

5.0 - CANADIAN INTEREST IN INVESTMENT OPPORTUNITIES

To obtain a preliminary indication of the extent of potential interest of the Canadian private sector in equity participation in power sector developments in China, a paper outlining the conceptual approach described herein and a simplified illustrative model of Three Gorges was circulated to a selected number of major Canadian investors and to two major power utilities.

Not surprisingly, in view of uncertainties as to China's position with respect to joint-venture developments in its power sector, a somewhat limited response was elicited. Nevertheless, Hydro Quebec did react positively and while it would not consider acting as a sole source of equity participation or even as a major source of equity capital, indicated it would be willing to consider participating as a member of a Canadian equity group and would be in a position to contribute the utility expertise relevant to the management of development and operation. Based upon the involvement of Hydro Quebec International in the preparation of the feasibility study for the Gehe Yan project, Hydro Quebec suggested that a project of this size might be an appropriate venture for initial application of equity participation to development of China's power sector.

Given the possibility that China would be willing to consider adoption of policies and conditions which would make equity financing attractive, a number of major Canadian commercial banks and investment bankers have expressed an interest in this study. Several of these agreed to review and comment on a draft of this report with a view to indicating how these financial institutions would view the prospects for debt financing given Canadian equity participation as assumed herein. A synthesis of the comments and observations of financial institutions follows.

Generally the PRC is considered to have an excellent credit rating. Project financing in the power sector would likely be viewed favourably by Canadian financial institutions given appropriate guarantees and demonstration of project financial viability. Several of