

The Directors hereby present the annual report together with the audited financial statements of the Company, its subsidiaries and jointly controlled entity (the "Group") for the financial year ended 31 December 2006.

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 above mentioned financial statements. The profit attained by the Group for the year ended 31 December 2006 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 52 to 112 of the annual report.

RESERVES

The Board has resolved to transfer 10% (2005: 10%) of this year's profit, as determined under PRC accounting standards and regulations, to the statutory surplus reserve, i.e. RMB112,189,000 (2005: RMB101,497,000). Moreover, according to the Notice on Accounting Issues Relating to the Implementation of the Company Law promulgated by the Ministry of Finance of the PRC (Cai Qi [2006] No. 67), the Group transferred the balance of the statutory public welfare fund as at 31 December 2005 amounting to RMB379,434,000 to statutory surplus reserve.

DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.062 per share (totalling approximately RMB373,307,220) for the financial year ended 31 December 2006 (2005: a final dividend of RMB0.065 per share, totalling approximately RMB391,370,473). This dividend distribution proposal is subject to the approval by the shareholders of the Company at the 2006 Annual General Meeting.

RESOLUTIONS PASSED AT THE BOARD MEETINGS IN 2006

In 2006, the Board convened a total of 7 meetings, details of which are summarized as follows:

1. The 8th meeting of the fourth session of the Board was held by way of telecommunications on 18 January, 2006 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The then 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. Resolutions for the following matters were passed at the meeting: to approve establishment of a branch in Anhui Province by the name of "Huadian Power International Corporation Limited Anhui Branch", and to authorize the General Manager or any person authorised by him to take such actions and fulfill such procedures and formalities as may be necessary in accordance with requirements of relevant laws and regulations.
2. The 9th meeting of the fourth session of the Board was convened on 22 March 2006 and concluded on 24 March 2006, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 27 March 2006.
3. The 10th meeting of the fourth session of the Board was held by way of telecommunications on 25 April 2006 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The then 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 analysis on operation the first quarter of 2006 was heard and the 2006 First Quarterly Report of the Company prepared under requirements of China Securities Regulatory Commission ("CSRC") and the PRC accounting standards and regulations was considered and approved.

4. The 11th meeting of the fourth session of the Board was held by way of telecommunications on 28 July 2006 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The then Chairman of the Company, Mr. He Gong, presided over the meeting, which was attended by the Company's 12 Directors in person or by proxy, of which Director Zhu Chongli authorized Director Wang Yingli to attend the meeting on his 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. After hearing the report on the inspection made by Shangdong Securities Regulatory Bureau, the meeting passed the following resolutions: to consider and approve Work Regulations for General Manager, Work Rules for Independent Director, Work Rules for Secretary to the Board and to consider and approve the inspection rectification scheme of the Company.
5. The 12th meeting of the fourth session of the Board was held on 25 August 2006, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 28 August 2006.
6. The 13th meeting of the fourth session of the Board was held on 25 October 2006 at the Company's conference room at 14 Jingsan Road, Jinan City, Shandong Province. The then 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 Director Chen Feihu authorized Director Peng Xingyu to attend the meeting on his 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. Upon vote by the directors, it was unanimously resolved that (1) the analysis on the Company's operation in the third quarter of 2006 be heard and the 2006 Third Quarterly Report of the Company prepared under requirements of the CSRC and the PRC accounting standards and regulations was approved; and (2) the Company's Report on Investment in Shandong Hongshiding Nuclear Power Project be heard.
7. The 14th meeting of the fourth session of the Board was held on 20 December 2006, announcement of resolutions in respect of which was published in China Securities Journal and Shanghai Securities News on 21 December 2006.

Details of the relevant transactions mentioned above which were proceeded with and/or completed in 2006 are set out in the section headed "Significant Events" below.

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries, associates and jointly controlled entity as at 31 December 2006 are set out in notes 17, 18 and 19 respectively to 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 2006 are set out in note 26 to 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 2006 are set out in note 6 to the financial statements prepared in accordance with IFRS included in this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details relating to movements in property, plant and equipment of the Group and those of the Company during the year 2006 are set out in note 13 to 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 2006 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 2006, the Group made donations for charitable purposes in an aggregate amount of approximately RMB223,800 (2005: RMB712,960).

EMPLOYEES' RETIREMENT PLANS

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

EMPLOYEES' MEDICAL INSURANCE

During 2006, there was no change in employees' medical insurance of the Group as compared with 2005. 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 right 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 2006 and as at 31 December 2006 are set out in the Company's statement of changes in shareholders' equity in the financial statements prepared in accordance with IFRS and Note 29a to the financial statements prepared in accordance with IFRS included in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year of 2006, 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	88.44%	
The five largest customers combined	99.04%	
The largest supplier		16.85%
The five largest suppliers combined		56.58%

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.

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 2006 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 2006, interested in 5% or more of any class of the then issued share capital of the Company, or was, as at 31 December 2006, 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 2006	Approximate percentage of shareholding in the Company's total issued domestic shares as at 31 December 2006	Approximate percentage of shareholding in the Company's total issued H shares as at 31 December 2006	
China Huadian Corporation Shandong International Trust and Investment Corporation	Domestic shares	2,961,061,853	49.18%	64.51%	—	—
HKSCC Nominees Limited (Notes)	H shares	1,423,843,900	23.65%	—	99.50%	See notes

Notes:

Based on the information available to and obtained by the Directors as at 31 December 2006, the information available on the website of the Stock Exchange and so far as the Directors are aware and understand, as at 31 December 2006 (in the order appearing on the Stock Exchange's website):

- Among the 1,423,843,900 H shares held by HKSCC Nominees Limited, JPMorgan Chase & Co. had an interest in an aggregate of 156,666,900 H shares of the Company (representing approximately 10.95% of the Company's then total issued H shares). Out of such 156,666,900 H shares, JPMorgan Chase & Co. had an interest in a lending pool comprising 145,372,900 H shares (representing approximately 10.16% of the Company's then total issued H shares), had an interest, in the capacity as beneficial owner, 6,166,000 H shares (representing approximately 0.43% of the Company's then total issued H shares) and had an interest, in the capacity as investment manager, 5,128,000 H shares (representing approximately 0.36% 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, JPMorgan Chase & Co. was, as at 31 December 2006, interested in the aforesaid 156,666,900 H shares of the Company in the manner as follows:
 - 145,372,900 H shares (representing approximately 10.16% 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 100% controlled by JPMorgan Chase & Co.;
 - 2,166,000 H shares (representing approximately 0.15% of the Company's then total issued H shares) were held by J.P. Morgan Whitefriars Inc., which in turn was 100% controlled by J.P. Morgan Overseas Capital Corporation, which in turn was 100% controlled by J.P. Morgan International Finance Limited, which in turn was 100% controlled by Bank One International Holdings Corporation, which in turn was 100% controlled by J.P. Morgan International Inc., which in turn was 100% controlled by JPMorgan Chase Bank, N.A., which in turn was 100% controlled by JPMorgan Chase & Co.;

- (c) 4,000,000 H shares (representing approximately 0.28% of the Company's then total issued H shares) were held by J.P. Morgan Securities Ltd., which in turn was 98.95% controlled by J.P. Morgan Chase International Holdings, which in turn was 100% controlled by J.P. Morgan Chase (UK) Holdings Limited, which in turn was 100% controlled by J.P. Morgan Capital Holdings Limited, which in turn was 100% controlled by J.P. Morgan International Finance Limited, which in turn was 100% controlled by Bank One International Holdings Corporation, which in turn was 100% controlled by J.P. Morgan International Inc., which in turn was 100% controlled by JPMorgan Chase Bank, N.A., which in turn was 100% controlled by JPMorgan Chase & Co.;
- (d) 460,000 H shares (representing approximately 0.03% of the Company's then total issued H shares) were held, in the capacity as investment manager, by JPMorgan Asset Management (Japan) Limited, which in turn was 100% controlled by JPMorgan Asset Management (Asia) Inc., which in turn was 100% controlled by JPMorgan Asset Management Holdings Inc., which in turn was 100% controlled by JPMorgan Chase & Co.; and
- (e) 4,668,000 H shares (representing approximately 0.33% of the Company's then total issued H shares) were held, in the capacity as investment manager, by JPMorgan Asset Management (UK) Limited, which in turn was 100% controlled by JPMorgan Asset Management Holdings (UK) Limited, which in turn was 100% controlled by JPMorgan Asset Management International Limited, which in turn was 100% controlled by JPMorgan Asset Management Holdings Inc., which in turn was 100% controlled by JPMorgan Chase & Co..
2. Among the 1,423,843,900 H shares held by HKSCC Nominees Limited, UBS AG had an interest in an aggregate of 128,366,756 H shares of the Company (representing approximately 8.97% of the Company's then total issued H shares). Out of such 128,366,756 H shares, UBS AG had a direct interest, in the capacity as beneficial owner, in an aggregate of 770,756 H shares of the Company (representing approximately 0.05% of the Company's then total issued H shares), a direct interest, in the capacity as person having a security interest, in an aggregate of 61,720,000 H shares of the Company (representing approximately 4.31% of the Company's then total issued H shares), with the remaining 65,876,000 H shares of the Company (representing approximately 4.60% of the Company's then total issued H shares) held through controlled corporations. According to the information as disclosed in the website of the Stock Exchange and so far as the Directors understand, UBS AG was, as at 31 December 2006, indirectly interested in the aforesaid 65,876,000 H shares of the Company in the manner as follows:
- (a) 7,925,000 H shares (representing approximately 0.55% 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) 754,000 H shares (representing approximately 0.05% 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;
- (c) 5,540,000 H shares (representing approximately 0.39% of the Company's then total issued H shares) were held by UBS Securities Australia, which in turn was 100% controlled by UBS AG;
- (d) 22,436,900 H shares (representing approximately 1.57% 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;
- (e) 12,358,000 H shares (representing approximately 0.86% 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;
- (f) 7,802,100 H shares (representing approximately 0.55% 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;
- (g) 9,060,000 H shares (representing approximately 0.63% of the Company's then total issued H shares) were held by UBS Securities LLC, 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 2006, UBS AG also had a short position in 15,480,000 H shares of the Company (representing approximately 1.08% of the Company's then total issued H shares). Out of the short position of 15,480,000 H shares, a short position of 1,480,000 H shares (representing approximately 0.10% of the Company's then total issued H shares) was held directly by UBS AG in the capacity as beneficial owner, a short position of 4,940,000 H shares (representing approximately 0.35% of the Company's then total issued H shares) was held directly by UBS AG in the capacity as investment manager, with the remaining short position of 9,060,000 H shares (representing approximately 0.63% of the Company's then total issued H shares) being held by UBS Securities LL, which in turn was 100% controlled by UBS AG.

3. Among the 1,423,843,900 H shares held by HKSCC Nominees Limited, The Goldman Sachs Group, Inc. had, through controlled corporations, an interest in an aggregate of 107,815,000 H shares of the Company (representing approximately 7.53% 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, The Goldman Sachs Group, Inc. was, as at 31 December 2006, interested in the aforesaid 107,815,000 H shares of the Company in the manner as follows:

(a) 105,038,000 H shares (representing approximately 7.34% of the Company's then total issued H shares) were held by Goldman Sachs Asset Management International, which in turn was 99% controlled by Goldman Sachs Holdings (U.K.), which in turn was 100% controlled by Goldman Sachs Group Holdings (U.K.), which in turn was 100% controlled by Goldman Sachs (UK) L.L.C., which in turn was 100% controlled by The Goldman Sachs Group, Inc.;

(b) 2,474,000 H shares (representing approximately 0.17% of the Company's then total issued H shares) were held by Goldman Sachs International, which in turn was 99% controlled by Goldman Sachs Holdings (U.K.), which in turn was 100% controlled by Goldman Sachs Group Holdings (U.K.), which in turn was 100% controlled by Goldman Sachs (UK) L.L.C., which in turn was 100% controlled by The Goldman Sachs Group, Inc.;

(c) 1,000 H shares (representing approximately 0.00007% of the Company's then total issued H shares) were held by Goldman Sachs & Co, which in turn was 99.8% controlled by The Goldman Sachs Group, Inc.;

(d) 302,000 H shares (representing approximately 0.02% of the Company's then total issued H shares) were held by Goldman Sachs (Asia) Finance, which in turn was 99% controlled by Goldman Sachs (Asia) Finance Holdings LLC, which in turn was 99% controlled by Goldman Sachs & Co, which in turn was 99.8% controlled by The Goldman Sachs Group, Inc..

4. Among the 1,423,843,900 H shares held by HKSCC Nominees Limited, Government of Singapore Investment Corporation Pte Ltd had an interest in an aggregate of 95,567,900 H shares of the Company (representing approximately 6.68% of the Company's then total issued H shares).

Save as disclosed above, according to the records of HKSCC Nominees Limited and other information available to the Directors as at 31 December 2006, 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 2006.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2006, 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 2006 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 2006. 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
Zhu Fangxin	Chief Accountant	Appointed on the first meeting of the fourth session of the Board held on 2 June 2005
Wang Wenqi	Deputy General Manager	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. He Gong was no longer Chairman of the Company with effect from 5 February 2007 (the conclusion of the 2007 Extraordinary General Meeting).*

The Directors' and Supervisors' remuneration for the year ended 31 December 2006 are set out in note 8 of the financial statements prepared in accordance with IFRS included in this annual report.

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 18.

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.

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND SENIOR MANAGEMENT

The following table sets forth the shareholdings of the Company's Directors, Supervisors, chief executives and senior management for the year ended 31 December 2006.

Name	Position in the Company	Number of A shares of the Company held Personal interest	Capacity
Li Changxu	Supervisor	5,000*	Beneficial owner

* It represents approximately 0.0001% of the Company's total A shares in issue as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, 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 2006 and as at 31 December 2006, 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.

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. Electricity Tariff Adjustment

To alleviate the impact of the rise in coal prices and adjustment of railway transportation expenses, the National Development and Reform Commission adjusted the on-grid tariffs of power grids located in areas such as Northern China, Central China, Eastern China and North-Western China after approval of the State Council. The Group's existing on-grid tariffs for power generating units in Shandong Province at a rate lower than RMB400/MWh (value-added tax inclusive, the same for below) will be adjusted upward by RMB10.9/MWh and on-grid tariffs at a rate higher than RMB400/MWh will be adjusted upward by RMB6/MWh; on-grid tariffs for power generating units of Guangan Company in Sichuan Province will increase by RMB14.8/MWh; on-grid tariffs for power generating units of Zhongning Company in Ningxia Hui Autonomous Region, where excess output tariffs will not be cancelled in the meantime, will increase by RMB3.4/MWh; on-grid tariffs for power generating units of Chizhou Company in Anhui Province will be adjusted upward by RMB2/MWh.

According to the above-mentioned electricity tariff adjustment plan, the average on-grid tariffs (value-added tax inclusive) of the Group will increase by RMB11/MWh (excluding tariffs rise resulting from desulphurization). The electricity tariff adjustments was effective on 30 June 2006.

Details of the adjustment plan were set out in the announcement of the Company dated 30 June 2006.

2. Share Reform

Pursuant to the "Guidelines for Promoting the Reform and Opening-up and Sustained Development of the Capital Market" promulgated by the State Council of the PRC and the provisions of relevant regulations promulgated by China Securities Regulatory Commission ("CSRC"), the Company published the "Indicative Announcement in Relation to Share Reform" on 12 June 2006 and A shares of the Company were suspended from trading for implementation of the Share Reform. The Announcement on Share Reform Proposal was published on 15 June 2006. The "Announcement on Revised Share Reform Proposal" was published on 23 June 2006. The "Share Reform Proposal approved by State-owned Assets Supervision and Administration Commission" was published on 5 July 2006. On 10 July 2006, the Company convened the Relevant Shareholders' Meeting of A Share Market in relation to the Share Reform to approve the Share Reform Proposal of the Company, and the "Announcement on the Results of Relevant Shareholders' Meeting in Relation to Share Reform" was published on the following day. The "Share Reform Proposal Approved by the Ministry of Commerce" was published on 20 July 2006. On 26 July 2006, the Company published the "Announcement on Implementation of Share Reform Proposal". The trading in A shares of the Company was resumed on 1 August 2006.

The holder of circulating A shares of the Company whose name appeared on the register of members on 28 July 2006 was offered 3 shares as consideration by holders of non-circulating shares for every 10 circulating A shares held by it. The original non-circulating shares held by the holder of non-circulating shares of the Company were granted the status of listing from 1 August 2006. However, there is currently no real circulation of shares due to the trading moratorium.

Other than statutory undertakings, China Huadian also made special undertakings as follows: (1) China Huadian will not engage in the trading of the non-circulating shares held by it within 36 months from the day of granting listing status of non-circulating shares of the Company. Moreover, China Huadian will also comply with the same undertakings for its 196,000,000 placing A Shares and the 58,800,000 shares offered to it under the Share Reform. (2) China Huadian will increase its holding of the Company's circulating A shares at a right time within two months after the implementation of the Share Reform Proposal of the Company. The amount contributed will not be more than RMB300 million and the number of shares to be acquired by China Huadian will not be more than 120,000,000 shares. China Huadian will not sell the acquired shares and will duly discharge the obligation of relevant information disclosure during the period of the acquisition of the acquired social public shares of the Company and within 6 months after the completion of such acquisition. (3) upon the official issuing and implementation of the relevant regulations in relation to the incentive plan for the management of listed companies by the State, China Huadian will propose and proactively procure an incentive plan for the management of the Company.

As at 30 September 2006, China Huadian has acquired a total of 43,764,920 circulating shares of the Company not subject to trading moratorium in accordance with the undertakings. After the acquisition, China Huadian held an aggregate of 2,944,738,306 shares of the Company, accounting for 48.91% of the total share capital of the Company.

In order to secure its absolute holding position in the Company, China Huadian continued to increase its shareholding in the Company by acquisition of 16,323,547 circulating shares not subject to trading moratorium during the period from 30 September 2006 to 31 December 2006. After the acquisition, China Huadian held 2,961,061,853 shares of the Company in aggregation, representing 49.18% of the Company's total share capital.

For details, please refer to the series of related Share Reform announcements published by the Company.

3. Change of Consolidation Method for Weifang Company and Zhongning Company

The Company increased its equity interest in Weifang Company by 15% to 45% in January 2006 and in accordance with the revised articles of association of Weifang Company, the Company has obtained the power to govern the financial and operating policies of Weifang Company. Hence, Weifang Company changed from a jointly controlled entity into a subsidiary of the Company and changed its accounting treatment from the previous 30% proportionate consolidation method to 100% consolidation method. Zhongning Company, in accordance with the revised articles of association, became a jointly controlled entity of the Company, and was accounted for on a 50% proportionate consolidation basis in the preparation of the consolidated financial statement since 2006.

4. Connected Transactions

Connected transactions, as defined in the Listing Rules, entered into by the Company during the period ended 31 December 2006 are as follows:

4.1 Participation in Capital Enlargement of Huadian Coal Industry Group Co., Ltd. ("Huadian Coal")

The Company entered into an agreement with Huadian Coal to participate in its capital enlargement on 24 April 2006. The entering into of the agreement constitutes a connected transaction of the Company. The transaction falls within the provision of Rule 14A.32(1) of the Listing Rules, and therefore is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Established on 8 September 2005 with registered capital of RMB500 million, Huadian Coal was wholly owned by China Huadian. Pursuant to the agreement, the Company shall contribute RMB315 million in cash to the registered capital of Huadian Coal within 15 days following the entering into of the agreement. Upon completion of the capital enlargement, the Company accounted for approximately 20.19% of Huadian Coal's enlarged registered capital. Such capital contribution was satisfied by the internal resources of the Company. Further details were set out in the announcement of the Company dated 24 April 2006.

4.2 Connected transaction in relation to the acquisition of 95% equity interests in Anhui Huadian Wuhu Power Generation Company Limited (“Wuhu Company”)

On 26 September 2006, the Company entered into Wuhu Company Equity Transfer Agreement with China Huadian, pursuant to which the Company proposed to acquire the 95% equity interests in Wuhu Company from China Huadian at a consideration of RMB25,410,000. As China Huadian is the controlling shareholder of the Company and hence a connected person of the Company, the agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Such transaction falls within the provision under Rule 14A.32(1) of the Listing Rules, and therefore is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details were set out in the announcement of the Company dated 26 September 2006.

4.3 Continuing Connected Transaction between the Company and Huadian Coal

On 13 October 2006, the Company entered into an agreement with Huadian Coal, pursuant to which the Company has, for a total service fee of RMB26,000,000, engaged Huadian Coal to provide the management and co-ordination services in relation to coal procurement in the PRC for the year 2006.

Huadian Coal is directly owned as to 51.28% by China Huadian, the controlling shareholder of the Company. Thus, Huadian Coal is a connected person of the Company for the purpose of the Listing Rules. The entering into of the agreement constitutes a continuing connected transaction of the Company. As the relevant “percentage ratios” represented by the total service fee payable by the Company are less than 2.5%, the transaction falls within the provision under Rule 14A.34 of the Listing Rules, and therefore is only subject to the reporting and announcement requirements set out in Rule 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details were set out in the announcement of the Company dated 13 October 2006.

The Company's independent non-executive Directors have reviewed the continuing connected transaction and confirmed that:-

- (a) the transaction has been entered into by the Company in the ordinary and usual course of its business;
- (b) the transaction has been entered into on terms that are no less favourable than terms which could be normally obtained from an independent third party service provider for similar services at similar scale of coal procurement.
- (c) the transaction has been entered into on normal commercial terms, which are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

4.4 Participation in Capital Enlargement of China Huadian Finance Corporation Limited (“Huadian Finance”)

The Company entered into an agreement with Huadian Finance to participate in its capital enlargement on 14 December 2006. Upon completion of the capital enlargement, the Company accounted for approximately 15% of Huadian Finance’s enlarged registered capital. Pursuant to the agreement, the Company shall pay RMB 147,360,000 to Huadian Finance, RMB120,000,000 of which is contributed to the registered capital, accounting for 15% of the enlarged registered capital of Huadian Finance. The remaining RMB27,360,000 is used as Huadian Finance’s capital reserve in accordance with the PRC accounting standards and regulations.

Prior to the capital enlargement, Huadian Finance was a wholly-owned subsidiary of China Huadian. Hence, Huadian Finance is a connected person of the Company and the entering into of the agreement constitutes a connected transaction of the Company under the Listing Rules. As the relevant “percentage ratios” represented by the capital injection of the Company under the agreement are less than 2.5%, the transaction falls within the provision under Rule 14A.32(1) of the Listing Rules, and therefore is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules

Further details were set out in the announcement of the Company dated 14 December 2006.

4.5 Construction payment to China Huadian Engineering (Group) Company Limited (“Huadian Engineering”)

On 14 June 2005, the Company entered into an agreement with China Huadian, in respect of the proposed acquisition from China Huadian of its 90% equity interests in Xinxiang Company at a consideration of RMB90,100,000. The agreement and the transactions thereunder constituted connected transactions of the Company under Chapter 14A of the Listing Rules. At the extraordinary general meeting held on 24 August 2005, the agreement and the transactions thereunder were approved by independent shareholders and authorisation was given to any director of the Company to sign all such documents to complete the transfer of equity in Xinxiang Company and all transactions contemplated under the agreement or any matter incidental thereto. On 19 December 2005, the agreement was approved by, among others, the PRC state-owned assets regulatory authorities, and hence the acquisition was deemed to be valid. Relevant details were set out in the Company’s announcement dated 14 June 2005, the notice of EGM and circular (containing a letter from the Independent Board Committee and its recommendations to independent shareholders and a letter from the independent financial adviser) dated 6 July 2005 and the announcement dated 29 December 2005.

On 20 April 2005, Xinxiang Company signed a Master Contract for Construction of Coal Conveyor System with Huadian Engineering, a connected person of the Company. Pursuant to the agreement, Xinxiang Company shall pay a total of RMB195,185,000 to Huadian Engineering in accordance with progress of the construction. As at 31 December 2006, a total of RMB110,875,492 was paid by Xinxiang Company to Huadian Engineering.

On 10th May 2005, Xinxiang Company and Huadian Engineering executed the “Tubular Goods Procurement Agreement for 2 x 660MW of 4 Major Pipes in Baoshan Power Plant Phase 1 Project of Huadian Xinxiang Power Generation Company Limited”. Pursuant to which, Xinxiang Company shall pay a total of RMB99,987,820 in accordance with the performance progress of the agreement. As of 31st December 2006, Xinxiang Company has paid to Huadian Engineering a total of RMB79,990,256.

5. Extraordinary General Meeting("EGM")

On 22 December 2006, the Company published a notice of the EGM, proposing to consider (i) the amendments to the Articles of Association; (ii) the issuance of short-term debentures; and (iii) the appointment of a director. The EGM was held on 5 February 2007, and all the three resolutions were passed. Details were set out in the notice of the extraordinary general meeting and the circular dated 22 December 2006 and the announcement dated 5 February 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year of 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its issued securities ("securities" having the meaning as ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules).

FINANCIAL SUMMARIES

Summaries of the results and the assets and liabilities of the Group for each of the five years ended 31 December 2006 prepared in accordance with IFRS are set out on page 52.

The Company is not aware of any matter taking place in the year ended 31 December 2006 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 2006. As at 31 December 2006, 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 2006, none of the Group's deposits placed with financial institutions or other parties were designated or trust deposits or material deposits that could not be collected by the Group upon maturity.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the financial statements prepared under IFRS for the year ended 31 December 2006.

AUDITORS

The Company has not changed its auditors in any of 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 2007 will be proposed at the forthcoming 2006 Annual General Meeting.

By Order of the Board
Cao Peixi
Chairman

Beijing, the PRC
23 March, 2007