

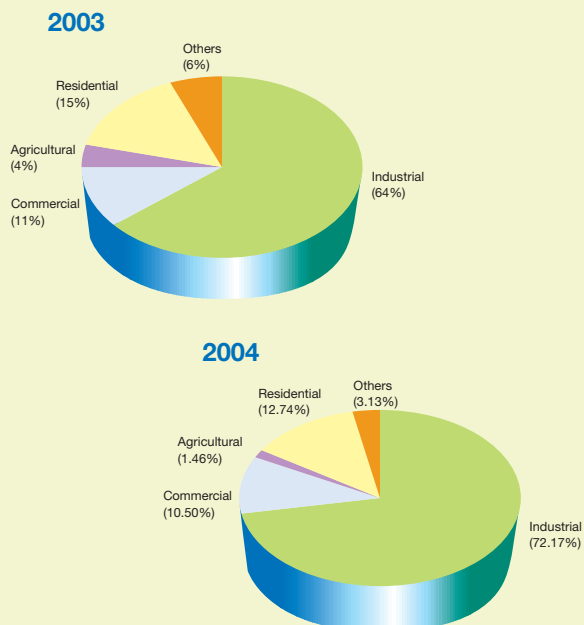
Management Discussion & Analysis

(I) Operating Environment

China continued to enjoy steady economic growth in 2004 (the “Year”) with national GDP growth rate of approximately 9.5%. Driven by domestic economic growth, power demand in China increased substantially. The nationwide power generation during the Year increased by approximately 14.8% as compared to the Previous Year. Medium-to-large-scale industries remained the major driving force behind the growth in power demand while consumption of the residential and commercial sectors still partook a significant proportion of the total power consumption.

During the Year, while the Company and its subsidiaries continued to transmit electricity to the Beijing-Tianjin-Tangshan (“BTT”) Power Grid, Yungang Thermal Power Company, a subsidiary of the Company, transmitted electricity to the Shanxi Power Grid.

During the Year, the sales of electricity of the BTT Power Grid are as follows:



During the Year, the GDP growth and sales of electricity of Shanxi Province increased by 14.1% and 14.6%, respectively as compared to the Previous Year.

(II) Business Review

During the Year, the Company and its subsidiaries achieved consolidated operating revenue of approximately RMB13,584 million, representing an increase of approximately 36.51% as compared to the Previous Year, and consolidated net profit of approximately RMB2,293 million for the Year, representing an increase of approximately 26.54% as compared to the Previous Year. Earnings per share was approximately RMB0.44, representing an increase of approximately RMB0.09 per share as compared to the Previous Year.

During the Year, total power generation of the Company and its subsidiaries increased by 35.58% as compared to the Previous Year. During the Year, power generation units of the Company's subsidiaries with total capacity of



2,600 MW were put into operation, laying solid foundations for the Company's ongoing development.

1. Production

As at 31st December 2004, the installed capacity (managed capacity) of operating units owned by the Company and its subsidiaries was 10,410 MW. Total power generation of the Company and its subsidiaries for the Year amounted to approximately 55.853 million MWh, representing an increase of approximately 35.58% as compared to the Previous Year. Total on-grid electricity amounted to approximately 52.45 million MWh for the Year, representing an increase of approximately 35.7% over the Previous Year. The increases in power generation and on-grid electricity were mainly attributable to:

- (1) the continued increase in power demand - the nationwide power consumption increased by approximately 14.9% for the Year;
- (2) the increase in power generation capacity - with six power generation units of the Company's subsidiaries were put into operation during the Year, the managed capacity of the Company increased by 2,600 MW as compared to the Previous Year;
- (3) safe and stable operation of existing power generation units at high operating levels - the equivalent availability factor reached approximately 93.96% during the Year, an increase of 0.7 percentage point over the Previous Year; and
- (4) secured fuel supply - the increase in power demand during the Year driven by substantial domestic economic growth had resulted in tension in coal supply. Under these unfavourable conditions, the Company and its subsidiaries proactively coordinated to cultivate diverse sources of coal supply and worked closely with the mining and railway authorities. Owing to such efforts, the Company and its subsidiaries have secured sufficient coal supply for their operating power generation units.

Operating conditions of the Company and its subsidiaries' major power plants during the Year were as follows:

- the power generation of the Company's power plants, namely Gao Jing Power Plant, Dou He Power Plant, Zhang Jia Kou Power Plant and Xia Hua Yuan Power Plant, with a total installed capacity of 4,950 MW, was approximately 32.223 million MWh during the Year;
- the power generation of Units 1 and 2 of Panshan Power Company, a subsidiary of the Company, with total installed capacity of 1,200 MW, was approximately 7.767 million MWh during the Year;
- Units 1 and 2 of Tuoketuo Power Company, a subsidiary of the Company, were put into operation last year whilst its Units 3 and 4 (2 x 600 MW) were put into operation in July and September 2004, respectively. Total installed capacity amounted to 2,400 MW. During the Year, total power generation amounted to 10.489 million MWh;



- Units 1 and 2 (2 x 300 MW) of Tangshan Thermal Power Company, a subsidiary of the Company, were put into operation in January and September of the Year, respectively. The power generation of these power generation units for the Year was approximately 2.113 million MWh;
- the power generation of Units 1 and 2 of Fengning Hydropower Company, a subsidiary of the Company, with total installed capacity of 20 MW, was approximately 22 million kWh for the Year;
- the power generation of Yungang Thermal Power Company, with total installed capacity of 440 MW, was approximately 3.12 million MWh for the Year; and



- Unit 1 (300 MW) of Liancheng Power Company was put into operation in December 2004. The power generation of the unit was approximately 119 million kWh for the Year.

Certain operation statistics of the Company's four wholly-owned power plants and several subsidiaries for the five years ended 31st December are set out as follows:

Dou He Power Plant

	2000	2001	2002	2003	2004
Installed capacity (MW)	1,550	1,550	1,550	1,550	1,550
Gross generation (MWh)	9,242,351	9,487,437	9,206,075	10,021,239	10,418,230
On-grid generation (MWh)	8,601,896	8,826,988	8,569,001	9,345,326	9,720,821
Available hours (hours)	8,395	8,274	8,338	8,218	8,174
Operating hours (hours)	7,414	7,211	7,354	7,872	7,978
Utilisation hours (hours)	5,963	6,121	5,939	6,465	6,721
Capacity factor (%)	76.88	69.87	67.80	73.80	76.73
Load factor (%)	80.43	84.88	80.76	82.13	84.25
Equivalent availability factor (%)	95.97	94.45	95.17	93.79	93.05
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	360	360	362	362	362



Gao Jing Thermal Power Plant

	2000	2001	2002	2003	2004
Installed capacity (MW)	600	600	600	600	600
Gross generation (MWh)	3,104,832	3,116,727	3,469,695	3,625,898	3,747,010
On-grid generation (MWh)	2,795,874	2,803,954	3,133,434	3,277,119	3,395,492
Available hours (hours)	8,341	7,966	8,384	8,248	8,228
Operating hours (hours)	7,291	7,211	7,751	7,899	8,171
Utilisation hours (hours)	5,175	5,195	5,783	6,043	6,245
Capacity factor (%)	58.91	59.30	66.02	68.98	71.29
Load factor (%)	70.97	72.04	74.61	76.50	76.43
Equivalent availability factor (%)	94.95	90.94	95.68	94.13	93.67
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	406	405	404	401	399

Zhang Jia Kou Power Plant

	2000	2001	2002	2003	2004
Installed capacity (MW)	2,100	2,400	2,400	2,400	2,400
Gross generation (MWh)	7,319,127	10,809,051	12,323,686	13,904,780	15,323,571
On-grid generation (MWh)	6,885,949	10,132,866	11,623,376	13,155,686	14,517,811
Available hours (hours)	7,937	7,910	8,155	8,115	8,309
Operating hours (hours)	6,658	7,107	7,313	7,866	8,124
Utilisation hours (hours)	4,550	4,855	5,135	5,794	6,385
Capacity factor (%)	51.80	55.42	58.62	66.14	72.89
Load factor (%)	68.34	68.31	70.22	73.66	78.60
Equivalent availability factor (%)	90.60	91.16	93.02	92.46	94.39
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	349	347	346	346	345



Xia Hua Yuan Power Plant

	2000	2001	2002	2003	2004
Installed capacity (MW)	400	400	400	400	400
Gross generation (MWh)	2,662,483	2,733,054	2,698,145	2,552,497	2,733,993
On-grid generation (MWh)	2,466,796	2,532,995	2,519,993	2,384,095	2,553,550
Available hours (hours)	8,518	8,139	8,476	7,879	8,389
Operating hours (hours)	7,764	7,757	7,742	7,533	8,177
Utilisation hours (hours)	6,656	6,833	6,745	6,381	6,835
Capacity factor (%)	75.77	78.00	77.00	72.84	78.02
Load factor (%)	85.73	88.09	87.12	84.71	83.59
Equivalent availability factor (%)	96.97	92.91	96.75	89.93	95.45
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	382	382	382	382	381

Panshan Power Company

	2000	2001	2002	2003	2004
Installed capacity (MW)	–	–	1,200	1,200	1,200
Gross generation (MWh)	–	–	4,354,875	7,204,129	7,766,957
On-grid generation (MWh)	–	–	4,068,694	6,822,632	7,377,667
Available hours (hours)	–	–	6,469	8,237	8,367
Operating hours (hours)	–	–	5,432	8,134	8,344
Utilisation hours (hours)	–	–	4,615	6,003	6,472
Capacity factor (%)	–	–	52.68	68.53	73.89
Load factor (%)	–	–	84.96	73.81	77.57
Equivalent availability factor (%)	–	–	93.08	93.94	95.21
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	349	343	333



Tuoketuo Power Company

	2000	2001	2002	2003	2004
				Units 1-2	Units 1-4 ^(note 1)
Installed capacity (MW)	-	-	-	1,200	2,400
Gross generation (MWh)	-	-	-	3,593,188	10,489,141
On-grid generation (MWh)	-	-	-	3,391,424	9,843,812
Available hours (hours)	-	-	-	4,518	8,258
Operating hours (hours)	-	-	-	4,191	8,181
Utilisation hours (hours)	-	-	-	3,102	6,531
Capacity factor (%)	-	-	-	35.41	74.55
Load factor (%)	-	-	-	75.48	79.83
Equivalent availability factor (%)	-	-	-	95.70	92.43
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	-	-	-	349	341

Yungang Thermal Power Company

	2000	2001	2002	2003	2004
Installed capacity (MW)	-	-	-	440 ^(note 2)	440
Gross generation (MWh)	-	-	-	268,583	3,120,073
On-grid generation (MWh)	-	-	-	-	2,883,376
Available hours (hours)	-	-	-	-	8,259
Operating hours (hours)	-	-	-	-	8,202
Utilisation hours (hours)	-	-	-	-	7,091
Capacity factor (%)	-	-	-	-	80.95
Load factor (%)	-	-	-	-	86.46
Equivalent availability factor (%)	-	-	-	-	94.03
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	-	-	-	-	384



Tangshan Thermal Power Company

	2000	2001	2002	2003	2004
Installed capacity (MW)	–	–	–	–	600 (note3)
Gross generation (MWh)	–	–	–	–	2,112,698
On-grid generation (MWh)	–	–	–	–	2,024,192
Available hours (hours)	–	–	–	–	8,732
Operating hours (hours)	–	–	–	–	8,205
Utilisation hours (hours)	–	–	–	–	6,453
Capacity factor (%)	–	–	–	–	73.66
Load factor (%)	–	–	–	–	78.65
Equivalent availability factor (%)	–	–	–	–	99.67
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	–	–	332

Notes:

- (1) Unit 3 of Tuoketuo Power Company commenced commercial operation on 14th July 2004 whilst Unit 4 commenced commercial operation on 14th September 2004.
- (2) Unit 1 of Yungang Thermal Power Company commenced commercial operation on 11th November 2003 whilst Unit 2 commenced commercial operation on 13th December 2003.
- (3) Unit 1 of Tangshan Thermal Power Company commenced commercial operation on 27th January 2004 whilst Unit 2 commenced commercial operation on 14th September 2004.
- (4) Unit 1 (300 MW) of Liancheng Power Company commenced commercial operation on 8th December 2004 with annual power generation amounting to 119,000 MWh.
- (5) Two hydropower generation units (20 MW) of Fengning Hydropower Company with annual power generation amounting to 22,000 MWh.

While endeavouring to increase power generation, the Company also put a strong emphasis on the implementation of environmental protection improvement projects in accordance with the State's environmental protection requirements. Currently, the Company has formulated a three-year plan for environmental protection. During the Year, the Company has implemented wet flue gas desulphurisation projects for number 1-4 boilers of Gao Jing Power Plant, number 7 and 8 boilers of Dou

He Power Plant, as well as desulphurisation projects for Tangshan Thermal Power Company Unit 1. During the Year, the Company invested approximately RMB251 million in the environmental protection related projects.

During the Year, the Company approved a total of 175 technological upgrade projects with a total investment of approximately RMB490 million, with a view to improving the safety reliability and environmental and economic performance of its equipment.

Major projects included the following:

Renovation of ventilation of Units 1 and 2 of Gao Jing Thermal Power Plant; DCS renovation for Units 6 and 7 of Douhe Power Plant; renovation of coal-grinding machine for number 4 boiler; renovation of dry ash disposal system and centralised control of chemicals for number 7 and 8 boilers; renovation of ventilation, steam condensation machine and DEH of Unit 7; renovation of high-temperature re-heating/over-heating machine for number 7 boiler; powder and dust treatment of coal transportation system of Units 1-4 of Zhang Jia Kou Power Plant; renovation of dry ash disposal system of Xia Hua Yuan Power Plant.



2. Operational Management

The Company and its subsidiaries achieved consolidated operating revenue of approximately RMB13,584 million during the Year, representing an increase of approximately 36.51% as compared to the Previous Year, and a consolidated net profit of approximately RMB2,293 million for the Year, representing an increase of 26.54% as compared to the Previous Year.

The increases in consolidated operating revenue and consolidated net profit were attributable to the following:

- (1) on-grid electricity increased – During the Year, the installed capacity of new generation units of the Company’s subsidiaries which have commenced on-grid generation have increased by 2,600 MW as compared to the Previous Year, resulting in an increase in the utilisation rate of the Company and its subsidiaries’ operating power generation units by 455 hours as compared to the Previous Year. As a result, on-grid electricity increased by approximately 35.7% as compared to the Previous Year and the electricity revenue increased by approximately RMB3,551 million;
- (2) electricity tariffs adjusted upward – With the new tariff policy implemented by the State, the Company proactively made appropriate coordination on various fronts. As a result, the average tariff of the Company’s power generation units which have commenced commercial operation increased by approximately RMB1.07/MWh as compared to the Previous Year, contributing to the corresponding increase in electricity revenue of approximately RMB57 million;
- (3) commitment to stringent cost controls – During the Year, the Company conscientiously implemented the economic-target accountability system, verified diligently financial budgets and strengthened procedures control, thereby effectively controlling various expenses. During the Year, expenses per unit of power generated including maintenance, water expenses, materials, depreciation and other expenses were reduced when compared to the Previous Year;
- (4) energy conservation measures – The Company further invested in technology during the Year, focusing on enhancing power generation units’ operating efficiencies by reducing electricity usage rate, water and oil consumption for power plants. During the Year, coal consumption for power generation of the operating units was reduced by 4.1g/kWh, while consolidated consumption rate of the plants decreased by 0.2 percentage point over the Previous Year; and
- (5) reasonable adjustment of power generation structure - With the increase in power demand, coal supply for power generation was tight and fuel prices were on the rise throughout the Year. Amid these unfavourable conditions, in addition to the measures taken to ensure a stable coal supply, the Company made appropriate adjustments to its structure of power generation by using power generation units with larger capacities and low fuel costs to generate more and stable electricity. During the Year, Tuoketuo Power Company which owns four 600 MW units (total 2,400 MW) enjoyed low fuel costs, and the mine-mouth power station, Yungang Thermal



Power Company in Shanxi Province which owns two 220 MW units, operated steadily and cost-efficiently that helped prevent a significant increase in the unit fuel cost of the Company. Eventually, the unit fuel cost of the Company and its subsidiaries rose by approximately RMB11.91/MWh, representing an increase of 14.54%, which was lower than the industry level.

3. Business Expansion

The construction projects of the Company and its subsidiaries progressed smoothly during the Year. The two 600 MW power generation units (a total of 1,200 MW) of Tuoketuo Power Company, two 300 MW power generation units (a total of 600 MW) of Tangshan Thermal Power, one 300 MW power generation unit of Liancheng Power Company and one 500 MW power generation unit of Shentou Power Company were put into operation. Breakthroughs were made in both construction and pre-construction projects, ensuring a continued growth in the production capacity of the Company and its subsidiaries.

(1) Major business expansion activities of the Company and its subsidiaries were as follows:

- Units 1 and 2 (2 x 300 MW) of Tangshan Thermal Power were put into operation in January and September of the Year, respectively;
- Units 3 and 4 (2 x 600 MW) of Tuoketuo Power Company were put into operation in July and September of the Year, respectively;
- Unit 1 (300 MW) of Liancheng Power Company was put into operation in December of the Year;

- Unit 1 (500 MW) of Shentou Power Company was put into operation in December of the Year; and
- during the Year, Units 1 and 2 (2 x 300 MW) of Honghe Power Company which was held by the Company with a controlling interest, commenced construction.

(2) The following projects under construction are expected to commence operation in 2005:

- Units 5 and 6 (2 x 600 MW) of Tuoketuo Power Company;
- Unit 2 (500 MW) of Shentou Power Company;
- Unit 2 (300 MW) of Liancheng Power Company;
- Unit 1 (50 MW) of Nalan Hydropower Company; and
- Unit 1 (60 MW) of Yayangshan Hydropower Project of Lixianjiang Hydropower Company.

(3) Pre-construction works progressed effectively, of which:

- the development right for Zhejiang Wushashan Power Generation Project located in Wushashan of Zhejiang Province has been obtained in 2003. Preparations for the construction of two 600 MW coal-fired units of Phase I are underway;
- Pengshui Hydropower Company planned to construct five 350 MW hydropower units in the downstream area of Wujiang, Pengshui County, Chongqing City, in the east of the main Chongqing



Grid. The project proposal has been approved by the NDRC during the Year. Preparations for the construction are underway;

- during the Year, the Company has entered into investment agreements with other parties, pursuant to which the Company will invest 51% to build, with controlling interests, the Yin Pan Hydropower Project (600 MW) and the Bai Ma Hydropower Project (350 MW) in the downstream area of Wu Jiang Gan Liu in Chongqing City; and
 - the Company has started preliminary construction works in areas where there are market advantages including Guangdong, Fujian and Zhejiang provinces and made material progress.
- (4) While actively expanding its principal business, the Company has also devoted great efforts to exploring new fuel resources and other business areas:
- during the Year, the Company and other parties jointly established Tong Mei Datang Ta Shan Coal Company Limited (“Tong Mei Datang”) in which the Company held 28% equity interests. As such, the Company will be involved in the exploration of the Ta Shan Coal Mine through Tong Mei Datang with an aim to benefit from the coal mine resources concerned so as to secure coal supply for the Company and its subsidiaries’ power plants;
 - with the approval by the Board of Directors, the Company plans to solely develop the No.2 open-air mine located in the eastern district

of Shengli Coal Mine in Xilinguolemeng, Xilinghaote City, Inner Mongolia Autonomous Region. The open-air mine’s planned production capacity will reach 30 million tons per annum;

- during the Year, the Company jointly established Tongfang Investment Company Limited with other parties and held 36.40% equity interests. The investment company mainly engaged in the relevant project investments and the related management work. The Company aims at expanding its business scope; and
- during the Year, the Company entered into agreements with Beijing Railroad Bureau and the relevant parties to jointly invest in and establish Daqin Railway Co., Ltd. (“Daqin Railway”). The Company invested RMB150 million holding 0.98% equity interests in Daqin Railway and became the second largest shareholder of the company. The Company’s investment in Daqin Railway would help secure rail transportation capacity for the Company’s thermal coal.

4. Financial Analysis

(1) Operating Results

During the Year, the Company and its subsidiaries achieved consolidated net profit of approximately RMB2,293 million, representing an increase of approximately 26.54% as compared to the Previous Year; earnings per share for the Year was approximately RMB0.44, representing an increase of



approximately RMB0.09 per share as compared to the Previous Year.

- Operating revenue: consolidated operating revenue of the Company and its subsidiaries for the Year amounted to approximately RMB13,584 million, representing an increase of approximately RMB3,633 million or 36.51% as compared to the Previous Year. The increase in consolidated operating revenue was mainly resulted from increasing on-grid electricity and average on-grid tariffs. On-grid electricity rose approximately 35.70% as compared to the Previous Year, adding approximately RMB3,551 million to electricity revenue. As the government announced a new tariff policy, the average tariff of commercial operating units increased by approximately RMB1.07/kWh as compared to the Previous Year, contributing to the increase of RMB57 million in electricity revenue accordingly.
- Operating costs: consolidated operating costs of the Company and its subsidiaries for the Year amounted to RMB9,485 million, representing an increase of approximately RMB2,690 million or 39.60% as compared to the Previous Year. Amongst this increase, actual fuel costs were approximately RMB4,951 million, approximately RMB1,786 million or 56.44% higher as compared to the Previous Year. Increase in fuel costs

was mainly attributable to the increases in on-grid electricity and unit fuel costs. The increase in on-grid electricity led to a corresponding rise of RMB1,128 million in fuel costs, and the increase in unit fuel cost led to a corresponding increase in total fuel costs of RMB629 million. Fuel costs of thermal supply increased approximately RMB29 million as compared to the corresponding period of the Previous Year. Depreciation of fixed assets for the Year increased by approximately RMB443 million or 26.98% as compared to the Previous Year, mainly due to additional depreciation of new power units.

- Finance costs: Finance costs for the Year increased by approximately RMB122 million or 34.28% as compared to the Previous Year, which was mainly attributable to the fact that Tuoketuo Power Company, Tangshan Thermal Power Company and Liancheng Power Company commenced commercial operation and thus their interest expenses ceased to be capitalised and were charged to profit and loss account. As such, interest expenses increased by approximately RMB182 million as compared to the Previous Year. In addition, due to the changes in the fair value of the interest rate swap contracts, the gain on the fair value concerned for the Year was approximately RMB14 million, comparing to the loss of



RMB54 million in the Previous Year, which led to a decrease in finance costs by approximately RMB68 million.

(2) Financial Position

As at 31st December 2004, total consolidated assets of the Company and its subsidiaries amounted to approximately RMB49,475 million, representing an increase of approximately RMB13,931 million as compared to the Previous Year. Total consolidated liabilities amounted to approximately RMB30,396 million, representing an increase of approximately RMB11,814 million as compared to the Previous Year. Minority interests amounted to approximately RMB1,969 million, representing an increase of approximately RMB728 million as compared to the Previous Year. Shareholders' equity amounted to approximately RMB17,110 million, representing an increase of approximately RMB1,389 million as compared to the Previous Year. The increase in total assets mainly resulted from the implementation of the expansion strategy by the Company and its subsidiaries and the corresponding increase in investments in construction-in-progress.

(3) Liquidity

As at 31st December 2004, the asset-to-liability ratio (i.e. the ratio between total liabilities and total assets, excluding minority interests) for the Company and its subsidiaries was approximately

61.44%, representing an increase of 9.16 percentage points comparing to the Previous Year. The net debt-to-equity ratio (i.e. (total loans + convertible bonds - cash and cash equivalents - short-term bank deposits with a maturity of over three months - investment held for trading)/shareholders' equity) was approximately 131.16%, representing an increase of 70.09 percentage points comparing to the Previous Year.

(4) Cash

As at 31st December 2004, total cash and cash equivalents and bank deposits with a maturity of over 3 months of the Company and its subsidiaries amounted to approximately RMB3,672 million, among which an equivalent of approximately RMB1,465 million was in foreign currencies. The Company and its subsidiaries had no entrusted deposits or overdue fixed deposit during the Year.

(5) Loan

As at 31st December 2004, short-term loans of the Company and its subsidiaries amounted to approximately RMB5,980 million and bore annual interest rates ranging from 4.54% to 5.84%. Long-term loans (excluding those due within 1 year) amounted to approximately RMB17,949 million and long-term loans due within 1 year amounted to approximately RMB1,107 million at annual interest rates ranging from 2.03% to 6.12%, of which equivalent to approximately RMB3,893 million was denominated in United States



dollars. The Company and its subsidiaries pay regular and active attention to foreign exchange market fluctuations and constantly assess foreign currency risks.

As at 31st December 2004, North China Grid Company Limited (“NCG”, former North China Power Group Company) and some minority shareholders of the Company’s subsidiaries provided guarantees for the loans of the Company and its subsidiaries amounting to approximately RMB8,192 million. Pursuant to the Entities Transfer Agreement between CDT and NCG, CDT will assume all of NCG’s obligations in relation to the guarantees provided for the Company and its subsidiaries. The legal procedures of this arrangement were still in the process as at 31st December 2004.

The Company had not provided any guarantee in whatever forms for any other company apart from its subsidiaries and associates.

5. Performance of the Company’s Shares and Investor Relations

During the Year, the Company’s H Shares performed well in the secondary market. As at 31st December 2004, the Company’s share price closed at HK\$5.85, representing a P/E ratio of 17.72 times. The highest price during the Year was HK\$7.35, representing a P/E ratio of 25.72 times. The lowest price during the Year was HK\$5.05, representing a P/E ratio of 16.05 times. The average share price for the Year was HK\$6.21, representing a P/E ratio of 19.90 times.

Our management and growth have won praises from the investment community. In 2004, the Company won an award from Euromoney for the award of “Best Corporate Governance in China”. The Company ranked among “The China 100” named by Fortune. It is particularly noteworthy that in early 2004, the Company’s Chairman Zhai Ruoyu was named “China CEO of the Year” by the joint appraisal of CNBC Asia, TNT Asia and CBN. It is the first time that a Chinese listed company won such an award from the best business leaders nominations in Asia.

6. Outlook for 2005

According to forecasts, China will continue to achieve steady economic growth in 2005. Power demand in the Company’s service area is expected to grow more than 10%. Tension in power supply provides new business opportunities to the Company and its subsidiaries. With Units 1 and 2 of Liancheng Power Company, a subsidiary of the Company, put into operation in December 2004 and February 2005, respectively and its transmission of electricity to the Gansu Power Grid, the service area of the Company has been extended to the Gansu Power Grid in addition to the BTT Power Grid and the Shanxi Power Grid, thereby enhancing the Company’s abilities in risk resistance and sustainable development. During the Year, the NDRC has announced the new tariff policy. The implementation of such policy will reasonably compensate the fuel costs of the Company and its subsidiaries. With more power units commencing operation within the coming year, the Company’s profitability will be steadily



enhanced. However, operating conditions in 2005 are not so optimistic. The rise in fuel costs and stricter requirements for environment protection may affect the earnings of the Company. As such, the Company will strive to strengthen its management and overcome these unfavourable factors, aiming at increasing production and revenue and achieving better economic effectiveness. In 2005, the Company will focus on the following:

1. actively pursue business expansion, continue pre-construction works and identify as well as create development opportunities;
2. actively identify different financing channels that would lower the Company's capital costs and appropriately rationalise its capital structure to prepare for future financing requirements arising from the Company's rapid business expansion;
3. continue to enhance its construction works to ensure that Units 5 and 6 (2 x 600 MW) of Tuoketuo Power Company, Unit 2 (500 MW) of Shentou Power Company, Unit 1 (60 MW) of Yayangshan Hydropower Project of Lixianjiang Hydropower Company and Unit 1 (50 MW) of Nalan Hydropower Company will be put into operation in 2005. The Company also strives to control project costs and ensure project quality so as to provide solid foundations for enhancing the Company's competitiveness in future;
4. improve overall safety standards of all generating units by enhancing scientific and standardised production management; strengthening repair and maintenance and technical management, with special emphasis on appropriate arrangements of overhaul programmes to improve the quality of repair and maintenance works; and enhancing maintenance of equipment to eliminate defects and hazards that might affect a safe and stable operation;
5. ensure fuel supply for the Company and its subsidiaries' operating plants by enhancing fuel management and procurement; optimising allocation of coal resources and railway transport capacity; effectively handling external coordination with mining and rail authorities; and organising deployment plans for coal. We will also work to expand actively but prudently the power generation-coal consumption asset chain of the Company in an effort to increase the proportion of controllable coal resources so that coal for power generation can be secured; and
6. enhance efforts in cost management and explore new sources for revenue and opportunities for cost saving, secure growth in sales revenue by increasing power generation, benefitting from increased tariffs and optimising the on-grid electricity structure.

Zhang Yi
President

28th March 2005