

The Directors have pleasure in presenting to our shareholders their report together with the audited accounts of the Group for the year ended 31 December 2006 (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 20 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 74. The Board has recommended to pay a final dividend of RMB0.08 per share for the year ended 31 December 2006, with a total amount of approximately RMB288,408,000.

### **PROPERTY, PLANT AND EQUIPMENT**

During the Year, the Group acquired property, plant and equipment of approximately RMB2,908,944,000, 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 16 to the Accounts.

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the Year are set out in Note 27 to the Accounts.

### **RESERVES**

Details of movements in the reserves of the Group and the Company during the Year are set out in Note 28 to the Accounts.

### **DISTRIBUTABLE RESERVE**

According to Section 79B of the Companies Ordinance, as at 31 December 2006, the distributable reserve of the Company amounted to RMB720,730,000 (2005: RMB690,726,000).

## DIRECTORS

The present Directors of the Company 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 15 to the Accounts.

At the forthcoming Annual General Meeting, Mr. Hu Jiandong will vacate from his office in accordance with Rule A.4.2 of Appendix 14 of the Listing Rules and he, being eligible, offers himself for re-appointment. If Mr. Hu is re-elected, he will not enter into any service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

As at 31 December 2006, 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 who 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 11,414,100 shares (representing approximately 0.32% 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 is 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 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.

Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2006 are as follows:

Grantee and Position	Date of grant	Number of Shares subject to Options					Outstanding as at 31 December 2006	Exercise period	Exercise price per shares (HK\$)
		As at 1 January 2006	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>(Note)</i>	18 September 2004	415,400	—	311,550	103,850	—	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 2006	Exercise period	Exercise price per shares (HK\$)
		As at 1 January 2006	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	

Note: Mr. Io Cheok Kei exercised his share options to subscribe for a total of 103,850 shares of the Company on 21 and 22 August 2006. The share price of the Company on the trading day immediately before his exercise of options was HK\$2.8. Mr. Io ceased to be the Company's employee since 1 May 2006. The vested Pre-IPO share options were exercised before 31 August 2006 and Pre-IPO options not being vested were lapsed upon his resignation.

## (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. Upon acceptance of the offer of an option, the grantee shall pay HK\$1.00 to the Company as a nominal consideration for each option granted.

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 288,077,050, representing approximately 7.99% of the existing issued share capital of the Company.

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 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 greatest 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 is 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 a 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 2006, 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	0.04	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 2006, save as disclosed below, no person, not being a Director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which should be recorded in the register kept under Section 336 of the SFO.

Name	Capacity	Number of shares in which interested other than under equity derivatives <sup>(3)</sup>	Percentage of issued share capital of the Company (%)	Long/Short position
CPDL	Beneficial owner	1,996,500,000	55.38	Long
CPI Holding <sup>(1)</sup>	Interest of a controlled corporation	1,996,500,000	55.38	Long
CPI Group <sup>(2)</sup>	Interest of a controlled corporation	1,996,500,000	55.38	Long

Notes:

- (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) SHANGHAI POWER ACQUISITION AGREEMENT

The Company entered into an option deed in respect of Shanghai Power (the “Shanghai Power Option Deed”) with CPI Group on 27 August 2004, pursuant to which the Company was granted an option to acquire an equity interest in Shanghai Power up to 25%. The option is exercisable within 3 years from 29 October 2004.

The Company exercised the call option under the Shanghai Power Option Deed and entered into an acquisition agreement (“Acquisition Agreement”) with CPI Group on 2 November 2006, pursuant to which the Company conditionally agreed to acquire and CPI Group conditionally agreed to sell 390,876,250 Shares (“Sale Shares”), representing 25% of the total issued share capital of Shanghai Power as at the date of the Acquisition Agreement. The Company convened an extraordinary general meeting on 6 December 2006 and passed an ordinary resolution to approve the Acquisition Agreement.

The Sale Shares are subject to the undertaking given by CPI Group for the purpose of the equity division reform scheme of Shanghai Power, which took effect on 25 November 2005. CPI Group has undertaken with the holders of the A shares of Shanghai Power that: (i) during a period of 12 months commencing from the effective date of the reform scheme (the “Prohibited Period”), none of the Shanghai Power Shares held by CPI Group (including the Sale Shares) will be traded on the Shanghai Stock Exchange or otherwise transferred (except for the transfer pursuant to the exercise of the call option under the Shanghai Power Option Deed by the Company); the Shanghai Power Shares disposed of by CPI Group on the Shanghai Stock Exchange will not in aggregate exceed 5% of the total issued share capital of Shanghai Power during a period of 12 months from the expiry of the Prohibited Period, or exceed 10% of its total issued share capital during a period of 24 months from the expiry of the Prohibited Period; and (ii) during a period of 12 months from the expiry of the Prohibited Period, the consideration for disposing of the Shanghai Power Shares on the Shanghai Stock Exchange will not be less than RMB6 per share (provided that during the said period if any event occurs, such as declaration of dividends, issue of bonus shares and capitalisation of reserves, which shall have an effect on the price of Shanghai Power Shares, such minimum disposal price will be adjusted accordingly). In addition, under PRC laws and regulations, the Company may not transfer the Sale Shares within 3 years after acquiring such shares.

The consideration for the sale of the Sale Shares was RMB4.26 per share. The total consideration was RMB1,665,132,825, which was based on the net asset value per share of Shanghai Power of RMB3.927 as at 30 June 2006 and represents a discount of approximately 4.1% of the closing price of the A shares of Shanghai Power of RMB4.44 per share on 2 November 2006. The said acquisition was financed from proceeds from its initial public offering in 2004, the Company’s working capital and external financing.

As CPI Group is the ultimate controlling shareholder of the Company, the Acquisition Agreement constitutes a connected transaction of the Company pursuant to Listing Rule.

## CONTINUING CONNECTED TRANSACTIONS

### (A) MANAGEMENT AGREEMENT

The Company entered into a management agreement (the “Management Agreement”) dated 27 August 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, 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) SUPPLEMENTAL MANAGEMENT AGREEMENT

The Company entered into a supplemental management agreement (“Supplemental Management Agreement”) on 1 September 2006 with CPI Group and CPI Holding to amend certain terms of the Management Agreement.

Pursuant to the Supplemental Management Agreement, the parties agreed to amend the Management Agreement by adding CPI Wuhu Power Plant and deleting Shentou I Power Plant from the list of its managed power plants and adjust the service fee payable to the Company in accordance with the formula provided therein due to an adjustment to the total installed capacity of the managed power plants. The formula for adjustment is as follows:

$$\text{New monthly service fee} = \text{Service fee for the previous month} \times \frac{\text{Total installed capacity of the managed power plants after adjustment}}{\text{Total installed capacity of the managed power plants before adjustment}}$$

The total installed capacity of the managed power plants as at the date of the Management Agreement was 3,465MW. Due to (1) the acquisition by the Company of Shentou I Power Plant (with installed capacity of 1200MW) in 2005, (2) the increase of installed capacity Hongze Power Plant by 15MW from previously 15MW, and (3) the addition of CPI Wuhu Power Plant (having an installed capacity of 250MW) to the list of the managed power plants, the current total installed capacity of the managed power plants is 2,530MW. The installed capacity of the six managed power plants are: Qinghe Power Plant (1,200MW), Guixi Power Plant (500MW), Shaxikou Power Plant (300MW), Wuhu Shaoda Power Plant (250MW), CPI Wuhu Power Plant (250MW) and Hongze Power Plant (30MW). Under the Supplemental Management Agreement, the service fee (excluding the profit/loss margin component) is adjusted accordingly to RMB10,074,000 per annum or RMB839,500 per month and the list of the managed power plants as set out in the Management Agreement is amended in accordance with the changes set out above.

The service fee for the year ended 31 December 2006 was RMB14,196,000 pursuant to the Management Agreement and the amendments under the Supplemental Management Agreement whilst the expected annual value for the year ending 31 December 2007 will not exceed RMB11,388,000.

CPI Group is the ultimate controlling shareholder of the Company and CPI Holding is a wholly owned subsidiary of CPI Group. As such, CPI Group and CPI Holding are connected persons of the Company as defined in the Listing Rules. Accordingly, the Supplemental Management Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

**(C) 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:

	<b>Area of leased land sq. m.</b>	<b>Annual rent RMB</b>	<b>Commencement date</b>	<b>Lease expiry date</b>
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 Land Lease Agreements constitute continuing connected transactions of the Group under the Listing Rules.

**(D) SERVICE AGREEMENTS**

Tianze Development Limited, a wholly owned subsidiary of the Company, entered into a series of service agreements (the "Service Agreements") with certain wholly owned 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 Service Agreements constitute continuing connected transactions of the Group under the Listing Rules.

#### (E) 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 an 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 its operation on the land.

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

## (F) PROPERTY LEASE AGREEMENT

The Company entered into a property lease agreement (the "Property Lease Agreement") on 1 September 2006 with CPI Holding in which the premises being rented are used as an office of the Company. The terms of the Property Lease Agreement are set out as below:

Address	Area	Use	Annual Rent	Lease Term
Premises situated on 7th , 8th, 9th, 11th to 13th Floors, East Building, Huihuang Shidai Plaza, 56 North West Fourth Ring Road, Haidian District, Beijing, PRC	6,800 square metres	Office	US\$1,468,800 or US\$18 per square metre per month	1 September 2006 to 31 August 2009

CPI Holding is a wholly owned subsidiary of CPI Group and CPI Group is the ultimate controlling shareholder of the Company. As such, CPI Group and CPI Holding are connected persons of the Company as defined in the Listing Rules. Accordingly, the Property Lease Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

## (G) PURCHASE AGREEMENTS

On 21 December 2006, each of Pingwei Power Plant II and Yaomeng Power Plant II has entered into the Pingwei Purchase Agreement ("Pingwei Purchase Agreement") and Yaomeng Purchase Agreement ("Yaomeng Purchase Agreement") (Pingwei Purchase Agreement and Yaomeng Purchase Agreement collectively the "Purchase Agreements") with the Beijing China Power Environmental Engineering Company Limited\* ("Supplier") respectively pursuant to which each of Pingwei Power Plant II and Yaomeng Power Plant II agrees to purchase from the Supplier the limestone power for desulphurization (the "Materials").

### 1. PINGWEI PURCHASE AGREEMENT

Under the Pingwei Purchase Agreement, Pingwei Power Plant II agrees to purchase from the Supplier the materials for a term commencing from 15 January 2007 and ending on 31 December 2009.

The purchase price of the Materials is calculated on a cost plus profit basis and shall be determined by the parties each year by reference to the market condition and costs of production. It is agreed that for the year ending 15 January 2008, the purchase price of the Materials shall be RMB265 per ton which is determined based on a cost plus a not more than 15% gross profit margin and for the remaining term of the Pingwei Purchase Agreement, the purchase price of the Materials shall not exceed an amount equal to a cost plus a not more than 10% gross profit margin. The total purchase price under the Pingwei Purchase Agreement for each of the two years ending 15 January 2008 and 2009 shall not exceed RMB18,500,000 and the total purchase price for the period from 16 January 2009 to 31 December 2009 shall not exceed RMB18,500,000. It is anticipated that the annual cap for each of the three financial years ending 31 December 2009 is RMB18,500,000.



## 2. YAOMENG PURCHASE AGREEMENT

Under the Yaomeng Purchase Agreement, Yaomeng Power Plant II agrees to purchase from the Supplier the materials for a term commencing from 10 September 2007 and ending on 31 December 2009.

The purchase price of the Materials is calculated on a cost plus profit basis and shall be determined by the parties each year by reference to the market condition and costs of production. It is agreed that for the year ending 10 September 2008, the purchase price of the Materials shall be RMB265 per ton which is determined based on a cost plus a not more than 15% gross profit margin and for the remaining term of the Yaomeng Purchase Agreement, the purchase price of the Materials shall not exceed an amount equal to a cost plus a not more than 10% gross profit margin. The total purchase price under the Yaomeng Purchase Agreement for each of the two years ending 10 September 2008 and 2009 shall not exceed RMB20,000,000 and the total purchase price for the period from 11 September 2009 to 31 December 2009 shall not exceed RMB20,000,000. It is anticipated that the annual cap for each of the three financial years ending 31 December 2009 is RMB20,000,000.

Since the Supplier is a subsidiary of the CPI Holding and is held by CPI Holding and its wholly owned subsidiary as to 60%, and CPI Holding wholly owns CPDL which is a substantial shareholder of the Company, the Supplier is a connected person of the Company under the Listing Rules. The Purchase Agreements constitute continuing connected transactions of the Group.

The Directors (including the independent non-executive Directors) of the Company confirm that during the Year, the continuing connected transactions under Management Agreement, Supplemental Management Agreement, Land Lease Agreements, Service Agreements, Land Use Right Lease Agreement, Property Lease Agreement and Purchase Agreements 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 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**

Sales as disclosed below, neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Year.

### **PLACING OF SHARES**

On 9 November 2006, CPDL, a controlling shareholder of the Company, placed 470,000,000 ordinary shares of the Company ("Placing") to relevant placees at a placing price of HK\$3.7 per share ("Placing Price"). Following the completion of the Placing, the Company issued 470,000,000 new ordinary shares ("New Shares") to CPDL at a price of HK\$3.7 per share (the "Subscription"). The placees concerned are professional investors or other investors who are not connected persons of the Company.

New Shares represented approximately 14.99% of the issued share capital of the Company immediately prior to the Subscription and represented 13.04% of the issued share capital of the Company enlarged by the issue of 470,000,000 New Shares in accordance with the Subscription. The issue price of the New Shares is HK\$3.7 per share. The total net proceeds of the Company after reduction from expenses amounted to approximately HK\$1.7billion. The Company has completed the issue of 470,000,000 new ordinary shares to CPDL on 27 November 2006.

The Board considers that the Placing and Subscription represent good opportunities to raise further funds for the Company, while at the same time broadening its shareholder and capital base. The Company intends to apply the proceeds for acquisition and development of new power plant projects.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 91.5% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 41.9% of the Group's total purchases.

For the year ended 31 December 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 100.0% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 39.5% 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 2007