



## Management Discussion and Analysis

## (1) MACROECONOMIC CONDITIONS AND ELECTRICITY DEMAND

In 2005, the gross domestic product (“GDP”) of the PRC amounted to RMB18,232.1 billion, representing an increase of 9.9% over 2004 determined based on comparable pricing. Power consumption of the whole society totalled 2,468.9 billion KWh, representing a year-on-year increase of 13.45% over 2004, of which the primary, secondary and tertiary industry accounted for 74.1 billion KWh, 1,847.8 billion KWh and 263.1 billion KWh respectively, representing a year-on-year increase of 7.64%, 13.37% and 12.90% respectively.

Currently, the Group’s power generating units in operation or under construction are located in Shandong, Sichuan, Ningxia, Anhui and Henan Provinces / Autonomous Region with fast-growing economy and considerable GDP growth in recent years. Based on comparable pricing, the GDP growth rates of Shandong, Sichuan, Ningxia, Anhui and Henan Provinces / Autonomous Region in 2005 reached 15.2%, 12.6%, 10.3%, 11.8% and 14.1% respectively. Their GDP growth rates are higher than the national average by 5.3, 2.7, 0.4, 1.9 and 4.2 percentage points, respectively. It was the fifteenth consecutive year that Shandong Province has recorded a double-digit economic growth rate. Power consumption of the whole society for Shandong Province increased by 16.56%. In line with the GDP growth, power demands in other regions increased at a relatively rapid rate.

## (2) TURNOVER AND PROFIT

In 2005, the Group achieved its planned operating targets by means of strengthening management, securing sufficient supply of coal with high quality, significantly increasing electricity generation and tightly controlling various costs and expenses. The total volume of electricity sold by the Group to the public grid for the year 2005 was 43.82 million MWh. Turnover for the year 2005 amounted to approximately RMB13,300 million, representing an increase of approximately 30.71% over 2004. Profits attributable to equity shareholders of the Company amounted to approximately RMB1,066 million, representing an increase of approximately 1.98% over 2004. Earnings per share were RMB0.179. The significant increase in turnover was mainly attributable to the increase of 25.46% in on-grid electricity supply as compared with that for the year 2004.

## **(3) OPERATING EXPENSES**

During the year, the operating expenses of the Group amounted to RMB11,247 million, representing an increase of 37.86% over 2004, which was attributable to a growth of 25.03% in the volume of power generation and a rise in coal costs.

The principal operating expense of the Group was coal costs, which amounted to RMB7,271 million in 2005, accounting for 64.65% of the Group's total operating expenses. In 2005, the Group's unit fuel cost for electricity supply amounted to RMB160.03/MWh, representing a growth of 24.48% over 2004. The increase in unit coal cost was due to a year-on-year increase of 25.74% in unit price of standard coal.

Depreciation and amortisation expenses of the Group amounted to RMB1,622 million in 2005, representing an increase of 5.79% over 2004. The increase in depreciation expenses was mainly caused by the addition of the No.3 and No.4 generating units of Guangan Company as fixed assets and the change in the consolidation method in respect of Qingdao Company.

The major overhaul and repair and maintenance expenses of the Group increased by approximately 5.63% to RMB399 million as compared with that for 2004. This was mainly attributable to the addition of the No.3 and No.4 generating units of Guangan Company. The increase in major overhaul and maintenance expenses was lower than the growth in the installed capacity of the generating units of the Group, which was mainly due to the Group's strengthened control over major overhaul and repair and maintenance expenses.

Personnel costs of the Group amounted to RMB1,057 million in 2005, representing a year-on-year increase of 15%. This was mainly due to additional staff employed for operation of new generating units, and the additional costs arising from the raised social insurance contribution base.

Administration expenses increased by 41.58% to RMB506 million as compared with that for 2004. The growth was mainly due to a rise in the Company's environmental protection expenses of approximately RMB95.81 million.

Other operating expenses amounted to RMB257 million, representing an increase of RMB43 million over 2004, which was mainly due to the increased water fee as a result of the increased power generation.

## **(4) FINANCE COSTS**

Net finance costs of the Group in 2005 amounted to RMB446 million, representing a decrease of RMB47.35 million or 9.59% over 2004. This was mainly attributable to the US dollar exchange gains.

## **(5) INDEBTEDNESS**

As at 31 December 2005, the borrowings of the Group amounted to RMB18,432 million, of which loans denominated in US dollars amounted to US\$192 million. The gearing ratio (i.e. total liabilities / total assets) was 60.7%, representing a decrease of 1.19 percentage points from that of 2004. This was mainly attributable to the increase in shareholders' equity as a result of the issuance of RMB ordinary shares which offset the increase in debt financing.

## **(6) CASH AND CASH EQUIVALENTS**

As at 31 December 2005, the Group had cash and cash equivalents of approximately RMB846 million.

## **(7) CASH FLOW ANALYSIS**

In 2005, the net decrease in consolidated cash and cash equivalents of the Group amounted to approximately RMB414 million. Net increase in cash flow generating from operating activities amounted to approximately RMB2,335 million, which was relatively stable. Net decrease in cash flow generating from investing activities amounted to approximately RMB6,646 million, mainly resulting from the investment in fixed assets including construction projects in progress and technology improvements, as well as payment for acquisition of Xinxiang Company and Suzhou Company and additional investments in associates. Net increase in cash flow generating from financing activities amounted to approximately RMB3,897 million, which was mainly due to the issuance of RMB ordinary shares and increased debt financing during the reporting period.

## **(8) PRODUCTION, OPERATION AND SAFETY**

In 2005, the equivalent availability factor of the generating units was 93.8%; the equivalent forced suspension rate was 0.2%; the average coal consumption rate for electricity supply of generating units was 344.99g/KWh, a decrease of 1.14g/KWh from that in 2004.

In 2005, the Group's operation safety maintained at a satisfactory level. As at 31 December 2005, the Group had achieved production safety throughout the year.

In 2005, a total of 11 major overhauls and 14 minor overhauls were conducted in respect of the generating units of the Group and the planned overhaul rate was 5.92%, representing an increase of 0.34 percentage points over 2004.

## **(9) TECHNICAL IMPROVEMENT PROJECTS**

In 2005, the technical improvement projects of the Group progressed smoothly. The purpose of these technical improvement projects of the Group was to enhance the level of operational 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-enhancement for the No.1 generating unit of Shiliquan Plant. To date, the Group has upgraded six 300MW generating units and five 125MW generating units. After the implementation of technical improvement projects to save energy and enhance capacity, the average standard coal consumption rate of generating units was reduced by about 10-15g/ KWh while the capacity of generating units increased by 10% or above, from the original capacities of 125MW and 300MW to the new capacities of 140MW, 330MW or 335MW respectively. The increase in the capacity as indicated in the plates of the relevant plants has been formally approved by relevant government authorities.

Moreover, in consideration of environmental protection and developing strategies, the Company implemented technical improvement project of straw burning technology, a renewable energy resource technology, for the boiler burner of the No.5 generating unit of Shiliquan Plant (wholly owned by the Company, with a capacity of 140MW), which commenced commercial operation on 16 December 2005. The project is the pioneer in the PRC in terms of renewable resource utilisation developed based on imported technology, with technical support from BWE (Denmark) for mixed burning of powdered coal and straw. The Company introduced innovation and improvement to the project according to the domestic-specific conditions in the PRC, taking the lead in implementation of such technical improvement in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## OPERATION STATISTICS

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

THE GROUP:

	2005	2004	2003
Total installed capacity controlled or invested at year end (MW)	<b>10,307.20</b>	8,635.00	7,380.00
Interested capacity at year end (MW)	<b>8197.50</b>	7,397.50	6,388.50
Amount of electricity generated ('million MWh)	<b>46.82</b>	37.45	29.15
On-grid electricity sold ('million MWh)	<b>43.83</b>	34.92	27.26
Available hours	<b>7,966.00</b>	8,289.00	7,717.00
Average utilization hours	<b>5,712.00</b>	5,089.00	4,820.00
Load factor (%)	<b>75.68</b>	72.60	69.30
Equivalent availability factor (%)	<b>93.80</b>	93.95	94.11
Standard coal consumption for electricity supplied (g/kWh)	<b>344.99</b>	346.13	347.40

2005	Zouxian	Shiliqian	Laicheng	Qingdao	Zibo	Zhangqiu	Tengzhou	Guangan	Weifang	Zhongning	Chizhou
Equity interest (%)	100	100	100	55	100	80.41	54.49	80	30	50	40
Installed capacity (MW)	2,540	1,285	1,200	660	467	290	333	1,200	660	660	600
Average utilization hours	5,616	5,754	5,850	5,522	5,905	5,733	5,870	5,700	5,737	7,964	4,877
Total amount of electricity generated ('million MWh)	14.27	7.39	7.02	3.79	2.76	1.66	1.95	6.84	3.79	2.79	0.54
Net amount of electricity generated ('million MWh)	13.53	6.90	6.63	3.52	2.43	1.54	1.81	6.39	3.56	2.64	0.51
Standard coal consumption for electricity supplied (g/kWh)	332.12	355.75	339.06	345.62	374.03	367.52	369.14	341.91	342.87	353.44	356.20

2004	Zouxian	Shiliqian	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

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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

