



Capital Assurance

**Continuously Enhancing Financial Strengths**



*The Company undertakes to its shareholders in a responsible manner that it will disclose its financial position and operating performance accurately, fairly and comprehensively and will continue to proactively maintain a stable and balanced dividend policy.*

## NOTICE TO SHAREHOLDERS

### Dividends

The Board resolved to propose for the year ended 31st December 2006 a cash dividend of RMB0.28 per ordinary share.

Cash dividends will be denominated and declared in Renminbi. Cash dividends on domestic shares will be paid in Renminbi. Save for the dividends on foreign shares traded on the Hong Kong Stock Exchange which will be paid in Hong Kong dollars, cash dividends on foreign shares will be paid in US dollars. Exchange rates for dividends paid in US dollars and Hong Kong dollars are USD1 to RMB7.73225 and HK\$1 to RMB0.989675 respectively.

All the cash dividends will be paid to shareholders on or before 30th June 2007, subject to approval at the annual general meeting of the Company.

### Annual General Meeting and Close of Register

The H-share register of the members of the Company will be closed from 22nd April 2007 to 21st May 2007 (both dates inclusive). The record date for eligibility to

receive dividend is set on 20th April 2007. Holders of the Company's shares whose names appear on the Company's share register at the close of business on 20th April 2007 are eligible to attend the annual general meeting and are entitled to receive dividends.

## SHAREHOLDERS RETURN

### Performance of share price

The performance of the Company's ADS traded on the New York Stock Exchange in 2006 was as follows: opening price: USD26.45/ADS, highest price: USD36.35/ADS, lowest price: USD24.05/ADS, closing price: USD35.93/ADS, representing an increase of USD9.72/ADS (37.1%) as compared to the previous year.

The performance of the Company's H shares traded on the Hong Kong Stock Exchange in 2006 was as follows: opening price: HKD5.15/H share, highest price: HKD7.00/H share, lowest price: HKD4.70/H share, closing price: USD6.95/H share, representing an increase of HKD1.85/H share (36.3%) as compared to the previous year.

The performance of the Company's A shares traded on the Shanghai Stock Exchange in 2006 was as follows: opening price: RMB5.85/A share, highest price: RMB6.56/A share, lowest price: RMB4.26/A share, closing price: RMB6.45/A share, representing an increase of RMB0.71/A share (12.4%) as compared to the previous year.

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## Dividends

### Policy

- The Company will continue to maintain a proactive, stable and balanced dividend policy.

### Declaration of dividends

- The Company has been declaring dividends since 1998. From 2000, the dividend payout ratio has been over 50% for six consecutive years.

Year	Dividend per share (RMB)	Earnings per share (RMB)	Dividend weighting
1994		0.17	
1995		0.24	
1996		0.27	
1997		0.33	
1998	0.08	0.33	24.24%
1999	0.09	0.33	27.27%
2000	0.22	0.44	50.00%
2001	0.30	0.60	50.00%
2002	0.34	0.65	52.31%
2003*	0.50	0.90	55.56%
2004	0.25	0.44	56.82%
2005	0.25	0.40	62.50%

- \* The Company's dividend plan for 2003 included a cash dividend of RMB5.00 together with bonus issue of 10 shares, for each 10 shares. Such a dividend plan was completed by 2004.

## INVESTOR RELATIONS

### 2006

- Press Conference/Analysts Meetings



The Company has organized one press conference in Hong Kong, one large-group presentation with Hong Kong analysts, two large-group presentations with PRC analysts and fund managers and three global telephone conferences.

- Roadshow

In April, the management of the Company conducted an annual roadshow in the United States, Japan and Europe, during which 50 one-on-one meetings with major shareholders and potential investors of the Company were held. The Company has met some 70 fund managers of several fund management companies and asset management companies.

- *Visits by and general enquiries from investors*

The Company has received 72 groups of institutional investors for company visits and about 200 telephone enquiries from investors in the year.

- *Investors Forum*

The management of the Company has attended 7 large investment forums in which it met more than 100 institutional investors.

- *Power Plant Visits*

In November 2006, the Company has invited PRC and overseas analysts to visit Huaneng Dalian Power Plant and Huaneng Dandong Power Plant. Through this site visit and discussion with the management of the power plants, the investors were deeply impressed by the facilities and the management quality of the Company's power plants, and had a thorough understanding of the economic development and power demand of the region where the power plants were located.

## **2007**

As what we did in the past, we will continue to insist on making information disclosure in an open, timely and accurate manner, conducting investor relations work proactively and efficiently, maintaining a smooth and unimpeded communication channel for investors and further strengthening the interaction with the investors.



### **Questions and Answers with Investors**

- **What will be the trends of coal contract prices and market coal prices in 2007?**

The Company anticipates that the volume under the major coal contracts will amount to 80% of the total purchase of the Company in 2007. Based on a 80% fulfilment, the volume of coal to be purchased under the major coal contracts will amount to 60%-65% of the Company's total coal purchase. According to the contracts which have been entered into by 31st March 2007, the contract coal price increased by 8.1% compared to the previous year.

Market coal prices are mainly affected by two factors: the first factor is that coal prices for key contracts will affect the price levels of market coal. As a significant portion of market coal is extracted from key coal mines, it is not very likely that the prices of such portion will be lower than the key contract prices under current market conditions. Judging from the overall demand and supply in 2007, the demand and supply of coal will be

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generally balanced and will basically maintain the market status of 2006. The situation that the average market prices stand above the key contract prices will remain unchanged. The second factor is that market demand affects the movements of market prices. 30% of the present coal market is made up of market coal. Market coal prices are affected by factors such as seasonality, regional differences, resources and demand. The demand for coal in the first quarter is high, followed by a slight decrease in the second and the third quarters, and rises again in the fourth quarter. According to the experience in recent years, prices will hover within the range of RMB20-RMB30 per tonne.

- **How will the Company respond to the unfavorable situations of intensifying competition in the power market and decreasing utilization hours?**

In recent years, with the intensive commencements of power generation projects, market competition has been intensifying in the power generation sector. The utilization hours for generating units will continue to decrease in the coming year, hence bringing challenges to the operations of the Company. The Company will adopt effective marketing strategies, give full play to the advantages of the Company including having large-capacity single units at its power plants, high efficiency, good environmental protection work and relatively low operating costs, so as to win a larger market share amidst market competition. The specific measures include:

1. enhancing the effort on power sales, including: substantially engaging the Company management to the frontline of sales operations to expand the market and strive for electricity generation increases; establishing a comprehensive regional

sales organization for the Company and optimizing its adjustment in resources; establishing a comprehensive incentive system for specific sales operations and encouraging power plants to increase electricity generation;

2. improving the operations of the Company: further strengthening the repairs and maintenance of generating units to ensure production safety; continuously improving the management of coal supply, strictly controlling cost and ensuring coal supply for power plants;

3. ensuring a sound and rapid development of the Company: ensuring the commencement of in-construction generating units are as scheduled, thereby increasing market share; increasing new project investments in regions with good market prospects and proactively seeking acquisitions.

- **Does the Company have any acquisition plans for the coming year? There are a relatively large number of asset acquisitions by the parent company in recent years. Is the parent company planning to inject capital into the listed company?**

“Equal emphasis on both development and acquisition” is the development direction the Company adheres to. In 2007, the Company will continue to seek opportunities for asset acquisitions within and outside Huaneng Group. Regarding the power generation assets within the Huaneng Group, the Company will continue its efforts on acquiring projects which are mature and offer investment returns that meet the Company’s requirements. As for the operation of power generation assets in the capital market, the Company will foster the right conditions and seek opportunities, so as to advance its development by various methods. At present, there is no plan available for disclosure.

- **Future plans for desulfurization renovation of the Company's generating units**

At present, the State implements stringent control over pollutant emissions. During the "Eleventh Five-Year Plan", the policy of reducing the total level of sulphur dioxide is implemented. Power companies including Huaneng Group have signed an undertaking with the State in relation to the reduction target of the total level of sulphur dioxide. The undertaking confirms the installation of desulfurization facilities to operating generating units to substantially reduce the total emission of sulphur dioxide during the "Eleventh Five-Year Plan". While constructing new generating units on a large-scale basis, the State aims to reduce total emission of sulphur dioxide by around 30% by 2010.

According to the requirements of the undertaking and environmental assessments as mentioned above, the Company will complete the desulfurization renovation for 47 operating generating units with a total capacity of 15,884MW during the "Eleventh Five-Year Plan". The capacity of generating units with in-construction and installed desulfurization facilities shall reach 77% (based on the operating installed capacity at the end of 2005). On this basis, the Company will increase the number of generating units with desulfurization facilities. The aforementioned percentage for desulfurization will reach 85% or above. The Company plans to achieve a 100% desulfurization rate for its operating generating units by 2015.

- **The impact of the RMB appreciation on the Company's profits**

In 2006, the appreciation of RMB against the US dollar accelerated. The average exchange rate for RMB appreciated from 8.0702 at the beginning of the year to 7.8087 at the end of the year. The aggregate appreciation rate was 3.35%. As the Company has few assets denominated in the US dollar while having a relatively large amount of liabilities denominated in the US dollar, the appreciation of RMB brings a relatively large exchange gain for the Company. Considering the US dollar-denominated assets and liabilities altogether, the exchange gain of the Company arising from the appreciation of RMB against the US dollar in 2006 amounted to approximately RMB159 million.

However, the substantial appreciation of Euro against the US dollar in 2006 led to an exchange loss of approximately RMB49 million arising from the Euro-denominated liabilities of the Company. The 2006 net exchange gain arising from assets and liabilities denominated in foreign currencies amounted to RMB112 million.