

# Report of the Directors

The Directors are pleased to present the audited results of the Company and its Subsidiaries for the year ended 31 December 2006.

## Listing and Issue of Shares

The Company's H Shares have been listed on the Hong Kong Stock Exchange and the London Stock Exchange Limited since 21 March 1997. On 9 September 2003, the Company issued 5-year US Dollar convertible bond of US\$153.8 million, which are listed on the Luxembourg Stock Exchange, at 0.75% interest rate per annum and a conversion premium of 30%. The Company's A shares have been listed on the Shanghai Stock Exchange since 20 December 2006. Save as disclosed, the Company did not issue any new shares.

Performance of the Company's H Shares during the Year:

Closing price per H Share as at 31 December 2006	HK\$8.10
Highest closing price per H Share between 1 January and 31 December 2006	HK\$8.15
Lowest closing price per H Share between 1 January and 31 December 2006	HK\$4.825
Total number of H Shares traded between 1 January and 31 December 2006	3,225,536,000 shares

Performance of the Company's A Shares during the Year:

Closing price per A Share as at 31 December 2006	RMB10.32
Highest closing price per A Share between 20 December and 31 December 2006	RMB10.65
Lowest closing price per A Share between 20 December and 31 December 2006	RMB10.08
Total number of A Shares traded between 20 December and 31 December 2006	334,635,000 shares

## Public Float

The Company confirms that as at the date of this annual report, the public float of the Company's H Shares and A Shares has complied with the requirements under the Listing Rules.

## Accounts

The Company and its Subsidiaries' audited results for the year ended 31 December 2006 are set out in the Consolidated Income Statement on page 56. The financial position of the Company and its Subsidiaries as at 31 December 2006 is set out in the Balance Sheets on page 57 and 58.

The Company and its Subsidiaries' consolidated cash flows for the year ended 31 December 2006 are set out in the Consolidated Cash Flow Statement on page 61.

## Principal Businesses

The principal businesses of the Company are the development and operation of power plants, the sale of electricity and thermal power, and the repair and maintenance of power equipment and provision of power related technical services.

## Major Suppliers and Customers

The percentage of purchases and sales attributable to the Company's suppliers and customers for the Year are as follows:

	2006	2005
Purchases		
The largest supplier	12.73%	16.77%
Top five suppliers	30.82%	48.60%
Sales		
The largest customer	58.97%	92.95%
Top five customers	79.84%	96.31%

To the knowledge of the Directors, none of the Directors, Supervisors, their respective associates or shareholders of the Company owning 5% or more of the Company's issued share capital of the same class owned any direct or indirect interest in the Company's suppliers and customers mentioned above during the Year.

## Subsidiaries, Jointly Controlled Entities and Associates

Details of subsidiaries, jointly controlled entities and associates of the Company are set out in note 6, 7 and 8 of the Notes to the Financial Statements on page 83 to page 90.

## Dividend, Earnings per Share and Transfer of the Capital Reserve Fund

The Board recommended the distribution of proposed cash dividend of RMB0.234 per share for the Year. Dividends to be distributed to domestic shareholders will be declared in and paid by RMB, while those to be distributed to foreign shareholders will be declared in RMB but paid in Hong Kong dollar. The Hong Kong dollar exchange rate for the purpose of dividends payment shall be based on the average of the closing rates of the Hong Kong dollar/RMB exchange rates quoted by the People's Bank of China on each business day within the week immediately prior to payment.

In accordance with the realised net profit of the parent company under the PRC GAAP, 10% of the amount will be contributed to the statutory reserve fund in an amount of approximately RMB269,742,719. The total amount of the proposed cash dividend to be distributed is approximately RMB1,348,713,594.5. Based on the total 5,753,555,774 shares of the Company as at 30 March 2007, the proposed cash dividend to be distributed will be approximately RMB0.234 per share.

As there may be further conversion of the US dollar convertible bonds into H shares of the Company for the period from 30 March 2007 to the registration date for the Company's distribution of dividends, the Board proposed that the cash dividend per share to be distributed will be adjusted on the basis of the total number of shares as at the registration date for the dividend distribution to the extent that the total amount of proposed cash dividend to be distributed (RMB1,348,713,594.5) remains unchanged.

The Board also proposed to issue 10 bonus shares as a result of the transfer of the capital reserve fund to the Company's shareholders for every 10 shares held, in order to reciprocate our shareholders' long-term support

and concern, as well as increasing the liquidity of the Company's shares and expanding the share capital base of the Company.

The above proposals on dividend distribution for the Year and capital reserve fund conversion by utilising the capital reserve fund are subject to consideration and approval at the general meeting to be held soon. An announcement containing relevant details, including the record date(s) for the dividend distribution and capital reserve fund conversion, will be published by the Company as and when appropriate.

Details of dividends and earnings per share are set out in note 32 and 33 of the Notes to the Financial Statements on page 120 to page 121.

## Reserves

Movements in reserves during the Year are set out in note 18 of the Note to the Financial Statements on page 97 to page 99.

## Property, Plant and Equipment

Details of movements in property, plant and equipment during the Year are set out in note 5 of the Note to the Financial Statements on page 81 to page 83.

## Share Capital

The Company issued 500,000,000 A shares during the Year. As at 31 December 2006, the total share capital of the Company amounted to 5,662,849,000 shares, divided into 5,662,849,000 shares carrying a nominal value of RMB1.00 each. Movements in share capital during the Year are set out in note 17 of the Notes to the Financial Statements on page 96 to page 97.

## Share Capital Structure

As at 31 December 2006, the total number of shares issued by the Company was 5,662,849,000. The Company's shareholders were China Datang Corporation, Beijing Energy Investment (Group) Company, Hebei Construction Investment Company, Tianjin Jinneng Investment Company, other holders of domestic shares and foreign holders of H Shares, holding 1,979,620,580 shares, 671,792,400 shares, 671,792,400 shares, 606,006,300 shares, 302,968,320 shares and 1,430,669,000 shares, respectively, representing 34.96%, 11.86%, 11.86%, 10.70%, 5.35% and 25.27%, respectively, of the issued share capital of the Company.

## Report of the Directors

### Number of Shareholders

Details of the shareholders as recorded in the register of members of the Company as at 31 December 2006 were as follows:

Total number of shareholders	67,993
Holders of domestic shares	67,736
Holders of H Shares	257

### Substantial Shareholders of the Company

As far as the directors of the Company are aware, as at 31 December 2006, the interests or short positions of the person or entities (save and except the Directors or senior management of the Company) in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Law of Hong Kong), were as follows:

Name of shareholder	Class of shares	No. of shares held	Percentage to total issued share capital of the Company (%)	Percentage to total issued A shares of the Company (%)	Percentage to total issued H shares of the Company (%)
China Datang Corporation (Note 1)	A shares	1,979,620,580	34.96	49	–
Beijing Energy Investment (Holding) Company Limited (Note 2)	A shares	671,792,400	11.86	18	–
Hebei Construction Investment Company (Note 3)	A shares	671,792,400	11.86	18	–
Tianjin Jinneng Investment Company (Note 4)	A shares	606,006,300	10.70	15	–
JPMorgan Chase & Co.	H shares	170,568,692(L) 126,370,000(P)	3.01 2.23	–	11.92(L) 8.83(P)
Templeton Asset Management Limited	H shares	127,528,320(L)	2.25	–	8.91(L)
UBS AG	H shares	92,316,088(L) 17,568,000(S)	1.63 0.31	–	6.45(L) 1.23(S)
Allianz SE	H shares	87,618,000(L) 60,000(S)	1.55 0.00	–	6.12(L) 0.00
Halbis Capital Management (Hong Kong)	H shares	85,176,000(L)	1.54	–	5.95(L)
Morgan Stanley	H shares	72,071,442(L) 41,363,855(S)	1.27 0.73	–	5.04(L) 2.89(S)

(L) = Long positions    (S) = Short positions    (P) = Lending pool

#### Notes:

- (1) Each of Mr. Zhai Ruoyu, Mr. Hu Shengmu and Mr. Fang Qinghai, all non-executive Directors, is an employee of China Datang Corporation.
- (2) Each of Mr. Liu Haixia and Ms. Guan Tiangang, both non-executive Directors, is an employee of Beijing Energy Investment (Holding) Company Limited.
- (3) Each of Mr. Su Tiegang and Mr. Ye Yonghui, both non-executive Directors, is an employee of Hebei Construction Investment Company.
- (4) Mr. Tong Yunshang, a non-executive Director, is an employee of Tianjin Jinneng Investment Company.

Save as disclosed above, as far as the Directors are aware, as at 31 December 2006 there is no person (save and except the Directors, senior management and supervisors of the Company) holding interests or short positions in the shares or underlying shares of the Company are required to make disclosure in accordance with the requirements of the SFO.

### **Interests of Directors, Chief Executives and Supervisors in Share Capital**

At any time during the Year, save and except Mr. Fang Qinghai, being a Director, who held and beneficially owned 1,000 A Shares of the Company, none of the Directors, chief executives, supervisors of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (as defined in Part XV of the SFO) that required to notify the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or required to be recorded in the register mentioned in the SFO pursuant to section 352 of the SFO or otherwise required to notify the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

### **Directors' Service Contracts**

As at 31 December 2006, the Company has not entered into service contracts with executive Directors.

### **Interests of Directors and Supervisors in Contracts**

No contracts of significance in relation to the Company's business to which the Company or any of its Subsidiaries was a party, and in which any Director or supervisor had a material interest, subsisted at the end of the Year or during the Year.

### **Directors and Supervisors' Benefits from Rights to Acquire Shares or Debentures**

No arrangements were made by the Company or its Subsidiaries at any time during the Year for any Director or Supervisor to acquire any shares in or debentures of the Company or any of its Subsidiaries.

### **Interests of Substantial Shareholders in Contracts**

Save as disclosed in this annual report, none of the Company or any Subsidiaries of the Company have entered into any material contracts or material service contracts with the Company's substantial shareholders or its Subsidiaries.

### **Highest Paid Individuals**

All of the highest paid individuals of the Company during the Year include Directors and senior management staff. Details of their remuneration are set out in note 31 of the Notes to the Financial Statements on page 118 to page 120.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

There was no purchase, sale or redemption of the Company's listed securities by the Company or its Subsidiaries during the Year.

### **Bank Borrowings, Overdrafts and Other Borrowings**

Apart from the loans from China Datang Corporation Finance Company Limited and NCPG Finance Company Ltd, short-term loans from banks, long-term loans from banks and long-term loans from shareholders and other long-term loans as set out in notes 19 to 20 of the Notes to the Financial Statements on page 100 to page 102, there were no other loans of the Company as at 31 December 2006.

### **Pre-emptive Rights**

There are no provisions for pre-emptive rights under the Articles of Association and applicable PRC Laws that require the Company to offer new shares to the existing shareholders in proportion to their shareholding.

### **Connected Transactions**

During the Year, China Datang Corporation and the Company performed the following continuing connected transactions (as defined in Chapter 14A of the Listing Rules), and the transactions were in compliance with the requirements on connected transactions under Chapter 14A of the Listing Rules.

## Report of the Directors

### Transactions

	<b>Amount</b> (RMB '000)
1. Ash disposal fees payable to China Datang Corporation	57,892
2. Rental payable to China Datang Corporation	7,228
3. Technical support, assistance and testing service fee payable to North China Electric Power Research Institute Company Limited	53,626
4. Heat revenue receivable from Beijing Texin Datang Heat Company Limited	43,767
5. Fuel management fee payable to China Datang Corporation	5,151
6. Interest expense payable to Datang Finance	49,915
7. Interest expense payable to Tianjin Jinneng Investment Company	99

The independent non-executive Directors have reviewed the above transactions and confirmed:

- (1) the above transactions were made in and for the need of daily and normal business operations of the Company;
- (2) the above transactions were made with the following terms:
  - (a) normal business terms (i.e. such terms are applicable to the similar transactions with other similar business entities in China); or
  - (b) terms not worse than those can be obtained from or provided to independent third parties (depending on the situation) if there were no comparable terms.
- (3) the above transactions were conducted in accordance with the terms of the relevant agreements, whose terms were fair and reasonable and in the overall interests of the shareholders of the Company.

The Company's auditors have reviewed the said transactions of the Year and notified the Board of the following for confirmation in writing:

- (a) The said transactions have been approved by the Directors;
- (b) The said transactions have been entered into pursuant to the agreement terms governing those transactions and the pricing method of the Company set out in note 30 to the Notes to the Financial Statements for the year ended 31 December 2006;
- (c) The said transactions were conducted pursuant to the relevant agreements;
- (d) The said transactions have not exceeded the respective cap applicable to that transaction.

### Material Litigation

The Company was not involved in any material litigation during the Year.

### Retirement Scheme

In accordance with the State's employee retirement scheme, the Company has to pay a basic pension insurance premium on behalf of the employees at a rate of 20% of the staff's salaries whereby the employees would receive a monthly pension payment each month after retirement. In addition, the Company has also implemented an enterprise annuity plan, whereby employees will make monthly contributions at a fixed

amount as individual savings pension insurance fund, while the Company will contribute a proportionate amount of the employees' contributions as supplementary pension insurance fund. The Company may at its discretion provide additional non-recurring individual savings pension insurance fund depending on the operating results of the year. When retired, an employee will receive individual savings pension insurance fund and corporate supplemental savings pension insurance fund by the Company. Apart from such contributions, the Company has no other liabilities towards the staff retirement scheme.

### **Interest Capitalisation**

During the Year, interest capitalised in respect of construction-in-progress amounted to approximately RMB1,014,377,000.

### **Other Significant Matters**

In December 2006, the Company completed the issue of 500 million A Shares and the shares were listed on the Shanghai Stock Exchange on 20 December 2006.

### **Compliance of the Code on Corporate Governance Practices**

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the Year.

### **Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers**

Upon specific enquiries made to all Directors and in accordance with information provided, the Board confirmed that all Directors have complied with the provisions under the Model Code during the Year.

### **Independent Non-executive Directors**

After making queries and reviewing the annual confirmation letters from all independent non-executive Directors in respect of their independence according to rule 3.13 of the Listing Rules, the Company confirms that all independent non-executive Directors are independent individuals.

### **Auditors**

The Company's 2006 financial statements prepared under International Financial Reporting Standards ("IFRS") have been audited by PricewaterhouseCoopers Certified Public Accountants, Hong Kong ("PwC"). The 2006 financial statements prepared under the PRC Financial Regulations and Accounting Standards have been audited by PricewaterhouseCoopers Zhong Tian CPAsCo, Ltd. ("PwC Zhong Tian"). A resolution regarding the re-appointment of PwC as the international auditors and PwC Zhong Tian as the domestic auditors will be proposed at the annual general meeting. During the past five years, the Company has not changed its auditors.

By Order of the Board

**Zhai Ruoyu**

Chairman

30 March 2007