

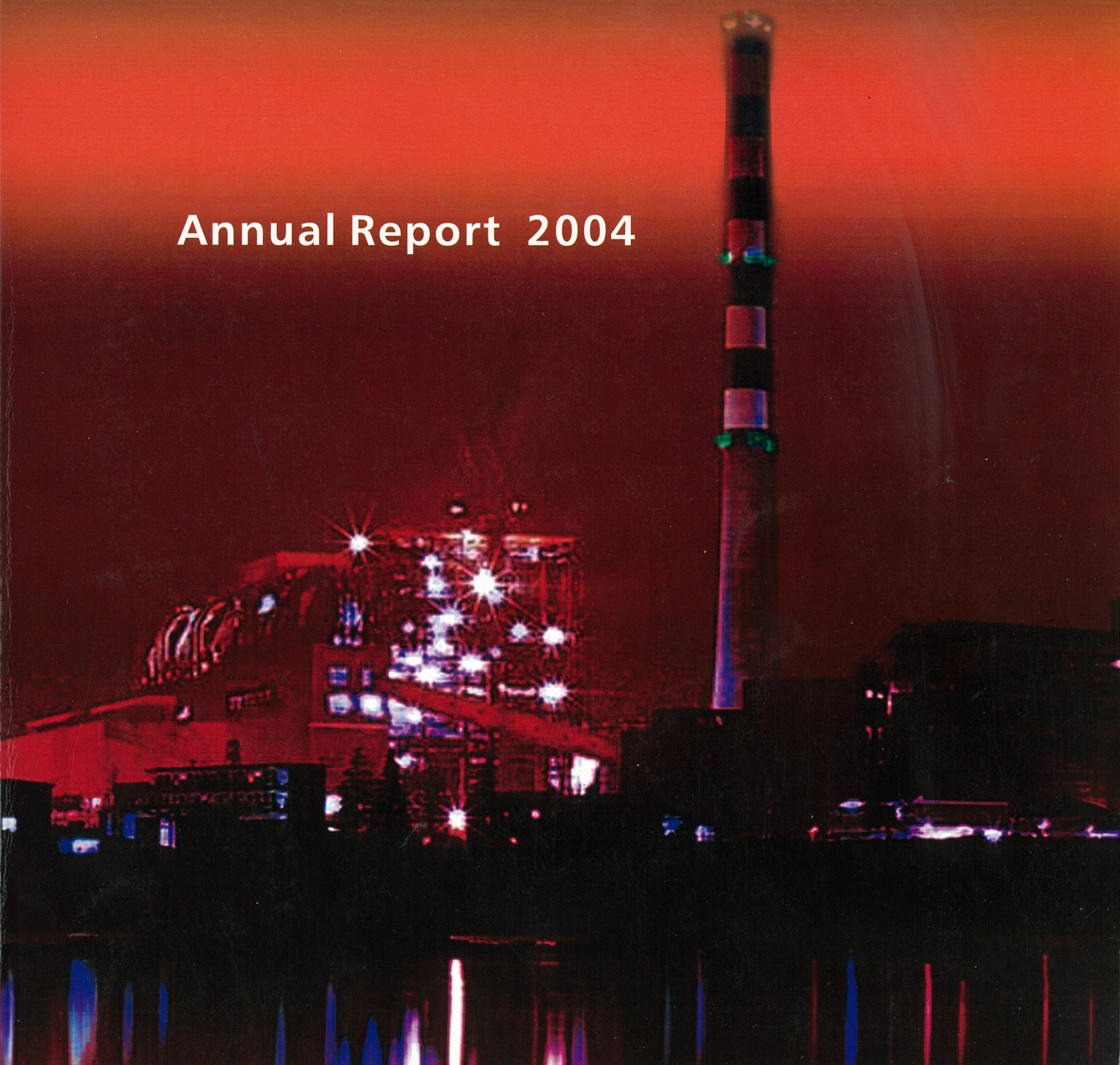


華潤電力控股有限公司

China Resources Power Holdings Company Limited

(incorporated in Hong Kong with limited liability under the Company Ordinance)

Annual Report 2004





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Incorporated in Hong Kong on 27 August 2001 with an authorised capital of HK\$10 billion, China Resources Power Holdings Company Limited (the "Company" or "CR Power") is a flagship subsidiary of China Resources (Holdings) Company Limited ("CRH"). The Company is engaged in the investment, development, operation and management of power plants. CR Power was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 November 2003 (Stock Code: 0836).

CR Power holds shares in the following power plants and companies: China Resources (Xuzhou) Electric Power Co., Ltd., Hebei Harv Power Generation Co., Ltd., Zhejiang Wenzhou Telluride Power Generating Co., Ltd., Guangdong Guanghope Power Co., Ltd., China Resources Power Hunan Liyujiang Co., Ltd., China Resources Power (Changshu) Co., Ltd., Puqi Site Power Generating Co., Ltd., China Resources (Dengfeng Henan) Electric Power Development Co., Ltd., China Resources (Luoyang) Thermal Power Co., Ltd., China Resources (Jiaozuo) Thermal Power Co., Ltd., Tangshan China Resources Thermal Power Co., Ltd. and Huaneng International Power Development Corporation. As at 31 December 2003, the attributable installed capacity of CR Power (including power plants in commercial operation and under construction) is 4,438MW, of which 1,545MW is in commercial operation.

CRH, the parent company of CR Power, is one of the most diversified conglomerates in Mainland China and Hong Kong. CRH is principally engaged in the businesses of real estate, foodstuff, brewery, petrochemicals, retail, textile, cement, power generation and micro-electronics, and has strategic investments in telecommunications and infrastructures. CRH has six subsidiaries listed in Hong Kong, China Resources Enterprise, Limited (Stock Code: 291), China Resources Land Limited (Stock Code: 1109), China Resources Logic Limited (Stock Code: 1193), China Resources Cement Holdings Limited (Stock Code: 712), CR Power (Stock Code: 836) and China Resources Peoples Telephone Company Limited (Stock Code: 331).

A. CORPORATE PHILOSOPHY

Our goal is to become one of the leading independent power generators in China. We endeavour to be a cost leader in the industry, to operate on the basis of extensive market-oriented principles, to achieve the best customer relationships and to maximise shareholder value.



We have been working towards such a goal since the first day of our establishment. During the past years, we have achieved rapid development which lays a solid foundation for our expansion in the future. Such success is attributable to not only our corporate culture, management system, business strategy and ability of execution, but also our credibility which has been established by the China Resources Group in the last sixty years.

We believe that a company without credibility can never last long. Credibility is one of our core beliefs in pursuing our goal and ensuring our growth. We strive to adhere to such principle in all our commercial activities, including corporate governance, business operations and social responsibilities.

We value our customers. We endeavor to satisfy our customers' needs and to maximise their value, which in turn will enable us to maximise our shareholders' value through a win-win relationship between our customers as our partners and us.

We treasure our talented personnel, respect individual differences and encourage creativity. All employees have equal opportunities and can grow up with our Company, where talented personnel can have the highest level of job satisfaction.

As a member of our community, we have been providing continuous services to the communities in our service areas to improve their economic and living environment, including construction of infrastructures, creating employment opportunities and dedicating ourselves to the growth of regional consumption and economy. Moreover, we strive to provide our community with safe, economical and stable electricity supply. Should there be a standard for electricity supply, then safety, stability and reliability will be the key components. Accordingly, the power plants we invested and operated must have the best safety records and be highly trusted by the power grids, our customers. This is the fundamental goal of quality for our investments in the power industry.

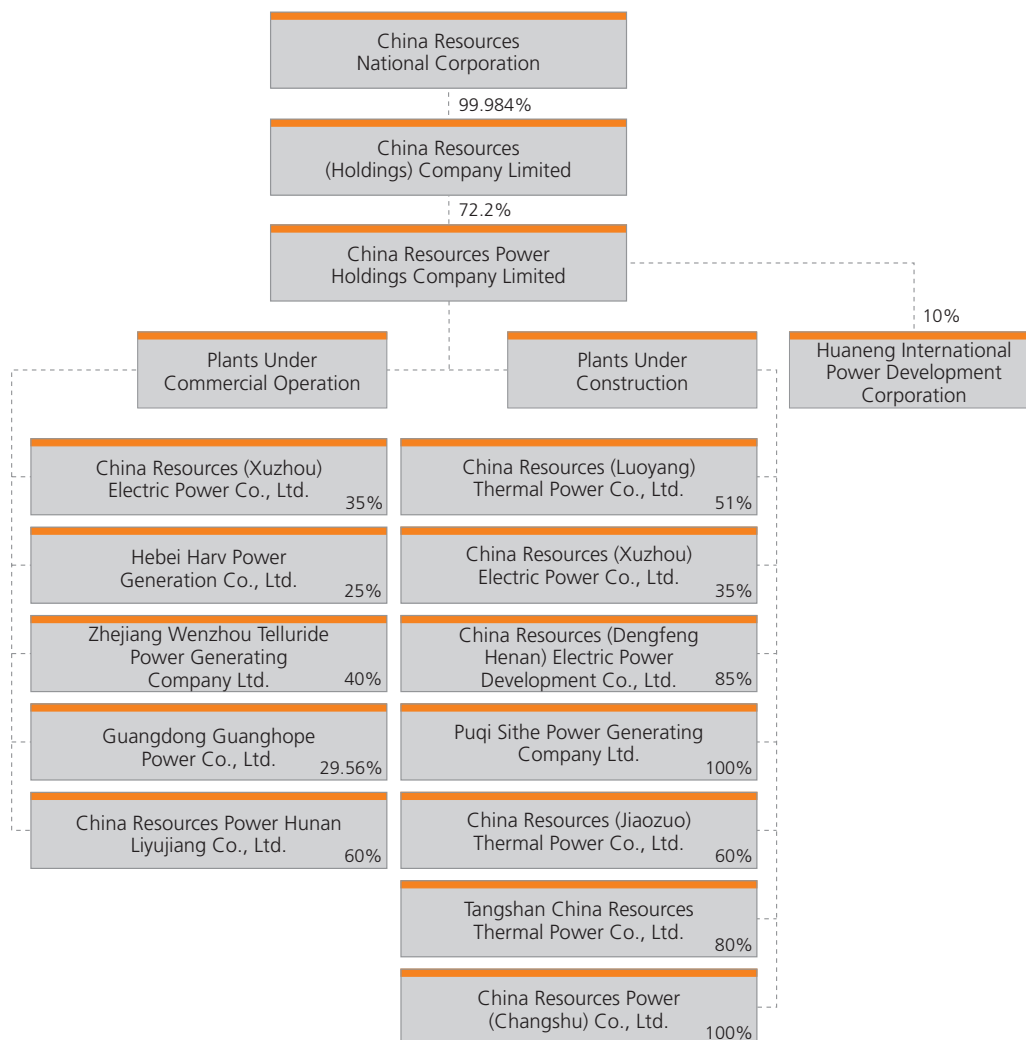
Our credibility is also reflected in our sense of environmental responsibilities. All projects we invested and operated have achieved or exceeded the prevailing environmental standards or requirements of the relevant law and regulations, and are in full compliance with the government policies on industry development and environmental protection. All our newly constructed power plants have installed desulphurisation units to reduce environmental pollution so that residents in our service areas can enjoy a clean and reliable power supply.

We endeavour to create and maximise shareholder value, respect shareholders' wills and are committed to shareholders' interests, thereby creating and maximising the wealth of our shareholders on an ongoing basis.



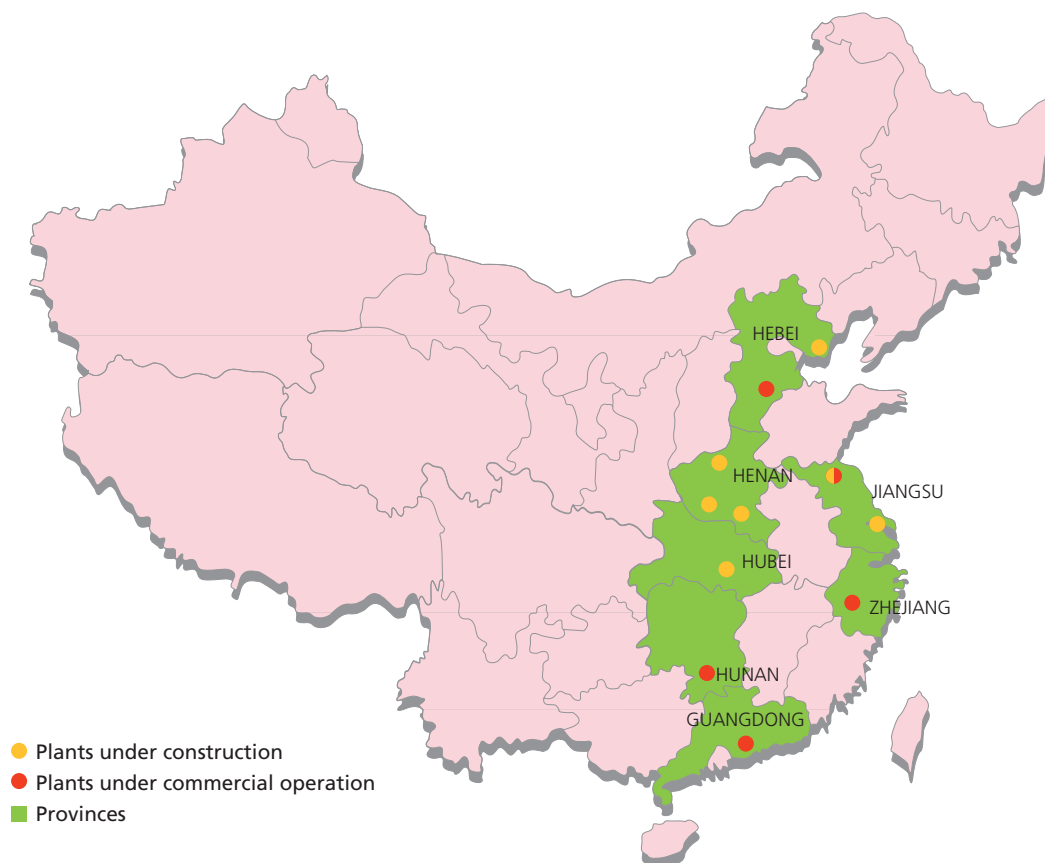
B. CORPORATE STRUCTURE

The corporate structure of CR Power and its subsidiaries, associates and jointly controlled entity as at 31 December 2003 is as follows:





C. LOCATION OF OUR POWER PLANTS





| | |
|--------------|---|
| 9 January | Two 600MW units of China Resources Power (Changshu) Co., Ltd. (“CR Changshu”) commenced construction. CR Changshu is 100% held by CR Power. |
| 10 February | China Resources (Luoyang) Thermal Power Co., Ltd. , (“CR Luoyang”) was incorporated in Luoyang, Henan Province. CR Luoyang is 51% held by CR Power. |
| 10 June | CR Power increased its interest in Zhejiang Wenzhou Telluride Power Generating Co., Ltd. to 40% through acquisition of a 2.4% equity interest from Oxbow Power Corporation. |
| 1 July | The first 300MW unit of China Resources Power Hunan Liyujiang Co., Ltd. (“CR Liyujiang”) commenced commercial operation. CR Liyujiang is 60% held by CR Power. |
| 10 September | CR Power acquired a 35% equity interest in China Resources (Xuzhou) Electric Power Co., Ltd. from its controlling shareholder, CRH. |
| 17 September | The second 300MW unit of CR Liyujiang commenced commercial operation. |
| 18 September | CR Power acquired additional 1.16% and 0.4% equity interests in Guangdong Guanghope Power Co., Ltd. (“GGPC”) from Bank of China Group Investment Limited and Nam Tung (Macau) Investment Ltd., respectively. |
| 30 September | Yunnan China Resources Power (Honghe) Co., Ltd. (“CR Yunpeng”) was incorporated in Honghe, Yunnan Province. CR Yunpeng is 65% held by CRH and is managed by CR Power on behalf of CRH. |
| 17 October | CR Power acquired a 10% equity interest in Huaneng International Power Development Corporation from CRH. |
| 20 October | Fuyang China Resources Power Co., Ltd. (“CR Fuyang”) was incorporated in Fuyang, Anhui Province. CR Fuyang is 55% held by CRH and is managed by CR Power on behalf of CRH. |
| 12 November | CR Power was listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 0836). |
| 10 December | China Resources (Jiaozuo) Thermal Power Co., Ltd. (“CR Jiaozuo”) was incorporated in Jiaozuo City, Henan Province. CR Jiaozuo is 60% held by CR Power. |
| 23 December | CR Power disposed a 5% equity interest in GGPC to China Hua Neng Group Hong Kong Limited. |

CORPORATE INFORMATION



| | |
|--|---|
| Chairman: | Song Lin |
| Vice Chairman and Chief Executive Officer: | Wang Shuai Ting |
| Executive Directors: | Shen Zhong Min Tang Cheng Zhang Shen Wen |
| Non- Executive Directors: | Ning Gao Ning Jiang Wei |
| Independent Non- Executive Directors: | Fong Ching, Eddy Anthony H. Adams Wu Jing Ru |
| Company Secretary: | Wang Xiao Bin |
| Auditors: | Deloitte Touche Tohmatsu |
| Legal Advisor: | Simmons & Simmons |
| Share Registrar: | Computershare Hong Kong Investor Services Limited Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| Registered Office: | Rooms 2001-2002, 20th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong |
| Company Website: | www.cr-power.com |



| | 2003 HK Cents | 2002 HK Cents |
|---------------------------|------------------|------------------|
| Earnings per share | | |
| Basic | 20.42 | 1.02 |
| Diluted | 20.41 | N/A |

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--------------------------|------------------|------------------|
| For the year | | |
| Turnover | 491,114 | — |
| Net profit | 589,460 | 28,108 |
| As at 31 December | | |
| Shareholders' equity | 8,944,653 | 99,582 |
| Total assets | 14,994,306 | 5,729,528 |
| Bank balances and cash | 3,735,146 | 101,635 |
| Borrowings | 4,288,160 | 1,215,407 |

| | 2003 | 2002 |
|----------------------------------|------|-------|
| Ratio | | |
| Current ratio (times) | 1.41 | 0.13 |
| Quick ratio (times) | 1.41 | 0.13 |
| Net debt to equity (%) | 6.20 | 29.60 |
| EBITDA interest coverage (times) | 7.88 | 1.24 |

| | 2003 MWh | 2002 MWh |
|--|-------------|-------------|
| Generation volume of operating power plants | | |
| Total gross generation | 26,814,278 | 23,575,572 |
| Total net generation | 25,255,953 | 22,177,111 |

FIVE-YEAR FINANCIAL SUMMARY



| | 2003 HK\$'000 | 2002 HK\$'000 | (Note) 2001 HK\$'000 | (Note) 2000 HK\$'000 | 1999 HK\$'000 |
|---|--------------------|------------------|----------------------------|----------------------------|------------------|
| Consolidated/combined income statement | | | | | |
| Turnover | 491,114 | — | — | — | N/A |
| Net profit/(loss) for the year | 589,460 | 28,108 | (2,215) | 16,608 | N/A |
| Consolidated/combined balance sheet | | | | | |
| Non-current assets | 10,933,449 | 5,578,583 | 359,703 | 32,705 | N/A |
| Current assets | 4,060,857 | 150,945 | 30,034 | — | N/A |
| Current liabilities | (2,878,814) | (1,128,936) | (323,994) | — | N/A |
| Non-current liabilities | (2,612,511) | (4,243,991) | — | — | N/A |
| Minority interests | (558,328) | (257,019) | 5,534 | — | N/A |
| Shareholders' fund | 8,944,653 | 99,582 | 71,277 | 32,705 | N/A |

Note: The Company was incorporated on 27 August 2001. The combined income statement for the year ended 31 December 2001 and 2000 and the combined balance sheet as at 31 December 2001 and 2000 were prepared on the combine basis and the combined financial information was extracted from the Company's prospectus dated 3 November 2003.



DEAR SHAREHOLDERS,

Our mission is to be a leading independent power generation company in the PRC. In order to achieve this objective, we will build on and exploit the accumulated experiences and established reputation in the power industry in the PRC, and use our best endeavours and dedicated efforts to maximise shareholder value under the guidance of the Board.

REVIEW OF 2003

The year 2003 represented a milestone in the history of our Company. Our shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 November and we became a public company. We shall follow the requirements and expectations of the international capital markets and build an enterprise with calibre that is fair, transparent and highly accountable to its shareholders.

We have placed considerable emphasis on shareholder value. Through continuous expansion of generation capacity in our target markets, we aim to enhance return to our shareholders through achieving a competitive edge in cost control and improvement in operation efficiency.

As a fast growing independent power generation company, we continued to develop and operate large coal-fired power plants in the more affluent regions or those regions in China with higher economic growth rates. Our installed generation capacity in operation and under construction was further expanded during the year. Attributable installed capacity amounted to 4,438MW in total. In the second half of 2003, Liyujiang Power Plant, with two 300MW coal-fire units, was added to our power plants in operation. A number of projects received government approval or commenced construction in 2003. These projects include Changshu Power Plant with two 600MW units, Xuzhou Power Plant Phase II with two 300MW units, Dengfeng Power Plant with two 300MW units, Jiaozuo Power Plant with two 135MW units and Tanghsan Power Plant with one 200MW unit.

We have implemented tight cost control measures over all projects under construction. Through competitive bidding, contractors of quality with competitive pricing were selected for all equipment purchases and engagement of almost all construction works. At the same time, we exercised direct control over the costs, schedule, quality and risks of the projects under construction, in order to achieve a competitive edge in cost control and a better position in market competitions in the future. In 2003, all of our projects under construction achieved their target construction schedules or were ahead of the target construction schedule for the year. As a result, the first generating unit of Luoyang Power Plant commenced commercial operation ahead of schedule in February 2004.

Most of our existing generating units are large scale (300MW or above) coal-fired generating units of high efficiency. Similar or same equipment configurations were selected for generating units of same capacity, which bring in synergistic benefits to our power plants and enabled us to share construction and management experience. We believe that all of these will enable us to be one of the leading independent power generation companies in China with high investment value.



Apart from implementing the strategies referred to above, we will also use our best endeavours to improve our corporate governance in order to improve transparency. We constituted a new Board in 2003, which comprises five executive directors, two non-executive directors and three independent non-executive directors. Audit Committee, Nomination Committee, Remuneration Committee and Strategy and Development Committee were established under the Board. In order to ensure the independence of these committees, at least two thirds of members for these committees (except the Strategy and Development Committee) comprise independent non-executive directors.

While improving our corporate governance policies in accordance with international best practices, we are also establishing various forms of communication channels to improve the transparency of our Company including issuance of press releases proactively and timely so as to inform investors of our latest development and provide them with the latest information of our Company. Through investor relations activities, such as international roadshows, conferences, company interviews and power plant site visits, we hope to present up-to-date information on our operation and development to investors, fund managers and analysts obtain their feedback and input on the Company's operation and management and on our corporate governance.

We have adopted share option schemes for the Company's management, project managers as well as key employees, in particular the managers and core staff of the project companies. We believe that this incentive system will enhance our staff's accountability, tie the management and employees' return with that of the shareholders and motivate them to create value for shareholders.

OUTLOOK FOR 2004

In 2004, we will continue to benefit from the rapid growth of demand for electricity in the PRC. It is expected that power consumption in the PRC will grow at a rate of approximately 12% in 2004. This will in turn provide a sound operating environment for our power plants in operation. In addition, our total operational generation capacity will increase rapidly upon the commencement of operation of most of the generation units under construction. It is envisaged that we will migrate to a new platform in 2004.

In 2004, we will continue to pursue investment opportunities in the construction or strategic acquisition of new power plants in the more affluent regions or those regions in China with higher economic growth rates, so as to increase our installed generation capacity and market share and enhance our competitiveness in the target markets.

In 2004, we will continue to improve our internal management system and process flow. This in turn will further enforce the implementation of value creation management philosophy. We will strive to reduce costs and achieve attractive return and growth in earnings for our shareholders. We will also expand the scale of and investment in the training for our staff so as to build up a pool of talent for the rapid development of our Company in future.



APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to the staff for their dedicated work in the development of our Company. We are a rapidly growing company. Each staff has been assigned with considerable responsibilities. We believe that a professional team with scrupulous and cooperative spirit is the most valuable asset to the Company, and is essential to the development of core competitiveness for our Company.

I would also like to express my appreciation to the fellow members of the Board and the senior officers of our Company. Without their devotion, our Company's strategies would not have been implemented as effective as such now.

Song Lin

Chairman

Hong Kong, 29 March 2004



I am pleased to report that our targets for 2003 have been fully achieved and the operating results have exceeded our expectations.

NET PROFIT GREW ROBUSTLY BY 1,997.1%

For the year ended 31 December 2003, our Group realised a net profit of HK\$589.5 million, which increased by 1,997.1% and 90.1% respectively when compared with net profit of 2002 and forecast net profit for 2003. Growth in our Group's earnings was mainly attributable to the increase in the installed generation capacity of our Group for the year 2003 and strong demand for electricity in the PRC. In June 2003, the interest held by our Company in Wenzhou Telluride increased from 37.6% to 40%. In September and October 2003, we acquired 35% and 10% equity interest in Xuzhou Power Plant and Huaneng International Power Development Corporation, respectively from China Resources (Holdings) Company Limited, which in turn increased our attributable installed generation capacity. In July and September 2003, two 300MW coal-fired units under CR Liyujiang, our subsidiary, commenced commercial operations, and further increased the attributable installed generation capacity of the Group by 360MW.

NET GENERATION OF FIVE OPERATIONAL POWER PLANTS INCREASED BY 13.9%

In 2003, our five operational power plants were all operating safely and steadily and achieved gross generation of 26,814,278 MWh, representing an increase by 13.7% when compared with 2002. Total electricity sold was 25,255,953 MWh, representing an increase by 13.9% when compared with 2002. Growth in net generation exceeded growth in gross generation, reflecting further improvement in utilisation efficiency.

In 2003, gross utilisation hours for Shajiao C Power Plant reached 6,566 hours, an increase of 4.65% from that in 2002, whilst total electricity sold increased 4.87% more than 2002. The utilisation hours for Xuzhou Power Plant reached 6,044 hours, an increase of 11.41% from that in 2002, whilst total electricity sold increased 11.66% more than 2002. The utilisation hours for Wenzhou Power Plant reached 7,481 hours, an increase of 12.82% from 2002, whilst total electricity sold increased 12.63% more than 2002. The gross utilisation hours for Hengfeng Power Plant decreased by 2.78% in 2003 as a result of planned overhaul for one of its generation units, however total electricity sold only fell by 2.54%. Liyujiang Power Plant commenced commercial operations this year with gross utilisation hours reached 3,148 hours. The above data illustrated that our various power plants have the sense of responsibilities and capabilities to create value for shareholders while under a sound business environment. On the other hand, these data also illustrated the quality and efficiency in the operation and management of our power plants.

PROJECTS UNDER CONSTRUCTION HAVE MET TARGET SCHEDULE

The construction of Changshu Power Plant, Xuzhou Power Plant Phase II, Luoyang Power Plant, Tangshan Power Plant and Jiaozuo Power Plant commenced at different times during 2003. Total number of projects under construction increased to seven.



During the year 2003, we consistently applied our philosophy of "Construction is the first phase of operation" in the management of the construction of our power plants. Following the principles of being "economical", "practical", "safe" and "reliable", we aimed to achieve the best quality and the shortest construction schedule at the lowest cost in the construction of power plants. The actual construction cost and construction time period of Liyujiang Power Plant, which was completed in 2003, achieved a leading position in the PRC power industry. The first generation unit of CR Luoyang which commenced operation in February 2004 ahead of schedule also achieved a project cost which is one of the lowest in the industry within the PRC.

By the end of 2003, our projects under construction all proceeded as planned. All construction plans in 2003 were fully achieved in accordance with the project outline and projects under construction will commence commercial operations in accordance with the schedule as planned.

PIPELINE PROJECTS WITH INVESTMENT VALUE IN OUR TARGET MARKETS

In 2003, our project development team continued to identify power generation projects with investment potential in the more affluent regions and regions with high economic growth rates in the PRC, including Eastern China, Southern China and the Beijing-Tianjin-Tangshan area. During the year, we entered into a number of letters of intent with our partners or local governments in the PRC. These projects were mainly located in regions with sound market conditions such as Guangdong, Zhejiang and Jiangsu Provinces. Subject to meeting our requirement on minimum investment return and the approval of the PRC government, we expect these projects will become a source for high growth in the future.

WE WILL CONTINUE TO CAPITALISE ON THE ROBUST DEMAND FOR ELECTRICITY AND USE OUR BEST ENDEAVOURS TO REDUCE COSTS AND ENHANCE EFFICIENCY IN 2004. AT THE SAME TIME, WE WILL PURSUE ATTRACTIVE INVESTMENT OPPORTUNITIES AND CREATE MORE VALUE FOR THE SHAREHOLDERS

In 2003, total generation capacity and electricity consumption in the PRC increased by more than 15%. Nineteen provinces in the PRC had to endure power supply restrictions. Demand for electricity in our service areas increased significantly, of which Zhejiang, Jiangsu, Guangdong, Hunan and Henan Provinces increased by 22.2%, 20.8%, 19.8%, 15.2 and 13.5%, respectively. We expect electricity supply in the PRC will still fall short of demand in the coming three years. Growth in consumption of electricity in the PRC is currently expected to be 12% in 2004. As the supply of electricity will continue to fall short of demand, the power restriction period may increase. For the year 2005, we still forecast power supply to fall short of demand in the PRC. For the year 2006, the shortage in power supply may be mitigated however we currently expect our generating units to be able to maintain reasonably high utilisation hours. We will capitalise on the sound external environment to pursue high return for our shareholders and to establish CR Power as one of the independent power generation companies in the PRC with high investment potential. Our strategies are as follows:

- Full implementation of value creation management philosophy. Through the establishment of a benchmarking system, benchmarks shall be established based on the leading standards in the industry. These indicators in turn will become our targets. We aim to achieve our set targets phase by phase.



- To ensure ten generation units under construction to commence operation as scheduled or ahead of the target schedule. In 2004, CR Power will have six power plants with a total of ten generation units to commence commercial operation with a total generation capacity of 2,235MW and attributable installed generation capacity of 1,612MW. We will ensure that these generation units will commence commercial operation in accordance with the pre-determined schedule. This will not only shorten the construction time, lower our construction costs and generate commercial benefits sooner, but also to enable these generation units to capitalise on the demand for electricity in the markets and obtain higher utilisation hours and on-grid tariffs at the commencement of commercial operations.
- To ensure eleven units under operation to generate and sell more electricity, so as to benefit from market demand. In order to achieve this objective, we will first ensure that these generation units are operating in a safe and steady manner, and are capable of satisfying the maximum demand from the market. At the same time, we will stay customer-oriented and strengthen our sales and marketing efforts so as to pursue for higher utilisation hours by leveraging on the robust requirements in the market.
- To promote a corporate culture which focuses on results and to establish and implement a corporate value which centres on value creation. We will encourage all employees to use best endeavours and motivate them by rewarding in accordance with results and provide a working environment with both challenges and satisfaction. We will incorporate the concept of economic value added (EVA) into the appraisal system for the management of the power plants, and to formulate and implement an incentive scheme based on EVA, for the purpose of tying the return of the management with the profitability of the Group and maximise value for our shareholders.
- To optimise our organisation structure and keep it as efficient as possible so to foster a strong capability of execution. Excessive hierarchies, as well as all bureaucratic structure and behaviours, will be removed. Rationalisation and optimisation of organisation structure and process flow will be conducted on an ongoing basis so as to promote co-operation and co-ordinations among employees and to encourage resources and information sharing. Meanwhile, most outstanding and capable talents will be assigned to work at the power plant so as to assume ever greater challenges and responsibilities and enjoy strong sense of job satisfaction. This will enable the Group to implement its strategies in an effective manner.

2004 will be the first full financial year of CR Power after its listing. We will continue to optimise our management, expand our business and consolidate our edge in cost control in the power industry in the PRC in accordance with the requirements of capital markets. We are confident that we will achieve results to the satisfaction of our shareholders.

Wang Shuai Ting

Chief Executive Officer

Hong Kong, 29 March 2004



Front row from the left: Song Lin, Wang Shuai Ting
Back row from the left: Tang Cheng, Shen Zhong Min, Zhang Shen Wen

EXECUTIVE DIRECTORS

MR. SONG LIN

Mr. Song Lin was appointed chairman of the Board and an executive director of our Company in August 2003. Mr. Song is also an executive director and vice president of China Resources (Holdings) Company Limited and China Resources National Corporation, director of China Resources Co., Limited,

vice chairman and managing director of China Resources Enterprise, Limited and chairman of China Resources Logic Limited. He has extensive experience in the electricity industry in China. He was involved in the overall project development in various parts of the PRC, including specifically the development of Changshu Power Plant, Shouyang Shan Power Plant and Liyujiang Power Plant. Mr. Song also has extensive experience in corporate investment, development, merger and acquisitions. Mr. Song holds a Bachelor's degree in Mechanics from the University of Tong Ji in Shanghai.

MR. WANG SHUAI TING

Mr. Wang Shuai Ting was appointed an executive director of our Company in August 2003. Mr. Wang is the Vice Chairman and Chief Executive Officer of our Company. Mr. Wang has extensive experience in the electricity industry in the PRC. He served as the general manager of China Resources (Xuzhou) Electric Power Co., Ltd. ("CR Xuzhou") from 1994 to 2001 and was in charge of the construction and operation of our Xuzhou Power Plant during that time. Prior to joining CR Xuzhou, Mr. Wang worked for the general office of the Government of Jiangsu Province from June 1985 to March 1987 and was subsequently the head of the Industrial Office of Xuzhou City Government. He was also the deputy secretary-general of the Government of Xuzhou City. Mr. Wang holds an EMBA Master's degree in business administration from China Europe International Business School.

MR. SHEN ZHONG MIN

Mr. Shen Zhong Min was appointed an executive director and Deputy General Manager of our Company in August 2003. Mr. Shen is the Chief Operating Officer of our Company. Mr. Shen has been the general manager of Zhejiang Wenzhou Telluride Power Generating Co., Ltd. since November 1998. Prior to joining our Company, Mr. Shen was a Senior Vice President of Sithe Asia Holdings Limited. From 1999 to 2002, Mr. Shen was the Director and General Manager of Sithe China Holdings Limited ("Sithe China"). From 1997 to 1999, Mr. Shen was the Vice President for business development at Sithe China. Mr. Shen was a manager responsible for business development at Wheelabrator Technologies, Inc. Mr. Shen also conducted energy research and project development for Oak Ridge National Laboratory and Energy, Environment and Resources Center of University of Tennessee. Mr. Shen holds Bachelor of Science and Master of Law degrees from Beijing University and a Master of Arts degree in Economics from the University of Tennessee.



MR. TANG CHENG

Mr. Tang Cheng was appointed an executive director and Deputy General Manager of our Company in August 2003. Mr. Tang has been the general manager of China Resources Power (Changshu) Co., Ltd. since November 2002 and was the general manager of China Resources (Xuzhou) Electric Power Co., Ltd. from July 2001 to October 2002. Mr. Tang has considerable experience in the management and operation of power plants. Mr. Tang holds an EMBA Master's degree in business administration from China Europe International Business School.

MR. ZHANG SHEN WEN

Mr. Zhang Shen Wen was appointed an executive director and Deputy General Manager of our Company in August 2003. Mr. Zhang has considerable experience in the development of power plants. He was the general manager of Finance and Accounting Department of our Company from July 2001 to September 2003 and was involved in the development of Liyujiang Power Plant and in the acquisition of Shajiao C Power Plant and Wenzhou Power Plant. Mr. Zhang joined China Resources National Corporation in 1994 and worked at Hebei Harv Power Generation Co., Ltd. between 1998 and 1999. Mr. Zhang holds a Bachelor of Science degree in electrical automation from the North China University of Technology in China and a Bachelor's degree of Economics from the University of International Business and Economics in Beijing. He also holds a Master's degree in Business Administration from the University of San Francisco.

NON-EXECUTIVE DIRECTORS

MR. NING GAO NING

Mr. Ning Gao Ning was appointed a non-executive director of our Company in August 2003. Mr. Ning is the vice chairman and president of China Resources (Holdings) Company Limited and president of China Resources National Corporation. He is also chairman of China Resources Enterprise, Limited, China Resources Land Limited and China Resources Peoples Telephone Company Limited, and a director of China Resources Co., Limited, China Resources Logic Limited, Hong Kong Building and Loan Agency Limited, Lippo China Resources Limited and HIT Investments Limited. Mr. Ning holds a Bachelor of Arts degree in Economics from Shandong University in China and a Master's degree in Business Administration from the University of Pittsburgh in the United States.

MR. JIANG WEI

Mr. Jiang Wei was appointed a non-executive director of our Company in August 2003. Mr. Jiang is a director of China Assets (Holdings) Limited, China Resources Cement Holdings Limited, China Resources Enterprise, Limited and China Resources Peoples Telephone Company Limited. He is also a director and Chief Financial Officer of China Resources (Holdings) Company Limited ("CRH"), and general manager of the Finance Department of CRH. Mr. Jiang holds a Bachelor's degree in international trade and a Master's degree in International Business and Finance from the University of International Business and Economics in China.



INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. FONG CHING, EDDY

Mr. Fong Ching, Eddy was appointed an independent non-executive director of our Company in 2003. Mr. Fong is a certified public accountant and was formerly a partner of international accounting firm PricewaterhouseCoopers. He is a non-executive director of Mandatory Provident Fund Schemes Authority, a member of Advisory Committee of Securities and Futures Commission and a director of Hong Kong Applied Science and Technology Research Institute Company Limited. He graduated from University of Kent in the United Kingdom and was also conferred an Honorary Doctor of Civil Law in 1997.

MR. ANTHONY H. ADAMS

Mr. Anthony H. Adams was appointed an independent non-executive director in 2003. He is an executive director with Emerging Markets Partnership ("EMP"), which is the principal advisor to the AIG Infrastructure Funds, a set of private equity funds targeted at infrastructure and infrastructure-related opportunities in Asia, Latin America, emerging Europe and Africa. Mr. Adams oversees EMP's greater China operations. On behalf of the US\$1.01 billion AIG Asian Infrastructure Fund L.P. and the US\$1.67 billion AIG Asian Infrastructure Fund II L.P., he sits on the board of various portfolio companies, with a particular emphasis on the energy and transportation sectors. Prior to joining EMP, Mr. Adams was a project development manager at Bechtel Enterprises, the direct investment and development arm of the Bechtel Group, at which, he participated in numerous energy and other infrastructure projects throughout Asia Pacific. Mr. Adams holds a Bachelor of Arts degree from the University of Vermont (Phi Beta Kappa) and a Master's degree in business administration from Harvard Business School.

MR. WU JING RU

Mr. Wu Jing Ru was appointed an independent non-executive director in August 2003. Mr. Wu was formerly Deputy General Manager of the State Energy Investment Corporation in the PRC, the Head of the Loans Department at the State Development Bank of China as well as an expert member and senior counsel in its loans valuation committee. He is also a member of the Three Gorges Project Inspection Committee under the State Council. Mr. Wu spent nearly 18 years of his professional career in the Hydro Power Ministry, where he served in various positions, including Deputy section-in-chief, deputy director and director of the Planning Department, Chief of System Team of the General Office of Planning Leadership Group and deputy chief of Design Team of the General Power Construction Bureau. Mr. Wu graduated from the Power Department at the Shanghai Jiao Tong University.



SENIOR MANAGEMENT



Front row from the left: Shen Zhong Min, Song Lin, Wang Xiao Bin, Wang Shuai Ting, Tang Cheng, Jia Xi
Back row from the left: Li She Tang, Chen Jian, Ding Qi, Zhang Shen Wen, Dou Jian

MS. WANG XIAO BIN

Ms. Wang Xiao Bin joined our Company and was appointed Chief Financial Officer in July 2003. Prior to joining our Company, Ms. Wang was a director of corporate finance of ING Investment Banking, responsible for execution of capital markets and merger and acquisition transactions in the Asia Pacific region. She worked for PriceWaterhouse in Australia in the audit and business advisory division for five years before joining ING Barings in March 1995. Ms. Wang is a member of the Institute of Chartered Accountants in Australia, the Australian Society of Certified Practising Accountants and the Securities Institute of Australia. Ms. Wang holds a graduate diploma in applied finance and investment from the Securities Institute of Australia and a Bachelor's degree in commerce from Murdoch University in Australia.

MR. LI SHE TANG

Mr. Li She Tang was appointed Chief Technical Officer of our Company in September 2003. Mr. Li has over 19 years of experience in the electricity industry in China. Mr. Li worked as the general manager of China Resources (Dengfeng Henan) Electric Power Development Co., Ltd. from September 2002 to December 2003. Mr. Li was Deputy General Manager and General Manager of Puqi Sithe Power Generating Company Ltd. from 2000 to 2002 and senior advisor of Sithe China Holdings Limited from 1999 to 2002. Mr. Li commenced his career in the electricity industry in 1984 in the Power Planning and Engineering Institute of the then Ministry of Electricity. Mr. Li is a senior engineer and holds a Bachelor's degree in Engineering, majoring in power plant thermal engineering from Xi'an Jiaotong University of China.

MR. CHEN JIAN

Mr. Chen Jian joined our Company in 2003 and has been the general manager of our Operation Management Department since January 2003. Prior to joining our Company, Mr. Chen held senior managerial positions in various thermal power plants in Henan Province. Mr. Chen is a senior engineer and has over 23 years of experience in the electricity industry in China. Mr. Chen studied industrial electrical automation in the Open University of Henan and holds a Master's degree in science and technology management.

MR. DING QI

Mr. Ding Qi joined our Company in 2001 and has been the general manager of the Human Resources and Administration Department since November 2001. Prior to joining our Company, he was a departmental manager of China Resources Development and Investment Co., Ltd. from 1998 to 1999. Mr. Ding holds a Bachelor's degree in wireless communications from the Nanjing Communications Engineering Institute.



MR. JIA XI

Mr. Jia Xi joined our Company in 2002 and has been the general manager of the Business Development Department since March 2002. Mr. Jia has over 18 years of experience in the electricity industry in China. Prior to joining our Company, Mr. Jia was deputy manager of marketing department of Henan Provincial Power Company. Mr. Jia also held various managerial positions in power plants and Power Bureau in Henan Province. Mr. Jia holds a Master's degree in Business Administration from Xi'an Jiaotong University in China.

MR. DU HUA DONG

Mr. Du Hua Dong has been the general manager of Puqi Sithe Power Generating Company Ltd. since July 2002. Mr. Du has almost 10 years of experience in the electricity industry in China. He joined China Resources (Xuzhou) Electric Power Co., Ltd. as an assistant general manager in 1994, and later became the general manager of Huaibei Guo An Electricity Co., Ltd. Mr. Du holds a diploma from Xuzhou Economic and Technology Management Institute.

MR. LIU FAN SHUN

Mr. Liu Fan Shun has been the general manager of China Resources Power Hunan Liyujiang Co., Ltd. ("CR Liyujiang") since September 2001. He commenced his career in the PRC electricity industry in 1982 and has over 21 years of experience in the electricity industry in China. Prior to joining CR Liyujiang, Mr. Liu held various managerial positions in several power plants in Hunan Province. Mr. Liu is a senior engineer and holds a Master's degree in Economics from Hunan University.

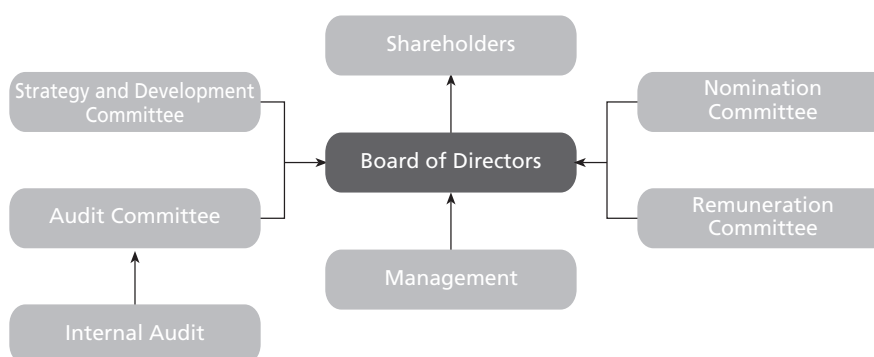


OVERVIEW

Corporate governance refers to the processes and structure by which the business and affairs of the Company are directed and managed, in order to enhance long-term shareholder value through enhancing corporate performance and accountability.

Our Company believes in having high standards of corporate governance, and is committed to making sure that effective managerial and self-regulatory controls exist to protect shareholders' interests and maximise long-term shareholder value.

CORPORATE GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

ROLE AND RESPONSIBILITIES

The Board of Directors (the "Board") represents shareholders in managing the Company's affairs. The Board is responsible for the Company's system of corporate governance, and is ultimately accountable for the Company's activities, strategies and financial performance.

The Board's stewardship responsibility for the Company includes, among others, the following:

- Reviewing and approving corporate strategies, budgets and financial plans;
- Overseeing and monitoring organisational performance and achievement of the Company's strategic goals and objectives;
- Monitoring financial performance including approval of the annual and interim financial reports;
- Ensuring the significant risks facing the Company and its controlled entities have been identified and appropriate, and adequate control, monitoring and reporting mechanisms are in place;
- Reporting to shareholders and establishing a communication policy;
- Reviewing the integrity and adequacy of the Company's internal controls and management information systems as well as ensuring compliance with laws, regulations and the company's internal code of conduct; and
- Appointing, training and mentoring senior management, as well as determining and reviewing compensation levels.



BOARD OF DIRECTORS (CONT'D)

ROLE AND RESPONSIBILITIES (CONT'D)

The Board will meet regularly on a quarterly basis and as warranted. The Company's internal guidelines require the following matters to be approved by the Board:

- The approval of the interim and final results of the Company, including the relevant financial statements;
- Related party transactions and any matters which involve a potential conflict of interests with a substantial shareholder or a Director;
- Review of governance practices; and
- New investment or increase in investments in businesses or power plant assets, and any divestments or sales of businesses or power plant assets by the Company, any of its subsidiaries or associated companies.

BOARD COMPOSITION

Each Board member has equal responsibility to oversee the business and affairs of the Company.

Members shall act in the best interests of the Company and exercise diligence in the performance of their duties, avoid actual or potential conflict of interests and be accountable to all shareholders.

The Board shall exercise objective judgment on corporate affairs independent of the management. To ensure objectivity, the Board will retain at least one third independent non-executive directors.

Currently, there are 10 directors, five of whom are executive directors, two are non-executive directors and three are independent non-executive directors. The nature of the Directors' appointments on the Board and details of their membership of the Board Committees are set out below:

| Name of Director | Board Role | Committee Membership | | | |
|------------------|--------------------|--------------------------|-------|------------|--------------|
| | | Strategy and Development | Audit | Nomination | Remuneration |
| Song Lin | Executive Chairman | | | | √ |
| Wang Shuai Ting | E | √ | | √ | |
| Shen Zhong Min | E | √ | | | |
| Tang Cheng | E | √ | | | |
| Zhang Shen Wen | E | √ | | | |
| Ning Gao Ning | Non-E | | | | |
| Jiang Wei | Non-E | | | | |
| Fong Ching, Eddy | ID | | √ | | √ |
| Anthony H. Adams | ID | | √ | √ | √ |
| Wu Jing Ru | ID | √ | √ | √ | |

Note:

E: executive Directors

Non-E: non-executive Directors

ID: independent non-executive Directors

The Board is headed by the Chairman who is responsible for running the Board, and supported by the Chief Executive Officer who has primary responsibility of running the Company's business.

Biographical details of the Directors are disclosed on page 17 to page 19 in this Annual Report.



BOARD OF DIRECTORS (CONT'D)

BOARD COMMITTEES

The Board has established the following committees with specific terms of reference:

Audit Committee

In compliance with the Code of Best Practice stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. ("Listing Rules") and guidelines, the Company has established an Audit Committee on 6 October 2003. It is entirely composed of independent non-executive Directors. The committee is to meet four times a year. Currently, the Audit Committee comprises three Directors, namely Fong Ching, Eddy as Chairman, and Messers Anthony H. Adams and Wu Jing Ru as members.

The Audit Committee is authorised by the Board to:

- (a) investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employees and all employees are required to co-operate with any request made by the Committee; and
- (b) obtain independent legal or other professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The responsibilities of the Committee are as follows:

- (a) External audit function
 - To consider the appointment of the external auditors, the audit fee, and any questions of resignation and dismissal;
 - To monitor and assess the performance and independence of the external auditors;
 - To review the external auditors' results of auditing and the management's response;
 - To discuss problems and reservations arising from the external auditors, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (b) Internal audit function
 - To review the internal audit programme and the performance of the internal audit functions;
 - To ensure co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and maintains its independency;
 - To consider the major findings of internal investigations and management's response;



BOARD OF DIRECTORS (CONT'D)

Audit Committee (CONT'D)

- (c) Review of audited financial statements
- To review draft audited statutory or other financial statements before submission to the Board, focusing on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with internal policies, accounting standards and legal requirements.
- (d) To maintain an oversight of the reporting system and internal control procedures.

Nomination Committee

The Nomination Committee was established on 6 October 2003. It is mainly composed of independent non-executive Directors. Currently, the Nomination Committee comprises three Directors, namely Wang Shuai Ting as Chairman, and Messers Anthony H. Adams and Wu Jing Ru as members.

The main role of the Committee is to make sure the process of appointments and reappointments of the Board members are transparent and to assess effectiveness of the Board as a whole and the contribution of individual Directors to the effectiveness of the Board.

The responsibilities of the Nomination Committee are as follows:

- To recommend appointment or reappointment of Directors (having regard to their performance and contribution);
- To review and monitor the size and composition of the Board, with particular regard to ensuring at least one third of the Directors on the Board being independent of management; and
- To evaluate the performance of Directors and determine if they should be re-appointed.

Remuneration Committee

The Remuneration Committee was formed on 6 October 2003 to facilitate appropriateness, transparency and accountability to shareholders on issues of the remuneration of the Directors and senior managers of the Company. The Remuneration Committee currently comprises three Directors, namely Song Lin as Chairman, and Messers Fong Ching, Eddy and Anthony H. Adams as members.

The main role of the Remuneration Committee is to motivate and retain executives and ensure that the Company is able to attract the best talents in the market in order to maximise shareholder value. Pay levels for Directors and senior management should be set with reference to the benchmarks of the market.



BOARD OF DIRECTORS (CONT'D)

Remuneration Committee (CONT'D)

The responsibilities of the Remuneration Committee are as follows:

- To determine specific remuneration packages for each executive Director, including terms of their services contracts;
- To determine a list of Directors to be reviewed by the Committee on an annual basis and develop a proper communication channel for the Board;
- To review the terms, conditions and remuneration of the senior managers of the Company; and
- To produce an annual remuneration committee report and ensure proper disclosure of compensation details in annual reports in compliance with the provisions in the relevant accounting regulations and the Listing Rules.

To enable the Remuneration Committee to carry out its duties, the Committee has access to expert advice in the field of executive compensation where necessary.

Strategy and Development Committee

The Strategy and Development Committee was established in March 2004. It is composed of executive as well as independent non-executive Directors. Currently, the Strategy and Development Committee comprises Wang Shuai Ting as Chairman, and Messers Wu Jing Ru, Shen Zhong Min, Tang Cheng and Zhang Shen Wen as members.

The main role of the Committee is to make recommendations to the Board regarding the development and implementation of the Company's long-term strategic planning efforts.

The responsibilities of the Strategy and Development Committee are as follows:

- To monitor the development of government policies and strategic directions in the power and related industries in the PRC; and
- To study and examine the strategic direction of the Group, and express an opinion and make a recommendation to the Board on major investments including acquisition or divestment opportunities.

The Committee has access to independent expert advice where necessary.

INTERNAL AUDITORS

The Company has an internal audit function that is independent of the activities it audits. The internal auditors report to the Chairman of the Audit Committee and administratively to the Chief Executive Officer. The internal auditors have unrestricted access to and review of all aspects of the Group's activities and internal controls.

The responsibilities of the Internal Auditors include the following:

- To review adequacy and effectiveness of internal systems and controls;
- To check compliance with the Company's policies and procedures, appropriate laws and good business practices; and
- To ensure economical and efficient use of the Company's resources.



EXTERNAL AUDITORS

The appointment of external auditors for the Company shall be approved by shareholders in the annual general meeting. In order to maintain the independence of the Group's external auditors, the external auditors will not be engaged for non-audit work unless this has been pre-approved by the Audit Committee.

INTERNAL CONTROL

It is the responsibility of the Board to establish adequate and appropriate internal control and risk management systems for the Company and exercise timely reviews to ensure their effectiveness and efficiency. The objective of internal control is to safeguard the Company's assets and ensure its accounting records are properly maintained, so that all the financial information is accurate and reliable.

The Company will maintain a clear organisational structure including appropriate segregation of duties and reporting systems. The Internal Auditors are responsible for the review of the Company's internal control system, operational efficiency and compliance with laid down policies on a regular basis, ensuring the existence of a complete internal control system in all business units.

COMPLIANCE WITH RULES AND REGULATIONS

The Board and management have responsibilities to ensure strict compliance with the applicable rules and regulations. The Directors are required to act honestly and in a bona fide manner and in the best interests for the Company at all times and in so doing, they shall exercise reasonable skill and diligence based on their experience in the performance of their duties.

The Listing Rules require Directors to apply the necessary skills, diligence and care in the performance of their duties, in particular:

- To act honestly and in good faith in the interests of the Company as a whole;
- To act for proper purposes;
- To be responsible for the application or misapplication of the Company's assets;
- To avoid actual and potential conflicts of interest and duty;
- To make full and fair disclosures of his interests in contracts with the Company; and
- To apply reasonable skill, care and diligence as may be expected of a person of his knowledge and experience and holding his directorship within the Company.

COMMUNICATION WITH SHAREHOLDERS

The Company believes that all shareholders should be treated equitably and fairly.

The Company aims to engage in regular, effective and fair communication with shareholders. The Company's top management takes an active role in investor relations, meeting local and foreign fund managers regularly as well as participating in roadshows and conferences overseas.

The Company's policy is to communicate pertinent information to shareholders on a timely basis. Should there be any inadvertent disclosure of material information to a selected group, the Company will make the same disclosure publicly to all other shareholders as soon as practicable.



OVERVIEW

We are a fast-growing independent power generation company incorporated in Hong Kong in August 2001 to invest, develop and operate large coal-fired power plants in the more affluent regions of China, including Guangdong, Jiangsu, Zhejiang, Hebei and Henan. As at 31 December 2003, we have five power plants in commercial operations which give us an attributable installed generation capacity of 1,545MW and seven power plants under construction with an attributable installed generation capacity of 2,893MW. We expect our attributable operational installed generation capacity to increase 187.2% to 4,438MW by the end of 2005.

Since our incorporation in August 2001, we have been expanding rapidly through a combination of acquisitions and power plant construction.

We acquired a 37.6% equity interest in Zhejiang Wenzhou Telluride Power Generating Co., Ltd. ("Wenzhou Telluride") from Sithe Asia Holdings Limited in September 2002 and acquired a 33.0% equity interest in Guangdong Guanghope Power Co., Ltd. ("GGPC") from Mirant Guangdong (Shajiao C) Limited, Laito Company Limited and Stenus Limited in December 2002.

BUSINESS REVIEW OF YEAR 2003

GROWTH OF GENERATION CAPACITY

Our attributable operational generation capacity increased by 516MW or 50.1% from 1,029MW in 2002 to 1,545MW as at 31 December 2003.

In 2003, we further expanded our operation through a combination of acquisitions and power plant construction, including:

- increasing our interest in Wenzhou Telluride to 40.0% in June 2003 through acquisition of a 2.4% stake from Oxbow Power Corporation;
- commencement of commercial operations of unit 1 and unit 2 of Liyujiang Power Plant in July and September 2003, respectively;
- acquisition of a 35% equity interest in China Resources (Xuzhou) Electric Power Co., Ltd. ("CR Xuzhou") from our controlling shareholder China Resources (Holdings) Company Limited ("CRH") in September 2003;
- acquisition of a 10% effective interest in Huaneng International Power Development Corporation ("HIPDC") in October 2003 from CRH; and
- acquisitions of additional 1.16% and 0.4% equity interests in GGPC from Bank of China Group Investment Limited and Nam Tung (Macao) Investment Ltd., respectively in September 2003 and disposal of a 5% equity interest in GGPC to China Hua Neng Group Hong Kong Limited in December 2003.



During the year, Liyujiang Power Plant, which is held by China Resources Power Hunan Liyujiang Co., Ltd. ("CR Liyujiang"), commenced commercial operation. Liyujiang Power Plant is located in Liyujiang Town, Zixing City, Hunan Province, approximately 200km from Guangdong Province. It is the first power plant



developed, constructed and operated by the Group since the incorporation of the Company. Liyujiang Power Plant is one of the PRC Government's west to east power transmission projects, supplying power to Guangdong Province. It consists of two 300MW coal-fired units and we are the majority owner with a 60% stake.

INCREASE IN GENERATION VOLUME

The total gross generation of our five operating power plants in 2003 amounted to 26,814,278MWh, representing an increase of 13.7% compared to 23,575,572MWh in 2002. The total net generation of our five operating power plants in 2003 amounted to 25,255,953MWh, representing an increase of 13.9% compared to 22,177,111MWh in 2002.

The following tables set out the gross and net generation statistics for the operating power plants for the year ended 31 December 2002 and 2003, respectively:

Gross Generation Statistics

| | 2003 MWh | 2002 MWh | Increase/ (decrease) % |
|-----------------------|-------------------|-------------------|------------------------------|
| Shajiao C Power Plant | 13,000,020 | 12,422,778 | 4.6 |
| Xuzhou Power Plant | 3,626,488 | 3,255,042 | 11.4 |
| Hengfeng Power Plant | 3,810,050 | 3,918,930 | (2.8) |
| Wenzhou Power Plant | 4,488,720 | 3,978,822 | 12.8 |
| Liyujiang Power Plant | 1,889,000 | N/A | N/A |
| | 26,814,278 | 23,575,572 | 13.7 |

Net Generation Statistics

| | 2003 MWh | 2002 MWh | Increase/ (decrease) % |
|-----------------------|-------------------|-------------------|------------------------------|
| Shajiao C Power Plant | 12,152,650 | 11,588,177 | 4.9 |
| Xuzhou Power Plant | 3,445,411 | 3,085,597 | 11.7 |
| Hengfeng Power Plant | 3,607,230 | 3,701,150 | (2.5) |
| Wenzhou Power Plant | 4,282,402 | 3,802,187 | 12.6 |
| Liyujiang Power Plant | 1,768,260 | N/A | N/A |
| | 25,255,953 | 22,177,111 | 13.9 |

Gross Utilisation Hours

| | 2003 Hours | 2002 Hours | Increase/ (decrease) % |
|-----------------------|---------------|---------------|------------------------------|
| Shajiao C Power Plant | 6,566 | 6,274 | 4.6 |
| Xuzhou Power Plant | 6,044 | 5,425 | 11.4 |
| Hengfeng Power Plant | 6,350 | 6,532 | (2.8) |
| Wenzhou Power Plant | 7,481 | 6,631 | 12.8 |
| Liyujiang Power Plant | 3,148 | N/A | N/A |



The increase in gross and net generation volume is primarily due to the following reasons:

- the two units of Liyujiang Power Plant commenced commercial operations in July and September 2003, respectively; and
- demand for electricity in our service areas increased significantly in 2003. Liyujiang Power Plant excluded, the net generation volume for the remaining four power plants amounted to 23,487,693MWh, representing a 5.9% increase over a net generation of 22,177,111MWh for 2002. All of our operating power plants (except Hengfeng Power Plant which had a planned overhaul in 2003) recorded higher utilisation hours in 2003.



OPERATING RESULTS EXCEEDING EXPECTATIONS

For the year ended 31 December 2003, the Group recorded a turnover of HK\$491.1 million. We did not record any turnover in 2002. The increase in turnover was due to the commencement of commercial operations of our Liyujiang Power Plant.

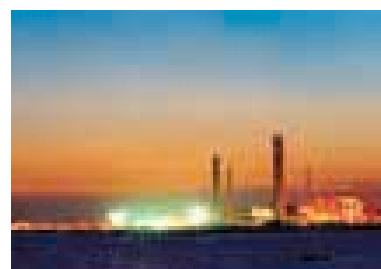
The net profit for the year ended 31 December 2003 increased to HK\$589.5 million from HK\$28.1 million for 2002, representing an increase of 1997.1%.

Basic earnings per share for the year ended 31 December 2003 is HK20.42 cents, compared to HK1.02 cents over the preceding year.

In the prospectus of the Company dated 3 November 2003 (the "Prospectus"), the Directors forecast that, on the bases set out in Appendix III to the Prospectus and in the absence of unforeseen circumstances, our profit after tax and minority interests but before extraordinary items for the year ending 31 December 2003 would not be less than HK\$310 million (the "forecast"). The audited net profit of the Group totalled HK\$589.5 million, exceeding the forecast by HK\$279.5 million or 90.1%.

The performance of all of our operational power plants have fully achieved or exceeded our expectations.

Pursuant to a legally binding memorandum of understanding signed on 26 February 2004 between Resources Shajiao C Investments Limited ("Resources Shajiao C"), a subsidiary of the Company, and the Chinese joint-venture partner, the Chinese joint-venture partner agreed that, notwithstanding the mandatory tariff reduction imposed by the Guangdong Province Pricing Bureau on GGPC as from 1 July 2002, the distributable net profits paid and payable by GGPC to Resources Shajiao C as from that date shall be recalculated as if there were no tariff reduction.



Subsequent to the date of the Prospectus, excess tariff for Wenzhou Telluride increased from RMB178/MWh to RMB197/MWh (both exclusive of value-added tax ("VAT")).

For further details on the analysis of our operating results for the year ended 31 December 2003, please refer to the section headed "Operating Results" below.



STABLE AND RELIABLE POWER SUPPLY

Whilst our primary mission is to maximise our shareholders' value, we believe this target can only be achieved if we can provide the power grids and the community with safe, reliable, economical and stable electricity supply. This will be important especially when the demand for electricity in the service areas where our power plants are located exceeds supply. Our operating power plants are regularly maintained and periodical overhauls are scheduled in order to ensure safety and efficiency of our electricity supply, which we believe in turn will enable us to optimise our operation efficiency and maximise our profitability.



The utilisation hours our operational power plants achieved in 2003 also reflected the reliability of our power plants. In particular, our Liyujiang Power Plant commenced commercial operation during the second half of the year and achieved a total of 3,148 hours of gross utilisation. This also reflects the quality of the construction work as well as efficiency in the operation and management process.

The Group has seven power plants under construction in 2003. In addition, we also manage the construction of three additional power plants on behalf of our controlling shareholder, CRH and its affiliated entities. For all of our projects under construction, we have not encountered any safety-related issues.

USE OF NET PROCEEDS FROM THE IPO



On 12 November 2003, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). Through a global offering which includes a Hong Kong public offering and an international placing (the "IPO"), the Company issued a total of 1,058 million new shares. The net proceeds of the IPO (after deduction of underwriting fees and expenses) amounted to approximately HK\$2,855 million. As stated in the Prospectus, we intended to use at least 90% of the net

proceeds from the IPO to provide a portion of the funds needed for the Company's key capital expenditures planned for projects under construction, and any remaining net proceeds will be used for general corporate purposes such as working capital.

For the year ended 31 December 2003, total net proceeds invested in power plants under construction amounted to approximately HK\$538.02 million, in the form of equity contribution by the Company in Puqi Power Plant, Jiaozuo Power Plant and Changshu Power Plant.

The table below sets out the details of the use of proceeds for the year ended 31 December 2003:

| | (HK\$ million) |
|----------------------|----------------|
| Puqi Power Plant | 178.41 |
| Jiaozuo Power Plant | 22.70 |
| Changshu Power Plant | 336.91 |
| Total | 538.02 |



Subsequent to the year end date, HK\$30.51 million, HK\$60.23 million and HK\$271.44 million were invested in Tangshan Power Plant, Jiaozuo Power Plant and Puqi Power Plant, respectively, in the form of equity contribution.

Pending the use of net proceeds for the purposes described above, we intend to invest the remaining unused net proceeds in short term deposits and/or money-market instruments.

PROSPECTS FOR YEAR 2004

Year 2004 is the first full financial year after our listing on the Hong Kong Stock Exchange. We believe the PRC economy will continue to grow at a steady rate in 2004 and demand for electricity will continue to grow nationwide. We also expect that in our service areas where our power plants are located, demand for electricity will continue to grow and exceed supply. At the same time, as a result of the steady growth rate of the PRC economy, raw material prices including prices of coal, cement, steel and certain equipment are also rising.

Year 2004 is a challenging and important year for the Group. In addition to the five power plants in operations, we also have seven power plants under construction, a majority of which will be commencing commercial operations in 2004. Our first important mission is to ensure all projects under construction will be completed and commence commercial operations on or before the target completion date, with all of them achieving or exceeding our requisite quality standards.

Projects to be completed and will commence commercial operations in 2004 include the following:

- "Luoyang Power Plant" held by China Resources (Luoyang) Thermal Power Co., Ltd.;
- "Xuzhou Power Plant Phase II" held by CR Xuzhou;
- "Puqi Power Plant" held by Puqi Sithe Power Generating Co., Ltd.;
- "Dengfeng Power Plant" held by China Resources (Dengfeng Henan) Electric Power Development Co., Ltd.;
- Unit 1 of "Jiaozuo Power Plant" held by China Resources (Jiaozuo) Thermal Power Co., Ltd.; and
- "Tangshan Power Plant" held by Tangshan China Resources Thermal Power Co., Ltd.

Projects to be completed and will commence commercial operations in 2005 include the following:

- Unit 2 of "Jiaozuo Power Plant" held by China Resources (Jiaozuo) Thermal Power Co., Ltd.;
- "Changshu Power Plant" held by China Resources Power (Changshu) Co., Ltd.

On 29 February 2004, the first unit of Luoyang Power Plant commenced commercial operation.

In addition to completing the construction of power plants on schedule, our other key tasks for 2004 also include:

- To ensure a reasonable planned tariff will be obtained for power plants which will commence commercial operations in 2004;
- To continue to seek investment opportunities including both greenfield projects as well as suitable acquisition targets in the more affluent regions or regions with higher economic growth rates in the PRC;



- To formalise and implement an EVA-based performance-related incentive scheme for management team of our power plants in order to tie management returns with our profitability and maximise shareholders' value;
- To continue to formulate our long-term competitiveness in the coal-procurement area in order to ensure sufficient supply and control over our operating costs; and
- To continue to improve our communications with our investors and the investment community and build up an open and transparent corporate culture with a strong sense of accountability.

OPERATING RESULTS

The following table sets forth certain information relating to our results of operations for each of the two years ended 31 December 2002 and 2003, extracted from the audited consolidated financial statements of the same period:

Consolidated Income Statement For the Year Ended 31 December 2003

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Turnover | 491,114 | — |
| Operating expenses | | |
| Fuel | (218,751) | — |
| Repairs and maintenance | (1,933) | — |
| Depreciation and amortisation | (45,251) | (516) |
| Others | (103,111) | (25,478) |
| Total operating expenses | (369,046) | (25,994) |
| Other operating income | 7,693 | 1,244 |
| Profit (loss) from operations | 129,761 | (24,750) |
| Finance costs | (34,488) | — |
| Share of results of associates | 733,858 | 57,757 |
| Share of results of jointly controlled entity | 92,525 | — |
| Amortisation of goodwill of associates | (29,825) | (1,824) |
| Release of negative goodwill of associates | 2,105 | 988 |
| Loss on disposal of partial interest in an associate | (23,676) | — |
| Profit before taxation | 870,260 | 32,171 |
| Taxation | (163,806) | (6,752) |
| Profit before minority interests | 706,454 | 25,419 |
| Minority interests | (116,994) | 2,689 |
| Net profit for the year | 589,460 | 28,108 |
| Dividend | — | — |
| Earnings per share | | |
| - basic | 20.42 cents | 1.02 cents |
| - diluted | 20.41 cents | N/A |



Overview

The substantial increase in the results of operations is primarily due to the increase in the Group's operational attributable generation capacity as well as strong demand for electricity in the service areas where our power plants in operations are located.

In 2002, the Group made two major acquisitions, including acquisition of a 37.6% equity interest in Wenzhou Telluride in September 2002 and a 33.0% equity interest in GGPC in December 2002. As a result, our total operational attributable installed capacity reached 1,029 MW as at 31 December 2002.

In June 2003, the Group increased its stake in Wenzhou Telluride to 40.0%. The Group also acquired from the controlling shareholder CRH a 35% equity interest in CR Xuzhou in September 2003 and a 10% effective interest in HIPDC in October 2003. In addition, through acquisition of a further 1.56% equity interest and a disposal of 5% equity interest in GGPC, our effective interest in GGPC was reduced to 29.56% in December 2003.

The two units of our Liyujiang Power Plant commenced commercial operations in July and September 2003, respectively. Hence, starting from 1 July 2003, we consolidated the results of CR Liyujiang. As a result, our total operational attributable installed capacity reached 1,545 MW as at 31 December 2003.

The results of year 2003 also reflect our share of results of Hengfeng Power Plant, Wenzhou Telluride and GGPC for the full year and our share of results of CR Xuzhou and HIPDC since the respective dates of acquisitions. As a contrast, our 2002 results of operations mainly reflected our investment income from Hengfeng Power Plant and share of its results from the date it became our associate and our share of results of Wenzhou Telluride and GGPC since the respective acquisition dates.

As a result, our net profit for 2003 increased by 1997.1% to HK\$589.5 million in 2003 from HK\$28.1 million in 2002.

Business segments

The Group is principally engaged in a single business segment, i.e., the development, investment and operation of power plants in the PRC.

Geographical segments

All of the Group's assets and liabilities are principally located in the PRC and operations for the year were substantially carried out in the PRC. Accordingly, no geographical segment information for the year is presented.

Turnover

Turnover represents the amounts received and receivable for electricity delivered, net of VAT, during the year. For the year ended 31 December 2003, the consolidated turnover for the Group was HK\$491.1 million, representing sales revenue of Liyujiang Power Plant. There was no turnover for the year 2002.

Operating expenses

The operating expenses of the Group were HK\$369.0 million in 2003, representing a 1319.7% increase from HK\$26.0 million in 2002. Total operating expenses mainly comprise of fuel costs, repairs and maintenance, depreciation and amortisation, and other administrative costs such as salaries and wages, insurance and write-off of pre-operating expenses. The significant increase in operating expenses is mainly due to the commencement of commercial operation of Liyujiang Power Plant in 2003, which resulted in various operating expenses being consolidated by the Group.



Profit (loss) from operations

Profit from operations for the Group in 2003 amounted to HK\$129.8 million, which mainly represents profit derived by CR Liyujiang. In 2002, the Group recorded a loss from operations of HK\$24.8 million, mainly representing staff costs and other administrative expenses incurred by the Group.

Finance costs

Our finance costs for the year 2003 amounted to HK\$34.5 million, representing financial costs of CR Liyujiang since the commencement of commercial operations of its two generating units. We did not incur any financial costs for the year 2002 as we capitalised all of our interest expenses incurred during the project construction phase.

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Interest on bank and other loans | | |
| - wholly repayable within five years | (55,244) | (26,953) |
| - not wholly repayable within five years | (68,793) | — |
| | (124,037) | (26,953) |
| Less: Interest capitalised | 89,549 | 26,953 |
| | (34,488) | — |

Share of results of associates

Share of results of associates in the year 2003 increased significantly to HK\$733.9 million, compared to HK\$57.8 million in 2002. This significant increase was due to our share of results of Hengfeng Power Plant, Wenzhou Telluride and GGPC for the full year and our share of results of CR Xuzhou since the date of its acquisition in September 2003. As a contrast, our 2002 results of operations mainly reflect our share of results of Hengfeng from the date it became our associate and our share of results of Wenzhou Telluride and GGPC since the respective acquisition dates. For the year ended 31 December 2003, Hengfeng Power Plant, Wenzhou Telluride, GGPC and CR Xuzhou accounted for approximately 8.3%, 18.9%, 68.3% and 4.5%, respectively of our total share of results of associates.

Share of results of a jointly controlled entity

Share of results of a jointly controlled entity for the year 2003 amounted to HK\$92.5 million, representing our 40% share of results of BOCGI China Resources Power Co., Ltd., a joint venture company incorporated in the British Virgin Islands which holds 25% equity interest in HIPDC since 17 October 2003. There is no comparative figure for the year 2002.

Amortisation of goodwill of associates

Amortisation of goodwill for the year 2003 amounted to HK\$29.8 million, compared to HK\$1.8 million for the year 2002, which largely resulted from our acquisitions of Wenzhou Telluride and GGPC. The increase reflects our amortisation of goodwill for the full period this year. In 2002, the amortisation was accounted for the period after the dates of acquisitions in September and December for Wenzhou Telluride and GGPC, respectively.



Release of negative goodwill of associates

We released HK\$2.1 million of negative goodwill in the year 2003, compared to HK\$1.0 million for 2002. The increase was due to the release of negative goodwill in respect of Hengfeng Power Plant, the increase of 2.4% shareholding in Wenzhou Telluride and an acquisition of a 1.56% in GGPC.

Taxation

Our taxation expense for the year 2003 was approximately HK\$163.8 million, compared to HK\$6.8 million for 2002. This was largely due to an increase in the PRC Enterprise Income Tax on our results of associates and an increase in deferred taxation on our share of results of associates for the year 2003. CR Liyujiang is exempt from PRC Enterprise Income Tax for 2003.

Details of the taxation charges for the year ended 31 December 2002 and 2003 are set out below:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| The charge comprises: | | |
| The Company and its subsidiaries | | |
| - Hong Kong Profits Tax | — | — |
| - PRC Enterprise Income Tax | — | — |
| - Deferred taxation | (919) | — |
| Taxation attributable to the Company and its subsidiaries | (919) | — |
| Share of taxation attributable to associates and jointly controlled entity | | |
| - Hong Kong Profits Tax | — | — |
| - PRC Enterprise Income Tax | (139,941) | (4,355) |
| - Deferred taxation | (22,946) | (2,397) |
| | (162,887) | (6,752) |
| | (163,806) | (6,752) |

PRC Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries, associates and jointly controlled entity in the PRC.

The share of deferred taxation charge attributable to associates and jointly controlled entity principally represents the share of provision for deferred taxation recognised in respect of temporary differences arising as a result of the excess of tax depreciation over accounting depreciation.

Net profit

As a result of the above, the Group's net profit for the year 2003 increased to HK\$589.5 million, representing a 1997.1% increase compared to HK\$28.1 million for the year 2002.

Dividend

The Board of Directors does not recommend payment of a dividend for 2003.



Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|---------------------------|------------------|
| Net profit for the year and earnings for the purposes of basic and diluted earnings per share | 589,460 | 28,108 |
| | Number of ordinary shares | |
| | 2003 | 2002 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 2,886,235,616 | 2,750,000,000 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 1,054,740 | |
| Over-allotment options | 399,981 | |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 2,887,690,337 | |

For the purpose of calculation of earnings per share for 2002, the weighted average number of 2,750,000,000 shares in issue for 2002 was assumed as if the capitalisation issue pursuant to the Group Reorganisation, as set out in the section headed "Business — Reorganization" in the Prospectus, had taken place on 1 January 2002.

No diluted earnings per share has been presented for 2002 as there were no dilutive potential ordinary shares in 2002.



Liquidity and capital resources

For the year ended 31 December 2003, the Group's primary sources of funding include loans provided by the PRC domestic commercial banks, net proceeds of the IPO, loans from the immediate holding company, CRH, and capital repatriated from GGPC, which amounted to HK\$4,091.7 million, HK\$2,854.9 million, HK\$676.7 million and HK\$549.6 million, respectively. The Group's funds were primarily used in the purchase of property, plant and equipment and the construction of our power plants and repayment of short-term bank loans, which amounted to HK\$3,656.0 million and HK\$1,013.0 million, respectively.

The table below sets forth the cash flow of the Group for the two years ended 31 December 2003 and the cash equivalents at the end of each of the two years:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|--------------------|------------------|
| Net cash used in operating activities | (36,462) | (17,990) |
| Net cash used in investing activities | (2,726,920) | (4,438,862) |
| Net cash from financing activities | 6,361,527 | 4,531,139 |
| Net increase in cash and cash equivalents | 3,598,145 | 74,287 |
| Effect on foreign exchange rate change | (3,880) | — |
| Cash and cash equivalent at beginning of the year | 101,635 | 27,348 |
| Cash and cash equivalents at the end of the year | 3,695,900 | 101,635 |
| Pledged bank deposit | 39,246 | — |
| Total bank balances and cash at the end of the year | 3,735,146 | 101,635 |

The bank balances and cash as at 31 December 2003 denominated in local currency and foreign currencies amounted to HK\$2,339 million, RMB551 million and US\$112 million, respectively.

Borrowings

The bank and other borrowings of the Group as at 31 December 2002 and 2003 were as follows:

| | THE GROUP | |
|-----------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Unsecured bank loans | 4,273,528 | 1,215,407 |
| Unsecured other loans | 14,632 | — |
| | 4,288,160 | 1,215,407 |

The maturity profile of the above loans is as follows:

| | | |
|--|------------------|-----------|
| Within 1 year | 1,915,958 | 838,367 |
| More than 1 year, but not exceeding 2 years | 437,108 | — |
| More than 2 years, but not exceeding 5 years | 691,306 | 311,058 |
| More than 5 years | 1,243,788 | 65,982 |
| | 4,288,160 | 1,215,407 |

All of the above bank borrowings are borrowed by our subsidiaries and denominated in RMB. Interest rates on all of our bank borrowings are directly linked to the interest rates set by the People's Bank of China.



Key financial ratios of the Group

| | 2003 | 2002 |
|----------------------------------|-------------|------|
| Current ratio (times) | 1.41 | 0.13 |
| Quick ratio (times) | 1.41 | 0.13 |
| Net debt to equity (%) | 6.2 | 29.6 |
| EBITDA interest coverage (times) | 7.88 | 1.24 |

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 - balance of inventories at the end of the year)/balance of current liabilities at the end of the year

Net debt to equity = (balance of total bank borrowings at the end of the year - balance of bank balances and cash at the end of the year)/balance of shareholders' equity at the end of the year

EBITDA interest coverage = (profit before taxation + interest expense + depreciation and amortisation) / interest expenditure (including capitalised interests)

Foreign exchange rate risk

We collect all of our revenues in Renminbi and most of our expenditures including expenditures incurred in the operations of power plants as well as capital expenditures are also denominated in Renminbi. Dividends payable by the Group's subsidiaries and associates can be collected in either Renminbi or US dollars.

Renminbi is not a freely convertible currency. Future exchange rates of Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates are also affected by economic developments and political changes domestically and internationally, and supply and demand of Renminbi. The appreciation or devaluation of Renminbi against Hong Kong Dollars may have positive or negative impacts on the results of operations of the Group.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2003.

Charge of assets

As at 31 December 2003, Telluride International Energy Limited Partnership, a wholly owned subsidiary of the Company, has pledged its equity interest in Wenzhou Telluride and a bank deposit amounting to HK\$39,246,000 to a bank for securing the bank loans granted to Wenzhou Telluride of approximately HK\$717,213,000 (2002 : HK\$859,218,000).



Environment regulations

All of our power plants are subject to the PRC environmental protection law and regulations promulgated by the State Council and the local governments in whose jurisdictions our various power plants are located.

On 1 July 2003, the Administration Regulation on Levy and Use of Discharge Fees promulgated by the State Council came into effect. For the year ended 31 December 2003, total discharge fee paid and payable by our operational power plants amounted to approximately RMB4.6 million, RMB4.9 million, RMB2.8 million and RMB 0.9 million for Xuzhou Power Plant, Hengfeng Power Plant, Wenzhou Power Plant and Liyujiang Power Plant, respectively.

Legal liabilities

The Group is not involved in any lawsuits, in which the Group is the named defendant.

Employees

As at 31 December 2003, the Company and its subsidiaries employed a total of 1,422 employees.

The Company and its subsidiaries have employment contracts with all of their respective employees. None of our power plants has experienced any strikes or other labour disputes which affected the operation of any of our power plants.

We recruit our managerial personnel from the open market. We provide technical training to all new employees and continued training for all employees.

The compensation of employees includes salaries, bonuses and various subsidies. We pay welfare for the employees at our power plants in accordance with the PRC labour regulation in an amount equivalent to approximately 20% of the total salary of such employees.

The Company has also implemented share option schemes in order to retain the best available personnel and to provide additional incentives to employees.



OPERATION STATISTICS BY POWER PLANTS

Shajiao C Power Plant

For the year ended 31 December 2003, Shajiao C Power Plant's gross generation and net generation increased by 4.6% and 4.9%, respectively to approximately 13.0 billion kWh and 12.2 billion kWh, respectively. For the year 2003, the net tariff (exclusive of VAT) for Shajiao C Power Plant is RMB346.8MWh. The Group's share of results of GGPC has reflected the contents of the legally binding memorandum of understanding which we signed with our Chinese partner on 26 February 2004.

The table below sets out certain operation statistics of Shajiao C Power Plant for the three years ended 31 December 2003:

| | 2003 | 2002 | 2001 |
|---|-------------------|------------|-----------|
| Installed capacity at year end (MW) | 1,980 | 1,980 | 1,980 |
| Average utilisation hours | 6,566 | 6,274 | 4,510 |
| Gross generation (MWh) | 13,000,020 | 12,422,778 | 8,929,649 |
| Net generation (MWh) | 12,152,650 | 11,588,177 | 8,295,071 |
| Equivalent availability factor (%) | 90 | 90 | 68 |
| Net generation standard coal consumption rate (grams/kWh) | 323 | 325 | 327 |

Liyujiang Power Plant

For the year ended 31 December 2003, Liyujiang Power Plant's gross generation and net generation amounted to approximately 1.9 billion kWh and approximately 1.8 billion kWh, respectively. For the year 2003, the net tariff (exclusive of VAT) for Liyujiang Power Plant is RMB340.5MWh.

The table below sets out certain operation statistics of Liyujiang Power Plant for the three years ended 31 December 2003:

| | 2003 | 2002 | 2001 |
|---|------------------|------|------|
| Installed capacity at year end (MW) | 600 | N/A | N/A |
| Average utilisation hours | 3,148 | N/A | N/A |
| Gross generation (MWh) | 1,889,000 | N/A | N/A |
| Net generation (MWh) | 1,768,260 | N/A | N/A |
| Equivalent availability factor (%) | 98 | N/A | N/A |
| Net generation standard coal consumption rate (grams/kWh) | 368 | N/A | N/A |



Wenzhou Power Plant

For the year ended 31 December 2003, Wenzhou Power Plant's gross generation and net generation increased by 12.8% and 12.6%, respectively to approximately 4.5 billion kWh and approximately 4.3 billion kWh, respectively. For the year 2003, the net planned tariff (exclusive of VAT) and net excess tariff (exclusive of VAT) for Wenzhou Power Plant is RMB366.0MWh and RMB197.0MWh, respectively.

The table below sets out certain operation statistics of Wenzhou Power Plant for the three years ended 31 December 2003:

| | 2003 | 2002 | 2001 |
|---|-----------|-----------|-----------|
| Installed capacity at year end (MW) | 600 | 600 | 600 |
| Average utilisation hours | 7,481 | 6,631 | 3,106 |
| Gross generation (MWh) | 4,488,720 | 3,978,822 | 1,863,596 |
| Net generation (MWh) | 4,282,402 | 3,802,187 | 1,780,555 |
| Equivalent availability factor (%) | 91 | 88 | 92 |
| Net generation standard coal consumption rate (grams/kWh) | 335 | 338 | 359 |

Xuzhou Power Plant

For the year ended 31 December 2003, Xuzhou Power Plant's gross generation and net generation increased by 11.4% and 11.7%, respectively to approximately 3.6 billion kWh and approximately 3.4 billion kWh, respectively. For the year 2003, the net planned tariff (exclusive of VAT) and net excess tariff (exclusive of VAT) for Xuzhou Power Plant is RMB311.97MWh and RMB185.81MWh, respectively.

The table below sets out certain operation statistics of Xuzhou Power Plant for the three years ended 31 December 2003:

| | 2003 | 2002 | 2001 |
|---|-----------|-----------|-----------|
| Installed capacity at year end (MW) | 600 | 600 | 600 |
| Average utilisation hours | 6,044 | 5,425 | 5,227 |
| Gross generation (MWh) | 3,626,488 | 3,255,042 | 3,135,984 |
| Net generation (MWh) | 3,445,411 | 3,085,597 | 2,967,097 |
| Equivalent availability factor (%) | 95 | 95 | 92 |
| Net generation standard coal consumption rate (grams/kWh) | 345 | 346 | 349 |

Hengfeng Power Plant

For the year ended 31 December 2003, Hengfeng Power Plant's gross generation and net generation decreased by 2.8% and 2.5%, respectively to approximately 3.8 billion kWh and approximately 3.6 billion kWh, respectively. For the year 2003, the net planned tariff (exclusive of VAT) and net excess tariff (exclusive of VAT) for Hengfeng Power Plant is RMB294.87MWh and RMB158.12MWh, respectively.

The table below sets out certain operation statistics of Hengfeng Power Plant for the three years ended 31 December 2003:

| | 2003 | 2002 | 2001 |
|---|-----------|-----------|-----------|
| Installed capacity at year end (MW) | 600 | 600 | 600 |
| Average utilisation hours | 6,350 | 6,532 | 5,959 |
| Gross generation (MWh) | 3,810,050 | 3,918,930 | 3,570,170 |
| Net generation (MWh) | 3,607,230 | 3,701,150 | 3,359,920 |
| Equivalent availability factor (%) | 91 | 93 | 90 |
| Net generation standard coal consumption rate (grams/kWh) | 347 | 351 | 354 |



The directors (the "Directors") of China Resources Power Holdings Company Limited (the "Company") have pleasure in presenting to the shareholders their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Group is to invest, develop, operate and manage large coal-fired power plants in the more affluent regions in China. Particulars of the Company's principal subsidiaries, associates and jointly controlled entity are set out in notes 12, 13 and 14 to the financial statements, respectively.

GROUP PROFIT

The consolidated income statement is set out on page 58 and shows the Group's profit for the year ended 31 December 2003. A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Management's Discussion and Analysis on pages 28 to 42 of this Annual Report.

DIVIDENDS

The Directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK\$4,268.2 million, mainly representing power generation assets. Details of the movement in property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

The Company was incorporated on 27 August 2001 in Hong Kong. Pursuant to the global offering of the Company conducted in 2003 (the "Global Offering"), the Company issued 1,058,000,000 new shares of the Company (the "Shares") in November and December 2003. After the Global Offering, a total of 3,808,000,000 Shares were issued.

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements. There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Shares during the year.

RESERVES

Distributable reserves of the Company amounted to HK\$52.1 million as at 31 December 2003 (2002: HK\$66.0 million). Movement in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 62 of this Annual Report and note 32 to the financial statements, respectively.



BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2003 amounted to HK\$4,288.2 million (2002: HK\$1,215.4 million). Particulars of borrowings are set out in note 27 to the financial statements.

DIRECTORS

The Directors who held office during the year and as at the date of this report are as follows:

EXECUTIVE DIRECTORS:

| | |
|---------------------|--|
| Mr. Song Lin | (Chairman) |
| Mr. Wang Shuai Ting | (Vice Chairman and Chief Executive Officer) |
| Mr. Shen Zhong Min | (Chief Operation Officer, appointed on 22 August 2003) |
| Mr. Tang Cheng | (appointed on 22 August 2003) |
| Mr. Zhang Shen Wen | (appointed on 22 August 2003) |
| Mr. Liu Yan Jie | (resigned on 22 August 2003) |
| Mr. Li Fu Zuo | (resigned on 22 August 2003) |

NON-EXECUTIVE DIRECTORS:

| | |
|-------------------|-------------------------------|
| Mr. Ning Gao Ning | (appointed on 22 August 2003) |
| Mr. Jiang Wei | |

INDEPENDENT NON-EXECUTIVE DIRECTORS:

| | |
|----------------------|-------------------------------|
| Mr. Fong Ching, Eddy | (appointed on 22 August 2003) |
| Mr. Anthony H. Adams | (appointed on 22 August 2003) |
| Mr. Wu Jing Ru | (appointed on 22 August 2003) |

Mr. Wang Shuai Ting, Mr. Shen Zhong Min, Mr. Tang Cheng and Mr. Zhang Shen Wen have entered into service contracts with the Company on 22 August 2003 for a term of three years.

Other than as disclosed above, as at 31 December 2003, none of the Directors has a service contract with the Company or any subsidiaries which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

In accordance with Articles 98 and 120 of the Company's Articles of Association, Messrs. Song Lin, Wang Shuai Ting, Shen Zhong Min, Tang Cheng, Zhang Shen Wen, Ning Gao Ning, Jiang Wei, Wu Jing Ru, Fong Ching, Eddy and Anthony H. Adams retire and being eligible, offer themselves for re-election.

Biographical details of the Directors as at the date of this report are set out on pages 17 to 19 of this Annual Report. Details of Directors' remuneration are provided under note 8 to the financial statements.



SHARE OPTIONS

The Company has two share option schemes, namely the pre-IPO share option scheme and the share option scheme as follows:-

(A) PRE-IPO SHARE OPTION SCHEME

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 6 October 2003. The purposes of the Pre-IPO Share Option Scheme are to attract and retain the best available personnel; to provide additional incentive to employees, directors, consultants and advisors of (a) the Company, its subsidiaries and associated companies and (b) China Resources (Holdings) Company Limited ("CRH") and its subsidiaries, and to promote the success of the business of the Company, its subsidiaries and associated companies.

As at 31 December 2003, a total of 167,285,000 Shares (representing approximately 4.4% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Pre-IPO Share Option Scheme.

Each option has a 10-year exercise period within which there is a total vesting period of five years. Commencing from the first, second, third, fourth and fifth anniversaries of the date of grant of an option, the relevant grantee may exercise up to 20%, 40%, 60%, 80% and 100% respectively of the Shares comprised in his or her option.

The Pre-IPO Share Option Scheme ended on the date on which dealings in the Shares commenced on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (i.e. 12 November 2003), and no further options may be granted after that date. The provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect.

On 6 October 2003, in consideration of HK\$1.00 per grant, options to subscribe for an aggregate of 167,395,000 shares at exercise price of HK\$2.80 (being the offer price of the Hong Kong Initial Public Offering) have been conditionally granted to 591 grantees under the Pre-IPO Share Option Scheme.

The Directors do not consider it to be appropriate to state the value of all share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2003, as the generally accepted option value pricing models are applicable to those options which are transferable and options granted under the Pre-IPO Share Option Scheme are not transferable.

Movement of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2003 is as follows:-

| Name of Director | Date of grant | Number of options granted on 6 October 2003 | Number of options lapsed or cancelled during the year | Number of options outstanding as at 31 December 2003 | Date of expiry | Exercise price (HK\$) |
|---------------------------------------|---------------|---|---|--|----------------|-----------------------|
| Song Lin | 6 Oct 2003 | 2,000,000 | — | 2,000,000 | 5 Oct 2013 | 2.80 |
| Wang Shuai Ting | 6 Oct 2003 | 4,500,000 | — | 4,500,000 | 5 Oct 2013 | 2.80 |
| Shen Zhong Min | 6 Oct 2003 | 3,000,000 | — | 3,000,000 | 5 Oct 2013 | 2.80 |
| Tang Cheng | 6 Oct 2003 | 3,000,000 | — | 3,000,000 | 5 Oct 2013 | 2.80 |
| Zhang Shen Wen | 6 Oct 2003 | 3,000,000 | — | 3,000,000 | 5 Oct 2013 | 2.80 |
| Ning Gao Ning | 6 Oct 2003 | 1,000,000 | — | 1,000,000 | 5 Oct 2013 | 2.80 |
| Jiang Wei | 6 Oct 2003 | 1,000,000 | — | 1,000,000 | 5 Oct 2013 | 2.80 |
| Aggregate total of employees | 6 Oct 2003 | 101,575,000 | — | 101,575,000 | 5 Oct 2013 | 2.80 |
| Aggregate total of other participants | 6 Oct 2003 | 48,320,000 | 110,000 | 48,210,000 | 5 Oct 2013 | 2.80 |



SHARE OPTIONS (CONT'D)

(B) SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") has been approved by a resolution in writing of the shareholders of the Company on 6 October 2003. The purposes of the Share Option Scheme are to attract and retain the best available personnel; to provide additional incentive to employees (whether full-time or part-time), directors (including independent non-executive directors), consultants and advisors of (a) the Company, its subsidiaries and associated companies and to promote the success of the business of the Company, its subsidiaries and associated companies and (b) CRH and its subsidiaries.

The Board may, at its absolute discretion, offer an option to eligible person to subscribe for the Shares at an exercise price and subject to the other terms of the Share Option Scheme. Upon acceptance of the offer of a grant, the grantee shall pay HK\$1.00 to the Company as nominal consideration for the grant.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 367,000,000 Shares of the Company, being 10% of the total number of Shares in issue immediately prior to the date on which dealings in the Shares commence on the Stock Exchange.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The exercise price to subscribe for each share under the Share Option Scheme shall be not less than the greater of (1) the closing price of the Share as stated in the daily quotation sheet of the Stock Exchange on the date the share option is granted, (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant, or (3) the nominal value of the Shares.

Options granted have a 10-year exercise period within which there is a total vesting period of five years. Commencing from the first, second, third, fourth and fifth anniversaries of the date of grant of an option, the relevant grantee may exercise up to 20%, 40%, 60%, 80% and 100% respectively of the Shares comprised in his or her option.

The Share Option Scheme will remain in force for a period of 10 years from 6 October 2003.

As at the date of this report, no option has been granted under the Share Option Scheme.



SHARE OPTIONS (CONT'D)

Other than disclosed above, pursuant to the International Underwriting Agreement dated 7 November 2003, the Company has granted options (the "Over-allotment Options") to the placing underwriters exercisable on the earlier of 30 days after the last day for lodging of applications for the Company's offer for subscription by the public in Hong Kong or the commencement of trading of the Shares on the Stock Exchange to require the Company to allot and issue up to an aggregate of 138,000,000 additional Shares at the offer price upon listing of HK\$2.8 per Share. On 3 December 2003, the Over-allotment Options were exercised and 138,000,000 Shares were issued.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2003, the interests of the Directors in the shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(A) THE COMPANY

The number of Shares and the outstanding options granted under the Pre-IPO Share Option Scheme in the Company held by the Directors are as follows :

| Name of Director | | Capacity | | Number of issued ordinary shares held | | | Percentage of the issued share capital of the Company | |
|------------------|--|------------------|--|---------------------------------------|--|--|---|--|
| Wang Shuai Ting | | Beneficial Owner | | 300,000 | | | 0.008% | |

| Name of Director | Capacity | Date of grant | Date of expiry | Exercise price (HK\$) | Number of options held as at 1 Jan 2003 | Number of options granted during the year | Number of options exercised during the year | Number of options and underlying shares as at 31 Dec 2003 | Percentage of the issued share capital of the Company |
|------------------|------------------|---------------|----------------|-----------------------|---|---|---|---|---|
| Song Lin | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 2,000,000 | — | 2,000,000 | 0.053% |
| Wang Shuai Ting | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 4,500,000 | — | 4,500,000 | 0.118% |
| Shen Zhong Min | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 3,000,000 | — | 3,000,000 | 0.079% |
| Tang Cheng | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 3,000,000 | — | 3,000,000 | 0.079% |
| Zhang Shen Wen | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 3,000,000 | — | 3,000,000 | 0.079% |
| Ning Gao Ning | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 1,000,000 | — | 1,000,000 | 0.026% |
| Jiang Wei | Beneficial Owner | 6 Oct 2003 | 5 Oct 2013 | 2.80 | — | 1,000,000 | — | 1,000,000 | 0.026% |


DIRECTORS' INTERESTS IN SECURITIES (CONT'D)
(B) CHINA RESOURCES ENTERPRISE, LIMITED

China Resources Enterprise, Limited ("CRE"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CRE. The number of shares and the outstanding options in CRE held by the Directors as at 31 December 2003 are as follows:

| Name of Director | Capacity | Number of shares held | Percentage of the issued share capital of CRE |
|------------------|-----------------------------------|-----------------------|---|
| Song Lin | Family Interest ^(Note) | 200,000 | 0.010% |
| Ning Gao Ning | Beneficial Owner | 1,630,000 | 0.078% |

| Name of Director | Capacity | Date of grant | Date of expiry | Exercise price (HK\$) | Number of options held as at 1 Jan 2003 | Number of options granted during the year | Number of options exercised during the year | Number of options and underlying shares as at 31 Dec 2003 | Percentage of the issued share capital of CRE |
|------------------|-----------------------------------|---------------|----------------|-----------------------|---|---|---|---|---|
| Song Lin | Beneficial Owner | 7 Feb 2002 | 6 Feb 2012 | 7.17 | 2,000,000 | — | — | 2,000,000 | 0.096% |
| Song Lin | Family Interest ^(Note) | 20 Jun 2000 | 19 Jun 2010 | 7.19 | 200,000 | — | — | 200,000 | 0.010% |
| Wang Shuai Ting | Beneficial Owner | 5 Mar 2002 | 4 Mar 2012 | 7.35 | 450,000 | — | — | 450,000 | 0.022% |
| Tang Cheng | Beneficial Owner | 5 Mar 2002 | 4 Mar 2012 | 7.35 | 80,000 | — | — | 80,000 | 0.004% |
| Zhang Shen Wen | Beneficial Owner | 5 Mar 2002 | 4 Mar 2012 | 7.35 | 50,000 | — | — | 50,000 | 0.002% |
| Ning Gao Ning | Beneficial Owner | 20 Jun 2000 | 19 Jun 2010 | 7.19 | 3,300,000 | — | — | 3,300,000 | 0.158% |
| | Beneficial Owner | 7 Feb 2002 | 6 Feb 2012 | 7.17 | 1,200,000 | — | — | 1,200,000 | 0.057% |
| Jiang Wei | Beneficial Owner | 8 Mar 2002 | 7 Mar 2012 | 7.50 | 600,000 | — | — | 600,000 | 0.029% |

Note: The shares in CRE and the outstanding options were held by the spouse of Mr. Song Lin.



DIRECTORS' INTERESTS IN SECURITIES (CONT'D)

(C) CHINA RESOURCES LOGIC LIMITED

China Resources Logic Limited ("CR Logic"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CR Logic. The number of shares and the outstanding options in CR Logic held by the Directors as at 31 December 2003 are as follows:

| Name of Director | Capacity | Number of shares held | Percentage of the issued share capital of CR Logic |
|------------------|------------------|-----------------------|--|
| Song Lin | Beneficial Owner | 3,600,000 | 0.137% |

| Name of Director | Capacity | Date of grant | Date of expiry | Exercise price (HK\$) | Number of options held as at 1 Jan 2003 | Number of options granted during the year | Number of options exercised during the year | Number of options and underlying shares as at 31 Dec 2003 | Percentage of the issued share capital of CR Logic |
|------------------|------------------|---------------|----------------|-----------------------|---|---|---|---|--|
| Song Lin | Beneficial Owner | 21 Sep 2000 | 20 Sep 2010 | 0.59 | 8,000,000 | — | 1,100,000 | 6,900,000 | 0.263% |
| | Beneficial Owner | 2 Oct 2002 | 1 Oct 2012 | 0.57 | 1,500,000 | — | 1,500,000 | — | — |
| | Beneficial Owner | 9 Apr 2003 | 8 Apr 2013 | 0.479 | — | 1,000,000 | 1,000,000 | — | — |
| Wang Shuai Ting | Beneficial Owner | 9 Apr 2002 | 8 Apr 2012 | 0.82 | 540,000 | — | — | 540,000 | 0.021% |
| Tang Cheng | Beneficial Owner | 9 Apr 2002 | 8 Apr 2012 | 0.82 | 90,000 | — | — | 90,000 | 0.003% |
| Zhang Shen Wen | Beneficial Owner | 9 Apr 2002 | 8 Apr 2012 | 0.82 | 60,000 | — | — | 60,000 | 0.002% |
| Ning Gao Ning | Beneficial Owner | 2 Oct 2002 | 1 Oct 2012 | 0.57 | 2,000,000 | — | — | 2,000,000 | 0.076% |
| | Beneficial Owner | 9 Apr 2003 | 8 Apr 2013 | 0.479 | — | 1,000,000 | — | 1,000,000 | 0.038% |
| Jiang Wei | Beneficial Owner | 9 Apr 2002 | 8 Apr 2012 | 0.82 | 720,000 | — | — | 720,000 | 0.027% |


DIRECTORS' INTERESTS IN SECURITIES (CONT'D)
(D) CHINA RESOURCES LAND LIMITED

China Resources Land Limited ("CR Land"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CR Land. The number of outstanding options in CR Land held by the Directors as at 31 December 2003 are as follows:

| Name of Director | Capacity | Date of grant | Date of expiry | Exercise price (HK\$) | Number of options held as at 1 Jan 2003 | Number of options granted during the year | Number of options exercised during the year | Number of options and underlying shares as at 31 Dec 2003 | Percentage of the issued share capital of CR Land |
|------------------|------------------|---------------|----------------|-----------------------|---|---|---|---|---|
| Wang Shuai Ting | Beneficial Owner | 4 Mar 2002 | 31 Jan 2012 | 1.59 | 540,000 | — | — | 540,000 | 0.036% |
| Tang Cheng | Beneficial Owner | 4 Mar 2002 | 31 Jan 2012 | 1.59 | 100,000 | — | — | 100,000 | 0.007% |
| Zhang Shen Wen | Beneficial Owner | 4 Mar 2002 | 31 Jan 2012 | 1.59 | 60,000 | — | — | 60,000 | 0.004% |
| Ning Gao Ning | Beneficial Owner | 27 Jun 1997 | 27 May 2007 | 4.592 | 2,500,000 | — | — | 2,500,000 | 0.166% |
| | Beneficial Owner | 20 Jul 2000 | 27 May 2007 | 0.99 | 2,500,000 | — | — | 2,500,000 | 0.166% |
| Jiang Wei | Beneficial Owner | 4 Mar 2002 | 3 Mar 2012 | 1.59 | 720,000 | — | — | 720,000 | 0.048% |

(E) CHINA RESOURCES CEMENT HOLDINGS LIMITED

China Resources Cement Holdings Limited ("CR Cement"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CR Cement. During the year, no options were granted. The number of shares in CR Cement held by the Directors as at 31 December 2003 are as follows:

| Name of Director | Capacity | Number of shares held | Percentage of the issued share capital of CR Cement |
|------------------|------------------|-----------------------|---|
| Ning Gao Ning | Beneficial Owner | 163,000 | 0.045% |

Save as disclosed above, as at 31 December 2003, none of the Directors or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



ARRANGEMENT FOR DIRECTOR TO ACQUIRE SHARES

Other than disclosed in "Directors' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executive or their respective associates, of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries were a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following disclosure of interests by shareholders holding 5% or more of the issued share capital of the Company have been recorded in the register of interests kept pursuant to Section 336 of the SFO:

| Name of shareholders | Capacity | No. of Shares held | Approximate % of shareholding |
|---|--------------------------------------|--------------------|-------------------------------|
| CRH | Beneficial owner | 2,750,000,000 | 72.2% |
| CRC Bluesky Limited | Interest of a controlled corporation | 2,750,000,000 | 72.2% |
| China Resources Co., Limited ("CRL") | Interest of a controlled corporation | 2,750,000,000 | 72.2% |
| China Resources National Corporation ("CRNC") | Interest of a controlled corporation | 2,750,000,000 | 72.2% |

Note:

CRH is a 100% subsidiary of CRC Bluesky Limited, which is in turn owned as to 100% by CRL, which is in turn held as to 99.98% by CRNC. Each of CRNC, CRL and CRC Bluesky Limited is deemed by virtue of Part XV of the SFO to have the same interests in the share capital of the Company as those of CRH.

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's principal subsidiaries, associates and jointly controlled entity are set out on notes 12, 13 and 14 to the financial statements.



CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY

- (a) On 12 August 2003, a rental agreement was entered into between China Resources Property Management Co., Ltd. (the "Lessor"), a wholly-owned subsidiary of CRH and the Company in respect of Rooms 2001-2002, 20th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The term of such rental agreement is 2 years commencing from 20 September 2003 to 19 September 2005 at a monthly rent of HK\$46,410 exclusive of rates, management fee and air-conditioning fee. The total leasable area of the premises is 3,094 square feet. The total rent payable per annum is HK\$556,920.
- (b) On 19 March 2003, a rental agreement was entered into between the Lessor and the Company in respect of Rooms 3203-3204, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The term of such rental agreement is two years commencing from 1 April 2003 to 31 March 2005 at a monthly rent of HK\$50,192 exclusive of rates, management fee and air-conditioning fee. The total leasable area of the premises is 3,137 square feet. The total rent payable per annum is HK\$602,304. Half of all the rights, interests, liabilities and obligations of the Company under this rental agreement were assigned to Resources Shajiao C Investments Limited, a subsidiary of the Company, pursuant to a novation agreement dated 17 October 2003.
- (c) The Company entered into three management agreements dated 17 October 2003 in respect of the management of the power plant project companies held by CRH and CRNC, respectively. The first management agreement relates to CRH entrusting the Company to manage CRH's 17.615% and 48% interest in Sichuan Shurun Electric Development Company Limited and Dongguan Houjie Power Company Limited ("Dongguan Houjie"), respectively, for a term of one year in return for a fixed service fee of HK\$600,000 in aggregate per annum. Another management agreement relates to CRH entrusting the Company to manage CRH's 65% and 55% interests in Yunnan China Resources Power (Honghe) Company Limited ("Yunnan Honghe") and Fuyang China Resources Power Company Limited ("Fuyang"), respectively, for a term of three years in return for a fixed service fee of HK\$2,000,000 in aggregate per annum. The last management agreement relates to CRNC entrusting the Company to manage CRNC's 25% interest in Hengshui Hengxing Power Generation Company Limited ("Hengfeng Phase II") for a term of one year in return for a fixed service fee of HK\$300,000 per annum. All management agreements grant to the Company a right of renewal subject to the agreement of the parties in respect of the service fees thereunder.
- (d) The Company entered into two trade mark licence agreements dated 17 October 2003 with CRNC and CRH, respectively, under which the Company was granted irrevocable, royalty free and non-exclusive licences to use certain trade marks and the rights to sub-licence the same to any member of the Group in consideration of a nominal amount of HK\$1.00 each.
- (e) A deed of option dated 17 October 2003 was executed by CRH in favour of the Company, under which the Company was granted options, in consideration of a nominal amount of HK\$1.00, to acquire from CRH its entire (i) 48% interest in Dongguan Houjie, (ii) 65% interest in Yunnan Honghe and (iii) 55% interest in Fuyang. Subject to the approval of our shareholders, we may exercise our rights to acquire each of these power plants within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of each power plant which will be shown in the financial statements of CRH or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which each option is exercised.



CONNECTED TRANSACTIONS (CONT'D)

CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY

(CONT'D)

- (f) On 12 February 2003, a bank loan guarantee was provided to China Construction Bank of Zhengzhou City Lucheng Branch by the Company in favour of China Resources (Dengfeng Henan) Electric Power Development Company Limited ("CR Dengfeng") in respect of an unsecured loan of RMB90,000,000 which is repayable on or before 11 February 2004. The Company has not received any security in consideration of providing such guarantee. The above sum was repaid in full by CR Dengfeng in February 2004.
- (g) A sum of US\$10,010,000 was lent by CRH to the Company in September 2003 without requiring any security or interest charges, which has been repaid in full by the Company in January 2004.

CONNECTED TRANSACTIONS ENTERED INTO BY CHINA RESOURCES POWER HUNAN LIYUJIANG COMPANY LIMITED ("CR LIYUJIANG"), A SUBSIDIARY OF THE COMPANY

- (h) On 24 December 2002, Hunan Province Electric Power Construction and Development General Company ("HPEPC"), a shareholder with a 40% interest in CR Liyujiang, provided a guarantee to China Construction Bank Zi Xing Branch ("Construction Bank") in favour of CR Liyujiang in respect of 40% of the RMB1,000,000,000 loan taken out by CR Liyujiang. The loan has a term of 16 years and will be fully repaid on or before 26 December 2018.
- (i) On 30 October 2003, the Company was approved by Construction Bank and China Development Bank, respectively, to replace CRH as the guarantor in respect of the loans of RMB1,000,000,000 and RMB1,088,000,000, respectively, granted to CR Liyujiang. The guaranteed amount of the former loan is RMB600,000,000, being 60% of the loan amount, repayable on or before 26 December 2018. The guaranteed amount of the latter loan is RMB652,800,000, being 60% of the loan amount, and is repayable on or before 29 December 2019.
- (j) On 8 November 2001, by way of an open tender, an equipment installation supervision contract was entered into between CR Liyujiang and Hunan Power Construction Supervisory Consulting Co., Ltd. ("HPCSC"), a wholly owned subsidiary of HPEPC under which HPCSC provides supervision and consultancy services in connection with the Liyujiang Power Plant equipment installation work (excluding the coal supply railroad system and transmission lines) for a total service fee of RMB3,300,000. The scope of services provided by HPCSC covers the control of quality, cost, safety, progress and general logistic of the equipment installation work. The contract would expire upon the completion of the equipment installation and the satisfactory acceptance of work by CR Liyujiang.
- (k) On 17 January 2003, by way of an open tender, CR Liyujiang entered into a maintenance contract with Hunan Province Power Installation Engineering Co. Ltd. ("HPPIE"), a wholly owned subsidiary of HPEPC (the "Maintenance Contract") under which HPPIE agreed to provide general repair and maintenance services and carries out 18 inspections per annum in connection with the 500 KV transmission line, for a term of three years commencing in June 2003. The total service fee under the Maintenance Contract is RMB8,753,604.



CONNECTED TRANSACTIONS (CONT'D)

CONNECTED TRANSACTION MADE BY CRNC IN FAVOUR OF THE COMPANY

- (l) A deed of option dated 17 October 2003 was executed by CRNC in favour the Company, under which the Company was granted an option, in consideration of a nominal amount of HK\$1.00, to acquire all of CRNC's interest in 25% of the entire registered capital of Hengshui Hengxing Power Generation Co., Ltd. ("Hengfeng Phase II"). Subject to the approval of the shareholders, the Company may exercise its right of acquisition within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of Hengfeng Phase II which will be shown in the financial statements of CRNC or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which the option is exercised.

CONNECTED TRANSACTION ENTERED INTO BY CHINA RESOURCES (LUOYANG) THERMAL POWER COMPANY LIMITED ("CR LUOYANG")

- (m) On 22 September 2003, a bank loan guarantee was provided to China Construction Bank Luoyang Branch by Luoyang Shoulong Group Co., Ltd., a Chinese joint venture partner which is interested in 24% of the registered share capital of CR Luoyang, in favour of CR Luoyang in respect of an unsecured loan of RMB150,000,000. Such loan is repayable by CR Luoyang on or before 20 September 2004. Neither the Company nor CR Luoyang has given any security to Luoyang Shoulong Group Co., Ltd. in respect of such guarantee.

CONNECTED TRANSACTION ENTERED INTO BY CHINA RESOURCES (JIAOZUO) THERMAL POWER COMPANY LIMITED ("CR JIAOZUO")

- (n) On 29 January 2003, a bank loan guarantee was provided to Industrial and Commercial Bank of China Jiaozuo Branch by Jiaozuo Power Group Corp. Ltd., the Chinese joint venture partner which is interested in 40% of the registered share capital of CR Jiaozuo, in favour of CR Jiaozuo in respect of the RMB50,000,000 loan taken out by CR Jiaozuo. The loan was fully repaid on 20 January 2004.

The independent non-executive Directors have confirmed that the above transactions:

- (i) have been entered into in the ordinary course of its business;
- (ii) had been entered into either:
 - (a) on normal commercial terms; or
 - (b) where there was no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties; and
- (iii) had been entered into on terms that are fair and reasonable so far as the independent shareholders of the Company are concerned, and in accordance with the terms of the agreement governing such transactions.



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

MAJOR CUSTOMERS AND SUPPLIERS

Purchases from the Group's five highest suppliers together accounted for 38.8% of the Group's total purchases during the year. The five highest suppliers are 湖南省資興礦業集團有限責任公司 (14.3%), 廣州黑金子燃料有限公司 (8.6%), 萍鄉市新嶺煤炭貿易有限公司 (7.8%), 萍鄉升日燃料有限責任公司 (4.5%), and 及婁底市新平煤炭有限公司 (3.6%). The Group has no interest in them.

Turnover during the year wholly represents the sale of electricity to Guangdong Guangdong Power Grid Group Company Limited.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

We are committed to maintaining a high standard of corporate governance. For details, please refer to page 22 to page 27 in this Annual Report.

The financial statements have been reviewed by the Audit Committee. All of its members are appointed from the independent non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied in the period between the date of the listing of the Shares and 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 39 to the financial statements.



AUDITORS

The financial statements for the year have been audited by Messrs Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

Song Lin

Chairman

Hong Kong, 29 March 2004



德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF
CHINA RESOURCES POWER HOLDINGS COMPANY LIMITED
華潤電力控股有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 58 to 95 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2003 and of the profit and cash flows of the Group for year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 29 March 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003



| | NOTES | 2003 HK\$'000 | 2002 HK\$'000 |
|--|-------|------------------|------------------|
| Turnover | 4 | 491,114 | — |
| Operating expenses | | | |
| Fuel | | (218,751) | — |
| Repairs and maintenance | | (1,933) | — |
| Depreciation and amortisation | | (45,251) | (516) |
| Others | | (103,111) | (25,478) |
| Total operating expenses | | (369,046) | (25,994) |
| Other operating income | | 7,693 | 1,244 |
| Profit (loss) from operations | 5 | 129,761 | (24,750) |
| Finance costs | 6 | (34,488) | — |
| Share of results of associates | | 733,858 | 57,757 |
| Share of result of jointly controlled entity | | 92,525 | — |
| Amortisation of goodwill of associates | | (29,825) | (1,824) |
| Release of negative goodwill of associates | | 2,105 | 988 |
| Loss on partial disposal of interest in an associate | | (23,676) | — |
| Profit before taxation | | 870,260 | 32,171 |
| Taxation | 7 | (163,806) | (6,752) |
| Profit before minority interests | | 706,454 | 25,419 |
| Minority interests | | (116,994) | 2,689 |
| Net profit for the year | | 589,460 | 28,108 |
| Dividend | | — | — |
| Earnings per share | 10 | | |
| - basic | | 20.42 cents | 1.02 cents |
| - diluted | | 20.41 cents | N/A |

CONSOLIDATED BALANCE SHEET

At 31 December 2003



| | NOTES | 2003 HK\$'000 | 2002 HK\$'000 |
|--|-------|-------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 6,138,496 | 1,921,280 |
| Interests in associates | 13 | 3,739,457 | 3,588,071 |
| Interest in jointly controlled entity | 14 | 992,133 | — |
| Goodwill | 15 | 111,508 | 117,377 |
| Negative goodwill | 16 | (54,087) | (54,087) |
| Deferred taxation assets | 29 | 5,942 | 5,942 |
| | | 10,933,449 | 5,578,583 |
| Current assets | | | |
| Inventories | 17 | 10,054 | — |
| Trade receivables, other receivables and prepayments | 18 | 311,687 | 5,342 |
| Amounts due from associates | 19 | 1,888 | 43,519 |
| Amounts due from fellow subsidiaries | 20 | 2,007 | — |
| Amount due from ultimate holding company | 20 | 62 | — |
| Amount due from a related company | 21 | 13 | 449 |
| Bank balances and cash | | 3,735,146 | 101,635 |
| | | 4,060,857 | 150,945 |
| Current liabilities | | | |
| Trade payables, other payables and accruals | 22 | 874,132 | 257,600 |
| Amount due to immediate holding company | 23 | 77,563 | 12,141 |
| Amount due to a fellow subsidiary | 20 | 782 | 826 |
| Amounts due to associates | 24 | 6,401 | — |
| Amounts due to shareholders of an associate | 25 | 3,978 | 3,978 |
| Loans from minority shareholders of subsidiaries | 26 | — | 16,024 |
| Borrowings - repayable within one year | 27 | 1,915,958 | 838,367 |
| | | 2,878,814 | 1,128,936 |
| Net current assets (liabilities) | | 1,182,043 | (977,991) |
| Total assets less current liabilities | | 12,115,492 | 4,600,592 |
| Non-current liabilities | | | |
| Loans from minority shareholders of subsidiaries | 26 | 239,393 | 204,325 |
| Borrowings - repayable over one year | 27 | 2,372,202 | 377,040 |
| Loans from immediate holding company | 28 | — | 3,662,626 |
| Deferred taxation liabilities | 29 | 916 | — |
| | | 2,612,511 | 4,243,991 |
| Minority interests | | 558,328 | 257,019 |
| | | 8,944,653 | 99,582 |

CONSOLIDATED BALANCE SHEET (CONT'D)

At 31 December 2003



| | NOTES | 2003 HK\$'000 | 2002 HK\$'000 |
|----------------------|-------|------------------|------------------|
| Capital and reserves | | | |
| Share capital | 30 | 3,808,000 | 10 |
| Reserves | 32 | 5,136,653 | 99,572 |
| | | 8,944,653 | 99,582 |

The financial statements on pages 58 to 95 were approved by the Board of Directors and authorised for issue on 29 March 2004 and are signed on its behalf by:

SONG LIN
DIRECTOR

WANG SHUAI TING
DIRECTOR

BALANCE SHEET

At 31 December 2003



| | NOTES | 2003 HK\$'000 | 2002 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 1,635 | 1,530 |
| Interests in subsidiaries | 12 | 6,090,787 | 3,783,607 |
| | | 6,092,422 | 3,785,137 |
| Current assets | | | |
| Other receivables and prepayments | | 1,732 | 1,434 |
| Amount due from an associate | 19 | — | 1,950 |
| Amounts due from fellow subsidiaries | 20 | 54 | — |
| Amount due from ultimate holding company | 20 | 62 | — |
| Amount due from a related company | 21 | 13 | 449 |
| Bank balances and cash | | 2,359,890 | 8,628 |
| | | 2,361,751 | 12,461 |
| Current liabilities | | | |
| Other payables and accruals | | 46,568 | 57,100 |
| Amount due to immediate holding company | 23 | 77,563 | 11,823 |
| Amount due to a fellow subsidiary | 20 | 782 | — |
| Amount due to an associate | 24 | 161 | — |
| | | 125,074 | 68,923 |
| Net current assets (liabilities) | | 2,236,677 | (56,462) |
| Total assets less current liabilities | | 8,329,099 | 3,728,675 |
| Non-current liabilities | | | |
| Loans from immediate holding company | 28 | — | 3,662,626 |
| | | 8,329,099 | 66,049 |
| Capital and reserves | | | |
| Share capital | 30 | 3,808,000 | 10 |
| Reserves | 32 | 4,521,099 | 66,039 |
| | | 8,329,099 | 66,049 |

SONG LIN
DIRECTOR

WANG SHUAI TING
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003



| | Share capital HK\$'000 | Share premium HK\$'000 | General reserve HK\$'000 (note 32) | Special reserve HK\$'000 (note 32) | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|--|--|---------------------------------|------------------------------|-------------------|
| At 1 January 2002 | 10 | — | — | 40,782 | — | 30,485 | 71,277 |
| Exchange differences from translation of operations outside Hong Kong not recognised in the consolidated income statement | — | — | — | — | 197 | — | 197 |
| Net profit for the year | — | — | — | — | — | 28,108 | 28,108 |
| Transfer | — | — | 4,741 | — | — | (4,741) | — |
| At 31 December 2002 | 10 | — | 4,741 | 40,782 | 197 | 53,852 | 99,582 |
| Issue of shares | | | | | | | |
| - by capitalisation issue pursuant to Group Reorganisation before listing | 2,749,990 | 2,672,066 | — | — | — | — | 5,422,056 |
| - upon listing | 1,058,000 | 1,904,400 | — | — | — | — | 2,962,400 |
| Expenses in connection with issue of new shares | — | (107,474) | — | — | — | — | (107,474) |
| Exchange differences from translation of operations outside Hong Kong not recognised in the consolidated income statement | — | — | — | — | (21,371) | — | (21,371) |
| Net profit for the year | — | — | — | — | — | 589,460 | 589,460 |
| Transfer | — | — | 42,001 | — | — | (42,001) | — |
| At 31 December 2003 | 3,808,000 | 4,468,992 | 46,742 | 40,782 | (21,174) | 601,311 | 8,944,653 |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003



| | NOTE | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------|--------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Profit before taxation | | 870,260 | 32,171 |
| Adjustments for: | | | |
| Depreciation for property, plant and equipment | | 39,382 | 516 |
| Effect on foreign exchange rate change | | — | 120 |
| Interest expenses | | 34,488 | — |
| Interest income | | (1,548) | (89) |
| Amortisation of goodwill of subsidiaries | | 5,869 | — |
| Share of results of associates | | (733,858) | (57,757) |
| Share of result of jointly controlled entity | | (92,525) | — |
| Amortisation of goodwill of associates | | 29,825 | 1,824 |
| Release of negative goodwill of associates | | (2,105) | (988) |
| Loss on partial disposal of interest in an associate | | 23,676 | — |
| Operating cash flows before movements in working capital | | 173,464 | (24,203) |
| Increase in inventories | | (10,054) | — |
| Increase in trade receivables, other receivables and prepayments | | (306,435) | (4,294) |
| Decrease (increase) in amounts due from associates | | 939 | (1,950) |
| Increase in amounts due from fellow subsidiaries | | (2,007) | — |
| Increase in amount due from ultimate holding company | | (62) | — |
| Decrease (increase) in amounts due from related companies | | 436 | (449) |
| Increase in trade payables, other payables and accruals | | 97,182 | 6,591 |
| Increase in amount due to immediate holding company | | 1,668 | 5,488 |
| Decrease in amount due to a fellow subsidiary | | (44) | (12) |
| Increase in amounts due to associates | | 8,451 | 839 |
| NET CASH USED IN OPERATING ACTIVITIES | | (36,462) | (17,990) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (3,656,048) | (1,428,706) |
| Purchase of additional interest in associates | | (108,569) | — |
| Increase in pledged bank deposits | | (39,246) | — |
| Capital repatriated from an associate | | 549,588 | — |
| Proceeds of partial disposal of interest in an associate | | 373,447 | — |
| Dividends received from an associate | | 136,548 | — |
| Repayment of loan to an associate | | 15,812 | 14,587 |
| Interest received | | 1,548 | 89 |
| Acquisitions of subsidiaries/business | 33 | — | (3,024,832) |
| NET CASH USED IN INVESTING ACTIVITIES | | (2,726,920) | (4,438,862) |

CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

For the year ended 31 December 2003



| | NOTE | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------|--------------------|------------------|
| FINANCING ACTIVITIES | | | |
| Proceeds on issue of share | | 2,962,400 | — |
| Expenses incurred in connection with the issue of shares | | (107,474) | — |
| Interest paid | | (124,037) | (26,953) |
| Capital contribution from minority shareholders | | 54,047 | 23,125 |
| New bank and other loans raised | | 4,091,724 | 1,545,317 |
| Repayment of bank loans | | (1,013,040) | (556,134) |
| Loans raised from minority shareholders of subsidiaries | | 21,585 | 16,024 |
| Repayment of loans raised from minority shareholders of subsidiaries | | (102,874) | — |
| Loans raised from immediate holding company | | 676,696 | 3,529,760 |
| Repayment of loans from immediate holding company | | (97,500) | — |
| NET CASH FROM FINANCING ACTIVITIES | | 6,361,527 | 4,531,139 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 3,598,145 | 74,287 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 101,635 | 27,348 |
| EFFECT ON FOREIGN EXCHANGE RATE CHANGE | | (3,880) | — |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 34 | 3,695,900 | 101,635 |



1. GENERAL

The Company is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors regard the ultimate holding company as at 31 December 2003 to be China Resources National Corporation ("CRNC"), a company established in the People's Republic of China ("PRC").

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entity are set out in notes 12, 13 and 14, respectively.

The Company had undertaken a group reorganisation for the purpose of the preparation of the Company's shares to be listed on the Stock Exchange (the "Group Reorganisation"). Details of the Group Reorganisation are set out in the section headed "Business - Reorganization" of the Company's prospectus dated 3 November 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The significant accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary, associate, or jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of an acquired subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on the acquisition is presented separately in the consolidated balance sheet as deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate or jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

Joint venture

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill or less the negative goodwill, where appropriate in so far as it has not already been written off, amortised or released to income, where appropriate, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Sales of electricity are recognised when electricity has been delivered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income is recognised when the Group's right to receive payments has been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives are as follows:

| | |
|---|--------------------------------------|
| Leasehold land | Over the remaining term of the lease |
| Buildings | 20 to 30 years |
| Power generating plant and equipment | 15 to 18 years |
| Motor vehicles, furniture, fixtures, equipment and others | 3 to 10 years |

Construction in progress represents assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined. They are carried at cost, less any identified impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment

At each balance sheet date, the Group reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories which consist of coal, fuel, spare parts and consumables are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred taxation is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is also dealt with in equity.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that are those that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the costs of those assets.

All other borrowing costs are expensed in the year in which they are incurred.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currency translation

The Company maintains its books and records in Hong Kong dollars.

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit contributions

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3. SEGMENT INFORMATION

Business segments

The Group's principal activities are the development and operation of power stations as a single business segment.

Geographical segments

All of the Group's assets and liabilities are principally located in the PRC and operations for the year were substantially made in the PRC. Accordingly, no geographical segment information for the year is presented.

4. TURNOVER

Turnover represents the net amount received and receivable for the sales of electricity during the year.



5. PROFIT (LOSS) FROM OPERATIONS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Profit (loss) from operations has been arrived at after charging: | | |
| Directors' remuneration | | |
| - Fees | 137 | — |
| - Other emoluments | 1,474 | 1,007 |
| Other staff costs | 1,611 | 1,007 |
| Pension costs, excluding directors | 36,830 | 19,627 |
| | 3,687 | 186 |
| Total staff costs | 42,128 | 20,820 |
| Less: Staff costs included in pre-operating expenses of subsidiaries | (5,024) | (3,323) |
| | 37,104 | 17,497 |
| Auditors' remuneration | 2,143 | 445 |
| Depreciation | 39,382 | 516 |
| Amortisation of goodwill of subsidiaries | 5,869 | — |
| Minimum lease payments under operating leases in respect of land and buildings | 1,249 | 1,071 |
| Write-off of pre-operating expenses of subsidiaries | 18,925 | 10,700 |
| and after crediting: | | |
| Interest income | 1,548 | 89 |
| Expenses capitalised in construction in progress: | | |
| Other staff costs | 38,756 | 9,771 |
| Pension costs | 914 | — |
| Depreciation | 2,280 | 8 |
| Minimum lease payments under operating leases in respect of: | | |
| - land and buildings | 167 | 179 |
| - other assets | 128 | 82 |

6. FINANCE COSTS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Interest on bank and other loans: | | |
| - wholly repayable within five years | (55,244) | (26,953) |
| - not wholly repayable within five years | (68,793) | — |
| | (124,037) | (26,953) |
| Less: Interest capitalised | 89,549 | 26,953 |
| | (34,488) | — |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



7. TAXATION

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| The charge comprises: | | |
| The Company and its subsidiaries | | |
| - Hong Kong Profits Tax | — | — |
| - PRC Enterprise Income Tax | — | — |
| - Deferred taxation (note 29) | (919) | — |
| Taxation attributable to the Company and its subsidiaries | (919) | — |
| Share of taxation attributable to associates and jointly controlled entity | | |
| - Hong Kong Profits Tax | — | — |
| - PRC Enterprise Income Tax | (139,941) | (4,355) |
| - Deferred taxation | (22,946) | (2,397) |
| | (162,887) | (6,752) |
| | (163,806) | (6,752) |

PRC Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries, associates and jointly controlled entity in the PRC.

The share of deferred taxation charge attributable to associates and jointly controlled entity principally represents the share of provision for deferred taxation recognised in respect of temporary differences arising as a result of the excess of tax depreciation over accounting depreciation.

The taxation charge can be reconciled to the profit before taxation per the consolidated income statement as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Profit before taxation | 870,260 | 32,171 |
| Less: Share of results of associates | (733,858) | (57,757) |
| Share of result of a jointly controlled entity | (92,525) | — |
| Profit (loss) before taxation attributable to the Company and its subsidiaries | 43,877 | (25,586) |
| Tax at applicable rate of 17.5% (2002: 16%) | (7,678) | 4,094 |
| Tax effect of income that is not taxable in determining current year taxable profit | 1,441 | 357 |
| Tax effect of expenses that are not deductible in determining current year taxable profit | (14,832) | (4,451) |
| Effect of tax exemptions granted to PRC subsidiaries | 23,278 | — |
| Tax effect of tax losses not recognised | (3,128) | — |
| Tax expense for the year | (919) | — |



8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Details of directors' remuneration are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Non-executive directors | | |
| Fees | 137 | — |
| Executive directors | | |
| Fees | — | — |
| Salaries and other benefits | 1,423 | 538 |
| Pension costs | 51 | 20 |
| Performance related incentive payments | — | 449 |
| | 1,611 | 1,007 |

The directors' remuneration of each director of the Company for each of the years falls within the band of less than HK\$1,000,000.

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals (including three (2002: one) directors, whose remunerations are set out above together with the remuneration before their appointments as directors, and remaining two (2002: four) employees) for the year are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 2,886 | 1,851 |
| Pension costs | 111 | 77 |
| Performance related incentive payments | — | 900 |
| | 2,997 | 2,828 |

Remuneration of the five highest paid individuals for each of the years falls within the band of less than HK\$1,000,000.

During the year, no remuneration has been paid by the Group to the directors or the five highest paid individuals as an inducements to join or upon joining the Group or as a compensation for loss of office. No directors have waived any remunerations during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



9. RETIREMENT BENEFIT SCHEMES

(a) Hong Kong

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

During the year, the total amounts contributed by the Group to the scheme in Hong Kong and charged to the consolidated income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Amount contributed and charged to the consolidated income statement | 460 | 206 |

(b) PRC

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

The total cost (i) charged to the consolidated income statement or (ii) capitalised in construction in progress in respect of the above-mentioned schemes in the PRC during each of the years are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Amount contributed and charged to the consolidated income statement | 3,278 | — |
| Amount contributed and capitalised in the construction in progress | 914 | — |



10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|---------------------------|------------------|
| Net profit for the year and earnings for the purposes of basic and diluted earnings per share | 589,460 | 28,108 |
| | Number of ordinary shares | |
| | 2003 | 2002 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 2,886,235,616 | 2,750,000,000 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 1,054,740 | |
| Over-allotment options | 399,981 | |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 2,887,690,337 | |

For the purpose of calculation of earnings per share for 2002, the weighted average number of 2,750,000,000 shares in issue for 2002 was assumed that the capitalisation issue pursuant to the Group Reorganisation was taken place on 1 January 2002.

No diluted earnings per share has been presented for 2002 as there were no dilutive potential ordinary shares in 2002.

11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$'000 | Power generating plant and equipment HK\$'000 | Motor vehicles, furniture, equipment and others HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|-----------------------|--------------------------------|--|---|--------------------------------------|-------------------|
| THE GROUP | | | | | |
| COST | | | | | |
| At 1 January 2003 | — | — | 6,651 | 1,915,251 | 1,921,902 |
| Currency realignment | — | — | (18) | (9,274) | (9,292) |
| Additions | 1,142 | 175 | 15,984 | 4,250,868 | 4,268,169 |
| Transfer | 388,435 | 1,536,341 | — | (1,924,776) | — |
| At 31 December 2003 | 389,577 | 1,536,516 | 22,617 | 4,232,069 | 6,180,779 |
| DEPRECIATION | | | | | |
| At 1 January 2003 | — | — | 622 | — | 622 |
| Currency realignment | — | — | (1) | — | (1) |
| Provided for the year | 6,919 | 31,857 | 2,886 | — | 41,662 |
| At 31 December 2003 | 6,919 | 31,857 | 3,507 | — | 42,283 |
| NET BOOK VALUES | | | | | |
| At 31 December 2003 | 382,658 | 1,504,659 | 19,110 | 4,232,069 | 6,138,496 |
| At 31 December 2002 | — | — | 6,029 | 1,915,251 | 1,921,280 |

The Group's land and buildings are situated in the PRC and held under medium term leases.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Motor vehicles furniture, fixtures, equipment and others HK\$'000 |
|-----------------------|--|
| THE COMPANY | |
| COST | |
| At 1 January 2003 | 2,088 |
| Additions | 701 |
| At 31 December 2003 | 2,789 |
| DEPRECIATION | |
| At 1 January 2003 | 558 |
| Provided for the year | 596 |
| At 31 December 2003 | 1,154 |
| NET BOOK VALUES | |
| At 31 December 2003 | 1,635 |
| At 31 December 2002 | 1,530 |

12. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Unlisted shares/capital contribution, at cost | 3,010,998 | 739,817 |
| Amounts due from subsidiaries (note) | 3,079,789 | 3,043,790 |
| | 6,090,787 | 3,783,607 |

Note: The amounts are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand for the repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.



12. INTERESTS IN SUBSIDIARIES (CONT'D)

Details of the Company's principal subsidiaries as at 31 December 2003 are set out below.

| Name of subsidiary | Place of incorporation/ registration/ and operations | Issued and fully paid share capital/ registered and paid-up capital | Proportion of nominal value of issued capital/registered capital held by the Company | | Principal activities |
|--|--|--|--|--------------|--------------------------------|
| | | | Directly % | Indirectly % | |
| Leader Best Limited 豐能有限公司 | Hong Kong | Ordinary shares - HK\$10,000 Non-voting deferred shares - HK\$10,000 | 100 | — | Investment holding |
| Resources Shajiao C Investments Limited 香港潤朗沙角投資有限公司 | Hong Kong | Ordinary shares - HK\$9,999 Special share - HK\$1 | — | 73.9 | Investment holding |
| China Resources (Dengfeng Henan) Electric Power Development Company Limited 河南華潤電力(登封)開發有限公司 (Sino-Foreign Equity Joint Venture) | PRC | Registered and paid-up capital - US\$26,510,000 | 85 | — | Development of a power station |
| China Resources (Luoyang) Thermal Power Company Limited 洛陽華潤熱電有限公司 (Sino-Foreign Equity Joint Venture) | PRC | Registered and paid-up capital - RMB80,000,000 | 51 | — | Development of a power station |
| China Resources Power (Changshu) Company Limited 華潤電力(常熟)有限公司 (Wholly-Owned Foreign Enterprise) | PRC | Registered capital - US\$173,520,000 Paid-up capital - US\$69,399,981 | 100 | — | Development of a power station |
| China Resources Power Hunan Liyujiang Company Limited 湖南華潤電力鯉魚江有限公司 (Sino-Foreign Equity Joint Venture) (note a) | PRC | Registered capital - RMB696,000,000 Paid-up capital - RMB354,960,000 | 60 | — | Operation of a power station |
| Puqi Sithe Power Generating Company Limited 蒲圻賽德發電有限公司 (Wholly-Owned Foreign Enterprise) (note b) | PRC | Registered capital - US\$150,000,000 Paid-up capital - US\$77,200,000 | 100 | — | Development of a power station |
| China Resources (Jiaozuo) Thermal Power Co., Ltd. 焦作華潤熱電有限公司 (Sino-Foreign Equity Joint Venture) | PRC | Registered capital - RMB267,540,000 Paid-up capital - RMB34,079,500 | — | 60 | Development of a power station |
| China Resources Power Performance Company Limited | BVI# | Share - HK\$0.01 | 100 | — | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



12. INTERESTS IN SUBSIDIARIES (CONT'D)

| Name of subsidiary | Place of incorporation/ registration and operations | Issued and fully paid share capital/ registered and paid-up capital | Proportion of nominal value of issued capital/registered capital held by the Company | | Principal activities |
|---|---|---|---|-----------------|-----------------------------------|
| | | | Directly % | Indirectly % | |
| 唐山市西郊熱電二期 工程籌建處 ("Tangshan") (note c) | PRC | N/A | — | 80 | Development of a power station |
| 河南華潤電力首陽山有限 公司籌辦處 ("Shouyangshan") (note d) | PRC | N/A | — | 80 | Development of a power station |

The company is an investment holding company which has no specific principal place of operations.

The above table lists the subsidiaries of the Group which in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes:

- (a) As at 31 December 2003, the minority shareholder of China Resources Power Hunan Liyujiang Company Limited has not yet paid up the required capital contribution. The Company has notified the minority shareholder to pay up the required capital contribution.
- (b) On 22 October 2002, the Company acquired with cash consideration a 100% equity interest in Puqi Sithe Power Generating Company Limited ("Puqi") from third parties. Upon expiry of the operating period, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Puqi will be distributed to the Group. The power generating related assets and other property, plant and equipment will be reverted to Hubei Provincial Local Government or other authority department without compensation.
- (c) On 2 May 2003, the pre-operation office - Tangshan was set up by the Company and third parties, and the Company holds 60% interest in such pre-operation office. The pre-operation office undertook all business activities until the pre-operation office completed its registration in January 2004. Upon the establishment of relevant registered company, all of the assets and liabilities and results of the pre-operation office will be taken up by that company. For the purpose of preparation of these financial statements, the assets and liabilities and results of the pre-operation office during the year were included in the consolidated financial statements since its establishment on 2 May 2003. Thereafter during the year, the Company has reached an agreement with the other parties and the Company's interest in Tangshan has been increased from 60% to 80%.
- (d) On 11 April 2003, the pre-operation office - Shouyangshan was set up for pre-operational activities by the Company and third parties, and the Company had a 86% interest in such pre-operation office. Such pre-operation office is undertaking all business activities until the pre-operation office completes its registration. Upon the establishment of relevant registered company, all of the assets and liabilities and results of the pre-operation office will be taken up by that company. For the purpose of preparation of these financial statements, the assets and liabilities and results of the pre-operation office during the year were included in the consolidated financial statements since its establishment on 11 April 2003. Thereafter during the year, the Company has reached an agreement with the other parties and the Company's interest in Shouyangshan has been decreased from 86% to 80%.



13. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|--|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Share of attributable net assets | 3,424,633 | 3,095,208 |
| Unamortised goodwill/negative goodwill | 314,824 | 477,051 |
| Loans to associates (note) | 3,739,457 | 3,572,259 |
| | — | 15,812 |
| | 3,739,457 | 3,588,071 |

Note: The amounts were unsecured, bore interest at 10% per annum and fully repaid during the year.

| | Negative goodwill HK\$'000 | Goodwill HK\$'000 | Total HK\$'000 |
|--|----------------------------------|----------------------|-------------------|
| MOVEMENTS OF GOODWILL/NEGATIVE GOODWILL OF ASSOCIATES | | | |
| COST | | | |
| At 1 January 2002 | — | — | — |
| Arising on acquisition of associates | (19,269) | 497,156 | 477,887 |
| At 31 December 2002 | (19,269) | 497,156 | 477,887 |
| Arising on increase of shareholding in associate | (27,899) | — | (27,899) |
| Eliminated on partial disposal of interest in an associate | — | (44,371) | (44,371) |
| Fair value adjustment | — | (65,650) | (65,650) |
| At 31 December 2003 | (47,168) | 387,135 | 339,967 |
| AMORTISATION/RELEASE TO INCOME | | | |
| At 1 January 2002 | — | — | — |
| Amortised during the year | — | 1,824 | 1,824 |
| Released during the year | (988) | — | (988) |
| At 31 December 2002 | (988) | 1,824 | 836 |
| Amortised during the year | — | 29,825 | 29,825 |
| Released during the year | (2,105) | — | (2,105) |
| Eliminated on partial disposal of interest in an associate | — | (3,413) | (3,413) |
| At 31 December 2003 | (3,093) | 28,236 | 25,143 |
| CARRYING VALUES | | | |
| At 31 December 2003 | (44,075) | 358,899 | 314,824 |
| At 31 December 2002 | (18,281) | 495,332 | 477,051 |

The purchased goodwill of associates is amortised over the estimated useful lives of 13 to 19 years.

The negative goodwill of associates is released to income on a straight line basis of 12 to 18 years, the remaining weighted average useful life of the depreciable assets of the associates acquired.

Fair value adjustment on acquisition of an associate in 2002 resulted from the change in the estimation of the tariff imposed by Guangdong Pricing Bureau on Guangdong Guanghope Power Co., Ltd. from 1 July 2002 (see note 39).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



13. INTERESTS IN ASSOCIATES (CONT'D)

Particulars of associates held by the Group at 31 December 2003 are as follows:

| Name of associate | Place of registration | Issued and fully paid registered and paid-up capital | Attributable equity interest held by the Group | Principal activities |
|---|-----------------------|---|--|------------------------------|
| Guangdong Guanghope Power Co., Ltd. ("Guangdong Guanghope") (note a below) 廣東廣合電力有限公司 (Sino-Foreign Co-operative Joint Venture) | PRC | Registered and paid-up capital - US\$375,000,000 | 29.56% | Operation of a power station |
| Hebei Harv Power Generation Company Limited 河北衡豐發電有限責任公司 (Sino-Foreign Equity Joint Venture) | PRC | Registered and paid-up capital - RMB777,000,000 | 25% | Operation of a power station |
| Zhejiang Wenzhou Telluride Power Generating Company Limited ("Wenzhou Telluride") (note b below) 浙江溫州特魯萊電力有限公司 (Sino-Foreign Co-operative Joint Venture) | PRC | Registered capital - RMB861,250,000 Paid-up capital - RMB834,935,000 | 40% | Operation of a power station |
| China Resources (Xuzhou) Electric Power Company Limited ("Xuzhou Power") (note c below) 徐州華潤電力有限公司 (Sino-Foreign Equity Joint Venture) | PRC | Registered and paid-up capital - RMB458,310,000 | 35% | Operation of a power station |

Notes:

(a) *Guangdong Guanghope - significant associate*

On 23 December 2002, the Company through its wholly-owned subsidiary, China Resources Power Performance Company Limited, acquired for cash consideration from a third party a 82.5% equity interest in Resources Shajiao C Investments Limited ("Resources Shajiao") which holds a 40% interest in Guangdong Guanghope.

Resources Shajiao entered into a joint venture contract and supplemental agreements with Guangdong Province Shajiao (Plant-C) Power Generation Corporation ("Shajiao Power") for the construction, operation and management of the Guangdong Province Shajiao C Power Station in Guangdong Province of the PRC, which are undertaken by Guangdong Guanghope, a co-operative joint venture company established in the PRC. The co-operation period which commenced on 15 June 1992 and will expire 20 years after the contract completion date of construction of the power station in June 1996. Upon expiry of the co-operation period, all the remaining assets of Guangdong Guanghope will be reverted to the PRC partner without compensation.

Resources Shajiao is entitled to a share of 40% of the profit generated by Guangdong Guanghope after the deduction of a special electricity fund to be distributed to Shajiao Power as specified in the joint venture contracts. The special electricity fund is calculated as to 30% of the net profit generated by Guangdong Guanghope for the initial ten years of the co-operation period and as to 60% of the net profit generated by Guangdong Guanghope for the remaining ten years of the co-operation period. No dividend can be declared and paid out by Guangdong Guanghope until all its syndicated borrowings, shareholders' loan and loan related to early generation profits have been repaid, and registered capital has been repatriated. Resources Shajiao is entitled to share the result of Guangdong Guanghope attributable to the Group of an amount of HK\$382,412,000 for the year ended 31 December 2003.



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(a) Guangdong Guanghope - significant associate (cont'd)

In September 2003, 3.9% of the issued share capital of Resources Shajiao (representing 1.56% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US\$10,010,000.

In September 2003, the Group entered into a conditional contract to dispose of 12.5% of the issued share capital of Resources Shajiao for a cash consideration of US\$45,454,545. The agreement was completed on 23 December 2003.

The extracts of the unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 of Guangdong Guanghope and the extracts of audited comparative figures for 2002, are as follows:

Balance sheet

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------|-----------------|-----------------|
| Non-current assets | 8,951,367 | 9,738,390 |
| Current assets | 453,543 | 425,940 |
| Current liabilities | (509,308) | (546,194) |
| Non-current liabilities | (621,827) | (1,310,468) |
| Shareholders' funds | 8,273,775 | 8,307,668 |

Income statement

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------|-----------------|-----------------|
| Turnover | 4,214,541 | 4,673,403 |
| Net profit for the year | 879,012 | 1,345,726 |

Cash flow statement

| | 2003 RMB'000 | 2002 RMB'000 |
|--|-----------------|-----------------|
| Net cash from operating activities | 1,643,327 | 2,723,866 |
| Net cash (used in) from investing activities | (11,939) | 448 |
| Net cash used in financing activities | (1,756,430) | (2,666,222) |
| Net (decrease) increase in cash and cash equivalents | (125,042) | 58,092 |

Litigation and contingent assets

Guangdong Guanghope has sued People's Insurance Company of China ("PICC") in respect of an insurance claim for over US\$100 million arising from a major equipment breakdown in the main transformer of power generator No. 2 taken place between October 2000 and July 2001. From 1996 to 2002, Guangdong Guanghope maintained a business interruption insurance policy with PICC. After the breakdown of power generator No. 2 from October 2000 to July 2001, a dispute arose between Guangdong Guanghope and PICC regarding the nature of the accident and the insurance proceeds entitlement of Guangdong Guanghope. In April 2002, Guangdong Guanghope commenced legal proceedings against PICC at the Guangdong Provincial High Court, and a court hearing date had not been fixed as at 31 December 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(b) Wenzhou Telluride

(i) On 27 September 2002, the Company through its wholly-owned subsidiary, China Resources Power Dominance Company Limited ("CRP Dominance"), acquired with cash consideration a 100% equity interest in China Resources Power (Offshore) Limited ("CRP Offshore") from a third party which holds the following effective interests in the following subsidiaries:

- 100% interest in China Resources Telluride Power Limited ("CRP Telluride").
- 100% interest in China Resources Wenzhou Power Limited ("CRP Wenzhou").
- 94% interest in Telluride International Energy Limited Partnership ("Telluride International") which holds 40% interest in Wenzhou Telluride.
- 80% interest in Sithe FWA Power Company Limited which holds 60% interest in Dongguan Houjie Power Company Limited.

Effective on 27 September 2002, the entire issued share capital of CRP Telluride and the entire issued share capital of CRP Wenzhou were transferred by CRP Offshore to CRP Dominance under a sale and purchase agreement entered into pursuant to the Group Reorganisation.

Effective on 27 September 2002 immediately after the completion of the transfer referred to in the preceding paragraph, the entire issued share capital of CRP Offshore, which holds 80% interest in Sithe FWA Power Company Limited, was transferred by CRP Dominance to China Resources (Holdings) Company Limited ("CRH"), an immediate holding company, under a sale and purchase agreement entered into pursuant to the Group Reorganisation.

On 10 June 2003, the entire issued shares of Oxbow Asia-Pacific Power Corporation ("Oxbow"), a company incorporated in the Cayman Islands on 1 July 1994 and holds 6% of the entire partnership interests of Telluride International, was acquired by CRP Dominance from Oxbow Power Corporation pursuant to a sale and purchase agreement dated 10 June 2003. On 29 September 2003, 6% of the entire partnership interests of Telluride International were distributed as a dividend in specie by Oxbow to CRP Dominance. On 30 September 2003, a resolution was passed in general meeting of Oxbow for it to be voluntarily liquidated and its corporate director, CRP Dominance, was appointed as the liquidator.

(ii) Telluride International entered into a joint venture contract with Zhejiang Provincial Electric Power Development Company and Wenzhou Electric Power Investment Company Limited for the construction, operation and management of the Wenzhou Power Station in Zhejiang Province of the PRC, which are undertaken by Wenzhou Telluride, a co-operative joint venture company established in the PRC. The co-operation period shall be approximately 23 years and six months commencing from 25 September 1998. Upon expiry of the co-operation period, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Wenzhou Telluride will be distributed to owners according to respective equity interest ratio. The power generating related assets and other property, plant and equipment will be reverted to the PRC owners without compensation. As at 31 December 2003 and 2002, the Group owned 100% and 94% effective interest in Telluride International, respectively. Telluride International is entitled to share 40% of the operating surplus of Wenzhou Telluride.

At 31 December 2003, Telluride International has pledged its equity interest in Wenzhou Telluride and a bank deposit amounting to HK\$39,246,000 to a bank for securing the bank loans granted to Wenzhou Telluride of approximately HK\$717,213,000 (2002: HK\$859,218,000).



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(b) Wenzhou Telluride (cont'd)

(ii) (cont'd)

The extracts of the unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 of Wenzhou Telluride and the audited comparative figures, are as follows:

Balance sheet

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------|------------------|-----------------|
| Non-current assets | 2,718,869 | 2,873,064 |
| Current assets | 394,301 | 560,880 |
| Current liabilities | (252,515) | (210,706) |
| Non-current liabilities | (1,554,146) | (2,012,239) |
| Shareholders' funds | 1,306,509 | 1,210,999 |

Income statement

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------|------------------|-----------------|
| Turnover | 1,321,227 | 1,292,010 |
| Net profit for the year | 355,181 | 351,631 |

Cash flow statement

| | 2003 RMB'000 | 2002 RMB'000 |
|--|------------------|-----------------|
| Net cash from operating activities | 644,832 | 618,937 |
| Net cash used in investing activities | (14,948) | (147,507) |
| Net cash used in financing activities | (806,534) | (281,924) |
| Net (decrease) increase in cash and cash equivalents | (176,650) | 189,506 |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(c) *Xuzhou Power*

On 10 September 2003, the Company acquired a 100% equity interest in China Resources Power Excellence Limited, an investment holding company which holds 35% equity interest in Xuzhou Power, from CRH in the form of shareholder's loan. Such shareholder's loan was subsequently capitalised during the year.

The extracts of unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 of Xuzhou Power and its audited comparative figures, are as follows:

Consolidated balance sheet

| | 2003 RMB'000 | 2002 RMB'000 |
|----------------------------|------------------|-----------------|
| Non-current assets | 2,418,210 | 1,848,874 |
| Current assets | 519,191 | 477,586 |
| Current liabilities | (1,426,017) | (851,493) |
| Non-current liabilities | (469,182) | (627,134) |
| Minority interests | — | (440) |
| Shareholders' funds | 1,042,202 | 847,393 |

Consolidated income statement

| | 2003 RMB'000 | 2002 RMB'000 |
|--------------------------------|-----------------|-----------------|
| Turnover | 997,641 | 905,499 |
| Net profit for the year | 274,579 | 228,628 |

Consolidated cash flow statement

| | 2003 RMB'000 | 2002 RMB'000 |
|--|-----------------|-----------------|
| Net cash from operating activities | 583,155 | 426,909 |
| Net cash used in investing activities | (723,441) | (21,526) |
| Net cash from (used in) financing activities | 189,295 | (371,061) |
| Net increase in cash and cash equivalents | 49,009 | 34,322 |



14. INTEREST IN JOINTLY CONTROLLED ENTITY

| | THE GROUP | |
|----------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Share of attributable net assets | 992,133 | — |

Particulars of the jointly controlled entity held by the Group at 31 December 2003 are as follows:

| Name of joint venture | Form of business structure | Place of incorporation | Issued and fully paid capital | Attributable equity interest held by the Group | Principal activities |
|--|----------------------------|------------------------|-------------------------------|--|----------------------|
| BOCGI China Resources Power Co., Ltd. (Note) 中銀華潤電力有限公司 | Incorporated | BVI | Shares - US\$25 | 40% | Investment holding |

Note:

On 17 October 2003, the Group completed its acquisition from CRH a 40% equity interest in BOCGI China Resources Power Co., Ltd., an investment holding company which holds an aggregate of 25% equity interest in Huaneng International Power Development Corporation 華能國際電力開發公司, in the form of shareholder's loan. Such shareholder's loan was then capitalised on 17 October 2003.

15. GOODWILL

| | HK\$'000 |
|--|----------|
| THE GROUP | |
| GROSS VALUE | |
| At 1 January 2002 | — |
| Arising on acquisition of a subsidiary | 117,377 |
| At 31 December 2002 and 31 December 2003 | 117,377 |
| AMORTISATION | |
| At 1 January 2002 and 31 December 2002 | — |
| Amortised during the year | 5,869 |
| At 31 December 2003 | 5,869 |
| CARRYING VALUES | |
| At 31 December 2003 | 111,508 |
| At 31 December 2002 | 117,377 |

The goodwill arising on acquisition of a subsidiary is amortised over the estimated useful life of 20 years.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



16. NEGATIVE GOODWILL

| | HK\$'000 |
|--|----------|
| THE GROUP | |
| GROSS VALUE | |
| At 1 January 2002 | — |
| Arising on acquisition of a subsidiary | (54,087) |
| At 31 December 2002 and 31 December 2003 | (54,087) |
| RELEASE TO INCOME | |
| At 1 January 2002, 31 December 2002 and 31 December 2003 | — |
| CARRYING VALUES | |
| At 31 December 2003 | (54,087) |
| At 31 December 2002 | (54,087) |

The negative goodwill will be released to income on a straight-line basis over the remaining weighted average useful life of the depreciable assets acquired upon the relevant subsidiary commencing its commercial operations.

17. INVENTORIES

| | THE GROUP | |
|-----------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Coal | 1,451 | — |
| Fuel Oil | 2,922 | — |
| Spare parts and consumables | 5,681 | — |
| | 10,054 | — |

At the balance sheet date, all inventories were stated at cost.

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

THE GROUP

Trade receivables are due within 60 days from the date of billing.

The following is an aged analysis of trade receivables at the reporting date:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--------------|------------------|------------------|
| 0 - 30 days | 148,633 | — |
| 31 - 60 days | 91,896 | — |
| | 240,529 | — |



19. AMOUNTS DUE FROM ASSOCIATES

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

20. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

21. AMOUNT DUE FROM A RELATED COMPANY

THE GROUP AND THE COMPANY

The amount is due from an associate of the immediate holding company of the Company and is unsecured, non-interest bearing and has no fixed terms of repayment.

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

THE GROUP

The following is an aged analysis of trade payables at the reporting dates:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|-------------|------------------|------------------|
| 0 - 30 days | 30,730 | — |

23. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

On 17 October 2003, certain amount due to immediate holding company was capitalised as share capital of the Company. Details of the capitalisation issue are set out in note 30.

24. AMOUNTS DUE TO ASSOCIATES

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



25. AMOUNTS DUE TO SHAREHOLDERS OF AN ASSOCIATE

THE GROUP

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

26. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| THE GROUP | | |
| Amount shown under current liabilities (note a) | — | 16,024 |
| Amount shown under non-current liabilities (note b) | 239,393 | 204,325 |
| | 239,393 | 220,349 |

Notes:

(a) The amount was unsecured, bore interest at 5.317% per annum and fully repaid on 27 April 2003.

(b) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Demand for repayment of the loans will not be made by the minority shareholders of subsidiaries within twelve months from the balance sheet date, accordingly, the amount is shown as non-current liabilities.

27. BORROWINGS

| | THE GROUP | |
|--|--------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Unsecured bank loans | 4,273,528 | 1,215,407 |
| Unsecured other loans | 14,632 | — |
| | 4,288,160 | 1,215,407 |
| The maturity profile of the above loans is as follows: | | |
| Within 1 year | 1,915,958 | 838,367 |
| More than 1 year, but not exceeding 2 years | 437,108 | — |
| More than 2 years, but not exceeding 5 years | 691,306 | 311,058 |
| More than 5 years | 1,243,788 | 65,982 |
| | 4,288,160 | 1,215,407 |
| Less: Amount due within 1 year shown under current liabilities | (1,915,958) | (838,367) |
| Amount due after 1 year | 2,372,202 | 377,040 |
| The above bank and other loans are supported by: | | |
| Guarantees provided by the Company | 1,206,268 | 122,538 |
| Guarantees provided by the Company's immediate holding company | — | 226,224 |
| Guarantees provided by the Company's ultimate holding company | — | 406,656 |
| Guarantees provided by minority shareholders of subsidiaries | 810,432 | 412,859 |
| Guarantees provided by a third party | — | 47,130 |
| No guarantee required | 2,271,460 | — |
| | 4,288,160 | 1,215,407 |



28. LOANS FROM IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amounts were unsecured, non-interest bearing and had no fixed terms of repayment.

On 17 October 2003, the loan from immediate holding company were capitalised as share capital of the Company. Details of the capitalisation issue are set out in note 30.

29. DEFERRED TAXATION

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| THE GROUP | | |
| At 1 January | 5,942 | — |
| Currency realignment | 3 | — |
| On acquisition of a subsidiary | — | 5,942 |
| Charge to income for the year (note 7) | (919) | — |
| At 31 December | 5,026 | 5,942 |

The following is the analysis of the deferred taxation balances for financial reporting purposes:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|-------------------------------|------------------|------------------|
| Deferred taxation assets | 5,942 | 5,942 |
| Deferred taxation liabilities | (916) | — |
| | 5,026 | 5,942 |

The deferred taxation assets (liabilities) represent the tax effect of temporary differences arising as a result of the differences between accounting depreciation and tax depreciation.

The Company did not have any significant deferred taxation assets (liabilities) as at 31 December 2003 and 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



30. SHARE CAPITAL

| | Number of shares | | Amount | |
|--|------------------|--------------|------------------|------------------|
| | 2003 '000 | 2002 '000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Ordinary shares of HK\$1.00 each | | | | |
| Authorised: | | | | |
| Balance at 1 January | 3,600,000 | 360,000 | 3,600,000 | 360,000 |
| Increase during the year (note a) | 6,400,000 | 3,240,000 | 6,400,000 | 3,240,000 |
| Balance at 31 December | 10,000,000 | 3,600,000 | 10,000,000 | 3,600,000 |
| Issued and fully paid: | | | | |
| Balance at 1 January | 10 | 10 | 10 | 10 |
| Issues of shares: | | | | |
| -by capitalisation issue pursuant to Group Reorganisation (note b) | 2,749,990 | — | 2,749,990 | — |
| -upon listing (note c) | 1,058,000 | — | 1,058,000 | — |
| Balance at 31 December | 3,808,000 | 10 | 3,808,000 | 10 |

- (a) Pursuant to a resolution in writing of all the shareholders passed on 14 May 2002, the authorised share capital of the Company was increased from HK\$360,000,000 to HK\$3,600,000,000, by the creation of a further 3,240,000,000 shares of HK\$1 each ranking pari passu in all respects with the then existing shares of the Company.

Pursuant to the resolutions in writing passed on 6 October 2003 by all shareholders of the Company, the authorised share capital of the Company was further increased from HK\$3,600,000,000 to HK\$10,000,000,000 by the creation of 6,400,000,000 new shares of HK\$1 each. These shares rank pari passu in all respects with the then existing shares.

- (b) On 17 October 2003, the Company allotted and issued an aggregate of 2,749,990,000 shares, credited as fully paid, to its immediate holding company, CRH, by way of capitalisation of outstanding shareholder's loans ("Capitalisation Issue") as at that date owing by the Company to CRH, after taking into consideration the following events:
- CRH lent US\$10,010,000 to the Company for the acquisition of an aggregate of 1.56% effective equity interest in Guangdong Guanghope from Bank of China Group Investment Limited and Nam Tung (Macao) Investment Ltd. in September 2003; and
 - the Company will repay CRH US\$10,010,000, using part of the proceeds which was received by the Company from China Hua Neng Hong Kong Limited ("HGHK") upon the completion on 23 December 2003 between the Company (as the vendor) and HNGHK (as the purchaser) for the disposal of 5% equity interest in Guangdong Guanghope. Such amount is included in the amount due to immediate holding company in note 23.

Upon the completion of the Capitalisation Issue, no sum remains due and payable by the Company to CRH other than the sum set out in paragraph (b) above.

These shares rank pari passu in all respects with the then existing shares.



30. SHARE CAPITAL (CONT'D)

- (c) On 12 November 2003 and 5 December 2003, the Company allotted and issued 920,000,000 shares of HK\$1 each upon listing on the Stock Exchange and 138,000,000 shares of HK\$1 each upon the exercise of the over-allotment options as set out in note 31, both at a price of HK\$2.80 per share, respectively. These shares rank pari passu in all respects with the then existing shares.

31. SHARE OPTION

Pursuant to a resolution in writing passed on 6 October 2003 by all shareholders of the Company, a Pre-IPO Share Option Scheme and a Share Option Scheme have been adopted by the Company.

- (a) Pre-IPO Share Option Scheme

On 6 October 2003, the Company granted options to subscribe for 167,395,000 shares in the Company at an exercise price of HK\$2.80 per share, upon payment of HK\$1 per grant. Options granted are exercisable within a period of ten years within which there is a total vesting period of five years. 20% of share options will be allowed to exercise upon each of the first five anniversary dates.

Movement of options during the year is as follows:

| | Number of options granted on 6.10.2003 | Number of options lapsed or cancelled during the year | Number of options outstanding at 31.12.2003 |
|---------------------------------------|---|--|--|
| Directors of the Company | 17,500,000 | — | 17,500,000 |
| Directors of CRH | 3,600,000 | — | 3,600,000 |
| Employees of the Company | 101,575,000 | — | 101,575,000 |
| Employees of CRH and its subsidiaries | 44,720,000 | 110,000 | 44,610,000 |
| | 167,395,000 | 110,000 | 167,285,000 |

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help to motivate the participants to optimise their performance and efficiency and retain participants whose contributions are important to the long-term growth and profitability of the Group.

Total consideration received during the year for the options granted was amounted to HK\$591.



31. SHARE OPTION (CONT'D)

(b) Share Option Scheme

Pursuant to the Share Option Scheme approved by the resolution of the shareholders of the Company dated 6 October 2003, the Board may, at its absolute discretion, offer any employee, director, consultant or advisor of (i) CRH and its subsidiaries, and (ii) the Company, its subsidiaries and associated companies, option to subscribe for the Company's shares, for the promotion of success of the business of the Group. The exercise price of the share option will be determined at the higher of (1) the closing price of the Company's shares on the Stock Exchange on the date of grant of the option; (2) the average closing price of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant; and (3) the nominal value of the shares.

Options granted are exercisable within a period of ten years within which there is a total vesting period of five years. 20% of share options will be allowed to exercise on each of the first five anniversary dates.

No option was granted by the Company under the Share Option Scheme since its adoption.

Pursuant to the International Underwriting Agreement dated 7 November 2003, the Company has granted options (the "Over-allotment Options") to the placing underwriters exercisable on the earlier of 30 days after the last day for lodging of applications for the Company's offer for subscription by the public in Hong Kong or the commencement of trading of the Company's shares on the Stock Exchange to require the Company to allot and issue up to an aggregate of 138,000,000 additional shares of the Company at the offer price upon listing of HK\$2.80 per share. On 5 December 2003, the Over-allotment options were exercised and 138,000,000 shares were issued at a price of HK\$2.80 per share.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.



32. RESERVES

THE GROUP

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 62.

General reserve is part of shareholders' funds and comprises statutory surplus reserve, enterprise expansion fund and reserve fund of subsidiaries, associates and a jointly controlled entity in the PRC.

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of subsidiaries acquired pursuant to the Group Reorganisation.

At 31 December 2003, the retained profits of the Group include approximately HK\$525,083,000 (2002: HK\$45,095,000) and HK\$32,416,000 (2002: nil) retained by associates and jointly controlled entity of the Group, respectively.

| | Share premium <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------------------|-------------------------------------|--------------------------------------|--|--------------------------|
| <u>THE COMPANY</u> | | | | |
| At 1 January 2002 | — | — | (2,817) | (2,817) |
| Reserve arising from the Group | | | | |
| Reorganisation | — | 82,309 | — | 82,309 |
| Net loss for the year | — | — | (13,453) | (13,453) |
| At 31 December 2002 | — | 82,309 | (16,270) | 66,039 |
| Capitalisation of shareholder's loans | 2,672,066 | — | — | 2,672,066 |
| Shares issued at premium | 1,904,400 | — | — | 1,904,400 |
| Share issue expenses | (107,474) | — | — | (107,474) |
| Net loss for the year | — | — | (13,932) | (13,932) |
| At 31 December 2003 | 4,468,992 | 82,309 | (30,202) | 4,521,099 |

The merger reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal amount of the Company's shares issued of the acquisition.

Reserves of the Company available for distribution to shareholders amounted to HK\$52,107,000 as at 31 December 2003 (2002: HK\$66,039,000).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



33. ACQUISITIONS OF SUBSIDIARIES/BUSINESS

During the year, the Group acquired 100% of the issued share capital of China Resources Power Excellence Limited and 100% of the issued share capital of China Resources Power Notary Co., Ltd. for consideration in the form of shareholder's loans. Such shareholder's loans were capitalised during the year. These acquisitions have been accounted for by the acquisition method of accounting.

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| NET ASSETS/BUSINESS ACQUIRED | | |
| Property, plant and equipment | — | 203,918 |
| Interests in associates | 314,285 | 2,837,651 |
| Interest in jointly controlled entity | 929,703 | — |
| Deferred taxation assets | — | 5,942 |
| Other receivables and prepayments | — | 336 |
| Amount due from an associate | — | 40,692 |
| Bank balances and cash | — | 32,255 |
| Other payables and accruals | — | (72,783) |
| Amount due to immediate holding company | 1 | — |
| Amount due to a fellow subsidiary | — | (827) |
| Loans from minority shareholders | — | (204,325) |
| Bank loans | — | (47,130) |
| Minority interests | — | (242,194) |
| Shareholders' loans and inter-company debts | — | (981,189) |
| | 1,243,989 | 1,572,346 |
| Shareholders' loans and inter-company debts purchased | — | 981,189 |
| Negative goodwill attributable to a subsidiary | — | (54,087) |
| Goodwill attributable to a subsidiary | — | 117,377 |
| Goodwill attributable to associates (note) | — | 497,156 |
| | 1,243,989 | 3,113,981 |
| SATISFIED BY | | |
| Cash | — | 3,113,981 |
| Capitalisation issue of shares as part of Group Reorganisation | 1,243,989 | — |
| | 1,243,989 | 3,113,981 |
| NET CASH OUTFLOW ARISING ON ACQUISITIONS | | |
| Cash consideration | — | 3,113,981 |
| Balance of consideration payable | — | (56,894) |
| Bank balances and cash acquired | — | (32,255) |
| | — | 3,024,832 |
| Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries/business | — | 3,024,832 |

Note: Goodwill attributable to associates arose from the acquisition of subsidiary holding an associate.



34. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 3,735,146 | 101,635 |
| Less: Pledged bank deposits | (39,246) | — |
| | 3,695,900 | 101,635 |

35. OPERATING LEASE COMMITMENTS

THE GROUP AND THE COMPANY AS LESSEE

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2003 | | 2002 | |
|---------------------------------------|--------------------------------------|-----------------------------|--------------------------------------|-----------------------------|
| | Land and buildings HK\$'000 | Other assets HK\$'000 | Land and buildings HK\$'000 | Other assets HK\$'000 |
| THE GROUP | | | | |
| Within one year | 1,380 | 162 | 563 | 12 |
| In the second to fifth year inclusive | 926 | 514 | — | 516 |
| Over five years | — | 2,473 | — | 2,560 |
| | 2,306 | 3,149 | 563 | 3,088 |
| THE COMPANY | | | | |
| Within one year | 858 | — | 563 | — |
| In the second to fifth year inclusive | 476 | — | — | — |
| | 1,334 | — | 563 | — |

Operating lease payments represent rentals payable by the Group for its office properties and other assets which represented motor vehicles, railway and related facilities.

Leases are negotiated for an average term of 2 to 25 years and rentals are fixed for an average of 1 to 2 years.

36. CAPITAL COMMITMENTS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| THE GROUP | | |
| Capital expenditure in respect of the acquisition of construction in progress: | | |
| -Authorised but not contracted for | 23,735 | 665,665 |
| -Contracted for but not provided in the financial statements | 6,277,163 | 4,241,421 |
| THE COMPANY | | |
| Unpaid capital contribution to subsidiaries | 1,142,332 | 2,180,713 |

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



37. CONTINGENT LIABILITIES

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| THE COMPANY | | |
| Guarantees given to banks for credit facilities granted to subsidiaries (to the extent of facilities utilised) | 1,206,268 | 122,538 |

38. RELATED PARTY TRANSACTIONS

The Company entered into two trade mark licence agreements dated 17 October 2003 with CRNC and CRH, respectively, under which the Company was granted irrevocable, royalty free and non-exclusive licences to use certain trade marks and the rights to sub-license the same to any member of the Group in consideration of a nominal amount of HK\$1 each.

A deed of option dated 17 October 2003 was executed by CRH in favour of the Company, under which the Company was granted options, in consideration of a nominal amount of HK\$1, to acquire from CRH its entire (i) 48% interest in Dongguan Houjie Power Company Limited, (ii) 65% interest in Yunnan China Resources Power (Honghe) Company Limited and (iii) 55% interest in Fuyang China Resources Power Company Limited. The Company may exercise its rights to acquire each of these power plants within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of each power plant which will be shown in the financial statements of CRH or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which each option is exercised.

A deed of option dated 17 October 2003 was executed by CRNC in favour the Company, under which the Company was granted an option, in consideration of a nominal amount of HK\$1, to acquire all of CRNC's interest in 25% of the entire registered capital of Hengshui Hengxing Power Generation Co., Ltd. ("Hengfeng Phase II"). Subject to the approval of the shareholders, the Company may exercise its right of acquisition within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of Hengfeng Phase II which will be shown in the financial statements of CRNC or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which the option is exercised.

In addition, the Group entered into the following significant transactions with related parties during the year:

| Name of related company | Relationship | Nature of transactions | 2003 HK\$'000 | 2002 HK\$'000 |
|---|---------------------------|--|------------------|------------------|
| China Resources Property Management Co., Ltd. | Fellow subsidiary | Rental expenses paid by the Group (note a) | 1,249 | 779 |
| Wenzhou Telluride | Associate | Service income received by the Company (note a) | 3,900 | 975 |
| Guangdong Guanghope | Associate | Interest received by the Group (note b) | 663 | — |
| Guangdong Guanghope | Associate | Reimbursement of repairs and maintenance fee to Guangdong Guanghope (note c) | 6,420 | — |
| CRH | Immediate holding company | Management fee income received by the Company (note a) | 542 | — |
| CRNC | Ultimate holding company | Management fee income received by the Company (note a) | 62 | — |



38. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

- (a) *The transactions were carried out in accordance with the relevant agreements.*
- (b) *The transactions were carried out with reference to prevailing rate of interest.*
- (c) *The transactions were carried out on actual cost incurred basis.*

Saved as the above, the Group also had balances with related parties at the balance sheet dates which are set out in notes 19 to 21, 23 to 26 and 28, respectively.

39. SUBSEQUENT EVENT

Pursuant to a legally binding memorandum of understanding (the "MOU") entered into among Resources Shajiao, a subsidiary of the Company, Shajiao Power and Guangdong Province Yudean Group Co., Ltd. dated 26 February 2004, the mandatory tariff reduction imposed by the Guangdong Province Pricing Bureau on Guangdong Guanghope as from 1 July 2002 shall be restored as if there were no tariff reduction and be calculated according to the terms of the operation and offtake agreement dated 18 December 1992 (as amended) between Guangdong Province Guangdong Group Co., Ltd. (the "Operation and Offtake Agreement") and Guangdong Guanghope and the joint venture agreement dated 4 June 1992 (as amended) between Shajiao Power and Resources Shajiao (the "JV Agreement") to the extent to which the distributable net profits related to Guangdong Guanghope's minimum on-grid power output of 10,800,000,000 kWh per year. As a result, the fair value of net assets of Guangdong Guanghope shared by Resources Shajiao in 2002 was increased to the amount that would have been determined had no tariff reduction taken place. Accordingly, the goodwill arising from the acquisition of Resources Shajiao in 2002 was adjusted in accordance with the MOU, the Operation and Offtake Agreement and the JV Agreement.



RESULTS

The financial results for the year ended 31 December 2003 were announced on 29 March 2004.

ANNUAL REPORT

Our annual report for 2003 is available on our website (www.cr-power.com) on 13 April 2004 and will be posted to shareholders on 19 April 2004.

ANNUAL GENERAL MEETING

The annual general meeting for the year 2003 will be held on 28 May 2004. Details are set out in the Notice of Annual General Meeting to be sent to shareholders on 19 April 2004.

SHARE LISTING

The shares of our company are listed on The Stock Exchange of Hong Kong Limited. Our stock code is 836.

SHAREHOLDERS ENQUIRIES

For enquiries about share transfer and registration, please contact the Company's Registrar:-

Computershare Hong Kong Investor Services Limited
19th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990

For enquiries from investors and securities analysts, please contact:-

Investor Relations Department
China Resources Power Holdings Company Limited
Room 2001-2002, 20th Floor,
China Resources Building,
26 Harbour Road,
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Telephone: (852) 2593 7550
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