BEA securities

EAST ASIA SECURITIES COMPANY LIMITED
8/F, 10 Des Voeux Road Central, Hong Kong.
Dealing: 2842 3530 / 2842 3475 Research: 2842 3198 Facsimile: 2845 2937 / 2526 7992

Analyst: Vincent Leung

HONG KONG RESEARCH
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Main Board Listing - Research

華潤電力控股有限公司
China Resources Power Holdings Company Limited [Stock Code: 0836]

Joint Global Coordinators and Joint Bookrunners	:	Morgan Stanley Dean Witter Asia Limited BOC International Holdings Limited
Joint Lead Managers	:	Morgan Stanley Dean Witter Asia Limited BOCI Asia Limited
Sponsor	:	Morgan Stanley Dean Witter Asia Limited

Sector : Utilities
Business : Invests, develops, owns and operates coal-fired power generating plants in the PRC

Total share offer: 920,000,000 shares
(25.1% of the enlarged share capital)

IPO: *92,000,000* shares (10%)
Placement: *828,000,000* shares (90%)

Greenshoe: *138,000,000* shares

Price: HK$2.20 – HK$2.80 per share
Market Cap. :
HK$8,074 million – HK$10,276 million

Prospective 2003 P/E: 26.2x – 33.3x
(pro forma fully diluted)
Adjusted NTA per share: HK$2.00
(Assuming the over-allotment option is not exercised and an offer price of HK$2.50 each)

Staffing: 1,210

Book opens: 20th October, 2003
Book closes: 6th November, 2003

IPO commences: 3rd November, 2003
IPO closes: 6th November, 2003

Receiving bank: Bank of China (Hong Kong)
Standard Chartered Bank
Share registrar: Computershare Hong Kong Investor Services Limited

Listing date: 12th November, 2003

Business of China Resources Power

Incorporated in Hong Kong in August 2001, China Resources Power (CR Power) is an independent power-generation company, which invests, develops, owns and operates coal-fired plants in the PRC.

As of 30th September 2003, the Company has 5 power plants in operation and 7 power plants under construction, which are located in Guangdong, Jiangsu, Zhejiang, Hebei, Henan and Hubei provinces. Total attributable installed capacity in operation is 1,545MW, and will be boosted to 4,438MW after the 7 power plants currently under construction commence operations by the end of 2005.

The Company also indirectly owns a 10% stake in Huaneng Power International *(Stock code: 0902)*'s parent Huaneng International Power Development Corp (HIPDC) *(Note)*.

Note: China Resources (Holdings) (CRH) entered into an agreement with CR Power to transfer to the latter its entire interest in China Resources Power Notary, which holds 40% interest in BOCGI China Resources Power. BOCGI China Resources Power is a joint venture between CRH and Bank of China Group Investment, which holds 25% of the entire registered capital of HIPDC.

Major Shareholder after Listing
(Assuming the over-allotment option is not exercised)

China Resources (Holdings) Co Ltd *(Note)*	74.9%

Note: China Resources (Holdings) Co Ltd is 99.984% owned by China Resources National Corporation.

Use of Proceeds

Net proceeds from the offer are estimated to be between HK$1,944 million and HK$2,459 million. *(Assuming the over-allotment option is not exercised*)

	% of Net Proceeds
To fund the Company's key capital expenditures planned for projects currently under construction	At least 90%
To serve as general working capital	Balance

Financial Highlights

	7 months ended 31st July 2003 HK$ '000	Pro forma* 2002 HK$ '000	Year ended 31st December 2002 HK$ '000	2001 HK$ '000	2000 HK$ '000
Turnover	29,414	-	-	-	-
Operating profit/(loss)	(27,205)	(18,557)	(24,750)	(15,584)	-
Share of results of associates	298,617	640,177	57,757	8,072	16,608
Share of results of a jointly-controlled entity	-	277,277	-	-	-
Net profit	166,397	598,811	28,108	(2,215)	16,608
Dividend	-	-	-	-	-
Earnings/(Loss) per share - basic	HK¢4.53	HK¢16.32	HK¢0.77	(HK¢0.06)	HK¢0.45

*Pro forma financial information for FY2002 provides an indication of the impact on the consolidated results of the Company following its newly-acquired interests in Zhejiang Wenzhou (acquired during September-December 2002) and Guangdong Guanghope Power (holding company of Shajiao C Power Plant; acquired in December 2002), the recent transfer of the interests in Xuzhou Power Plant and HIPDC from CRH to the Company as well as the acquisition of a 1.56% equity interest and the expected sale of a 5% interest in Shajiao C Power Plant in September 2003.

Summary of Power Plants that CR Power has interest:

Plant	Installed Capacity	% stake	Attributable Capacity (Installed Capacity x % stake)
In operation			
Shajiao C, Guangdong province	3x660MW	*29.56%	585MW
Liyujiang Phase II, Guandong province	2x300MW	60.00%	360MW
Wenzhou Telluride, Zhejiang province	2x300MW	40.00%	240MW
Xuzhou, Jiangsu province	2x300MW	35.00%	210MW
Hengfeng, Hebei province	2x300MW	25.00%	150MW
Subtotal (in operation)	*4,380MW*		***1,545MW***
Under Construction			
Changshu, Jiangsu province	2x600MW	100.00%	1,200MW
Xuzhou Phase II, Jiangsu province	2x300MW	35.00%	210MW
Dengfeng, Henan province	2x300MW	85.00%	510MW
Luoyang, Henan province	2x50MW	51.00%	51MW
Jiaozuo, Henan province	2x135MW	60.00%	162MW
Puqi, Hubei province	2x300MW	100.00%	600MW
Tangshan, Hebei province	1x200MW	80.00%	160MW
Subtotal (under construction)	*3,570MW*		***2,893MW***
Total	7,950MW		**4,438MW**

**After the sale of a 5% stake to China Hua Neng Group Hong Kong Limited*

Strengths

- ✓ CR Power's earnings are expected to grow substantially with its attributable capacity increasing from the current 1,545MW to 4,438MW, making it the 5th-largest IPP in the PRC (currently 8th). The expected completion of the panned new power plants would be in 2004-2005.

- ✓ Electricity consumption in the PRC has been extremely strong on the back of the booming economy. The persistent supply-demand mismatch in the more affluent provinces, including those where CR Power's power plants are located, should enable the Company to enjoy high utilization and good earnings.

- ✓ The Company will expand, besides the organic growth with the commissioning of the plants currently under construction, through acquisition of capacity from 3rd parties and additional stakes in its existing plants. It also has the option to acquire from CRH the power plants that are excluded from the listed vehicle.

- ✓ The Company intends to distribute at least 25% of its net profit as dividends from FY2004 and onwards, translating to an estimated FY2004 dividend yield of 2.0%-2.6%.

- ✓ Shares of CR Power being offered are priced at estimated FY2003E P/E of 26.2x-33.3x and FY2004E P/E of 9.6x-12.3x. Whilst CR Power will be the smallest listed mainland IPP in terms of attributable capacity and turnover when compared with its H-share peers Huaneng Power International (HPI) *(Stock code: 0902)*, Beijing Datang Power Generation (BDPG) *(Stock code: 0991)* and Shandong International Power Development (SIPD) *(Stock code: 1071)*, valuation of CR Power looks demanding based on its FY2003E valuation but more reasonable on the FY2004E valuation (9.6x to 12.3x). HPI, BDPG and SIPD are now trading at their estimated FY2003E P/E of 15.1x, 15.5x and 11.0x as well as FY2004E P/E of 14.2x, 14.2x and 10.5x respectively.

Weaknesses

- × The PRC's power industry has been experiencing significant long-term regulatory reforms. The changes in the regulatory environment as well as the tariff-setting mechanism have resulted in reduced on-grid tariffs in some of CR Power's plants. Like other IPPs, medium-term risks should be in the form of further tariff reform in the PRC.

- × The Company's power plants have limited bargaining power in coal purchasing, with coal costs accounting for approximately 62% of their operating costs in FY2002. Fluctuations in coal prices create uncertainties over the plants' fuel costs and hence the Company's profitability.

- × The Company currently has majority interest in only 1 of the 5 existing power plants in operation.

- × The Company's net debt-to-equity ratio is expected to escalate from an estimated 42% in 2003 to 94% in 2004 and further to 101% in 2005 due to increasing bank borrowings for financing the substantial Capex (some RMB14.2 billion) on the construction of the new power plants for 2003-2005.

- × Negative cash flow is anticipated in the coming 2 years due to the substantial Capex on the power plants under construction.

- × The Company's power plants, like those of other mainland IPPs such as Huaneng Power, Beijing Datang and Shandong International Power, discharge pollutants into the environment and are subject to environmental protection laws and regulations. Effective 1st July 2003, a new rule on pollutant-discharge fees has been implemented and the discharge fees for sulphur-dioxide emissions will treble in 3 years. None of the Company's existing power plants has installed desulphurization units, which will remove approximately 90% of sulphur dioxide and hence lower the discharge fees, while 5 of the 7 plants under construction will install these units. All in all, more stringent environmental legislation would have negative impact on the Company's profitability.

Recommendation: Trading Buy