DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

BUSINESS REVIEW

During the year ended 31 December 2004, the Group sold 1,473.0 million kWh of electricity, representing an increase of 54.7% as compared to 952.1 million kWh over last year. The consolidated turnover also increased by 53.0% to HK$856.4 million. This increase mainly contributed by the increased demand for electricity in the PRC and the newly completed third combined cycle generating unit which commenced commercial production in September 2004.

The direct operating expenses attributable to electricity supplies increased slightly to HK$665.1 million due to soaring fuel cost, which was our primary direct operating expense. During the year under review, the Group incurred a total fuel cost of HK$576.1 million. The higher fuel cost was primarily due to the staggering high world oil price especially in the second half of 2004 in response to the various uncertainties encountered in the oil producing regions. In order to cope with this difficult situation, the management had carried out various remedial measures, including strengthening of fuel procurement and inventory control, so as to minimize the impact to the Group as a whole. The management considered the remedial measures effective and the result is satisfactory.

The finance costs of the Group were increased by 33.2% to HK$24.5 million. The increase was mainly attributable to the additional financing for the construction of both the third and fourth combined cycle generating units at Dapeng Town, Shenzhen.

The Group recorded a net profit of HK$80.2 million. This remarkable performance was the results of the increase in power generation due to increased capacity, the strong demand for electricity in the PRC and the management's effective cost control measures especially on the fuel supply. Based on the weighted average of 2,017,319,943 shares in issue during the year, the basic earning per share was HK3.98 cents.

FINANCIAL POSITION

The Group's total borrowings increased from HK$485.5 million as at 31 December 2003 to HK$1,305.7 million as at 31 December 2004. The increase is mainly due to the raising of additional bank loans to finance the expansion of the Fuhuade Power Plant. The overall gearing ratio, which is calculated as total borrowings over total assets of the Group, was 44.8%. The proportion of borrowings due within one year to total borrowings decreased from 30.4% as at 31 December 2003 to 27.9% and a long term liabilities to equity ratio of 72.1%.

Total assets pledged in securing these loans have a net book value of HK$320.6 million as at 31 December 2004. All the bank borrowings of the Group are at floating rates and denominated in both RMB and US dollars. As the entire operation of the Group is carried out in the PRC, substantial receipts and payments in relation to the operations are denominated in RMB. When appropriate, financial instruments were used for hedging purpose to minimize exchange rate and commodity price exposures.

The Group's cash and cash equivalents amounted to approximately HK$1,043.6 million as at 31 December 2004 and are mostly denominated in RMB, Hong Kong dollars and US dollars.

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CONTINGENT LIABILITIES

A supplier filed an arbitration in August 2003 against Fuhuade Power Plant claiming for additional contract price in the amount of HK$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained. No provision for the amount claimed has been made by the Group as at 31 December 2004. Save as the outstanding arbitration, the Group has no material contingent liabilities as at 31 December 2004.

CAPITAL COMMITMENTS

As at 31 December 2004, the Group had capital commitments in respect of the acquisition of property, plant and equipment amounted to HK$191.5 million.

MAJOR EVENTS

On 19 February 2004, the Board proposed an open offer of 1,525,525,936 offer shares of HK$0.01 each at HK$0.40 per offer share on the basis two offer shares for every existing share held. Sinolink Worldwide Holdings Limited ("Sinolink"), through its wholly owned subsidiary, acted as the underwriter of the open offer. The Company raised approximately HK$600.5 million from the open offer and the transaction was completed on 19 April 2004.

Upon completion of the open offer, the beneficial shareholding of Sinolink in the issued share capital of the Company was increased from 33.7% to 37.1%.

On 3 December 2004, the beneficial shareholding of Sinolink in the issued share capital of the Company was further increased from 37.1% to 50.1%, by acquiring additional 13.0% from four independent parties. Following the acquisition, the Company has become a subsidiary of Sinolink. At the same time, Sinolink made an unconditional general offers to acquire the remaining shareholding in the Company and the offers was completed on 18 January 2005, with Sinolink's shareholding in the Company further increased to 63.38%.

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PROSPECTS

Looking forward, we will focus on our core business of power generation by setting our top priority to make sure that our fourth combined cycle generating unit with the installed capacity of 180,000 kilowatts will be completed and commenced commercial operation on or before target completion date of second quarter of 2005. We will be also conducting feasibility studies towards switching to the utilization of natural gas as fuel and to further expand its capacity to 1,500,000 kilowatts in response to the strong demand of electricity in the PRC. On the other hand, we will continue to seek other means of energy production opportunities to diversify our investment by exploring new projects both through Greenfield projects as well as suitable acquisition targets in the regions where strong demand for energy exists.

On the operational side, the soaring oil price continues to pose challenges to the management in the coming year. While the management monitors closely the oil price movement in the world market, other measures like enforcing stringent control over the inventory level and further strengthen the procurement procedures to control over our fuel costs will also be implemented. In addition, regularly maintenance and periodical overhaul will also be carried out to achieve a safe and stable supply of electricity.

We are confident that with such reforms and strategies in place, the Group will achieve steady and healthy growth, which in turn, bringing increasing returns to our shareholders.

POST BALANCE SHEET EVENT

The Group entered into the equity transfer agreement with, among others, an Independent third party on 16 December 2004 to dispose of its wholly owned subsidiary, New China Control Systems Limited, which in turn holds 41 % equity interest in Xin Hua Control Engineering Co., Ltd. for a cash consideration of US$23.5 million (approximately HK$182.83 million). Upon closing of the transaction, which is expected to occur in April 2005, the Group will record a gain on disposal of approximately HK$95.9 million.

DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the staff and management team of the Group for their contribution during the year and also to give my sincere gratitude to all our shareholders for their continual support all these years.

By Order of the Board

SUN Qiang Chang
Chairman

Hong Kong, 17 March 2005