materials.
35	Business management support, organizing technical exhibitions, commercial and industrial management support, advertising, agency businesses (purchasing commodities or services for other enterprises), organizing commercial or advertising exhibitions, job agency, personnel recruitment, import and export agency, sales (for others).
36	Financial services, insurance, issuance of valuable securities, management of immovables, financial information for immovable agency, brokers for futures, property custody, trust and security.
37	Construction information, construction, mining, interior decoration and repair, installation and repair of heating equipment, installation and repair of electric equipment, installation and repair of lighting devices, supervision of construction works, construction of plants, installation of machinery, maintenance and repair.
39	Water supply, water allocation, power allocation, energy allocation, gas stations, natural gas stations, transportation, storage, travelling arrangements, pipeline transmission.
40	Energy production, lease of power generators, decontamination of hazardous substances, information on treatment of materials, metal treatment, electric plating, manufacturing of boilers, welding, metal galvanizing, assembling (for others) of tailor-made materials.
42	Architecture, architectural consultation, architectural drawings, interior design, development of special construction cases, engineering, quality control, geological study, material testing and study of special technical cases.
Class	Specification in the PRC
1	Chemicals used for industry, science, photography, agriculture, horticulture and forestation, unprocessed artificial synthetic resins, unprocessed plastic substances, fertilizer, fire extinguishing compositions, preparations for quenching and metal soldering, food preservation chemicals, tan, adhesives for industrial purposes.
6	Common metal and their alloys, metal building materials, movable metal buildings, metal materials for tracks, metal wire and cables for non-electric use, small metal hardware, metal pipes, safes, common metal products not belonging to another category, ore in sand form.
7	Machines and machine tools, motors and engines (other than for land vehicles), joints and transmission devices for transmission of machines (other than for land vehicles), non-hand-operated agricultural implements, incubators for eggs.
9	Apparatuses and instruments for science, navigation, land measurement, photography, movie, optics, weighing machine, measures, signals, examination (supervision), safety (rescue) and teaching, instruments and apparatuses for handling, switching, transmitting, accumulating, regulating or controlling electricity, apparatuses for recording, transmitting and sound and images replaying, storage devices for magnetic data, sound recording devices, vending machines and mechanical structures with devices activated by insertion of coins, recording devices for cash payments, computers and devices for data processing, fire extinguishing devices.
11	Facilities and installations for lighting, heating, steaming, cooking, refrigerating, drying, ventilation, supplying water and sanitary.

Class	Specification in the PRC
17	Rubber not belonging to another category, gutta-percha, gum of tree, asbestos, mica and products made by these materials, semi-finished plastic products for use in manufacturing processes, materials for use in wrapping, stuffing and insulating, non-metal flexible tubes.
19	Non-metal building materials, non-metal rigid pipes for building purposes, asphalt, bitumen, movable non-metal buildings, non-metal monuments.
35	Advertisement, industrial and commercial businesses, industrial and commercial management, official businesses.
36	Businesses of insurance, finance and currency, businesses of real estate.
39	Transportation, package and storage of goods, arrangement of tours.
42	Scientific technical services and related researching and designing services, industrial analysis and research, designing and developing computer hardware and software, legal services.

5. PRE-IPO SHARE OPTION SCHEME

The purpose of the Pre-IPO Share Option Scheme is to attract and retain high calibre personnel to provide them with the opportunity to acquire equity in our Company and to motivate them to higher levels of performance. The principal terms of the Pre-IPO Share Option Scheme (which had been conditionally approved and adopted on August 24, 2004) are substantially the same as the terms of the Share Option Scheme (where applicable) except for the following principal terms:

- (a) the subscription price per Share shall be the Offer Price; and
- (b) no options will be offered or granted upon the commencement of dealings in the Shares on the Stock Exchange.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options conditionally granted under the Pre-IPO Share Option Scheme.

As at the date of this prospectus, in consideration of HK\$1.00 per option, options to subscribe for an aggregate of 8,681,500 Shares at an exercise price equal to the Offer Price have been conditionally granted to 11 grantees under the Pre-IPO Share Option Scheme. Each option has a 10-year exercise period 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 (less any number of Shares in respect of which the option has been previously exercised). Save for the number of Shares which may be subscribed for pursuant to the exercise of options and performance targets, if any, each option so granted under the Pre-IPO Share Option Scheme has the same terms and conditions. Details of the options that have been conditionally granted to certain Directors are disclosed under the section entitled “8. Disclosure of Interests—C. Directors’ interests and short positions in the issued share capital of our Company and our associated corporations” of this appendix.

Particulars of the options that have been conditionally granted to the employees, directors, chief executive and members of the management of our Company, subsidiaries, associated company and holding companies (the “Group”—this definition to apply only in this section and the section regarding Share Option Scheme below) who may acquire Shares under the Pre-IPO Share Option Scheme if the options are exercised in full are set out as follows:

<u>Grantee and Position</u>	<u>Address</u>	<u>Date of Grant</u>	<u>Number of Shares subject to the option</u>	<u>Exercise Price</u>
Wang Binghua Chairman of the Board and Non-Executive Director	Room 901, Block 2 Guo Xin Jia Yuan No. 20 Shou Ti Nan Road Haidian District Beijing, PRC	September 18, 2004	1,495,400	Offer Price
Li Xiaolin Vice-Chairman of the Board, Executive Director and Chief Executive Officer	Flat C, 14th Floor No.1 Tai Hang Road Tai Hang Hong Kong	September 18, 2004	1,661,500	Offer Price
Hu Jiandong Executive Director and Executive Vice President	Flat E, 10th Floor Tower 5 Pacific Palisades 1 Braemar Hill Road North Point Hong Kong	September 18, 2004	996,900	Offer Price
Gao Guangfu Non-Executive Director	Room 1502, Block 13 Chun Shu Yuan Xuanwu District Beijing, PRC	September 18, 2004	207,700	Offer Price
Gu Dake Executive Vice President	Room 601, Block 2 Guo Xin Jia Yuan No. 20 Shou Ti Nan Road Haidian District Beijing, PRC	September 18, 2004	872,300	Offer Price
Wang Zhiying Executive Vice President	B-1504, Building 16 Fangchengyuan I Fangzhuang Fengtai District Beijing, PRC	September 18, 2004	872,300	Offer Price
Zhao Yazhou Executive Vice President	Room 3, 11th Floor No. 119 Zaolinqian Street Beijing, PRC	September 18, 2004	872,300	Offer Price
Io Cheok Kei, Rudy Chief Financial Officer	Flat 19H Manhattan Heights Belair Gardens Shatin, Hong Kong	September 18, 2004	415,400	Offer Price
Zhao Xinyan Vice President	B-1404, Building 16 Fangchengyuan I Fangzhuang Fengtai District Beijing, PRC	September 18, 2004	540,000	Offer Price

<u>Grantee and Position</u>	<u>Address</u>	<u>Date of Grant</u>	<u>Number of Shares subject to the option</u>	<u>Exercise Price</u>
Wang Zichao Vice President	B-804, Building 16 Fangchengyuan I Fangzhuang Fengtai District Beijing, PRC	September 18, 2004	540,000	Offer Price
Tse Hiu Tung, Sheldon Company Secretary	Flat F, 25th Floor Tower 8 The Belcher's 89 Pokfulam Road Hong Kong	September 18, 2004	207,700	Offer Price

We expect to further offer options for 3,553,000 Shares under the Pre-IPO Share Option Scheme before the date on which dealings in the Shares commence on the Stock Exchange to members of the management of our Company, subsidiaries and associated company (who are not connected persons (as defined in the Listing Rules) of the Company). A list of all grantees who will have been offered options under the Pre-IPO Share Option Scheme (including the persons named above) containing all the particulars required under paragraph 10 of Part 1 of the Third Schedule of the Companies Ordinance will be made available for public inspection at the offices of Allen & Overy at the address referred to in the section entitled "Documents Available For Inspection" in Appendix VIII to this prospectus.

Assuming that all the outstanding options offered under the Pre-IPO Share Option Scheme were exercised in full on the Listing Date, the shareholding interests of the public would be reduced from approximately 33.00% to approximately 32.87% of the issued share capital of our Company (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme) and, the earnings per Share as at December 31, 2004 will be diluted by approximately 0.5% from RMB0.211 to RMB0.210.

Save as disclosed above, no options have been granted or will be granted by us under the Pre-IPO Share Option Scheme prior to the Listing Date.

6. SHARE OPTION SCHEME

The following is a summary of all the principal terms of the Share Option Scheme conditionally approved and adopted by a resolution in writing passed by our shareholder on August 24, 2004.

A. Purposes of the Share Option Scheme

The purpose of the Share Option Scheme is 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 Share Option Scheme provides that the Company, in granting the options, may specify applicable terms and conditions which must be satisfied before options can be exercised by the option holders. The terms and conditions may include, amongst others, a minimum holding period and performance conditions. In addition, the basis for the determination of the exercise price of the options has been set out in the Share Option Scheme.

B. Who may join

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 our Company and the Group (the “Eligible Person”) options to subscribe for Shares at a price calculated in accordance with paragraph D below and subject to the other terms of the Share Option Scheme summarized below. Upon acceptance of the offer of an option, the grantee shall pay HK\$1.00 to the Company as nominal consideration for the grant.

C. Maximum number of Shares

- (a) The maximum number of Shares which may be issued upon the exercise of all options under the Share Option Scheme which have been granted and have neither lapsed nor been cancelled or exercised in full (the “Subsisting Option”) 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 Share Option Scheme) shall not exceed such number of Shares as shall represent 30% of the Company’s issued share capital from time to time. No options under the Share Option Scheme or any other schemes of the Company or any of its subsidiaries may be granted if such options will result in such overall limit being exceeded;
- (b) Subject always to the overall limit specified in sub-paragraph C(a) above:
- the Board may grant options under the Share Option Scheme, generally and without further authority, to the extent to which the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including the Pre-IPO Share Option Scheme) in aggregate not exceeding 10% of the Shares in issue immediately prior to the Listing Date (the “Scheme Mandate Limit”). For the avoidance of doubt, options which have lapsed in accordance with the terms of the Share Option Scheme and any options lapsed in accordance with any other schemes of the Company or any of its subsidiaries shall not be counted for the purpose of calculating the Scheme Mandate Limit;
 - the Scheme Mandate Limit may be refreshed by obtaining approval of the shareholders in general meeting of the Company provided that such refreshed limit shall not exceed 10% of the Shares in issue as at the date of approval of such limit (the “Refreshed Limit”). Options previously granted under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including those outstanding, exercised, cancelled, lapsed in accordance with the Share Option Scheme or any other scheme of the Company or any of its subsidiaries) shall not be counted for the purpose of calculating the Refreshed Limit; and
 - the Board may issue a circular to the shareholders of the Company and seek separate shareholders’ approval in general meeting of the Company to grant options under the Share Option Scheme beyond the 10% limit to Eligible Persons specifically identified by the Company before such approval is sought. The Company shall send a circular to its shareholders in accordance with and containing such information as required under rule 17.03(3) of the Listing Rules.

- (c) Unless approved by the Company's shareholders in the manner set out in the following sub-paragraph, 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 any 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 Shares in issue.
- (d) Further options may be granted under the Share Option Scheme in excess of the limit stated in the sub-paragraph above, by issuing a circular to the shareholders of the Company and obtaining separate approval of the shareholders of the Company in general meeting with such Eligible Person and his associate(s) (as defined in the Listing Rules) abstaining from voting, provided that the terms and number (including the exercise price) of the options to be granted to such Eligible Person are fixed before the relevant shareholders' approval is obtained, and the date of the meeting of the Board proposing such further grant shall be deemed to be the Offer Date (as defined below) for the purpose of determining the subscription price for Shares under the Share Option Scheme.

D. Exercise price

The amount payable for each Share to be subscribed for under an option in the event of the option being exercised in accordance with the terms of the Share Option Scheme shall be determined by the Board and notified to an Eligible Person at the time of offer of the option and shall be not less than the greater of (subject to any adjustments made as described in paragraph K below):

- (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.

E. Rights are personal to grantee

An offer to grant an option and an option under the Share Option Scheme shall be personal to the Eligible Person to whom it is granted or made and shall not be assignable. No Eligible Person shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or enter into any agreement to do any of the foregoing.

F. Options granted to directors or substantial shareholders

- (a) Any options to be granted to an Eligible Person who is a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) shall be approved by the independent non-executive directors of the Company.
- (b) Without prejudice to the generality of sub-paragraph F(a) above, if any options to be granted to an Eligible Person who is a substantial shareholder (as defined in the Listing Rules) or any of his/her associates (as defined in the Listing Rules) would result in the total number of Shares issued and to be issued upon exercise of all the options granted and

to be granted (including options exercised, cancelled and outstanding) to such person in the period of 12 months up to and including the date of such grant:

- representing in aggregate over 0.1% of the Shares in issue; and
- having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such further grant of options must be approved by the Company's shareholders in general meeting by poll convened and held in accordance with the Articles of Association. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting. The aforementioned circular shall contain such information as required under rule 17.04 of the Listing Rules.

- (c) any change in the terms of the option granted to an Eligible Person who is a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director of the Company or any of their respective associates (as defined in the Listing Rules) shall be approved by the Company's shareholders in general meeting by poll convened and held in accordance with the Articles of Association in the manner set out in the above sub-paragraph F(b).

G. Grant of option

- (a) An offer of the grant of an option shall be by letter, specifying the number of options granted and specifying the applicable terms and conditions relating to such options. These terms and conditions may include provisions as to the performance conditions which must be satisfied before the option can be exercised, the minimum period for which an option must be held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the Board may determine.
- (b) The Board shall not grant any option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (1) the date of the Board meeting for the approval of the Company's results for any year, half-year, quarterly or any other interim period, and (2) the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcement, no option shall be granted.

H. Exercise of option

The Board may from time to time set such performance targets and other conditions for the grantees to achieve before an option may be exercised.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee, such period not to exceed 10 years from the Offer Date of the relevant option (“Exercise Period”). Subject to any early vesting of options described in paragraphs L, M and N below, options granted under the Share Option Scheme will vest as follows:

<u>Date</u>	<u>Percentage of Shares comprised in an option which is exercisable</u>
Before the 1st anniversary of the Offer Date	Zero
From the 1st anniversary to the date immediately before the 2nd anniversary of the Offer Date	25%
From the 2nd anniversary to the date immediately before the 3rd anniversary of the Offer Date	50%
From the 3rd anniversary to the date immediately before the 4th anniversary of the Offer Date	75%
From the 4th anniversary date and thereafter	100%

I. Cancellation of options

In the event that options are to be cancelled and new options issued to the same option holder, the issue of such new options shall be made with available unissued options (excluding the cancelled options) within the limits described in paragraph C above.

J. Voting and dividend rights

No voting rights shall be exercisable and no dividends shall be payable in relation to options that have not been exercised.

K. Effects of alterations in the capital structure of the Company

In the event of a capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company whilst any option remains exercisable, such corresponding adjustments (if any) shall be made to the number or nominal amount of Shares in respect of which options may be granted subject to outstanding options so far as unexercised; and/or the aggregate number of Shares subject to outstanding options; and/or the subscription price per Share of each outstanding option, as the auditors of the Company shall certify in writing to the Board to be in their opinion fair and reasonable. Any such alterations will be made on the basis that the proportion of the issued share capital of the Company to which a grantee is entitled after such adjustment shall remain as nearly as possible the same as but no greater than that to which he was entitled before such adjustment. No such adjustment will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of Shares as consideration in a transaction is not to be regarded as a circumstance requiring any such adjustments.

L. 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 like manner) is made to all the holders of Shares, 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 grantee shall be entitled to

exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

M. 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 despatches 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 at any time 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.

N. 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 the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election.

O. Ranking of Shares

Shares to be allotted upon the exercise of an option shall rank equally in all respects with fully paid up Shares in issue at the date of allotment and will be subject to the Articles of Association for the time being in force. A share issued upon the exercise of an option shall not carry voting rights until the registration of the grantee (or any other person) as the holder thereof.

P. Present status of the Share Option Scheme

The Share Option Scheme shall take effect subject to the following conditions being fulfilled:

- (a) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options; and
- (b) the commencement of dealings in the Shares on the Stock Exchange,

in each case, on or before October 15, 2004.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

Q. Duration of the Share Option Scheme

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 the date on which it is conditionally adopted by resolution of our shareholders in general meeting (the “Scheme Period”), and after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Subsisting Options granted within the Scheme Period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

R. Amendment of the Share Option Scheme

- (a) Provided that no alteration shall operate to affect adversely any rights which have accrued to any option holder at that date, the Company in general meeting must approve in advance by ordinary resolution any proposed change which relates to the following:
- the participants;
 - the authority of the Board in relation to any alteration to the terms of the Share Option Scheme;
 - the limitations on the number of Shares which may be issued under the Share Option Scheme;
 - the individual limit for each option holder under the Share Option Scheme;
 - the determination of the amount payable for each Share to be subscribed for under an option;
 - any rights attaching to the options and the Shares;
 - the terms of the granted options;
 - the rights of option holders in the event of a capitalization issue, rights issue, subdivision or consolidation of shares or reduction or any other variation of capital of the Company;
 - the provisions under the Share Option Scheme as described in paragraph H above and this sub-paragraph (a);
 - any matters set out in rule 17.03 of the Listing Rules as amended from time to time; and
 - any alterations to the Share Option Scheme which are of a material nature.
- (b) Any alterations to the terms and conditions of the Share Option Scheme of material nature shall be subject to the approval of the shareholders of the Company in general meeting, save where such alterations take effect automatically under the existing terms of the Share Option Scheme.
- (c) the amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of the Listing Rules.

S. Lapse of options

- (a) An option shall lapse automatically (to the extent not already exercised) on the earliest of the following events:
- (i) expiry of the Exercise Period;
 - (ii) the first anniversary of the death of the option holder (and in the 12 months following such death, the personal representative may exercise the option (to the extent not already exercised) in whole or in part in accordance with the terms of the Share Option Scheme); or
 - (iii) in the case of an option holder ceasing to be an employee or director of the Company, its subsidiaries, or a Group company on the ground that:
 - the option holder's misconduct;
 - the option holder being convicted of any criminal offence involving his or her integrity or honesty; or
 - his employer would be entitled to summarily terminate his/her employment at common law or pursuant to his/her contract of employment;
- (b) An option shall lapse (to the extent not already exercised) automatically on the earliest of the following events:
- (i) three months after the option holder ceases to be an employee of the Company, its subsidiaries or a Group company by reason of:
 - retirement;
 - redundancy;
 - ill health or disability; or
 - a transfer of business and the employee is transferred to a company outside the Group;
 - (ii) in the case of termination of the option holder's employment with the relevant Group company for reasons other than the reasons specified in sub-paragraphs S(a)(ii) and S(a)(iii) above;
 - (iii) in the case of any takeovers, schemes of compromise or arrangement and voluntary winding-up, the expiry of the periods of notice as specified in the Share Option Scheme provided that in the case of schemes of compromise or arrangement, the proposed compromise or arrangement becomes effective;
 - (iv) save as otherwise provided in paragraph N above, the date of commencement of the winding-up of the Company; or
 - (v) any breach of the provision described in paragraph E above.

T. Termination

The Board or our shareholders in general meeting may at any time terminate the Share Option Scheme and in such event, no further option shall be granted or offered but the provisions of the Share Option Scheme shall remain in force in all other respects. All options granted prior to such termination and not

then exercised shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

U. Disclosure of the Share Option Scheme

The Company shall disclose all information as required by the Listing Rules or any other applicable rules and regulations in its annual and interim reports.

7. SHARE REPURCHASE MANDATE

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

A. The Listing Rules

The Listing Rules permit a company with a primary listing on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(a) Shareholders' approval

The Listing Rules provide that all proposed repurchases of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a general mandate or by specific approval of a particular transaction.

Note: Pursuant to a written resolution passed by our shareholder on August 24, 2004, a general mandate (the "Repurchase Mandate") was given to the Directors authorizing any repurchase by us on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of such aggregate nominal amount of Shares not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Global Offering, including Shares which may be issued upon the exercise of the Over-Allotment Option, such mandate to remain in effect until (i) the conclusion of our next annual general meeting, (ii) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held, or (iii) it is varied or revoked by an ordinary resolution of our shareholders in general meeting, whichever occurs first.

(b) Source of funds

Repurchases must be funded out of funds legally available for such purpose. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(c) Trading restrictions

The shares proposed to be repurchased by a company must be fully paid up. A maximum of 10% of the existing issued share capital as of the date of resolution passed on the grant of a repurchase mandate may be repurchased on the Stock Exchange. A company may not issue or announce an issue of new shares for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. A company shall not repurchase shares on the Stock Exchange if the purchase price is

higher by 5% or more than the average closing market price for the five preceding trading days. The Listing Rules also prohibit a company from repurchasing its own securities on the Stock Exchange if the repurchase would result in the number of that company's listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Listing Rules.

(d) Status of repurchased securities

The Listing Rules provide that the listing of all repurchased securities will be automatically cancelled and that the certificates for those securities must be cancelled and destroyed.

(e) Suspension of repurchases

The Listing Rules prohibit any repurchase of securities at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. A company may not repurchase securities on the Stock Exchange, unless the circumstances are exceptional, during the period of one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange) for the approval of the company's results for any year, half-year, quarterly or any other interim period and (ii) the deadline for the company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period, and ending on the date of the results announcement. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has committed a breach of the Listing Rules.

(f) Reporting requirements

Under the Listing Rules, repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:00 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report is required to disclose details regarding repurchases of securities made during the year including the number of securities repurchased each month, the repurchase price for each such securities or the highest and lowest price paid for each repurchase where relevant, and the aggregate price paid for such purchases and the reasons of the directors of the company for making such repurchases.

A company shall procure that any broker appointed by the company to effect the repurchase of securities shall disclose to the Stock Exchange such information with respect to repurchases made on behalf of that company as the Stock Exchange may request.

(g) Connected parties

The Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a "connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective associates (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his securities in the company back to the company. No connected person (as defined in the Listing Rules) has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. Share capital

Exercise in full of the Repurchase Mandate, on the basis of 3,000,000,000 Shares in issue after completion of the Global Offering (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option) and on the basis of 3,135,000,000 Shares in issue after completion of the Global Offering (assuming exercise of the Over-allotment Option in full), could accordingly result in up to 300,000,000 Shares and 313,500,000 Shares, respectively, being repurchased by us during the period prior to (i) the conclusion of our next annual general meeting; (ii) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held; or (iii) the revocation or variation of the Repurchase Mandate by an ordinary resolution of our shareholders in general meeting, whichever occurs first.

C. Reasons for repurchases

The Directors believe that it is in the best interests of us and our shareholders to have a general authority from our shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit us and our shareholders.

D. Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our memorandum and Articles of Association, the laws of Hong Kong and the Listing Rules. Repurchases pursuant to the Repurchase Mandate will be made out of funds of us legally permitted to be utilized in this connection, including our funds otherwise available for dividend or distribution or the proceeds of a fresh issue of shares made for such purpose. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of funds of us otherwise available for dividend or distribution or out of sums standing to the credit of our share premium account.

There might be a material adverse effect on our working capital or gearing position, as compared with the position disclosed in this prospectus, in the event that the Repurchase Mandate is exercised in full at any time. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or gearing levels which, in the opinion of the Directors, are from time to time appropriate for us.

E. General

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, their respective associates (as defined in the Listing Rules), have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to us.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the Listing Rules and the applicable laws of Hong Kong.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a shareholder's proportionate interest in our voting rights increases, such increase will be treated as an acquisition of voting rights for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the shareholders' interest, could obtain or consolidate control of us and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases of Shares pursuant to the Repurchase Mandate.

8. DISCLOSURE OF INTERESTS

A. Particulars of Directors' service contracts

None of the Directors has or is proposed to have a service contract with any member of the Company (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

B. Directors' remuneration

The aggregate remuneration paid and benefits in kind granted to the Directors for the year ended December 31, 2003 amounted to approximately RMB1,640,000.

Under the arrangements currently in force, the aggregate remuneration payable to, and benefits in kind receivable by, the Directors for the year ending December 31, 2004 are estimated to be approximately RMB2,500,000.

C. Directors' interests and short positions in the issued share capital of our Company and our associated corporations

Immediately following the completion of the Global Offering (without taking into account the exercise of the Over-allotment Option) and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme, save as disclosed below, none of the Directors has any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which they are taken or deemed to have under such provisions of the Securities and Futures Ordinance), or which will be required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed on the Stock Exchange.

As at the date of this prospectus, the following options have been conditionally granted to our Directors under the Pre-IPO Share Option Scheme:

<u>Name</u>	<u>Date of Grant</u>	<u>Number of Shares subject to the option</u>	<u>Exercise price</u>
Wang Binghua	September 18, 2004	1,495,400	Offer Price
Li Xiaolin	September 18, 2004	1,661,500	Offer Price
Hu Jiandong	September 18, 2004	996,900	Offer Price
Gao Guangfu	September 18, 2004	207,700	Offer Price
Total		4,361,500	

The exercise of the above options granted under the Pre-IPO Option Scheme is conditional on (1) the Listing Committee granting approval of the listing of, and permission to deal in, Shares which may be issued pursuant of the exercise of options under the Pre-IPO Share Option Scheme, and (2) the commencement of dealings in the Shares on the Stock Exchange.

D. Substantial shareholder and persons who have an interest or short position discloseable under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance

Information on the persons, not being Directors or the chief executive of the Company, who will have, immediately following the completion of the Global Offering and taking no account of any Shares which may be taken up under the Global Offering or which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option, who will, immediately following the completion of the Global Offering have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company is set out in the section entitled “Substantial Shareholders and Selling Shareholder” of this prospectus.

E. Connected transactions and related party transactions

The connected transactions and related party transactions entered into by the Group are set out in the section entitled “CPI Group/CPI Holding and Their Relationship with Us—Connected Transactions” and note 27 of the paragraph entitled “Related party transactions” in the notes to the combined financial statements in the Accountants’ Report set out in Appendix 1, respectively.

F. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors nor any of the parties listed in the section entitled—“E. Consents and qualifications of experts” of Section 9 of this appendix is interested, directly or indirectly, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Company, or are proposed to be acquired or disposed of by or leased to any member of our Company;
- (b) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group; and

- (c) save in connection with the Underwriting Agreements, none of the parties listed in the section entitled—“E. Consents and qualifications of experts” of Section 9 of this appendix:
- (i) has any shareholding in any member of our Company; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company.

9. OTHER INFORMATION

A. Indemnities

Pursuant to the Reorganization Agreement, CPI Group and CPI Holding have given certain indemnities in connection with all taxes and claims (except for taxes and claims for which provisions or allowances have been provided for in the audited financial statements of the Company as at December 31, 2003) arising before the Reorganization and payable in respect of the assets and rights which have been transferred to the Company pursuant to the Reorganization.

Further, pursuant to the Reorganization Agreement, CPI Group and CPI Holding have undertaken to indemnify the Company against all losses, claims, charges or expenses arising out of any dispute as to the Company’s legal rights to use and occupy certain land and properties and any delay or failure to obtain certain relevant certificates.

B. Litigation

Save as disclosed in this prospectus, no member of our Company is involved in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against any member of our Company.

C. Sponsor

The Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares failing to be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

D. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$78,560 and have been paid by us.

E. Consents and qualifications of experts

Each of Merrill Lynch Far East Limited, Haiwen & Partners, PricewaterhouseCoopers and Sallmanns (Far East) Limited has given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

The qualifications of the parties who have given opinions in this prospectus are as follows:

<u>Name</u>	<u>Qualifications</u>
Merrill Lynch Far East Limited	A corporation deemed to be licensed under the SFO for Type 1 regulated activity (dealing with securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance)
Haiwen & Partners	PRC legal advisers
PricewaterhouseCoopers	Certified public accountants
Sallmanns (Far East) Limited	Independent professional valuer

F. No material adverse change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company since June 30, 2004.

G. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

H. Promoter

The Company has no promoter.

I. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within the two years immediately preceding the date of this prospectus, neither we nor any of our subsidiaries have issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
 - (ii) none of our share or loan capital or the share or loan capital of any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) neither we nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) none of our equity or debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (v) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Company.
- (b) We have no outstanding convertible debt securities.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **white** and **yellow** Application Forms;
- (b) the written consents referred to in the section entitled “Other Information—Consents and qualifications of experts” in Appendix VII;
- (c) a copy of each of the material contracts referred to in the section entitled “Further Information about Our Business—A. Summary of material contracts” in Appendix VII; and
- (d) a list containing the name, address and a description of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Allen & Overy at 9th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including October 18, 2004:

- (a) our memorandum of association and the Articles of Association;
- (b) the Accountants’ Report from PricewaterhouseCoopers, the text of which is set out in Appendix I;
- (c) the audited accounts of the subsidiaries of our Company for each of the three financial years ended December 31, 2003 (if applicable);
- (d) the letter from PricewaterhouseCoopers in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II;
- (e) the letter from each of PricewaterhouseCoopers and Merrill Lynch relating to the profit forecast, the texts of which are set out in Appendix III;
- (f) the letter, summary of values and valuation certificates prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix IV;
- (g) the material contracts referred to in the section entitled “Further Information about Our Business—A. Summary of material contracts” in Appendix VII;
- (h) the written consents referred to in the section entitled “9. Other Information—E. Consents and qualifications of experts” in Appendix VII;
- (i) the PRC legal opinion issued by Haiwen & Partners, our legal advisers on PRC law, dated October 4, 2004, in respect of, inter alia, general matters, property interests and taxation matters of the Company and its subsidiaries;
- (j) the rules of the Pre-IPO Share Option Scheme;
- (k) the rules of the Share Option Scheme; and
- (l) the list of grantees who have been conditionally granted options under the Pre-IPO Share Option Scheme together with particulars as required under paragraph 27 of Appendix 1A of the Listing Rules and paragraph 10 of the Third Schedule to the Companies Ordinance.