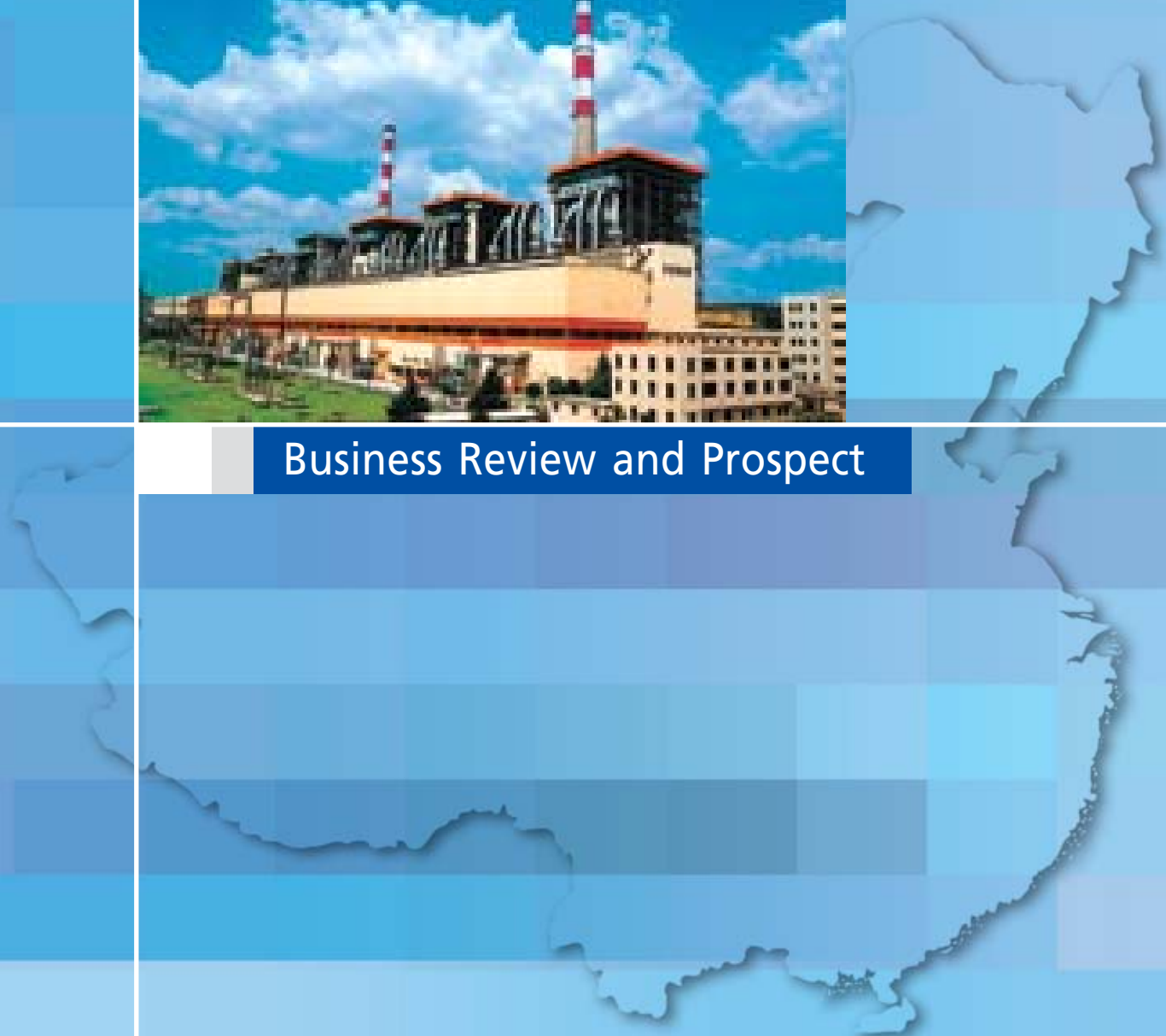




Business Review and Prospect



BUSINESS REVIEW

(1) Power generation

Electricity generation of the Group during 2005 amounted to 46.82 million MWh, representing an increase of approximately 25.03% over 2004. The average utilization hours of the power generation facilities of the Group were 5,712 hours, representing an increase of 623 hours over 2004.

(2) Turnover

In 2005, the total volume of electricity sold by the Group to the public grid was 43.82 million MWh, representing an increase of approximately 25.46% over 2004. Turnover for the year 2005 amounted to approximately RMB13,300 million, representing an increase of approximately 30.71% over 2004. The revenue from sale of electricity for the year 2005 amounted to approximately RMB13,035 million, representing an increase of approximately 30.66% over 2004. The revenue from sale of heat for the year 2005 amounted to approximately RMB265 million, representing an increase of approximately 33.09% over 2004.

(3) Profit

For the year ended 31 December 2005, the Group's profits attributable to equity shareholders of the Company amounted to approximately RMB1,066 million, representing an increase of approximately 1.98% over the corresponding period of 2004. Earnings per share were RMB0.179.

(4) Newly installed capacity

There were mainly five generating units of the Group commenced commercial operation in 2005. The two 330MW coal-fired generating units of Zhongning Company were completed and commenced commercial operation on 22 January 2005 and 17 November 2005 respectively. The two 300MW coal-fired generating units of Chizhou Company were completed and commenced commercial operation on 11 September 2005 and 8 December 2005 respectively. The first 300MW coal-fired generating unit of Qingdao Company Phase II expansion project was completed and commenced commercial operation on 30 November 2005. The on-grid electricity tariff for these newly-operated generating units was approved recently by local government authorities. The on-grid electricity tariff for the 1st 300MW generating unit of Qingdao Company phase II project, the two 330MW generating units of Zhongning Company and the two 300MW generating units of Chizhou Company was RMB0.344 per KWh (including desulphurization), RMB0.233 per KWh and RMB0.369 per KWh (including desulphurization) respectively. All the tariff stated above include VAT.



Mr. Chen Jianhua

Director and General Manager

BUSINESS REVIEW AND PROSPECT *(continued)*

(5) Construction in progress

To date, the Group's construction projects in progress include two 1,000MW generating units of Zouxian Plant Phase IV expansion project, the second 300MW generating unit of Qingdao Company Phase II expansion project, two 670MW generating units of Weifang Company Phase II expansion project, two 600MW generating units of Guangan Company Phase III expansion project, two 600MW generating units of Lingwu Company construction project, two 600MW generating units of Suzhou Company Phase I construction project, two 660MW generating units of Xinxiang Company Phase I construction project and two 600MW generating units of Luzhou Company construction project.

(6) Preliminary projects

Preliminary projects controlled and developed by the Group include two 300MW heat and electricity co-generating units of Zhangqiu Company Phase II project and two 315MW heat and electricity co-generating units of Tengzhou Company Phase II. In addition to developing thermal power, the Company further strengthens the development of Sichuan Daduhe Luding Hydropower Station and strives for earlier approval by the State while at the same time actively seeks to obtain the development rights for other hydroelectricity projects along the Daduhe river basin and new hydroelectricity resources. The Company also endeavors to achieve a breakthrough in new power projects such as wind power generation and biomass energy power generation.

BUSINESS PROSPECT

In 2006, the first year of the "11th Five-Year Plan", the PRC will embark on a series of new strategic initiatives for national economy and social development during the "11th Five-Year" period. In light of the scientific development vision of the PRC Government to drive the overall economic and social development, the PRC will advance towards a harmonious society, with strong emphasis in cycle economy to expedite the transformation of economic growing mode in pursuit for an energy-saving and environment-friendly society. As for power generating companies, the steady growth in PRC economy will lay a strong foundation for increasing demand for electricity power.

As the pillar industry of national economy, power generating industry is a cornerstone of economic development, while the growth in gross generation of power electricity depends on GDP growth, the overall demand in society for power and newly installed capacity.

The start-up of power pooling for regional power markets will introduce fiercer competition among power generation enterprises. With Northeast China power market and East China power market having entered the comprehensive simulation operation stage, the South China power market has commenced simulation operation, while the North China power market, where the Group's major assets (approximately 75% of the Group assets are located in Shandong Province) are located, has no implementation plan yet.

The supply bottleneck of coal for power generation is expected to be alleviated with the improving railway transportation capability, but uncertainty still exists in coal price.

As a whole, demand for power is growing steadily in areas where the Group's investments situate including Shandong, Sichuan, Ningxia and Anhui which have relatively more developed economies or higher economic growth rates. In addition, among the Company's quality assets with a majority of large generating units of high performance and efficiency, 300MW or above generating units account for over 80% of the total installed capacity controlled or invested by the Group. The 2 x 1,000MW ultra-supercritical thermal power generating units of Zouxian Plant under construction holds a leading position in the PRC in terms of unit capacity.

BUSINESS REVIEW AND PROSPECT *(continued)*

Through a decade of rapid growth and continuous expansion, the Group, as a listed power generating enterprise in China, ranks high in respect of its installed capacity, power generation, profitability, competitiveness and strength. In 2006, the Company will continue to put efforts in infrastructure construction, operational improvement, power project development, cost-effectiveness enhancement and capital operations, aiming at reinforcing the overall strength and competitive edges of the Company. The Group is confident that with its strengths, it will capitalise on opportunities and address challenges, particularly those critical challenges in the market. The Group will leverage its own advantages and constantly expand its operations so as to secure steady and rapid growth.

The major objectives of the Group in 2006 are as follows:

1. To ensure safe operation of the Group's power plants, achieve the Group's operational targets for 2006, strictly control costs and maintain the leading position of the Group's power plants in terms of their technological and economic performance.
2. To ensure safety of construction in progress, manage project progress effectively with required quality and unit costs under control, and strive to achieve commencement of commercial operation of the second 300MW generating unit of Qingdao Company Phase II project and the first 670MW generating unit of Weifang Company Phase II project in 2006.
3. To actively pursue the Group's preliminary projects, further optimise power source structure and regional structure, and actively explore new energy projects to realise a diversified power generation structure focusing on thermal power and supplemented by hydroelectricity, wind power and biomass energy power generation.
4. To seek new opportunities of power generation projects arising from China Huadian's presence across the PRC to speed up the Group's expansion in domestic power generation industry.
5. To strengthen the control on coal cost, improve coal quality and secure coal supply under long-term strategic partnership with coal mines.
6. To adhere to the low cost strategies and achieve further increase in the Company's profitability.
7. To actively explore multiple debt financing channels so as to cut down finance costs for future financial needs as a result of the accelerating development of the Company.
8. To advance innovative human resources management for improving the overall quality of the Company's management.

Chen Jianhua

Director and General Manager

Jinan, Shandong Province, the PRC
24 March 2006