

## BUSINESS REVIEW

### (1) Power generation

Electricity generation of the Group during 2006 amounted to 52.53 million MWh, representing an increase of approximately 12.20% over 2005. The average utilization hours of the power generation facilities of the Group were 5,402 hours, representing a decrease of 310 hours from 2005.

### (2) Turnover

In 2006, the total volume of electricity supplied by the Group to the grid was 49.08 million MWh, representing an increase of approximately 12% over 2005.

Turnover for the year 2006 amounted to approximately RMB15,131 million, representing an increase of approximately 13.76% over 2005. Revenue generated from sale of electricity for the year 2006 amounted to approximately RMB14,835 million, representing an increase of approximately 13.81% over 2005. The revenue generated from sale of heat for the year 2006 amounted to approximately RMB296 million, representing an increase of approximately 11.31% over 2005.

### (3) Profit

For the year ended 31 December 2006, the Group's profits attributable to equity shareholders of the Company amounted to RMB1,201 million, representing an increase of approximately 12.64% over the corresponding period in 2005. Earnings per share were RMB0.199.

#### **(4) Newly installed capacity**

There were mainly eight generating units of the Group commenced commercial operation in 2006. The second 300MW coal-fired generating unit of Qingdao Company Phase II expansion project was completed and commenced operation on 9 July 2006. The two 300MW coal-fired generating units of Zhangqiu Company Phase II expansion project were completed and commenced operation on 14 July 2006 and 19 November 2006 respectively. The first 670MW supercritical generating unit of Weifang Company Phase II expansion project was completed and commenced operation on 24 October 2006. Two 315MW heat and power co-generation units of Tengzhou Company Phase II expansion project were completed and commenced operation on 10 November 2006 and 13 December 2006 respectively. The first 1,000MW ultra-supercritical generating unit of Zouxian Plant Phase IV expansion project was completed and commenced operation on 4 December 2006. The first 600MW subcritical generating unit of Guangan Company Phase III expansion project was completed and commenced operation on 13 December 2006. All these newly-operated generating units adopted the local benchmark on-grid tariffs. A tariff rise of RMB15/WWh resulting from desulphurization was implemented for units No.1 and No.2 of Qingdao Company and units No.1 and No.2 of Weifang Company based on the original electricity tariffs.

#### **(5) Construction in progress**

To date, the Group's projects under construction include one 1,000MW generating unit of Zouxian Plant Phase IV project, one 670MW generating unit of Weifang Company Phase II expansion project, one 600MW generating unit of Guangan Company Phase III expansion project, two 600MW generating units of Lingwu Company, two 600MW generating units of Suzhou Company Phase I project, two 660MW generating units of Xinxiang Company Phase I project, two 600MW generating units of Luzhou Company, two 660MW generating units of Wuhu Company Phase I project, Suzhou Straw-fired Power Plant project with a planned capacity of 50MW and the wind power project of Ningdong Wind Power Company with a planned capacity of 45MW.

#### **(6) Preliminary projects**

As for preliminary projects currently under development of the Group, the four 230MW hydropower projects of Luding Hydropower Company were granted development rights while the Group acts zealously to obtain development rights for other hydropower projects in Daduhe river basin. In pursuing wind power development resources, the Group signed agreements with local authorities of Shandong, Hebei, Liaoning, Ningxia and Inner Mongolia to develop wind power generation in the regions. With regard to exploration for thermal source reserves, the Group is investigating the possibility of developing thermal power reserves exploration projects in Shandong, Ningxia and Henan provinces. The Group is also actively pursuing Shandong Hongshiding nuclear power project.

## BUSINESS PROSPECT

According to statistics, in 2007, the national economy is expected to grow continuously, stably and persistently while the power demand is expected to expand relatively quickly. Meanwhile, the State will advance towards an energy efficient and environment-friendly society. With remarkably improvement in various strengths after years' growth, the Group is well placed to consolidate and maintain its competitive advantage in the PRC by capitalizing on its high proportion of environment-friendly generating units with large capacity and high efficiency.

Power demand is increasing in developed or fast-growing economies including Shandong, Sichuan, Ningxia and Anhui in which the Group operates or invests. The Group's quality assets comprise a majority of generating units with large capacities, high performance and efficiency, generating units with 300MW or above account for over 80% of the total installed capacity. The first 1,000MW ultra-supercritical unit of Zouxian Plant Phase IV project, which holds a leading position in the PRC for its unit capacity, commenced operation in 2006 while the second one is set to commence operation in 2007.

Through a decade of rapid growth and continuous expansion, the installed capacity, generating capacity, profitability, competitiveness and integrated strengths of the Group as a listed power generating enterprise in China have always ranked high. In 2007, the Company will continue to put efforts in infrastructure projects, operations improvement, power source project development, cost-effectiveness enhancement and capital operations optimisation, aiming at increasing overall strength and competitive edge of the Group. The Group is confident in its ability to seize opportunities and address challenges, particularly those from the critical market. By fully utilizing its own advantages, the Group will constantly expand its operations and overcome various adverse factors including reduced utilization hours and rising coal prices, so as to secure a steady and fast growth.

**Chen Jianhua**

*Director and General Manager*



The major objectives of the Group in 2007 are as follows:

1. To ensure safe and stable operation of the Group's power plants, to achieve the Group's operational targets for 2007, to control costs stringently and maintain the leading position in the industry in terms of various technological and economic performance indicators.
2. To ensure smooth construction in progress with respect to construction speed, quality and unit costs control and their timely commencement of operations.
3. To drive preliminary projects forward, to further optimize power source structure and regional structure, to actively develop new energy projects, to accelerate the development of hydroelectricity projects, and to boost the construction and development of wind power projects.
4. To take initiatives in the task of shutting down small thermal power units.
5. To make use of the competitive edge of China Huadian's power source exploration projects across the PRC, to compete for exploration and construction of new projects, and to speed up the Group's expansion in domestic power generation industry.
6. To strengthen control on coal costs and further enhance the long-term strategic partnership with coal mines so as to improve coal quality and secure coal supply.
7. To adhere to low cost strategies to enhance the Company's profitability.
8. To actively explore multiple debt financing channels for reduction of financing costs so as to meet future financial needs for its continuous development.
9. To introduce innovative human resources management system for improving the overall quality of the Group's management.

**Chen Jianhua**  
*Director and General Manager*

Beijing, the PRC  
23 March, 2007