

MACROECONOMIC CONDITIONS AND ELECTRICITY DEMAND

In 2004, the gross domestic product ("GDP") of the PRC amounted to RMB13,651.5 billion, representing an increase of 9.5% over 2003 determined based on comparable pricing. Power consumption of the whole society totalled 2,173.5 billion KWh, representing a year-on-year increase of 14.9% over 2003.

Currently, the Company's generating units in operation or under construction are located in Shandong, Sichuan, Ningxia and Anhui. These provinces or municipalities experienced fast-growing economy and considerable GDP growth in recent years. Determined based on comparable pricing, the GDP growth rates of Shandong, Sichuan, Ningxia and Anhui provinces or municipalities in 2004 reached 15.3%, 12.7%, 11% and 12.5%, respectively. These growth rates were higher than the national average growth rate by 5.8, 3.2, 1.5 and 3 percentage points, respectively. It was the fourteenth consecutive year that Shandong Province has recorded a double-digit economic growth rate.

TURNOVER AND PROFIT

In 2004, the Group strengthened the management with secured coal supply, considerable efforts in generating electricity and tightened control of various costs and expenses so that the Group achieved the forecasted operating targets. The total volume of electricity supplied by the Group to the grid for the year 2004 was 34.92 million MWh. Turnover for the year 2004 amounted to approximately RMB10,175 million, representing an increase of approximately 26.15% over 2003. The Group's net profits amounted to approximately RMB1,046 million, representing an increase of approximately 1.66% from 2003. Earnings per share were RMB0.199. The significant increase in turnover was mainly attributable to the increase of 28.11% in on-grid electricity as compared with that for the year 2003.



OPERATING EXPENSES

During the year, the operating expenses of the Group amounted to RMB8,158 million, representing an increase of 35.71% from 2003, which was attributable to growth in the volume of power generation by 28.47% and a rise in coal prices.

The principal operating expense of the Group was coal costs, which amounted to RMB4,648 million in 2004, accounting for 56.97% of the Group's total operating expenses. In 2004, the unit fuel cost for electricity supply amounted to RMB128.56/MWh, representing a growth of 28.03% from 2003. The increase in unit coal cost was due to a year-on-year increase of 28.2% in unit price of standard coal.

The major overhaul and repair and maintenance expenses, personnel costs and selling and administrative expenses totalled RMB1,654,848,000 in 2004, increased by 5.4% as compared with those totalling RMB1,570,107,000 in 2003, which was considerably lower than the increase in the installed capacity. The increase was mainly attributable to the increased costs associated with the Company's acquisition of Guangan Company.

Depreciation and amortization expenses of the Group amounted to RMB1,533 million, increased by RMB250 million as compared with those in 2003. This was mainly due to the acquisition of Guangan Company which led to an increased depreciation of RMB166 million, and the commencement of commercial operations of new generating units in Laicheng Plant, Zibo Company and Tengzhou Company in 2003. The growth rate of depreciation expenses was basically commensurate with that of the average installed capacity of the Company.

Other operating costs amounted to RMB214 million, representing a decrease of RMB4.84 million over 2003.

FINANCE COSTS

The net interest expenses borne by the Group in 2004 amounted to RMB494 million, representing an increase of RMB19.14 million from 2003. The acquisition of Guangan Company increased the interest expenses. The extent of increase in net interest expenses is lower than the increase in capacity.

INDEBTEDNESS

As at 31 December 2004, the borrowings of the Group amounted to RMB14,613 million, of which loans denominated in US dollars amounted to US\$194 million. The gearing ratio (i.e. total liabilities/total assets) was 61.89% representing an increase of 7.1 percentage points over that of 2003, mainly resulting from the consolidation of financial data of Guangan Company and the additional loans for projects in progress.

CASH AND CASH EQUIVALENTS

As at 31 December 2004, the Group had cash and cash equivalents of RMB1,260 million.

PRODUCTION, OPERATION AND SAFETY

In 2004, the equivalent availability factor of the generating units was 93.95%; the equivalent forced suspension rate was 0.5%; and the average utilization hours of the generating units attained 5,089 hours.

In 2004, the Group's operation safety maintained at a satisfactory level. As at 31 December 2004, the Group had achieved production safety throughout the year.

In 2004, a total of 11 major overhauls and 12 minor overhauls were undertaken in respect of the generating units of the Group and the planned overhaul rate was 5.58%, representing an increase of 0.17 percentage points over 2003.

TECHNICAL IMPROVEMENT PROJECTS

In 2004, the technical improvement projects of the Group progressed smoothly. The purpose of these renovation projects of the Group was to enhance the level of operation safety and automation of the facilities so that the production efficiency of the generating units could be improved. The Group had introduced new technology to upgrade some of its steam turbine equipment and the effect was satisfactory.

The Group implemented technical improvement projects in respect of energy-saving and capacity-increase for the fifth generating unit of Shiliquan Plant. To date, the Group has undertaken renovation in respect of six 300MW generating units and four 125MW generating units. After the implementation of technical improvement projects to save energy and increase capacity, the average standard coal consumption rate of the generating units reduced by about 10-15g/kWh while the capacity of the generating units increased by 10% or above, from the original capacity of 125MW and 300MW to that of 140MW, 330MW and 335MW respectively. The increase in branded capacity for relevant plants has been formally approved by relevant government authorities.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATION STATISTICS

The table below sets out certain major operation statistics of the Group and its power plants:

THE GROUP:

	2004	2003	2002
Installed capacity at year end (MW)	8,635	7,380	6,308
Amount of electricity generated ('million MWh)	37.45	29.15	28.30
On-grid electricity supplied ('million MWh)	34.92	27.26	26.54
Available hours	8,289	7,717	7,617
Average utilization hours	5,089	4,820	5,492
Load factor (%)	72.60	69.30	73.14
Equivalent availability factor (%)	93.95	94.11	91.57
Standard coal consumption for electricity supplied (g/kWh)	346.13	347.40	345.82

2004

	Zouxian	Shiliquan	Laicheng	Qingdao	Weifang	Zibo	Zhangqiu	Tengzhou	Guangan
Equity interest (%)	100	100	100	55	30	100	70	54.49	80
Installed capacity (MW)	2,540	1,285	1,200	660	660	467	290	333	1,200
Average utilization hours	4,934	4,864	5,092	5,315	5,531	5,148	4,885	4,891	5,511
Total amount of electricity generated ('million MWh)	12.53	6.18	6.11	3.51	3.65	2.30	1.32	1.63	4.35
Net amount of electricity generated ('million MWh)	11.84	5.76	5.75	3.26	3.43	2.01	1.22	1.50	4.02
Standard coal consumption for electricity supplied (g/kWh)	332.04	357.55	341.33	347.40	347.00	378.93	371.96	370.89	342.61

2003

	Zouxian	Shiliquan	Laicheng	Qingdao	Weifang	Zibo	Zhangqiu	Tengzhou
Equity interest (%)	100	100	100	55	30	100	70	54.49
Installed capacity (MW)	2,540	1,270	1,200	660	660	447	270	333
Average utilization hours	4,705	4,815	4,625	5,189	4,883	5,139	4,898	5,664
Total amount of electricity generated ('million MWh)	11.78	6.04	5.07	3.42	3.14	1.25	1.32	0.85
Net amount of electricity generated ('million MWh)	11.12	5.64	4.77	3.19	2.94	1.09	1.22	0.79
Standard coal consumption for electricity supplied (g/kWh)	332.98	359.25	344.54	350.39	349.47	378.53	374.87	377.01