

The directors of the Company (the “Directors”) have pleasure in presenting to our shareholders their report together with the audited financial statements of the Group for the year ended 31 December, 2004 (the “Accounts”).

PRINCIPAL ACTIVITIES

The principal activity of the Group is to develop, construct, own, operate and manage large power plants in China. Particulars of the Company’s principal subsidiaries are shown under Note 14 to the Accounts.

RESULTS AND DISTRIBUTION

The results of the Group for the year are set out in the Consolidated Profit and Loss Account on page 55. The Board has recommended to pay a final dividend of HK\$0.025 per share for the year ended 31 December, 2004, with a total amount of HK\$78,375,000 (equivalent to RMB83,078,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately RMB366,878,000, mainly representing general power assets. Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in Note 13 to the Accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 25 to the Accounts.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Note 26 to the Accounts.

DISTRIBUTABLE RESERVES

Calculated based on Section 79B of the Companies Ordinance, the distributable reserves of the Company amounted to RMB151,649,000 as at 31 December, 2004 (2003: nil).

DIRECTORS

The Directors who held office from the incorporation of the Company to the date of this report are set out in the section headed “Corporate information” in this annual report. Biographical details of the Directors are set out in the section headed “Directors and senior management profiles” in this annual report, and details of Directors’ emoluments are set out in Note 12 to the Accounts.

As at 31 December, 2004, none of the Directors had a service contract with the Company or any subsidiaries which was not determinable by the employing company within one year without payment of compensation other than statutory compensation.

In accordance with Article 81 of the Company's Articles of Association, Wang Binghua, Gao Guangfu, Kwong Che Keung, Gordon, Li Fang and Tsui Yiu Wa, Alec will vacate office and being eligible, offer themselves for re-election.

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

SHARE OPTION SCHEMES

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

(A) PRE-IPO SHARE OPTION SCHEME

The Company has conditionally approved and adopted the Pre-IPO Share Option Scheme on 24 August, 2004. The purposes of the Pre-IPO Share Option Scheme are to attract and retain high-calibre personnel to provide them with the opportunity to acquire equity in the Company and to motivate them to higher levels of performance.

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

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

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

The Directors do not consider it to be appropriate to state the value of options granted under the Pre-IPO Share Option Scheme during the year ended 31 December, 2004, as the generally accepted option value pricing models are only applicable to those options which are transferable and options granted under the Pre-IPO Share Option Scheme are not transferable.

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).

REPORT OF THE BOARD OF DIRECTORS

Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December, 2004 are as follows:

Grantee and Position	Date of grant	Number of Shares subject to options					Exercise price per Share (HK\$)	
		As at 1 January, 2004	Granted during the year	Lapsed or cancelled during the year	Exercised during the year	Outstanding as at 31 December, 2004		
WANG Binghua <i>Chairman of the Board and Non-Executive Director</i>	18 September, 2004	—	1,495,400	—	—	1,495,400	17 September, 2014	2.53
LI Xiaolin <i>Vice-Chairman of the Board, Executive Director and Chief Executive Officer</i>	18 September, 2004	—	1,661,500	—	—	1,661,500	17 September, 2014	2.53
HU Jiandong <i>Executive Director and Executive Vice President</i>	18 September, 2004	—	996,900	—	—	996,900	17 September, 2014	2.53
GAO Guangfu <i>Non-Executive Director</i>	18 September, 2004	—	207,700	—	—	207,700	17 September, 2014	2.53
GU Dake <i>Executive Vice President</i>	18 September, 2004	—	872,300	—	—	872,300	17 September, 2014	2.53
WANG Zhiying <i>Executive Vice President</i>	18 September, 2004	—	872,300	—	—	872,300	17 September, 2014	2.53
ZHAO Yazhou <i>Executive Vice President</i>	18 September, 2004	—	872,300	—	—	872,300	17 September, 2014	2.53
IO Cheok Kei, Rudy <i>Chief Financial Officer</i>	18 September, 2004	—	415,400	—	—	415,400	17 September, 2014	2.53
ZHAO Xinyan <i>Vice President</i>	18 September, 2004	—	540,000	—	—	540,000	17 September, 2014	2.53
WANG Zichao <i>Vice President</i>	18 September, 2004	—	540,000	—	—	540,000	17 September, 2014	2.53
TSE Hiu Tung, Sheldon <i>Company Secretary</i>	18 September, 2004	—	207,700	—	—	207,700	17 September, 2014	2.53
Other employees	11 October, 2004	—	3,553,000	—	—	3,553,000	10 October, 2014	2.53

(B) SHARE OPTION SCHEME

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

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

No option has been granted by the Company under the Share Option Scheme. As at the date of issue of this annual report, the total number of Shares in respect of which options may be granted under the Share Option Scheme was 301,265,500, representing approximately 9.61% of the total number of Shares in issue.

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

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

- (a) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date, which must be a business day, of the written offer of the option (the "Offer Date");
- (b) the average closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date; and
- (c) the nominal value of the Shares.

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

An option may be exercised at any time during a period to be notified by the Board to each grantee, such period not to exceed 10 years from the Offer Date of the relevant option. Options granted under the Share Option Scheme will have a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the Offer Date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the Shares comprised in his or her option subject to any early vesting of options described in the following paragraphs:

(1) Rights on a general Offer

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

(2) Rights on schemes of compromise or arrangement

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

(3) Rights on a voluntary winding-up

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

REPORT OF THE BOARD OF DIRECTORS

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

Other than disclosed above, pursuant to the international underwriting agreement dated 8 October, 2004, the Company has granted options (the “Over-allotment Options”) to the international underwriters exercisable by Merrill Lynch Far East Limited on behalf of the international underwriters from the date of the international underwriting agreement until 30 days after the last day of lodging of applications for the subscription of Shares by the public in Hong Kong in the IPO of the Company, to require the Company to allot and issue up to an aggregate of 135,000,000 additional Shares solely to cover over-allocations in the international placing. The exercise price per Share for the Over-allotment Options is the offer price per Share under the IPO of the Company (i.e. HK\$2.53). On 19 October, 2004, the Over-allotment Options were fully exercised and, as a result, the Company issued 135,000,000 additional Shares.

DIRECTORS’ INTERESTS IN SECURITIES

As at 31 December, 2004, save as disclosed below, none of the Directors or the Company’s chief executive officer has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”)) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

Notes:

- (1) The interests of the above Directors in the underlying shares of the Company represent the options granted to them under the Pre-IPO Share Option Scheme by the Company.
- (2) None of the above Directors has any interests in the Company’s securities (except for interests held under equity derivatives).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December, 2004, save as disclosed below, no person, not being Directors or the chief executive of the Company, who had, an interest or short position in its Shares or underlying Shares which should be recorded in the register kept under Section 336 of the SFO.

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

Note:

- (1) CPI Holding is the beneficial owner of the entire issued share capital of CPDL and therefore CPI Holding is deemed to be interested in the Shares owned by CPDL for the purposes of the SFO.
- (2) CPI Group is the beneficial owner of the entire issued share capital of CPI Holding and therefore CPI Group is deemed to be interested in the Shares owned by CPDL for the purposes of the SFO.
- (3) The above shareholders of the Company do not have any interest in the equity derivatives of the Company.

CONTINUING CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY

(A) MANAGEMENT AGREEMENT

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

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

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

The first two components of the service fee are payable monthly in arrears. The profit/loss margin component is payable based on the annual evaluation of performance of the management but no later than 90 days after the end of each year. The service fee (excluding the profit/loss margin component) for the period from 1 July, 2004 to 31 December, 2004 paid to the Company under the Management Agreement amounts to RMB6,884,000.

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

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

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

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

(B) LAND LEASE AGREEMENTS

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

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

CPI Group is the holding company of the Company and the transactions under the above two land lease agreements therefore constitute continuing connected transactions of the Group under the Listing Rules.

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

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

- i) the transactions have been approved by the Board of Directors of the Company;
- ii) the details of the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- iii) the transactions have not exceeded the relevant upper limits applicable to such transactions agreed to The Stock Exchange of Hong Kong Limited.

The Company has obtained from the Hong Kong Stock Exchange waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the above transactions which is valid until 31 December, 2006. The Company has complied with the other relevant requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, no contracts of significance to which any of the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, were subsisting during or at the end of the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Except that the Company issued and sold 1,035,000,000 new Shares under its IPO, neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December, 2004, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 93% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 51.6% of the Group's total purchases.

For the year ended 31 December, 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 100% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 58.6% of the Group's total turnover.

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the period between the date of the listing of the Shares and 31 December, 2004, the Company had been complying with the Code of Best Practice as set out in Appendix 14 of the Listing Rules as effective during the said period.

AUDIT COMMITTEE

The Company established the Audit Committee on 24 August, 2004 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code of Best Practice set out in Appendix 14 of the Listing Rules being effective as at 31 December, 2004. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Company.

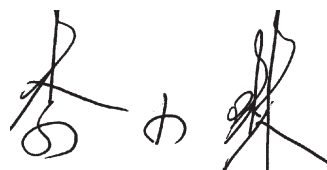
The Audit Committee comprises three members, namely, Kwong Che Keung, Gordon, Li Fang and Tsui Yiu Wa, Alec, all of which are independent non-executive Directors. This Committee is chaired by Kwong Che Keung, Gordon.

AUDITORS

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

On behalf of the Board

China Power International Development Limited



LI Xiaolin

Vice-Chairman and Chief Executive Officer

Hong Kong, 14 March, 2005