



Directors Report



The Directors hereby present the annual report together with the audited financial statements of the Company, its subsidiaries, jointly controlled entity and associates (the "Group") for the financial year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the generation and sale of electricity and heat. All electricity generated is supplied to the provincial grid companies where the plants are located.

As the Group is located, and has been operating one single business, in the People's Republic of China ("PRC"), no segmental reporting was included in the financial statements.

The profit attained by the Group for the year ended 31 December 2005 and the position of the Group's and the Company's financial affairs as of that date prepared in accordance with IFRS are set out on pages 60 to 116 of the annual report.

## DIVIDENDS

The board of directors of the Company (the "Board") recommended the declaration of a final dividend of RMB0.065 per share (totalling approximately RMB391,370,473) for the financial year ended 31 December 2005 (2004: a final dividend of RMB0.035 per share, totalling approximately RMB210,738,000). This dividend distribution proposal is subject to the approval by the shareholders of the Company at the 2005 Annual General Meeting.

## Resolutions passed at the Board meetings in 2005

In 2005, the Board convened a total of 11 meetings, details of which are summarized as follows:

1. The 19th meeting of the third session of the Board was concluded on 22 March 2005, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 23 March 2005.
2. The 20th meeting of the third session of the Board was held by way of telecommunications on 4 April 2005 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The Chairman of the Company He Gong presided over the meeting, which was attended by the Company's 12 Directors in person. In compliance with relevant laws, regulations and the Articles of Association of the Company, the meeting was valid and effective. Supervisors Feng Lanshui, Li Changxu and Zheng Feixue attended the meeting. Resolutions for the following matters were passed at the meeting: Submission of the Code on Board Practices as approved by the 19th meeting of the third session of the Company's Board to present to the 2004 Annual General Meeting (the "AGM") for approval in accordance with latest requirements of China Securities Regulatory Committee ("CSRC") and Shanghai Stock Exchange; presentation of the Code on Supervisory Committee Meeting to the 2004 AGM for approval.

## DIRECTORS REPORT *(continued)*

3. The 21st meeting of the third session of the Board was held by way of telecommunications on 26 April 2005 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The Chairman of the Company He Gong presided over the meeting, which was attended by the Company's 12 Directors in person. In compliance with relevant laws, regulations and the Articles of Association of the Company, the meeting was valid and effective. Supervisors Feng Lanshui, Li Changxu and Zheng Feixue attended the meeting. At the meeting, the 2005 First Quarterly Report of the Company was considered and approved.
4. The 22nd meeting of the third session of the Board was held on 17 May 2005, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 18 May 2005.
5. The 1st meeting of the fourth session of the Board was held on 2 June 2005, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 6 June 2005.
6. The 2nd meeting of the fourth session of the Board was held on 12 August 2005 at Kylin Resort, Qingdao Jimo City, Shandong Province. The Vice Chairman of the Company Chen Feihu presided over the meeting, which was attended by the Company's 12 Directors in person or by proxy. In compliance with relevant laws, regulations and the Articles of Association of the Company, the meeting was valid and effective. Supervisor Zheng Feixue attended the meeting. At the meeting, the Company was approved to conduct the bidding and the construction, if winning in bidding, of the concession projects in Jiangsu Dongtai and Qingdao Jimo; and Directors Chen Jianhua, Tian Peiting, Peng Xingyu and Wang Yingli were authorised to determine the bid price based on the Company's development and competition strategies.
7. The 3rd meeting of the fourth session of the Board was held on 25 August 2005, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 26 August 2005.
8. The 4th meeting of the fourth session of the Board was held on 23 September 2005, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 26 September 2005.
9. The 5th meeting of the fourth session of the Board was held by way of telecommunications on 9 October 2005 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The Chairman of the Company He Gong presided over the meeting which was attended by the Company's 12 directors in person or by proxy, and also attended by the Company's Supervisors Feng Lanshui, Li Changxu and Zheng Feixue. In compliance with relevant laws, regulations and the Articles of Association of the Company, the meeting was valid and effective. At the meeting, the Proposed Issue of Asset Securitisation Products were considered and the following resolutions were passed unanimously: 1. subject to approval by regulatory authorities, to adopt specialised assets management plan to issue asset securitisation products in series or in a lump sum with terms ranging from one year to five years with a total amount not exceeding RMB4,000 million. 2. To authorise Managing Director Mr. Chen Jianhua and Director Mr. Tian Peiting and Chief Financial Controller Mr. Zhu Fangxin to finalise the issue plan, sign all documents, attend to all necessary procedures and do any other acts as they consider necessary in connection with the issue of asset securitisation products, and to authorise the Company Secretary to make appropriate information disclosure as required by the relevant regulatory authorities.

## DIRECTORS REPORT *(continued)*

10. The 6th meeting of the fourth session of the Board was held on 26 October 2005 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The Chairman of the Company He Gong presided over the meeting which was attended by the Company's 12 Directors in person or by proxy, of which Directors Peng Xingyu and Zhu Chongli authorised Directors Zhang Bingju and Wang Yingli respectively to attend the meeting on their behalf. In compliance with relevant laws, regulations and the Articles of Association of the Company, the meeting was valid and effective. Supervisors Feng Lanshui, Li Changxu and Zheng Feixue attended the meeting, at which the 2005 Third Quarterly Report was considered and approved.
11. The 7th meeting of the fourth session of the Board was held on 26 December 2005 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The Chairman of the Company He Gong presided over the meeting, which was attended by the Company's 12 Directors in person or by proxy. In compliance with relevant laws, regulations and the Articles of Association of the Company, the meeting was valid and effective. Supervisors Feng Lanshui, Li Changxu and Zheng Feixue attended the meeting. At the meeting, the following matters were considered and approved as resolutions: 1. to approve the Code on Trading in Securities of Huadian Power International Corporation Limited by Directors, and to authorise Executive Director Chen Jianhua to formulate the relevant rules for trading in the Company's securities by the staff and to make amendments in accordance with the amended laws and regulations from time to time. 2. to approve the Proposed Amendments to Working Procedures for the Company's Audit Committee and the Company's amendments thereto in accordance with the Rules Governing the Listing of Securities and Code on Corporate Governance Practices of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Details of the relevant transactions mentioned above which were proceeded with and/or completed in 2005 are set out in the section headed "Significant events" below.

### **SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITY**

Particulars of the Company's subsidiaries, associated companies and jointly controlled entity as at 31 December 2005 are set out in notes 19, 20 and 21 respectively of the financial statements prepared in accordance with IFRS included in this annual report.

### **BANK LOANS AND OTHER BORROWINGS**

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2005 are set out in note 26 of the financial statements prepared in accordance with IFRS included in this annual report.

### **INTEREST CAPITALISED**

Details relating to the interest capitalised by the Group during the year 2005 are set out in note 8 of the financial statements prepared in accordance with IFRS included in this annual report.

## **DIRECTORS REPORT** *(continued)*

### **PROPERTY, PLANT AND EQUIPMENT**

Details relating to movements in property, plant and equipment of the Group and those of the Company during the year 2005 are set out in note 15 of the financial statements prepared in accordance with IFRS included in this annual report.

### **RESERVES**

Details relating to movements in reserves of the Group and the Company for the year ended 31 December 2005 are set out in the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity in the financial statements prepared in accordance with IFRS included in this annual report.

### **DONATIONS**

During the year of 2005, the Group made donations for charitable purposes in an aggregate amount of approximately RMB712,960 (2004: RMB2,570,900).

### **EMPLOYEES' RETIREMENT PLANS**

Details of the employees' retirement plans of the Group are set out in note 31 of the financial statements prepared in accordance with IFRS included in this annual report.

### **EMPLOYEES' MEDICAL INSURANCE**

During 2005, there was no change in employees' medical insurance of the Group as compared with 2004. The Group anticipates that implementation of the above medical insurance will not have any significant impact on the business operation and financial position of the Group. Apart from the above contributions, the Group is not required to pay any other medical expenses for its staff.

### **PRE-EMPTIVE RIGHTS**

Under the articles of association of the Company and the laws of the PRC, no rule relating to pre-emptive rights exists which requires that the Company shall offer and issue new shares to its existing shareholders in proportion to their respective shareholding interests in the Company.

### **SHARE CAPITAL**

Details of the share capital of the Company for the year 2005 and as at 31 December 2005 are set out in the Company's statement of changes in shareholders' equity in the financial statements prepared in accordance with IFRS included in this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

During the financial year of 2005, details regarding the percentages of the Group's sales and purchases attributable to its major customers and major suppliers, respectively, are as follows:

	Approximate Percentage of the Group's Sales	Approximate Percentage of the Group's Purchases
The largest customer	85.73%	
The five largest customers combined	99.36%	
The largest supplier		44.83%
The five largest suppliers combined		75.19%

All electricity generated by the Group was sold to Shandong Electric Power (Group) Corporation, Sichuan Province Power Company, Ningxia Power Company and Anhui Provincial Power Company. None of the Directors, their associates and shareholders of the Company (each of which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the five largest suppliers and customers of the Group at any time during the year.

As disclosed in the Company's 2005 third quarterly results announcement dated 26 October 2005, upon preparing the Company's 2005 third quarterly report, the Company became aware that the amount of its accounts receivable due from Shandong Electric Power (Group) Corporation ("Shandong Electric Power") as at 30 September 2005 amounted to RMB1,069,000,000, which exceeded 8% of the Company's total market capitalisation at the material time, and was discloseable under the then applicable Rule 13.13 of the Listing Rules.

Shandong Electric Power is a PRC State-owned enterprise, and is the only entity which operates the electricity grid, which in turn supplies electricity to end-users, in Shandong province. The Group, in its ordinary and usual course of business, sells the electricity generated by the Company and its subsidiaries and power plants operating in Shandong province to Shandong Electric Power for monthly fees which are calculated by reference to electricity tariffs approved by the Shandong Provincial Government and are on normal commercial terms. Such monthly fees are payable in arrears, and Shandong Electric Power is normally provided with credit terms of periods each not exceeding one month. Therefore, the Group has accounts receivable due from Shandong Electric Power shown in its consolidated financial statements as at the end of each accounting period. Such accounts receivable arise during the Group's ordinary and usual course of business, and are unsecured and interest-free.

Pursuant to the amendments made to the Listing Rules which took effect on 1 March 2006, for the purpose of Rules 13.13 and 13.14, where any trade receivable (other than as a result of the provision of financial assistance) arose in the ordinary and usual course of business of the Group and the transaction from which the trade receivable arose was on normal commercial terms, such trade receivable shall not be regarded as a relevant "advance to an entity" by the Group within the ambit of Rule 13.13, and related provisions, of the Listing Rules. Therefore, the accounts receivable due to the Group from Shandong Electric Power as described above have ceased to be discloseable under the relevant provisions of the Listing Rules.

## DIRECTORS REPORT *(continued)*

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, chief executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2005 which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or was otherwise, as at 31 December 2005, interested in 5% or more of any class of the then issued share capital of the Company, or was, as at 31 December 2005, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company:

Name of shareholder	Type of shares	Number of shares held	Interest			Short position
			Approximate percentage of shareholding in the Company's total issued share capital as at 31 December 2005	Approximate percentage of shareholding in the Company's total issued domestic shares as at 31 December 2005	Approximate percentage of shareholding in the Company's total issued H shares as at 31 December 2005	
China Huadian Corporation	Domestic shares	3,011,075,430	50.01%	65.60%	-	-
Shandong International Trust and Investment Corporation	Domestic shares	903,443,970	15.00%	19.68%	-	-
HKSCC Nominees Limited (Notes)	H shares	1,421,041,900	23.60%	-	99.3%	See Note 1,2,4

Notes:

Based on the information available to and obtained by the Directors as at 31 December 2005, the information available on the website of the Stock Exchange and so far as the Directors are aware and understand, as at 31 December 2005 (in the order appearing on the Stock Exchange's website):

1. Among the 1,421,041,900 H shares held by HKSCC Nominees Limited, UBS AG had an interest, in the capacity as beneficial owner and through controlled corporations, in an aggregate of 213,769,900 H shares of the Company (representing approximately 14.94% of the Company's then total issued H shares). According to the information as disclosed in the website of the Stock Exchange and so far as the Directors understand, UBS AG held its indirect interest in the Company in the manner as follows:
  - (a) 6,757,000 H shares (representing approximately 0.47% of the Company's then total issued H shares) were held by UBS Fund Services (Luxembourg) SA, which in turn was 100% controlled by UBS AG;
  - (b) 14,366,000 H shares (representing approximately 1.00% of the Company's then total issued H shares) were held by UBS Global Asset Management (Americas) Inc, which in turn was 100% controlled by UBS AG;

## DIRECTORS REPORT *(continued)*

- (c) 1,206,000 H shares (representing approximately 0.08% of the Company's then total issued H shares) were held by UBS Global Asset Management (Hong Kong) Limited, which in turn was 100% controlled by UBS AG;
- (d) 17,908,000 H shares (representing approximately 1.25% of the Company's then total issued H shares) were held by UBS Global Asset Management (Japan) Ltd, which in turn was 100% controlled by UBS AG;
- (e) 52,122,900 H shares (representing approximately 3.64% of the Company's then total issued H shares) were held by UBS Global Asset Management (Singapore) Limited, which in turn was 100% controlled by UBS AG;
- (f) 746,000 H shares (representing approximately 0.05% of the Company's then total issued H shares) were held by UBS Global Asset Management Trust Company, which in turn was 100% controlled by UBS AG;
- (g) 31,598,000 H shares (representing approximately 2.21% of the Company's then total issued H shares) were held by UBS Global Asset Management (UK) Inc, which in turn was 100% controlled by UBS AG;
- (h) 1,844,000 H shares (representing approximately 0.13% of the Company's then total issued H shares) were held by UBS Securities LLC, which in turn was 100% controlled by UBS AG; and
- (i) 26,559,100 H shares (representing approximately 1.86% of the Company's then total issued H shares) were held by UBS Fund Management (Switzerland) AG, which in turn was 100% controlled by UBS AG.

According to the information as disclosed in the website of the Stock Exchange and so far as the Directors are aware and understand, as at 31 December 2005, UBS AG also had a short position in 1,844,000 H shares of the Company (representing approximately 0.13% of the Company's then total issued H shares), which was held by UBS Securities LLC, which in turn was 100% controlled by UBS AG.

2. Among the 1,421,041,900 H shares held by HKSCC Nominees Limited, JPMorgan Chase & Co. had an interest in an aggregate of 158,681,400 H shares of the Company (representing approximately 11.09% of the Company's then total issued H shares). Out of such 158,681,400 H shares, JPMorgan Chase & Co. had an interest in a lending pool comprising 156,626,400 H shares (representing approximately 10.95% of the Company's then total issued H shares), with the remaining 2,055,000 H shares (representing approximately 0.14% of the Company's then total issued H shares) held in the capacity as a beneficial owner. According to the information as disclosed in the website of the Stock Exchange and so far as the Directors understand, JPMorgan Chase & Co. was, as at 31 December 2005, interested in the aforesaid 158,681,400 H shares of the Company in the manner as follows:
  - (a) 156,626,400 H shares (representing approximately 10.95% of the Company's then total issued H shares) were held in the capacity as custodian corporation (in the lending pool) by JPMorgan Chase Bank, N.A., which in turn was apparently 100% controlled by JPMorgan Chase & Co.; and
  - (b) 2,055,000 H shares (representing approximately 0.14% of the Company's then total issued H shares) were held by J.P. Morgan Whitefriars Inc., which in turn was ultimately 100% controlled by JPMorgan Chase & Co..
3. Among the 1,421,041,900 H shares held by HKSCC Nominees Limited, Templeton Asset Management Limited had a direct interest in the capacity as an investment manager in an aggregate of 157,352,000 H shares of the Company (representing approximately 11.00% of the Company's then total issued H shares).



## DIRECTORS REPORT (*continued*)

4. Among the 1,421,041,900 H shares held by HKSCC Nominees Limited, Morgan Stanley had, through controlled corporations, an interest in an aggregate of 100,073,661 H shares of the Company (representing approximately 6.99% of the Company's then total issued H shares). According to the information as disclosed in the website of the Stock Exchange and so far as the Directors understand, Morgan Stanley was, as at 31 December 2005, interested in the aforesaid 100,073,661 H shares of the Company in the manner as follows:
- (a) 85,409,000 H shares (representing approximately 5.97% of the Company's then total issued H shares) were held by Morgan Stanley Investment Management Company, which in turn was ultimately 100% controlled by Morgan Stanley Asia Pacific (Holdings) Limited, which in turn was 90% controlled by Morgan Stanley International Holdings Inc., which in turn was 80% controlled by Morgan Stanley International Incorporated, which in turn was 90% controlled by Morgan Stanley Domestic Capital, Inc., which in turn was ultimately 100% controlled by Morgan Stanley;
  - (b) 2,879,000 H shares (representing approximately 0.20% of the Company's then total issued H shares) were held by Morgan Stanley Asset & Investment Trust Management Co., Limited, which in turn was 100% controlled by Morgan Stanley International Incorporated, which in turn was 90% controlled by Morgan Stanley Domestic Capital, Inc., which in turn was ultimately 100% controlled by Morgan Stanley;
  - (c) 11,753,372 H shares (representing approximately 0.82% of the Company's then total issued H shares) were held by Morgan Stanley & Co International Limited, which in turn was ultimately 100% controlled by Morgan Stanley Group (Europe), which in turn was 98.3% controlled by Morgan Stanley International Limited, which in turn was 100% controlled by Morgan Stanley International Incorporated, which in turn was 90% controlled by Morgan Stanley Domestic Capital, Inc., which in turn was ultimately 100% controlled by Morgan Stanley;
  - (d) 16,862 H shares (representing approximately 0.001% of the Company's then total issued H shares) were held by Morgan Stanley & Co. Incorporated, which in turn was 100% controlled by Morgan Stanley; and
  - (e) 15,428 H shares (representing approximately 0.001% of the Company's then total issued H shares) were controlled by Morgan Stanley Capital Services Inc., which in turn was 100% controlled by Morgan Stanley.

According to the information as disclosed in the website of the Stock Exchange and so far as the Directors are aware and understand, as at 31 December 2005, Morgan Stanley also had, through controlled corporations, a short position of 10,520,589 H shares of the Company (representing approximately 0.74% of the Company's then total issued H shares), which was held as to 10,498,058 H shares by Morgan Stanley & Co International Limited, 12,920 H shares by Morgan Stanley & Co. Incorporated and 9,611 H shares by Morgan Stanley Capital Services Inc.

Save as disclosed above, according to the records of HKSCC Nominees Limited and other information available to the Directors as at 31 December 2005, the other H shares held by HKSCC Nominees Limited were held by it on behalf of a number of other persons, and to the knowledge of the Directors, none of such persons individually was interested in 5% or more of the Company's then total issued H shares of the Company as at 31 December 2005.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2005, no other person (other than the Directors, Supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Listing Rules) of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2005 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08 of the Listing Rules.

## DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND SENIOR MANAGEMENT

The following table sets forth certain information concerning the Directors, Supervisors and senior management of the Company during the financial year of 2005. All Directors and Supervisors are currently serving a term of three years, renewable upon re-election and reappointment every three years.

Name	Position in the Company	Changes
He Gong	Chairman, Non-executive Director	Reappointed upon election at the AGM held on 2 June 2005
Chen Feihu	Vice Chairman, Non-executive Director	Appointed at the AGM held on 2 June 2005
Zhu Chongli	Vice Chairman, Non-executive Director	Reappointed upon election at the AGM held on 2 June 2005
Chen Jianhua	Executive Director and General Manager	Reappointed upon election at the AGM held on 2 June 2005
Tian Peiting	Executive Director	Reappointed upon election at the AGM held on 2 June 2005
Wang Yingli	Non-Executive Director	Reappointed upon election at the AGM held on 2 June 2005
Zhang Bingju	Non-Executive Director	Reappointed upon election at the AGM held on 2 June 2005
Peng Xingyu	Non-Executive Director	Reappointed upon election at the AGM held on 2 June 2005
Ding Huiping	Independent non-executive Director	Reappointed upon election at the AGM held on 2 June 2005
Zhao Jinghua	Independent non-executive Director	Reappointed upon election at the AGM held on 2 June 2005
Wang Chuanshun	Independent non-executive Director	Reappointed upon election at the AGM held on 2 June 2005
Hu Yuanmu	Independent non-executive Director	Reappointed upon election at the AGM held on 2 June 2005
Feng Lanshui	Chairman of the Supervisory Committee	Reappointed upon election at the AGM held on 2 June 2005
Li Changxu	Supervisor	Reappointed upon election at the AGM held on 2 June 2005
Zheng Feixue	Supervisor	Reappointed upon election at the AGM held on 2 June 2005
Zhou Lianqing	Secretary to the Board	Appointed on the first meeting of the fourth session of the Board held on 2 June 2005
Zhong Tonglin	Deputy General Manager	Appointed on the first meeting of the fourth session of the Board held on 2 June 2005
Geng Yuanzhu	Deputy General Manager	Appointed on the fourth meeting of the fourth session of the Board held on 19 September 2005
Wang Wenqi	Deputy General Manager	Appointed on the first meeting of the fourth session of the Board held on 2 June 2005
Zhu Fangxin	Chief Accountant and Chief Financial Controller	Appointed on the first meeting of the fourth session of the Board held on 2 June 2005
Gou Wei	Deputy General Manager	Appointed on the fourth meeting of the fourth session of the Board held on 19 September 2005

Mr. Da Hongxing, Vice Chairman of the third session of the Board, was no longer a member or Vice Chairman of the Company's fourth session of the Board with effect from 2 June 2005 (the conclusion of the 2004 AGM).

On 19 September 2005, Mr. Sun Qingsong resigned from Deputy General Manager of the Company due to work rearrangement.

## **DIRECTORS REPORT** *(continued)*

The Directors' and Supervisors' remuneration for the year ended 31 December 2005 are set out in note 10 of the financial statements prepared in accordance with IFRS included in this annual report.

As at 31 December 2005, none of the Directors, Supervisors, chief executives or members of senior management of the Company and their respective associates had any interest or short position in the shares, underlying shares and/ or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO) and was required to be entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors).

During the year of 2005 and as at 31 December 2005, none of the Directors, Supervisors, chief executives or members of senior management of the Company or any of their respective spouses or children under 18 years of age were granted any right, and the Company (or its subsidiaries, holding company or subsidiaries of its holding company) had not made and was not a party to any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company or any other body corporate.

The biographical details of the existing Directors, Supervisors and members of senior management of the Company, including essentially the particulars required under paragraph 12 of Appendix 16 to the Listing Rules (if and as applicable and appropriate), are set out on pages 14 to 19.

Each of the independent non-executive Directors has issued a confirmation in respect of the factors set out in Rule 3.13 of the Listing Rules concerning his independence pursuant to Rule 3.15 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

### **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

No contract of significance or proposed contract of significance, to which the Company or any of its subsidiaries, holding company or jointly controlled entity was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

### **SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS**

The Company has entered service contracts with Directors and Supervisors. No Director or Supervisor has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## SIGNIFICANT EVENTS

### 1. Re-election of members of the Board and the Supervisory Committee

Due to the expiry of the third session of the Board, as approved at the annual Board meeting and the meeting of the Supervisory Committee held on 22 March 2005 and approved at the 2004 annual general meeting held on 2 June 2005, members of the fourth session of the Board have been elected, comprising 12 members, namely He Gong, Chen Feihu, Zhu Chongli, Chen Jianhua, Tian Peiting, Wang Yingli, Zhang Bingju, Peng Xingyu, Ding Huiping, Zhao Jinghua, Wang Chuanshun and Hu Yuanmu. Members of the fourth session of the Supervisory Committee have also been elected, comprising 3 members, namely Feng Lanshui, Li Changxu and Zheng Feixue. Details and the relevant information of the above-named directors and supervisors are included in the circular and announcement of the Company dated 17 April 2005 and 2 June 2005, respectively.

Mr. Da Hongxing, Vice Chairman of the third session of the Board, was no longer a member or Vice Chairman of the Company's fourth session of the Board with effect from 2 June 2005 (the conclusion of the 2004 AGM).

### 2. Electricity tariff adjustments

To alleviate the impact from rising coal prices since June 2004 and the cancellation of tariffs previously allowed for extra electricity supplied, on 22 April 2005, the State Development and Reform Commission officially issued the notice with respect to the implementation of coal-electricity price linkage mechanism to grid companies in North China, East China, Central China, North-eastern China and South China. This mechanism is expected to help minimising the apparent difference between electricity tariffs and coal prices, hence improving the on-grid electricity tariffs and electricity tariff prices. The adjustments to electricity tariffs under such mechanism took effect from 1 May 2005 and are applicable to the Group's power plants in Shandong and Sichuan Provinces. Details of such adjustments are set out in the Company's announcements dated 9 May 2005 and 27 May 2005.

### 3. Issue of A shares

In January 2005, the Company issued 765,000,000 A shares at an issue price of RMB2.52 per share in the PRC. On 3 February 2005, the Company's A shares were listed on the Shanghai Stock Exchange. Under the Company's A share issue, 196,000,000 shares (in the form of unlisted State-owned shares) were allocated and issued to China Huadian. Currently, such shares issued to China Huadian are not listed. The remaining 569,000,000 shares issued under the Company's A share issue are listed A shares, representing approximately 9.45% of the Company's total enlarged issued share capital comprising 6,021,084,200 shares. Total proceeds raised from the A share issue amounted to RMB1,927,800,000. As China Huadian is the controlling shareholder of the Company, the issue of 196,000,000 State-owned shares pursuant to the Company's A share issue to China Huadian constituted a connected transaction of the Company under the Listing Rules, which was duly approved by independent shareholders of the Company at its 2002 annual general meeting held on 24 June 2003 and 2003 annual general meeting held on 29 June 2004.

## 4. Connected transactions

In addition to the allocation and issue of State-owned shares to China Huadian by the Company under its A share issue as described above, connected transactions under the Listing Rules newly entered into by the Company during the period ended 31 December 2005 are as follows:

### 4.1 Establishment of Huadian Property Co. Ltd. (“Huadian Property”)

On 7 April 2005, the Company entered into an agreement with China Huadian and certain other subsidiaries of China Huadian for the establishment of Huadian Property. The entering into of the agreement constituted a connected transaction of the Company. The transaction falls within Rule 14A.32(1) of the Listing Rules, and is therefore exempt from the independent shareholders’ prior approval requirements under Chapter 14A of the Listing Rules. The registered capital of Huadian Property, which was formally established in June 2005, is RMB550 million, and the Company has a 30% equity interest in Huadian Property. Pursuant to the agreement, the Company has made capital contribution in cash amounting to RMB165 million (representing 30% of Huadian Property’s registered capital) to Huadian Property within five days after its proposed company name has been approved by the relevant PRC regulatory authority. The Company’s capital contribution was funded out of its internal resources. The relevant details are set out in the Company’s announcement dated 7 April 2005.

### 4.2 Connected transactions in relation to the acquisitions of 97% equity interest in Anhui Huadian Suzhou Power Generation Company Limited (“Suzhou Company”) and 90% equity interest in Huadian Xinxiang Power Generation Company Limited (“Xinxiang Company”)

On 14 June 2005, the Company entered into an agreement with China Huadian in respect of the proposed acquisition from China Huadian of its 97% equity interest in Suzhou Company for a consideration of RMB74,900,000. On the same day, the Company entered into another agreement with China Huadian in respect of the proposed acquisition from China Huadian of its 90% equity interest in Xinxiang Company for a consideration of RMB90,100,000. As China Huadian is the controlling shareholder of the Company and hence a connected person of the Company, each of the two agreements described above and the transactions thereunder constituted connected transactions of the Company under Chapter 14A of the Listing Rules. Such transactions, when aggregated pursuant to Rule 14A.25 of the Listing Rules, constituted connected transactions of the Company which are subject to approval by the Company’s independent shareholders at an extraordinary general meeting as required under Chapter 14A of the Listing Rules. Such approval has been obtained at the extraordinary general meeting held on 24 August 2005, at which China Huadian abstained from the voting by way of poll in respect of the ordinary resolution for approving the agreements and the transactions thereunder.

Further details are set out in the Company’s announcement dated 14 June 2005, the notice of extraordinary general meeting and the shareholders’ circular dated 6 July 2005 (including a letter from the Company’s independent Board committee in respect of the relevant transactions and its recommendations to independent shareholders and an opinion letter from the independent financial adviser), and the Company’s announcement dated 24 August 2005. The Company received the document relating to approval of acquisition (duly effective) from the PRC state-owned assets supervision authorities on 19 December 2005, and therefore, acquisitions came into effective officially.

### 4.3 Agreement entered into between Zouxian Plant and China Huadian Engineering Company

On 24 November 2005, Zouxian Plant entered into an agreement with China Huadian Engineering Company. Pursuant to the agreement, Zouxian Plant has, for a total contract price of RMB76,658,000 (approximately HK\$73,709,615), engaged China Huadian Engineering Company to design, construct and install a waste-water recycling system required for the two 1,000MW generating units being constructed under Zouxian Plant's phase IV development.

As China Huadian Engineering Company is a wholly-owned subsidiary of China Huadian (i.e. the Company's controlling shareholder), China Huadian Engineering Company is an associate of China Huadian, and hence a connected person of the Company for the purpose of the Listing Rules. The agreement therefore constitutes a connected transaction of the Company which is subject to the reporting and announcement requirements under the Listing Rules, but is exempt from the independent shareholders' approval requirements, under Chapter 14A of the Listing Rules.

Further details are set out in the Company's announcement dated 24 November 2005.

### 4.4 Restructuring of Weifang Plant into Huadian Weifang Power Generation Company Limited

Weifang Plant is a power plant managed by the Company. It was interested as to 30% by the Company, 30% by Shandong International Trust and Investment Corporation ("SITIC") and the remaining 40% by Weifang Municipality Investment Company. On 1 November 2005, the Company, SITIC and Weifang Municipality Investment Company entered into the restructuring agreement, through which Weifang Plant is proposed to be restructured under relevant PRC laws to form Huadian Weifang Power Generation Company Limited.

Huadian Weifang Power Generation Company Limited had a registered share capital of RMB200,000,000 upon its establishment. Pursuant to the restructuring agreement, the Company, SITIC and Weifang Municipality Investment Company shall inject net assets equivalent to RMB60,000,000, RMB60,000,000 and RMB80,000,000 respectively into Huadian Weifang Power Generation Company Limited.

On 1 November 2005, the Company, SITIC and Weifang Municipality Investment Company also entered into the investment agreement, pursuant to which the parties have agreed to make increased capital contributions and further investments towards Huadian Weifang Power Generation Company Limited after it is formed. Pursuant to the investment agreement, upon the establishment of Huadian Weifang Power Generation Company Limited under the restructuring agreement, the parties made an initial additional capital contribution of RMB200,600,000, by which the registered share capital of Huadian Weifang Power Generation Company Limited increased from RMB200,000,000 to RMB400,600,000. Pursuant to the investment agreement, the Company, SITIC and Weifang Municipality Investment Company agreed to make increased capital contributions and further investments of RMB1,050,000,000 (equivalent to HK\$1,009,615,385) towards Huadian Weifang Power Generation Company Limited. The contribution of RMB200,600,000 will become the enlarged registered share capital of Huadian Weifang Power Generation Company Limited and the remaining amounting to RMB849,400,000 will become its capital reserve. Immediately following the expected capital contributions made, the enlarged registered capital of Huadian Weifang Power Generation Company Limited will then be interested as to 45% by the Company, 30% by SITIC and the remaining 25% by Weifang Municipality Investment Company. The relevant procedures for change of business registration were completed. At present, the Company holds 45% equity interests in Weifang Company as a result of its capital increase and the further change of registration.

## DIRECTORS REPORT *(continued)*

In respect of the above agreements, according to the relevant "percentage ratio" calculated under Rule 14.07 of the Listing Rules, such agreements constitute a discloseable transaction of the Company under the Listing Rules. In addition, SITIC is a promoter and a substantial shareholder, and hence a connected person, of the Company. Further, Huadian Weifang Power Generation Company Limited, when formed, will become an associate of SITIC, and therefore also a connected person of the Company. Accordingly, the agreements and the transactions thereunder also constitute, or may constitute, connected transactions of the Company as required under Chapter 14A of the Listing Rules. The Company published an announcement dated 2 November 2005 in relation to the discloseable connected transactions under the restructuring of Weifang Plant, and obtained approval by the Independent Shareholders at the extraordinary general meeting on 23 December 2005. SITIC has abstained from voting at the extraordinary general meeting on the ordinary resolutions approving each of the agreements and the transactions thereunder, which were taken on a poll as required under the Listing Rules.

The Independent Board Committee, comprising only independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the agreements. Goldbond Capital (Asia) Limited has been appointed as the Company's independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the agreements are fair and reasonable and whether the agreements are in the interests of the Company and its shareholders as a whole.

A circular containing further information in relation to the agreements as required under the Listing Rules (including a letter from the Independent Board Committee and its recommendations to the Independent Shareholders, and an opinion letter from the independent financial adviser) has been issued by the Company and dispatched to its shareholders.

Further details are set out in the Company's announcement dated 2 November 2005 and the circular and the notice of extraordinary general meeting dated 7 November 2005.

### 5. Use of proceeds from the Issue of A shares

In 2005, the Company raised net proceeds of approximately RMB1,885,501,200 from the issue of A shares. The proceeds were fully utilised during the year.

There is no change in the committed projects, details are set out as follows:

*Unit: RMB'000*

<b>Name of committed projects</b>	<b>Planned investment</b>	<b>Actual utilised proceeds</b>
Repayment of banks loans for acquisition of 80% equity interests in Guangan Company	475,500	475,500
Repayment of bank loans of Guangan Phase II Project and payment of construction expenses	370,000	320,000
Investment in Zhongning Company's expansion project	185,000	60,000
Investment in Zouxian Plant Phase IV project	1,000,000	1,030,001.2
Total	<u>2,030,500</u>	<u>1,885,501.2</u>

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year of 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities ("securities" having the meaning as ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules), without taking into account, for the avoidance of doubt, any issue of new securities.

### FINANCIAL SUMMARIES

Summaries of the results and the assets and liabilities of the Group for each of the five years ended 31 December 2005 prepared in accordance with IFRS are set out on page 117.

The Company is not aware of any matter taking place in the year ended 31 December 2005 that would be required to be disclosed under Rules 13.13 to 13.19 of the Listing Rules.

### MATERIAL LITIGATION

The Group was not involved in any material litigation or arbitration during the financial year of 2005. As at 31 December 2005, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

### DESIGNATED DEPOSITS AND OVERDUE MATERIAL DEPOSITS

As at 31 December 2005, none of the Group's deposits placed with financial institutions were designated or trust deposits or material deposits that could not be collected by the Group upon maturity.

### AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the financial statements prepared under IFRS for the year ended 31 December 2005.

### AUDITORS

The Company has not changed its auditors in the preceding three years. A resolution for reappointment of KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively for financial year 2006 will be proposed at the forthcoming 2005 Annual General Meeting.

By order of the Board  
**He Gong**  
Chairman

Jinan, Shandong Province, the PRC  
24 March 2006