



Building Our People Resources as an  
**Impetus for Sustainable Development**

# Report of the Board of Directors



The Directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2005.

## BUSINESS REVIEW OF YEAR 2005

In 2005, the Company seized the opportunities arising from the strong power demand as a result of growth in the national economy and the rise of people's living standard to achieve a safe and stable increase in power generation. By ensuring a safe supply of power to meet demand, the Company has contributed to the national economic development. Although the continuing increase in coal prices in 2005 has had a negative impact on the operating results, the significant increase in power generation and the increase in the average tariff rate over the previous year have resulted in a significant increase in operating revenue. With various measures to control operating costs, the Company was able to effectively contain the rate of decline in net profit and achieved relatively good operating results.

### 1. OPERATING RESULTS

For the twelve months ended 31st December 2005, the Company recorded operating revenues of Rmb 40.190 billion, representing an increase of 33.30% as compared to the same period of 2004, and a profit attributable to equity holders of the Company of Rmb 4.872 billion, representing a decrease of 8.49% as compared to the same period of the previous year. Earnings per share amounted to Rmb 0.40.

As at the end of 2005, the net asset per share was Rmb 3.32 (not include Minority Interest), representing an increase of 10.30% compared to 2004.

The Audit Committee of the Company has convened a meeting on 27th March 2006 to review the annual results of 2005.

### 2. POWER GENERATION

In 2005, the operating power plants of the Company and its subsidiaries achieved power generation totalling 150.505 billion kWh on a consolidated basis, representing an increase of 31.70% over the same period of the previous year.

The general growth in power generation benefited from the strong increase in power demand in the areas where the power plants of the Company are located, driven by continuous rapid growth of the national economy. On the other hand, the significant increase in the Company's generation capacity was attributable to stable power generation as a result of the commencement of commercial operation of Yushe Power Plant Phase II and Qinbei Power Plant in the second half of 2004, and the commercial operation of Huaiyin Power Plant Phase II and Shantou Power Plant Phase II in 2005. In addition, the power plants acquired by the Company in 2004 and 2005, including Luohuang Power Plant, Yueyang Power Plant, Yingkou Power Plant, Jinggangshan Power Plant, Pingliang Power Plant and Sichuan Hydropower, have also made significant contributions to the increase of the Company's power generation. At the same time, safe and stable operation of the facilities of power plants owned by the Company and its subsidiaries also created favourable conditions for the increase in power generation of the Company.

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In 2005, the average availability factor of the power plants of the Company and its subsidiaries was 92.93%, with an average capacity factor of 70.68%; while weighted average coal consumption rates for power sold and power generated were 337.1 gram/kWh and 317.8 gram/kWh respectively. The weighted average house consumption rate was 5.4%. The Company's technical and economic indices remained at the forefront among all other power companies in the PRC.

### 3. COST CONTROL

In 2005, the Company continued to implement various measures for ensuring sufficient fuel supply. The Company achieved better results in the purchase, transportation, quality control and inventory of coal. Along with contributions from newly acquired power plants with relatively lower unit fuel costs, the increase in the Company's unit fuel cost was well controlled and did not exceed the annual target of 12%.

### 4. ASSET OPERATION

On 26th May 2005, the Company entered into a transfer agreement with Jiangsu Yueda Investment Limited Company ("Jiangsu Yueda"), pursuant to which the Company agreed to acquire from Jiangsu Yueda its 26.36% equity interest in Huaiyin Power Plant Phase I (2 X 220MW generating units). The Company paid the consideration of Rmb 200.6 million from its internal cash surplus on 28th June 2005. Upon completion of the transaction, the Company holds 90% equity interest in Huaiyin Power Plant Phase I while its total generation capacity on an equity basis has increased by 116MW. The

remaining 10% equity interest in Huaiyin Power Plant Phase I is held by Jiangsu Power Development Joint Stock Limited Company.



### 5. PROJECT CONSTRUCTION

- (1) Under the dedicated organization of the Company and the efforts of the relevant parties, generating units No. 3 and No. 4 of Huaiyin Power Plant commenced commercial operation in January and March 2005 respectively. Generating unit No. 3 of Shantou Power Plant commenced commercial operation in October 2005 while generating units No. 3 and No. 4 of Taicang Power Plant commenced commercial operation in January and February 2006 respectively. Generating unit No. 3 of Yueyang Power Plant and an 80 MW generating unit of Sichuan Hydropower commenced commercial operation in March 2006 and December 2005 respectively. The construction periods of generating units No. 3 and No. 4 of Huaiyin Power Plant and generating unit No. 3 of Shantou Power Plant have broken the records of Huaneng Group. The commercial operations of such new generating units contributed to



the increase in the Company's power generation.

- (2) The construction projects of the Company, including the 1 X 300MW generating unit of Yueyang Power Plant, 3 X 390MW generating units of Shanghai Combined Cycle Power Plant, 2 X 300MW generating units of Xindian Power Plant Phase III, 2 X 600MW generating units of Luohuang Power Plant Phase III, 2 X 600MW generating units of Yingkou Power Plant Phase II, 2 X 1,000MW generating units of Yuhuan Power Plant Phase I, 2 X 330MW generating units of Huaiyin Power Plant Phase III and the aggregated 570MW generation capacity project of Sichuan Hydropower progressed smoothly. The quality of the construction work and investment were controlled effectively. The projects progressed in accordance with the schedules.
- (3) In addition, as a result of closure and suspension of small generating units and technological upgrades on existing generating units, there has been a change on the Company's total generation capacity on an equity basis, which has currently reached 23,549 MW.

## PROSPECTS FOR 2006

2006 is the first year of the Eleventh Five Year Plan. Continued growth in the national economy and the ongoing improvement of the living standard will continue to stimulate a rapid growth in power demand, thereby providing opportunities for the Company to grow its power generation. However, as the supply and demand of power will become more balanced, market competition will be further intensified, thus creating new challenges for the Company. The accelerated formation of regional

power markets adopting tariff pooling offers opportunities for the Company to utilize the strength of its facilities to compete, yet another challenge arises as to how to maintain and enhance the competitiveness of the Company. The supply and demand of coal, in a trend of reaching equilibrium this year, will offer a favourable opportunity for the Company to ensure a safe and stable supply of coal, but an effective control on the surge of unit fuel cost will remain a challenge for the Company.

The Company's main work objectives for year 2006 are as follows:-

1. To strengthen production safety management and to ensure safe, stable and increasing power generation;
2. To strengthen sales and marketing work, optimize the structure of power generation and actively participate in competitive pooling in the regional markets in order to maximize the Company's overall profit;
3. To strengthen coal purchase management to ensure safe, stable and effective supply of coal;
4. To strengthen the management of projects under construction to ensure the projects will be completed in high quality, fast pace and low cost and in accordance with schedules;
5. To enhance strategic planning to ensure a long-term, stable and healthy development of the Company;
6. To strengthen operation management and risk management, as well as to increase the capital utilization rate and exercise stringent cost controls;
7. To encourage management innovation and to effectively carry out internal controls.

## Report of the Board of Directors

The Company will continue to pursue a maximization of shareholders' interests as its operating objective and goal. Given the continuous economic growth in China, good opportunities provided by the power system reform and strong support from the authorities at all levels and the parent company, and especially the support and trust from investors and shareholders, the Company will surely be able to continue its healthy and steady growth, bringing long-term, stable and increasing returns to its shareholders.

### SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS

Please refer to the Financial Highlights on page 8 for summary of the operating results and assets and liabilities of the Company and its subsidiaries as at 31st December 2005 and for the year then ended.

Please refer to pages 97, 190 and 197 of the financial statements for the operating results of the Company and its subsidiaries for the year ended 31st December 2005, which have been reviewed by the Company's Audit Committee.

### DISTRIBUTABLE RESERVE

Distributable reserve of the Company at 31st December, 2005, calculated in accordance with its articles of association is set out in Note 22 to the financial statements prepared under International Financial Reporting Standards ("IFRS").

### DIVIDENDS

The Board resolved to propose for the year ended 31st December 2005 a cash dividend of Rmb 0.25 (2004: Rmb0.25) per ordinary share, totalling approximately Rmb3.014 billion (2004: approximately Rmb 3.014 billion).

Cash dividends will be denominated and declared in Renminbi. Cash dividends on domestic shares will be paid in Renminbi. Save for the dividends on foreign shares traded on the Hong Kong Stock Exchange which will be paid in Hong Kong dollars, cash dividends on foreign shares will be paid in United States dollars. Exchange rates for dividends paid in United States dollars and Hong Kong dollars are USD1 to Rmb 8.0317 and HK\$1 to Rmb 1.03505 respectively.

All the cash dividends will be paid to shareholders on or before 30th June 2006, subject to approval at the annual general meeting of the Company.

### PRINCIPAL BUSINESS

Currently, the Company and its subsidiaries wholly own 16 operating power plants and have controlling interests in 12 operating power plants and minority interests in 4 operating power companies. Its power plants have advanced equipment with high efficiency and stability. Their operations are widely located in those regions in China where there are rapid economic growth and fast-increasing power demand. The core business of the Company is to develop, construct, and operate large-scale coal-fired power plants by making use of modern technology and equipment and financial resources available domestically and internationally.

### SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to Notes 13 and 12 to the financial statements prepared under IFRS for details of subsidiaries and associated companies respectively.



## SHORT-TERM BONDS

During the year, the Company issued Rmb 5 billion unsecured short-term zero-coupon bonds, in meeting its operational needs.

## BANK LOANS AND OTHER BORROWINGS

Please refer to Notes 24, 27 and 28 to the financial statements prepared under IFRS for details of bank loans of the Company and its subsidiaries as at 31st December 2005.

## CAPITALIZED INTEREST

Please refer to Note 11 to the financial statements prepared under IFRS for details of the Company and its subsidiaries capitalized borrowing costs during the year.

## PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 11 to the financial statements prepared under IFRS for changes in the property, plant and equipment of the Company and its subsidiaries during the year.

## RESERVES

Please refer to consolidated statement of changes in shareholders' equity on page 101 for the reserves of the Company and its subsidiaries during the year.

## STAFF RETIREMENT SCHEME

The Company and its subsidiaries have implemented a series of specified retirement contribution schemes as prescribed by the places where the Company and its subsidiaries have operations.

Pursuant to the specified retirement contribution schemes, the Company and its subsidiaries have paid contributions according to the terms and obligations set out in the jointly

managed retirement insurance plans. The Company has no other obligations to pay further contributions. The contributions paid from time to time will be regarded as expenses in the period and counted as labour cost. Please refer to Note 9 to the financial statements prepared under IFRS for details of the charging in the current year.

## PRE-EMPTIVE RIGHTS

According to the articles of association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

## MAJOR SUPPLIERS AND CUSTOMERS

The five major suppliers of the Company for year 2005 were coal suppliers, namely Shenhua Coal Transportation Company, Luan Environmental Protection and Energy Development Joint Stock Limited Company, Yangquan Coal Group, China Coal Import and Export Company and Datong Coal Joint Stock Limited Company. The amount of coal supplied by the five major suppliers was about 22.5% of the total coal consumption of the Company in the year.

As a power producer, the Company sold the electricity generated by its power plants through local operating power grid enterprises and did not have other customers. The five major customers of the Company and its subsidiaries were Shandong Power Group Company, Jiangsu Province Power Company, Liaoning Province Power Company, Shanghai Power Company and Fujian Province Power Company. The amount of operating revenue of the five major customers and the largest customers, Shandong Power Group Company, accounted for

## Report of the Board of Directors

approximately 63.67% and 18.36% of the total operating revenue of the Company and its subsidiaries this year, respectively.

None of the directors, supervisors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange")) had any interests in the five largest suppliers or customers mentioned above of the Company in 2005.

### CONNECTED TRANSACTIONS

Please refer to Notes 5, 6 and 8 to the financial statements prepared under IFRS in relation to the details of connected transactions. The purposes of the Company to enter into such connected transactions with connected persons was to meet the operational need of the Company and to get the most favourable terms and conditions from the market from the Company's perspective. The connected transactions as set out in Note 5 is the connected transactions as defined in Chapter 14A of the Listing Rules and those set out in Notes 6 and 8 are continuing connected transactions as defined in Chapter 14A of the Listing Rules except for Note 8(a)(ii), (iii), (iv), (v), (vi), (vii) and Note 8(c). Except the transaction with Jingyuan, the Company has complied with all disclosure requirements under the Listing Rules.

The Independent Directors of the Company confirmed that all connected transactions in 2005 to which the Company and/or any of its subsidiaries was a party:

1. had been entered into by the Company and/or any of its subsidiaries in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature made

by similar entities within the PRC), or (b) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and

3. had been entered into either (a) in accordance with the terms of the agreements governing such transactions, or (b) where there is no such agreement, on terms no less favourable than terms available to third parties.

Based on the work performed, the auditors of the Company have reviewed such transactions and reported to the Directors that:

- (a) the transactions have been approved by the Directors;
- (b) the management income transactions were in accordance with the pricing policy of the Company;
- (c) the transactions were made in accordance with the terms of the related agreements governing such transactions; and
- (d) have not exceed the caps allowed by the Hong Kong Stock Exchange in the previous waivers.

### COMPETITION WITH CONTROLLING SHAREHOLDERS

The ultimate controlling shareholder of the Company, Huaneng Group also participates in the power industry in China. HIPDC, the direct controlling shareholder of the Company also engages in the power industry in China. The Company, HIPDC (direct controlling shareholder) and Huaneng Group (ultimate controlling shareholder) have power plants located in certain same regions. Huaneng Group and HIPDC have already entrusted the Company to manage certain of their coal-fired power plants.



Currently, the Company has 14 directors and only 4 of them have positions in Huaneng Group and/or HIPDC. According to the articles of association of the Company, in case of conflict of interest arises, the relevant directors shall abstain from voting in the relevant resolutions. None of the senior management of the Company (except Mr. Na Xizhi) holds positions in Huaneng Group and HIPDC. Therefore, the operation of the Company is independent from Huaneng Group and HIPDC and the operation of the Company is conducted for its own benefit.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company and its subsidiaries did not sell any other types of securities and did not purchase or redeem its own shares or other securities in 2005.

## DIRECTORS OF THE COMPANY

The Directors of the Company in 2005 are:

Li Xiaopeng	Chairman	Appointed on 11th May 2005
Huang Yongda	Vice Chairman	Appointed on 11th May 2005
Wang Xiaosong	Vice Chairman	Appointed on 11th May 2005 (resigned from the positions of Director and Vice Chairman on 7th March 2006)
Na Xizhi	Director	Appointed on 11th May 2005
Huang Long	Director, Secretary to the Board	Appointed on 11th May 2005 (elected as Vice Chairman on 7th March 2006)
Wu Dawei	Director	Appointed on 11th May 2005
Shan Qunying	Director	Appointed on 11th May 2005
Ding Shida	Director	Appointed on 17th November 2005
Xu Zujian	Director	Appointed on 11th May 2005
Liu Shuyuan	Director	Appointed on 11th May 2005
Qian Zhongwei	Independent Director	Appointed on 11th May 2005
Xia Donglin	Independent Director	Appointed on 11th May 2005
Liu Jipeng	Independent Director	Appointed on 11th May 2005
Wu Yusheng	Independent Director	Appointed on 11th May 2005
Yu Ning	Independent Director	Appointed on 11th May 2005

### *Directors Resigned*

Ye Daji	Vice Chairman	Resigned on 11th May 2005
Huang Jinkai	Director	Resigned on 11th May 2005
Liu Jinlong	Director	Resigned on 11th May 2005
Gao Zongze	Independent Director	Resigned on 11th May 2005
Zheng Jianchao	Independent Director	Resigned on 11th May 2005
Yang Shengming	Director	Resigned on 9th August 2005



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In accordance with the requirements of the Hong Kong Stock Exchange, the Company has entered into service contracts with the Directors of the fifth session of the Board of Company.

### **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted a code in relation to the securities transactions by the Directors and Supervisors with the standard not lower than that of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Enquiry has been made with all Directors and Supervisors and all of them confirmed that they have complied with the code throughout 2005.

### **DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES**

As at 31st December 2005, none of the Directors, chief executive officer, Supervisors or other associates (as defined in Part XV of the Securities and Futures Ordinance ("SFO")) had any beneficial interests in the securities or debt instruments of the Company which were required to be recorded in the register pursuant to Divisions 7 and 8 in Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies. The Company did not have any arrangement during 2005 whereby the above persons would acquire benefits by means of the acquisition of shares in, or debentures of the Company or other corporate body.

### **INDEPENDENT DIRECTORS' CONFIRMATION OF INDEPENDENCE**

The Company has received independent confirmation from each of the independent directors, namely Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning, and considers them to be independent.

### **EMOLUMENTS OF DIRECTORS AND SUPERVISORS**

Details of the emoluments of Directors and Supervisors of the Company are set out in Note 10 to the financial statements prepared under IFRS.

### **FIVE HIGHEST PAID STAFF**

Details of the five highest paid staffs in the Company are set out in Note 10 to the financial statements prepared under IFRS.

### **PUBLIC FLOAT**

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.



## SHARE CAPITAL STRUCTURE

As at 31st December 2005, the total issued share capital of the Company was 12,055,383,440 shares, of which 9,000,000,000 shares were domestic shares, representing approximately 74.66% of the total issued share capital, and 3,055,383,440 shares were foreign shares, representing approximately 25.34% of the total issued share capital. For domestic shares, HIPDC owns a total of 5,157,680,000 shares, representing 42.78% of the total

issued share capital of the Company. Other domestic shareholders hold a total of 3,842,320,000 shares, representing 31.87% of the total issued share capital. On 23rd March 2006, Huaneng Group completed the acquisition of 1,114,106,667 shares of the Company from other domestic shareholders, representing 9.24% of total issued share capital of the Company. Other domestic shareholders holds a total of 2,728,213,333 shares, representing 22.63% of the total issued share capital of the Company.

## SHAREHOLDING OF THE COMPANY

The following table summarises the shareholding structure of the Company's shares as at 31st December 2005:

	No. of Shares outstanding	Percentage of Shareholding (%)
<b>Domestic Shares</b>		
Huaneng International Power Development Corporation	5,157,680,000	42.78
Hebei Provincial Construction Investment Company	904,500,000	7.50
Jiangsu Provincial International Trust & Investment Corporation	624,750,000	5.18
Fujian Investment Enterprise Holdings Company	561,700,000	4.66
Liaoning Energy Investment (Group) Limited Liability Company	465,787,290	3.86
Dalian Municipal Construction Investment Company	452,250,000	3.75
Nantong Investment Management Limited Company	135,750,000	1.13
Minxin Group Limited Company	108,000,000	0.90
Shantou Power Development Joint Stock Company Limited	38,000,000	0.32
Liaoning Guoneng Group (Holdings) Joint Stock Limited Company	33,582,710	0.28
Dandong Energy Investment Development Centre	13,000,000	0.11
Shantou Electric Power Development Corporation	5,000,000	0.04
Domestic public shares	500,000,000	4.15
Sub-total	9,000,000,000	74.66
Foreign Shares	3,055,383,440	25.34
<b>TOTAL</b>	<b>12,055,383,440</b>	<b>100.00</b>

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1. On 15th June 2005, Fujian International Trust & Investment Company Limited transferred its 108,000,000 shares of the Company to Minxin Group Limited Company.
  2. On 26th September 2005, HIPDC transferred its 40,000,000 shares of the Company to Liaoning Energy Investment Company.
  3. On 13th October 2005, Fujian International Trust & Investment Company Limited was renamed as Fujian Investment Enterprise Holdings Limited.
  4. On 5th December 2005, Liaoning Energy Investment (Group) Limited Liability Company transferred its 33,582,710 shares to Liaoning Guoneng Group (Holdings) Joint Stock Limited Company.
  5. On 22nd February 2006, Nantong Municipal Investment Management Centre was renamed as Nantong Investment Management Limited Company.
- The shareholdings of the non-circulating shares of the Company after the aforesaid transfer and assignment of shares and the acquisition of shares by Huaneng Group on 23rd March 2006.

Shareholder	Number of shares	Approximate Percentage in the Company's total issued share capital %
Huaneng International Power Development Corporation	5,157,680,000	42.78
China Huaneng Group	1,114,106,667	9.24
Hebei Provincial Construction Investment Company	603,000,000	5.00
Jiangsu Provincial Investment & Management Limited Liability Company	416,500,000	3.45
Fujian Investment Enterprise Holdings Limited	338,466,667	2.81
Liaoning Energy Investment (Group) Limited Liability Company	332,913,333	2.76
Dalian Municipal Construction Investment Company	301,500,000	2.50
Minxin Group Limited	108,000,000	0.90
Nantong Investment & Management Limited Company	90,500,000	0.75
Shantou Power Development Joint Stock Company Limited	25,333,333	0.21
Dandong Energy Investment Development Centre	8,666,667	0.07
Shantou Electric Power Development Company	3,333,333	0.03



## MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st December 2005, the interests or short positions of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors, Supervisors and chief executive) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Hong Kong Law Cap. 571) (the "SFO") are as follows:

Name of substantial shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Huaneng International Power Development Corporation	Domestic Shares	5,157,680,000 (L)	Beneficial owner	Corporate	57.31% (L)	42.78% (L)
Hebei Provincial Construction Investment Company	Domestic Shares	904,500,000 (L)	Beneficial owner	Corporate	10.05% (L)	7.50% (L)
Jiangsu Provincial International Trust & Corporation	Domestic Shares	624,750,000 (L)	Beneficial owner	Corporate	6.94% (L)	5.18% (L)
Fujian Investment Enterprise Holdings Company	Domestic Shares	561,700,000 (L)	Beneficial owner	Corporate	6.24% (L)	4.66% (L)
Liaoning Energy Investment (Group) Limited Liability Company	Domestic Shares	465,787,290 (L)	Beneficial owner	Corporate	5.18% (L)	3.86% (L)
JP Morgan Chase & Co.	H Shares	203,857,132 (L) 100,299,624 (P)	Interest of controlled corporation, Investment manager and custodian corporation/ Approved lending agent	Corporate	6.67% (L) 3.28% (P)	1.69% (L) 0.83% (P)

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Name of substantial shareholder	Class of shares	Number of shares held (shares)	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
UBS AG	H Shares	343,983,303 (L)	Beneficial owner, Interest of controlled corporation/Holder of security interest in shares	Corporate	11.26% (L)	2.85% (L)
		69,548,000 (S)			2.27% (S)	0.58% (S)
Credit Suisse Group	H Shares	244,813,491 (L)	Interest of controlled corporation/ Approved lending agent	Corporate	8.01% (L)	2.03% (L)
		201,153,541 (S)			6.58% (S)	1.67% (S)
		607,000 (P)			0.02% (P)	0.005% (P)
Hebei Provincial Construction Investment Company	H Shares	452,250,000 (L)	Beneficial owner	Corporate	14.80% (L)	3.75% (L)
J.P. Morgan Chase Bank	H Shares	108,190,980 (L)	Investment manager and custodian	Corporate	3.54% (L)	0.90% (L)
J.P. Morgan Fleming Asset Management (Asia) Inc.	H Shares	83,918,000 (L)	Investment manager	Corporate	2.75% (L)	0.70% (L)
J.P. Morgan Fleming Asset Management Holding Inc.	H Shares	83,198,000 (L)	Investment manager	Corporate	2.72% (L)	0.69% (L)
JF Asset Management Limited	H Shares	80,298,000 (L)	Investment manager	Corporate	2.63% (L)	0.67% (L)
Jiangsu Provincial International Investment Company	H Shares	312,375,000 (L)	Beneficial owner	Corporate	10.22% (L)	2.60% (L)

Note: The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.



Save as stated above, as at 31st December 2005, in the register required to be kept under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

### **DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS AND SERVICE CONTRACTS**

Save for the service contracts mentioned below, as at the end of 2005, the directors and supervisors of the Company did not have any material interests in any contracts entered into by the Company.

No director or supervisor has entered into any service contract which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Each and every Director and Supervisor of the Company had entered into a service contract with the Company for a term of three years commencing from the signing of the contract.

### **REMUNERATION POLICY**

In accordance with the overall development strategy of the Company, the Company has formulated "Provisional Regulations on Remuneration Management" and "Provisional Guidelines on Salary Management for Branches and Subordinate Units". Employees' salaries are calculated with reference to the complexity of their jobs, the responsibilities they have to carry and their job performance. The remuneration of Directors, Supervisors and senior management mainly consists of the following:

#### **(1) Basic salary and allowance**

The basic salary is set by an evaluation of the job position and a factor analysis, and with reference to the salary level of the relevant position in the labour market. It amounts to about 20% of the total remuneration.

#### **(2) Discretionary bonus**

Discretionary bonus is based on the job performance of Directors, Supervisors and senior management. It amounts to about 60% of the total remuneration.

#### **(3) Retirement contribution**

The Company provides the Directors, Supervisors and senior management with various social securities, including basic retirement insurance, corporate annuity and housing contribution fund. This amounts to about 20% of the total remuneration.

## Report of the Board of Directors

According to the resolution at the shareholders' meeting, the Company pays each Independent Director a subsidy amounted to Rmb 60,000 (after tax) each year. The Company also reimburses to the Independent Directors for the expenses they incur in attending board meetings and shareholders' meetings and other reasonable expenses they incur while fulfilling their obligations under the Company Ordinance and the Company's Memorandum and Articles of Association (including travel expenses and administrative expenses). Besides these, the Company does not give the Independent Directors any other benefit.

### STAFF HOUSING

The Company made allocation to the housing common reserve fund for its employees in accordance with the relevant PRC regulations.

In 2005, the Company and its subsidiaries have not sold quarters to its staff, nor did they have such plans.

### STAFF MEDICAL INSURANCE SCHEME

According to the requirements as prescribed by the relevant local governments, the Company and its subsidiaries have established a medical insurance scheme for its staff, and have taken measures for its implementation according to planning.

### GENERAL MEETINGS

During the period, the Company convened one annual general meeting and two extraordinary general meetings.

1. The Company's annual general meeting was held on 11th May 2005. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 12th May 2005.
2. The Company's first extraordinary general meeting of 2005 was held on 28th July 2005. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 29th July 2005.
3. The Company's second extraordinary general meeting of 2005 was held on 17th November 2005. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 18th November 2005.

In 2006:

The Company's first extraordinary general meeting of 2006 was held on 18th January 2006. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 19th January 2006.



## MAJOR EVENTS

- (1) On 26th May 2005, the Company entered into a transfer agreement with Jiangsu Yueda, pursuant to which the Company agreed to acquire from Jiangsu Yueda its 26.36% equity interest in Huaiyin Power Plant Phase I (2 X 220MW generating units). The Company paid the purchase price of Rmb 200.6 million from its internal cash surplus on 28th June 2005. Upon completion of the transaction, the Company holds 90% equity interest in Huaiyin Power Plant Phase I. The remaining 10% equity interest in Huaiyin Power Plant Phase I is held by Jiangsu Power Development Joint Stock Limited Company.
- (2) The term of the fourth session of the Board of the Company expired. Having been approved at the meeting of the Supervisory Committee held on 14th March 2005, the Board meeting held on 15th March 2005 and the annual general meeting held on 11th May 2005, the fifth session of the Board consisted of 15 members, including Mr. Li Xiaopeng, Mr. Huang Yongda, Mr. Wang Xiaosong, Mr. Na Xizhi, Mr. Huang Long, Mr. Wu Dawei, Mr. Shan Qunying, Mr. Yang Shengming, Mr. Xu Zujian, Mr. Liu Shuyuan, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning. The fifth session of the Supervisory Committee consisted of 6 members, including Mr. Ye Daji, Ms. Yu Ying, Mr. Shen Weibing, Mr. Shen Zongmin, Ms. Zou Cui and Mr. Wang Zhaobin.

Five members of fourth session of the Board, including Mr. Ye Daji, Mr. Huang Jinkai, Mr. Liu Jinlong, Mr. Gao Zongze and Mr. Zheng Jianchao, retired and did not take up position on the new session. Four members of the fourth session of the Supervisory Committee, including Mr. Wei Yunpeng,

Mr. Li Yonglin, Mr. Pan Jianmin and Mr. Zhan Xisheng, retired and did not take up position on the new session.

- (3) It was approved at the Board meeting held on 15th March 2005 that Mr. Li Shiqi was appointed as the Company's Vice President, while Mr. Wu Dawei resigned from the position of the Company's Vice President and Mr. Li Shiqi resigned as the Company's Chief Economist.
- (4) On 8th August 2005, Mr. Shen Weibing resigned from the position of Supervisor. On 9th August 2005 Mr. Yang Shengming resigned from the position of Director. The appointments of Mr. Ding Shida as Director of the Company and Mr. Gu Jianguo as Supervisor of the Company were approved at the general meeting held on 17th November 2005.
- (5) On 30th November 2005, Mr. Ye Daji resigned from the position of the Chairman of the Supervisory Committee. On 18th January 2006, as approved by the general meeting, Mr. Guo Junming was appointed as Supervisor of the Company. He was also elected the Chairman of the Supervisory Committee by the Supervisory Committee.
- (6) The fourth meeting of the fifth session of the Board was held on 7th March 2006. Mr. Huang Long was elected Vice Chairman of the fifth session of the Board. The resignation of the Mr. Wang Xiaosong as the Company's Director and Vice Chairman was accepted.

It was resolved to appoint Mr. Na Xizhi as President of the Company and that he will no longer act as Vice President of the Company. It was resolved to accept the resignation of Mr. Huang Yongda as President of the Company.



## Report of the Board of Directors

It was resolved to appoint Mr. Qu Xiaojun, Mr. Huang Jian, Ms. Lu Dan and Mr. Fan Xiaxia as Vice Presidents of the Company, and Ms. Zhou Hui as Chief Accountant of the Company.

It was resolved to accept the resignation of Mr. Zhang Hong, Mr. Huang Long and Mr. Li Shiqi as Vice Presidents of the Company, and that Mr. Huang Jian will no longer act as Chief Accountant of the Company.

It was resolved to appoint Ms. Jia Wenxin as Securities Representative of the Company and to accept the resignation of Mr. Gu Biquan as Securities Representative of the Company.

The Board of the Company is satisfied with the work conducted by Mr. Huang Yongda, Mr. Wang Xiaosong, Mr. Zhang Hong, Mr. Huang Long, Mr. Li Shiqi, Mr. Huang Jian and Mr. Gu Biquan during their terms of office and highly appraised their contributions towards the Company's development over the past years, and the Board extends wholehearted thanks to them.

### CODE OF CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. This annual report of the Company contains a corporate governance report prepared in accordance with the requirements of the Listing Rules.

### DESIGNATED DEPOSIT

As at 31st December 2005, the Company and its subsidiaries did not have any designated deposit with any financial institutions within the PRC nor any overdue fixed deposit which could not be recovered.

### DONATIONS

During the year, the total amount of donation made by the Company and its subsidiaries was approximately RMB3.65 million (2004: approximately RMB1.39 million).

### LEGAL PROCEEDINGS

As at 31st December 2005, the Company and its subsidiaries were not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company and its subsidiaries.

### AUDITORS

In the forthcoming annual general meeting for 2005, a proposal regarding the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors of the Company and PricewaterhouseCoopers as the international auditors of the Company for 2006 will be tabled for shareholders consideration and approval.

By Order of the Board  
**Li Xiaopeng**  
Chairman

Beijing, PRC  
28th March 2006