

REPORT OF THE SUPERVISORY COMMITTEE

To Shareholders,

Since the incorporation of the Company, all members of the Supervisory Committee have performed their duties in strict compliance with the Company Law of the People's Republic of China, the Articles of Association of the Company and the relevant laws and regulations of Hong Kong in order to safeguard the interests of shareholders and the Company all along.

During 2004, the Supervisory Committee attended the Board of Directors' meetings of the Group and learned about the development and operating situation of the Company. We are of the opinion that the management has kept its promises and abided by the relevant laws. We believe that the management has made significant contribution to the Company in respect of its operation, development and production management. The committee considers that the Company's management has been performing its duties in an effective and appropriate manner and in the ultimate interests of its shareholders.



1. WORK OF THE SUPERVISORY COMMITTEE IN 2004

In 2004, the Supervisory Committee convened 1 meeting, details of which are as follows:

On 26 March 2004, the 4th meeting of the third session of the Supervisory Committee was held in Beijing. The 3 Supervisors were all eligible and attended the meeting in person. The meeting was held in compliance with relevant provisions in the PRC Company Law and the Articles of Association of the Company. At the meeting, the proposal for review of the report of the Supervisory Committee was considered and approved.

We are of the opinion that:

- (i) In 2004, the Company was operated in strict compliance with the PRC Company Law, the Articles of Association and other relevant laws and regulations. The directors and senior management of the Company have performed their duties without violation of the PRC laws and regulations and the Articles of Association of the Company and without adversely affecting the interests of the Company.
- (ii) Connected transactions of the Company were made on a fair and reasonable basis. No act detrimental to the interests of the Company or its shareholders was found.

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- (iii) The accounts of the Company for the financial year of 2004 were recorded clearly and the information contained was complete, and the figures were reliable which objectively reflected the financial standing and the operating results of the Company and were in compliance with the provisions of the relevant accounting systems. The Supervisory Committee agreed with the auditors' report of the Company prepared by KPMG without qualification.

2. INDEPENDENT OPINION ON RELEVANT MATTERS OF THE COMPANY IN 2004

- (i) Operation in accordance with laws

The Supervisory Committee has carefully examined the procedures convening general meetings and Board meetings, resolutions passed at such meetings, implementation of resolutions passed at general meetings by the Board, senior management's performance of its duties and the Company's internal management system, in accordance with relevant PRC laws and regulations.

We consider that: the Board has conducted its operations properly in compliance with the PRC Company Law, PRC Securities Law, the Articles of Association and relevant laws and regulations; the directors were diligent and responsible in arriving at reasonable decisions; the Company has established effective management systems and has been proactively improving the internal management system for its growth, and the Company's operating activities were all in compliance with laws and regulations. In reviewing the Company's financial standing and examining the directors' and senior management's performance of their duties, the Supervisory Committee did not find any breach of disciplines and rules, or any harm against shareholders' interests.

- (ii) Review of the Company's financial standing

The Supervisory Committee has carefully reviewed the Company's final accounts, profit distribution plan, annual report, unqualified auditors' reports prepared by the international auditors and domestic auditors of the Company and other relevant information in respect of the year 2004.

We are of the opinion that the Company's 2004 final accounts was reliable, which objectively reflected the financial standing and operating results of the Company. The Supervisory Committee agreed with the auditors' reports for Company and its 2004 profit distribution plan.

- (iii) Use of publicly raised funds of the Company

As at 31 December 2004, the last fund raising exercise of the Company was its issue of H shares made in June 1999. The actual use of the proceeds raised was consistent with the intended use of proceeds set out in the Company's prospectus.

- (iv) Acquisition and disposal of assets

During the reporting period, the Company had no disposal of assets. We are not aware of any insider dealing activities. No act violating the shareholders' interests or resulting in any loss of assets of the Company was identified.

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(v) Fairness of the connected transactions

During the reporting period, the Company acquired the 40% equity interest in Anhui Chizhou Jiu Hua Power Generation Company Limited from China Huadian Corporation for a consideration of RMB79,740,000.

The Company acquired 80% equity interest in Guangan Company from China Huadian Corporation for an adjusted consideration of RMB580.81 million (as adjusted pursuant to the relevant provisions of the acquisition agreement dated 9 May 2003 which, together with all transactions thereunder, were approved by independent shareholders of the Company at its 2002 annual general meeting held on 24 June 2003). The adjusted consideration has been fully paid by the Company in accordance with the acquisition agreement. Please also refer to the section headed "Significant events" in the report of the Directors included in this annual report.

In December 2003, Qingdao Company (55% owned by the Company) entered into an agreement regarding the construction of Qingdao sea water desulphurisation project with China Huadian Engineering (Group) Corporation ("Huadian Engineering") and ALSTOM Power Norway AS for a total consideration of US\$5,790,000 (approximately RMB47,922,000), with the Group's share being in the amount of US\$3,184,500 (approximately RMB26,357,100). In 2004, pursuant to the payment terms of the agreement, Qingdao Company paid an aggregate amount of RMB19,797,000 to Huadian Engineering.

We consider that the consideration paid by the Company for the above projects were all reasonable and the connected transactions were fair; the transactions were in the interests of the Company and the shareholders as a whole.

The Supervisory Committee will continue to perform its duties and will proceed with its best endeavours to safeguard the interests of the shareholders. The Supervisory Committee is satisfied with the achievements attained by the Group and has confidence in the prospect of the Group.

Feng Lanshui

Chairman of the Supervisory Committee

Jinan, Shandong Province, The People's Republic of China

22 March 2005