

# Questions Frequently Asked by Investors

- 1. What are the situations with Huaneng Group's assets? How is the scope of assets for acquisition by the Company in the future? What will be the sources of fund for such future acquisitions?**



The Company, on the one hand, will continue to acquire assets from the parent company, and, on the other hand, will select suitable opportunities to acquire assets outside the parent company.

After the power reforms, taking into account of the projects under construction, the power generation capacity controlled by Huaneng Group will increase from 25,662 MW to 37,970 MW; if excluding the generation capacity related to the projects under construction and equity participation, the wholly-owned or controlled generation capacity totals 30,132 MW; generation capacity on an equity basis is 19,380 MW. The recent objective of Huaneng Group is: by 2010, the power generation capacity will reach 60,000 MW, an increase of approximately 30,000 MW when compared with the present figure; and will reach 120,000 MW by 2020. As the ultimate parent company, Huaneng Group, after its restructuring, reiterated that it will continue to fully support the development of the Company and give right of first refusal to the Company in terms of project development and sale of assets.

Sources of funds for future acquisitions include internal surplus cash and funds obtain through financing. Regarding the financing, equity financing and debt financing or a combination of various methods will be considered.

## 2. Why did the Company acquire Shenzhen Energy at a relatively high price?

Firstly, through the acquisition, we may share the good assets portfolio and profitability of Shenzhen Energy at a reasonable price. In view of its more than 10 years' development experience and the full support of the Shenzhen Municipal Government, Shenzhen Energy has become the largest independent power generation group of Shenzhen and is also one of the leading independent power producers in the power grids of Guangdong province.

Secondly, through the transaction, we have strategically entered into the Shenzhen power market and enlarged our market share in Guangdong. The sound economic foundation and development of Shenzhen will bring the continued and strong growth in power consumption. Also, Shenzhen Energy controls more than 75% of the aggregate generation capacity of Shenzhen.

Thirdly, we may benefit from more development opportunities by way of Shenzhen Energy's market position and its new project development capabilities. Investing in Shenzhen Energy does not only immediately increase our market share in such market, but also provides opportunities for development of new projects in such region in the future.

Fourthly, through the transaction, our earnings per share will be increased.

This acquisition is the Company's first acquisition outside Huaneng Group after the announcement of the power sector reform and is also the Company's first acquisition obtained through international bidding, thus it have a significant meaning to the Company. Currently, the transaction is pending approvals from the relevant governmental authorities.

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### 3. Please give an account on the progress of the Three Gorges project and its effect on the Company

The Three Gorges Power Station is currently the largest hydro-power station in the world with an aggregate generation capacity of 18,200 MW. From 2003 to 2009, 26 generating units will commence operation

successively. On the basis of design, the average annual power generation volume of the power station is 84.7 billion kWh. Recently the State Council has approved the proposal on the power energy consumption of the Three Gorges Hydro-power Station taking into account of issues including balancing, consumption and pricing of the power receiving regions. Eight provinces and one city including Hubei, Henan, Hunan, Jiangxi, Shanghai, Jiangsu, Zhejiang, Guangdong and Anhui have been confirmed as the power consumption regions of the Three Gorges Hydro-power Station. Hence, 3,000,000kW and 7,200,000kW will be transmitted to Guangdong and Eastern China respectively, with the remainder being transmitted to Central China.

New projects proposed to be developed by the Company in East China and government approval for new projects in such region have taken into account of factors including growth in local power demand and transmission of electricity from the Three Gorges.

### 4. What will be the impact of “West-East Power Transmission” on the Company?

Both the development of hydro-power in the southwestern region and the Three Gorges project are major project for the nation’s economic development during the Tenth Five-year Plan period. Their development and construction not only takes into account of the energy structure and environmental protection factors, but also serves to satisfy the ever-increasing power demand in the PRC. Although the successive commencement of operating such projects will increase power supply and will occupy some market shares, it will not have a significant impact on the Company because of the great potential in power demand in the economically vibrant southeastern coastal region.

Also, the development of hydro-power requires the coordination of thermal power plants. Long distance power transmission requires the support of a power source centre. This will be an advantage for our power plants, ensuring stable power generation at these plants.

## 5. How does the Company control the increase in fuel costs?

The Company controls the price in fuel costs mainly by the following measures:

- (1) to control coal procurement costs and to reduce transportation costs and storage loss;
- (2) to continue to promote coal blending and burning work in order to off-set the price increase of the originally designed major burning coal types;
- (3) to further reduce the oil consumption of certain power plants through enhancing the operating efficiency of the generating units;
- (4) to reduce unit coal consumption through optimising the operational mode of the generating units;
- (5) economies of scale of centralized coal procurement of the Company is instrumental in reducing procurement costs.

