China Power International Development Limited

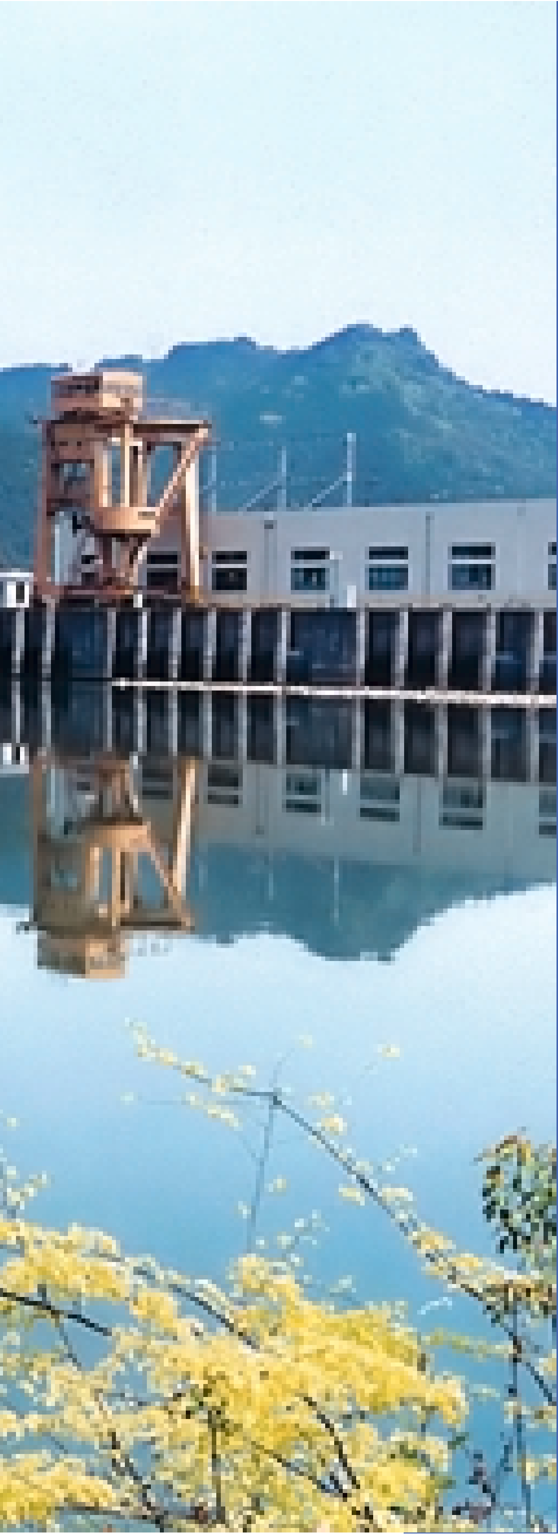
中國電力國際發展有限公司

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code : 2380)

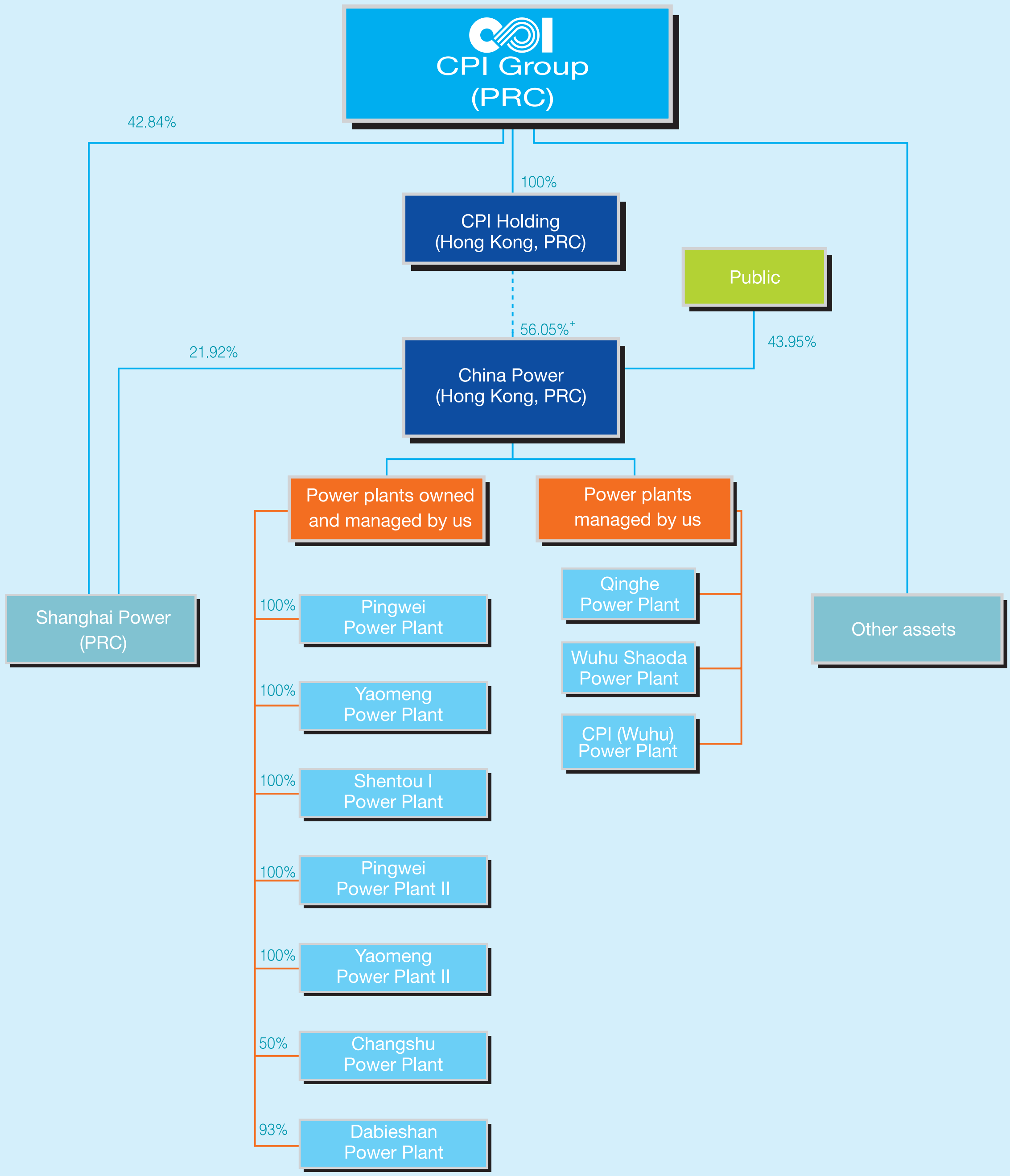
Annual Report **2008**

Contents



	RMB
Loss per share	
Basic	0.19
Diluted	0.19
Turnover	9,632,381,000
Loss attributable to equity holders of the Company	683,686,000
Shareholders' equity	8,073,354,000
Total assets	22,431,729,000
Cash and cash equivalents	1,326,818,000
Total bank and other borrowings	11,427,170,000
Gross generation (MWh)	36,360,449$^{\Delta}$
Gross generation of the associated company (MWh)	6,639,262
Net generation (MWh)	33,890,035$^{\Delta}$
Net generation of the associated company (MWh)	6,265,664

$^{\Delta}$ *Excluding the associated company*



† As at 31 December 2008, CPI Holding directly owned 0.59% and through CPDL, its wholly owned subsidiary, indirectly owned 55.38% of the issued share capital of the Company. After the end of the financial year 2008, CPI Holding has acquired 3,167,000 shares (i.e. 0.08%) of the Company. As such, CPI Group and CPI Holding are deemed to be interested in 56.05% of the issued capital of the Company and the shareholding held by the public is reduced to 43.95%.

LOCATION OF POWER PLANTS

Yaomeng Power Plant

Changshu Power Plant

Shentou I Power Plant

Dabieshan Power Plant

Pingwei Power Plant

Yaomeng Power Plant II

Pingwei Power Plant II

Qinghe Power Plant
Liaoning
Beijing
Shentou I Power Plant
Shanxi
Yaomeng Power Plant II
Yaomeng Power Plant
Pingwei Power Plant
Jiangsu
Henan
Pingwei Power Plant II
Changshu Power Plant
Shanghai
Shanghai Power
Hubei
Anhui
CPI Wuhu Power Plant
Wuhu Shaoda Power Plant
Dabieshan Power Plant
South China Sea
Power plants under commercial operation
Power plants managed by us
21.92% stake in Shanghai Power

China Power International Development Limited (the "Company" or "China Power") was incorporated in Hong Kong with limited liability under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) on 24 March 2004 and is the flagship company of China Power Investment Corporation ("CPI Group"), one of the five leading state-run power-generating groups in the People's Republic of China (the "PRC" or "China").

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 15 October 2004. The stock code is 2380.

The Company's principal business is to develop, construct, own, operate and manage large power plants in the PRC.

At present, the Company and its subsidiaries (the "Group" or "We") own and operate the following power plants: Pingwei Power Plant (100% ownership), Pingwei Power Plant II (100% ownership), Yaomeng Power Plant (100% ownership), Yaomeng Power Plant II (100% ownership), Shentou I Power Plant (100% ownership) , Dabieshan Power Plant (93% ownership) and Changshu Power Plant (50% ownership), which have a total installed capacity of 8,290 MW and the installed capacity attributable to the Company in these power plants is 7,600.4 MW.

The Company also holds shares of Shanghai Power (21.92% ownership). Shanghai Power is a power company whose shares are listed on the Shanghai Stock Exchange. The Company is its second largest shareholder after CPI Group. As at 31 December 2008, Shanghai Power's attributable installed capacity was 6,553 MW, while ours was 1,437 MW.

As at 31 December 2008, the Company's total attributable installed capacity was 9,037.4 MW.

The Company also manages three other power plants on behalf of CPI Holding, namely, Qinghe Power Plant (800 MW), Wuhu Shaoda Power Plant (250 MW) and CPI (Wuhu) Power Plant (250 MW).

In addition, the Group's two sets of coal-fired power generator units with a capacity of 600 MW each in Shentou I Power Plant and two sets of coal-fired power generator units with a capacity of 600 MW each in Sichuan Fuxi have obtained the "Written Consent for Conducting Project Preparation Work by National Energy Administration". The total installed capacity of such new project will be 2,400 MW, and the Company's attributable installed capacity will be 1,812 MW.

OUR PARENT COMPANY - CPI GROUP

The company is ultimately owned by CPI Group, which is one of the five state-owned power-generating groups in China established pursuant to the restructuring of the power industry of the PRC in 2002. The power plants of CPI Group spread across 28 provinces, municipalities and autonomous regions in the PRC with a controllable installed capacity of approximately 52 GW.

Chairman of the Board and Chief Executive Officer:	Li Xiaolin
Executive Director and President:	Liu Guangchi
Non-Executive Director:	Gao Guangfu Guan Qihong
Independent Non-Executive Director:	Kwong Che Keung, Gordon Li Fang Tsui Yiu Wa, Alec
Qualified Accountant:	Lai Sai Wo, Ricky
Company Secretary:	Chong Wai Sang
Auditors:	PricewaterhouseCoopers
Registered Office:	Suite 6301, 63/F., Central Plaza 18 Harbour Road Wanchai, Hong Kong
Head Office and Principal Place of Business in Hong Kong:	Suite 6301, 63/F., Central Plaza 18 Harbour Road Wanchai, Hong Kong
Share Registrar and Transfer Office:	Computershare Hong Kong Investors Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Company Website:	www.chinapower.hk
Stock Code:	2380

MAJOR CORPORATE EVENTS IN THE FIRST HALF OF THE YEAR

January	China Power announced its gross generation for 2007 of 26,701,706 MWh, an increase of 10.96% over 2006
April	China Power held its 2007 Annual Results Presentation in Hong Kong and announced its net profit of RMB592,435,000
	China Power announced its gross generation for the first quarter in 2008 of 8,536,675 MWh, an increase of 50.66% over the same period in 2007
May	China Power held its annual general meeting in Hong Kong. China Power also held an extraordinary general meeting to approve by poll the Production Target Sale and Purchase Agreement between the Company and its parent company, CPI Group, and the Replacement Agreements to be entered into pursuant thereto.
	China Power entered into a memorandum of understanding with its parent company, CPI Group, whereby China Power proposed to acquire and CPI Group proposed to sell 63% of the equity interests of Wu Ling Power, being the entire shareholding in Wu Ling Power held by CPI Group
	The first power generation unit of Dabieshan Power Plant commenced commercial operation

MAJOR CORPORATE EVENTS IN THE SECOND HALF OF THE YEAR

July	China Power announced that it entered into a US$100,000,000 term loan facilities agreement with a syndicate of banks
	China Power announced its gross generation for the first half of 2008 of 16,869,253 MWh, an increase of 36.89% over the same period in 2007
	China Power announced the increase in the average tariff of its power plants of approximately 8.45% with effect from 1 July
August	China Power announced the increase in the tariff of its power plants of approximately 6.41% with effect from 20 August
September	China Power published its interim results for 2008 in Hong Kong and announced that its net profit decreased by approximately RMB318,985,000 over the same period last year
	The second power generation unit of Dabieshan Power Plant commenced commercial operation
October	China Power announced its gross generation for the first three quarters in 2008 of 26,345,898 MWh, an increase of 35.95% over the same period in 2007
December	China Power announced the suspension of the acquisition of 25% equity interest in Guangzhou Power and the extension of completion date of the acquisition of a 600 MW generation unit under construction situated in Qinghe District, Tieling City, Liaoning Province, the PRC

To all shareholders,

In the past 2008, with the trust, support and understanding of all shareholders and communities, China Power effectively tackled the complicated and volatile environment and overcame the difficulties encountered. On behalf of the Board and all the staff of China Power, I would like to express my deepest gratitude to all shareholders for their continuous attention of and support to the Company.

The year 2008 was the most difficult year we have experienced since our IPO. Under the influence of the financial crisis, the slow down in domestic economic growth resulted in negative growth for the first time in national-wide power demand since 1999. Meanwhile, the power industry was exposed to certain industrial-wide problems, such as a rapidly increasing coal price and lagging of tariff adjustments. To cope with these difficulties, the management of the Company adopted vigorous measures, such as strengthening cost control, ensuring production safety, optimising assets structure and improving risk awareness. At the same time, the Company endeavored to enhance its transparency by timely disclosing relevant information and strengthening communication with external parties, so as to win the understanding and recognition of broad investors and maximise shareholders value.

During the past year, China Power further refined its development objectives in different phases, optimised its asset mix and developed new power plants. With the two new sets of 640 MW generation units successively put into operation in the year, the installed capacity attributable to the Company reached 9,037.4MW. Four sets of 600 MW generation units were granted with Document of the Agreement on Starting Preliminary Work for the Project by the National Energy Administration and three sets of 1,000 MW generation units were earmarked as key projects in the future development plan in China.

In 2008, all the Company's power plants, through tremendous efforts on maximising generation, maintained relative higher utilisation hours. The average utilisation hours of the Company's wholly-owned and controlled plants reached 5,403 hours, which was 492 hours above the average utilisation hours of 4,911 hours for national coal-fired generation units. The combined gross generation for the year was 36,360,449 MWh, representing an increase of 36.17% over the corresponding period last year.

In 2008, the National Development and Reform Commission ("NDRC") adjusted the on-grid tariff twice upward following the continuous and substantial increase in coal price. In these two tariff hikes, the Company achieved relatively higher adjustment. The cumulative average tariff increase was RMB48/MWh, representing an average increase of 15%. During the extended period of high coal price, the Company adopted a series of measures to control fuel costs. The net coal consumption rate and unit fuel cost recorded were 334.38 grams/KWh and RMB 208/MWh respectively, a decrease of 9.03 grams/KWh and an increase of 34.8% over last year, respectively.

The domestic economic environment remains uncertain in 2009. However, with the gradual implementation of a series of economic stimulation policies by the Chinese government, we anticipate the tariff will remain stable, the coal price may fall and financial costs may be reduced. The power generation industry will have better development and profit prospects. China Power, as one of the major independent power producer in China, will fully utilise strategic alliance to achieve win-win goals, so as to build leadership in the market and achieve better operational results.

In this new year, we will continue to carry out the planning of the Company, accelerate the process of structural changes and promote the industry upgrade. We will also commit to build up ourselves as a distinctive listed power company with balanced hydro and coal-fired generation through a strategy of occupying strategic-preponderant areas and focusing on the building of large capacity power plants. We will follow our corporate culture of "Still water runs deep" to form a team of high quality and efficiency, to further reinforce the Company's overriding goal of making progress. Besides, under the goal of shaping ourselves as a "resources saving and environmental friendly" enterprise, we will ensure safety production, energy saving and emission reduction as well as actively performing our social responsibilities. Furthermore, with the objective of maximising the Company and shareholders' value, we will leverage on our strategic synergy and cooperation to reinforce the Company's comprehensive strength in the industry chain and improve the ability to withstand market risks. In addition to these, we will also strengthen the management over generation and tariff by comprehensively putting "standardised management promotion year" into practice. We will do our utmost to maximise the Company's operational results.

China Power will capture the new development opportunities and unremittingly dedicate itself to build an excellent enterprise, so as to maximise shareholders' value. With the care and support from all our shareholders and communities and the effort of the Board, the management and the entire staff, I believe that China Power will achieve good performance and have brighter prospects.

Li Xiaolin
Chairman

2 April 2009

CHAIRMAN OF THE BOARD

LI Xiaolin, 47, is the chairman of the Board, an executive director and the Chief Executive Officer of the Company. Ms. Li is a senior engineer. She graduated from Tsinghua University with a master of engineering degree in power system and automation. She was a visiting scholar at the Sloan Business School of Massachusetts Institute of Technology in the United States. She is currently vice president of CPI Group, chairman of CPI Holding, chairman of China Power New Energy Development Company Limited and director of Companhia de Electricidade de Macau. She has served in various positions including head of the International Economic and Trade Division of the Ministry of Electric Power Industry and deputy head of the International Economic and Trade Division of the Ministry of Energy.

EXECUTIVE DIRECTOR

LIU Guangchi, 54, is an executive director and the President of the Company. Mr. Liu is a senior engineer and graduated from the University of Shanghai for Science and Technology with a master degree in power engineering. Mr. Liu is currently the director and president of CPI Holding and chief supervisor of Shanghai Electric Power Co., Ltd.（上海電力股份有限公司）. He has served in various positions including the general manager of Shanghai Waigaoqiao Power Generation Co., Ltd（上海外高橋發電有限公司）and deputy manager of the Safety Supervision and Production Department of CPI Group and the director and general manager of Shanghai Electric Power Co., Ltd.

NON-EXECUTIVE DIRECTORS

GAO Guangfu, 46, is a non-executive director of the Company. Mr. Gao is a senior accountant. He graduated from Zhongnan University of Finance and Commerce at postgraduate level. He was also a visiting scholar at the Energy Economic and Policy Institute of the National Scientific Research Center of France. Mr. Gao also acts as the manager of Finance and Property Ownership Management Department of CPI Group and director of CPI Holding. He has served in various positions including deputy manager of Finance and Property Ownership Management Department of the State Power Corporation of China（國家電力公司）and deputy head of Price Department of the Economic Adjustment Division of the Ministry of Electric Power Industry.

GUAN Qihong, 46, is a non-executive director of the Company. Mr. Guan is a senior economist who holds a bachelor of engineering degree from Huazhong Institute of Technology, a master's degree in economics from Zhongnan University of Economics and a doctoral degree in economics from Xiamen University. Mr. Guan is currently the director of the CPI Holding and manager of the Capital Market and Equity Management Department of the CPI Group. He has served in various positions including the deputy manager of National Asset Management Bureau Asset Assessment Center, the deputy secretary-general of China Appraisal Society, the assistant to the manager of Finance and Property Ownership Management Department of the State Power Corporation and the chief economist of State Grid Shenzhen Energy Development Group Co.,Ltd.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KWONG Che Keung, Gordon, 59, is an independent non-executive director of the Company. He has been the chairman of the audit committee and a member of the compensation and nomination committee of the Company since August 2004. Mr. Kwong is also an independent non-executive director of a number of companies listed on the Hong Kong Stock Exchange Limited namely Cosco International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, OP Financial Investments Limited (formerly known as Concepta Investments Limited), China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited and CITIC 1616 Holdings Limited. From 1984 to 1998, Mr. Kwong was a partner of Pricewaterhouse and was a council member of Hong Kong Stock Exchange from 1992 to 1997. He has a bachelor of social science degree from University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales.

LI Fang, 47, is an independent non-executive director of the Company. He has been a chairman of the compensation and nomination committee of the Company and a member of the audit committee of the Company since August 2004. He graduated from Beijing University of Science and Technology with a bachelor of engineering degree and received his juris doctoral degree from the College of Law of Arizona State University in the United States in 1995. Mr. Li is currently the chairman of Beijing Mainstreets Investment Group Corporation. He is also a council member of the China Reform Forum. Mr. Li has extensive experience in business management and corporate finance. He was an executive director of Goldman Sachs (Asia) L.L.C. and a lawyer with David Polk and Wardwell.

TSUI Yiu Wa, Alec, 60, is an independent non-executive director of the Company and a member of the compensation and nomination committee and the audit committee of the Company. He graduated from the University of Tennessee in the United States with a bachelor of science degree in industrial engineering and a master of engineering degree in industrial engineering and completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University in 1993. Mr. Tsui also acts as the Chairman of WAG Worldsec Corporate Finance Limited and an independent non-executive director of a number of listed companies in Hong Kong including Industrial and Commercial Bank of China (Asia) Limited, Vertex Group Limited, China Chengtong Development Group Limited, COSCO International Holdings Limited, China BlueChemical Limited, Greentown China Holdings Ltd., China Huiyuan Juice Group Limited and Pacific Online Limited. He has substantial experience in the operations of listed companies in Hong Kong. He has served in various positions including the executive director and chief executive of the Hong Kong Stock Exchange, chief operating officer of the Hong Kong Exchanges and Clearing Limited and chief executive officer of the Regent Pacific Group.

SENIOR MANAGEMENT

WANG Zhiying, 51, is vice president of the Company. Mr. Wang is a senior engineer at professor level. He graduated from the Northeast China Institute of Electric Power Engineering with a bachelor of engineering degree in power system and relaying protection. Mr. Wang is currently vice president of CPI Holding. He has served in various positions including departmental manager, deputy chief engineer and chief engineer of CPI Holding and deputy manager of the Production Coordination Department and Integrated Planning Department in the Ministry of Electric Power Industry.

ZHAO Yazhou, 49, is vice president of the Company. Mr. Zhao is a senior accountant. He studied technological economics at postgraduate level at the Harbin Institute of Technology and completed training courses for the chief accountants of major enterprises of the State Power Company at the National Accounting Institute. Mr. Zhao also acts as vice president of CPI Holding. He has served in various positions including deputy chief accountant, manager of finance department and chief financial controller of CPI Holding and head of the finance department of Heilongjiang Provincial Power Bureau.

ZHAO Xinyan, 46, is vice president of the Company. Mr. Zhao is a senior engineer. He graduated from Chongqing University with a bachelor's degree in materials engineering, and from Guanghua School of management, Peking University with a Master of Business Administration (MBA) degree. He is currently vice president of CPI Holding and executive director of China Power New Energy Development Company Limited. Mr. Zhao has served as assistant to the president of CPI Holding and managers in various departments of the Company.

WANG Zichao, 38, is vice president of the Company. Mr. Wang is a senior engineer. He graduated from North China Electric Power University with a master of engineering degree in power system and automation and obtained a master's degree in business administration from China Europe International Business School. Mr. Wang is head of the Discipline Inspection Team and acting chairman of the Staff Union of CPI Holding, deputy general manager of Wu Ling Power Corporation, and deputy general manager of CPI Group Hunan Branch. Mr. Wang has served as managers in various departments of the Company and assistants to the president of CPI Holding.

XU Lihong, 42, is financial controller of the Company. Ms. Xu is a senior accountant. She graduated from the Faculty of Finance, Changsha University of Electric Power and obtained a master's degree in business administration from Northeast China University. She is currently a director and the financial controller of CPI Holding, and a director of Shanghai Electric Power. Ms. Xu also has served as a principal staff member of Huazhong Electric Industry Management Bureau（華中電業管理局）and State Power Corporation of China（國家電力公司）, a deputy director of Power Department under the State Economic and Trade Commission, deputy chief accountant of CPI Holding, and vice President of China Power, as well as managers in various departments of the Company.

OTHER SENIOR MANAGEMENT

LIU Genyu, 45, is the Development Supervisor of the Company. Mr. Liu is a senior engineer. He graduated from Tsinghua University with a degree of Executive Master of Business and Administration (EMBA). He is also assistant to the president of CPI Holding, director and general manager of China Power (New Energy) Holdings Limited, as well as chief operating officer of China Power New Energy Development Company Limited. He has also served in positions including vice president of Chongqing Jiulong Power Company Limited and lecturer of Harbin Power Vocation Technology College.

WANG Shengrong, 46, is the executive and office supervisor of the Company. Mr. Wang obtained a master's degree in management from Air Force Engineering University. He is currently an assistant to the president and office supervisor of CPI Holding. He has served as the officer of the Air Force of the People's Liberation Army with the rank of senior colonel and deputy secretary of Party Committee and secretary of Party Committee for Discipline Inspection and chairman of Staff Union of Shenhua (Beijing) Remote Sensing & Geo-engineering Company Ltd.

TAO Xinjian, 47, is the Technology Supervisor of the Company. Mr. Tao is a senior engineer. He graduated from Shanghai University of Electricity Power with a bachelor degree of engineering in automation. Mr. Tao is also assistant to the president of CPI Holding. He has served as manager of the production and operation department of the Company, general manager of Pingwei Power Plant I, and deputy general manager of Pingwei Power Plant II.

COMPANY SECRETARY

CHONG Wai Sang, 44, is the company secretary of the Company. Mr. Chong is a qualified lawyer in Hong Kong and he is also a member of CPA Australia. Mr. Chong holds a bachelor of laws from the University of Hong Kong and also holds a master's degree in accounting of the Monash University in Australia. Mr. Chong has over ten years experience in legal and company secretarial matters.

QUALIFIED ACCOUNTANT

LAI Sai Wo, Ricky, 35, is the qualified accountant of the Company. Mr. Lai is the associate member of The Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He graduated from City University of Hong Kong with a degree of Bachelor of Arts in Accountancy. He has over 10 years of experience in the auditing, accounting and finance in Hong Kong and Mainland China.

BUSINESS OVERVIEW

The principal business of the Group is to develop, construct, own, operate and manage large scale power plants and engage in investment holdings in China. The electricity generated by the Group's power plants is primarily supplied to Eastern China Power Grid, Central China Power Grid and Northern China Power Grid.

As at 31 December 2008, the Company's total attributable installed capacity was 9,037.4MW.

For the year ended 31 December 2008, turnover of the Group was approximately RMB9,632,381,000, representing an increase of approximately 63.06% as compared to the previous year. Loss attributable to equity holders of the Company was approximately RMB683,686,000, representing a decrease of approximately RMB1,276,121,000 as compared to the profit for the previous year. The basic loss per share for the year ended 31 December 2008 was approximately RMB0.19, representing a decrease of approximately RMB0.35 as compared to the basic earnings per share of RMB0.16 for the previous year.

To carry out the preparatory work of the "Replacement of Small Units with Larger Units" project, the Group's Shentou I Power Plant had closed two 200MW generation units by the year end of 2008 and undertook to close two more 200MW generation units at Shentou I Power Plant before 2010. Accordingly, the Group provided a total of approximately RMB388,505,000 for the impairment loss for property, plant and equipment and impairment loss for goodwill in respect of the above four 200MW generation units. Loss attributable to equity holders of the Group, net of adjustment for these impairment losses, was RMB295,181,000, and basic loss per share was approximately RMB0.08.

As a result of the loss, the Board resolved not to declare any final dividend for the year ended 31 December 2008.

BUSINESS REVIEW FOR 2008

OPERATING ENVIRONMENT

The Group faced severe challenges in 2008, as global financial crisis continued to spread, GDP growth in China declined significantly and both international and domestic capital markets contracted rapidly. Supply and demand of electricity underwent fundamental changes. The decline of utilisation hours of generating units and significant increase in coal price led to losses suffered by the electric power industry generally.

Coal prices increase

During 2008, the supply of thermal coal remained tight as overall supply shrank with bottlenecks in railway transportation capacity as well as rising coal price in the global market. Coal prices remained at high levels and then rose further significantly, together with a decline in the quality of coal, which put the Group under the significant pressure of controlling fuel costs.

The Group paid close attention to any changes in the coal market and expanded coal supply channels in order to secure a stable fuel supply. Meanwhile, the Group actively raised the standard of energy saving and consumption reduction to achieve the comprehensive control of fuel costs.

Tariff hikes

2008 was a difficult year for the power industry. In order to alleviate the production and operational difficulties of power companies and to ensure power supply, the National Development and Reform Commission proposed a tariff adjustment plan on 19 June 2008 to be implemented on 1 July 2008. On 20 August 2008, the National Development and Reform Commission further increased the on-grid tariff. During the two tariff adjustments, the tariffs of our power plants were allowed for upward adjustment at a relatively higher level than the national average adjustment level, easing some of our operational pressure.

Commissioning of new power generation units

In 2008, our Dabieshan Power Plant completed the construction of two new generation units which were put into commercial operation as scheduled and our installed capacity has increased by 1,280MW. The increase in installed capacity further enhanced the power generation capability of the Group.

Energy-saving and emission-reduction

In 2008, as the Group continued to enhance technical upgrades for environmental protection and to increase overall generation efficiency of our generation units. Energy consumption rate was improved and the annual average coal consumption rate for power supply decreased by 9 grams/kWh as compared to the corresponding period last year. As at the end of 2008, all our coal-fired power generation units were installed and operated with desulphurisation facilities which were put into operation. Besides, the waste water treatment project also demonstrated its effect, resulting in a significant decrease in the discharge of pollutants. Emission and discharge of various pollutants from our power plants had complied with the national environment protection standards.

MERGER AND ACQUISITION

Wu Ling Acquisition

On 27 May 2008, the Company entered into a memorandum of understanding with CPI Group, whereby the Company proposed to acquire 63% equity interest in Wu Ling Power, being the entire shareholding in Wu Ling Power held by CPI Group ("Proposed Acquisition"). Upon completion of the Proposed Acquisition, the Company will own 63% equity interest in Wu Ling Power.

Wu Ling Power was incorporated in the PRC and was registered as a sino-foreign equity joint venture with limited liability. Currently, Wu Ling Power is principally engaged in the development, production and supply of hydropower in Hunan and Guizhou. As at 31 December 2008, the installed capacity attributable to Wu Ling Power was approximately 4,066MW. Upon completion of the Proposed Acquisition, the Group's operation scale will be significantly expanded, which will facilitate the Group to enter the power markets with high growth potential in Hunan and Guizhou.

Qinghe Acquisition

In 2007, the Group entered into an Asset Acquisition Agreement with Qinghe Power Plant, a wholly-owned subsidiary of CPI Holding. The assets to be acquired mainly comprise of a 600MW super-critical coal-fired power generation unit under construction in Qinghe District, Tieling, Liaoning Province, the PRC. The Group has incorporated China Power Qinghe Company as a vehicle to hold and operate the assets.

On 31 December 2008, the Company, China Power Qinghe Company and Qinghe Power Plant entered into a supplemental agreement to amend certain terms of the Asset Acquisition Agreement whereby the completion date of the acquisition was extended to 31 July 2010 or such other date as the parties may agree in writing.

Guangzhou Acquisition

In 2007, the Company entered into an Equity Transfer Framework Agreement with Guangzhou Development to acquire 25% equity interest in Guangzhou Power, a wholly-owned subsidiary of Guangzhou Development.

In light of the deteriorating world economy caused by the financial crisis, the Company and Guangzhou Development have confirmed after negotiations to suspend the Acquisition.

Significant Investment

In December 2006, the Company acquired 390,876,250 shares of Shanghai Power whose A shares were listed on the Shanghai Stock Exchange at a consideration of RMB4.26 per share. On 17 June 2008, Shanghai Power converted its capital reserve into share capital on the basis of 2 additional shares for every 10 existing shares held. The total number of shares held by the Company was increased by 78,175,250 shares to 469,051,500 shares, whereas the shareholding percentage remained at 21.92%.

The Company treats its shareholding in Shanghai Power as "Available-for-sale financial assets", with changes of its fair value reflected in the Company's financial statements.

POWER GENERATION

In 2008, the gross generation of the Group (excluding the associated company) was approximately 36,360,449MWh, an increase of approximately 36.17% over the 26,701,707MWh recorded for the previous year. Net generation of the Group (excluding the associated company) was approximately 33,890,035MWh, an increase of approximately 36.58% over the previous year.

The increase in the Group's power generation as compared with the previous year was mainly attributable to:

- increase in gross generation with the full operation of new power generation units;
- in view of increasing electricity demand, the Group's power plants enhanced its marketing efforts and increased the utilisation hours in order to generate more power;
- secured coal supply, strengthened production safety technology level and reduced unplanned outages, striving to increase the production capacity of the facilities.

In 2008, the Group achieved smooth production, while energy conservation and wastage reduction achieved conspicuous results, technical upgrades and desulphurisation and emission reduction were orderly in progress.

OPERATING DATA OF OUR OPERATIONAL POWER PLANTS

Operating conditions of the Group's major power plants during 2008 were as follows:

PINGWEI POWER PLANT

The following table sets out certain operation data of Pingwei Power Plant for each of the two years ended 31 December 2008 and 2007:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**1,230**	1,230
Average utilisation hours (hours)	**6,440**	6,610
Gross generation (MWh)	**7,921,580**	8,130,300
Net generation (MWh)	**7,520,740**	7,749,341
Net coal consumption rate (grams/KWh)	**327**	328

YAOMENG POWER PLANT

The following table sets out certain operation data of Yaomeng Power Plant for each of the two years ended 31 December 2008 and 2007:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**1,210**	1,210
Average utilisation hours (hours)	**5,332**	5,987
Gross generation (MWh)	**6,451,564**	7,244,617
Net generation (MWh)	**5,867,582**	6,666,015
Net coal consumption rate (grams/KWh)	**343**	340

SHENTOU I POWER PLANT

The following table sets out certain operation data of Shentou I Power Plant for each of the two years ended 31 December 2008 and 2007:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**800**	1,200
Average utilisation hours (hours)	**5,420**	6,639
Gross generation (MWh)	**6,504,185**	7,967,175
Net generation (MWh)	**5,854,153**	7,216,857
Net coal consumption rate (grams/KWh)	**373**	373

PINGWEI POWER PLANT II

The following table sets out certain operation data of Pingwei Power Plant II for each of the two years ended 31 December 2008 and 2007:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**1,280**	1,280
Average utilisation hours (hours)	**5,964**	2,167
Gross generation (MWh)	**7,633,850**	2,773,518
Net generation (MWh)	**7,229,440**	2,620,985
Net coal consumption rate (grams/KWh)	**315**	319

YAOMENG POWER PLANT II

The following table sets out certain operation data of Yaomeng Power Plant II for each of the two years ended 31 December 2008 and 2007:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**1,260**	1,260
Average utilisation hours (hours)	**4,968**	465
Gross generation (MWh)	**6,259,743**	585,884
Net generation (MWh)	**5,914,822**	558,003
Net coal consumption rate (grams/KWh)	**324**	322

DABIESHAN POWER PLANT

The following table sets out certain operation data of Dabieshan Power Plant for the year ended 31 December 2008:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**1,280**	—
Average utilisation hours (hours)	**2,869**	—
Gross generation (MWh)	**1,589,526**	—
Net generation (MWh)	**1,503,298**	—
Net coal consumption rate (grams/KWh)	**323**	—

CHANGSHU POWER PLANT

The following table sets out certain operation data of Changshu Power Plant for each of the two years ended 31 December 2008 and 2007:

	For the year ended 31 December	
	2008	2007
Installed capacity (MW)	**1,260**	1,230
Average utilisation hours (hours)	**5,379**	5,411
Gross generation (MWh)	**6,639,262**	6,655,036
Net generation (MWh)	**6,265,664**	6,280,282
Net coal consumption rate (grams/KWh)	**336**	337

OPERATING RESULTS

Turnover

The Group recorded turnover of approximately RMB9,632,381,000 in 2008 as compared with RMB5,907,301,000 of the previous year, representing an increase of approximately 63.06%. The increase in turnover was mainly due to the increases in net generation by newly commissioned units and in average on-grid tariff.

Other Income

In 2008, the Group's other income was approximately RMB8,842,000, representing a decrease of approximately 78.81% as compared to RMB41,722,000 of the previous year. The reasons for the decrease, firstly because the Company's two former subsidiaries, Pingwei Maintenance Company and Yaomeng Engineering Company, which engaged in repair and maintenance, were disposed at the end of last year and therefore no repairs and maintenance services fee is recorded after disposal and secondly because the management fee income dropped due to the decrease in installed capacity of managed power plants.

Operating Costs

In 2008, operating costs (excluding asset impairment loss and goodwill impairment loss) of the Group amounted to approximately RMB9,299,502,000, representing an increase of approximately 72.01% over RMB5,406,385,000 of the previous year.

Fuel Costs

Fuel costs were a major component of the Group's operating costs. In 2008, the fuel costs of the Group were approximately RMB7,055,736,000, accounting for approximately 75.87% of the total operating costs. Fuel costs increased by approximately 83.72% compared with RMB3,840,488,000 of the previous year. The increase of fuel cost was firstly attributable to the commencement of operation of the new power generation units which resulted in the increase in power generation and coal consumption, and secondly to the increase in average coal price of 38.21% over last year resulting from the surge of coal prices.

In 2008, the Group's unit fuel cost was approximately RMB208 per MWh, representing an increase of approximately 34.51% over the corresponding period last year.

Depreciation

In 2008, depreciation of the Group amounted to approximately RMB798,356,000, representing an increase of approximately 73.52% over RMB460,084,000 of the previous year. The increase in depreciation was due to the commissioning of the new generation units and the addition of property, plant and equipment.

Staff Costs

In 2008, staff costs of the Group amounted to approximately RMB384,763,000, representing an increase of approximately 15.33% over RMB333,625,000 of the previous year. Such increase in staff costs was mainly due to commencement of operation of new generation units.

Repairs and Maintenance

In 2008, repairs and maintenance expenses of the Group amounted to approximately RMB405,500,000, representing an increase of approximately 47.05% over RMB275,760,000 of the previous year. Such increase was mainly due to the commissioning of the new generation units leading to increase in expenses on repairs and maintenance.

Consumables

In 2008, the Group's consumables amounted to approximately RMB154,713,000, increased by 112.17% as compared to RMB72,918,000 of the previous year. Such increase was firstly due to an increase in consumables as a result of the commencement of operation of the new power generation units, and secondly because of the increase in consumed materials due to extensive commissioning and operation of desulphurisation facilities.

Other Gains

In 2008, other gains of the Group amounted to approximately RMB16,309,000, representing an increase of approximately 2.35% as compared to RMB15,935,000 of the previous year. Such increase was mainly due to the increase in income as a result of tax refund for re-invested dividends from the associated company.

Other Operating Expenses

In 2008, other operating expenses of the Group amounted to approximately RMB500,434,000, representing an increase of approximately RMB76,924,000, or approximately 18.16%, over RMB423,510,000 of last year. Such increase was mainly due to the commencement of operation of the new power generation units.

Operating Loss

In 2008, operating loss of the Group amounted to approximately RMB30,475,000, representing a decrease of approximately 105.46% as compared with operating profit of RMB558,573,000 of the previous year.

Interest Income from Bank Deposits

In 2008, the interest income from bank deposits of the Group was approximately RMB17,011,000, representing a decrease of approximately 28.51% over RMB23,794,000 of last year. It was mainly due to the decrease in interest rate of bank deposits.

Finance Costs

In 2008, finance costs of the Group amounted to approximately RMB629,504,000, representing an increase of approximately 240.36% over RMB184,950,000 of last year. The increase was firstly due to the commissioning of the new generation units that ceased interest capitalisation and secondly due to the increase in operating loans, which increased the interest expenses.

Share of Losses of Associated Companies

In 2008, the share of losses of the associated companies of the Group was approximately RMB43,194,000, representing a decrease of approximately RMB4,715,000 as compared to the loss of approximately RMB47,909,000 of the previous year. It was mainly because the results of Shanghai Power were not incorporated into the Group in 2008, and Shanghai Power is now regarded as available-for-sale financial assets of the Group instead of an associated company. In addition, operating loss was incurred by Changshu Power Plant due to higher coal prices which resulted in increased operating costs.

Impairment on property, plant and equipment and impairment on goodwill

At the end of 2008, the Group's Shentou I Power Plant was approved to carry out the preparatory work of the "Replacement of Small Units with Larger Units" project. Shentou I Power Plant closed two generation units of 400MW in aggregate on 31 December 2008 and undertook to close another two generation units of 400MW in aggregate in accordance with the relevant policy requirements. The closure of generation units resulted in the asset impairment. Accordingly, the Group provided a total of approximately RMB388,505,000 for the impairment losses of property, plant and equipment and goodwill due to the acquisition of Shentou I Power Plant.

Taxation

Tax expense of the Group for 2008 were approximately RMB7,175,000, representing a decrease of approximately 89.67% over RMB69,477,000 of the corresponding period last year. Such decrease was mainly attributable to the decrease in profit before taxation.

Loss Attributable to Equity Holders of the Company

In 2008, loss attributable to equity holders of the Company was approximately RMB683,686,000, representing a decrease of approximately RMB1,276,121,000 as compared to a profit of RMB592,435,000 of last year. Attributable profit decreased to a loss was mainly due to the increase in operating cost as a result of a substantial rise of the coal price, and the provision for impairment loss of assets.

SEGMENT INFORMATION

The Group's principal activities are the generation and sale of electricity, investment holdings 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 Mainland China except that certain cash and bank balances equivalent to approximately RMB401,000,000 were deposited in certain banks in Hong Kong as at 31 December 2008 (2007: approximately RMB417,000,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, cash and cash equivalents of the Group were approximately RMB1,326,818,000 (31 December 2007: approximately RMB734,057,000). The Group derived its funds mainly from cash inflow from operating activities, bank borrowings and project finance, whereas current assets amounted to approximately RMB3,935,534,000 (31 December 2007: approximately RMB2,581,239,000) and current ratio was 0.92 times (31 December 2007: 0.76 times).

DEBTS

Set out below are details of the loans and borrowings of the Group for the years ended 31 December 2008 and 2007:

	2008 *RMB'000*	2007 *RMB'000*
Short-term bank borrowings	**880,000**	605,000
Short-term bank borrowings, secured	**100,000**	—
Other bank borrowings	**412,725**	—
Short-term loan payable to CPIF	**100,000**	—
Current portion of long-term loan payable to CPIF	**—**	127,863
Current portion of long-term bank borrowings	**225,000**	466,000
Long-term bank borrowings maturing within 1-2 years	**743,350**	571,850
Long-term bank borrowings maturing within 3-5 years	**200,000**	100,000
Long-term bank borrowings maturing over 5 years	**8,495,800**	7,034,500
Long-term loan payable to CPIF	**270,295**	270,295
	11,427,170	9,175,508

The interest rates on the Group's loans, which currently range from 4.24% to 8.22%, are subject to adjustment in accordance with the relevant regulations of the People's Bank of China.

The debts incurred by the Group will be used for general corporate purpose, including capital expenditure and working capital requirements.

Our debt to equity ratio (total borrowings/shareholders' equity) as at 31 December 2008 and 2007 were approximately 141.54% and 82.40% respectively.

CAPITAL EXPENDITURE

In 2008, capital expenditure of the Group was approximately RMB1,624,207,000, which was primarily used for the construction of new units and technical upgrade projects for existing units. Sources of funds were mainly from project financing and self-generated funds.

In 2008, the Group spent approximately RMB1,176,134,000 on technical upgrades in energy saving and desulphurisation.

In 2008, the Group continued to invest in the construction of the new project Dabieshan Power Plant. Total project investment completed was approximately RMB390,188,000.

RISK MANAGEMENT

The investment and business operation of the Group are exposed to risks of exchange rates, interest rates, commodity prices and liquidity. The Group's exposure to financial and operational risks has increased due to global financial crisis and tightened State austerity measures as well as significant increase in coal price.

The Group currently does not use any derivative instruments to manage such risks.

To effectively control risks in the development of the Company, the Group has implemented all-round risk management and established a systematic, comprehensive risk management mechanism and internal control system. It has a designated risk management department for executing the risk management system and the implementation of risk management measures.

FOREIGN EXCHANGE RATE RISK

The Group is principally engaged in business in Mainland China, with most of the Group's transactions denominated in Renminbi. The Group is mainly exposed to foreign exchange risk related to Hong Kong Dollars and US Dollars. With the increasing intensity in the reform of Renminbi and fluctuation of exchange rate these years, the Group will have certain profit or loss in foreign exchange and the financial positions and operating results of the Group will also be affected. Basically, the assets and liabilities of the Group as well as its business transactions are not exposed to any substantial exchange risks. Apart from certain cash and bank balances, the assets and liabilities of the Group are mainly denominated in Renminbi. The Group obtains Renminbi through sales in Mainland China for the settlement of liabilities in Renminbi.

Recently, no obvious rise of the exchange rate of RMB against US Dollars and HK Dollars has been noted, thus foreign exchange risk is reduced accordingly. However, the Group has monitored closely the foreign exchange risk, and strived to seek effective methods to control these risks and minimise the impacts of foreign exchange rate fluctuation.

PLEDGE OF ASSETS

As at 31 December 2008, a subsidiary of the Group pledged its plant and equipment with a net book value of approximately RMB468,000,000 to a bank to secure a bank loan in the amount of RMB193,000,000.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2008, the Group and its associated company, Changshu Power Plant, had a total of 5,251 full-time employees.

The Group determines the emoluments and benefits of its directors and employees based on their respective performance, working experiences, duties and the prevailing market rates. The Group has also implemented performance-based incentive remuneration policy.

The Group further regulated the human resources management pursuant to the new labour laws and regulations of the PRC, and provided appropriate emoluments and benefit packages to all its employees based on their respective duties.

The Group has also established share option schemes for the Group's senior management and key employees so as to motivate and attract high-calibre personnel.

The Group has dynamically developed itself into a self-learning corporation, and attached great importance on the overall improvement of staff quality through on-going strengthening of talent training and work training. In order to address the Company's increasing demand for high-calibre employees, we continue to provide training on expertise such as specialised technology and management to our employees pursuant to their personalities and duties.

OUTLOOK AND PROSPECTS FOR 2009

In 2009, the effect of global financial crisis on real economy will deepen gradually, while macroeconomic environment has become more challenging. China's economic growth will slow down due to global economic recession, and financing and merger and acquisition activities will become more difficult. Utilisation hours of coal-fired power generation unit will continue to decline as installed capacity in power generation industry continues to increase and electricity consumption growth slows down. Although coal price declines, the trends of key contract coal prices are still uncertain and cost pressure still exists. However, fundamentals of China's economic development has not changed, and the state will boost domestic demands and expand infrastructure constructions, which will bring development opportunities for the power generation industry. Recent adjustment of monetary policy in the PRC will also help the Company alleviate its funding pressure and improve its financial condition.

The Group will promote the steady implementation of different development strategies by leveraging on the favourable conditions in such marco-economic environment.

The Group will closely keep track of the trends of the fuel market and strive to control coal price and fuel costs.

The Group will continue to monitor any policy changes concerning the power markets and energy-saving, thereby improving its operation and production strategy.

The Group will continue to build an "energy conserved, environmental-friendly" enterprise, with an aim to enhancing the efficiency of energy conservation and environmental protection.

The Group will continue to cultivate the corporate culture characterised as "Still water runs deep" and endeavor to build up a harmonious organisation.

The key objectives of the Group for 2009 are as follows:

1. To enhance strategic development, speed up asset structure adjustment and achieve sustainable development.

2. To enhance the standard of safety in production, so as to generate more electricity.

3. To implement streamlined fuel management, secure coal supply and minimise fuel costs.

4. To promote comprehensive budget management and standardised cost system construction, and enhance the Company's ability of management and profitability.

5. To broaden financing channels, strengthen mergers and acquisitions, and expand the growth potential of the Company.

CORPORATE GOVERNANCE

China Power strives to raise the standard of corporate governance and regards corporate governance as part of value creation. This reflects the commitment of the Board and senior management on abiding by the standards of corporate governance, as well as our willingness to maintain transparency and accountability to maximise the value of our shareholders as a whole.

CORPORATE GOVERNANCE REPORT

Except for the deviations from Rules A.2.1 and A.4, the Company has strictly complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules in 2008 (other than deviation from Rule A.2.1 and Rule A.4 of the code provisions). The Corporate Governance Report of the Company during the year is set out below:

A. DIRECTORS

A.1 THE BOARD

The Board held five meetings during the year and meetings were also held as and when necessary to discuss significant transactions, including material acquisitions and disposals and connected transactions, if any. All Directors can give notice to the Chairman or the company secretary if they intend to include matters in the agenda for Board meetings. Before each Board meeting, sufficient notice of meeting was sent to each Director to promote better attendance. To ensure a thorough understanding of the matters to be discussed in the meetings, the Company will provide the Directors with complete and reliable written reports in a reasonable period of time and the management will answer enquiries from the Directors at any time. Where necessary, the Directors can seek separate independent professional advice at the Company's expenses so as to discharge his/their duties to the Company. Minutes of the meetings are kept by our company secretary, and the Board and committee members may inspect the documents and minutes of the Board and the committees at anytime. All Directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that procedures are followed and that all applicable laws and regulations are complied with.

We have arranged appropriate insurance cover on Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. For the year ended 31 December 2007, the positions of the Chairman of the Board and the chief executive officer were served by Mr. Wang Binghua and Ms. Li Xiaolin respectively. Mr. Wang Binghua has formally resigned as non-executive Director and chairman of the Company on 1 January 2008, and Ms. Li Xiaolin was appointed as chairman of the Company thereafter. Ms. Li Xiaolin currently serves as chairman of the Board and chief executive officer. The Board believes that Ms. Li Xiaolin has served as the chief executive officer and accumulated extensive experience in the capital market and the industry. It will be more effective in developing the Company's long-term business strategies and in execution of the Company's business plans if Ms. Li Xiaolin continues to serve as the chief executive officer of the Company. To help maintain a balance of power, the Company has set up an Executive Committee. The Executive Committee was formed by all Executive Directors and senior management and meetings were convened regularly to make decision on matters concerning the daily management and business of the Company.

The Chairman, Ms. Li Xiaolin, provides leadership for the Board. She is responsible for ensuring that all Directors receive adequate information, which must be complete and reliable, in a timely manner and that Directors are properly briefed on issues arising at the Board Meetings. She also ensures that the Board works effectively and discharges its responsibilities; good corporate governance practices and procedures are established; and appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole.

A.3 BOARD COMPOSITION

The Board comprises chairman of the Board and chief executive officer, Ms. Li Xiaolin, executive Director and the president, Mr. Liu Guangchi, two non-executive Directors, namely Mr. Gao Guangfu and Mr. Guan Qihong, and three independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec. Profiles of the Directors are set out in the section headed "Directors and Senior Management Profiles" of this annual report.

Members of the Board possess various experience, capabilities, and expertise suitable for and relevant to the Board. The Board includes experts in electric power technology and management, professionals in finance and law as well as scholars. They are not only experienced, but also have progressive thinking. More than one-third of our Board members are independent non-executive directors who can help the Board to make more effective independent judgment. The non-executive Directors (including the independent non-executive Directors) who form the majority of the Board possess diverse expertise. As such, they are able to make decisions in an objective and professional manner, to assist the management in formulating the Company's development strategies, and to ensure that the preparation of financial and other mandatory reports by the Board are in strict adherence to appropriate standards in order to protect the interests of the shareholders and the Company. The Board has received annual written confirmation of independence from each of the independent non-executive Directors and believed that, as at the date of this annual report, they were independent of the Company in accordance with the relevant requirement of the Listing Rules.

A.4 APPOINTMENTS, RE-ELECTION AND REMOVAL

In accordance with our articles of association, one-third of the Directors (with the exception of the executive Director who is also the chief executive officer of the Company) will retire from office by rotation for re-election by shareholders at the annual general meeting after the annual general meeting in year 2007. In addition, any new appointment to the Board is subject to re-appointment by shareholders at the upcoming general meeting.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to retirement by rotation and re-election. Code provision A.4.2 also stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive Directors of the Company (except Mr. Guan Qihong who has been appointed for a term of three years) are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company. In addition, as provided in the articles of association of the Company, the executive Director who is also the chief executive officer of the Company shall not be subject to retirement by rotation, while all the other Directors will be subject to retirement at every annual general meeting after the annual general meeting in 2007.

The Company is of the view that the position of chief executive officer is crucial to the operation of the Company. The articles of association of the Company stipulate that the chief executive officer shall not be subject to retirement by rotation, which reflects the importance of this position and ensures that the impact of the change of personnel on the operation of the Company is kept to minimal.

A.5 RESPONSIBILITIES OF DIRECTORS

Every newly appointed Director will receive a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has a proper understanding of the operations and business of the Company, and that he/she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, other regulatory requirements, and especially the governance policies of the Company. The company secretary of the Company will continuously update and refresh Directors on areas regarding their responsibilities and relevant regulations. All Directors are required to disclose the Company their offices held in public companies or organisations and other significant commitments.

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors (“Code of Conduct”), the terms of which are not less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2008.

A.6 SUPPLY OF AND ACCESS TO INFORMATION

Full Board or committee papers will be sent to all Directors at least three days before the intended date of a Board meeting or committee meeting.

Management has supplied the Board and its committees with adequate information and explanations so as to enable them to make an informed assessment of the financial and other information put before the Board and its committees for approval. Management is also invited to join the Board or committee meetings where appropriate.

All the Directors are also entitled to have access to timely information in relation to our business and make further enquiries where necessary, and they have separate and independent access to senior management.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established the Compensation and Nomination Committee on 24 August 2004. Its primary duties are to evaluate the performance of the Directors and senior management and to determine the specific compensation packages for all executive Directors, including benefits in kind, pensions, benefits, and compensation for lost of office or upon appointment, to make recommendations on the remuneration of non-executive Directors and to make recommendations in respect of the appointment and removal of members of the Board according to criteria such as educational background and work experience. The remuneration of the Directors approved by the shareholders is determined by the Board with reference to their experience, performance, duties and market conditions.

The Compensation and Nomination Committee has three members, namely Mr. Li Fang, Mr. Kwong Che Keung, Gordon, and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The committee is chaired by Mr. Li Fang.

The Compensation and Nomination Committee held two meetings during 2008 (average attendance was 100%) to review and make recommendations in respect of the Directors' remuneration in 2008 and the overall remuneration package for Directors and senior management in 2008.

C. ACCOUNTABILITY AND AUDIT

C.1 FINANCIAL REPORTING

Directors acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the Listing Rules, Companies Ordinance and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgements and estimates made are prudent and reasonable. The Directors endeavour to ensure a balanced, clear and understandable assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory requirements.

C.2 INTERNAL CONTROLS

The Board puts particular emphasis on risk management and strengthening internal monitoring system. In respect of organizational structure, in addition to the Audit Committee, the Company has also established the Compensation and Nomination Committee. The principles of the internal control framework are: to strengthen the Company's internal monitoring and control in accordance with the requirements of the Hong Kong Stock Exchange, continuously improve the Company's corporate governance structure, build up integrity corporate culture, establish an effective control system, continuously assess the competence of the internal control system and the efficiency of the management through auditing, risk assessments and internal assessment and etc, remind the management on risks and ensure the effective running of the control system.

The Company has established the Internal Control Department which is crucial to the Company's internal controls. To create a good internal control environment, the Internal Control Department provides internal control assessment reports to the management on a regular or ad hoc basis. It also regularly reports to the Audit Committee and the Board on internal control affairs. To minimise risk faced by the Company, the department evaluates and reviews the Company's internal control processes to avoid risks and provide a solid foundation for building up an effective internal control system.

The Company has preliminarily established a comprehensive internal control system, which includes seven parts: "basic framework of the internal control system", "management authorization manual", "staff disciplinary codes", "codes on conflicts of interests", "operation standards for internal control activities", "assessment standards for internal control system assessments", and "implementation standards for internal audit", details of which are all contained in our "Internal Control Manual". While taking into full account the risk management framework requirements of The Committee of Sponsoring Organisations of the Treadway Commission, i.e. the promoter of the National Commission on Fraudulent Financial Reporting, and risk management guidelines set out by the Hong Kong Institute of Certified Public Accountants, the internal control system of the Company also borrows from the experience of outstanding management companies and takes into consideration our reality and business characteristics in building the control framework for assessing the efficiency and competence of the internal control system, providing a solid foundation for the Company's effective operation activities, reliable financial reports and compliance of laws and regulations.

The Directors have reviewed the efficiency of internal control systems of the Company and its subsidiaries in aspects such as financial condition, operation, compliance and risks management. The Directors believe that the internal control system is efficient and largely control all risks that will affect the Company in achieving its goals.

In 2008, according to the "Internal Control Manual", our Internal Control Department had assessed the internal control systems and reviewed the improvement works regarding the issues discovered during the 2007 internal control assessment. By analysing 188 internal control modes of the business processes, we have a better picture of the current conditions of internal control of each business unit and unearthed defects and weaknesses of the internal control system. By so doing, potential operation and management risks can be avoided and the corporate governance level and economic benefits can be enhanced.

Furthermore, the Company has enhanced its efforts on internal audit items such as effectiveness of the fund management, fuel management, and costs difference comparison of similar machine groups this year under its integrated management focuses. With enhanced effectiveness of the internal audit function, internal audit was conducted for the independent and objective supervision and assessment on the adequacy and effectiveness of the operation of the internal control system.

C.3 AUDIT COMMITTEE

The Company established the Audit Committee on 24 August 2004 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code which became effective on 31 December 2004. The primary duties of the Audit Committee set out in its terms of reference, inter alia, include: (1) to communicate with internal auditor and determine annual internal audit plans, discuss internal audit procedures with the internal auditor at least once every six months, review and monitor the internal control systems, internal audit functions and effects of annual internal audit plans; (2) to make proposals to the Board on the appointment, re-appointment and removal of the external auditor, review and monitor the independence, objectivity and audit effectiveness of the external auditor in accordance with the relevant standards issued by the Hong Kong Institute of Certified Public Accountants, formulate and implement the engagement policy on the provision of non-auditing services by the external auditor; (3) to review financial information of the Company; (4) to supervise the financial reporting system and internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget; (5) to conduct any inspection authorised by the Board based on its terms of reference, in that case, the committee is entitled to solicit any necessary information from any employees while who have been instructed to assist the committee to satisfy any of its requirements.

The Audit Committee comprises of three members, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Kwong Che Keung, Gordon. For the purpose of reinforcing their independence, all members of the Audit Committee have appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held two meetings during 2008 (average attendance was 100%). The committee together with the senior management, internal and independent auditors of the Company reviewed the internal and independent audit results and discussed matters relating to audit, internal control system and financial reporting.

D. DELEGATION BY THE BOARD

D.1 MANAGEMENT FUNCTIONS

The Board is the highest decision-making and managing body of the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as business strategies, budgets, major investments as well as mergers and acquisitions. In addition, the Directors have acknowledged that the principal responsibilities of the Board also include supervising and administrating the operation and financial position of the Company, approving the result announcements and other announcement concerning operation conditions of the Company to be published to the public on a regular basis, optimising corporate governance structure and promoting the communication with our shareholders.

D.2 EXECUTIVE COMMITTEE

Currently, the Board of the Company has set up three committees, namely Executive Committee, Audit Committee and Compensation and Nomination Committee to implement internal supervision and control on each relevant aspect of the Company. Details of Audit Committee and Compensation and Nomination Committee are set out in Sections C.3 and B above.

The Company established the Executive Committee in 2008. As a committee under the Board, the Executive Committee conducts its work under the guidance of the Board and reports to the Board pursuant to the "Working Guidelines for the Executive Committee" approved by the Board. The Chairman of the Board acts as the chairman of the committee. The members of the committee include the president, vice presidents, financial controller and other senior management. The functions and powers of the Executive Committee cover those of the original Investment and Risk Control Committee and extend to all important aspects relating to the operation and management of the Company.

The Executive Committee plays an important role in enhancing the quality of corporate governance as well as strengthening the management efficiency of the Company, and acts as a bridge for communication and connection between the Board and the management. The Executive Committee supervises and guides the management to timely implement the Board resolutions, and ensures that the Board can timely hear the voices of the operation and management staff and acts timely in respect of material operation affairs of the Company.

The Executive Committee held a meeting every month since its establishment, making a total of eight meetings during the year. The Chairman of the Board, the president and senior management of the Company all attended each meeting.

E. COMMUNICATION WITH SHAREHOLDERS

Apart from reporting to the shareholders and investors on its operation and financial conditions semi-annually and annually, the Company also discloses relevant information such as electricity generation regularly so that the investors have a better understanding about the operation of the Company.

The Company also holds regular press conferences and meetings with financial analysts and investors, during which the Company's management will directly provide relevant information and data to the media, financial analysts, fund managers and investors, as well as answer their enquiries in a prompt, complete and accurate manner. The Company's website is updated continuously, providing up-to-date information regarding every aspect of the Company to investors and the public.

The Company features the Capital Markets and Investor Relations Department, which takes charge of the Company's relationship with investor relations by providing information and services to investors, promptly replying to their enquiries, and maintaining channels of active and timely communications with them.

F. ATTENDANCE RECORDS

Details of Directors' attendance at the Board meetings and meetings of Board committees held in 2008 are set out in the following table:

Directors	Attendance Required	Attendance in Person	Attendance by Proxy
Board of Directors			
Executive Directors:			
Li Xiaolin *(Chairman of the Board and chief executive officer)*	5	4	1
Liu Guangchi *(President) (appointed on 30 January 2008)*	5	5	—
Hu Jiandong *(Executive vice president) (resigned on 30 January 2008)*	0	0	—
Non-executive Directors:			
Gao Guangfu	5	5	—
Guan Qihong *(appointed on 30 January 2008)*	5	4	1
Independent Non-executive Directors:			
Kwong Che Keung, Gordon	5	5	—
Li Fang	5	5	—
Tsui Yiu Wa, Alec	5	5	—
Audit Committee			
Kwong Che Keung, Gordon *(Chairman of the Committee)*	2	2	—
Li Fang	2	2	—
Tsui Yiu Wa, Alec	2	2	—
Compensation and Nomination Committee			
Li Fang *(Chairman of the Committee)*	2	2	—
Kwong Che Keung, Gordon	2	2	—
Tsui Yiu Wa, Alec	2	2	—

G. AUDITOR'S REMUNERATION

For the year ended 31 December 2008, the Company has reviewed the performance of PricewaterhouseCoopers as the Company's auditor (the "Auditor") and is considering their reappointment. For the year ended 31 December 2008, the remuneration payable to the Auditor amounted to approximately HK$4,500,000, while the fees for non-audit services, including the review of interim reports and other services in connection with the Company's acquisitions, amounted to approximately HK$500,000 in aggregate.

China Power bears social responsibility while developing itself, following the corporate mission of "providing green energy and serving our community". We are dedicated to building up a resource-saving and environmental-friendly enterprise.

We have attached great importance to Environmental Protection, and take it as our social responsibility to reduce emission and keep a good environment. By adopting standardized management as its basic strategy, by implementing risk control measures and by carrying out various environmental protection works with technological advancement and innovative management, the Company has effectively reduced energy consumption rate, raised corporate competitiveness and laid a solid foundation for our sustainable growth.

China Power provides light to society while dedicating to charitable activities and fulfilling social responsibilities, which make us a prominent corporate citizen. In 2008, during snow storm disaster in Southern China and Wenchuan Earthquake in Sichuan Province, our staff have given their love to the full extent and donated over RMB6.8 million in total by various channels such as personal donation. And Li Xiaolin, Chairman of the Board has established a Student Aid fund to help students in need with the royalties from her book "Still water runs deep". Those actions were appreciated and acclaimed by the public at large.

ENVIRONMENTAL PROTECTION MANAGEMENT SYSTEM

In 2008, China Power has continuously integrated its production process and enhanced several systems for environmental protection work management, which standardised, regulated and refined the management of environmental work. Environmental protection work was included in the power generation procedures, which ensured smooth operation of the environmental protection facilities and that pollutant emissions were under control. As environmental protection facilities such as desulphurisation units commenced operations, the emission of various pollutants was less than last year, which denoted a successful environmental risk control.

Pingwei Power Plant of the Company attained great achievement in emission reduction, and was listed among first "Top Ten Environmental-friendly Enterprises" by Anhui Environmental Protection Bureau.

ENVIRONMENTAL ACTIONS

• DESULPHURISATION PROJECTS

Flue gas desulphurisation projects of Unit 1 and Unit 2 of Pingwei Power Plant, Unit 1, Unit 2, Unit 3 and Unit 4 of Yaomeng Power Plant, Unit 1 and Unit 2 of Changshu Power Plant as well as some generating units of Shentou I Power Plant have commenced operations respectively before the end of 2008. As at the end of 2008, units with 3,900MW have installed desulphurization facilities. China Power has reduced sulphur dioxide emission by 65,200 tons in 2008.

• OTHER ENVIRONMENTAL PROTECTION PROJECTS

The zero discharge of waste water project of Shentou I Power Plant have commenced full operation in May 2008 and have reduced the discharge of waste water by 12,000,000 tons during 2008.

Disposal and recycling project of sewage of Pingwei Power Plant has been completed in November 2008. At the same time, we actively take part in water conservation activities to promote waste water treatment as well as water saving, to reduce water consumption in power generation, to control waste water discharge and to enhance water recycling.

• SPECIFIC ENVIRONMENTAL PROTECTION FUND

In 2008, the Group arranged 17 energy conservation technical upgrade projects and injected RMB233,940,000. The Group has upgraded the steam flow systems of unit 1 and unit 3 of Changshu Power Plant, the fuel system and variable frequency system of auxiliary machine of Yaomeng and Shentou I Power Plant with expected effect.

In accordance with the regulations concerning the management of specific environmental protection fund in the PRC, we strived for privileged fund from specific environmental protection fund to implement environmental protection and enhancement plans. In 2008, Pingwei Power Plant was granted a specific environmental protection fund of RMB4,400,000, Yaomeng Power Plant was granted a specific environmental protection fund of RMB3,700,000, while Shentou I Power Plant was granted a specific environmental protection fund of RMB4,000,000 for the construction and enhancement of environmental protection facilities such as desulphurisation units.

• ENVIRONMENTAL PROTECTION FOR PROJECTS UNDER CONSTRUCTION

Environmental protection projects of Unit 3 and Unit 4 of Pingwei Power Plant II, Unit 5 and Unit 6 of Yaomeng Power Plant II and Unit 1 and Unit 2 of Dabieshan Power Plant have commenced operations, among which the environmental protection projects of Unit 3 and Unit 4 of Pingwei Power Plant II has successfully passed the inspection and acceptance by State Environmental Protection Administration on 10 January and 17 September 2008 respectively.

REDUCING WASTAGE AND GREENHOUSE GAS EMISSION

Global warming has become an increasingly hot issue with international concerns. As a power generation enterprise primarily utilizing coal, China Power not only keeps a close eye on global climate changes, but also takes active measures for our impacts on climatic changes. Our exploration and research on the control of greenhouse gas emission have made certain progress and achievements. We have strived to reduce consumption of coal and emission of greenhouse gas via various measures such as closing-down of small thermal power generation units with high energy consumption, developing large scale and high efficiency environmental friendly generation units, enhancing operation management and technical upgrades.

In 2008, net coal consumption rate of China Power was 334.38 grams/kWh, representing a decrease of 9.03 grams/kWh as compared with last year, while standard coal consumption decreased by 300,000 tons. Self-use rate reduced by 0.17 percentage point to 6.71%, resulting in a decrease of 60,000,000 kWh in self-use power; where thermal coal of the same quality was used, fuel oil consumption could be reduced by 60%. Our environmental protection measures achieved its expected results, with emissions of sulphur dioxide, nitrogen oxide and carbon dioxide decreased by 65,200 tons, 15,100 tons and 878,400 tons respectively as compared with last year.

The Company, the Board and the management deeply acknowledge that investor relations constitute a strategic management activity which could enhance understanding between investors and the Company, upgrade the level of corporate governance, transparency and strategic credibility as well as create values for shareholders. Since its listing, the Company has been striving to establish and maintain good relations with its investors, respect the investment made by investors and maintain good communications between the Company and its investors, with a view to attract institutional investors as well as small and medium investors and realise the Company's value. Only in this way can the Company gain shareholders' support on its decisions and ensure smooth financing channels of the Company.

The Company has gained knowledge and experience in investor relations with the further development of its strategies. But still, we are always enthusiastic and sincere in managing investor relations.

In 2008, global capital markets suffered unprecedented financial crisis, which made management of investor relations challenging. In view of this, we poured great efforts in the communication with our investors. We made sincere and meticulous communication with investors on a timely basis to make them understand the problems and difficulties of the Company as soon as possible, thereby maintaining long-term good interaction with investors and gaining their recognition with our corporate development

The management of the Company highly treasures every opportunity to meet with investors, security analysts and media. In 2008, the Company held two meetings with analysts and media (on annual results and interim results, the latter of which was a global teleconference) and two general meetings. To facilitate the release of our annual results and interim results, we launched several global road shows in Hong Kong, Singapore, Europe and the US. In addition, we also attended ten investor conferences organised by investment banks. Including regular company visits by investors, the Company conducted nearly three hundred and forty one-on-one meetings or small group meetings with dozens of institutional investors in 2008, maintaining good communication with security analysts, institutional investors and reporters media.

In 2009, the Company will continue to provide better services for investors, security analysts and media as usual. Adhering to the policy of timely and objective information disclosure, the Company will use every opportunity of illustration, explanation and presentation to show to investors the overall strategic planning and operation development of the Company, so as to gain understanding of and win respect from investors and build mutual trust. We believe that only investors supports can ensure achievement of our planned objectives.

1. WHAT IS THE COMPANY'S DEVELOPMENT STRATEGY? WILL THE COMPANY CONSIDER EXPLORING NEW MARKETS OF RENEWABLE ENERGY OR NUCLEAR ENERGY? IS THERE ANY PLAN TO ACQUIRE OR DEVELOP HYDRO ELECTRICITY PROJECTS?

Since the IPO, the Company has adopted a clear and well-defined development strategy: to maintain the steady and healthy growth of the Company through acquisition and construction of coal-fired or hydro power plants in the developed coastal areas or areas with abundant resources capitalising on the strong support of CPI Group/CPI Holding.

The strategic positions and focuses of China Power, CPI Holding and CPI Group are distinctive. CPI Group emphasises its development on the establishment of a large-scale electricity generation production base and an integrated energy assets base, characterised by its focus on the nuclear power development. CPI Holding, on the other hand, undertakes the role of enterprise incubator, with a focus on backing up China Power in the development of coal fired or hydro power plants, developing renewable energy and investing in businesses such as transmission and distribution of electricity.

According to the aforementioned strategic divisions and positioning, and having taken into consideration shareholders' interests and the business nature of renewable energy and nuclear power, China Power is keeping an eye on the opportunities of developing renewable energy or embarking on nuclear power generation. However, China Power is currently focusing on developing coal fired or hydro power plants.

2. WHAT ARE THE CONSIDERATIONS OF THE COMPANY ABOUT ASSET INJECTION? IS THE PARENT COMPANY IN SUPPORT OF SUCH CAPITAL INJECTION?

Since the IPO in 2004, we have acquired Shentou I Power Plant and 25% equity interest in Shanghai Power in 2005 and 2006 respectively. Most of these acquisitions were completed through asset injections from the parent company, showing its strong support for the listed company.

CPI Group is a large power enterprise with diversified and high-quality asset portfolio. Its controllable installed capacity as at the end of 2008 amounted to 52GW in which more than 20% was contributed by hydro power capacity. CPI Group has been developing large conventional coal-fired or hydro power projects, has been granted the development rights of nuclear power, and is currently involved in several nuclear projects. Furthermore, CPI Group also has expanded its presence in the coal mining and port-related areas.

In 2008, the Company announced the proposed acquisition of 63% equity interest in Wu Ling Power Corporation from the Parent Company, with a view to optimise assets structure, reduce industrial risks and enhance competitiveness. In 2009, we will strive to proceed with such acquisitions so as to become a unique listed IPP with both hydro power and coal-fired power generation businesses.

3. SUFFERING FROM INTERNATIONAL FINANCIAL CRISIS, DOMESTIC SUPPLY AND DEMAND FOR ELECTRICITY IN 2009 WAS NOT OPTIMISTIC. WHAT IS THE COMPANY'S ESTIMATION OF THE UTILISATION HOURS FOR 2009? WHAT WILL BE THE COUNTER-MEASURES IN CASE OF DECREASING UTILISATION HOURS?

In 2008, with emerging effects of global financial crisis on domestic economy, growth in power generation dropped month by month and the drop was especially prominent in the second half year, leading to a substantial decrease in utilisation hours. National gross power generation recorded a year-on-year increase of 5.18%, representing a decline in growth of 10.32 percentage points as compared with last year.

In 2009, international environment is expected to further deteriorate, which will further affect China's economy. While further optimizing and adjusting structures to achieve the objective of energy saving, the power generation industry in China will face increasing pressure of declining growth in power generation. In 2009, we anticipate that the average utilization hours will record slight decrease.

We will take the following measures to generate more electricity: (1) to build up the concept of "Every watt-hour Counts"; (2) to capitalise on low tariff advantage; (3) to properly schedule maintenance and to strengthen production management; (4) to improve the coordination and communication with power grids and despatching authorities; and (5) to adopt an incentive system to promote electricity generation.

4. IN 2008, THE NATIONAL DEVELOPMENT AND REFORM COMMISSION MADE TWICE ADJUSTMENTS TO THE ON-GRID TARIFFS DUE TO SURGING COAL PRICE. WHAT KIND OF TARIFF ADJUSTMENTS HAVE YOU MADE? AND WHAT IS THE COMPANY'S CURRENT TARIFF LEVEL?

In 2008, the National Development and Reform Commission made twice adjustments to the on-grid tariffs on 1 July and 20 August respectively due to the surging price of coal. The Company reported higher adjustment during the two upward adjustments of tariffs. As a result, aggregate average tariff increment was RMB4.8 cents, representing an average increase of 15%.

The National Development and Reform Commission promulgated the "Provisional Measures for the Administration of the On-Grid Tariffs", which stipulates the "gradual unification of tariffs of power plants". On such basis, the tariffs of the power plants of the Company have been raised in 2006 and 2008. During the several upward adjustments of tariffs, all power plants of the listed company reported higher increment of tariffs than their provincial averages.

After the several tariff adjustments, the average tariff level of the Company increased significantly and thoroughly shook off the previous situation of low tariffs. On-grid tariff of the Company's power plants got close to the local benchmark tariff level. In 2009, with the implementation of the desulphurization tariff for certain units, the average on-grid tariffs of the listed company will further increase.

5. WHAT IS THE APPLICABLE TAX RATE FOR CHINA POWER AT PRESENT? HOW WOULD IT AFFECT THE COMPANY IF THE CHINESE GOVERNMENT UNIFORMS THE INCOME TAX FOR DOMESTIC AND FOREIGN ENTERPRISES?

In late 2006, the State Council announced the Circular on Implementing the Transitional Preferential Policies on Enterprise Income Tax which states detailed requirement about the 5-year transitional period of the unification of the two types of taxes. The Circular requires that the enterprises enjoying an enterprise income tax rate of 15% will be subject to tax rates of 18%, 20%, 22% and 25% in 2008, 2009, 2010 and 2011 respectively, which unifies the two types of tax gradually. In the long run, an increase in applicable tax rate will affect our operation to a certain extent. In the short-to-medium run, however, the impact was insignificant attributable to the arrangement of the transitional period.

Among the seven power plants of China Power under operation in 2008, the preferential tax treatment "First two years exemption and subsequent three years 50% reduction" of Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant has been expired and these power plants are subject to an income tax rate of 18% for the year. Shentou I Power Plant is still enjoying the preferential period of 50% reduction, which will end in 2009. Applicable tax rates for the years of 2008 and 2009 will be 9% and 10%, respectively. Since 2010, a transitional preferential tax rate of 22% will be effected. Pingwei Power Plant II, Yaomeng Power Plant II and Dabieshan Power Plant were still enjoying the tax-free period in 2008, but they will be subject to the applicable tax rate of 25% since 2012 and 2013, respectively, upon the expiry of the above preferential period.

The Company puts great emphasis on how the changes in the income tax policy of the PRC government affect our operations. To minimise the impacts of such tax rate changes on our operations, we will continue strengthening our management and cost control, and capitalising on the tax benefit policies during the transitional period. On the other hand, for our future acquisitions and new projects, we will take the new income tax policy into account and make appropriate adjustments to our strategies in order to maximise shareholders' value.

6. WHAT IS THE COMPANY'S DIVIDEND POLICY?

When formulates its dividend policy, the Company have fully taken into account various factors such as our cash flow, development needs and dividend payout ratio of peer groups. China Power's dividend payout ratio in 2005, 2006 and 2007 were 37.5%, 41.0% and 32.9%, respectively.

In 2008, the Company recorded a loss in annual results. Therefore, the Board resolved not to declare any final dividend for the year ended 31 December 2008.

Apart from our commitment of a dividend payout ratio of not less than 25%, we will also take the above factors into full consideration when formulating our dividend policy in the future.

The Directors hereby present the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2008 (the "Accounts").

PRINCIPAL ACTIVITIES

The principal activities of the Group are to develop, construct, own, operate and manage large power plants in China, and engage in investment holdings. Particulars of the Company's principal subsidiaries are shown in Note 20 to the Accounts.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2008 are set out in the Consolidated Profit and Loss Account on page 77. The Board does not recommend the payment of any final dividend for the year ended 31 December 2008.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately RMB2,195,208,000, 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 29 to the Accounts.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Note 30 to the Accounts.

DISTRIBUTABLE RESERVE

According to Section 79B of the Companies Ordinance, as at 31 December 2008, the distributable reserve of the Company amounted to RMB1,026,488,000 (2007: RMB1,507,925,000).

DIRECTORS

The present Directors are set out in the section headed "Corporate Information" in this annual report. Biographical details of each 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.

In accordance with Article 82 of the Company's Articles of Association, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. If the above Directors are re-elected, they will not enter into service contracts with the Company or any of its subsidiaries which are not determinable by the employing company within one year without payment of compensation other than statutory compensation.

As at 31 December 2008, 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 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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 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 7,103,100 shares (representing approximately 0.2% 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 offer 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 assess value of 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 due to the assumptions made and the limitations of the valuation model used.

The Pre-IPO Share Options were granted to the Directors, senior management and certain other employees of the Company on 18 September 2004 and to certain other employees of the Company on 11 October 2004. 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. All such fair value has already 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 and no share option expense (2007:RMB551,000) has been recognised for the year ended 31 December 2008.

Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2008 are as follows:

		Number of Shares subject to Options						
Grantee	**Date of grant**	**As at 1 January 2008**	**Granted during the year**	**Lapsed or cancelled during the year**	**Exercised during the year**	**Outstanding as at 31 December 2008**	**Expiry date**	**Exercise price per share (HK$)**
Director:								
LI Xiaolin	18 September 2004	1,661,500	—	—	—	1,661,500	17 September 2014	2.53
GAO Guangfu	18 September 2004	207,700	—	—	—	207,700	17 September 2014	2.53
WANG Binghua *(Note)*	18 September 2004	1,495,400	—	1,495,400	—	—	17 September 2014	2.53
HU Jiandong *(Note)*	18 September 2004	996,900	—	996,900	—	—	17 September 2014	2.53
Other employees	18 September 2004	3,696,900	—	—	—	3,696,900	17 September 2014	2.53
Other employees	11 October 2004	2,473,000	—	936,000	—	1,537,000	10 October 2014	2.53

Note: Mr. Wang Binghua and Mr. Hu Jiandong resigned as Directors on 1 January and 30 January 2008 respectively. Their options have lapsed in accordance with the Pre-IPO Share Option Scheme.

(B) SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved and adopted by a written resolution 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.

Unless otherwise terminated by the Board or the shareholders of the Company in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it is conditionally adopted by resolution of our shareholders in general meeting (i.e. 24 August 2004) (the "Scheme Period"), and after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted within the Scheme Period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

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

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 237,546,500, representing approximately 6.59% 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 capitalisation 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. Save any circumstance stated below, 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, be void and lapse.

(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.

The Company has used the Black-Scholes Option Pricing Model (the "Model") to assess the value of the 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 Share Option Scheme were granted to the Directors, senior management and certain other employees on 4 April 2007 and 2 July 2008 respectively. The fair value of the options determined at the dates of grant using the Model were HK$23,517,000 and HK$18,346,000 respectively. For the year ended 31 December 2008, an amount of share option expense of RMB9,322,000 has been recognised, with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

Movements of the options granted under the Share Option Scheme for the year ended 31 December 2008 are as follows:

		Number of Shares subject to Options						
Grantee	**Date of grant**	**As at 1 January 2008**	**Granted during the year**	**Lapsed or cancelled during the year**	**Exercised during the year**	**Outstanding as at 31 December 2008**	**Expiry date**	**Exercise price per share (HK$)**
Director:								
LI Xiaolin	4 April 2007	1,905,000	—	—	—	1,905,000	3 April 2017	4.07
	2 July 2008	—	820,000	—	—	820,000	1 July 2018	2.326
LIU Guangchi	2 July 2008	—	740,000	—	—	740,000	1 July 2018	2.326
GAO Guangfu	4 April 2007	667,000	—	—	—	667,000	3 April 2017	4.07
	2 July 2008	—	400,000	—	—	400,000	1 July 2018	2.326
GUAN Qihong	2 July 2008	—	400,000	—	—	400,000	1 July 2018	2.326
WANG Binghua *(Note)*	4 April 2007	921,000	—	921,000	—	—	3 April 2017	4.07
HU Jiandong *(Note)*	4 April 2007	1,377,000	—	1,377,000	—	—	3 April 2017	4.07
Other employees	4 April 2007	15,759,000	—	2,808,000	—	12,951,000	3 April 2017	4.07
	2 July 2008	—	27,230,000	—	—	27,230,000	1 July 2018	2.326

Note: Mr. Wang Binghua and Mr. Hu Jiandong resigned as Directors on 1 January and 30 January 2008 respectively. Their options have been lapsed in accordance with the Share Option Scheme.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, save as disclosed below, none of the Directors and their associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group:

Name of the Director	Position within Company	Other Interests
LI Xiaolin	Chairman, Executive Director and Chief Executive Officer	Vice-president of CPI Group; Chairman of CPI Holding; Chairman of China Power New Energy Development Limited and director of Companhia de Electricidade de Macau
LIU Guangchi	Executive Director and President	The director and general manager of CPI Holding and chief supervisor of Shanghai Power
GAO Guangfu	Non-executive Director	Manager of Finance and Property Ownership Management Department of CPI Group and director of CPI Holding
GUAN Qihong	Non-executive Director	Manager of the Capital Market and Equity Management Department of the CPI Group and director of CPI Holding

DIRECTORS' 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 the Director of the Company had any material interest, subsisted during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2008, save as disclosed below, none of the Directors has any interest or short positions 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 Issuers.

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
LI Xiaolin	Beneficial owner	the Company	18 September 2004, 4 April 2007 and 2 July 2008	4,386,500	0.12	Long
LIU Guangchi	Beneficial owner	the Company	2 July 2008	740,000	0.02	Long
GAO Guangfu	Beneficial owner	the Company	18 September 2004, 4 April 2007 and 2 July 2008	1,274,700	0.04	Long
GUAN Qihong	Beneficial owner	the Company	2 July 2008	400,000	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 and Share Option Scheme by the Company.

(2) None of the above Directors has interests in the any securities of the Company (except for interests held under equity derivatives).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2008, save as disclosed below, no person, not being a Director nor 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[(3)]	Percentage of issued share capital of the Company (%)	Long/Short position
China Power Development Limited ("CPDL")	Beneficial owner	1,996,500,000	55.38[(4)]	Long
CPI Holding[(1)]	Interest of a controlled corporation	1,996,500,000	55.38[(4)]	Long
	Beneficial owner	21,417,000	0.59[(4)]	Long
CPI Group[(2)]	Interest of a controlled corporation	2,017,917,000	55.97[(4)]	Long
Mondrian Investment Partners Limited	Investment manager	219,947,000	6.1	Long
The Bank of New York Mellon Corporation	Interest of a controlled corporation	251,845,422	6.98	Long

Notes:

(1) CPI Holding is the beneficial owner 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 CPI Holding and therefore CPI Group is deemed to be interested in the Shares owned by CPI Holding for the purposes of the SFO.

(3) CPI Group, CPI Holding and CPDL do not have any interest in the equity derivatives of the Company.

(4) After the end of the year, CPI Holding has acquired 3,167,000 shares of the Company, representing about 0.08% of issued share capital of the Company. As a result, CPI Group is deemed to be interested in 2,021,084,000 shares, representing 56.05% of the issued share capital of the Company.

CONNECTED TRANSACTIONS ENTERED BY THE GROUP

CONNECTED TRANSACTION

(A) REPLACEMENT AGREEMENTS

1. Replacement Agreement for Nanyang Xinguang Power Plant

On 5 March 2008, Yaomeng Power Plant (a subsidiary of the Company) and Nanyang Xinguang Power Plant entered into the Replacement Agreement, whereby Yaomeng Power Plant agreed to generate electricity on behalf of Nanyang Xinguang Power Plant for a portion of its production targets assigned for the year 2008. In return, Nanyang Xinguang Power Plant agreed that Yaomeng Power Plant will settle directly with the provincial power grid company in relation to the amount of electricity generated. Upon receipt of payments from the power grid company, Yaomeng Power Plant will pay the difference between the on-grid tariffs and a fixed rate (as specified in the agreement and ranging from RMB250 to RMB300 per MWh) to Nanyang Xinguang Power Plant and Yaomeng Power Plant will retain the balance.

2. Replacement Agreement for Kaifeng Jinghua Power Plant

On 5 March 2008, Pingwei Power Plant II (a subsidiary of the Company) and Kaifeng Jinghua Power Plant entered into the Replacement Agreement whereby Yaomeng Power Plant II agreed to generate the amount of electricity specified in its production target for the year 2008 on behalf of Kaifeng Jinghua Power Plant. In return, Kaifeng Jinghua Power Plant agreed that Yaomeng Power Plant II will settle directly with the provincial power grid company in relation to the amount of electricity generated. Upon receipt of payments from the power grid company, Yaomeng Power Plant II will pay a fixed rate (as specified in the agreement and ranging from RMB50 to RMB100 per MWh) to Kaifeng Jinghua Power Plant and Yaomeng Power Plant II will retain the difference between the on-grid tariff and the fixed rate. The difference between on-grid tariff and the fixed rate reflects the reasonable cost to be incurred by Yaomeng Power Plant II plus a reasonable profit margin. The parties also agreed that if the PRC government's policy of "joint movement between the coal and power prices" is implemented during the contract execution period, the increase in on-grid tariff arising from such policy shall be shared equally by both parties from the commencement date of such policy.

Both Nanyang Xinguang Power Plant and Kaifeng Jinghua Power Plant are subsidiaries of CPI Group, the ultimate controlling shareholder of the Company. As such, Nanyang Xinguang Power Plant and Kaifeng Jinghua Power Plant are connected persons of the Company, the above replacement agreements constitute connected transactions of the Group.

(B) CONSTRUCTION PROJECT MANAGEMENT AGREEMENT

Fuxi Power Company (a non-wholly owned subsidiary of the Company) and CPI Engineering Company entered into the Construction Project Management Agreement on 8 August 2008 whereby Fuxi Power Company engaged CPI Engineering Company as project manager to manage the project which involves the construction of two 600 MW super-critical coal-fired power generation units in the Sichuan Province of the PRC (the "Project").

The management fees payable by Fuxi Power Company to CPI Engineering Company under the Construction Project Management Agreement amount to RMB42 million. In the meantime, CPI Engineering Company may be entitled to additional bonus management fees estimated not to exceed RMB8.4 million in total, subjects to its performance.

CPI Engineering Company is the subsidiary of CPI Group, the ultimate controlling shareholder of the Company. As such, CPI Engineering Company is a connected person of the Company, therefore the Construction Project Management Agreement constitutes a connected transaction of the Group.

(C) EQUIPMENT AGREEMENT

Fuxi Power Company (a non-wholly owned subsidiary of the Company) and CPCE entered into the Equipment Agreement on 8 August 2008 whereby Fuxi Power Company engaged CPCE to provide technical assistance and consultancy services relating to the purchase of the equipment and machinery required for the Project, 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 the Project.

The total service fees payable by Fuxi Power Company to CPCE under the Equipment Agreement amount to RMB11.96 million.

CPCE is a subsidiary of CPI Group, the ultimate controlling shareholder of the Company. As such, CPCE is a connected person of the Company, therefore the Equipment Agreement constitutes connected transaction of the Croup.

(D) ACQUISITION OF ASSET AND LIABILITIES

On 16 November 2007, the Company entered into the asset acquisition agreement ("Asset Acquisition Agreement") with Qinghe Power Plant, a wholly owned subsidiary of CPI Holding, pursuant to which the Company agreed to acquire from Qinghe Power Plant a power plant under construction situated in Qinghe District, Tieling City, Liaoning Province, PRC (the "Assets"). Pursuant to the Asset Acquisition Agreement, the Company also agreed to assume all rights, debts and liabilities in relation to the Assets subject to the satisfaction (or waiver) of certain conditions in the Asset Acquisition Agreement.

According to the Asset Acquisition Agreement, the parties agreed that the long stop date is 31 December 2008 or such other date as the parties may agree in writing. In light of the worsening world economy caused by the financial crisis in the United States, the Company and Qinghe Power Plant have re-considered the transactions contemplated by the Asset Acquisition Agreement. The Directors are of the view that it would be prudent and in the interests of the Company to postpone the completion of the Asset Acquisition Agreement. After arm's length negotiations, on 31 December 2008, the Company, China Power Qinghe Company and Qinghe Power Plant entered into a supplemental agreement to amend certain terms of the Asset Acquisition Agreement (the "Supplemental Agreement") and the principal terms of the Supplemental Agreement are as follows:

(1) Long stop date and the completion date:

The new long stop date for the Asset Acquisition Agreement is 31 July 2010 or such other date to be agreed between the parties in writing. The parties also agreed that the completion date of the Acquisition is to be fixed by the parties (the "Completion Date").

(2) The Audited Value to be determined on a completion date to be fixed by the parties:

Pursuant to the original Asset Acquisition Agreement, the total consideration for the Acquisition is RMB944,628,262.68 which is subject to adjustments. To determine the amount of adjustments, the parties will appoint the auditors of Qinghe Power Plant to perform an audit on the completion accounts so as to determine the total consideration payable. In the completion accounts, the auditors will determine the value of the Assets and debts and liabilities in relation to the Assets as at the incorporation date of China Power Qinghe Company (the "Audited Value"). The parties will then compare the Audited Value with the appraised value of the Assets and debts and liabilities in relation to the Assets as at 30 June 2007. If there is any difference between the two, the parties agree to adjust the total consideration payable by reference to the Audited Value.

In the Supplemental Agreement, the parties agreed that instead of the incorporation date of China Power Qinghe Company, the auditors will determine Audited Value on the Completion Date.

(3) Amendment Agreements:

In accordance with the original Asset Acquisition Agreement, all debts and liabilities in relation to the Assets incurred on 30 June 2007 but are still outstanding on the incorporation date of China Power Qinghe Company (including any refinancing of bank loans during the period from 30 June 2007 to the incorporation date) shall be assumed by China Power Qinghe Company by entering into the Amendment Agreements.

Under the Supplemental Agreement, the parties agree that all debts and liabilities in relation to the Assets incurred on 30 June 2007 but are still outstanding on the Completion Date (instead of the incorporation date) shall be assumed by China Power Qinghe Company. Qinghe Power Plant also agrees that if the Company or China Power Qinghe Company has already incurred any debts or liabilities in connection with the Assets prior to the Completion Date, Qinghe Power Plant will compensate the Company or China Power Qinghe Company for any loss (including any legal costs) suffered. To reflect this change, the Company will enter into supplemental agreements to the Amendment Agreements, details of which are set out in the following section.

(4) Changes to the Amendment Agreements:

In light of the above amendments to Asset Acquisition Agreement, the terms of the Amendment Agreements will be changed correspondingly. In essence, China Power Qinghe Company will assume all debts and liabilities in relation to the Asset from the Completion Date instead of the incorporation date of China Power Qinghe Company under the previous arrangements. The parties will enter into supplemental agreements to amend the Amendment Agreements. The amended principal terms of the Amendment Agreements are as follows ("Amended Principal Terms for Amendment Agreement"):

(i) Qinghe Power Plant agreed that during the period commencing from the date of signing of the original agreement until the Completion Date, all rights and obligations of Qinghe Power Plant under the original agreement shall be vested in and assumed by Qinghe Power Plant. Any liabilities (if any) incurred or arising from any breach of the original agreement by Qinghe Power Plant during this period shall be assumed by Qinghe Power Plant.

(ii) However, after the Completion Date and subject to paragraph (i) above, if the original agreement has not been performed completely, all rights and obligations of Qinghe Power Plant under the original agreement shall be transferred to and be assumed by China Power Qinghe Company.

(5) Other Connected Transactions:

(i) 2x600MW Super-critical Generation Unit Construction Project Management Agreement ("Construction Project Management Agreement") Amendment Agreement:

As a result of the above changes, the rights and liabilities under the Construction Project Management Agreement will be transferred to China Power Qinghe Company in accordance with the Amended Principal Terms for Amendment Agreement.

(ii) 600MW Super-critical Generation Unit Expansion Project Equipment Integration, Equipment Manufacture Supervision and Imported Equipment Procurement Agency Services Agreement (CPCECHT/03-CTA-04-2003) ("Equipment Agreement") Amendment Agreement:

As a result of the above changes, the rights and liabilities under the Equipment Agreement will be transferred to China Power Qinghe Company in accordance with the Amended Principal Terms for Amendment Agreement.

Since Qinghe Power Plant is a subsidiary of CPI Holding, the controlling shareholder of Company, the transactions mentioned above constitute connected transactions of the Company under the Listing Rules.

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, Fujian Electricity Company, 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. The formula for adjustment is as follows:

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

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.

The Management Agreement was later supplemented on 1 September 2006, 14 June 2007 and 30 April 2008 respectively. Pursuant to the supplemental management agreement dated 30 April 2008, CPI Holding and the Company agreed to amend the Management Agreement by deleting Guixi Power Plant and Fujian Electricity Company from the list of its managed power plants and adjust the service fee payable to the Company in accordance with the formula provided above due to an adjustment to the total installed capacity of the managed power plants.

Under the supplemental management agreement dated 30 April 2008, the service fee (excluding the profit/loss margin component) is adjusted to RMB5,974,000 per annum or RMB497,833 per month and the list of the managed power plants includes Qinghe Power Plant, Wuhu Shaoda Power Plant and CPI Wuhu Power Plant.

Since CPI Holding is the controlling shareholder of the Company, the transactions under the Management Agreement and the Supplemental Agreements therefore constitute continuing connected transactions of the Company under the Listing Rules.

(B) LAND LEASE AGREEMENTS

1. Pingwei Yaomeng 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 and 23 May 2007 respectively. In addition, the Land Lease Agreement with Pingwei Power Plant was also supplemented on 23 May 2007. The basic terms of the above two Land Lease Agreements as amended are as follows:

Land Lease Agreement	Area of leased land sq. m.	Annual rent RMB	Lease Commencement date	Lease expiry date
Pingwei Land Lease Agreement	4,352,884	6,845,839.32	1 August 2004	16 September 2019 (being the expiry date of the term of operation of Pingwei Power Plant)
Yaomeng Land Lease Agreement	2,858,170.6	5,275,364.7	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.

2. 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 piece of 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 enter 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 Lease Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

3. Qinghe Land Lease Agreement

The Company (on behalf of China Power Qinghe Company) entered into a land lease agreement (the "Qinghe Land Lease Agreement") with CPI Group on 16 November 2007. According to the Qinghe Land Lease Agreement, the Company agreed to lease from CPI Group a portion of the land on which the assets to be acquired pursuant to the Asset Acquisition Agreement are situated. Qinghe Land Lease Agreement was later supplemented on 31 December 2008 and its new basic terms are as follows:

i) Area of leased land: 140,020 square meters;

ii) Annual rent: RMB2,982,400;

iii) Term: commencing from the Completion Date (as defined in section D Connected Transaction above) until the occurrence of the following events (whichever is the earliest):

- The expiry of CPI Group's rights to lease the land;
- China Power Qinghe Company ceases to be a member of CPI Group;
- the expiry of China Power Qinghe Company's business licence.

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the Qinghe Land Lease Agreement constitutes a continuing connected transaction of the Company 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 wholly owned subsidiaries of the CPI Group on 9 June 2005 to ensure the sustained operation of Shentou I Power Plant. Subsequently, Tianze novated the rights and benefits of the Service Agreements to Shentou I Power Plant.

On 22 November 2007, Shentou I Power Plant and Shentou Engineering Company or Shentou Industrial Company entered into four supplemental agreements respectively and agreed to renew the following service agreements for a term of three years after their expiry on 31 December 2007 and the relevant terms are summarised below:

	Annual Cap (RMB millions)			
Service Agreement	**2007**	**2008**	**2009**	**2010**
Technical Repair and Maintenance Framework Agreement	68	68	68	68
Fuel and Chemical Processing Services Framework Agreement	24	24	24	24
Non-power Generation Facilities Maintenance Framework Agreement	39	39	39	39
Composite Ancillary Services Framework Agreement	19	19	19	19

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

(D) PROPERTY LEASE AGREEMENT

The Company entered into a property lease agreement (the "Property Lease Agreement") with CPI Holding on 1 September 2006 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 of Premise	Area of leased sq. m.	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	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.

(E) 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 II Purchase Agreement") and Yaomeng Purchase Agreement ("Yaomeng II Purchase Agreement") with the Beijing China Power Environmental Engineering Company Limited* (the "Supplier") respectively pursuant to which each of Pingwei Power Plant II and Yaomeng Power Plant II agreed to purchase from the Supplier the limestone power for desulphurization (the "Materials").

1. **PINGWEI II PURCHASE AGREEMENT**

Under the Pingwei II Purchase Agreement, Pingwei Power Plant II, a subsidiary of the Company, 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 II 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 II 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 II PURCHASE AGREEMENT**

Under the Yaomeng II Purchase Agreement, Yaomeng Power Plant II, a subsidiary of the Company, 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 II 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 II 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 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 above purchase agreements constitute continuing connected transactions of the Group.

(F) SERVICE AGREEMENTS WITH PINGWEI POWER PLANT AND YAOMENG POWER PLANT

On 23 May 2007, Pingwei Power Plant entered into a series of service agreements with Pingwei Maintenance Company and Pingwei Industry Company. On the same date, Yaomeng Power Plant entered into a series of service agreements with Yaomeng Engineering Company and Yaomeng Industrial Company. Those service agreements are for the purposes of ensuring the sustained operations of Pingwei Power Plant and Yaomeng Power Plant and the relevant terms are summarised below:

Service Agreements	Annual Cap (RMB Million)		
	2007	2008	2009
Composite repair and maintenance services agreement between Pingwei Power Plant and Pingwei Maintenance Company	66.4	66.4	66.4
Composite repair and maintenance services agreement between Yaomeng Power Plant and Yaomeng Engineering Company	48.32	48.32	48.32
Fuel related services agreement between Pingwei Power Plant and Pingwei Industry Company	44.59	44.59	44.59
Fuel related services agreement between Yaomeng Power Plant and Yaomeng Industrial Company	26.93	26.93	26.93
Cleaning, repair and maintenance agreement in relation to power plant between Pingwei Power Plant and Pingwei Industry Company	10.06	10.06	10.06
Cleaning, repair and maintenance agreement in relation to power plant between Yaomeng Power Plant and Yaomeng Industrial Company	21.474	21.474	21.474
Composite services agreement between Pingwei Power Plant and Pingwei Industry Company	15.8	15.8	15.8
Composite services agreement between Yaomeng Power Plant and Yaomeng Industrial Company	16.595	16.595	16.595

As Pingwei Maintenance Company, Pingwei Industry Company, Yaomeng Engineering Company and Yaomeng Industrial Company are subsidiaries of CPI Holding, the entering into the above service agreements constitute continuing connected transactions of the Company.

(G) SERVICE AGREEMENTS WITH PINGWEI POWER PLANT II AND YAOMENG POWER PLANT II

On 22 November 2007, Pingwei Power Plant II, Yaomeng Power Plant II and Dabieshan Power Plant entered into certain continuing connected transaction agreements with Pingwei Maintenance Company, Pingwei Industry Company, Yaomeng Engineering Company and Yaomeng Industrial Company in relation to the provision of various services in connection with their day-to-day businesses and operations and the relevant terms are summarised below:

Service Agreements	**Annual Cap (RMB Million)**		
	2008	**2009**	**2010**
Composite repair and maintenance services agreement between Pingwei Power Plant II and Pingwei Maintenance Company	40	40	40
Composite repair and maintenance services agreement between Yaomeng Power Plant II and Yaomeng Engineering Company	43	43	43
Composite repair and maintenance services agreement between Dabieshan Power Plant and Shentou Engineering Company	43	43	43
Fuel related services agreement between Pingwei Power Plant II and Pingwei Industry Company	20	20	20
Fuel related services agreement between Yaomeng Power Plant II and Yaomeng Industrial Company	16	16	16
Fuel related services agreement between Dabieshan Power Plant and Shentou Industrial Company	17	17	17

Service Agreements	Annual Cap (RMB Million)		
	2008	2009	2010
Cleaning, repair and maintenance agreement in relation to power plants between Pingwei Power Plant II and Pingwei Industry Company	13	13	13
Cleaning, repair and maintenance agreement in relation to power plants between Yaomeng Power Plant II and Yaomeng Industrial Company	12	12	12
Cleaning, repair and maintenance agreement in relation to power plants between Dabieshan Power Plant and Shentou Industrial Company	11	11	11
Composite services agreement between Pingwei Power Plant II and Pingwei Industry Company	3	3	3
Composite services agreement between Yaomeng Power Plant II and Yaomeng Industrial Company	7	7	7
Composite services agreement between Dabieshan Power Plant and Shentou Industrial Company	7	7	7

As Pingwei Maintenance Company, Pingwei Industry Company, Yaomeng Engineering Company and Yaomeng Industrial Company are subsidiaries of CPI Holding, the entering into the above service agreements constitute continuing connected transactions of the Company.

(H) PRODUCTION TARGET SALE AND PURCHASE AGREEMENT

On 28 March 2008, the Company entered into the Production Target Sale and Purchase Agreement with CPI Group. The term of the Production Target Sale and Purchase Agreement is three years. The term will commence after the passing of an ordinary resolution by the independent shareholders approving the agreement and end on 31 December 2010. According to the agreement, the parties agreed that their respective subsidiaries, associates or power plants may trade the production targets with each other to the extent permissible under the PRC laws, rules, regulations and policies. In addition, if any subsidiaries, associates or power plants of the CPI Group decide to transfer their production targets to the Company's subsidiaries or power plants, they will enter into a Replacement Agreement setting out details of the terms and amount of the production targets being transferred. The Replacement Agreement will then be submitted to the relevant PRC government department for approval and confirmation.

The consideration payable under the Replacement Agreements will be determined by the following principles:

- the applicable State tariffs set by the PRC government, if any;
- if there are no such stipulated State tariffs, tariffs recommended by the PRC government;
- if there are neither State tariffs nor recommended tariffs, prices determined in accordance with the prevailing market prices; or
- in the absence of the above, an agreed price will be determined on the reasonable cost plus a profit basis. The parties will enter into negotiation so as to determine the amount of reasonable profit and cost with reference to the profit and cost permissible under the relevant PRC standards.

The estimated annual caps for the consideration payable under the Production Target Sale and Purchase Agreement for the three financial years ending 31 December 2008, 2009 and 2010 are estimated to be RMB424.5 million, RMB1.32 billion and RMB1.34 billion respectively.

As CPI Group is the ultimate holding company of the Company, the entering into the Production Target Sale and Purchase Agreement constitutes a continuing connected transaction of the Company.

(I) PINGWEI AND YAOMENG PURCHASE AGREEMENTS

On 13 August 2008, Pingwei Power Plant and Yaomeng Power Plant entered into the Pingwei Purchase Agreement and Yaomeng Purchase Agreement with Beijing China Power Environmental Engineering Company Limited (the "Supplier") respectively , pursuant to which each of Pingwei Power Plant and Yaomeng Power Plant agreed to purchase from the Supplier the limestone power for desulphurization (the "Materials").

Under the purchase agreements, each of Pingwei Power Plant and Yaomeng Power Plant agreed to purchase from the Supplier the materials for a term commencing from 13 August 2008 and ending on 31 December 2010.

Pingwei Power Plant agreed to purchase from the Supplier no more than 40,000 tons and 60,000 tons of Materials respectively for the year ended 31 December 2008 and during each of the two years ended 31 December 2009 and 2010.

Under the Yaomeng Purchase Agreement, Yaomeng Power Plant agreed to purchase from the Supplier no more than 40,000 tons and 80,000 tons of materials respectively for the year ended 31 December 2008 and during each of the two years ended 31 December 2009 and 2010.

It is anticipated that the annual caps of the Pingwei Purchase Agreement for the financial year of 2008 and each of the two financial years ended 31 December 2010 are RMB 6,600,000 and RMB 9,900,000, respectively. In relation to the Yaomeng Purchase Agreement, it is anticipated that annual caps for the financial year of 2008 and each of the two financial years ended 31 December 2010 are RMB 6,600,000 and RMB 13,200,000, respectively.

Since the Supplier is an indirect subsidiary wholly owned by CPI Holding, the Supplier is a connected person of the Company and the above purchases agreements constitute connected transactions of the Group.

The independent non-executive Directors have reviewed the above continuing connected transactions during the year and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms and no less favourable than those available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor have reported their factual findings on the selected samples based on the agreed procedures to the Board stating that:

(1) the transactions have been approved by the Board;

(2) the transactions were entered into in accordance with the relevant agreements and documents governing such transactions; and

(3) 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 complied with the requirements set out in Chapter 14A of the Listing Rules.

Save as disclosed above, no contracts of significance to which 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 ended 2008.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 82.8% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 39.2% of the Group's total purchases.

For the year ended 31 December 2008, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 90.8% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 29.0% 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 no less than 25% of the issued share capital of the Company as required under the Listing Rules.

AUDITOR

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
Chairman

Hong Kong, 2 April 2009

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of China Power International Development Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 77 to 165, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

PRICEWATERHOUSECOOPERS

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 April 2009

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Turnover	5	**9,632,381**	5,907,301
Other income	6	**8,842**	41,722
Fuel costs		**(7,055,736)**	(3,840,488)
Depreciation		**(798,356)**	(460,084)
Staff costs	11	**(384,763)**	(333,625)
Repairs and maintenance		**(405,500)**	(275,760)
Consumables		**(154,713)**	(72,918)
Other gains	7	**16,309**	15,935
Impairment on property, plant and equipment	16	**(348,505)**	—
Impairment on goodwill	19	**(40,000)**	—
Other operating expenses		**(500,434)**	(423,510)
Operating (loss)/profit	8	**(30,475)**	558,573
Interest income from bank deposits		**17,011**	23,794
Finance costs	9	**(629,504)**	(184,950)
Share of losses of associated companies		**(43,194)**	(47,909)
Share of loss of a jointly controlled entity		**(3,869)**	—
Gain on deemed disposal of interest in an associated company	23	**—**	311,398
(Loss)/profit before taxation		**(690,031)**	660,906
Taxation	10	**(7,175)**	(69,477)
(Loss)/profit for the year		**(697,206)**	591,429
Attributable to:			
Equity holders of the Company		**(683,686)**	592,435
Minority interests		**(13,520)**	(1,006)
		(697,206)	591,429
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	13	**(0.19)**	0.16
– diluted	13	**(0.19)**	0.16
Dividends	14	**—**	194,703

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**15,617,112**	14,594,556
Prepayment for construction of power plants	17	**377,172**	881,858
Land use rights	18	**42,439**	43,334
Goodwill	19	**126,939**	166,939
Interest in an associated company	21	**804,100**	847,294
Interest in a jointly controlled entity	22	**66,131**	—
Available-for-sale financial assets	23	**1,379,011**	3,775,865
Long-term receivable from Hubei Electric Power Corporation ("HEPC")	24	**34,000**	—
Other long-term prepayments		**15,950**	58,668
Deferred income tax assets	37	**33,341**	—
		18,496,195	20,368,514
Current assets			
Inventories	25	**499,776**	277,843
Accounts receivable	26	**1,375,156**	1,283,074
Prepayments, deposits and other receivables		**499,507**	175,404
Amount due from an intermediate holding company	27	**719**	3,821
Amounts due from fellow subsidiaries	27	**198,362**	41,341
Dividends receivable from an associated company		**—**	65,699
Current portion of long-term receivable from HEPC	24	**34,000**	—
Tax recoverable		**1,196**	—
Cash and cash equivalents	28	**1,326,818**	734,057
		3,935,534	2,581,239
Total assets		**22,431,729**	22,949,753
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**3,798,610**	3,798,610
Share premium		**2,755,361**	2,755,361
Reserves	30	**1,519,383**	4,580,918
		8,073,354	11,134,889
Minority interests		**68,339**	44,458
Total equity		**8,141,693**	11,179,347

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income		**97,990**	163,028
Long-term bank borrowings	31	**9,439,150**	7,706,350
Long-term payable to CPI Financial Company ("CPIF")	32	**270,295**	270,295
Obligations under finance leases	33	**205,155**	—
Deferred income tax liabilities	37	**11,888**	227,362
		10,024,478	8,367,035
Current liabilities			
Accounts payable	34	**696,529**	428,630
Construction cost payable		**1,156,466**	1,322,781
Other payables and accrued charges	35	**418,727**	318,813
Amount due to ultimate holding company	36	**68,643**	81,471
Amounts due to fellow subsidiaries	27	**147,730**	26,163
Current portion of long-term bank borrowings	31	**225,000**	466,000
Other bank borrowings	31	**412,725**	—
Short-term bank borrowings	31	**980,000**	605,000
Short-term borrowings from CPIF	32	**100,000**	—
Current portion of long-term payable to CPIF	32	**—**	127,863
Current portion of obligations under finance leases	33	**26,857**	—
Taxation payable		**32,881**	26,650
		4,265,558	3,403,371
Total liabilities		**14,290,036**	11,770,406
Total equity and liabilities		**22,431,729**	22,949,753
Net current liabilities		**330,024**	822,132
Total assets less current liabilities		**18,166,171**	19,546,382

Li Xiaolin
Director

Liu Guangchi
Director

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**5,719**	5,211
Investments in subsidiaries	20	**3,935,585**	4,175,750
Interest in an associated company	21	**552,500**	552,500
Available-for-sale financial assets	23	**1,379,011**	3,775,865
		5,872,815	8,509,326
Current assets			
Prepayments, deposits and other receivables		**2,556**	4,936
Amount due from an intermediate holding company	27	**—**	3,821
Amounts due from subsidiaries	20	**242,650**	431,068
Dividends receivable		**591,498**	709,230
Cash and cash equivalents	28	**1,254,279**	660,289
		2,090,983	1,809,344
Total assets		**7,963,798**	10,318,670
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**3,798,610**	3,798,610
Share premium		**2,755,361**	2,755,361
Reserves	30	**816,729**	3,480,628
		7,370,700	10,034,599

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	37	**—**	211,073
Current liabilities			
Other payables and accrued charges	35	**21,912**	21,030
Amount due to ultimate holding company	36	**271**	—
Amounts due to subsidiaries	20	**158,190**	49,410
Amount due to a fellow subsidiary	27	**—**	2,558
Bank borrowings	31	**412,725**	—
		593,098	72,998
Total liabilities		**593,098**	284,071
Total equity and liabilities		**7,963,798**	10,318,670
Net current assets		**1,497,885**	1,736,346
Total assets less current liabilities		**7,370,700**	10,245,672

Li Xiaolin
Director

Liu Guangchi
Director

For the year ended 31 December 2008

	Attributable to equity holders of the Company					
	Share capital (Note 29) RMB'000	Share Premium RMB'000	Other reserves (Note 30) RMB'000	Accumulated losses (Note 30) RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2008	**3,798,610**	**2,755,361**	**4,990,815**	**(409,897)**	**44,458**	**11,179,347**
Decrease in fair value of available-for-sale financial assets	—	—	(2,396,854)	—	—	(2,396,854)
Deferred tax on decrease in fair value of available-for-sale financial assets (Note 37)	—	—	211,073	—	—	211,073
Release of revaluation reverse upon impairment of property, plant and equipment (Note 30)	—	—	(10,716)	—	—	(10,716)
Release of revaluation reserve upon disposal of property, plant and equipment						
– Group (Note 30)	—	—	(3,820)	3,820	—	—
– An associated company	—	—	(80)	80	—	—
Release of deferred tax on impairment and disposal of property, plant and equipment (Note 37)	—	—	4,029	—	—	4,029
Net expense recognised directly in equity	—	—	(2,196,368)	3,900	—	(2,192,468)
Loss for the year	—	—	—	(683,686)	(13,520)	(697,206)
Total recognised income and expense	—	—	(2,196,368)	(679,786)	(13,520)	(2,889,674)
Employee share option benefits	—	—	9,322	—	—	9,322
Lapse of share options	—	—	(6,003)	6,003	—	—
2007 final dividend (Note 14)	—	—	—	(194,703)	—	(194,703)
Contribution from minority shareholders of subsidiaries	—	—	—	—	37,401	37,401
	—	—	3,319	(188,700)	37,401	(147,980)
Balance at 31 December 2008	**3,798,610**	**2,755,361**	**2,797,766**	**(1,278,383)**	**68,339**	**8,141,693**

For the year ended 31 December 2008

	Attributable to equity holders of the Company					
	Share capital (Note 29) RMB'000	Share Premium RMB'000	Other reserves (Note 30) RMB'000	Accumulated losses (Note 30) RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2007	3,798,104	2,754,586	3,331,289	(804,764)	25,826	9,105,041
Increase in fair value of available-for-sale financial assets	—	—	1,962,630	—	—	1,962,630
Deferred tax on increase in fair value of available-for-sale financial assets (Note 37)	—	—	(211,073)	—	—	(211,073)
Deferred tax on change in tax rate for net revaluation surplus of property, plant and equipment						
- Group (Note 37)	—	—	(9,075)	—	—	(9,075)
- An associated company	—	—	(487)	—	—	(487)
Release of revaluation reserve upon disposal of property, plant and equipment						
- Group (Note 30)	—	—	(544)	544	—	—
- An associated company	—	—	(210)	210	—	—
Disposal of subsidiaries	—	—	(89,339)	89,339	—	—
Net income recognised directly in equity	—	—	1,651,902	90,093	—	1,741,995
Profit for the year	—	—	—	592,435	(1,006)	591,429
Total recognised income and expense	—	—	1,651,902	682,528	(1,006)	2,333,424
Employee share option benefits	—	—	8,371	—	—	8,371
Exercise of share options	506	775	—	—	—	1,281
Lapse of share options	—	—	(747)	747	—	—
2006 final dividend	—	—	—	(288,408)	—	(288,408)
Contribution from minority shareholders of a subsidiary	—	—	—	—	19,638	19,638
	506	775	7,624	(287,661)	19,638	(259,118)
Balance at 31 December 2007	3,798,610	2,755,361	4,990,815	(409,897)	44,458	11,179,347

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	38(a)	**804,305**	643,872
Interest paid		**(720,574)**	(482,095)
PRC income tax paid		**(35,853)**	(71,852)
Net cash generated from operating activities		**47,878**	89,925
Cash flows from investing activities			
Payment for investments		**(40,000)**	(25,593)
Payments for property, plant and equipment		**(1,232,382)**	(2,798,371)
New prepayment for construction of power plants		**(355,414)**	(526,689)
Proceeds from disposal of property, plant and equipment		**4,057**	840
Increase in other long-term prepayments		**—**	(29,688)
Disposal of subsidiaries, net of cash disposed	38(b)	**—**	258,965
Dividends received		**65,699**	176,926
Interest received		**17,011**	23,794
Net cash used in investing activities		**(1,541,029)**	(2,919,816)

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from financing activities			
New bank borrowings		**3,610,525**	5,242,350
Short-term loan from CPIF		**100,000**	—
Contributions from minority shareholders of a subsidiary		**37,401**	19,638
Issuance of new shares		**—**	1,281
Repayment of bank borrowings		**(1,331,000)**	(2,603,000)
Repayment of short-term loan from CPIF		**—**	(140,000)
Repayment of other borrowings		**—**	(98,000)
Repayment of long-term payable to SEPC		**—**	(19,437)
(Decrease)/increase in amounts payable to CPIF		**(127,863)**	2,596
Payment of finance lease liabilities		**(8,448)**	—
Dividends paid		**(194,703)**	(288,408)
Net cash generated from financing activities		**2,085,912**	2,117,020
Net increase/(decrease) in cash and cash equivalents		**592,761**	(712,871)
Cash and cash equivalents at 1 January		**734,057**	1,446,928
Cash and cash equivalents at 31 December	28	**1,326,818**	734,057

1 GENERAL INFORMATION

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. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 October 2004.

The Company and its subsidiaries (together, the "Group") are principally engaged in investment holdings, the generation and sale of electricity, and the development of power plants in the People's Republic of China (the "PRC").

These consolidated accounts are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 2 April 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These consolidated accounts are prepared under the historical cost convention except that property, plant and equipment are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses; and available-for-sale financial assets, and certain financial assets and financial liabilities (including derivative instruments) are measured at fair value, as appropriate.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

(a) The following amendments to standards and interpretations are mandatory for financial year ended 31 December 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments to standards and interpretations did not have any significant financial impact to the Group.

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investments in a Subsidiary, Jointly Controlled Entities or Associates[1]
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 9 and HKAS 39	Embedded Derivatives[5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

[1]Effective for annual periods beginning on or after 1 January 2009
[2]Effective for annual periods beginning on or after 1 July 2009
[3]Effective for annual periods beginning on or after 1 July 2008
[4]Effective for annual periods beginning on or after 1 October 2008
[5]Effective for annual periods ending on or after 30 June 2009
[6]Effective for transfer of assets from customers received on or after 1 July 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

The effect that the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HK(IFRIC) – Int 17 will have on the results and financial position of the Group will depend on the incidence and timing of transactions within the scope of these standards and interpretations occurring on or after 1 January 2010.

The directors anticipate that the adoption of other standards, amendments and interpretations to standards listed above in future periods will have no significant financial impact to the Group.

In addition, HKICPA also published a number of amendments for the existing standards under its annual improvement project. These amendments are also not expected to have a significant financial impact on the results and financial position of the Group.

(c) As at 31 December 2008, the Group's current liabilities exceeded its current assets by RMB330,024,000. This is mainly a result of the reclassification of a bank loan from non-current liabilities to current liabilities following the fact that the Group had breached certain financial covenants in respect of the relevant bank loan, details of which have been disclosed in Note 31. These covenant requirements have subsequently been waived by the relevant syndicate of banks after the year end. In preparing these accounts, the directors have taken into account all information that could reasonably be expected to be available and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. As of 31 December 2008, the Group had undrawn committed banking facilities amounting to approximately RMB1,604,000,000 (2007: RMB4,356,000,000) and will refinance and / or restructure certain short-term loans into long-term loans or to consider alternative sources of financing, where applicable. Under these circumstances, the directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due within the next twelve months and therefore have prepared these financial statements on a going concern basis.

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account (Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for using the equity method of accounting and is initially recognised at cost. The Group's investments in associated companies include goodwill (net of any accumulated impairment loss) identified on acquisition, if any (Note 2.7).

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Consolidation *(Continued)*

(c) Associated companies *(Continued)*

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interests in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains or losses in an associated company is recognised in the consolidated profit and loss account.

In the Company's balance sheet the interest in an associated company is stated at cost less provision for impairment losses (Note 2.8). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(d) Jointly controlled entities

A jointly controlled entity is an entity established under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's interests in a jointly controlled entity are accounted for by the equity method of accounting.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The principal activities of the Group are transacted in RMB and accordingly the consolidated accounts are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated profit and loss account within "finance cost". All other foreign exchange gains and losses are presented in the consolidated profit and loss account within "other (losses)/gains," net.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 Property, plant and equipment

Property, plant and equipment other than construction in progress (see Note 2.5 below) are recognised initially at cost. Cost 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 carried at their revalued amounts less subsequent accumulated depreciation and 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 the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are expensed in 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 of property, plant and equipment (other than construction in progress) is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease term
Furniture and fixture	3 - 5 years
Buildings	8 - 45 years
Power generators and equipment	9 - 28 years
Electricity supply equipment	13 - 30 years
Tools and other equipment	3 - 18 years
Motor vehicles	2 - 12 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8). Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment losses do 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 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. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for the intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.4 above.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 2.8).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 Impairment of investments in subsidiaries, associated company, jointly controlled entity and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generated unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account.

2.9 Financial assets

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 Financial assets *(Continued)*

Investments are initially recognised at fair value plus transaction cost. Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less any provision for impairment.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the profit or loss account; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of accounts and other receivables is described in Note 2.11.

2.10 Inventories

Inventories comprise coal, oil, consumable supplies and spare parts held for consumption and usage and are stated at the lower of cost and 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 and excludes borrowing costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account within other operating expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to other gains in the profit and loss account.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.13 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade payables) are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Group and its associated company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, associated company and jointly controlled entity, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.16 Employee benefits

(a) 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 PRC based on certain percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

All contributions to pension plans are fully and immediately vested and the Group had no unvested benefits available to reduce its future contributions.

(b) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities of bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.17 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Deferred income

Deferred income represents subsidies received from government in connection with the purchases of property, plant and equipment and special grants for environmental improvement projects. Subsidies and grants received are initially recognised at their fair values where there is a reasonable assurance that the subsidies and grants will be received and the Group will comply with all attached conditions. Deferred income is included in non-current liabilities and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets and projects.

2.19 Lease

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in short-term and long-term finance lease obligations. The interest element of the finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.20 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made or received under operating leases (net of any incentives received from the lessor) are charged or credited to the profit and loss account on a straight-line basis over the period of the lease.

2.21 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

2.22 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue and income when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Sales of electricity are recognised when electricity is generated and transmitted.

(ii) Management fee income and service fee income are recognised when services are rendered.

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

(iv) Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders or directors as appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors. The Group does not use derivative financial instruments for speculative purposes.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk primarily with respect to Hong Kong dollars ("HK$") and US dollars ("USD").

The Group's assets and liabilities, and transactions arising from its operations primarily do not expose to material foreign exchange risk. Other than certain bank balances and bank borrowings, the Group's assets and liabilities are primarily denominated in RMB. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB. The Group has not used any forward contracts or currency borrowings to hedge its exposure as the cost-benefit is considered not effective.

As at 31 December 2007 and 2008, certain of the Group's cash and bank balances and borrowings were denominated in HK$ and USD, details of which have been disclosed in Notes 28 and 31. RMB experienced certain appreciation in recent years which is the major reason for the exchange losses recognised by the Group for the years ended 31 December 2007 and 2008. Further depreciation or appreciation of HK$/USD against RMB will affect the Group's financial position and results of operations.

At 31 December 2008, if HK$ had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax loss for the year would have been RMB3,893,000 higher/lower (2007: post-tax profit would have been RMB21,075,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of HK dollars-denominated cash and bank balances.

At 31 December 2008, if USD had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax loss for the year would have been RMB4,302,000 lower/higher (2007: post-tax profit would have been RMB4,000 lower/higher) mainly as a result of foreign exchange losses/gains on translation of USD-denominated bank deposits and borrowings.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(b) Interest rate risks

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank balances and deposits, details of which have been disclosed in Note 28. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Notes 31 to 32. Borrowings carried at floating rates expose the Group to cash flow interest rate risk whereas borrowings carried at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2008, if the interest rates on bank borrowings had been 50 basis points higher/lower than the prevailing rate announced by the People's Bank of China, with all other variables held constant, post-tax loss/profit for the year would have been RMB2,951,000 higher/lower (2007: RMB10,820,000 lower/higher), mainly as a result of higher/lower interest expense on floating rate bank borrowings.

(c) Price risk

The Group is exposed to equity securities price risk in respect of investments held by the Group which are classified as available-for-sale financial assets. The Group's available-for-sale financial assets are publicly traded. However, the Group does not trade these investments as such investments are held for strategic rather than trading purpose. The volatility of stock market is generally significant recently. At 31 December 2008, if the quoted market price of the equity investments held by the Group had increased/decreased by 10% to 30%, with all other variables held constant, the results of the Group would have been unaffected as the investment are classified as available-for-sale and no investments had been disposed of or considered impaired; and equity would have been RMB137,901,000 to RMB400,945,000 (2007: RMB339,828,000 to RMB1,019,483,000) higher or RMB137,901,000 to RMB413,703,000 (2007: RMB339,828,000 to RMB1,019,483,000) lower, mainly as a result of the changes in fair value of available-for-sale financial assets.

The Group also exposes to commodity price risk mainly in relation to the coal price. At 31 December 2008, the Group had entered into certain coal purchase contracts with coal suppliers in order to reduce its exposure to fluctuations in coal prices.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(d) Credit risk

The carrying amounts of cash at bank and term deposits, available-for-sale financial assets and receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

Substantially all of the Group's cash at bank and term deposits are held in major financial institutions, which management believes are of high credit quality. The Group's available-for-sale financial assets are also publicly traded in a recognised stock exchange. Management does not expect any losses from non-performance by these counterparties.

The Group is exposed to significant concentration of credit risk in terms of electricity sales as a majority of the Group's sales of electricity were made to regional and provincial power grid companies. The Group normally grants credit terms ranging from 15 to 60 days to these power grid companies and the Group normally does not require collaterals from trade debtors. Ageing analysis of the Group's accounts receivable is disclosed in Note 26. The Group also makes advancement to HEPC in order to support the electricity transmission requirements. Management makes periodic collective assessment as well as individual assessment on the recoverability of account and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for construction of power plants, additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and short-term and long-term bank loans.

As at 31 December 2008, the net current liabilities of the Group amounted to RMB330,024,000. Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date are disclosed in Note 31 to the accounts. The directors believe that the Group's current operating cash flows and credit facilities from banks are sufficient for financing its capital commitments in the near future and for working capital purposes.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(e) Liquidity risk *(Continued)*

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 3 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2008				
Bank borrowings	**2,306,728**	**1,354,687**	**1,908,304**	**12,123,170**
Payables and accruals	**2,271,722**	**—**	**—**	**—**
Amounts due to:				
Ultimate holding company	**68,643**	**—**	**—**	**—**
Fellow subsidiaries	**147,730**	**—**	**—**	**—**
Long-term payable to CPIF	**14,231**	**277,313**	**—**	**—**
Obligations under finance leases	**29,615**	**29,615**	**88,845**	**192,388**
Short-term loan from CPIF	**105,583**	**—**	**—**	**—**
At 31 December 2007				
Bank borrowings	1,579,888	1,047,924	1,427,870	10,291,208
Payables and accruals	2,070,224	—	—	—
Amounts due to:				
Ultimate holding company	81,471	—	—	—
Fellow subsidiaries	26,163	—	—	—
Long-term payable to CPIF	148,180	14,231	277,352	—

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(e) Liquidity risk *(Continued)*

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 3 and 5 years RMB'000	Over 5 years RMB'000
Company				
At 31 December 2008				
Payables and accruals	**21,912**	**—**	**—**	**—**
Amounts due to:				
Subsidiaries	**158,190**	**—**	**—**	**—**
Ultimate holding company	**271**	**—**	**—**	**—**
Bank borrowings	**430,215**	**—**	**—**	**—**
At 31 December 2007				
Payables and accruals	21,030	—	—	—
Amounts due to:				
Subsidiaries	49,410	—	—	—
A fellow subsidiary	2,558	—	—	—

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic condition. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders, issue new shares, sell assets to reduce debt or to obtain bank borrowings.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

The table below analyses the Group's capital structure as at 31 December 2008 and 2007.

	2008 **RMB'000**	2007 RMB'000
Total bank borrowings (Note 31)	**11,056,875**	8,777,350
Total payables to CPIF (Note 32)	**370,295**	398,158
Less: Cash and cash equivalents (Note 28)	**(1,326,818)**	(734,057)
Net debt	**10,100,352**	8,441,451
Total equity	**8,141,693**	11,179,347
Total capital	**18,242,045**	19,620,798
Gearing ratio	**55%**	43%

The increase in the gearing ratio during 2008 resulted primarily from the additional borrowings obtained in order to finance the capital investments in the construction and development of new power plants.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, accounts receivable, deposits and other receivables and balances with group companies, and the Group's current financial liabilities including accounts payable, other payables and accrued charges, current borrowings and balances with group companies, approximate their fair values due to their short maturities.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Property, plant and equipment carried at valuation

Property, plant and equipment other than construction in progress are revalued by independent valuers on a regular basis with an interval of not more than five years. In the intervening years the directors review the carrying values and adjustment is made where there has been a material change. In arriving at the valuation, assumptions and economic estimates have to be made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(ii) Useful lives, residual values and depreciation charges of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment, other than construction in progress. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technological advancement and innovations in the power industry. Management will adjust the depreciation charge where useful lives or residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(iii) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the profit and loss account.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(iv) Current and deferred taxation

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation charges in the period in which such estimate is changed.

(v) Significant influence of an associated company

An associated company is an entity over which the Group has significant influence, but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

In determining whether significant influence can be exercised over an entity, judgement is required in assessing the amount of influence that the Group can exert on the investee company's financial and operating policy decisions. In making this judgement, the Group evaluates the facts and circumstances after taking into account of, among other factors, the board composition of the investee company, the number of board members that the Group may nominate, the timeliness and sufficiency of financial information that can be made available to the Group, the details of the decision making process that the Group can participate, and the relative voting rights of board representatives from each shareholder. These circumstances may change from time to time as a result of a change in business strategies, shareholdings or relative voting rights of board representatives. Management continues to evaluate the situation and when there are facts and circumstances indicating that the Group starts or ceases to be able to exercise significant influence on the investee company, the Group may account for the investment differently in accordance with the relevant accounting policies.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION

Revenue recognised during the year is as follows:

	2008 RMB'000	2007 RMB'000
Sales of electricity to regional and provincial power grid companies (note (a))	**8,761,986**	5,569,226
Provision for power generation services (note (b))	**870,395**	338,075
	9,632,381	5,907,301

Note:

(a) Pursuant to the power purchase agreements entered into between the Group and the respective regional and provincial power grid companies, the Group's sales of electric power were made to these power grid companies at the tariff rates agreed with the respective regional and provincial power grid companies as approved by the relevant government authorities.

(b) Provision for power generation services represents income from generation of electricity on behalf of certain power plants based on mutually agreed prices.

Segment information

The Group's principal activities are the generation and sale of electricity, investment holdings 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 except that certain cash and bank balances equivalent to approximately RMB401,000,000 were deposited in certain banks in Hong Kong at 31 December 2008 (2007: approximately RMB417,000,000). Accordingly, no segment information is presented.

6 OTHER INCOME

	2008 RMB'000	2007 RMB'000
Management fee income (Note 40)	**7,036**	11,322
Rental income	**1,806**	5,480
Repairs and maintenance services fee income (note)	**—**	24,920
	8,842	41,722

Note: Repairs and maintenance services fee income represented income derived from the relevant subsidiaries of the Group which had been disposed of by end of year 2007.

7 OTHER GAINS

	2008	2007
	RMB'000	RMB'000
Amortisation of deferred income	9,184	9,541
Tax refund	7,125	—
Write-back of provision for other receivables	—	6,394
	16,309	15,935

8 OPERATING (LOSS)/PROFIT

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

	2008	2007
	RMB'000	RMB'000
Amortisation of land use rights (Note 18)	895	641
Auditor's remuneration	5,043	5,918
Depreciation of property, plant and equipment (Note 16)	798,356	460,084
Loss/(gain) on disposal of property, plant and equipment	11,018	(382)
Operating lease rental in respect of		
– equipment	2,669	—
– leasehold land and buildings	33,612	32,728
Staff costs including directors' emoluments (Note 11)	384,763	333,625
Write-off of pre-operating expenses	41,771	27,336

9 FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest expense on		
– bank borrowings wholly repayable within five years	**129,335**	268,349
– bank borrowings not wholly repayable within five years	**580,771**	196,850
– long-term payable to a related company wholly repayable within five years	**18,393**	21,824
– short-term borrowing from a related company		
wholly repayable within five years	**1,073**	—
– interest element of finance leases	**7,830**	—
	737,402	487,023
Less: Amounts capitalised in property, plant and equipment	**(125,953)**	(327,530)
	611,449	159,493
Net exchange losses	**18,055**	25,457
	629,504	184,950

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The weighted average interest rate on such capitalised borrowings is approximately 6.4% (2007: 5.9%) per annum.

10 TAXATION

No Hong Kong profits tax has been provided for as the Group did not have any estimated assessable profit in Hong Kong for the year (2007: Nil).

The provision for PRC current income tax is calculated based on the statutory tax rate of 25% (2007: 33%) on the estimated assessable income for the year except as disclosed below.

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2008 RMB'000	2007 RMB'000
PRC current income tax	**40,888**	72,827
Deferred income tax credit (Note 37)	**(33,713)**	(3,350)
	7,175	69,477

10 TAXATION *(CONTINUED)*

The taxation on the Group's (loss)/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:

	2008 RMB'000	2007 RMB'000
(Loss)/profit before taxation	**(690,031)**	660,906
Less: Share of losses of associated companies	**43,194**	47,909
Share of loss of a jointly controlled entity	**3,869**	—
	(642,968)	708,815
Calculated at the PRC statutory tax rate of 25% (2007: 33%)	**(160,742)**	233,909
Effect of preferential tax rate	**33,083**	(94,473)
Effect of tax holiday	**(11,695)**	(12,824)
Effect of different taxation rates	**11,438**	12,153
Income not subject to taxation	**(10,886)**	(118,455)
Expenses not deductible for taxation purposes	**52,596**	50,867
Tax losses for which no deferred income tax asset was recognised	**93,381**	—
Effect of changes in tax rates	**—**	(1,700)
Taxation	**7,175**	69,477

Share of taxation attributable to associated companies for the year ended 31 December 2008 of RMB22,818,000 (2007: RMB23,230,000) are included in the Group's share of losses of associated companies for the year.

Pursuant to the relevant PRC income tax rules and regulations, special income tax rates have 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. These companies are subject to a tax rate of 18% for the year 2008 (2007: 15%) followed by tax rates gradually increased from 20% to 25% in the ensuing four years towards 2012. A subsidiary acquired by the Group in year 2005 will be subject to tax rates gradually increased from 9% for the year 2008 (2007: 7.5%) to 25% in the ensuing four years towards 2012. A subsidiary of the Group that started operations in 2007 is entitled to a two-year exemption from income tax starting year 2007 followed by a 50% reduction in income tax rate towards year 2011 at rates gradually increased from 10% to 12%, and at 25% thereafter. Certain subsidiaries of the Group that started operations in 2008 also entitled to a two-year exemption from income tax starting year 2008 followed by a 50% reduction in income tax rate towards year 2012 at rates gradually increased from 11% to 12.5%, and at 25% thereafter.

11 STAFF COSTS

	2008 RMB'000	2007 RMB'000
Wages, salaries and bonuses	**222,902**	181,087
Share options granted to directors and employees	**9,322**	8,371
Pension costs - defined contribution plans	**43,637**	50,711
Staff welfare	**108,902**	93,456
	384,763	333,625

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of a loss of RMB292,737,000 (2007: a profit of RMB570,491,000).

13 (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2008	2007
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(683,686)**	592,435
Weighted average number of shares in issue (shares in thousands)	**3,605,611**	3,605,563
Basic (loss)/earnings per share (RMB)	**(0.19)**	0.16

13 (LOSS)/EARNINGS PER SHARE *(CONTINUED)*

(b) Diluted

Diluted (loss)/earnings per share is calculated based on the weighted average number of shares in issue during the year plus the weighted average number of shares deemed to be issued at nil consideration if all outstanding options had been exercised.

	2008	2007
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(683,686)**	592,435
Weighted average number of shares in issue (shares in thousands)	**3,605,611**	3,605,563
Adjustment for share options (shares in thousands)	**—**	4,013
Adjusted weighted average number of shares for diluted (loss)/earnings per share (shares in thousands)	**3,605,611**	3,609,576
Diluted (loss)/earnings per share (RMB)	**(0.19)**	0.16

14 DIVIDENDS

	2008	2007
	RMB'000	RMB'000
Final dividend, proposed, of RMB Nil (2007: RMB0.054) per share	**—**	194,703

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2008 is set out below:

Name of director	Fees RMB'000	Basic salary, housing allowance, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Li Xiaolin	—	1,331[b]	189	—	1,520
Mr. Hu Jiandong[a]	—	64[b]	200	—	264
Mr. Liu Guangchi	—	532[b]	—	—	532
Non-executive directors					
Mr. Wang Binghua[a]	—	—[b]	—	—	—
Mr. Gao Guangfu	109	323[b]	—	—	432
Mr. Guan Qihong	109	93[b]	—	—	202
Independent non-executive directors					
Mr. Kwong Che Keung, Gordon	182	109	—	—	291
Mr. Li Fang	182	109	—	—	291
Mr. Tsui Yiu Wa, Alec	182	109	—	—	291

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(CONTINUED)*

(a) Directors' emoluments *(Continued)*

The remuneration of each of the directors of the Company for the year ended 31 December 2007 is set out below:

Name of director	Fees RMB'000	Basic salary, housing allowance, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Li Xiaolin	—	1,429[b]	57	1	1,487
Mr. Hu Jiandong[a]	—	1,095[b]	71	1	1,167
Non-executive directors					
Mr. Wang Binghua[a]	194	478[b]	—	—	672
Mr. Gao Guangfu	116	362[b]	—	—	478
Independent non-executive directors					
Mr. Kwong Che Keung, Gordon	194	116	—	—	310
Mr. Li Fang	194	116	—	—	310
Mr. Tsui Yiu Wa, Alec	194	136	—	—	330

None of the directors of the Company waived any emoluments during the years ended 31 December 2007 and 2008.

a Mr. Wang Binghua and Mr. Hu Jiandong resigned as directors on 1 January and 30 January 2008 respectively.

b Included in the amount were share-based compensation, which are determined based on the fair value of the share options granted to the relevant directors at the date of grant and recognised over the vesting periods. During the years ended 31 December 2007 and 2008, none of these options has been exercised by the directors.

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(CONTINUED)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 1 (2007: 2) director(s) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 (2007: 3) individuals during the year are as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries, housing allowance, other allowances, share options and benefits in kind	**3,463**	2,892
Discretionary bonuses	**778**	204
Employer's contribution to pension scheme	**—**	2
	4,241	3,098

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Nil to HK$1,000,000 (equivalent to RMB909,140 (2007: RMB970,530))	**1**	1
HK$1,000,001 to HK$2,000,000 (equivalent to RMB909,141 to RMB1,818,280 (2007: RMB970,531 to RMB1,941,060))	**3**	2

(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.

16 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings and leasehold improvements RMB'000	Power generators and equipment RMB'000	Electricity supply equipment RMB'000	Furniture and fixture, tools and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation							
At 1 January 2008	4,641,135	11,671,456	2,361,229	680,447	96,388	3,641,730	23,092,385
Additions	2,619	231,583	120	15,413	10,711	1,934,762	2,195,208
Disposals	(13,727)	(36,616)	(4,535)	(11,172)	(41)	—	(66,091)
Transfer	763,665	3,275,103	776,944	40,800	35,464	(4,891,976)	—
Release of revaluation	(174,131)	(481,472)	(7,307)	(21,925)	—	—	(684,835)
At 31 December 2008	5,219,561	14,660,054	3,126,451	703,563	142,522	684,516	24,536,667
Representing:							
Cost	2,437,006	7,963,163	1,705,593	276,079	65,259	684,516	13,131,616
Valuation	2,782,555	6,696,891	1,420,858	427,484	77,263	—	11,405,051
	5,219,561	14,660,054	3,126,451	703,563	142,522	684,516	24,536,667
Accumulated depreciation and impairment losses							
At 1 January 2008	1,607,772	5,479,675	1,101,722	257,739	50,921	—	8,497,829
Depreciation charge for the year	148,024	498,752	92,314	49,561	9,705	—	798,356
Impairment charge for the year (note (i))	119,187	209,879	14,570	4,869	—	—	348,505
Disposals	(6,324)	(31,897)	(2,875)	(9,883)	(37)	—	(51,016)
Release of revaluation	(173,628)	(473,672)	(6,886)	(19,933)	—	—	(674,119)
At 31 December 2008	1,695,031	5,682,737	1,198,845	282,353	60,589	—	8,919,555
Net book value							
At 31 December 2008	3,524,530	8,977,317	1,927,606	421,210	81,933	684,516	15,617,112

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Group *(Continued)*

	Buildings and leasehold improvements RMB'000	Power generators and equipment RMB'000	Electricity supply equipment RMB'000	Furniture and fixture, tools and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation							
At 1 January 2007	3,132,412	7,242,573	1,435,281	511,539	150,045	3,920,940	16,392,790
Additions	18,018	808	342	12,890	16,803	6,966,607	7,015,468
Disposals	(124)	(1,049)	(1,189)	(3,377)	(1,158)	—	(6,897)
Transfer	1,652,704	4,455,669	928,187	206,976	2,281	(7,245,817)	—
Disposal of subsidiaries	(161,875)	(26,545)	(1,392)	(47,581)	(71,583)	—	(308,976)
At 31 December 2007	4,641,135	11,671,456	2,361,229	680,447	96,388	3,641,730	23,092,385
Representing:							
Cost	1,670,722	4,456,477	928,529	219,866	19,084	3,641,730	10,936,408
Valuation	2,970,413	7,214,979	1,432,700	460,581	77,304	—	12,155,977
	4,641,135	11,671,456	2,361,229	680,447	96,388	3,641,730	23,092,385
Accumulated depreciation and impairment losses							
At 1 January 2007	1,560,501	5,241,395	1,060,219	246,845	77,056	—	8,186,016
Depreciation charge for the year	107,103	259,763	43,344	37,290	12,584	—	460,084
Disposals	(55)	(944)	(1,100)	(3,353)	(987)	—	(6,439)
Disposal of subsidiaries	(59,777)	(20,539)	(741)	(23,043)	(37,732)	—	(141,832)
At 31 December 2007	1,607,772	5,479,675	1,101,722	257,739	50,921	—	8,497,829
Net book value							
At 31 December 2007	3,033,363	6,191,781	1,259,507	422,708	45,467	3,641,730	14,594,556

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Group *(Continued)*

(i) As a result of the close down and planned close down of certain power generating units of the Group, an impairment loss on the Group's power generators and equipment amounting to RMB348,505,000 is recognised in the consolidated profit and loss account.

(ii) As at 31 December 2008, certain of the Group's property, plant and equipment with carrying value of approximately RMB4,800 million (2007: RMB4,619 million) were situated on leasehold land in the PRC leased from China Power Investment Corporation (中國電力投資集團公司) ("CPI Group") which held the rights on the leasehold land under long-term leases. The remaining period of the Group's rights on leasehold land as at 31 December 2008 is ranging from 11 to 17 years (2007: 12 to 18 years).

(iii) As at 31 December 2008, the legal title of certain of the Group's properties with carrying amount of approximately RMB1,938 million (2007: RMB923 million) had not been transferred to the Group subject to certain administrative procedures to be completed by the relevant local government authorities. However, the directors are of the opinion that the risks and rewards of using these assets have been transferred to the Group.

(iv) As at 31 December 2008, certain property, plant and equipment of the Group with carrying amount of approximately RMB420 million (2007: RMB580 million) was pledged as security for certain long-term bank borrowings of the Group (Note 31).

(v) As at 31 December 2008, the cost and accumulated depreciation of property, plant and equipment held by the Group under finance leases amounted to RMB232,630,000 (2007: Nil) and RMB9,692,917 (2007: Nil) respectively.

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(b) Company

	Leasehold improvements RMB'000	Office and other equipment RMB'000	Furniture and fixture RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost or valuation					
At 1 January 2008	5,669	1,205	68	2,359	9,301
Additions	1,883	120	416	—	2,419
Disposals	—	(9)	(15)	—	(24)
At 31 December 2008	7,552	1,316	469	2,359	11,696
Representing:					
Cost	1,883	170	419	1,832	4,304
Valuation	5,669	1,146	50	527	7,392
	7,552	1,316	469	2,359	11,696
Accumulated depreciation and impairment losses					
At 1 January 2008	3,136	464	38	452	4,090
Depreciation charge for the year	1,181	243	59	422	1,905
Disposals	—	(7)	(11)	—	(18)
At 31 December 2008	4,317	700	86	874	5,977
Net book value					
At 31 December 2008	3,235	616	383	1,485	5,719

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(b) Company *(Continued)*

	Leasehold improvements RMB'000	Office and other equipment RMB'000	Furniture and fixture RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost or valuation					
At 1 January 2007	5,669	1,155	65	527	7,416
Additions	—	50	3	1,832	1,885
At 31 December 2007	5,669	1,205	68	2,359	9,301
Representing:					
Cost	—	50	3	1,832	1,885
Valuation	5,669	1,155	65	527	7,416
	5,669	1,205	68	2,359	9,301
Accumulated depreciation and impairment losses					
At 1 January 2007	2,059	228	24	19	2,330
Depreciation charge for the year	1,077	236	14	433	1,760
At 31 December 2007	3,136	464	38	452	4,090
Net book value					
At 31 December 2007	2,533	741	30	1,907	5,211

(c) As detailed in Note 2.4, property, plant and equipment 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 Jones Lang LaSalle Sallmanns (formerly Sallmanns (Far East) Limited), independent valuers registered in Hong Kong, on a depreciated replacement cost or market value basis, where applicable, as at 31 December 2006.

The directors have reviewed the carrying value of the Group's property, plant and equipment as at 31 December 2008 and are of the opinion that the amount is not materially different from the carrying amount that would have been recognised had these assets been carried at cost less accumulated depreciation and impairment losses or their fair values.

17 PREPAYMENT FOR CONSTRUCTION OF POWER PLANTS

Prepayment for construction of power plants represents advance payments made to contractors in connection with the construction of the Group's power plants including payments for equipment and machineries pending delivery to the relevant power plants for installation.

18 LAND USE RIGHTS

	Group	
	2008	2007
	RMB'000	RMB'000
Cost		
At 1 January	**44,511**	19,097
Additions	**—**	29,505
Disposal of subsidiaries	**—**	(4,091)
At 31 December	**44,511**	44,511
Accumulated amortisation		
At 1 January	**1,177**	579
Amortisation charge for the year	**895**	641
Disposal of subsidiaries	**—**	(43)
At 31 December	**2,072**	1,177
Net book amount		
At 31 December	**42,439**	43,334

The amount represents cost of the land use rights in respect of land located in the PRC where certain of the Group's property, plant and equipment are built on. As at 31 December 2008, the remaining period of the land use rights ranged between 46 and 48 years.

19 GOODWILL

	Group	
	2008	2007
	RMB'000	RMB'000
Cost		
At 1 January	**166,939**	166,939
Accumulated impairment losses		
At 1 January	**—**	—
Impairment loss	**40,000**	—
At 31 December	**40,000**	—
Net book amount		
At 31 December	**126,939**	166,939

Goodwill is allocated to Shanxi Shentou Electric Power Company Limited ("Shentou"), a subsidiary of the Group.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Management prepared the financial budgets taking into account actual and prior year performance and market development expectations. The pre-tax discount rate used for value-in-use calculations for goodwill is 9% (2007:9%). Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the cash-generating unit. Other key assumptions applied in the impairment tests include the expected tariff rates, demands of electricity in the region where the power plant is located and fuel costs.

During the year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with Shentou was impaired. The main factor contributing to the impairment of the cash-generating unit was due to certain power generating units in Shentou were closed down during the year, and it is expected that further power generating units in Shentou will also be closed down in the upcoming years. All relevant assets in Shentou have also been write-down to their recoverable amounts accordingly (also see Note 16).

At 31 December 2008, if the pre-tax discount rate applied to the discounted cash flow had been 1% higher/lower, with all other variables held constant, the impairment charges on goodwill would increase by approximately RMB57,000,000 or otherwise no impairment charge will be required.

At 31 December 2008, if the budgeted fuel price applied to the discounted cash flow had been 5% higher/lower, goodwill will be further impaired or otherwise no impairment charge will be required.

20 INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted investments, at cost (note (a))	**4,418,737**	4,175,750
Provision for impairment	**(483,152)**	—
	3,935,585	4,175,750
Amounts due from subsidiaries (note (b))	**242,650**	431,068
Amounts due to subsidiaries (note (c))	**158,190**	49,410

Note:

(a) During the year, the Company made additional capital contribution to power plants under construction amounting to approximately RMB203 million.

(b) Except for an aggregate amount due from subsidiaries of RMB230,000,000 (2007: RMB430,000,000) which carries interest ranging from 3.33% to 5.91% (2007: 2.88% to 3.42%) per annum and repayable within the next twelve months, amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(c) The amounts due to subsidiaries are unsecured, repayable on demand, and carry interest at 0.36% to 0.72% (2007: 0.72% to 0.81%) per annum.

20 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The following is a list of the subsidiaries at 31 December 2008:

Name of companies	Place of establishment and operation	Paid up/ issued capital	Equity interest attributable to the Group	Type of legal entity	Principal activities
Interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited	The PRC	RMB866,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited	The PRC	RMB841,600,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huainan Pingwei No.2 Electric Power Generating Company Limited	The PRC	USD104,153,007	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Pingdingshan Yaomeng No.2 Power Generating Company Limited	The PRC	USD102,319,058	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huanggang Dabieshan Power Generating Company Limited	The PRC	RMB721,967,631	93%	Sino-foreign equity joint venture	Generation and sale of electricity
Tianze Development Limited ("Tianze")	British Virgin Islands	USD1	100%	Limited liability company	Investment holding
中電恒源物流（北京）有限公司	The PRC	HK$5,000,000	100%	Wholly foreign-owned enterprise	Provision of logistics service
四川中電福溪電力開發有限公司	The PRC	USD9,764,000	51%	Sino-foreign equity joint venture	Development of power plants
遼寧中電清河發電有限公司	The PRC	RMB82,356,000	100%	Wholly foreign-owned enterprise	Development of power plants
Interests held indirectly:					
Shanxi Shentou Electric Power Company Limited	The PRC	RMB501,681,030	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
中電博亞企業管理（北京）有限公司	The PRC	HK$1,000,000	100%	Wholly foreign-owned enterprise	Provision of management service

21 INTEREST IN AN ASSOCIATED COMPANY

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**552,500**	552,500	**552,500**	552,500
Share of undistributed post-acquisition reserves	**251,600**	294,794	**—**	—
	804,100	847,294	**552,500**	552,500

The following are the details of the associated company as at 31 December 2008:

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

21 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 2.

	2008	2007
	RMB'000	RMB'000
Operating results		
Turnover	**2,081,378**	1,903,730
(Loss)/profit before taxation	**(109,205)**	149,494
(Loss)/profit after taxation	**(86,387)**	125,609
Financial position		
Non-current assets	**3,009,434**	2,230,743
Current assets	**566,113**	449,732
Current liabilities	**(1,905,142)**	(823,742)
Long-term liabilities	**(62,206)**	(162,146)
Net assets	**1,608,199**	1,694,587

No dividend income was received from the associated company for the year (2007: RMB65,699,000).

22 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2008	2007
	RMB'000	RMB'000
Unlisted investment, at cost	**70,000**	—
Share of undistributed post-acquisition reserves	**(3,869)**	—
	66,131	—

22 INTEREST IN A JOINTLY CONTROLLED ENTITY *(CONTINUED)*

The following are the details of the jointly controlled entity as at 31 December 2008:

Name of company	Place of establishment and operation	Paid up capital	Equity interest attributable to the Group	Type of legal entity	Principal activity
Interest held indirectly:					
廣州中電荔新電力實業有限公司 (Guangzhou China Power Lixin Industrial Company Limited ("China Power Lixin"))	The PRC	RMB140,000,000	50%	Sino-foreign equity joint venture	Generation and sale of electricity

The following amounts represent the Group's share of the assets, liabilities, revenues, results and commitments of the jointly controlled entity as derived from a set of unaudited management accounts of China Power Lixin for the year prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 2.

	2008 **RMB'000**	2007 RMB'000
Operating results		
Turnover	**—**	—
Loss for the year	**3,869**	—
Financial position		
Non-current assets	**129,181**	—
Current assets	**39,570**	—
Current liabilities	**(102,620)**	—
Long-term liabilities	**—**	—
Net assets	**66,131**	—

22 INTEREST IN A JOINTLY CONTROLLED ENTITY *(CONTINUED)*

	2008 RMB'000	2007 RMB'000
Capital commitments in respect of property, plant and equipment		
Contracted but not provided for	**844,197**	—

There are no contingent liabilities relating to the Group's interest in the jointly controlled entity and the jointly controlled entity did not have any material contingent liabilities as at 31 Decemeber 2008.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December 2008 RMB'000	2007 RMB'000
Equity securities listed outside Hong Kong		
At fair value	**1,379,011**	3,775,865
At market value	**1,379,011**	3,775,865

As of 1 April 2009, the date immediately before approval of these accounts, the market value of the above available-for-sale financial assets was approximately RMB2,096,660,000.

There were no disposals or impairment provisions on available-for-sale financial assets during the year.

The details of the available-for-sale financial assets as at 31 December 2008 are as follows:

Name of company	Place of establishment and operation	Registered and paid up capital	Equity interest attributable to the Group	Type of legal entity	Principal activity
Shanghai Electric Power Co., Ltd	The PRC	RMB2,139,739,257	21.9%	Joint stock company with limited liability with its A shares listed on the Shanghai Stock Exchange	Investment holdings and the generation and sale of electricity

During the year ended 31 December 2007, the Group acquired a 25% equity interest in Shanghai Electric Power Co., Ltd. ("Shanghai Power"), a joint stock limited company incorporated in the PRC with its A shares listed on the Shanghai Stock Exchange, and commenced to account for Shanghai Power as an associated company from 17 March 2007.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

Included in the share of results of associated companies for the year ended 31 December 2007 was a share of Shanghai Power's adjusted post-acquisition net loss for the period from 17 March 2007 to 22 December 2007 (the "Relevant Period") amounting to RMB110,714,000, which was mainly attributable to a share of Shanghai Power's adjusted loss on changes in fair value of derivative component of its convertible bonds amounting to RMB213,000,000.

During the Relevant Period, holders of these convertible bonds had substantially converted all these convertible bonds into new shares of Shanghai Power pursuant to the relevant terms and conditions. Consequently, the Group's interest in Shanghai Power had been diluted from 25% to 21.9% and a gain on deemed disposal of interest in Shanghai Power of RMB311,398,000 was recorded by the Group.

During the Relevant Period, Shanghai Power also experienced changes in certain substantial shareholders and as a result of a change in the composition of the board of directors in Shanghai Power on 22 December 2007, the directors of the Company consider that the Group is no longer able to exercise significant influence over the financial and operating decisions of Shanghai Power despite that the Group held an aggregate 21.9% interest in Shanghai Power. Consequently, the Company ceased to account for Shanghai Power as an associated company and began to recognise its investment in Shanghai Power as "Available-for-sale financial assets".

As at 31 December 2008, the directors of the Company evaluated the shareholder structure and the composition of the board of directors in Shanghai Power and concluded that the Group is not able to exercise significant influence over the financial and operating decisions of Shanghai Power despite that the Group held an aggregate 21.9% interest in Shanghai Power (also see Note 4(v)). Consequently, the Group continues to account for its investment in Shanghai Power as "Available-for-sale financial assets" which is measured based on its fair value, with the changes in fair value recognised in equity.

24 LONG-TERM RECEIVABLE FROM HEPC

In order to support the electricity transmission requirements for a power plant in Hubei Province, the Group agreed to provide certain advancement to HEPC to the extent of RMB200,000,000. As of 31 December 2008, the Group advanced an aggregate amount of RMB68,000,000 to HEPC for which it was agreed that RMB34,000,000 shall be repayable by 30 September 2009 and the remaining amount to be repayable by 30 September 2010. The amounts due from HEPC are unsecured and are interest free.

25 INVENTORIES

	Group	
	2008	2007
	RMB'000	RMB'000
Coal and oil	**313,903**	125,041
Spare parts and consumables	**185,873**	152,802
	499,776	277,843

26 ACCOUNTS RECEIVABLE

	Group	
	2008	2007
	RMB'000	RMB'000
Accounts receivable from regional and provincial power grid companies (note (a))	**1,283,682**	798,887
Accounts receivable from other companies (note (a))	**51,274**	62,467
	1,334,956	861,354
Notes receivable (note (b))	**40,200**	421,720
	1,375,156	1,283,074

The carrying value of accounts and notes receivable approximate their fair values due to the short term maturity. All accounts and notes receivable are denominated in RMB.

As at 31 December 2008, certain accounts receivable of the Group with carrying amount of RMB129,671,000 (2007: Nil) were pledged as security for certain short-term bank borrowings of the Group (Note 31).

26 ACCOUNTS RECEIVABLE *(CONTINUED)*

Note:

(a) The Group normally grants 15 to 60 days of credit period to customers from the end of the month in which the sales are made. The ageing analysis of the accounts receivable is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
1 to 3 months	**1,334,956**	844,762
4 to 6 months	**—**	16,169
7 to 9 months	**—**	423
	1,334,956	861,354

The credit quality of accounts receivable that are neither past due nor impaired has been assessed by reference to the historical information about counterparty default rates. The existing counterparties do not have significant default in the past.

As of 31 December 2008, no accounts receivable were past due (2007: RMB17,619,000). Receivables from provincial power grid companies and with other power companies were not considered to be impaired because there is no recent history of default. The ageing analysis of these accounts receivable is as follows:

	2008	2007
	RMB'000	RMB'000
Overdue		
1 to 3 months	**—**	1,027
4 to 6 months	**—**	16,169
7 to 9 months	**—**	423
	—	17,619

(b) Notes receivable are analysed as follows:

	2008	2007
	RMB'000	RMB'000
Bank acceptance notes issued by related parties	**34,700**	208,720
Bank acceptance notes issued by third parties	**5,500**	16,000
Commercial acceptance notes issued by related parties	**—**	177,000
Commercial acceptance notes issued by third parties	**—**	20,000
	40,200	421,720

The notes receivable normally have a maturity period of 90 to 180 days (2007: 90 to 180 days). There is no recent history of default on notes receivable.

27 BALANCES WITH GROUP COMPANIES

The balances with group companies are unsecured, interest free and are repayable on demand.

28 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**639,243**	326,719	**566,704**	252,951
Time deposits with initial term of less than three months	**687,575**	407,338	**687,575**	407,338
	1,326,818	734,057	**1,254,279**	660,289
Denominated in:				
RMB	**922,269**	312,425	**853,051**	243,562
USD	**326,689**	93	**326,575**	9
HK$	**77,860**	421,539	**74,653**	416,718
	1,326,818	734,057	**1,254,279**	660,289

(i) The weighted average effective interest rate on time deposits, with maturity ranging from 1 week to 3 months, was 2.6% and 2.5% per annum during the years ended 31 December 2008 and 2007 respectively. Cash at bank earns interest at floating rates based on daily bank deposit rates.

(ii) The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

29 SHARE CAPITAL

(a) Authorised and issued capital

	Company	
	Number of shares	Notional amount
	(of HK$1 each)	RMB'000
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	10,000,000,000	10,600,000
Issued and fully paid:		
At 1 January 2007	3,605,103,850	3,798,104
Exercise of share options (note)	507,000	506
At 31 December 2007 and 31 December 2008	3,605,610,850	3,798,610

Note:

During the year ended 31 December 2007, 507,000 new share of HK$1 each were issued at a price of HK$2.53 each for cash upon the exercise of the relevant options to subscribe for 507,000 shares of the Company under a share option scheme of the Company as detailed in note (b) (ii) below. These new shares rank pari passu in all respects with the existing shares.

29 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) 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.

29 SHARE CAPITAL *(CONTINUED)*

(b) Share option schemes *(Continued)*

(i) Option Scheme *(Continued)*

Details of the options granted under the Option Scheme outstanding as at 31 December 2008 are as follows:

Date of grant	Expiry date	Exercise price	**Number of shares subject to the options At 31 December 2008**	Number of shares subject to the options At 31 December 2007
Directors				
4 April 2007	3 April 2017	HK$4.07	**2,572,000**	4,870,000
2 July 2008	1 July 2018	HK$2.326	**2,360,000**	—
Senior management and other employees				
4 April 2007	3 April 2017	HK$4.07	**12,951,000**	15,759,000
2 July 2008	1 July 2018	HK$2.326	**27,230,000**	—
			45,113,000	20,629,000

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2008		2007	
	Average exercise price in HK$ per share	**Number of options**	Average exercise price in HK$ per share	Number of options
At 1 January	**4.07**	**20,629,000**	—	—
Granted	**2.326**	**29,590,000**	4.07	20,629,000
Lapsed	**4.07**	**(5,106,000)**		—
		45,113,000		20,629,000

29 SHARE CAPITAL *(CONTINUED)*

(b) Share option schemes *(Continued)*

(i) Option Scheme *(Continued)*

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.

Consideration in connection with all options granted were received. Save as mentioned above, no other share options granted under the Option Scheme were cancelled or exercised during the year. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of options granted under the Option Scheme determined using the Black-Scholes Option Pricing Model were as follows:

	Date of grant of share options	
	2 July 2008	4 April 2007
Option value	**HK$0.62**	HK$1.14
Significant inputs into the valuation model:		
Exercise price	**HK$2.326**	HK$4.07
Share price at grant date	**HK$2.09**	HK$4.07
Expected volatility (Note)	**36.44%**	30.95%
Risk-free interest rate	**3.41%**	4.16%
Expected life of options	**6.25 years**	6.25 years
Expected dividend yield	**2.27%**	2.75%

Note:

The volatility of the underlying stock during the life of the options is estimated based on the historical volatility of the Company since its listing on the Stock Exchange on 15 October 2004 up to the date of grant of the relevant options.

(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.

29 SHARE CAPITAL *(CONTINUED)*

(b) Share option schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme *(Continued)*

Details of the options granted under the Pre-IPO Scheme outstanding as at 31 December 2008 and 31 December 2007 are as follows:

	Date of grant	Expiry date	Exercise price	Number of shares subject to the options At 31 December 2008	At 31 December 2007
Directors	18 September 2004	17 September 2014	HK$2.53	**1,869,200**	4,361,500
Senior management and other employees	18 September 2004	17 September 2014	HK$2.53	**3,696,900**	3,696,900
Senior management and other employees	11 October 2004	10 October 2014	HK$2.53	**1,537,000**	2,473,000
				7,103,100	10,531,400

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2008 Average exercise price in HK$ per share	2008 Number of options	2007 Average exercise price in HK$ per share	2007 Number of options
At 1 January	**2.53**	**10,531,400**	2.53	11,819,100
Exercised	**2.53**	**—**	2.53	(507,000)
Lapsed	**2.53**	**(3,428,300)**	2.53	(780,700)
	2.53	**7,103,100**	2.53	10,531,400

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.

Consideration in connection with all options granted were received. Save as mentioned above, no other share options granted under the Pre-IPO Share Option Scheme were cancelled or exercised during the year. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

29 SHARE CAPITAL *(CONTINUED)*

(b) Share option schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme *(Continued)*

The fair values of options granted under the Pre-IPO Share Option Scheme determined using the Dividend Adjusted Black-Scholes Option Pricing Model were as follows:

	Date of grant of share options	
	18 September 2004	**11 October 2004**
Option value	HK$1.14	HK$1.13
Significant inputs into the valuation model:		
Exercise price	HK$2.53	HK$2.53
Share price at grant date	HK$2.53	HK$2.53
Expected volatility (Note)	43.71%	43.28%
Risk-free interest rate	4.40%	4.41%
Expected life of options	6.3 years	6.3 years
Expected dividend yield	0.99%	0.99%

Note:

The volatility of the underlying stock during the life of the options was estimated based on the historical volatility of the comparable companies for the past four years as of the respective valuation date since there were no trading record of the Company's shares at the respective grant dates.

30 RESERVES

Group

	Merger reserve (note (i)) RMB'000	Capital reserve (note (ii)) RMB'000	Revaluation reserve RMB'000	Available-for-sale investments RMB'000	Statutory reserves (note (iii)) RMB'000	Share-based compensation reserve RMB'000	Accumulated losses (note (iv)) RMB'000	Total RMB'000
At 1 January 2008	306,548	2,262,848	511,440	1,751,557	137,972	20,450	(409,897)	4,580,918
Release of revaluation reserve upon impairment of property, plant and equipment	—	—	(10,716)	—	—	—	—	(10,716)
Release of revaluation reserve upon disposal of property, plant and equipment								
– Group	—	—	(3,820)	—	—	—	3,820	—
– An associated company	—	—	(80)	—	—	—	80	—
Decrease in fair value of available-for-sale financial assets	—	—	—	(2,396,854)	—	—	—	(2,396,854)
Deferred tax on decrease in fair value of available-for-sale financial assets (Note 37)	—	—	—	211,073	—	—	—	211,073
Release of deferred tax on impairment and disposal of property, plant and equipment (Note 37)	—	—	4,029	—	—	—	—	4,029
Employee share option benefits	—	—	—	—	—	9,322	—	9,322
Lapse of share options	—	—	—	—	—	(6,003)	6,003	—
2007 final dividend (Note 14)	—	—	—	—	—	—	(194,703)	(194,703)
Loss for the year	—	—	—	—	—	—	(683,686)	(683,686)
At 31 December 2008	306,548	2,262,848	500,853	(434,224)	137,972	23,769	(1,278,383)	1,519,383

30 RESERVES *(CONTINUED)*

Group *(Continued)*

	Merger reserve (note (i)) RMB'000	Capital reserve (note (ii)) RMB'000	Revaluation reserve RMB'000	Available-for-sale investments RMB'000	Statutory reserves (note (iii)) RMB'000	Share-based compensation reserve RMB'000	Accumulated losses (note (iv)) RMB'000	Total RMB'000
At 1 January 2007	350,395	2,293,848	536,248	—	137,972	12,826	(804,764)	2,526,525
Deferred tax on changes in tax rates for net revaluation surplus of property, plant and equipment								
– Group (Note 37)	—	—	(9,075)	—	—	—	—	(9,075)
– Associated company	—	—	(487)	—	—	—	—	(487)
Release of revaluation reserve upon disposal of property, plant and equipment								
– Group	—	—	(544)	—	—	—	544	—
– An associated company	—	—	(210)	—	—	—	210	—
Increase in fair value of available-for-sale financial assets	—	—	—	1,962,630	—	—	—	1,962,630
Deferred tax on increase in fair value of available-for-sale financial assets (Note 37)	—	—	—	(211,073)	—	—	—	(211,073)
Employee share option benefits	—	—	—	—	—	8,371	—	8,371
Lapse of share options	—	—	—	—	—	(747)	747	—
2006 final dividend	—	—	—	—	—	—	(288,408)	(288,408)
Disposal of subsidiaries	(43,847)	(31,000)	(14,492)	—	—	—	89,339	—
Profit for the year	—	—	—	—	—	—	592,435	592,435
At 31 December 2007	306,548	2,262,848	511,440	1,751,557	137,972	20,450	(409,897)	4,580,918

30 RESERVES *(CONTINUED)*

Group *(Continued)*

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 of the Group took place in 2004.

(ii) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected by the then owner of the relevant companies of the Group 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 the PRC.

(iv) Accumulated losses

Accumulated losses retained by the Company and subsidiaries and the associated company include 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.

30 RESERVES *(CONTINUED)*

Company

	Revaluation reserve RMB'000	Available-for-sale investments RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2008	**13**	**1,952,240**	**20,450**	**1,507,925**	**3,480,628**
Loss for the year	**—**	**—**	**—**	**(292,737)**	**(292,737)**
2007 final dividend (Note 14)	**—**	**—**	**—**	**(194,703)**	**(194,703)**
Employee share option benefits (Note 11)	**—**	**—**	**9,322**	**—**	**9,322**
Lapse of share options	**—**	**—**	**(6,003)**	**6,003**	**—**
Decrease in fair value of available-for-sale financial assets	**—**	**(2,396,854)**	**—**	**—**	**(2,396,854)**
Deferred tax on changes in fair value of available-for-sale financial assets (Note 37)	**—**	**211,073**	**—**	**—**	**211,073**
At 31 December 2008	**13**	**(233,541)**	**23,769**	**1,026,488**	**816,729**
At 1 January 2007	13	—	12,826	1,225,095	1,237,934
Profit for the year	—	—	—	570,491	570,491
2006 final dividend	—	—	—	(288,408)	(288,408)
Employee share option benefits (Note 11)	—	—	8,371	—	8,371
Lapse of share options	—	—	(747)	747	—
Increase in fair value of available-for-sale financial assets	—	2,163,313	—	—	2,163,313
Deferred tax on changes in fair value of available-for-sale financial assets (Note 37)	—	(211,073)	—	—	(211,073)
At 31 December 2007	13	1,952,240	20,450	1,507,925	3,480,628

31 BORROWINGS

Borrowings are analysed as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Long-term bank borrowings				
– secured (note (e))	**193,000**	343,000	—	—
– unsecured (note (b))	**9,883,875**	7,829,350	**412,725**	—
	10,076,875	8,172,350	**412,725**	—
Less: current portion of long-term bank borrowings				
– secured	**(100,000)**	(150,000)	—	—
– unsecured	**(125,000)**	(316,000)	—	—
– unsecured bank borrowings reclassified as current (note (b))	**(412,725)**	—	**(412,725)**	—
	9,439,150	7,706,350	—	—
Current				
Short term bank borrowings, secured (note (f))	**100,000**	—	—	—
Short-term bank borrowings, unsecured	**880,000**	605,000	—	—
Current portion of long-term bank borrowings	**225,000**	466,000	—	—
Unsecured bank borrowings reclassified as current (note (b))	**412,725**	—	**412,725**	—
	1,617,725	1,071,000	**412,725**	—
Total borrowings	**11,056,875**	8,777,350	**412,725**	—

31 BORROWINGS *(CONTINUED)*

(a) The carrying amounts of the Group's bank borrowings approximate their fair values and are denominated in the following currencies:

	2008 RMB'000	2007 RMB'000
RMB	**10,644,150**	8,777,350
USD	**412,725**	—
	11,056,875	8,777,350

(b) On 15 July 2008, the Company entered into a facility agreement ("Facility Agreement") relating to a USD100,000,000 term loan facility ("Loan Facilities") with a syndicate of banks for the purpose of financing the general corporate funding requirements of the Company and its subsidiaries. The Loan Facilities have a term of three years commencing from the date of the Facility Agreement and imposed certain specific performance obligations on the Group. As at 31 December 2008, the Group's drawdown in connection with the Loan Facilities amounted to RMB412,725,000 (equivalent to USD60,000,000) whereby the Group is not able to fulfil certain financial covenants as stipulated under the Facility Agreement which constitutes an event of default under the Facility Agreement. Subsequent to the year end, the Group has obtained a waiver in respect of the aforementioned covenant requirements from the syndicate of banks for the year ended 31 December 2008. However, at the balance sheet date, as the Group did not have an unconditional right to defer its settlement of the relevant bank borrowings for at least twelve months after that date, such bank borrowings are reclassified as current liabilities.

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

	Group	
	2008 RMB'000	2007 RMB'000
Wholly repayable within five years (also see note (b) above)	**1,581,075**	1,137,850
Not wholly repayable within five years	**8,495,800**	7,034,500
	10,076,875	8,172,350

31 BORROWINGS *(CONTINUED)*

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

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year (also see note (b) above)	**637,725**	466,000
In the second year	**743,350**	571,850
In the third to fifth year	**200,000**	100,000
After the fifth year	**8,495,800**	7,034,500
	10,076,875	8,172,350

(d) The effective interest rates of the Group's bank borrowings are as follows:

	Group	
	2008	2007
Non-current bank borrowings, at floating rates	**6.6%**	6.2%
Current bank borrowings, at floating rates	**6.5%**	5.9%

(e) The long-term bank borrowings of RMB193,000,000 (2007: RMB343,000,000) are secured by certain property, plant and equipment of the Group with carrying amount of RMB420,033,000 (2007: RMB580,324,000) (Note 16).

(f) The short-term bank borrowings of RMB100,000,000 (2007: Nil) are secured by certain accounts receivable of the Group amounting to RMB129,671,000 (Note 26).

(g) At 31 December 2008, the Group had the following undrawn committed borrowing facilities:

	Group	
	2008	2007
	RMB'000	RMB'000
Long-term bank borrowings, at floating rates	**1,604,200**	4,355,500

32 AMOUNTS DUE TO CPIF

	Group 2008 RMB'000	Group 2007 RMB'000
Non-current		
Long-term payable to CPIF (Note (a))	**270,295**	398,158
Less: current portion of long-term payable to CPIF	**—**	(127,863)
	270,295	270,295
Current		
Short-term borrowing from CPIF (Note (b))	**100,000**	—
Current portion of long-term payable to CPIF	**—**	127,863
	370,295	398,158

Note:

(a) Balance represents amounts payable to CPIF, which are unsecured and are repayable as follows:

	Group 2008 RMB'000	Group 2007 RMB'000
Repayable by 5 November 2008, bearing interest at 3.6% per annum	**—**	127,863
Repayable by 30 June 2010, bearing interest at 5.27% per annum	**270,295**	270,295
	270,295	398,158

(b) The short term borrowing from CPIF is unsecured, carries interest at a fixed rate of 6.66% per annum and is repayable by 3 November 2009.

(c) The carrying amounts of the amounts due to CPIF approximate their fair values.

33 OBLIGATIONS UNDER FINANCE LEASES

	Group 2008 RMB'000	Group 2007 RMB'000
Obligations under finance leases	**232,012**	—
Current portion of finance leases	**(26,857)**	—
Non-current portion of finance leases	**205,155**	—

At 31 December 2008, the Group's finance lease liabilities were repayable as follows:

	Group 2008 RMB'000	Group 2007 RMB'000
Within one year	**29,615**	—
In the second to fifth year	**118,460**	—
After the fifth year	**192,388**	—
	340,463	—
Future finance charges on finance leases	**(108,451)**	—
Present value of finance leases	**232,012**	—

34 ACCOUNTS PAYABLE

	Group	
	2008	2007
	RMB'000	RMB'000
Accounts payable	**558,793**	370,093
Due to related companies	**137,736**	58,537
	696,529	428,630

The carrying amounts of accounts payable approximate their fair values due to their short maturity.

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

	Group	
	2008	2007
	RMB'000	RMB'000
1 to 6 months	**594,229**	420,554
7 to 12 months	**60,017**	880
Over 1 year	**42,283**	7,196
	696,529	428,630

Amounts due to other related companies mainly relate to purchase accruals made by the Group and are included under accounts payable. Balances are unsecured, interest free and shall be settled in accordance with the respective trading terms.

35 OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salaries and staff welfare payable	**50,904**	52,295	**3,542**	712
Value added tax payable	**193,264**	53,193	**—**	—
Other taxes payable	**28,945**	32,548	**63**	—
Repairs and maintenance expense payable	**12,485**	—	**—**	—
Insurance expense payable	**14,029**	17,650	**988**	—
Discharge fees payable	**3,985**	9,936	**—**	—
Interest payable	**14,654**	5,656	**7,166**	—
Other payables and accrued operating expenses	**100,461**	147,535	**10,153**	20,318
	418,727	318,813	**21,912**	21,030

36 AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

37 DEFERRED INCOME TAX

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred income tax assets	**33,341**	—	**—**	—
Deferred income tax liabilities	**(11,888)**	(227,362)	**—**	(211,073)
Net deferred income tax assets/(liabilities)	**21,453**	(227,362)	**—**	(211,073)

The net movement on the deferred income tax assets/(liabilities) is as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**(227,362)**	(10,907)	**(211,073)**	—
Credited/(charged) directly to equity (Note 30)	**215,102**	(211,073)	**211,073**	(211,073)
Disposal of subsidiaries	**—**	343	**—**	—
Credited to consolidated profit and loss account (Note 10)	**33,713**	1,650	**—**	—
Changes in tax rates				
- credited to consolidated profit and loss account (Note 10)	**—**	1,700	**—**	—
- charged directly to equity (Note 30)	**—**	(9,075)	**—**	—
At 31 December	**21,453**	(227,362)	**—**	(211,073)

37 DEFERRED INCOME TAX *(CONTINUED)*

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Group						Company	
	Revaluation surplus on property, plant and equipment		Changes in fair value of available-for-sale financial assets		Total		Changes in fair value of available-for-sale financial assets	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1 January	**(56,791)**	(45,495)	**(211,073)**	—	**(267,864)**	(45,495)	**(211,073)**	—
Credited/(charged) directly to equity (Note 30)	**4,029**	—	**211,073**	(211,073)	**215,102**	(211,073)	**211,073**	(211,073)
Disposal of subsidiaries	**—**	2,841	**—**	—	**—**	2,841	**—**	—
Credited to consolidated profit and loss account	**6,920**	8,848	**—**	—	**6,920**	8,848	**—**	—
Changes in tax rates								
- charged to consolidated profit and loss account	**—**	(11,847)	**—**	—	**—**	(11,847)	**—**	—
- charged directly to equity	**—**	(11,138)	**—**	—	**—**	(11,138)	**—**	—
At 31 December	**(45,842)**	**(56,791)**	**—**	**(211,073)**	**(45,842)**	**(267,864)**	**—**	**(211,073)**

37 DEFERRED INCOME TAX *(CONTINUED)*

Deferred tax assets:

	Group									
	Revaluation deficit on property, plant and equipment		Provision for receivables		Provision for inventories obsolescence		Tax losses		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1 January	**19,863**	21,967	**13,187**	8,150	**7,452**	4,471	**—**	—	**40,502**	34,588
Disposal of subsidiaries	**—**	(2,498)	**—**	—	**—**	—	**—**	—	**—**	(2,498)
(Charged)/credited to consolidated profit and loss account	**(9,757)**	(7,480)	**—**	282	**—**	—	**36,550**	—	**26,793**	(7,198)
Changes in tax rates										
- credited to consolidated profit and loss account	**—**	5,811	**—**	4,755	**—**	2,981	**—**	—	**—**	13,547
- credited directly to equity	**—**	2,063	**—**	—	**—**	—	**—**	—	**—**	2,063
At 31 December	**10,106**	**19,863**	**13,187**	**13,187**	**7,452**	**7,452**	**36,550**	—	**67,295**	**40,502**

37 DEFERRED INCOME TAX *(CONTINUED)*

The deferred income tax (credited)/charged to equity during the year is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revaluation reserve in shareholders' equity:				
- property, plant and equipment (Note 30)	**(4,029)**	9,075	**—**	—
Available-for-sale financial assets (Note 30)	**(211,073)**	211,073	**(211,073)**	211,073
	(215,102)	220,148	**(211,073)**	211,073

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2008, the Group had unrecognised tax losses to be carried forward against future taxable income amounted to RMB767,463,000 (2007: Nil), which are mainly expiring within five years. As at 31 December 2008, the potential deferred income tax assets in respect of the above tax losses which had not been recognised amounted to RMB93,381,000 (2007: Nil).

38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to cash generated from operations

	2008 RMB'000	2007 RMB'000
(Loss)/profit before taxation	(690,031)	660,906
Share of losses of associated companies	43,194	47,909
Share of loss of a jointly controlled entity	3,869	—
Interest expense	611,449	159,493
Depreciation of property, plant and equipment	798,356	460,084
Amortisation of land use rights	895	641
Amortisation of deferred income	(9,184)	(9,541)
Loss/(gain) on disposal of property, plant and equipment	11,018	(382)
Impairment on property, plant and equipment	348,505	—
Impairment on goodwill	40,000	—
Share-based compensation expense	9,322	8,371
Gain on deemed disposal of interest in an associated company	—	(311,398)
Interest income	(17,011)	(23,794)
Gain on disposal of subsidiaries	—	(16)
Operating profit before working capital changes	1,150,382	992,273
Increase in accounts receivable	(92,082)	(461,923)
Increase in prepayments, deposits and other receivables	(324,103)	(90,528)
(Increase)/decrease in inventories	(221,933)	7,909
Decrease/(increase) in amount due from an intermediate holding company	3,102	(24,873)
Increase in balances with fellow subsidiaries	(35,454)	(34,720)
Increase in accounts payable	267,899	190,700
Increase in other payables and accrued charges	100,100	37,552
Increase in amount due to ultimate holding company	(12,828)	12,582
Increase in deferred income	24,504	14,900
Increase in long-term receivable from HEPC	(68,000)	—
Decrease in other long-term prepayments	12,718	—
Cash generated from operations	804,305	643,872

38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(b) Disposal of subsidiaries

	2007
	RMB'000
Net assets disposal of:	
Cash and cash equivalents	26,122
Property, plant and equipment	167,144
Leasehold land prepayments	4,048
Inventories	1,390
Amount due from an intermediate holding company	22,690
Amounts due from fellow subsidiaries	28,193
Accounts receivable	39,653
Prepayments, deposits and other receivables	27,375
Accounts payable	(2,314)
Other payables and accrued charges	(28,398)
Amounts due to fellow subsidiaries	(489)
Deferred income tax liabilities	(343)
	285,071
Consideration	285,087
Gain on disposal of subsidiaries	16
Satisfied by:	
Consideration settled in cash	285,087
Cash and cash equivalents disposed	(26,122)
Cash inflow on disposal of subsidiaries	258,965

There were no disposal of subsidiaries in the year ended 31 December 2008.

39 COMMITMENTS

(a) Capital commitments

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised but not contracted for in respect of				
- property, plant and equipment	**23,096**	67,770	**—**	—
- other investments	**—**	111,003	**—**	111,003
- capital contribution to an associated company	**813,800**	—	**813,800**	—
Contracted but not provided for in respect of				
- property, plant and equipment	**343,894**	1,877,952	**—**	—
- capital contribution to subsidiaries	**—**	—	**1,622,912**	844,914
- acquisiton of a business	**944,628**	944,628	**—**	944,628
- investment in an associated company (note (i))	**—**	749,500	**—**	749,500
	2,125,418	3,750,853	**2,436,712**	2,650,045

(i) Pursuant to a framework agreement entered into between the Company and 廣東發展集團有限公司 ("Guangzhou Development Group Limited Company" or "Guangzhou Development"), a state-owned enterprise established in the PRC, on 30 December 2007, the Company proposed to acquire 25% interests in 廣州電力企業集團有限公司 ("Guangzhou Power Enterprise (Group) Limited Company" or "Guangzhou Power") from Guangzhou Development at a consideration of RMB749.5 million (the "Proposed 25% Acquisition") subject to the approval from the relevant authorities in the PRC. Guangzhou Power is principally engaged in the generation and sale of electricity. During the year, as a result of the changing economic conditions, both the Group and Guangzhou Development agreed to suspend the Proposed 25% Acquisition until such time both parties considered appropriate at price and terms to be determined.

(ii) In addition to the above, pursuant to a Memorandum of Understanding entered into between the Company and 中國電力投資集團公司 (China Power Investment Corporation) ("CPI Group") dated 27 May 2008, the Company proposed to acquire 63% interest in 五凌電力有限公司 ("Wu Ling Power") from CPI Group (the "Proposed 63% Acquisition"). Wu Ling Power is incorporated in the PRC and registered as a sino-foreign joint venture with limited liability. Wu Ling Power is principally engaged in the development, production and supply of hydropower and coal-fired power in Hunan and Guizhou Provinces. Details of the Proposed 63% Acquisition, including terms and consideration, which are subject to the approval of the relevant regulatory authorities, have not been concluded up to the date of this report.

39 COMMITMENTS *(CONTINUED)*

(b) Commitments under operating leases

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Land and buildings				
Not later than one year	**25,475**	31,796	**13,354**	17,173
Later than one year and not later than five years	**26,721**	41,645	**4,049**	17,403
	52,196	73,441	**17,403**	34,576

Generally, the Group's operating leases are for terms of 1 to 3 years.

39 COMMITMENTS *(CONTINUED)*

(c) Future operating lease arrangements

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other equipment				
Not later than one year	**2,240**	4,481	**—**	—
Later than one year and not later than five years	**—**	2,240	**—**	—
Others	**2,240**	6,721	**—**	—

(d) As detailed in Note 24, the Group agreed to provide certain advancement to HEPC to the extent of RMB200,000,000 in order to support the electricity transmission requirements for a power plant in Hubei Province. As at 31 December 2008, HEPC may request further advancement from the Group to the extent of RMB132,000,000.

40 RELATED PARTY TRANSACTIONS

The Group is controlled by its immediate holding company, China Power Development Limited ("CPDL"), a company incorporated in the British Virgin Islands and wholly owned by China Power International Holding Limited ("CPIH"), a company incorporated in Hong Kong. As at 31 December 2008. CPDL and CPIH held approximately 55.38% and 0.59% of the Company's shares respectively. The remaining interests are widely held. The directors regard CPI Group, a company incorporated in the PRC, as being the ultimate holding company.

40 RELATED PARTY TRANSACTIONS *(CONTINUED)*

Related parties refer to entities in which CPI Group 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, or directors or officers of the Company. They include enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises") as defined under HKAS 24, "Related Party Disclosures" ("HKAS 24"). Neither CPI Group nor the PRC government has published accounts.

Major related parties that had transactions with the Group were as follows:

Related parties	**Relationship with the Company**
CPI Group （中國電力投資集團有限公司）	Ultimate holding company
China Power International Holding Limited ("CPIH")	An intermediate holding company
CPIF（中電投財務有限公司）	A company controlled by CPI Group
Shanxi Shentou Industrial Company Limited （山西神頭電力實業有限責任公司）	Fellow subsidiary
Shanxi Shentou Engineering Company Limited （山西神頭電力檢修有限責任公司）	Fellow subsidiary
Huainan Pingwei Electric Power Industrial Company Limited （淮南平圩電力實業有限責任公司）	Fellow subsidiary
Anhui Huainan Pingwei Power Engineering Maintenance Company Limited （安徽淮南平圩電力檢修工程有限責任公司）	Fellow subsidiary
Pingdingshan Yaomeng Power Engineering Company Limited （平頂山姚孟電力工程有限責任公司）	Fellow subsidiary
Pingdingshan Yaomeng Power Industrial Company Limited （平頂山姚孟電力實業有限責任公司）	Fellow subsidiary
Shanxi Electric Power Corporation ("SEPC")	Related party of the Company as defined under HKAS 24
Hubei Electric Power Corporation ("HEPC")	Related party of the Company as defined under HKAS 24
Other related companies	Companies owned by certain individuals who are also employees or operational managers of certain subsidiaries of the Group
Other state-owned enterprises	Related parties of the Company as defined under HKAS 24

40 RELATED PARTY TRANSACTIONS *(CONTINUED)*

The following is a summary of significant related party transactions which, in the opinion of the directors, are entered into in the ordinary course of the Group's business in addition to the related party information shown elsewhere in these accounts. Management of the Group are of the opinion that meaningful information relating to related party transactions has been adequately disclosed.

(i) Income

	Note	**2008** **RMB'000**	2007 RMB'000
Sales of electricity to regional and provincial power grid companies	(a)	**8,761,986**	5,569,226
Income from generation of electricity on behalf of fellow subsidiaries and other related companies	(b)	**450,088**	13,136
Management fee from CPIH	(c)	**7,036**	11,322

(a) Pursuant to the power purchase agreements entered into between the Group and the respective regional and provincial power grid companies, which are regarded as state-owned enterprises, the Group is required to sell its generated electric power to those power grid companies at approved tariff rates. Whilst these companies are related parties of the Group as defined under HKAS 24, the directors are of the opinion that each party is operating independently; and the tariff rates are to be agreed with the respective power grid companies, subject to the approval of the relevant government authorities.

(b) Income from generation of electricity on behalf of fellow subsidiaries and other related companies are calculated based on mutually agreed prices.

(c) Management fee from CPIH in connection with the Group's services rendered for management of certain power plants on behalf of CPIH was charged in accordance with the terms of the relevant agreements.

40 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(ii) Expenses

	Note	**2008** RMB'000	2007 RMB'000
Operating lease rental in respect of land to CPI Group	(a)	**17,061**	17,061
Operating lease rental in respect of buildings to CPIH	(a)	**10,396**	11,098
Purchases of fuel, raw materials and spare parts from	(b)		
- other related companies		**—**	475
- fellow subsidiaries		**85,552**	20,443
Service fees to	(c)		
- other related companies		**67,759**	—
- fellow subsidiaries		**276,615**	38,253
Construction costs to	(d)		
- fellow subsidiaries		**185,747**	65,462
Labor costs charged by	(e)		
- fellow subsidiaries		**9,397**	756
Purchases of coal from other state-owned enterprises	(f)	**3,070,945**	3,216,751
Interest expense to CPIF	(g)	**19,466**	21,380
Interest expense to SEPC	(h)	**—**	444

(a) Rental expense in respect of certain land and buildings leased from CPI Group and CPIH was charged in accordance with the terms of the relevant agreements.

(b) Purchases of goods were charged in accordance with the terms of the relevant agreements.

(c) Service fees mainly related to repair and maintenance services and transportation services which were carried out at mutually agreed prices.

(d) Construction costs were payable in accordance with the terms of contracts.

(e) Labor costs were charged on a cost reimbursements basis.

(f) Purchases of coal from other state-owned enterprises were charged in accordance with the terms of the relevant agreements.

(g) Interest expense to CPIF was charged based on outstanding loan balance at 3.6% to 6.66% (2007: 3.6% to 5.27%) per annum.

(h) Interest expense to SEPC was charged based on outstanding loan balance at a fixed rate of 5.52% per annum.

40 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(iii) Year-end balances with related parties

(a) Details of the balances with related parties are disclosed in the respective Notes to the accounts.

(iv) Key management compensation

	2008	2007
	RMB'000	RMB'000
Basic salaries, housing allowance, other allowances, discretionary bonus and benefits in kind	**7,027**	5,691
Employer's contributions to pension scheme	**—**	7
Share-based compensation	**4,764**	5,899
	11,791	11,597

41 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 2 April 2009.

	2008 RMB million	2007 RMB million	2006 RMB million	2005 RMB million	2004 RMB million
Turnover	**9,632.4**	5,907.3	5,202.9	4,361.7	3,352.0
(Loss)/profit before taxation	**(690.0)**	660.9	806.2	743.6	681.6
Taxation	**(7.2)**	(69.5)	(104.5)	(82.4)	(46.4)
(Loss)/profit for the year	**(697.2)**	591.4	701.7	661.2	635.2
Attributable to:					
Equity holders of the Company	**(683.7)**	592.4	702.8	661.9	635.8
Minority interests	**(13.5)**	(1.0)	(1.1)	(0.7)	(0.6)
(Loss)/profit for the year	**(697.2)**	591.4	701.7	661.2	635.2
Total non-current assets	**18,496.2**	20,368.5	14,311.1	8,223.4	5,003.6
Total current assets	**3,935.5**	2,581.2	2,818.9	3,485.1	4,046.0
Total assets	**22,431.7**	22,949.7	17,130.0	11,708.5	9,049.6
Total current liabilities	**4,265.6**	3,403.4	3,628.9	1,719.4	1,668.6
Total non-current liabilities	**10,024.4**	8,367.0	4,396.1	3,169.7	1,153.0
Net assets	**8,141.7**	11,179.3	9,105.0	6,819.4	6,228.0
Equity attributable to equity holders of the Company	**8,073.4**	11,134.9	9,079.2	6,808.4	6,225.3
Minority interests	**68.3**	44.4	25.8	11.0	2.7
Total equity	**8,141.7**	11,179.3	9,105.0	6,819.4	6,228.0
Attributable installed capacity (MW)	**9,037**	7,883	5,348	4,255	3,010
Gross generation (MWh)	**36,360,449**	26,701,707	24,065,245	20,143,783	15,703,628
Net generation (MWh)	**33,890,035**	24,813,254	22,262,463	18,700,995	14,736,981
Average utilisation hours (hour)	**5,403**	6,191	6,611	6,529	6,516
Net coal consumption rate (grams/kWh)	**334.4**	343.4	348.6	345.3	342.3

Note: The Company was incorporated and registered in Hong Kong on 24 March 2004 and became the holding company of the Group as a result of a group reorganisation on 1 September 2004. The summary has been presented on the basis that the company had been the holding company of the Group from the beginning of the earliest period presented.

"auxiliary power"	electricity consumed by a power plant in the course of generation
"average utilisation hours"	for a specified period, the amount of electricity produced in such period (in MWh) divided by the average capacity in such period
"Board"	the Board of Directors of the Company
"Changshu Power Plant"	江蘇常熟發電有限公司(Jiangsu Changsu Electric Power Generating Company Limited*)
"China Power" or "Company"	China Power International Development Limited
"China Power Qinghe Company"	遼寧中電清河發電有限公司(Liaoning China Power Qinghe Electric Power Generating Company Limited*)
"CPCE"	中國電能成套設備有限公司 (China Power Complete Equipment Co., Ltd.*)
"CPDL"	China Power Development Limited (中國電力發展有限公司*)
"CPI Engineering Company"	中電投電力工程有限公司 (CPI Engineering Company Limited*)
"CPI Group"	中國電力投資集團公司(China Power Investment Corporation*)
"CPI Wuhu Power Plant"	中電國際(蕪湖)發電有限公司(CPI Wuhu Power Generating Company Limited*)
"CPIF"	中電投財務有限公司(CPI Financial Company*)
"CPI Holding"	中國電力國際有限公司(China Power International Holding Limited)
"Director(s)"	director(s) of the Company
"Dabieshan Power Plant"	大別山發電有限責任公司(Dabieshan Power Company Limited*)

"Fujian Electricity Company"	中電(福建)電力開發有限公司 (China Power (Fujian) Electricity Generation Company Limited*) which owns 福建沙溪口水力發電廠 (Fujian Shaxikou Hydro-Power Plant*)
"Fuxi Power Company"	四川中電福溪電力開發有限公司 (Sichuan CPI Fuxi Power Company Limited*)
"gross generation"	for a specific period, the total amount for electrical power produced by a power plant in that period including auxiliary power
"Guangzhou Development"	廣州發展集團有限公司 (Guangzhou Development Group Limited Company*)
"Guangzhou Power"	廣州電力企業集團有限公司 (Guangzhou Power Enterprise (Group) Limited Company*)
"Guixi Power Plant"	中電(江西貴溪)發電有限公司(China Power (Jiangxi Guixi) Electricity Generation Company Limited*)
"GW"	gigawatt, one million kilowatts
"Hongze Power Plant"	中電洪澤熱電有限公司 (Zhongdian Hongze Co-generating Company Limited*)
"Hongxiang Power Plant"	平頂山鴻翔熱電有限責任公司(Pingdingshan Hongxiang Co-generating Company Limited*)
"installed capacity"	the manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW
"interested installed capacity"	the aggregate proportionate installed capacities attributable to a company based on the percentage of equity interest held by such company in its controlled or invested company or companies
"Kaifeng Jinghua Power Plant"	開封京華發電有限公司 (Kaifeng Jinghua Power Plant Company Limited*)
"KWh"	kilowatt-hour, a standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour

"MW"	megawatt, one million watts. The installed capacity of a power plant is generally expressed in MW
"MWh"	megawatt-hour, one thousand kWh
"Net coal consumption rate"	average consumption of standard coal for supplying 1 kWh power (deducting self-used power)
"Nanyang Xinguang Power Plant"	南陽新光熱電有限公司 (Nanyang Xinguang Co-generating Company Limited*)
"Pingwei Industry Company"	淮南平圩電力實業有限責任公司(Huainan Pingwei Electric Power Industry Company Limited*)
"Pingwei Maintenance Company"	安徽淮南平圩電力檢修工程有限責任公司 (Anhui Huainan Pingwei Power Engineering Company Limited*)
"Pingwei Power Plant"	安徽淮南平圩發電有限責任公司 (Anhui Huainan Pingwei Electric Power Generating Company Limited*)
"Pingwei Power Plant II"	淮南平圩第二發電有限責任公司 (Huainan Pingwei No.2 Electric Power Generating Co., Ltd.*)
"net generation"	the actual amount of electricity sold by a power plant in a particular period of time, which equals gross generation less auxiliary power and losses incurred during the transmission from the power plant to the power grid
"Qinghe Power Plant"	遼寧清河發電有限責任公司 (Liaoning Qinghe Electric Power Generating Company Limited*)
"Shanghai Power"	上海電力股份有限公司 (Shanghai Electric Power Co., Ltd.*)
"Shentou I Power Plant"	山西神頭發電有限責任公司 (Shanxi Shentou Power Generating Company Limited*)
"Shentou Industrial Company"	山西神頭電力實業有限責任公司 (Shanxi Shentou Industrial Company Limited*)
"Shentou Engineering Company"	山西神頭電力檢修有限責任公司 (Shanxi Shentou Engineering Company Limited*)
"standard coal"	coal with an energy content of 7,000 kilocalories per kilogram

"super-critical"	a thermodynamic expression describing the state of a substance where there is no clear distinction between the liquid and the gaseous phase. Water reaches this state at a pressure above 22.1 megapascals (MPa)
"Wuhu Shaoda Power Plant"	蕪湖兆達電力開發有限公司 (Wuhu Shaoda Power Development Company Limited*)
"Wu Ling Power"	五淩電力有限公司 (Wu Ling Power Corporation*)
"Yaomeng Engineering Company"	平頂山姚孟電力工程有限責任公司 (Pingdingshan Yaomeng Power Engineering Co., Ltd.*)
"Yaomeng Industrial Company"	平頂山姚孟電力實業有限責任公司 (Pingdingshan Yaomeng Power Industrial Co., Ltd.*)
"Yaomeng Power Plant"	平頂山姚孟發電有限責任公司 (Pingdingshan Yaomeng Power Generating Company Limited*)
"Yaomeng Power Plant II"	平頂山姚孟第二發電有限公司 (Pingdingshan Yaomeng No.2 Power Co., Ltd.*)

* *For identification purpose only*

RESULTS

The financial results of the Company for the year ended 31 December 2008 was published on Thursday, 2 April 2009.

ANNUAL REPORTS

The 2008 Annual Report of the Company will be made available on our website http://www.chinapower.hk and will be despatched to our shareholders by the end of April 2009.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday, 27 May 2009 at 10:00 a.m. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published by the end of April 2009.

LISTING

The Company's shares are listed on the Main Board of the Hong Kong Stock Exchange. The stock code is 2380.

SHAREHOLDERS' ENQUIRIES

For enquiries about share transfer and registration, please contact the share registrar of the Company:

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For enquiries from investors and analysts, please contact:

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