



DEAR SHAREHOLDERS,

Our mission is to be a leading independent power generation company in the PRC. In order to achieve this objective, we will build on and exploit the accumulated experiences and established reputation in the power industry in the PRC, and use our best endeavours and dedicated efforts to maximise shareholder value under the guidance of the Board.

REVIEW OF 2003

The year 2003 represented a milestone in the history of our Company. Our shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 November and we became a public company. We shall follow the requirements and expectations of the international capital markets and build an enterprise with calibre that is fair, transparent and highly accountable to its shareholders.

We have placed considerable emphasis on shareholder value. Through continuous expansion of generation capacity in our target markets, we aim to enhance return to our shareholders through achieving a competitive edge in cost control and improvement in operation efficiency.

As a fast growing independent power generation company, we continued to develop and operate large coal-fired power plants in the more affluent regions or those regions in China with higher economic growth rates. Our installed generation capacity in operation and under construction was further expanded during the year. Attributable installed capacity amounted to 4,438MW in total. In the second half of 2003, Liyujiang Power Plant, with two 300MW coal-fire units, was added to our power plants in operation. A number of projects received government approval or commenced construction in 2003. These projects include Changshu Power Plant with two 600MW units, Xuzhou Power Plant Phase II with two 300MW units, Dengfeng Power Plant with two 300MW units, Jiaozuo Power Plant with two 135MW units and Tanghsan Power Plant with one 200MW unit.

We have implemented tight cost control measures over all projects under construction. Through competitive bidding, contractors of quality with competitive pricing were selected for all equipment purchases and engagement of almost all construction works. At the same time, we exercised direct control over the costs, schedule, quality and risks of the projects under construction, in order to achieve a competitive edge in cost control and a better position in market competitions in the future. In 2003, all of our projects under construction achieved their target construction schedules or were ahead of the target construction schedule for the year. As a result, the first generating unit of Luoyang Power Plant commenced commercial operation ahead of schedule in February 2004.

Most of our existing generating units are large scale (300MW or above) coal-fired generating units of high efficiency. Similar or same equipment configurations were selected for generating units of same capacity, which bring in synergistic benefits to our power plants and enabled us to share construction and management experience. We believe that all of these will enable us to be one of the leading independent power generation companies in China with high investment value.



Apart from implementing the strategies referred to above, we will also use our best endeavours to improve our corporate governance in order to improve transparency. We constituted a new Board in 2003, which comprises five executive directors, two non-executive directors and three independent non-executive directors. Audit Committee, Nomination Committee, Remuneration Committee and Strategy and Development Committee were established under the Board. In order to ensure the independence of these committees, at least two thirds of members for these committees (except the Strategy and Development Committee) comprise independent non-executive directors.

While improving our corporate governance policies in accordance with international best practices, we are also establishing various forms of communication channels to improve the transparency of our Company including issuance of press releases proactively and timely so as to inform investors of our latest development and provide them with the latest information of our Company. Through investor relations activities, such as international roadshows, conferences, company interviews and power plant site visits, we hope to present up-to-date information on our operation and development to investors, fund managers and analysts obtain their feedback and input on the Company's operation and management and on our corporate governance.

We have adopted share option schemes for the Company's management, project managers as well as key employees, in particular the managers and core staff of the project companies. We believe that this incentive system will enhance our staff's accountability, tie the management and employees' return with that of the shareholders and motivate them to create value for shareholders.

OUTLOOK FOR 2004

In 2004, we will continue to benefit from the rapid growth of demand for electricity in the PRC. It is expected that power consumption in the PRC will grow at a rate of approximately 12% in 2004. This will in turn provide a sound operating environment for our power plants in operation. In addition, our total operational generation capacity will increase rapidly upon the commencement of operation of most of the generation units under construction. It is envisaged that we will migrate to a new platform in 2004.

In 2004, we will continue to pursue investment opportunities in the construction or strategic acquisition of new power plants in the more affluent regions or those regions in China with higher economic growth rates, so as to increase our installed generation capacity and market share and enhance our competitiveness in the target markets.

In 2004, we will continue to improve our internal management system and process flow. This in turn will further enforce the implementation of value creation management philosophy. We will strive to reduce costs and achieve attractive return and growth in earnings for our shareholders. We will also expand the scale of and investment in the training for our staff so as to build up a pool of talent for the rapid development of our Company in future.



APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to the staff for their dedicated work in the development of our Company. We are a rapidly growing company. Each staff has been assigned with considerable responsibilities. We believe that a professional team with scrupulous and cooperative spirit is the most valuable asset to the Company, and is essential to the development of core competitiveness for our Company.

I would also like to express my appreciation to the fellow members of the Board and the senior officers of our Company. Without their devotion, our Company's strategies would not have been implemented as effective as such now.

Song Lin

Chairman

Hong Kong, 29 March 2004