

# Report of the Board of Directors

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

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DISTRIBUTION

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

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

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

## RESERVES

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

## DISTRIBUTABLE RESERVE

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

## DIRECTORS

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

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

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

## SHARE OPTION SCHEMES

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

### (A) PRE-IPO SHARE OPTION SCHEME

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

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

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

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

Each option has a 10-year exercise period within which there is a total vesting period of four years. Commencing 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).

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

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

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

Grantee and Position	Date of grant	Number of Shares subject to Options					Outstanding as at 31 December 2005	Exercise period	Exercise price per shares (HK\$)
		As at 1 January 2005	Granted during the year	Lapsed or cancelled during the year	Exercised during the year				
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	

Grantee and Position	Date of grant	Number of Shares subject to Options					Outstanding as at 31 December 2005	Exercise period	Exercise price per shares (HK\$)
		As at 1 January 2005	Granted during the year	Lapsed or cancelled during the year	Exercised during the year				
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 287,765,500, representing approximately 9.18% of the total number of shares in issue.

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

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

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

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

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

#### **(1) RIGHTS ON A GENERAL OFFER**

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

#### **(2) RIGHTS ON SCHEMES OF COMPROMISE OR ARRANGEMENT**

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

### (3) RIGHTS ON A VOLUNTARY WINDING-UP

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

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

### DIRECTORS' INTERESTS IN SECURITIES

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

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

Notes:

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

## DIRECTOR'S INTEREST IN CONTRACTS

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

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

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

Note:

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

## CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP

### CONNECTED TRANSACTIONS

#### (A) SHENTOU I POWER PLANT ACQUISITION AGREEMENT

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

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

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

#### (B) CONSTRUCTION PROJECT MANAGEMENT AGREEMENTS

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

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

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

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



## **(C) EQUIPMENT AGREEMENTS**

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

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

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

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

## **CONTINUING CONNECTED TRANSACTIONS**

### **(A) MANAGEMENT AGREEMENT**

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

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

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

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

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

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

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

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

## (B) LAND LEASE AGREEMENTS

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

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

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

### (C) SERVICE AGREEMENTS

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

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

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

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

#### **(D) LAND USE RIGHT LEASE AGREEMENT**

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

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

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

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

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

- i) the transactions have been approved by the Board;
- ii) the details of the transactions were entered into in accordance with the relevant agreements and documents governing such transactions; and
- iii) the aggregate values of the transactions did not exceed the relevant upper limits applicable to such transactions approved by the Hong Kong Stock Exchange.

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

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

## **MAJOR CUSTOMERS AND SUPPLIERS**

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

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

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

## **PUBLIC FLOAT**

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

## **AUDITORS**

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

On behalf of the Board

**China Power International Development Limited**

**Li Xiaolin**

*Vice Chairman and Chief Executive Officer*

Hong Kong, 16 March 2006