



Development and Innovation

Maintaining Leadership in Technological Excellence

Report of the Board of Directors



The Directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2006.

RESULTS SUMMARY

BUSINESS REVIEW OF YEAR 2006

In 2006, the management of the Company and all its staff attained the anticipated objectives in terms of safe production, operating management, project construction and environmental protection and achieved steady growth in the operating results for the whole year through joint efforts, continuous development, seizing opportunities and overcoming difficulties despite unfavorable factors including continued high coal prices, a decline in utilization hours of generating units and intensifying competition in the power market.

1. OPERATING RESULTS

For the twelve months ended 31st December 2006, the Company recorded operating revenue of RMB44.301 billion, representing an increase of 10.23% as compared to the same period of 2005, and profit attributable to equity holders of the Company of RMB6.071 billion, representing an increase of 24.62% as compared to the same period of the previous year. Earnings per share amounted to RMB0.50.

As at the end of 2006, the net assets per share of the Company was RMB3.60 (excluding Minority Interest), representing an increase of 8.43% compared to 2005.

The Audit Committee of the Company convened a meeting on 2nd April 2007 to review the annual results of 2006.

2. POWER GENERATION

In 2006, the operating power plants of the Company and its subsidiaries achieved power generation totalling 159.897 billion kWh on a consolidated basis, representing an increase of 6.24% over the same period of the previous year.

The growth in power generation is, on the one hand, attributable to its adoption of effective marketing strategies, thereby giving full play to the advantages of the Company including having large-capacity single units at its power plants, its high cost efficiency, environmental protection and relatively low operating costs, thereby obtaining a relatively large market share amidst market competition. On the other hand, the Company seized opportunities in a timely manner created by factors including market changes in the areas where the power plants of the Company are located and climatic anomaly. The continued growth in power generation by the Company's power plants was attributable to the reliable fuel supply. Moreover, the commencement of commercial operation of new generating units and safe and stable operation thereafter also played a key role in boosting the Company's growth in power generation.

Report of the Board of Directors

In 2006, the average equivalent availability factor of the power plants of the Company and its subsidiaries was 93.61%, with an average capacity factor of 66.88%; while the weighted average coal consumption rates for power sold and power generated were 335.60 gram/kWh and 316.39 gram/kWh respectively. The weighted average house consumption rate was 5.69%. The Company's technical and economic indices remained at the forefront among all other power companies in the PRC.

3. COST CONTROL

In 2006, faced with the challenges of continuous sustained high level of coal prices, the Company actively adopted various measures to control fuel costs such as striving to raise the fulfilment rates of key contracts; strictly controlling the purchase volume and purchase unit price of coal in the market and strengthening inventory management. The Company achieved significant good results in ensuring transportation ability, rationalizing inventory volume and improving coal quality. The Company's unit fuel cost only increased by 0.75%.

4. ASSET OPERATION

On 28th September 2006, the Company entered into an asset transfer agreement with Huaneng Group, pursuant to which the Company agreed to acquire from Huaneng Group its 5% equity interest in Qinbei Power Plant. The Company paid the consideration of RMB65.75 million from its internal cash reserve. The acquisition price was reached after negotiations between the two parties on an arm's length basis. Qinbei Power Plant is a subsidiary of the Company and the Company held 55% equity interest in Qinbei Power Plant before the acquisition. On the same day, the Company entered into

a capital increase agreement with Huaneng Group and Sichuan Hydropower, pursuant to which the Company agreed that Huaneng Group shall unilaterally increase capital of RMB615 million in Sichuan Hydropower. Upon completion of the capital increase, the ratio of Huaneng Group's shareholding in Sichuan Hydropower will be increased from 40% to 51% and the ratio of the Company's shareholding will be reduced from 60% to 49%. Both transactions became effective in January 2007.

5. PROJECT DEVELOPMENT AND CONSTRUCTION



Regarding project development and construction, a total number of 18 coal-fired and hydropower generating units with an aggregate installed capacity of 7,150 MW were put into commercial operation in 2006, thus laying a foundation for expanding the Company's operating scale as well as consolidating and enhancing its market share and revenues. On 28th November 2006, generating unit No. 1 at Huaneng Yuhuan Power Plant was put into commercial operation, six months ahead of schedule, becoming the first 1,000 MW ultra-supercritical coal-fired power plant put into commercial operation in China. Within the year, a total of two generation units were put into commercial operation, thus making Huaneng Yuhuan Power Plant the first domestically made 1,000

MW ultra-supercritical thermal power plant put into commercial operation in China. The commercial operation of Yuhuan Power Plant has a significant meaning for China's power generating enterprises in terms of enhancing the efficiency of coal-fired generating units, lowering emission of pollutants and realizing adjustments in the thermal power structure. At the beginning of 2007, a 600 MW generating unit of Luohuang Power Plant Phase III was put into commercial operation. In addition, as a result of closure and suspension of small-scale generating units and technological upgrades on existing generating units, there has been a change in the Company's total generation capacity on an equity basis, which has reached 28,187 MW as at 31st March 2007.

6. INTERNAL CONTROL

In 2006, Section 404 of Sarbanes-Oxley Act began to apply to foreign companies listed in US. With the joint efforts by all staff, the Company has attained great achievement in its internal control over financial reporting work and passed the audit conducted by the Company's external auditor. PricewaterhouseCoopers has issued an unqualified audit report for the internal control work of the Company in 2006. The Company is among the first batch of PRC enterprises listed in the US to fulfil the internal control over financial reporting requirements of Section 404 of Sarbanes-Oxley Act.



PROSPECTS FOR 2007

Year 2007 is a year full of both opportunities and challenges.

As regards the power market, a rapid growth in the national economy and continued improvement in the living standard will drive a continued rapid growth in power demand, thereby providing the Company with opportunities for project development and expansion of its operating scale. However, due to an increasing number of power projects put into operation during the past few years leading to intensified market competition, the utilization hours of generating units are expected to further decline.

As the State keeps on implementing the policies of "replacing small coal-fired units with large coal-fired units" and "energy saving and emission reduction", the Company will benefit therefrom given its advantages in having "large-capacity generating units, high efficiency and extensive service area", thereby enhancing competitiveness of the Company. However, how to seize the opportunity and leverage the relevant policies, whereby turning the competitive advantages into development speed and actual operating results, will be a challenge for the management of the Company.

For the coal market, the general balance in the demand and supply of coal and relieved tension in the capacity of coal transportation will provide favorable conditions for the supply of coal to the Company. However, since the prices in the major coal supply agreements will see a significant rise, and the spot-market coal price still hovers at a high level, thereby imposing on the Company a challenge for controlling fuel cost. The Company will make its best efforts to control the fuel cost and strive to keep the rise of the unit fuel cost at around 5% in 2007.

Report of the Board of Directors

In sum, the Company is confident in seizing the opportunities, dealing with the challenges and creating favorable operating results to reward its shareholders.

The Company's main work objectives for year 2007 are as follows:

1. To strengthen production safety management and to ensure safe, stable and increasing power generation;
2. To strengthen coal purchase management to ensure safe, stable and effective supply of coal;
3. To strengthen marketing work and cost controls to increase revenue, save cost and enhance economic efficiency;
4. To strengthen the management of construction projects to ensure the projects will be completed at high quality, fast pace, low cost and in accordance with schedules.
5. To seek opportunities in acquiring assets to ensure a long-term, stable and healthy development of the Company;
6. To strengthen environmental protection and fuel saving and continue to strengthen technological renovation to continuously improve the efficiency of the generating units; and
7. To encourage management innovation and establish long-term and effective internal control mechanism.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS

Please refer to the Financial Highlights on page 8 for summary of the operating results and assets and liabilities of the Company and its subsidiaries as at 31st December 2006 and for the year then ended.

Please refer to pages 86, 168 and 176 of the financial statements for the operating results of the Company and its subsidiaries for the year ended 31st December 2006, which have been reviewed by the Company's Audit Committee.

DISTRIBUTABLE RESERVE

Distributable reserve of the Company as at 31st December, 2006, calculated in accordance with its articles of association is set out in Note 20 to the financial statements prepared under International Financial Reporting Standards ("IFRS").

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 United States dollars. Exchange rates for dividends paid in United States 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.

PRINCIPAL BUSINESS

As at 31st March 2007, the Company and its subsidiaries wholly own 17 power plants and have controlling interests in 12 operating power plants and minority interests in 5 operating power companies. Its power plants have advanced equipment with high efficiency and stability. Their operations are widely located in 12 provinces and two municipalities. The core business of the Company is to develop, construct and operate large scale power plants by making use of modern technology and equipment and financial resources available domestically and internationally.

SUBSIDIARIES AND ASSOCIATES

Please refer to Notes 11 and 12 to the financial statements prepared under IFRS for details of associates and subsidiaries respectively.

SHORT-TERM BONDS

During the year, the Company issued RMB5 billion unsecured short-term bonds in meeting its operational needs.

BANK LOANS AND OTHER BORROWINGS

Please refer to Notes 22 and 26 to the financial statements prepared under IFRS for details of bank loans and other borrowings of the Company and its subsidiaries as at 31st December 2006.

CAPITALIZED INTEREST

Please refer to Note 10 to the financial statements prepared under IFRS for details of the Company and its subsidiaries capitalized borrowing costs during the year.

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 10 to the financial statements prepared under IFRS for changes in the property, plant and equipment of the Company and its subsidiaries during the year.

RESERVES

Please refer to consolidated statement of changes in equity and statement changes in equity on pages 90 and 91 for the movements of reserves of the Company and its subsidiaries and the Company standalone during the year respectively.

STAFF RETIREMENT SCHEME

The Company and its subsidiaries have implemented a series of specified retirement contribution schemes as prescribed by the places where the Company and its subsidiaries have operations.

Pursuant to the specified retirement contribution schemes, the Company and its subsidiaries have paid contributions according to the terms and obligations set out in the jointly managed retirement insurance plans. The Company has no other obligations to pay further contributions. The contributions paid from time to time will be regarded as expenses in the period and counted as labor cost. Please refer to Note 8 to the financial statements prepared under IFRS for details of staff retirement benefits.

PRE-EMPTIVE RIGHTS

According to the articles of association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

Report of the Board of Directors

MAJOR SUPPLIERS AND CUSTOMERS

The five major suppliers of the Company and its subsidiaries for year 2006 were coal suppliers, namely Shenhua Coal Transportation Company, China Coal Import and Export Company, Shanxi South Central Railway Coal Sales Co., Ltd, Yangquan Coal Industry (Group) Co., Ltd. and Inner Mongolia Yi Tai Holdings Limited Company. The amount of coal supplied by the five major suppliers was about 20.4% of the total coal consumption of the Company in the year.

As a power producer, the Company sold most of the electricity generated by its power plants through local operating power grid enterprises and did not have other significant customers. The five major customers of the Company and its subsidiaries for year 2006 were Jiangsu Electric Power Company, Shandong Electric Power Corporation, Shanghai Municipal Electric Power Company, Liaoning Electric Power Company and Guangdong Power Grid Company. The amounts of power sales made with the five major customers were about 61.4% of total operating revenue while the largest customer (Jiangsu Electric Power Company) accounted for about 18.0% of operating revenue.

None of the directors, supervisors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”)) had any interests in the five largest suppliers or customers mentioned above of the Company in 2006.

CONNECTED TRANSACTIONS

Please refer to Note 7 to the financial statements prepared under IFRS in relation to the details of connected transactions. The purposes of the Company to enter into such connected transactions with connected persons were to meet the operational need of the

Company and to get the most favorable terms and conditions from the market from the Company’s perspective. The transactions as set out in Note 7(b) are continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Independent Directors of the Company confirmed that all connected transactions in 2006 to which the Company and/or any of its subsidiaries was a party:

1. had been entered into by the Company and/or any of its subsidiaries in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature made by similar entities within the PRC), or (b) where there was no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company were concerned, and
3. had been entered into either (a) in accordance with the terms of the agreements governing such transactions, or (b) where there was no such agreement, on terms no less favorable than terms available to third parties.

Based on the work performed, the auditors of the Company have reviewed such transactions and reported to the Directors that:

- (a) the transactions have been approved by the Directors;
- (b) the management income transactions were in accordance with the pricing policy of the Company;
- (c) the transactions were made in accordance with the terms of the related agreements governing such transactions; and
- (d) have not exceeded the caps allowed by the Hong Kong Stock Exchange in the previous waivers.

COMPETITION WITH CONTROLLING SHAREHOLDERS

The ultimate controlling shareholder of the Company, Huaneng Group also participates in the power industry in China. HIPDC, the direct controlling shareholder of the Company also engages in the power industry in

China. The Company, HIPDC (direct controlling shareholder) and Huaneng Group (ultimate controlling shareholder) have power plants located in certain same regions. Huaneng Group and HIPDC have already entrusted the Company to manage certain of their coal-fired power plants.

DIRECTORS OF THE COMPANY

The Directors of the Company in 2006 were:

Li Xiaopeng	Chairman	Appointed on 11th May 2005
Huang Yongda	Vice Chairman	Appointed on 11th May 2005
Huang Long	Vice Chairman	Appointed on 11th May 2005
Na Xizhi	Director	Appointed on 11th May 2005
Wu Dawei	Director	Appointed on 11th May 2005
Shan Qunying	Director	Appointed on 11th May 2005
Ding Shida	Director	Appointed on 17th November 2005
Xu Zujian	Director	Appointed on 11th May 2005
Liu Shuyuan	Director	Appointed on 11th May 2005
Qian Zhongwei	Independent Director	Appointed on 11th May 2005
Xia Donglin	Independent Director	Appointed on 11th May 2005
Liu Jipeng	Independent Director	Appointed on 11th May 2005
Wu Yusheng	Independent Director	Appointed on 11th May 2005
Yu Ning	Independent Director	Appointed on 11th May 2005

Directors Resigned

Wang Xiaosong	Vice Chairman	Resigned on 7th March 2006
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In accordance with the requirements of the Hong Kong Stock Exchange, the Company has entered into service contracts with the Directors of the fifth session of the Board of Company.

Currently, the Company has 14 directors and only 4 of them have positions in Huaneng Group and/or HIPDC. According to the articles of association of the Company, in case of conflict of interest arises, the relevant directors shall abstain from voting in the relevant resolutions. None of the senior management of the Company holds positions in Huaneng Group and HIPDC. Therefore, the operation of the Company is independent from Huaneng Group and HIPDC and the operation of the Company is conducted for its own benefit.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company and its subsidiaries did not sell any other types of securities and did not purchase or redeem its own shares or other securities in 2006.

Report of the Board of Directors

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted a code in relation to the securities transactions by the Directors and Supervisors with the standard not lower than that of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Enquiry has been made with all Directors and Supervisors and all of them confirmed that they have complied with the code throughout 2006.

DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

As at 31st December 2006, save for Mr. Na Xizhi (the Director and President) beneficially holding 7,240 circulating A shares of the Company (representing 0.00006% and 0.00008% of the total issued share and total domestic shares of the Company, respectively), none of the Directors, chief executive officer, Supervisors or other associates (as defined in Part XV of the Securities and Futures Ordinance ("SFO")) had any beneficial interests in the securities or debt instruments of the Company which were required to be recorded in the register pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies. The Company did not have any arrangement during 2006 whereby the above persons would acquire benefits by means of the acquisition of shares in, or debentures of the Company or other corporate body.

INDEPENDENT DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received independent confirmation from each of the independent directors, namely Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning, and considers them to be independent.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of Directors and Supervisors of the Company are set out in Note 9 to the financial statements prepared under IFRS.

FIVE HIGHEST PAID STAFF

Details of the five highest paid staff in the Company are set out in Note 9 to the financial statements prepared under IFRS.

PUBLIC FLOAT

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

SHARE CAPITAL STRUCTURE

As at 31st December 2006, the total issued share capital of the Company was 12,055,383,440 shares, of which 9,000,000,000 shares were domestic shares, representing approximately 74.66% of the total issued share capital, and 3,055,383,440 shares were foreign shares, representing approximately 25.34% of the total issued share capital. For domestic shares, HIPDC owns a total of 5,066,662,118 shares, representing 42.03% of the total issued share capital of the Company. Huaneng Group owns a total of 1,055,124,549 shares, representing 8.75% of total issued share capital of the Company. The rest of domestic shareholders hold a total of 2,878,213,333 shares, representing 23.88% of the total issued share capital of the Company.

SHAREHOLDING OF THE COMPANY

The following table summarises the shareholding structure of the Company's shares as at 31st December 2006:

	No. of Shares outstanding	Percentage of Shareholding (%)
Domestic Shares		
Huaneng International Power Development Corporation	5,066,662,118	42.03
China Huaneng Group	1,055,124,549	8.75
Hebei Provincial Construction Investment Company	603,000,000	5.00
Jiangsu Provincial International Trust & Investment Corporation	416,500,000	3.46
Fujian Investment Enterprise Holdings Company	338,466,667	2.81
Liaoning Energy Investment (Group) Limited Liability Company	332,913,333	2.76
Dalian Municipal Construction Investment Company	301,500,000	2.50
Minxin Group Limited Company	108,000,000	0.90
Nantong Investment Management Limited Company	90,500,000	0.75
Shantou Power Development Joint Stock Company Limited	25,333,333	0.21
Dandong Energy Investment Development Centre	8,666,667	0.07
Shantou Electric Power Development Corporation	3,333,333	0.03
Other domestic public shareholders	650,000,000	5.39
Sub-total	9,000,000,000	74.66
Foreign Shares	3,055,383,440	25.34
TOTAL	12,055,383,440	100.00

Note: Pursuant to the share reform of Huaneng Power, each holders of the circulating A shares of the Company received an aggregate of three shares for every ten 10 circulating A Shares from is Huaneng Group and HIPDC.

The record date for Huaneng Power implementing the A share reform was 17th April 2006. Following the closure of the register for the implementation of the share reform, the shares given to circulating A shareholders on the basis of 3 shares for every 10 shares amounted to 150,000,000 shares.

Before the implementation Huaneng Group held 1,114,106,667 shares in Huaneng Power, representing 9.24% of the issued share capital, 58,982,118 shares were issued out of this implementation. Following the implementation, the shares held by Huaneng Group was changed to 1,055,124,549 shares, representing 8.75% of the issued share capital.

Before the implementation, HIPDC held 5,157,680,000 shares in Huaneng International, representing 42.78% of the issued share capital, 91,017,882 shares were issued out of this implementation. Following the implementation, the shares held by HIPDC was changed to 5,066,662,118 shares, representing 42.03% of the issued share capital.

Report of the Board of Directors

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st December 2006, the interests or short positions of persons who were entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors, Supervisors and chief executive) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Hong Kong Law Cap. 571) (the "SFO") were as follows:

Name of substantial shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Huaneng International Power Development Corporation	Domestic Shares	5,066,662,118 (L)	Beneficial owner	Corporate	56.30% (L)	42.03% (L)
China Huaneng Group	Domestic Shares	1,055,124,549 (L)	Beneficial owner	Corporate	11.72%(L)	8.75% (L)
Hebei Provincial Construction Investment Company	Domestic Shares	603,000,000 (L)	Beneficial owner	Corporate	6.70% (L)	5.00% (L)
JP Morgan Chase Bank	H Shares	108,190,980 (L)	Investment manager and custodian	Corporate	3.54% (L)	0.90% (L)
JP Morgan Chase & Co.	H Shares	183,655,202 (L) 161,991,760 (P)	Interest of controlled corporation, Investment manager and custodian corporation/ Approved lending agent	Corporate	6.01% (L) 5.30% (P)	1.52% (L) 1.34% (P)

Name of substantial shareholder	Class of shares	Number of shares held (shares)	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
J.P. Morgan Fleming Asset Management (Asia) Inc.	H Shares	83,918,000 (L)	Investment manager	Corporate	2.75% (L)	0.70% (L)
J.P. Morgan Fleming Asset Management Holding Inc.	H Shares	83,198,000 (L)	Investment manager	Corporate	2.72% (L)	0.69% (L)
UBS AG	H Shares	107,309,367 (L) 82,311,000 (S)	Beneficial owner, Interest of controlled corporation/Holder of security interest in shares	Corporate	3.51% (L) 2.69% (S)	0.89% (L) 0.68% (S)
Credit Suisse Group	H Shares	168,121,914 (L) 80,548,928 (S) 352,400 (P)	Interest of controlled corporation/ Approved lending agent	Corporate	5.50% (L) 2.64% (S) 0.01% (P)	1.39% (L) 0.67% (S) 0.003% (P)
JF Asset Management Limited	H Shares	80,298,000 (L)	Investment manager	Corporate	2.63% (L)	0.67% (L)

Note: The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

Save as stated above, as at 31st December 2006, in the register required to be kept under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

Report of the Board of Directors

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS AND SERVICE CONTRACTS

Save for the service contracts mentioned below, as at the end of 2006, the directors and supervisors of the Company did not have any material interests in any contracts entered into by the Company.

No director or supervisor has entered into any service contract which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Each and every Director and Supervisor of the Company had entered into a service contract with the Company for a term of three years commencing from the signing of the contract.

REMUNERATION POLICY

In accordance with the overall development strategy of the Company, the Company has formulated "Provisional Regulations on Remuneration Management" and "Provisional Guidelines on Salary Management for Branches and Subordinate Units". Employees' salaries are calculated with reference to the complexity of their jobs, the responsibilities they have to carry and their job performance. The remuneration of Directors, Supervisors and senior management mainly consists of the following:

(1) Basic salary and allowance

The basic salary is set by an evaluation of the job position and a factor analysis, and with reference to the salary level of the relevant position in the labor market. It accounts for about 20% of the total remuneration.

(2) Discretionary bonus

Discretionary bonus is based on the job performance of Directors, Supervisors and senior management. It accounts for about 60% of the total remuneration.

(3) Retirement contribution

For those Directors, Supervisors and senior management receiving remuneration from the Company, the Company provides basic and supplemental retirement insurance. This accounts for about 20% of the total remuneration.

According to the resolution at the shareholders' meeting, the Company pays each Independent Director a subsidy amounted to RMB60,000 (after tax) each year. The Company also reimburses to the Independent Directors for the expenses they incur in attending board meetings and shareholders' meetings and other reasonable expenses they incur while fulfilling their obligations under the Company Ordinance and the Company's Memorandum and Articles of Association (including travelling expenses and administrative expenses). Besides these, the Company does not give the Independent Directors any other benefit.

RETIREMENT SCHEME

The Company and its subsidiaries have implemented a series of specified retirement contribution schemes as prescribed by the places where the Company and its subsidiaries have operations.

Pursuant to the specified retirement contribution schemes, the Company and its subsidiaries have paid contributions according to the terms and obligations set

out in the jointly managed retirement insurance plans. The Company has no other obligations to pay further contributions. The contributions paid from time to time would be regarded as expenses in the period and counted as labor cost.

STAFF HOUSING

The Company made allocation to the housing fund for its employees in accordance with the relevant PRC regulations.

DISPOSAL OF STAFF QUARTERS

During the Year, a branch of the Company sold certain staff quarters to its employees at preferential price. Total loss amounted to approximately RMB2.24 million. In 2006, such an expense was amortized over the estimated remaining average service life of relevant employees amounting to approximately RMB23,500. Related deferred assets amounted to approximately RMB2.21 million as at year end.

STAFF MEDICAL INSURANCE SCHEME

According to the requirements as prescribed by the relevant local governments, the Company and its subsidiaries have established a medical insurance scheme for its staff, and have taken measures for its implementation according to planning.

GENERAL MEETINGS

During the Year, the Company convened one annual general meeting and two extraordinary general meetings.

1. The Company's annual general meeting was held on 13th June 2006. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 14th June 2006.

2. The Company's first extraordinary general meeting of 2006 was held on 18th January 2006. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 19th January 2006.

3. The Company's second extraordinary general meeting of 2006 was held on 5th December 2006. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 6th December 2006.

MAJOR EVENTS

On 28th September 2006, the Company entered into a Transfer Agreement with Huaneng Group, pursuant to which the Company agreed to acquire from Huaneng Group its 5% equity interest in Qinbei Power Plant in consideration of RMB65.75 million. The purchase price was funded by the Company's internal cash reserve. The purchase price was determined based on arm's length terms. Qinbei Power Plant is a subsidiary of the Company in which the Company held a 55% interest in its registered capital before the acquisition. On the same day, the Company entered into a Capital Increase Agreement with Huaneng Group and Huaneng Sichuan Hydropower Co., Ltd. pursuant to which the Company agreed to increase the registered capital of Huaneng Sichuan Hydropower Co., Ltd. solely by Huaneng Group by way of capital injection of RMB615 million. Following completion of the capital injection, the shareholding of Huaneng Group in Huaneng Sichuan Hydropower Co., Ltd. increased from 40% to 51% and the Company's shareholding decreased from 60% to 49%. Both transactions became effective in January 2007.

Report of the Board of Directors

CODE OF CORPORATE GOVERNANCE PRACTICES

During the Year, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The annual report of the Company will contain a corporate governance report prepared in accordance with the requirements of the Listing Rules.

DESIGNATED DEPOSIT

As at 31st December 2006, the Company and its subsidiaries did not have any designated deposit with any financial institutions within the PRC nor any overdue fixed deposit which could not be recovered.

DONATIONS

During the year, the total amount of donation made by the Company and its subsidiaries was approximately RMB8.71 million (2005: approximately RMB3.65 million).

LEGAL PROCEEDINGS

As at 31st December 2006, the Company and its subsidiaries were not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company and its subsidiaries.

CLOSURE OF REGISTER

Details regarding the book closure period of H share register, record date and date for convening annual general meeting are set out in the notice of annual general meeting issued by the Company on 3rd April 2007.

AUDITORS

In the forthcoming annual general meeting for 2006, a proposal regarding the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors of the Company and PricewaterhouseCoopers as the international auditors of the Company for 2007 will be tabled for shareholders, consideration and approval.

By Order of the Board
Li Xiaopeng
Chairman

Beijing, PRC
3rd April 2007