

# Management's Discussion and Analysis

## OVERVIEW

The Company was incorporated in Hong Kong with limited liability under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) on 24 March 2004. We are the flagship company of CPI Group, one of the five national power-generating groups in the PRC.

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 15 October 2004. The stock code is 2380.

Being the only overseas incorporated and listed company among the five national power-generating groups, the Company's principal business is to develop, construct, own, operate and manage large power plants in the PRC.



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## BUSINESS REVIEW FOR 2005

Under the Board's leadership, the Company continued its endeavour to enhancing the value for the shareholders and promoting the steady and rapid growth of the Company in 2005 (the "Year"). In line with its development strategy and yearly target, the Company strengthened its management efforts in various aspects, such as assurance of stable power supply, safety production, energy conservation and reduction of consumption, tariff adjustment and power pooling ensuring the quality and price of coal, accelerating project development, promoting system development, enhancing production quality and efficiency and promoting environmental protection awareness. The Company also took initiatives in capital market activities and acquisitions. With the collective efforts of the management team, the Company fulfilled its promise to investors and capital market and successfully accomplished its operating goals for the Year.

### (1) OPERATING ENVIRONMENT

During the Year, in line with its adoption of the scientific concept of development as the foremost guide, the PRC government further strengthened and refined its macroeconomic control measures and actively pushed ahead with reform and opening to the outside world. As a result, the national economy was put on a healthy growth track manifested by rapid development, high efficiency, stable prices and enhanced economic dynamism. The annual gross domestic product increased by 9.9% from the previous year. Supported by the stability and continued growth of the PRC economy, the domestic power sector maintained rapid growth. Total domestic power output and the consumption were 2,474.7 billion kWh and 2,468.9 billion kWh respectively, each representing a growth of 12.80% and 13.45% over the previous year.

Electricity generated by the Group's power plants and associated company was primarily supplied to the Eastern China Power Grid and Central China Power Grid, while electricity from Shentou I Power Plant, which was acquired during the Year, was supplied to the Northern China Power Grid. In 2005, net generation to Eastern China Power Grid, Central China Power Grid and Northern China Power Grid recorded a growth of 16.13%, 12.87% and 14.66% over the previous year respectively. The steady development of the PRC economy and the surging electricity demand created a favourable environment for the growth of business and operating results of the Group. However, rising fuel costs driven by high coal price exerted pressure on the operation of the Group.

### (2) BUSINESS REVIEW

For the Year, consolidated turnover of the Group was approximately RMB4,361,718,000, representing an increase of approximately 30.12% from the previous year. Consolidated net profit attributable to equity holders of the Company was approximately RMB661,904,000 (including the Group's share of profit in an associated company), representing an increase of approximately 4.10% from RMB635,813,000 in the previous year. Basic earnings per share was approximately RMB0.21.

Gross generation of the Group (excluding the associated company) for the Year was approximately 20.144 billion kWh, which increased by approximately 28.27% from the previous year. Net generation of the Group (excluding the associated company) for the Year was approximately 18.701 billion kWh, which increased by approximately 26.90% from the previous year. Attributable installed capacity of the Company for the Year increased by 1,245 MW, laying down a solid foundation for the continued development of the Company.

## 1. POWER GENERATION

Operating installed capacity of the Group as at 31 December 2005 was 4,870 MW. Gross generation of the Group (excluding the associated company) was approximately 20.144 billion kWh, representing an increase of approximately 28.27% from the previous year. Net generation of the Group (excluding the associated company) was approximately 18.701 billion kWh, which increased by approximately 26.90% from the previous year.

The increase in the Group's power generation as compared with last year was attributable to:

- increase in demand for electricity, which could be reflected in an approximately 13.45% year-on-year growth in domestic power consumption during the Year from the previous year;
- increase in attributable installed capacity to the Company of 1,245 MW as a result of acquisition and technical upgrades;
- instillation of a mentality of "every watt counts" within the Company, along with the implementation of stringent production safety measures, management and control of unplanned outage and guarantee of supply of coal and electricity, so as to ensure the operation safety and stability of generation units with long production cycles;
- optimization of the maintenance schedule with reasonably adjusted time and frequency in accordance with the actual operation arrangement of the generation units; and
- improvement in facilities conditions after the general maintenance exercise in the first half of the Year. In particular, the production safety, stability and reliability of the generation units had shown substantial enhancement. At present, the equivalent availability factor of the generation units is approximately 90.81%.

### OPERATION DATA OF THE GROUP'S POWER PLANTS

Operating conditions of the Group's major power plants during the Year were as follows:

**PINGWEI POWER PLANT**

Pingwei Power Plant has an installed capacity of 1,230 MW, and its gross generation and net generation are 8.242 billion kWh and 7.886 billion kWh respectively.

The following table sets out certain operation data of Pingwei Power Plant for each of the two years ended 31 December 2005 and 2004:

	For the year ended 31 December	
	2005	2004
Installed capacity (MW)	<b>1,230</b>	1,200
Average utilization hours (hours)	<b>6,701</b>	6,882
Gross generation (MWh)	<b>8,241,790</b>	8,258,600
Net generation (MWh)	<b>7,885,870</b>	7,914,950
Equivalent availability factor (%)	<b>88</b>	85
Net generation standard coal consumption rate (grams/kWh)	<b>332</b>	338

**YAOMENG POWER PLANT**

Yaomeng Power Plant has an installed capacity of 1,210 MW, and its gross generation and net generation are 7.689 billion kWh and 7.044 billion kWh respectively.

The following table sets out certain operation data of Yaomeng Power Plant for each of the two years ended 31 December 2005 and 2004:

	For the year ended 31 December	
	2005	2004
Installed capacity (MW)	<b>1,210</b>	1,210
Average utilization hours (hours)	<b>6,354</b>	6,153
Gross generation (MWh)	<b>7,688,883</b>	7,445,028
Net generation (MWh)	<b>7,043,766</b>	6,822,031
Equivalent availability factor (%)	<b>89</b>	89
Net generation standard coal consumption rate (grams/kWh)	<b>343</b>	347

### SHENTOU I POWER PLANT

Shentou I Power Plant (results of which were consolidated with the Group's results since 1 July 2005) has an installed capacity of 1,200 MW, and its gross generation and net generation are 4.213 billion kWh and 3.771 billion kWh respectively.

The following table sets out certain operation data of Shentou I Power Plant for period from 1 July 2005 to 31 December 2005:

	<b>For the period from 1 July 2005 to 31 December 2005</b>
Installed capacity (MW)	<b>1,200</b>
Average utilization hours (hours)	<b>3,511</b>
Gross generation (MWh)	<b>4,213,110</b>
Net generation (MWh)	<b>3,771,359</b>
Equivalent availability factor (%)	<b>90</b>
Net generation standard coal consumption rate (grams/kWh)	<b>377</b>

### CHANGSHU POWER PLANT

Changshu Power Plant has an installed capacity of 1,230 MW, and its gross generation and net generation are 7.515 billion kWh and 7.132 billion kWh respectively.

The following table sets out certain operation data of Changshu Power Plant for each of the two years ended 31 December 2005 and 2004:

	<b>For the year ended 31 December</b>	
	<b>2005</b>	2004
Installed capacity (MW)	<b>1,230</b>	1,200
Average utilization hours (hours)	<b>6,660*</b>	6,693
Gross generation (MWh)	<b>7,514,500</b>	8,031,130
Net generation (MWh)	<b>7,132,140</b>	7,636,660
Equivalent availability factor (%)	<b>96</b>	90
Net generation standard coal consumption rate (grams/kWh)	<b>343</b>	347

\* Pursuant to the provisions of “發電設備可靠性之評價規程” (Rules on the Reliability Evaluation of Power Generating Devices) issued by the China Electricity Council, the technical upgrade of No.2 generating unit of Changshu Power Plant constituted a major boiler upgrade and the outage during the technical upgrade period was counted towards the utilization hours during the Year.



The Group successfully controlled or reduced various costs and expenses by operating on a strict pre-set budget and exercising tightened control throughout the entire production process.

## 2. OPERATION MANAGEMENT

Consolidated turnover of the Group for the Year was approximately RMB4,361,718,000, representing an increase of approximately 30.12% over the previous year. Consolidated net profit was approximately RMB661,904,000 (including the Group's share of profit in an associated company), representing an increase of approximately 4.10% from the previous year. Earnings per share was approximately RMB0.21.

The increase in consolidated turnover was mainly attributable to:

- increase in net generation

During the Year, installed capacity attributable to the Company increased by 1,245 MW as a result of acquisition and technical upgrades. Consequently, the Company's net generation increased by 26.90% from the previous year and its income increased correspondingly.

- increase in tariff

In response to the implementation of the fuel cost pass-through policy, the Company reinforced its tariff initiatives and made active liaison efforts to tap on the tariff adjustment policy. Consequently, significant progress has been achieved.

- optimization of the power output structure

During the Year, the Company optimized its power generation structure to increase the "effective output" and enhance its unit output efficiency. By prioritizing the utilization of generation units with lower fuel consumption and lower fuel costs whenever possible and increasing total output during peak consumption hours, the Group endeavoured to maintain the costs for power output at the most economical level.

The increase in consolidated net profit was mainly attributable to:

- increase in turnover

The increase in on-grid generation and tariff contributed to a rise in turnover.

- stringent cost control

During the Year, the Group successfully controlled or reduced various costs and expenses by operating on a strict pre-set budget and exercising tightened control throughout the entire production process. As a result, maintenance expenses, materials expenses and other operating expenses (excluding the costs of coal) of the Company's power plants, namely Pingwei Power Plant and Yaomeng Power Plant, for the Year decreased generally when compared with the previous year.

- energy saving and reduction in other consumption

During the Year, the Group further enhanced its investments in technical upgrades and energy saving and reduction in other consumption. In particular, it focused on implementing measures to lower coal consumption in power generation, enhance operating efficiency of generating units and improve various energy consumption benchmarks. The average generation coal consumption rate of both Pingwei Power Plant and Yaomeng Power Plant, decreased by 3.37 grams/kWh from the previous year.

- tax concessions

During the Year, the Group successfully leveraged on taxation policies and achieved a satisfactory result. In particular, Shentou I Power Plant secured the "two-year exemption and three-year concession" tax benefit and was exempted from enterprise income tax in 2005. Such tax concession enhanced the level of net profit.

### 3. BUSINESS EXPANSION

During the Year, breakthroughs were made in strengthening the management of the Group's existing assets as well as newly added assets from acquisitions and construction of power plants, which enhanced its ability for sustainable development.

- **ASSETS ACQUISITION**

During the Year, the Company completed the acquisition of Shentou I Power Plant, a mine-mouth power plant located in proximity to a coal mine with a gross installed capacity of 1,200 MW. This represented the first successful acquisition by the Company since its listing. Total adjusted consideration for the acquisition was approximately RMB592,732,000. After the acquisition, the Group's gross installed capacity and the attributable installed capacity reached 4,870 MW and 4,255 MW respectively, representing an increase of approximately 32.7% and 39.3% compared with the pre-acquisition figures respectively.

This acquisition provided the Group with attractive opportunities to expand both its scale and coverage of operation and strengthened the Group's profitability, risk resistance and competitiveness. It is believed that this attractive transaction and its potential profit will facilitate the Company in maximizing the value for shareholders.

- **POWER PLANTS CONSTRUCTION PROJECTS**

During the Year, the Group's power plants construction projects took full swing with substantive progress in project approvals and implementations according to schedule.

The progress of the Group's power plants construction projects was as follows:

- Project Approval

On 31 December 2005, the construction project of two 600 MW super-critical generation units of Yaomeng Power Plant II was approved by the NDRC. As a result, the construction projects of a total of six 600 MW super-critical generation units of Huanggang Dabieshan Power Plant, Pingwei Power Plant II and Yaomeng Power Plant II were all duly approved by the State.

- Construction in Progress

Pingwei Power Plant II: The project is under smooth progress. Operation of its two power generation units is scheduled to commence in the second and the third quarters of 2007 respectively.

Yaomeng Power Plant II: The project is under smooth progress. Operation of its two power generation units is scheduled to commence in the first and the second quarters of 2008 respectively.

Huanggang Dabieshan Power Plant: The project is under smooth progress. Operation of its two power generation units is scheduled to commence in the third and the fourth quarters of 2008 respectively.

- Investment Projects

Pingwei Power Plant II: project investment for the Year was RMB954,190,000, among which capital injection was RMB266,540,000. Accumulated investment since the commencement of the project was RMB1,372,790,000, among which capital injection was RMB335,990,000.

Yaomeng Power Plant II: project investment for the Year was RMB565,090,000, among which capital injection was RMB105,750,000. Accumulated investment since the commencement of the project was RMB791,310,000, among which capital injection was RMB165,290,000.

Huanggang Dabieshan Power Plant: project investment for the Year was RMB468,880,000, among which capital injection was RMB139,840,000. Accumulated investment since the commencement of the project was RMB602,530,000, among which capital injection was RMB159,840,000.





## USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING (“IPO”) OF THE COMPANY

The shares of the Company have been listed on the Hong Kong Stock Exchange since 15 October 2004. The Company still retained part of the proceeds from the IPO, the balance of which was approximately RMB1,366,962,000 as at 31 December 2005. The balance was intended for capital injection of the power plants under construction, acquisition of assets and as general working capital.

The following table sets out details on the use of net proceeds from the IPO of the Company during the Year:

	RMB'000
General operating expenses	50,100
Acquisition of assets (Shentou I Power Plant)	594,204
Power plants under construction	493,460
<b>Total</b>	<b>1,137,764</b>

We had placed the unused net proceeds in short-term bank deposit.

## 4. FINANCIAL POSITION

### OPERATING RESULTS

#### Overview

#### Turnover

The Group recorded consolidated turnover of approximately RMB4,361,718,000 for the Year, representing an increase of approximately 30.12% compared with the previous year. Increase in turnover was primarily attributable to the acquisition of Shentou I Power Plant, an increase in on-grid generation, improvement of power output structure and rise in average on-grid tariff.

#### Operating Costs

The Group recorded consolidated operating costs of approximately RMB3,739,626,000 for the Year, representing an increase of approximately 35.21% compared with the previous year. Increase in operating costs was primarily attributable to the increase arising from the acquisition of Shentou I Power Plant and rise in fuel costs. As a result of the rising price and fluctuating quality of coal supply during the Year, average standard unit coal price of the Group surged by RMB44.84/ton as compared with the previous year.

#### Fuel Costs

Fuel costs was a major component of the Group's operating costs, amounting to 70.92% of the total operating costs. Average standard unit coal price surged by RMB44.84/ton as compared with the previous year, while gross fuel costs and unit generation fuel costs surged by RMB826,341,000 and approximately RMB17.92/MWh respectively.

**Depreciation**

The Group's depreciation amounted to RMB320,488,000 for the Year, which was substantially the same as the previous year. This was primarily due to the fact that the increase in depreciation arising from the acquisition of Shentou I Power Plant in the Year was offset by the decrease in depreciation of certain assets which have been fully depreciated during the Year.

**Staff Costs**

The Group recorded staff costs of RMB315,112,000 for the Year, representing an increase of 20.08% from the previous year, which was mainly attributable to an increase in the number of staff following the acquisition of the Shentou I Power Plant.

**Repairs and Maintenance**

The Group recorded repairs and maintenance costs of RMB184,436,000 during the Year, representing an increase of 30.29% from the previous year, which was mainly attributable to an increase in assets following the acquisition of Shentou I Power Plant.

**Other Net Operating Expenses**

Other net operating costs of the Group amounted to RMB204,017,000 for the Year, representing an increase of 28.38% as compared with the previous year.

**Operating Profit**

Operating profit before finance costs of the Group for the Year amounted to RMB698,094,000, representing an increase of 14.79% as compared with the previous year.

**Finance Costs**

Finance costs of the Group for the Year amounted to RMB76,917,000, which was substantially the same as the previous year.



The Group actively capitalized on the tariff policy and optimized its maintenance schedule and frequency in order to maximize power generation during high tariff period.

**Share of Profit in an Associated Company**

The Group's share of profit in the associated company for the Year was RMB122,480,000, representing a decrease of 18.78% as compared with the previous year. The decrease was mainly due to insufficient tariff adjustment of Changshu Power Plant in the first half of the Year, rising fuel costs and a reduction in gross generation.

**Taxation**

Taxation of the Group for the Year increased by 77.64% from last year to RMB82,448,000. The increase was mainly attributable to revert of tax rate from 7.5% in last year to 15% in the Year upon expiry of the "two-year exemption and three-year concession" tax benefit previously enjoyed by Pingwei Power Plant and Yaomeng Power Plant.

**Profit for the Year**

During the Year, the Group boosted its turnover by 30.12% with a relatively high net profit of RMB661,904,000 as compared with last year, despite a relatively significant increase in coal price as compared with the previous year. This was the combined result of the Group's active support for implementation of the new tariff policy, optimization of its maintenance schedule and frequency in order to maximize power generation during high tariff periods, as well as the acquisition of Shentou I Power Plant.

**Segment Information by Business**

The Company is engaged in one major business in power generation, which is mainly to develop, construct, own, operate and manage large power plants within the PRC.

**Segment Information by Geographical Location**

The Group is principally engaged in power generation business within the PRC, with major assets and liabilities located in the PRC. Accordingly, no segment information by geographical location is presented.

**Dividends/Profit Distributions**

The Board recommended the Company to pay a final dividend of RMB0.079 per share for the Year.

**Earnings Per Share**

The calculation of basic and diluted earnings per share for the Year are based on the Group's profit for the Year of RMB661,904,000 (2004: RMB635,813,000 as restated). The basic earnings per share is based on the weighted average of 3,135,000,000 (2004: 2,315,901,639) shares in issue during the Year. The diluted earnings per share is based on 3,135,000,000 (2004: 2,315,901,639) shares which is the weighted average number of shares in issue during the Year plus the weighted average number of 518,646 (2004: 704,231) shares deemed to be issued at no consideration if all outstanding options had been exercised.

### Principal Financial Ratios of the Group

Set out below are principal financial ratios of the Group for each of the two years ended 31 December 2005 and 2004:

	2005	2004
Debt to equity ratio (%)	52.89	32.23
Current ratio (times)	1.98	2.42
Quick ratio (times)	1.83	2.36
EBITDA interest coverage (times)	8.48	12.07

Calculation formula of the financial ratios:

Debt to equity ratio = total borrowings/balance of shareholders' equity interests 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 - inventories at the end of the year)/balance of current liabilities at the end of the year

EBITDA interest coverage = (profit before taxation + finance costs + depreciation and amortisation)/finance costs (including capitalized interest)

### LIQUIDITY, FINANCIAL RESOURCES AND BORROWINGS

For the Year ended 31 December 2005, the Group derived its funds mainly from bank borrowings, dividends from the associated company and generated funds from operating activities, which amounted to approximately RMB2,311,324,000, RMB93,058,000 and RMB890,413,000 respectively. The Group's funds were mainly applied to its power plants under construction and capital expenditures of operating power plants, acquisition of Shentou I Power Plant (net of cash acquired) and repayment of bank loans, which amounted to RMB2,316,767,000, RMB567,891,000 and RMB825,500,000 respectively.

For the Year ended 31 December 2005, cash and cash equivalents of the Group amounted to RMB2,187,943,000, resulted from net cash inflow from operating activities of RMB664,634,000, net cash outflow from investment activities of RMB2,738,318,000 and net cash inflow from financing activities of RMB1,197,403,000.

### CAPITAL EXPENDITURES

To further improve the safety and reliability, environment-friendliness and efficiency of its facilities, the Group and the associated company of the Company arranged 170 technical upgrade projects during the Year. In particular, the partial technical upgrade of steam generator circulation system of Pingwei Power Plant was completed in February 2005, which increased the capacity of Pingwei Power Plant's No. 2 generating unit by 30 MW to 630 MW. The capacity of No. 2 generating unit of Changshu Power Plant also increased by 30 MW to 330 MW as a result of technical and capacity upgrade projects on boiler, steam generator circulation system and power generator. Apart from an improvement in installed capacity, coal consumption also showed a remarkable decline. The two technical upgrade projects provide a guarantee for further increase in power generation and operating income for the Group in the future.

## COMMITMENTS

Commitments are mainly related to purchases with respect to power plant construction projects and upgrade projects of existing power plants. As at 31 December 2005, the Group had outstanding capital commitments, amounting to approximately RMB19,170,000 (2004: RMB6,894,000) as authorised but not contracted for and RMB6,545,185,000 (2004: RMB4,678,114,000) as contracted but not provided for.

The Group's minimum lease payments in respect of land and buildings under irrevocable operating leases of terms not more than one year were RMB19,780,000 (2004: RMB15,066,000), whereas lease payments for leases of terms over one year but within five years were RMB9,202,000 (2004: RMB26,870,000).

The Group's future minimum rental income under irrevocable operating leases of terms not more than one year will be RMB4,659,000 (2004: RMB1,930,000), whereas the rental income for leases of terms over one year but within five years will be RMB4,659,000 (2004: RMB1,900,000).

## DEBTS

Set out below are details of the bank and other borrowings of the Group for each of the two years ended 31 December 2005 and 2004:

	2005	2004
	RMB'000	RMB'000
Short-term bank loans	389,500	592,676
Other short-term loans	98,000	—
Long-term bank loans maturing within a year	400,000	261,000
Long-term bank loans maturing in 1-2 years	951,000	270,000
Long-term bank loans maturing in 3-5 years	464,000	790,000
Long-term bank loans of over 5 years	1,298,500	93,000
<b>Total amount of debts</b>	<b>3,601,000</b>	2,006,676

The interest rates on the Group's bank loans, which currently range from 5.2% to 5.5%, are subject to adjustment in accordance with changes in the relevant regulations of the People's Bank of China.

Our debt to equity ratio for each of the two years ended 31 December 2005 and 2004 were 52.89% and 32.23% respectively.

On 31 May 2004, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant entered into syndicate loan agreements with a number of banks to obtain loan facilities amounting to approximately RMB11,400,000,000 in aggregate with respect to the power plants under construction. Approximately RMB2,373,000,000 was drawn down from such loan facilities by the power plants under construction as at 31 December 2005.

The Group incurred debts for general working capital. The Group currently does not use any derivative to change the nature of its debts for the purpose of managing its interest rate risk.

**FOREIGN EXCHANGE RATE RISK**

The Group collected most of its revenue in Renminbi, part of which were converted into foreign currencies for investments in or acquisition of interests from certain subsidiary companies, and for dividend distribution to the shareholders of the Company. Therefore, we have certain risk exposure to foreign exchange fluctuations.

The Renminbi is not a freely convertible currency. Subject to the exchange rate control imposed by the PRC government, international economic environment and supply and demand of Renminbi, the PRC government may take actions that could cause fluctuations in the exchange rates of Renminbi in the future. Fluctuations in exchange rates may positively or negatively affect the value of the Group's net assets, profits and any dividend declared upon translation or conversion into Hong Kong dollars. As at 31 December 2005, the exchange rate of HK\$1 = RMB1.04 was adopted by the Group for conversion between Hong Kong dollars and Renminbi.

**PLEDGE OF ASSETS**

As at 31 December 2005, Pingwei Power Plant, a wholly-owned subsidiary of the Group, pledged its machinery with a net book value of approximately RMB1,102,000,000 (2004: nil) to a bank to secure bank loan granted to it in the amount of approximately RMB643,000,000 (2004: nil).

**CONTINGENT LIABILITIES**

As at 31 December 2005, the Group had no material contingent liabilities.

**ENVIRONMENTAL PROTECTION**

Our mission is "Providing green energy and serving our community". While striving for higher power generation, all power plants under the Group were in strict compliance with the environmental protection laws and regulations promulgated by the PRC government at State and local levels where our plants are located. In addition, the Group implemented three sets of environmental protection policies to regulate and reinforce its green initiatives.

During the Year, the total discharge fees paid by our power plants were approximately RMB12,080,000 for Pingwei Power Plant, approximately RMB26,850,000 for Yaomeng Power Plant, approximately RMB16,150,000 for Shentou I Power Plant (from 1 July 2005 to 31 December 2005), and approximately RMB25,700,000 for Changshu Power Plant. The significant growth in discharge fees as compared to last year was mainly attributable to the implementation of new PRC regulations on discharge fees on 1 July 2003, leading to an upward adjustment in 2005 as compared with 2004.

The Group and its associated company also intended to carry out environmental upgrade projects in accordance with the PRC environmental protection requirements. During the Year, the Group commenced preliminary environmental projects, which also involved the new power plants under construction. The construction of two sets of desulphurization facilities in the Changshu Power Plant will be completed in 2006. The feasibility report on the construction of desulphurization facilities in Pingwei Power Plant was approved while the same for Yaomeng Power Plant has also been submitted for approval. It is expected that the imminent commencement of these projects will contribute to reducing pollution as well as the discharge fees payable by the Group.



The Group provided appropriate emoluments and benefits to employees based on their respective duties, and set up a share option scheme as an incentive scheme for the senior management personnel and key employees so as to motivate and attract high-calibre employees.

## EMPLOYEES

As at 31 December 2005, the Group and its associated company had a total of 7,827 full-time employees.

The number of staff increased by 29% from last year, mainly due to the acquisition of Shentou I Power Plant during the Year. In addition, the Group was in the midst of rapid expansion and engaged in extensive recruitment exercises for high-calibre employees. Besides, the Group has also provided necessary trainings to all employees.

The Group provided appropriate emoluments and benefits to all employees of its operating power plants based on their respective duties and pursuant to the labour laws and regulations of the PRC. In addition, the Company has set up a share option scheme for the Group's senior management and key employees and to motivate and attract high-calibre employees.

The Group determined the emoluments of its directors and employees based on their respective duties, performance, working experience and the prevailing market rates. The Company has set up a mandatory provident fund scheme and made fixed contribution for our employees in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong).