

REPORT FROM CHIEF EXECUTIVE OFFICER



In 2005, under the leadership of the Board, our management team accomplished the business targets through effective execution of our approved strategies.

Wang Shuai Ting
Chief Executive Officer

ATTRIBUTABLE OPERATIONAL CAPACITY AND NET GENERATION GROWTH

In 2005, our attributable operational generation capacity increased significantly. Changshu Power Plant, Jiaozuo Thermal Power Plant, Hengfeng Phase II, Yixing Power Plant and Tangshan Thermal II Power Plant were commissioned during the year. As at 31 December 2005, our attributable operational generation capacity reached 4,940MW, representing an increase of 67.5% from 2,949MW as at the end of 2004.

Due to scheduled maintenance and overhaul as well as gradual easing of the supply and demand imbalance in our service areas, net generation of our five operational power plants which were running for the entire year of 2004 and 2005 decreased slightly by 4.2% year-on-year. However, due to an increase of new operational capacity as well as early commissioning of generation units, our total net generation increased 50.8% (on a 100% basis for each power plant) to 49.6GWh, compared with 2004.

EFFECTIVE COST CONTROL

In order to deliver satisfactory returns for our shareholders, we exercised strict control over our construction costs, fuel costs and financing costs via continued execution of our "low-cost" strategy during the period under review.

With the commissioning of more and more generation units, our capabilities in shortening construction period and controlling construction cost have been strengthened. Construction costs and periods of our recently commissioned power plants continued to outperform the industry average. In particular, Changshu Power Plant, our first greenfield project consisting of 600MW class super-critical coal-fired generation units, took approximately 29 months from commencement of construction to commercial commission, setting a new record of shortest construction period among similar generation units in China. Its unit construction cost was also significantly lower than the industry average.

During the year, by capitalizing on the long-term supply agreements contracted with coal suppliers, improving contract fulfillment rates and centralizing coal procurement, we aimed to minimize the impact of continued coal price surges. However, due to the rapid increase of coal prices throughout the year, the average unit fuel cost of our consolidated power plants increased by 17.5% compared with 2004.

We continued to employ various measures in order to lower our overall financing costs and mitigate the risks of any potential interest rate hikes. In May 2005, we signed a US\$200 million five-year dual currency (HKD/USD) transferable syndicated loan facility with 18 leading local and international banks. Interest rates were set at a three-month LIBOR/HIBOR plus 39 basis points. In June 2005, a sum of HK\$600 million and another sum of HK\$400 million were drawn and interest rates were fixed at 4.18% and 4.10%, respectively, throughout the five-year term via swap contracts. In addition, we locked-in and lowered our long-term funding costs via a RMB 3 billion corporate bond issued by CRNC in the PRC domestic markets in May 2005. The bond has a tenor of 10 years, with coupon fixed at 5.05% per annum. On 1 July 2005, CRNC provided the bond proceeds to our power plants. Inclusive of commissions and other issue expenses, total annual funding costs for our power plants were approximately 5.19%, lower than the prevailing five-year borrowing rates offered by the People's Bank of China.

DEVELOPMENT OF NEW PROJECTS

In 2005, our business development team continued to explore investment opportunities in our target markets, complying with our strategic objectives and achieving our expected rates of returns. Our Gucheng Power Plant (2x300MW) and Liyujiang B Power Plant (2x600MW) were approved by the PRC government in March and September 2005, respectively. In addition, a number of our proposed greenfield projects have been included by the PRC government in its latest development plan. Apart from greenfield projects, we are also exploring acquisition opportunities. We expect our generation capacity in target markets to continue to increase through greenfield construction and acquisitions.

KEY TASKS IN 2006

In 2006, Chinese IPPs will encounter challenges from various areas including utilization rates decrease, competitive bidding and high coal prices. For the IPPs, these challenges must be managed properly in order to maintain and improve profitability. Therefore, our key task for the year is to mitigate the potential impact of these adverse factors and to continue to increase our profitability. Our main tactics are as follows:

To exercise strict cost control

Since the foundation of the Company, to exercise strict control over construction costs, fuel costs, as well as financing costs have been our key focus. Our financial results demonstrate that we have been successful in this aspect. However, in order to cope with the ever-changing business environment, we need to exercise cost control over more areas, including generating more synergistic benefits in the area of equipment procurement, management of inventory, spare parts and components, training and development of human resources among our similar-sized generation units (i.e., 300MW and 600MW units) as well as cash flow management.

To ensure new projects are commissioned as scheduled

2006 will still be a year of rapid development for the Company. We will have a number of coal-fired power plants to be commissioned successively in 2006, including Shouyangshan Power Plant, Gucheng Power Plant, as well as Fuyang Power Plant which we currently manage on behalf of our parent company. Also, the acquisition of our first wind power project was completed in January, and our first gas-fired power plant and first hydro power project will commence commercial operation in 2006. This represents a further step taken by the Company in the clean and renewable energy sector. Taking into account the new projects currently being constructed, our attributable operational capacity should increase by 47.7% year-on-year, to 7,294MW by the end of 2006.

In addition, Liyujiang B Power Plant, one of the PRC government's west-to-east power transmission projects and a wholly owned subsidiary of CR Power consisting of two 600MW coal-fired generation units, is currently under construction and is expected to commence commercial operation in 2007.

To acquire and obtain approvals for new projects

We are applying to the PRC government for approvals for a number of proposed greenfield projects which are in our target markets, complying with our strategic objectives and expected to achieve our required rates of returns. These projects will commence construction after we obtain the requisite approvals. In addition, we completed the acquisition of our first wind-power project, Shantou Dannan Wind Power Plant, in January and are exploring other opportunities as well. We expect to complete acquisitions of and obtain approvals for some new projects in 2006 and we believe these will enable us to maintain a satisfactory generation capacity growth rate going forward.

APPRECIATION

I would like to take this opportunity to express my deepest gratitude toward our management team and staff members for their contribution to the Company's development and growth. I wish to thank our general staff members at the plant level in particular. Their dedication and commitment is the essence of our core competitive advantages and is the basis of our achievement in construction and operation of our business.

Under the guidance of the Board, our management team and staff members will continue to endeavor to create value for our shareholders in 2006.

Wang Shuai Ting

Chief Executive Officer

Hong Kong, 20 March 2006