

# Report of the Directors

The Directors are pleased to present the audited results of the Company and its Subsidiaries for the year ended 31st December 2005.

## Listing and Issue of Shares

The Company's H Shares have been listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the London Stock Exchange Limited since 21st March 1997. On 9th September 2003, the Company issued 5-year US Dollar convertible bond of US\$153.8 million, which are listed on the Luxembourg Stock Exchange, at 0.75% interest rate per annum and a conversion premium of 30%. During the Year, the Company did not issue any new shares.

Performance of the Company's H Shares during the Year:

Closing price per H Share  
as at 31st December 2005 HK\$5.70

Highest traded price per H Share  
between 1st January and  
31st December 2005 HK\$6.15

Lowest traded price per H Share  
between 1st January  
and 31st December 2005 HK\$5.35

Total number of H Shares traded  
between 1st January and  
31st December 2005 2,104,581,000 shares

## Public Float

The Company confirms that the public float of the Company's H Shares has complied with the requirement under the Listing Rules at any time during the Year.

## Accounts

The Company and its Subsidiaries' audited results for the year ended 31st December 2005 are set out in the Consolidated Income Statement on page 85. The financial position of the Company and its Subsidiaries' as at 31st December 2005 is set out in the Balance Sheets on page 86.

The Company and its Subsidiaries' consolidated cash flows for the year ended 31st December 2005 are set out in the Consolidated Cash Flow Statement on page 89.

## Main Businesses

The main businesses of the Company are to acquire, own and operate existing coal-fired power plants and to develop, construct, own and operate new power plants.

## Major Suppliers and Customers

The percentage of purchases and sales attributable to the Company's suppliers and customers for the Year are as follows:

	2005	2004
Purchases		
The largest supplier	16.77%	14.00%
Five largest suppliers	48.60%	52.80%
Sales		
The largest customer	92.95%	95.67%
Two largest customers	96.31%	99.96%

To the knowledge of the Directors, none of the Directors, Supervisors, their respective associates or shareholders of the Company owning 5% or more of the Company's issued share capital of the same class owned any direct or indirect interest in the Company's suppliers and customers mentioned above during the Year.

## Subsidiaries, Jointly Controlled Entity and Associates

Details of subsidiaries, jointly controlled entity and associates of the Company are set out in Note 6, Note 7 and Note 8 to the financial statements on page 116 to page 122.

## Dividends and Earnings per Share

Details of dividends and earnings per share are set out in Notes 29 and 30 to the financial statements on page 149.

## Reserves

Movements in reserves during the Year are set out in Note 16 to the financial statements on page 128 to page 131.

## Property, Plant and Equipment

Details of movements in property, plant and equipment during the Year are set out in Note 5 to the financial statements on page 114 to page 116.

## Share Capital

Details of the change of share capital of the Company during the Year are set out in Note 15 to the financial statements on page 128.

## Share Capital Structure

As at 31st December 2005, the total number of shares issued by the Company was 5,162,849,000. The Company's shareholders were China Datang Corporation, Beijing Energy Investment (Group) Company, Hebei Construction Investment Company, Tianjin Jinneng Investment Company and foreign holders of H Shares, holding 1,828,768,200 shares, 671,792,400 shares, 671,792,400 shares, 559,827,000 shares and 1,430,669,000 shares, respectively, representing 35.43%, 13.01%, 13.01%, 10.84% and 27.71%, respectively, of the issued share capital of the Company.

## Number of Shareholders

Details of the shareholders as recorded in the register of members of the Company as at 31st December 2005 were as follows:

Total number of shareholders	298
Holders of domestic shares	4
Holders of H Shares	294

## Substantial Shareholders of the Company

As far as the directors of the Company are aware, as at 31 December 2005, the interests or short positions of the person or entities in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Law of Hong Kong), or as otherwise required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

Name of shareholder	Class of shares	No. of shares held	Percentage to total issued share capital of the Company (%)	Percentage to total issued domestic shares (%)	Percentage to total issued H shares (%)
China Datang Corporation (Note 1)	Domestic shares	1,828,768,200	35.43	49	-
Beijing Energy Investment (Holding) Company Limited (Note 2)	Domestic shares	671,792,400	13.01	18	-
Hebei Construction Investment Company (Note 3)	Domestic shares	671,792,400	13.01	18	-
Tianjin Jinneng Investment Company (Note 4)	Domestic shares	559,827,000	10.84	15	-
UBS AG	H shares	169,353,508(L) 47,859,124(S)	3.28 0.93	- -	11.84(L) 3.35(S)
Alliance Capital Management L.P.	H shares	157,493,140(L)	3.05	-	11.01(L)
JP Morgan Chase & Co.	H shares	144,218,597(L) 86,283,871(P)	2.79 1.67	- -	7.98(L) 6.03(P)
Templeton Asset Management Limited	H shares	84,472,320(L)	1.64	-	5.90(L)
(L) = Long positions		(S) = Short positions	(P) = Lending pool		

## Notes:

- (1) Each of Mr. Zhai Ruoyu, Mr. Hu Shengmu and Mr. Fang Qinghai, all non-executive Director, is an employee of China Datang Corporation.
- (2) Each of Mr. Liu Haixia and Ms. Guan Tiangang, both non-executive Director, is an employee of Beijing Energy Investment (Holding) Company Limited.
- (3) Each of Mr. Su Tiegang and Mr. Ye Yonghui, both non-executive Director, is an employee of Hebei Construction Investment Company.
- (4) Mr. Tong Yunshang, a non-executive Director, is an employee of Tianjin Jinneng Investment Company.

Save as disclosed above, as far as the Directors are aware, as at 31st December 2005 there is no person or entity holding interests or short positions in the shares or underlying shares of the Company are required to make disclosure in accordance with the requirements of the SFO.

## Interests of Directors and Supervisors in Share Capital

At any time during the Year, none of the Directors, chief executive, supervisors of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (as defined in the SFO) that required to notify the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or required to be recorded in the register mentioned in the SFO pursuant to section 352 of the SFO or otherwise required to notify the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

### **Directors' Service Contracts**

As at 31st December 2005, the Company has not entered into service contracts with executive Directors.

### **Interests of Directors and Supervisors in Contracts**

No contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party, and in which any Director or Supervisor had a material interest, subsisted at the end of the Year or during the Year.

### **Directors and Supervisors' Benefits from Rights to Acquire Shares or Debentures**

No arrangements were made by the Company or its subsidiaries at any time during the Year for any Director or Supervisor to acquire any shares in or debentures of the Company or any of its subsidiaries.

### **Interests of Substantial Shareholders in Contracts**

Save as disclosed in this annual report, none of the Company and any subsidiaries of the Company have entered into any material contracts or material service contracts with the Company's substantial shareholders (as defined under the Listing Rules) or its subsidiaries.

### **Highest Paid Individuals**

All of the highest paid individuals of the Company during the Year include Directors and senior management staff. Details of their remuneration are set out in Note 28 to the financial statements on page 148.

### **Purchase, Sale and Redemption of the Company's Listed Securities**

There was no purchase, sale or redemption of the Company's listed securities by the Company during the Year.

### **Bank Borrowings, Overdrafts and Other Borrowings**

Apart from the loans from China Datang Corporation Finance Company Limited and NCPG Finance Company Ltd, short-term loans from banks, long-term loans from banks and other long-term loans as set out in Notes 17 to 18 to the financial statements on page 131 to page 133, there were no other loans of the Company and its subsidiaries as at 31st December 2005.

### **Pre-emptive Rights**

According to the Articles of Association and applicable PRC Laws, no pre-emptive rights exist that require the Company to offer new shares to the existing Shareholders in proportion to their shareholding.

## Connected Transactions

During the Year, China Datang Corporation and the Company performed the following continuing connected transactions (definition in accordance with the requirements stipulated in Chapter 14A of the Listing Rules), among which the Company had been liaising with China Datang Corporation with a view to entering into a supplemental agreement in relation to the continuing connected transaction 1 below in order to strictly comply with the Listing Rules after its revision, while the remaining transaction was in compliance with the requirements on connected transactions under Chapter 14A of the Listing Rules.

### Transactions

	<b>Amount</b> (RMB '000)
1. Ash disposal fees payable to China Datang Corporation	57,892
2. Rental payable to China Datang Corporation	7,228
3. Fuel management fee payable to China Datang Corporation	5,229

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

- (1) the above transactions were made in and for the need of daily and normal business operations;

- (2) the above transactions were made with the following terms: (a) normal business terms (i.e. such terms are applicable to the similar transactions with other similar business entities in China); or (b) fair and reasonable terms in the opinion of the Directors of the Company if there were no comparable terms; and
- (3) the above transactions were made with the following terms: (a) agreed terms governing such transactions, or (b) terms not less favourable than those that the Company may enter into with any third party, if there was no such agreement.

The Company's auditors have reviewed the said transactions and notified the Board of the following in writing:

- (a) The said transactions have been approved by the Directors;
- (b) The said transactions have been entered into pursuant to the agreement terms governing those transactions and the pricing method set out in Note 27 of Notes to the Financial Statements for the year ended 31st December 2005;
- (c) The said transactions have not exceeded the respective cap applicable to that transaction.

During the Year, the major details of continued connected transactions entered into between the Company and China Datang Corporation are as follows:

1. During the Year, the Company and Datang Fuel Company Limited, a wholly owned subsidiary of China Datang Corporation, entered into Fuel Management and Development Service Agreement, As such, China Datang Corporation provided fuel management and development services to the Company. The fee was calculated from the quantity of fuel purchased based on RMB0.3/ton. The agreement will subsist until 31st December 2006. During the Year, the Company has paid a fuel management fee amounting to RMB5,229,000.
2. On 20th December 2005, the Company and China Datang Corporation (a substantial shareholder of the Company, holding 35.43% of the issued share capital of the Company and thus a connected person of the Company) entered into the Supplemental Agreement to the Ash Disposal Agreement to render the Ash Disposal Agreement in compliance with the requirements governing continuing connected transactions under the revised Listing Rules. The revised ash disposal arrangement is effective for a term of 3 years, from 20th December 2005 to 19th December 2008. The maximum aggregate annual caps for the year ending 31st December 2005, 31st December 2006 and 31st December 2007 were RMB60,000,000.

During the Year, the Company has entered into/performed the following connected transactions which were in compliance with the respective requirements as stipulated in Chapter 14A of the Listing Rules:

1. In order to utilise resources more effectively, the Company entered into an agreement with China Datang Corporation on 24th August 2005, the Company transferred an office building construction project to China Datang Corporation. The consideration for the transfer was RMB210,615,000, which was equivalent to the cost incurred by the Company in connection to the project.
2. In 2004, the Company's subsidiary, Tangshan Thermal Power Company entered into an agreement with China Datang Corporation by which Tangshan Thermal Power Company agreed to acquire the net assets of Tangshan Power Plant from China Datang Corporation. After the approval from all relevant government authorities had been obtained and the consideration of RMB157,000,000 had been paid, the acquisition became effective on 20th June 2005.
3. As at 31st December 2005, the Company and its Subsidiaries have financial borrowings of RMB187,000,000 due to China Datang Corporation Finance Company Limited.

4. On 29th August 2005, the Company entered into a joint venture agreement with (i) Hebei Construction Investment Company (a substantial shareholder of the Company holding approximately 13.01% of the issued share capital of the Company and thus a connected person of the Company), (ii) Beijing Railway Authority, (iii) Tangshan Port Investment Company Limited, (iv) State Development Investment Communications Company, (v) Tangshan Caofeidian Development Company Limited and (vi) China Resources (Tangshan Caofeidian) Company Limited to construct and operate the Qiancao Railway Project through Tanggang Railway Company Limited. The Company and Hebei Construction Investment Company own approximately 13.97% and approximately 11.64% equity interest of Tanggang Railway Company Limited, respectively, and contribute in total in cash RMB240 million and RMB200 million to such company, respectively, under the joint venture agreement. The purpose of such agreement is to secure the supply of coal to the Company and increase the rate of return for the Shareholders.

### Material Litigation

The Company was not involved in any material litigation during the Year.

### Retirement Scheme

In accordance with the State's employee retirement scheme, the Company has to pay a basic pension insurance premium on behalf of the employees at a rate of 20% of the staff's salaries whereby the employees would receive a monthly pension payment each month after retirement. In addition, the Company has also implemented an enterprise annuity plan, whereby employees will make monthly contributions at a fixed amount as individual savings pension insurance fund, while the Company will contribute a proportionate amount of the employees' contributions as supplementary pension insurance fund. The Company may at its discretion provide additional non-recurring individual savings pension insurance fund depending on the operating results of the year. When retired, an employee will receive individual savings pension insurance fund and corporate supplemental savings pension insurance fund by the Company. Apart from such contributions, the Company has no other liabilities towards the staff retirement scheme.

### Interest Capitalisation

During the Year, interest capitalised in respect of construction-in-progress amounted to approximately RMB893 million.

### Other Significant Matters

At the extraordinary meeting convened on 27th November 2005, the appointment of Mr. Fang Qinghai as non-executive Director of the Company and the resignation of Mr. Kou Bingen as non-executive Director due to personal reasons were approved.

## Compliance of the Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules during the Year. (Except for the deviation from the requirement of the code provision A.4.2 of the Code.)

It is provided in the code provision A.4.2 of the Code that every Director (including Directors with designated term) should be subject to retirement by rotation at least once every three years.

Pursuant to the Articles of Association, the Directors are appointed by the general meeting with each term of office not exceeding three years, and are entitled to be re-elected and re-appointed. The Company considers that the re-electing and re-appointing Directors as the Company’s Directors by the general meeting is in the interest of maintaining continuity of the existing operating measures and policies, so the Articles of Association have not stipulated any requirements on the system of retirement by rotation.

## Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers

Upon specific enquiries made to all Directors and in accordance with information provided, the Board confirmed that all Directors have complied with the provisions under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules during the Year.

## Independent non-executive Directors

The Company confirms the receipt of annual confirmation letters from each of its independent non-executive Directors in respect of their respective independence; and confirms that the Company considers that all independent non-executive Directors are independent individuals.

## Auditors

The Company’s 2005 financial statements prepared under International Financial Reporting Standards (“IFRS”) have been audited by PricewaterhouseCoopers. A resolution to re-appoint PricewaterhouseCoopers as the international auditors will be proposed at the annual general meeting. During the past four years, the Company has not changed its auditors.

By Order of the Board  
**Zhai Ruoyu**  
 Chairman

27th March 2006