

1 Group Reorganisation and basis of preparation

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

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

The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the consolidated accounts of the Group for the year ended 31 December 2004 have been prepared using the merger basis of accounting as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

As the Company was only incorporated on 24 March 2004, there are no comparative figures in the Company’s balance sheet as at 31 December 2003.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been 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.

2 Impact of recently issued Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“**new HKFRSs**”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

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

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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

3 Principal accounting policies *(Continued)*

(a) Group accounting *(Continued)*

(ii) Associated company

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 consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes 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.

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

(iii) Translation of foreign currencies

The Company maintains its books 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 recognised in the 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.

3 Principal accounting policies *(Continued)*

(b) Property, plant and equipment

Property, plant and equipment other than construction in progress (see note (c) below) are recognised 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 profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged. Upon the disposal of the assets, any revaluation reserve balance remaining attributable to the relevant asset is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

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, office and other equipment	3-18 years
Motor vehicles	2-12 years
Furniture and fixtures	3-5 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 profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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 recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the 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 recognised in the profit and loss account.

3 Principal accounting policies *(Continued)*

(c) 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 (b) above.

(d) 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 realisable value after provision for obsolete items, and are expensed to fuel costs or repair and maintenance expense when used, or capitalised to property, plant and equipment when installed, as appropriate. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location and condition.

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the 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 from date of investment.

(g) Provisions

Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is virtually certain.

3 Principal accounting policies *(Continued)*

(h) Employee benefits

(i) Pension obligations

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

For employees in Mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial governments in the People's Republic of China (the "PRC") based on 20% of the relevant employees' monthly salaries and wages. 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.

(ii) Equity compensation benefits

Share options are granted to certain Directors and employees as an incentive. The financial impact of share options granted under the relevant share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or lapsed, are removed from the register of outstanding options.

(i) 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred 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.

3 Principal accounting policies *(Continued)*

(j) 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 profit and loss account on a straight-line basis over the lease periods.

(k) 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 capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(l) 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 recognised 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 recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(m) Revenue recognition

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

Management fee income is recognised when services are rendered.

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

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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 recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of electricity	3,352,001	2,915,382
Other revenues		
Management fee income (Note 29)	6,884	—
Rental income	2,854	2,430
Interest income on bank deposits	12,135	905
	21,873	3,335
Total revenues	3,373,874	2,918,717

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

Segment information

The Group's principal activities are the generation and sale of electricity, and the development of power plants as a single business segment. Substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC. Accordingly, no segment information is presented.

5 Operating profit

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

	2004 RMB'000	2003 RMB'000
Auditors' remuneration	2,996	502
Depreciation of property, plant and equipment	325,641	373,758
Staff costs excluding Directors' emoluments (Note 8)	252,543	226,892
Loss on disposal of property, plant and equipment	1,431	12,354
Operating lease rental in respect of		
- equipment	3,394	3,015
- leasehold land and buildings	6,443	—
Provision for inventory obsolescence	—	7,808
Provision for other receivables	4,765	9,551
Write-off of property, plant and equipment	7,478	2,007
Write-off of pre-operating expenses	13,555	—
Write-back of provision for other receivables	(4,393)	—
Write-back of other payables	(8,870)	—
Write-back of previous revaluation deficits of property, plant and equipment	—	(27,947)

6 Finance costs

	2004 RMB'000	2003 RMB'000
Interest expense on		
bank loans wholly repayable within five years	49,960	42,241
bank loans not wholly repayable within five years	39,916	42,797
	89,876	85,038
Less: Amounts capitalised in property, plant and equipment	(12,591)	—
	77,285	85,038

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. Interest rate on such capitalised borrowings is approximately 4.9% per annum.

NOTES TO THE ACCOUNTS

7 Taxation

No Hong Kong profits tax has been provided as the Group did not have any assessable profit in Hong Kong for the year (2003: Nil).

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

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

	2004 RMB'000	2003 RMB'000
PRC current income tax	42,589	38,021
Deferred taxation (Note 24)	3,824	(911)
	46,413	37,110
Share of taxation attributable to the associated company	12,799	12,716
	59,212	49,826

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. After the two-year tax exemption period, these companies are subjected to a reduced tax rate of 7.5% for the years ended 31 December 2002, 2003 and 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:

	2004 RMB'000	2003 RMB'000
Profit before taxation	701,841	654,982
Calculated at the PRC statutory tax rate of 33% (2003 : 33%)	231,608	216,144
Effect of different taxation rates	(1,068)	—
Effect of preferential tax rate	(128,592)	(117,896)
Effect of tax holiday	(53,579)	(49,125)
Income not subject to taxation	(9,212)	(10,545)
Expenses not deductible for taxation purposes	20,055	11,248
Taxation charge	59,212	49,826

8 Staff costs

	2004 RMB'000	2003 RMB'000
Wages, salaries and bonuses	138,496	129,873
Contributions to pension plans	38,646	30,272
Staff welfare	75,401	66,747
	252,543	226,892

9 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB151,649,000 (2003:Nil).

10 Dividend/profit distributions

	2004 RMB'000	2003 RMB'000
Profit distributions (note (i))	377,230	385,012
Final dividend, proposed, HK\$0.025 (equivalent to RMB0.0265) per share (note (ii))	83,078	—
	460,308	385,012

Note:

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

The profit distributions disclosed for the year ended 31 December 2003 represent dividends declared by the relevant subsidiaries of the Group to their then owner prior to the completion of the Reorganisation of the Group.

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

- (ii) At a meeting held on 14 March 2005, the Directors proposed a final dividend of HK\$0.025 per share (equivalent to RMB0.0265 per share). This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

NOTES TO THE ACCOUNTS

11 Earnings per share

The calculation of basic and diluted earnings per share for the year are based on the Group's profit for the year of RMB643,203,000. The basic earnings per share is based on the weighted average of 2,315,901,639 shares in issue during the year and the diluted earnings per share is based on 2,315,901,639 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 704,231 shares deemed to be issued at no consideration if all outstanding options had been exercised.

The calculation of basic earnings per share for 2003 is based on the Group's profit for the year of RMB605,156,000 and the weighted average number of 2,100,000,000 shares.

12 Emoluments for Directors and five highest paid individuals

(a) Directors' emoluments

Details 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 year are as follows:

	2004 RMB'000	2003 RMB'000
Fees:		
Executive Directors	—	—
Non-executive Directors	276	—
Independent non-executive Directors	413	—
	689	—
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	959	994
Discretionary bonuses	827	543
Contributions to pension schemes	20	103
	1,806	1,640
	2,495	1,640

None of the Directors of the Company waived any emoluments during the years ended 31 December 2003 and 2004.

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

(a) Directors' emoluments *(Continued)*

The emoluments of the Directors of the Company fell within the following band:

	Number of Directors	
	2004	2003
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	7	7

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 4 (2003: 4) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2003: 1) individual during the year are as follows:

	2004	2003
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	795	237
Discretionary bounses	127	—
Contributions to pension schemes	8	20
	930	257

The emoluments fell within the following band:

	Number of Individual	
	2004	2003
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	1	1

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

NOTES TO THE ACCOUNTS

13 Property, plant and equipment

(a) Group

	Buildings RMB'000	Power generators and equipment RMB'000	Electricity supply equipment RMB'000	Tools and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation							
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	185	76	7,104	3,958	355,526	366,878
Disposals	(290)	(18,427)	(87)	(5,092)	(284)	—	(24,180)
Write-off	(2,549)	(222,242)	(22,216)	(13,955)	(1,061)	—	(262,023)
Transfers	64,659	20,967	6,384	5,213	34	(97,257)	—
As at 31 December 2004	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Representing:							
Cost	64,688	21,152	6,460	12,317	3,992	441,008	549,617
Valuation	2,073,447	4,870,916	1,159,643	313,854	99,417	—	8,517,277
	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Accumulated depreciation and impairment losses							
As at 1 January 2004	996,315	3,386,797	844,663	189,557	73,098	—	5,490,430
Depreciation charge for the year	60,362	190,535	43,516	26,532	4,696	—	325,641
Disposals	(1)	(16,108)	(74)	(4,431)	(154)	—	(20,768)
Write-off	(2,402)	(216,152)	(21,502)	(13,493)	(996)	—	(254,545)
As at 31 December 2004	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Net book value							
As at 31 December 2004	1,083,861	1,546,996	299,500	128,006	26,765	441,008	3,526,136
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:							
As at 31 December 2004							
Cost	2,408,495	5,352,932	1,364,399	407,471	109,067	441,008	10,083,372
Accumulated depreciation and impairment losses	(1,206,432)	(3,438,561)	(784,553)	(287,457)	(79,547)	—	(5,796,550)
	1,202,063	1,914,371	579,846	120,014	29,520	441,008	4,286,822
As at 31 December 2003							
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

13 Property, plant and equipment *(Continued)*

(b) Company

	Office and other equipment	Furniture and fixture	Total
	RMB'000	RMB'000	RMB'000
Cost			
Upon incorporation on 24 March 2004	—	—	—
Additions	28	56	84
As at 31 December 2004	28	56	84
Accumulated depreciation and impairment losses			
Upon incorporation on 24 March 2004	—	—	—
Depreciation charge for the period	2	2	4
As at 31 December 2004	2	2	4
Net book value			
As at 31 December 2004	26	54	80

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

The Directors of the Company have reviewed the carrying value of the Group's property, plant and equipment as at 31 December 2004 and are of the opinion that the carrying amount is not materially different from the fair value.

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

NOTES TO THE ACCOUNTS

14 Investments in subsidiaries

	Company 2004 RMB'000
Unlisted investments, at cost	1,761,293

The following is a list of the subsidiaries as at 31 December 2004:

Name of companies	Place of establishment and operation/date of establishment	Registered/paid up capital	Equity interest attributable to the Group	Type of legal entity	Principal activities
Subsidiaries - interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited	PRC 27th August 1999	RMB986,000,000/ RMB986,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited	PRC 17th September 1999	RMB970,000,000/ RMB970,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huainan Pingwei No.2 Electric Power Generating Company Limited	PRC 17th November 2003	USD12,000,000/ USD8,400,000	100%	Wholly foreign-owned enterprise	Development of power plants
Pingdingshan Yaomeng No.2 Power Generating Company Limited	PRC 28th November 2003	USD20,000,000/ USD7,200,000	100%	Wholly foreign-owned enterprise	Development of power plants
Huanggang Dabieshan Power Generating Company Limited	PRC 17th December 2003	RMB30,000,000/ RMB30,000,000	89%	Sino-foreign equity joint venture	Development of power plants

15 Interest in an associated company

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Share of net assets, unlisted at cost	849,539	848,095	—
Unlisted investment, at cost	—	—	552,500
	849,539	848,095	552,500

The following is the details of the associated company as at 31 December 2004:

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

NOTES TO THE ACCOUNTS

15 Interest in an associated company *(Continued)*

The following is an extract of the operating results and financial position of Changshu Company, based on a set of unaudited management accounts of Changshu Company for the year prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 3.

	2004	2003
	RMB'000	RMB'000
Operating results		
Turnover	2,102,455	1,923,887
Profit before taxation	327,208	272,836
Profit after taxation	301,609	247,404
Financial position		
Property, plant and equipment	2,311,629	2,462,237
Current assets	528,326	450,436
Current liabilities	(1,076,072)	(1,166,713)
Long-term liabilities	(64,805)	(49,770)
Net assets	1,699,078	1,696,190

16 Inventories

	Group	
	2004	2003
	RMB'000	RMB'000
Coal and oil	31,622	23,001
Spare parts and consumables	82,890	74,851
	114,512	97,852

As at 31 December 2004, no inventories were stated at net realisable value (2003: Nil).

17 Accounts receivable

	Group	
	2004 RMB'000	2003 RMB'000
Accounts receivable from provincial power companies (note (a))	411,494	365,937
Bills receivable (note (b))	232,689	95,099
	644,183	461,036

Note:

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

	Group	
	2004 RMB'000	2003 RMB'000
1 to 3 months	411,494	365,937

- (b) Bills receivable are normally with maturity period of 90 to 180 days (2003: 30 to 180 days).

18 Amount due from an intermediate holding company

	Group		Company
	2004 RMB'000	2003 RMB'000	2004 RMB'000
Amount due from CPI Holding	15,352	185,852	15,352

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

19 Cash and bank balances

As at 31 December 2004, approximately RMB512,539,000 (2003: RMB121,720,000) of the Group's cash and bank balances were denominated in RMB and placed with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of these funds out of Mainland China is subjected to the exchange control restrictions imposed by the PRC government.

NOTES TO THE ACCOUNTS

20 Accounts payable

	Group	
	2004 RMB'000	2003 RMB'000
Accounts payable	202,460	105,336
Due to related companies	34,758	26,697
	237,218	132,033

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

	Group	
	2004 RMB'000	2003 RMB'000
1 to 6 months	188,106	128,126
7 to 12 months	24,550	3,553
Over 1 year	24,562	354
	237,218	132,033

Amounts due to related companies mainly represent balances arising from transactions with those companies as detailed in Note 29 below.

21 Other payables and accrued charges

	Group		Company
	2004 RMB'000	2003 RMB'000	2004 RMB'000
Interest payable	21,000	57,548	—
Salaries and staff welfare payable	82,206	75,566	—
Repair and maintenance expense payable	26,588	21,071	—
Insurance expense payable	21,149	16,819	—
Construction cost payable	38,463	28,669	—
Value added tax payable	66,731	36,319	—
Accrued share issuance costs	42,183	—	42,183
Other taxes payable	5,259	4,281	—
Others	25,245	12,550	3,286
	328,824	252,823	45,469

22 Amount due to ultimate holding company

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

23 Bank borrowings

Bank borrowings are analysed as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Current		
Short-term bank borrowings	592,676	45,000
Non-current		
Long-term bank borrowings	1,414,000	1,358,000
Less: current portion of long-term bank borrowings	(261,000)	(265,000)
	1,153,000	1,093,000

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

	Group	
	2004 RMB'000	2003 RMB'000
Wholly repayable within five years	721,000	615,000
Not wholly repayable within five years	693,000	743,000
	1,414,000	1,358,000

NOTES TO THE ACCOUNTS

23 Bank borrowings (Continued)

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

	Group	
	2004 RMB'000	2003 RMB'000
Within one year	261,000	265,000
In the second year	270,000	405,000
In the third to fifth year	790,000	495,000
After the fifth year	93,000	193,000
	1,414,000	1,358,000

At 31 December 2004, all bank borrowings are unsecured. Included in non-current borrowings at 31 December 2003 were a bank loan guaranteed by a related company amounted to RMB 55 million. The guarantee was released during 2004.

24 Deferred taxation

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

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

	Group	
	2004 RMB'000	2003 RMB'000
At 1 January	17,619	16,708
Deferred tax (charged)/credited to consolidated profit and loss account (Note 7)	(3,824)	911
At 31 December	13,795	17,619

24 Deferred taxation *(Continued)*

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

	2004	2003
	RMB'000	RMB'000
Provision for other receivables	9,324	9,983
Provision for inventories obsolescence	4,471	7,636
	13,795	17,619
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	13,795	17,619

25 Share Capital

(a) Authorised and issued capital

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

25 Share Capital *(Continued)*

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

Note:

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

On 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.

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

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

- (iv) On 14 October 2004, the Company completed a global offering of 900,000,000 shares with a par value of HK\$1 each at a price of HK\$2.53 per share in cash for an aggregate consideration of HK\$2,277 million (equivalent to approximately RMB 2,414 million). These shares commenced trading on the Stock Exchange on 15 October 2004. On 21 October 2004, pursuant to the terms of the over-allotment option, the Company issued an additional 135,000,000 shares with a par value of HK\$1 each at a price of HK\$2.53 per share in cash for an aggregate consideration of HK\$342 million (equivalent to approximately RMB 362 million). All these shares rank pari passu in all respects with the then existing shares.

25 Share Capital *(Continued)*

(b) Share Option Schemes

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

(i) Share Option Scheme

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

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

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

25 Share Capital *(Continued)*

(b) Share Option Schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme

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

- (a) the subscription price per Share shall be the offer price per Share on the initial public offering of the Company;
and
- (b) no options will be offered or granted upon the commencement of dealings in the Shares on the Stock Exchange.

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

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

	Date of Grant	Exercise price	Number of Shares subject to the options
Directors	18 September 2004	HK\$2.53	4,361,500
Senior management	18 September 2004	HK\$2.53	4,320,000
Other employees	11 October 2004	HK\$2.53	3,553,000
			12,234,500

Consideration in connection with all options granted during the year were received.

No share options were cancelled during the year.

26 Reserves

Group

	Share premium RMB'000	Merger reserve (note (i)) RMB'000	Capital reserve (note (ii)) RMB'000	Revaluation reserve RMB'000	Statutory reserves (note (iii)) RMB'000	Accumulated losses (note (iv)) RMB'000	Total RMB'000
At 1 January 2003	—	282,500	2,293,848	421,457	65,850	(1,996,082)	1,067,573
Revaluation surplus of property, plant and equipment	—	—	—	22,305	—	—	22,305
Profit for the year	—	—	—	—	—	605,156	605,156
Transfer	—	—	—	—	72,122	(72,122)	—
Profit distributions (Note 10)	—	—	—	—	—	(385,012)	(385,012)
Profit distributions of an associated company	—	—	—	—	—	(132,838)	(132,838)
At 31 December 2003	—	282,500	2,293,848	443,762	137,972	(1,980,898)	1,177,184
Company and subsidiaries	—	282,500	1,977,952	443,762	122,344	(1,944,969)	881,589
Associated company	—	—	315,896	—	15,628	(35,929)	295,595
At 31 December 2003	—	282,500	2,293,848	443,762	137,972	(1,980,898)	1,177,184
At 1 January 2004	—	282,500	2,293,848	443,762	137,972	(1,980,898)	1,177,184
Contribution from owner	—	67,895	—	—	—	—	67,895
Premium on issue of shares	1,678,563	—	—	—	—	—	1,678,563
Share issuance expenses	(170,937)	—	—	—	—	—	(170,937)
Profit for the year	—	—	—	—	—	643,203	643,203
Profit distributions (Note 10)	—	—	—	—	—	(377,230)	(377,230)
Profit distributions of an associated company	—	—	—	—	—	(116,500)	(116,500)
At 31 December 2004	1,507,626	350,395	2,293,848	443,762	137,972	(1,831,425)	2,902,178
Company and subsidiaries	1,507,626	350,395	1,977,952	443,762	122,344	(1,796,940)	2,605,139
Associated company	—	—	315,896	—	15,628	(34,485)	297,039
At 31 December 2004	1,507,626	350,395	2,293,848	443,762	137,972	(1,831,425)	2,902,178
Representing:							
Proposed final dividend	—	—	—	—	—	83,078	83,078
Others	1,507,626	350,395	2,293,848	443,762	137,972	(1,914,503)	2,819,100
	1,507,626	350,395	2,293,848	443,762	137,972	(1,831,425)	2,902,178

26 Reserves (Continued)

Company

	Share premium	Retained earnings	Total
	RMB'000	RMB'000	RMB'000
Upon incorporation on 24 March 2004	—	—	—
Premium on issue of shares	1,678,563	—	1,678,563
Share issuance expenses	(170,937)	—	(170,937)
Profit for the period	—	151,649	151,649
At 31 December 2004	1,507,626	151,649	1,659,275

Note:

(i) Merger reserve

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

(ii) Capital reserve

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

(iii) Statutory reserves

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

(iv) Accumulated losses

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

27 Notes to the consolidated cash flow statements

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	701,841	654,982
Share of results of an associated company	(163,604)	(136,418)
Interest expense	89,876	85,038
Interest income	(12,135)	(905)
Depreciation of property, plant and equipment	325,641	373,758
Loss on disposal of property, plant and equipment	1,431	12,354
Write-off of property, plant and equipment	7,478	2,007
Write-back of previous revaluation deficits of property, plant and equipment	—	(27,947)
Operating profit before working capital changes	950,528	962,869
(Increase)/decrease in accounts receivable	(183,147)	46,043
Increase in prepayments, deposits and other receivables	(152,322)	(7,097)
(Increase)/decrease in inventories	(16,660)	9,942
Increase in amounts due to related companies	—	3,658
Decrease/(increase) in amount due from an intermediate holding company	170,500	(185,852)
Increase/(decrease) in accounts payable	105,185	(17,414)
Increase/(decrease) in other payables and accrued charges	69,581	(5,271)
Decrease in amount due to ultimate holding company	(37,867)	—
Net cash inflow generated from operations	905,798	806,878

NOTES TO THE ACCOUNTS

27 Notes to the consolidated cash flow statements *(Continued)*

(b) Analysis of changes in financing during the year:

	Long-term and short-term bank loans	Minority interests
	RMB'000	RMB'000
Balance at 1 January 2003	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	1,574,676	—
Repayment of bank loans	(971,000)	—
Contributions from minority shareholders of a subsidiary	—	3,300
Minority shareholders' share of loss for the year	—	(574)
Balance at 31 December 2004	2,006,676	2,726

28 Commitments

(a) Capital commitments

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Authorised but not contracted for in respect of			
—property, plant and equipment	6,894	67,045	—
Contracted but not provided for in respect of			
—property, plant and equipment	4,678,114	135,010	—
—investments in subsidiaries	—	—	135,595
	4,685,008	202,055	135,595

28 Commitments (Continued)

(b) Commitments under operating leases

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

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Land and buildings			
Not later than one year	15,066	—	2,677
Later than one year and not later than five years	26,870	—	14,560
	41,936	—	17,237

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Equipment			
Not later than one year	—	2,597	—
Later than one year and not later than five years	—	79	—
	—	2,676	—

(c) Future operating lease arrangements

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

	Group		Company
	2004	2003	2004
	RMB'000	RMB'000	RMB'000
Not later than one year	1,930	71	—
Later than one year and not later than five years	1,900	100	—
	3,830	171	—

NOTES TO THE ACCOUNTS

29 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.

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

	Note	2004 RMB'000	2003 RMB'000
Revenues:			
Management fee from an intermediate holding company	(i)	6,884	—
Expenses:			
Operating lease rental in respect of land to ultimate holding company	(ii)	5,129	—
Purchases of fuel, raw materials and spare parts from related companies	(iii)	198,109	647,396
Services fees to related companies	(iv)	99,547	95,603
Construction costs to related companies	(v)	17,288	8,981
Labor costs charged by related companies	(vi)	1,792	3,137

The related companies referred to in items (iii) to (vi) above are companies owned by certain individuals who are also employees or operational managers of certain subsidiaries of the Group.

Note:

- (i) Management fee from an intermediate holding company in connection with the Group's services rendered for management of certain power plants on behalf of the holding company was charged in accordance with the terms of the relevant agreements.
- (ii) Rental expense in respect of certain land leased from ultimate holding company was charged in accordance with the terms of the relevant agreements.
- (iii) Purchases of goods were charged in accordance with the terms of the relevant agreements.
- (iv) Services fees mainly related to repair and maintenance services and transportation services which were carried out at mutually agreed prices.
- (v) Construction costs were payable in accordance with the terms of contracts.
- (vi) Labor costs were charged on a cost reimbursement basis.

Items (i) and (ii) also constitute connected transactions as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

30 Ultimate holding company

The Directors regard China Power Investment Corporation, a company established in the PRC, as being the ultimate holding company.

31 Approval of accounts

The accounts were approved by the board of Directors on 14 March 2005.