

## (1) MACROECONOMIC CONDITIONS AND ELECTRICITY DEMAND

According to the relevant information and statistics, the 2006 gross domestic product (“GDP”) of the PRC amounted to RMB20,940.7 billion, representing an increase of 10.7% over 2005 based on comparable prices. Power consumption of the whole society totalled 2,824.8 million MWh, representing an increase of 13.99% over 2005, of which the consumption of the primary, secondary and tertiary industries accounted for 83.2 million MWh, 2,135.4 million MWh and 282.2 million MWh respectively, representing a year-on-year increase of 9.9%, 14.3% and 11.8% respectively.

Currently, the Company’s power generating units in operation or under construction are located in Shandong, Sichuan, Ningxia, Anhui and Henan Province/Autonomous Region with fast-growing economy and considerable GDP growth in recent years. Based on comparable prices, the GDP growth rates of Shandong, Sichuan, Ningxia, Anhui and Henan Province/Autonomous Region in 2006 reached 14.7%, 13.3%, 12.5%, 12.9% and 14.1% respectively. Their GDP growth rates outperform the national average by 4.0, 2.6, 1.8, 2.2 and 3.4 percentage points, respectively. Among them, Shandong Province has recorded continuous double-digit economic growth for years. Power consumption of the whole society for Shandong Province increased by 15.24%. In line with the GDP growth, power demands in other regions increased rapidly.

## (2) TURNOVER AND PROFIT

In 2006, the Group strengthened the management, strove for planned output, optimized dispatch and achieved a considerable rise in the volume of power generation. In the meantime, it maintained a strict control over all controllable costs including coal prices while ensuring coal supply in terms of both quality and quantity. As a result of the active promotion of price linkage between coal, electricity and heat industries, the cost increase due to climbing coal prices since 2005 was partially offset. The total volume of electricity supplied by the Group to the grid for the year 2006 was 49.08 million MWh. Turnover for the year 2006 amounted to approximately RMB15,131 million, representing an increase of approximately 13.76% over 2005. Profits attributable to equity shareholders of the Company amounted to approximately RMB1,201 million, representing an increase of approximately 12.64% over 2005. Earnings per share were RMB0.199. The increase in turnover was mainly attributable to the increase in the volume of power generation and the rising on-grid electricity tariffs.

## (3) OPERATING EXPENSES

During the year, the operating expenses of the Group amounted to RMB12,835 million, representing an increase of approximately 14.12% over 2005, which was mainly attributable to a rise in the installed capacity and the volume of power generation. The growth of in operating expenses was lower than that of the average installed capacity of the generating units of the Group.

The principal contribution to the operating expense of the Group was coal costs, which amounted to RMB8,062 million in 2006, accounting for approximately 62.81% of the Group’s total operating expenses. In 2006, the Group strove for improving coal quality and reducing coal prices. Unit fuel cost for electricity supplied by the Group amounted to RMB158.96/MWh, representing a slight decrease from 2005, mainly attributable to the decrease in unit coal costs of the Group resulting from the consolidation of Zhongning Company which incurred lower coal costs.

Depreciation and amortisation expenses of the Group amounted to RMB1,952 million in 2006, representing an increase of approximately 20.37% over 2005. This mainly resulted from the operation of new generating units and the change of the consolidation method in respect of Weifang Company and Zhongning Company.

The major overhaul and repair and maintenance expenses of the Group increased by approximately 13.71% to RMB454 million in 2006 as compared with that for 2005. The growth increase in major overhaul and maintenance expenses was lower than that of the average installed capacity of the generating units of the Group, which was mainly due to the Group's stringent cost control over major overhaul and repair and maintenance expenses.

Personnel costs of the Group amounted to RMB1,294 million in 2006, representing a year-on-year increase of approximately 22.37%. This was mainly due to the growing installed capacity and the change of the consolidation method in respect of Weifang Company and Zhongning Company.

Administrative expenses increased by approximately 15.36% to RMB584 million as compared with that for 2005. This was mainly due to the change of the consolidation method in respect of Weifang Company and Zhongning Company and the rise in tax and property insurance expenses for newly-operated generating units .

Other operating costs amounted to RMB332 million, representing an increase of RMB74 million over 2005, mainly due to the increased water and oil fee as a result of the increase of power generating capacity and volume of power generation.

#### **(4) FINANCE COSTS**

Net finance costs of the Group in 2006 amounted to RMB504 million, representing an increase of RMB57.44 million, or approximately 12.87%, over 2005. This was mainly attributable to the increase in total interests on loans being charged into income statement, and the change of the consolidation method in respect of Weifang Company and Zhongning Company.

#### **(5) CHARGES OF ASSETS**

As at 31 December 2006, the Company's subsidiary, Guangan Company, and jointly controlled entity, Zhongning Company, have charged their income stream in respect of the sale of electricity to banks as security for bank loans amounting to RMB3,901 million.

#### **(6) INDEBTEDNESS**

As at 31 December 2006, the borrowings of the Group amounted to RMB31,748 million, of which loans denominated in US dollars amounted to US\$187 million. The gearing ratio (i.e. total liabilities / total assets) was 71.13%, representing an increase of 10.43 percentage points from that of 2005. This was mainly attributable to the increase in borrowings for the Group's construction in progress. All loans of the Group were mainly floating rate loans, short-term loans and long-term loans due within one year amounted to approximately RMB12,501 million, and long-term loans amounted to approximately RMB19,247 million.

#### **(7) CONTINGENT LIABILITIES**

As at 31 December 2006, Zhongning Company, the jointly controlled entity of the Company, provided guarantees for bank loans amounting to RMB42.50 million granted to Ningxia Power Company, an associate of the Company. The subsidiary of the Company, Guangan Company, provided guarantees to banks for loans amounting to RMB73.40 million granted to Sichuan Huayingshan Longtan Coal Company Limited, an associate of Guangan Company. In addition, the Company provided guarantees for bank loans amounting to RMB462.91 million in aggregate granted to its subsidiaries Zibo Company, Tengzhou Company, Zhangqiu Company and Luding Hydropower Company. Save as disclosed above, the Group had no other material contingent liabilities.

## (8) CASH AND CASH EQUIVALENTS

As at 31 December 2006, the Group had cash and cash equivalents of approximately RMB968 million.

## (9) CASH FLOW ANALYSIS

In 2006, the net increase in consolidated cash and cash equivalents of the Group amounted to approximately RMB122 million. Cash flow generated from operating activities amounted to approximately RMB2,386 million, representing an increase of RMB50.68 million over 2005. Net decrease in cash flow generated from investing activities amounted to approximately RMB13,686 million, mainly resulting from the investment in fixed assets including construction in progress and fixed asset investments such as technical improvement projects of the Group during the reporting period. Cash flow generated from financing activities amounted to approximately RMB11,422 million, mainly due to the increased debt financing during the reporting period.

## (10) PRODUCTION, OPERATION AND SAFETY

In 2006, the equivalent availability factor of the generating units was 94.23%; the equivalent forced suspension rate was 0.59%; the average coal consumption rate for electricity supply of generating units was 346.51g/KWh, an increase of 1.52g/KWh from that of 2005.

In 2006, the Group's operational safety maintained at a decent level. As at 31 December 2006, the Group had achieved operational safety throughout the year.

In 2006, a total of 7 major overhauls and 18 minor overhauls were undertaken in respect of the generating units of the Group and the planned overhaul rate was 5.31%, representing a decrease of 0.61 percentage points from 2005.

## (11) TECHNICAL IMPROVEMENT PROJECTS

During the reporting period, the capacity expansion of unit No. 1 of Shiliquan Plant, wholly-owned by the Group, passed the tests and appraisals by the relevant examination institution and experts. The increase in capacity has been approved by the relevant government authorities. After the implementation of energy saving and capacity expansion for unit No. 1 of Shiliquan Plant, coal consumption rate for electricity supply of the generating units reduced by 10-15g/KWh on average, and the installed capacity expanded from 125MW to 140MW.

The Group took active steps to build an energy-saving and environment-friendly enterprise through the desulphurization technology renovation of units in service with a total capacity of 4,850MW. Up to date, the upgrading desulphurization projects of seven power plants/companies with a total capacity of 4,560MW were put into operation and desulphurization facilities of ten power plants/companies with a total capacity of 10,150MW have been put into operation, establishing a sound environment-friendly image.

## OPERATION STATISTICS

The table below sets out certain major operation statistics of the Group and its power plants/companies:

THE GROUP:

	2006	2005	2004
Total installed capacity controlled or invested at year end (MW)	<b>14,782.20</b>	10,307.20	8,635.00
Interested capacity at year end (MW)	<b>11,748.90</b>	8,197.50	7,397.50
Amount of electricity generated ('million MWh)	<b>52.53</b>	46.82	37.45
On-grid electricity sold ('million MWh)	<b>49.08</b>	43.83	34.92
Available hours	<b>6216.70</b>	7,966.00	8,289.00
Average utilization hours	<b>5,402</b>	5,712.00	5,089.00
Load factor (%)	<b>76.67</b>	75.68	72.60
Equivalent availability factor (%)	<b>94.23</b>	93.80	93.95
Standard coal consumption for electricity supplied (g/kWh)	<b>346.51</b>	344.99	346.13

  

2006	Zouxian	Shiliquan	Laicheng	Qingdao	Zibo	Zhangqiu	Tengzhou	Guangan	Weifang	Zhongning	Chizhou
Equity interest (%)	100	100	100	55	100	84.45	88.16	80	45	50	40
Installed capacity (MW)	3,540	1,300	1,200	1,260	467	890	963	1,800	1,330	660	600
Average utilization hours	5,168	5,417	5,345	5,135	5,692	4,961	5,348	5,181	5,238	7,590	5,177
Total amount of electricity generated ('million MWh)	13.50	6.96	6.41	5.67	2.66	2.31	2.10	6.37	4.04	5.01	3.11
Net amount of electricity generated ('million MWh)	12.76	6.50	6.06	5.27	2.34	2.13	1.94	5.92	3.79	4.76	2.90
Standard coal consumption for electricity supplied (g/kWh)	332.0	356.3	338.9	346.9	374.3	360.1	363.7	341.5	352.1	345.9	345.2

  

2005	Zouxian	Shiliquan	Laicheng	Qingdao	Zibo	Zhangqiu	Tengzhou	Guangan	Weifang	Zhongning	Chizhou
Equity interest (%)	100	100	100	55	100	80.41	54.49	80	30	50	40
Installed capacity (MW)	2,540	1,285	1,200	660	467	290	333	1,200	660	660	600
Average utilization hours	5,616	5,754	5,850	5,522	5,905	5,733	5,870	5,700	5,737	7,964	4,877
Total amount of electricity generated ('million MWh)	14.27	7.39	7.02	3.79	2.76	1.66	1.95	6.84	3.79	2.79	0.54
Net amount of electricity generated ('million MWh)	13.53	6.90	6.63	3.52	2.43	1.54	1.81	6.39	3.56	2.64	0.51
Standard coal consumption for electricity supplied (g/kWh)	332.12	355.75	339.06	345.62	374.03	367.52	369.14	341.91	342.87	353.44	356.20

  

2004	Zouxian	Shiliquan	Laicheng	Qingdao	Weifang	Zibo	Zhangqiu	Tengzhou	Guangan
Equity interest (%)	100	100	100	55	30	100	70	54.49	80
Installed capacity (MW)	2,540	1,285	1,200	660	660	467	290	333	1,200
Average utilization hours	4,934	4,864	5,092	5,315	5,531	5,148	4,885	4,891	5,511
Total amount of electricity generated ('million MWh)	12.53	6.18	6.11	3.51	3.65	2.30	1.32	1.63	4.35
Net amount of electricity generated ('million MWh)	11.84	5.76	5.75	3.26	3.43	2.01	1.22	1.50	4.02
Standard coal consumption for electricity supplied (g/kWh)	332.04	357.55	341.33	347.40	347.00	378.93	371.96	370.89	342.61