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## << Management's Discussion and Analysis

### BUSINESS REVIEW OF YEAR 2003



Year 2003 was a year full of challenges and opportunities. The steady growth of China's economy boosted power demand, the nation's power demand increased by 15.4% and more than 20 provinces experienced power shortage. During the year, the Company continued to strengthen its management, enlarge market shares, control costs and enhance efficiency by focusing on economic benefits and on the basis of safe operation, with a view to optimising shareholders' interests. The management and all staff of the Company and its subsidiaries have seized the

favourable opportunity of the market upturn and accomplished various tasks exceeding annual targets.

#### 1. Steady Growth of Operating Results

For the twelve months ended 31st December 2003, the Company recorded net operating revenues of Rmb23.388 billion and a net profit of Rmb5.430 billion, representing increases of 26.60% and 38.50%, respectively, as compared to the same period of 2002. Earnings per share was Rmbo.90, representing an increase of Rmbo.25 over the same period of 2002.

The steady growth in the operating results of the Company was, on the one hand, attributable to the contribution from increased power generation of the power plants originally owned by the Company. On the other hand, the impact of project development and asset acquisition also made significant contribution to the growth of the Company's operating results for year 2003. At the same time, facing an increasingly competitive power market, and in view of the twofold pressure of escalating fuel prices and decreasing power tariffs, the Company and its subsidiaries enlarged market shares, reinforced the sales strength of the power market, enhanced internal management and strengthened cost control. Despite the increase of raw coal price by 2.89%, the average unit fuel cost for power sold increased only 2.28% over the previous year.

As at the end of 2003, net asset per share of the Company was Rmb5.63, representing an increase of 11.05% when compared to 2002.

#### 2. Safe and Stable Power Generation

In 2003, the operating power plants of the Company and its subsidiaries achieved power generation totalling 90.91 billion kWh on a consolidated basis (including the power generation from Yushe Power Plant and Xindian Power Plant in November and December), representing an increase of 27.3% over the same period of the previous year. The growth in power generation of the Company in 2003 laid the foundation for the good operating results.



The growth in the Company's power generation was due to the increased power demand driven by the rapid and steady economic growth of the country. On the other hand, the increase in power generation was attributable to the whole-year power generation contribution from the two generating units at Dezhou Power Plant Phase III which commenced operation in 2002, the power generation contribution from the commercial operation of two generating units at Jining Power Plant, together with the contribution of the two months power generation from the newly acquired Yushe Power Plant and Xindian Power Plant, thus significantly increasing the power generation capacity of the Company. At the same time, the rationalised scheduling of the planned maintenance of the generating units also created favourable conditions for the increased power generation of the Company.

In 2003, the average availability factor of the power plants of the Company and its subsidiaries was 92.15%, with an average capacity factor of 68.06% while the average coal consumption rates for power sold and for power generated were 335.12 gram/kWh and 318.23 gram/kWh, respectively. The average house consumption rate was 4.76%. The Company's technical and economic indices remained at the forefront among all other power companies in the PRC.



In 2003, the Company's power plants in Shanghai, Liaoning and Jiangsu participated in the pilot scheme of power pooling in their respective regions. The power generation subject to power pooling is 5.159 billion kWh, accounting for 5.98% of the total power sale in the year. Power pooling not only increased the market share of the Company in local regions, but also increased the marginal profit of the Company.

Moreover, taking into account the oil price increase and for the purpose of controlling generation costs, the Company decided to shut down the two 100MW oil-fired generating units at Xindian Power Plant Phase I, which have been in operation for 30 years and is making losses currently. The generation capacity at Xindian Power Plant was reduced from 650MW to 450MW.

### 3. Breakthroughs in Asset Operation

- (1) Through tendering, the Company has acquired 25% interest in Shenzhen Energy Group Co. Ltd. ("SEG") after the latter's increase in share capital, enhancing the Company's market share in Guangdong region, a rapidly-growing market for power demand. The acquisition was effective on 22nd April 2003.
- (2) In 2003, the Company acquired 55% equity interest in the registered capital of Qinbei Power Plant, 60% equity interest in the registered capital of Yushe Power Plant, and all the assets and liabilities of Xindian Power Plant from China Huaneng Group. The acquisitions were effective on 27th October 2003, thereby increasing the generation capacity of the Company on an equity basis by 770MW, and the generation capacity under construction on an equity basis by 1,020MW. These have enhanced the competitiveness of the Company in Central China and also contributed to the growth of the Company's annual results.



## 4. Achievements in Project Construction

- (1) Owing to the Company's careful organisation and various parties' efforts, generating units 5 and 6 at Jining Power Plant expansion project (using Cycled Fluidised Bed Combustion Boilers) commenced commercial operation in July and August 2003 respectively, thereby making contribution to the growth in power generation of the Company.
- (2) Construction works of Huaiyin Power Plant Phase II project (2x330MW coal-fired generating units) and the project of one 600 MW coal-fired generating unit at Shantou Power Plant Phase II have commenced, with works quality and investment costs under effective control and works being carried out on schedule.
- (3) Construction works of two 600MW coal-fired generating units at Qinbei Power Plant Phase I and two 300MW coal-fired generating units at Yushe Power Plant Phase II have been progressing smoothly, and it is estimated that the plants will be put into full operation in 2004 and 2005 respectively.

## 5. A New Chapter of Sustainable Development

The feasibility study report on the project of two 1,000MW ultra-supercritical coal-fired generating units, which is the first case in China, at Huaneng Yuhuan Power Plant Phase I has been approved by the State. Project proposals in relation to the construction of Taicang Power Plant Phase II (2x600MW coal-fired generating units), Shanghai Gas-fired Power Plant (3x300MW-class Combined-Cycle-Gas-Turbine generating units) and Jinling Gas-fired Power Plant (3x300MW-class Combined-Cycle-Gas-Turbine generating units) have obtained approvals from the State. The Company will actively push forward the progress of the proposed projects in accordance with commercially viable principles.

## PROSPECTS FOR 2004



Year 2004 is also a year of full of challenges and opportunities. In respect of power generation, the demand will continue to increase with substantial growth. On the one hand, this provides the Company with a favourable condition to generate more generation, thus creating more profits. On the other hand, the consistently heavy loading of the generating units will create pressure on safety and stability of the operation. As one of the challenges we encounter this year, we will ensure a safe operation of our generating units and facilities, thus achieving a safe production.

Another challenge we face is related to coal supply. For a number of reasons, coal has been in rather short supply since the second half of last year and coal prices rose. The Company adopted a series of measures to ensure a sufficient supply of coal. The Company believes that under the government's guidance, suppliers and customers will co-operate with each other, thus ensuring a healthy coal market for the power industry.

In respect of development projects, economic growth and rising people's living standards provide more room for market development, which on the one hand gives better opportunity to the Company for rapid expansion, and on the other hand imposes heavy pressure upon project management due to the large-scale power plant construction. Ensuring the construction projects to be completed on schedule and with high quality and controlling the construction costs are also a challenge for the coming year.

As emphasized in the Letter to Shareholders, the Company will focus on the following objectives in 2004:

- (1) To ensure safe and operating stability of the Company's power plants, and the achievement of their annual power generation plans; and on this basis, to analyse and formulate effective market strategies with respect to power market and power pooling, and to enlarge our power market shares;
- (2) To undertake stringent control of operating costs and other costs, in particular fuel costs and construction costs;
- (3) To actively develop the proposed projects and push forward the work for the power plants under construction, with a view to expanding the Company's operating scale and enhancing its business strength; and
- (4) To actively seek new opportunities in order to assure continuous growth of the Company's profits and shareholders' interests.



The Company will continue to pursue a maximization of shareholders' interests as its operating objectives and goals. Given the steady and stable economic growth in China, the good opportunities provided by the power reform, the strong support from government of all levels and its parent company, and especially the support and trust from investors and shareholders, the Company will for sure be able to continue its healthy and steady growth under the efficient and experienced management team, bringing long-term and stable growth of return to the shareholders.

## OPERATING RESULTS

Comparison of the operating results between the year 2003 and the year 2002.

### Summary

In 2003, the Company has achieved very good operating results.

In 2003, the electricity sale of the Company and its subsidiaries reached 86.242 billion kWh, increased by 28.08% from the 67.332 billion kWh of last year. Accordingly, net operating revenue, net profit and earnings per share increased



considerably when compared with those of 2002. The Board of Directors of the Company was satisfied with the operating results of the year 2003.

The Company's good performance is mainly attributable to the rapid development of the national economy and concerted efforts of all the staff of the Company.

In 2003, the rapid development of the national economy has resulted in a strong demand for electricity. The growth rate of the production and consumption of electricity exceeded that of the GDP. In the

peak seasons, such as in the hot summer days when urban residents had higher demand for electricity supply, and in the arid winter days when hydro power generation decreased significantly, there was a serious shortage of electricity supply in some regions of the country, especially in the comparatively developed south-eastern coastal areas. The local government called on people to save electricity, and part of users had to pause electricity consumption or was restricted in electricity consumption. The local government took measures to ensure and faster the production of the power-generation enterprises, and to limit the electricity consumption of high power-consuming enterprises in order to ensure the supply to residential end-consumers and key users such as hospitals.

The Company and its subsidiaries face a prosperous environment as the power output and the operating hours of the domestic thermal power plants had increased significantly in 2003, due to the strong demand for electricity caused by a number of factors including: the rapid development of the national economy, the significant increase of the consumption of high power-consuming enterprises; and the arid atmosphere in certain areas.

The Company and its subsidiaries accomplished and significantly exceeded the annual production and sale plan despite of the SARS conditions, tight situation in coal transportation and the rarely high temperature in the summer. The Company and its subsidiaries took advantage of the macro-environment, carefully maintained the equipments, arranged the overhaul projects with the consideration of the market demand, managed to meet the demand for fuel. The superior technology and equipments enhanced the Company's competition position. For the year ended 31st December 2003, the power generation of the Company and its subsidiaries reached 90.91 billion kWh, increased by 27.3% compared to the prior year.



The growth of the Company and its subsidiaries' power generation was attributed to the following factors:

- (1) the rapid-growth of the national economy, which resulted in a significant increase in the demand of electricity and accordingly the increase of generation of the power plants of the Company and its subsidiaries;
- (2) the significant decrease of hydro power generation in Fujian Province, which resulted in more power generation of the power plants of the Company in Fujian province;
- (3) the remarkable increase of the generation capacity of the Company with two generation units of Jining Power Plant put into operation in 2003 and the full year generation capacity of two generation units of Dezhou Power Plant Phase III which were put into commercial operation in 2002;
- (4) two months' power generation contribution from Yushe Power Plant and Xindian Power Plant, both of which were acquired in 2003.

In 2003, the Company made great achievement in capital transaction.

On 22nd April 2003, the Company acquired equity interests representing 25% of the enlarged share capital of SEG at a consideration of Rmb2.39 billion. Through this acquisition, the Company entered the Shenzhen power market, which is a high potential market. The Company is confident that it can work together with local power developers to exploit the Shenzhen power market, to provide power to local customers and to obtain satisfactory returns from this strategic investment.

On 27th October 2003, the Company acquired from China Huaneng Group all the assets and liabilities of Xindian Power Plant, 60% of the equity interests of Yushe Power Plant and 55% of the equity interests of Qinbei Power Plant at a total consideration of Rmb550 million. This acquisition was in the alignment with the Company's market development strategy to consolidate the advantages in the coastal regions and to expand in the middle China. The three power plants mentioned above are located in Shandong Province, Henan Province and Shanxi Province, respectively. The Company and its subsidiaries' entry into Henan and Shanxi Province enlarged its regional coverage to the larger power market in middle China. Henan Province located at the lower reaches of the Yellow River. It is a main energy base in China with high production output of coal and oil. Shanxi Province located at North China, and is the top coal-output province in China with coal reserve accounted for one third of the total coal reserve in China. The acquisition was the continuance of the development strategy of the Company "to focus on both development and acquisition".



### Net Operating Revenue

Net operating revenue represents operating revenue net of the value-added tax and deferred revenue. For the year ended 31st December 2003, the consolidated net operating revenue of the Company and its subsidiaries was Rmb23.388 billion, representing an increase of 26.60% over net operating revenue of Rmb18.474 billion of last year.

The significant increase of net operating revenue was primarily because of the 28.08% increase of power output compared to last year. Among the power plants of the Company and its subsidiaries, the operating revenue of Dezhou Power Plant, Fuzhou Power Plant, Dalian Power Plant and Dandong Power Plant had increased significantly. The output of Dezhou Power Plant had increased 42.91% compared to last year. The main reason of the increase was that the Phase III of Dezhou Power Plant was put into commercial operation in the second half of 2002. The increase of output of Fuzhou Power Plant was because that the significant reduction of hydro power generation in Fujian Province offered the opportunity to our plant to enlarge its generation. The operating revenue of Dalian Power Plant and Dandong Power Plant increased because of the continuous expansion of the power market in Liaoning Province.





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The lower growth rate of operating revenue, when compared with that of power output, was due to the decrease of the average tariff rate. The average tariff rate decreased 2.06% from Rmb325.38 per MWh in 2002 to Rmb318.68 per MWh in 2003. The decrease of the average tariff rate was due to the adjustment of approved tariff rates and the increase of the percentage of excess generation portion as the total power output increased. In addition, the tariff rates of the newly acquired Xindian Power Plant and Yushe Power Plant were lower than that of the original power plants of the Company and its subsidiaries.



### **Dalian Power Plant**

Dalian Power Plant's net operating revenue increased by 19.74% to Rmb1.900 billion in 2003 from Rmb1.587 billion of last year. The average tariff rate was Rmb272.69 per MWh, which decreased by 2.79% from Rmb280.53 MWh in 2002. The power output of Dalian Power Plant reached 8.145 billion kWh, increased by 20.43% compared to last year. The significant increase of power output was due to the continuous expansion of the power market of Liaoning Province and the increasing power consumption. The increase of power output net of the impact caused by

the decrease of the average tariff rate and resulted in the significant increase of the operating revenue.

### **Fuzhou Power Plant**

Fuzhou Power Plant's net operating revenue increased by 26.51% to Rmb2.390 billion in 2003 from Rmb1.889 billion of last year. The average tariff rate was Rmb331.82 per MWh, which increased by 1.23% from Rmb327.80 MWh in 2002. The increase of average tariff rate was caused by the change of the structure the power output, among which, planned generation portion increased and the excess generation portion decreased. The power output of Fuzhou Power Plant was 8.464 billion kWh, increased by 23.13% when compared to last year. Both the increase of the average tariff rate and the power output resulted in significant increase of the net operating revenue and net operating profit. The main reason of the increase of the power generation of Fuzhou Power Plant was mainly that Fuzhou Power Plant had the opportunity to enlarge power generation since the hydro power generation declined significantly due to the arid climate in Fujian Province while the power demand increased.



### **Shang'an Power Plant**

Shang'an Power Plant's net operating revenue increased by 4.34% to Rmb2.008 billion in 2003 from Rmb1.924 billion in 2002. The average tariff rate was Rmb307.94 per MWh, which decreased by 2.44% from Rmb315.65 MWh of last year. The decrease of the average tariff rate was mainly caused by the change of the structure of the power sales. All the increased portion of power output was in the excess generation category with a lower tariff rate. The increase of the net operating revenue of Shang'an Power Plant was due to the increase of power output. The lower growth rate of net

operating revenue and net profit was caused by the decrease of the average tariff rate.

### Nantong Power Plant

Nantong Power Plant's net operating revenue increased by 9.86% to Rmb2.147 billion in 2003 from Rmb1.955 billion in 2002. The average tariff rate was Rmb312.52 per MWh, which increased by 0.96% from Rmb309.54 MWh of last year. The power output of Nantong Power Plant reached 8.078 billion kWh, increased by 7.65% compared to last year. The increase of the net operating revenue and the net profit of Nantong Power Plant was caused by two factors: the increase of the power output and the increase of the average tariff rate. The increase of the average tariff rate was due to the increase of the tariff rate of the excess generation.



### Shantou Oil-fired Power Plant

Shantou Oil-fired Power Plant's net operating revenue increased by 56.57% to Rmb178 million in 2003 from Rmb114 million in 2002. The average tariff rate was Rmb672.41 per MWh, which increased by 8.28% from Rmb621.02 MWh of last year. The power output of Shantou Oil-fired Power Plant reached 296 million kWh, increased by 45.15% compared to last year.

### Dandong Power Plant

Dandong Power Plant's net operating revenue increased by 22.87% to Rmb927 million in 2003 from Rmb754 million in 2002. The increase of the net operating revenue was mainly caused by the 20.23% increase of power output of Dandong Power Plant, which reached 4.046 billion kWh in 2003. The increase of power output was due to the same factors that benefited Dalian Power Plant, namely the continuous expansion of the power market of Liaoning Province and the continuous growth of power consumption. The other significant reason was that the average tariff rate increased by 1.19% to Rmb276.95 MWh in 2003 from Rmb273.70 per MWh of last year.



### Shantou Coal-fired Power Plant

Shantou Coal-fired Power Plant's net operating revenue increased by 2.33% to Rmb1.522 billion in 2003 from Rmb1.487 billion in 2002. The average tariff rate was Rmb435.17 per MWh, which decreased by 4.56% from Rmb455.95 MWh of last year. The power output of Shantou Coal-fired Power Plant reached 4.125 billion kWh, increased by 6.55% compared to last year. The lower growth rate of the net operating revenue, when compared with that of power output, was due to that certain portion of the increase of the power output was offset by the decrease of the average tariff rate.





## Shidongkou Second Power Plant

Shidongkou Second Power Plant's net operating revenue increased by 6.84% to Rmb2.250 billion in 2003 from Rmb2.106 billion in 2002. The average tariff rate was Rmb332.85 per MWh, which decreased by 3.77% from Rmb345.90 MWh of last year. The power output of Shidongkou Second Power Plant reached 8.024 billion kWh, increased by 10.40% compared to last year. The increase of the power output was due to that the power demand in the East China (especially in Shanghai) exceeded the power supply in 2003, which resulted in the significant increase of the net operating revenue and net profit.

## Nanjing Power Plant

Nanjing Power Plant's net operating revenue increased by 10.03% to Rmb1.027 billion in 2003 from Rmb933 million in 2002, which was mainly caused by two factors: 1) The average tariff rate reached Rmb307.31 per MWh in 2003, increased by 1.07% from Rmb304.07 MWh of last year. The increase of the average tariff rate was mainly due to the increase of the bidding tariff rate and the tariff rate for the excess generation. 2) The power output of Nanjing Power Plant reached 3.867 billion kWh, increased by 7.16% compared to last year. The increase of power generation was mainly due to the significant increase of power demand of the East China grid.



## Dezhou Power Plant

Dezhou Power Plant's net operating revenue increased by 40.27% to Rmb3.206 billion in 2003 from Rmb2.286 billion in 2002. The average tariff rate was Rmb333.34 per MWh, which decreased by 1.85% from Rmb339.64 MWh of last year. The increase of the net operating revenue of Dezhou Power Plant was mainly due to that the increase in the power output offset the impact of decrease of the average tariff rate. The increase of power output was mainly due to that the Phase III project (2X660MW) formed additional stable generation capacity.

## Jining Power Plant

Jining Power Plant's net operating revenue increased by 7.28% to Rmb453 million in 2003 from Rmb422 million in 2002. The average tariff rate was Rmb274.66 per MWh, which decreased by 0.18% from Rmb275.15 per MWh of last year. The power output of Jining Power Plant reached 1.928 billion kWh, increased by 6.82% compared to last year. The increase of the net operating revenue of Jining Power Plant was mainly due to the increase of power output. The increase of power output was mainly due to that the Phase III project (2X135MW) was put into commercial operation in 2003, which enlarged the total installation capacity of Jining Power Plant.





**Changxing Power Plant**

Changxing Power Plant became a wholly-owned plant of the Company on 1st July, 2002. In 2003, Changxing Power Plant's net operating revenue was Rmb454 million. Its power output was 1.657 billion kWh with the average tariff rate of Rmb320.57 per MWh.

**Shidongkou First Power Plant**

The Company acquired 70% of the equity interests of Shidongkou First Power Plant on 1st July, 2002, and subsequently acquired the remaining 30% equity interests on 31st December, 2002. Since then, the plant became a wholly-owned plant. In 2003, the net operating revenue, power output and average tariff rate of Shidongkou First Power Plant were Rmb1.623 billion, 7.395 billion kWh and Rmb256.64 per MWh, respectively.

**Xindian Power Plant**

Xindian Power Plant became a branch of the Company by the end of October 2003. The net operating revenue of Xindian Power Plant from November to December was Rmb150 million. The power output and average tariff rate of Xindian Power Plant were 512 million kWh and Rmb342.41 per MWh, respectively.

**Taicang Power Plant**

The Company acquired 70% of the equity interests of Taicang Power Plant on 1st July, 2002 and subsequently acquired 5% of the equity interests on 31st December, 2002. In 2003, the net operating revenue, power output and average tariff rate of Taicang Power Plant were Rmb1.105 billion, 4.062 billion kWh and Rmb321.80 per MWh, respectively.



## **Huaiyin Power Plant**

The Company acquired 44.16% of the equity interests of Huaiyin Power Plant on 1st July, 2002, and subsequently acquired 19.48% equity interests on 31st December, 2002. In 2003, the net operating revenue, power output and average tariff rate of Huaiyin Power Plant were Rmb652 million, 2.435 billion kWh and Rmb317.21 per MWh, respectively.

## **Weihai Power Plant**

The Company owns 60% equity interests in Weihai Power Plant. The net operating revenue of Weihai Power Plant decreased by 4.66% to Rmb1.340 billion in 2003 from Rmb1.405 billion of last year. The decrease was mainly caused by two factors: 1) The power output of Weihai Power Plant decreased by 2.79% to 4.107 billion kWh from 4.225 billion kWh of last year. 2) The average tariff rate of Weihai Power Plant decreased by 1.84% to Rmb386.50 per MWh from Rmb393.74 per MWh of last year. The decrease of the average tariff rate was mainly due to the change of the structure of power output, among which the portion of the planned generation decreased and the portion of the generation applied to lower tariff rates increased.



## **Yushe Power Plant**

The Company acquired 60% of the equity interests of Yushe Power Plant by the end of October 2003. The net operating revenue of Yushe Power Plant from November to December were Rmb57 million. The power output and average tariff rate of Yushe Power Plant were 259 million kWh and Rmb200.63 per MWh, respectively.

## **Qinbei Power Plant**

The Company acquired 55% equity interests of Qinbei Power Plant by the end of October 2003. Two sets of generation units of Qinbei Power Plant, with the capacity of 600 MW each, were still under construction.





### Operating Expenses

The total operating expenses of the Company and its subsidiaries increased by 26.51% to Rmb16.315 billion in 2003 from Rmb12.896 billion of last year. The growth rate of operating expenses was lower than that of power output.

The primary operating expenses of the Company and its subsidiaries was fuel cost. The fuel cost increased by 30.49% to Rmb9.025 billion in 2003, when compared to Rmb 6.916 billion of last year. The weighted average unit price of natural coal increased by 2.89% to Rmb239.06 per ton in 2003 from Rmb232.34 per ton in 2002. Accordingly the unit fuel cost of power output increased by 2.28% to Rmb105.05 per MWh. Xindian Power Plant and Yushe Power Plant's unit fuel cost of power output was Rmb103.48 per MWh, which was lower than the average level of original power plants of the Company.

### Maintenance Expense

The maintenance expense incurred by the Company and its subsidiaries was Rmb922 million in 2003. The maintenance expense increased by 51.64% when compared to Rmb608 million of last year. The increase of the maintenance expense was mainly due to two factors: 1) The plants acquired in 2002, including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant, were consolidated in 2003 on a full-year basis. 2) The original power plants such as Dezhou Power Plant, Dalian Power Plant and Fuzhou Power Plant, carried out major overhaul according the annual plan and incurred more maintenance expense.

### Depreciation and Amortization

The depreciation and amortization of the Company and its subsidiaries was Rmb4.117 billion in 2003, increased by 16.50% from Rmb3.534 billion of last year. The depreciation and amortization of the original power plants and the headquarter of the Company were Rmb4.093 billion, increased by 15.82% compared to last year. The newly acquired power plants including Xindian Power Plant and Yushe Power Plant incurred depreciation and amortization Rmb24 million in 2003. The increase of depreciation and amortization was mainly due to that the Phase III of Dezhou Power Plant was put into commercial operation in late 2002, and that the plants acquired in 2002, including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant, were consolidated in 2003 on a full-year basis.

### Labor Cost

The labor cost of the Company and its subsidiaries was Rmb1.439 billion in 2003, which increased by 38.90% from Rmb1.036 billion of last year. The increase of labor cost was mainly due to that the plants acquired in second half of 2002, including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant, were consolidated in 2003 on a full-year basis.

## Service Fee Paid to HIPDC

The service fee paid to HIPDC refers to a fee for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit.

In 2003, the Company incurred the service fee in relation to the grid connection and transmission facilities for Shang'an Power Plant and Shantou Coal-fired Power Plant (HIPDC had transferred the ownership of transmission and transformation facilities of Fuzhou Power Plant Phase I and Shidongkou Second Power Plant to Fujian Electric Power Company and Shanghai Power Corporation, respectively, on 1st July, 2002. The Company was not required to pay the service fee for the two plants since the transfer). The service fee paid to HIPDC was Rmb215 million in 2003, decreased by 18.56% when compared with Rmb264 million in 2002.

## Income Tax Expenses

Pursuant to the relevant tax regulations, the Company is a Sino-foreign equity joint venture and enjoys the preferential income tax policy. Each of the power plants of the Company is exempted from PRC income tax for two years starting from the first profit-making year after covering the accumulated deficits followed by a 50% reduction of the applicable tax rate for the next three years. In addition, as confirmed by the State Tax Bureau, the Company's wholly-owned power plants pay their respective income tax to local tax authorities, although they are not separate legal entities. The consolidated income tax expenses of the Company and its subsidiaries were Rmb1.149 billion, which increased by 17.13% compared to Rmb981 million of last year. The income tax expenses of the original power plants and headquarters of the Company (excluding the newly acquired power plants in 2003) were Rmb1.138 billion, increased by 16.00% compared to last year. The consolidated income tax of the newly acquired plant, including Xindian Power Plant and Yushe Power Plant, were Rmb11 million.

## Other Expenses

With the rapid growth of the power output, the other expenses of the Company and its subsidiaries were Rmb597 million in 2003, increased by 10.76% from Rmb539 million of last year. Another factor that caused the increase of other expenses was the consolidation of the other expenses of the newly acquired plants, including Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant. The consolidated other expenses of the original plants and headquarter of the Company, excluding the newly acquired Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant were Rmb581 million, which increased by 7.79% compared to Rmb539 million of last year.

## Net Profit before Financial Expenses

The net profit before financial expenses of the Company and its subsidiaries in 2003 was Rmb7.073 billion, which increased by 26.80% compared to Rmb5.578 billion in 2002.

## Financial Expenses

The consolidated net financial expenses of the Company and its subsidiaries were Rmb544 million in 2003, which increased by 6.67% compared to Rmb510 million of last year. The increase of financial expenses was mainly due to the decrease of interest income.



## Net Profit

The consolidated net profit of the Company and its subsidiaries was Rmb5.430 billion in 2003, increased by 38.50% compared to Rmb3.921 billion of last year. The significant increase of net profit was primarily due to the increase of power output, the full year contribution from the plants acquired in 2002 (including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiying Power Plant), the full year contribution from Dezhou Power Plant Phase III, the commercial operation of the expansion project of Jining Power Plant and the investment income from SEG.

## Comparison of Key Financial Ratios

	The Company and its subsidiaries	
	2003	2002
Current ratio	0.90	1.00
Quick ratio	0.81	0.88
Ratio of liabilities and owner's equity	0.54	0.56
Multiples of interest earned	12.03	8.28

After the investment in SEG and the acquisitions of Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant, the current ratio and quick ratio of the Company decreased slightly when compared with that in the beginning of 2003.

Multiples of interest earned of the Company and its subsidiaries increased when compared with that of last year.

The Company and its subsidiaries had strong financing capability. The Company obtained unsecured borrowing facilities from bank, amounting to Rmb7 billion and Rmb5 billion, to finance its funding requirement for a period of three years starting from 18th September, 2003 and 4th March, 2002, respectively.

After the acquisition of the 25% equity interests of SEG and the acquisitions of Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant, the Company and its subsidiaries still maintained its strong debt repayment ability.

As at 31st December, 2003, the loans denominated in foreign currencies of the Company and its subsidiaries amounted to approximately USD872 million and Japanese Yen1.786 billion, of which USD250 million and Japanese Yen238 million was repayable within one year. The Company and its subsidiaries will closely monitor the fluctuation in the foreign exchange market and cautiously assess the exchange rate risk.

The long-term loan of the Company and its subsidiaries were mainly fixed-rate loans. As at 31st December, 2003, the balance of the floating-rate loans of the Company and its subsidiaries were approximately USD262 million and Japanese Yen1.786 billion according to the original loan agreements. The Company and its subsidiaries adopted interest swap contracts to reduce its floating rate risk.

Calculation formula of financial ratios:

Ratio of liabilities and shareholders' equity	=	balance of liabilities at the end of the year/balance of shareholders' equity at the end of the year
Current ratio	=	balance of current assets at the end of the year/balance of current liabilities at the end of the year
Quick ratio	=	(balance of current assets at the end of the year - balance of inventories at the end of the year)/balance of current liabilities at the end of the year
Multiples of interest earned	=	(profit before tax + interest expense)/interest expenditure (including capitalized interests)