

REPORT FROM CHIEF EXECUTIVE OFFICER

We have fully achieved our development and operational targets for the year through successful execution of our business strategies.

REVIEW FOR 2006

In 2006, our attributable operational capacity continued to grow at a fast pace whilst our achievements in the control of construction, fuel and financing costs were remarkable.

Fast Growth of attributable operational capacity

In 2006, CR Power had 10 generation units commencing operation, including five 600MW class coal-fired generation units, two 300MW coal-fired generation units, and two 75MW gas-fired cogeneration units. As at 31 December 2006, our attributable operational capacity reached 8,003MW, representing an increase of 62% from 4,940MW as at the end of 2005; the total attributable operational capacity of our consolidated power plants reached 6,291MW which almost doubled year on year.

Maintaining a high utilisation rate

Despite the rapid growth in generation capacity in our service areas, our power plants still recorded satisfactory utilisation hours and some even recorded a higher utilisation rate year on year. The average utilisation hours of our eight power plants which were operational throughout the entire year of 2005 and 2006 were 6,380 hours, which was still a relatively high level. In 2006, total net generation of our consolidated power plants reached 30,400 GWh, representing an increase of 62.2% year on year. Due to the growth in net generation of our consolidated power plants and tariff adjustments made by the PRC government in May 2005 and June 2006, the consolidated turnover of our Company reached HK\$9,470 million, representing an increase of 64.3% year on year.



Wang Shuai Ting
Chief Executive Officer

Leading position in power plant construction

We continued to maintain a leading position in the area of the construction period, cost and quality, in the PRC power industry in 2006. The unit construction cost of our five 600MW class coal-fired generation units which commenced operation in 2006 was much lower than the industry average. In May 2006, the first generation unit of Shouyangshan Power Plant passed the 168-hour full-load pilot run. It only took us 19 months to complete the construction, setting a new record of shortest period for the construction of a 600 MW class super-critical generation unit in the PRC power industry and breaking the record set by Changshu Power Plant in 2005. As for the construction quality of Shouyangshan Power Plant, all construction works passed standards set by the PRC government with 100% of our construction works achieved the standard of excellence, which was unprecedented in the history of the PRC power industry.

Effective control on coal cost

During the reporting period, we strived to lower our coal prices by centralising coal procurement, signing long-term supply agreements with coal suppliers, increasing contract fulfillment rate and improving coal qualities. In 2006, we had more large-capacity, high efficiency generation units commencing operation, which helped to reduce our fuel consumption rate. The average net generation standard coal consumption rate of our coal-fired plants in 2006 was 345g/kWh, representing a decrease of approximately 3.1% from 356g/kWh in 2005. During the reporting period, the average standard coal cost of our consolidated power plants decreased by about 2.7% year on year; the average unit fuel cost decreased by 5.8% year on year.

Efforts to lower financing cost

In 2006, we continued to fix and lower financing costs through corporate bonds issued by China Resources National Corporation ("CRNC") in the PRC domestic market. On 31 March 2006, CRNC lent the proceeds of RMB 2 billion from the issuance of 15-year corporate bonds to CR Power's power plants. Together with the commissions and other issue expenses, total annual funding cost for our power plants was approximately 4.68%, lower than the prevailing most favourable long-term (more than five years) lending rates set by the People's Bank of China.

Progress in development of new projects

Our business development team continued to explore investment opportunities in our target markets in 2006. The second 180MW gas-fired generation unit of Guangzhou Thermal Power Plant, the two 300MW coal-fired cogeneration units of Cangzhou Power Plant in Hebei, and the 26MW Shantou Wind Power Plant were approved by the PRC government in June, September and October of 2006, respectively. In addition, we have a number of greenfield and brownfield projects pending approvals from the PRC government.

TARGETS FOR 2007

In 2007, we will maintain a relatively high earnings growth through the development of new power plants and asset acquisitions. At the same time, we will continue to increase our profitability by maximising utilisation hours of our power plants and exercising tight cost control.

Capacity Growth

The attributable operational capacity of our Company is expected to maintain a relatively high growth rate in 2007. Liyujian B Power Plant, Yunpeng Power Plant, Guangzhou Thermal Power Plant, the first generation unit of Cangzhou Power Plant, and the second generation unit of Xingning Power Plant will come into commercial operation within the year and boost our attributable operational capacity by approximately 1,818MW. During the year, we will actively pursue various acquisition opportunities, including generation assets held by our parent company and independent third parties. As for the disposal of generation assets held by the State Power Grid Company, we are bidding for some power plants which fit our strategic objectives. It is estimated that the PRC government will complete the disposal of the first batch in 2007 whilst the disposal of the second batch will likely to commence within the same year. Apart from that, we are looking for opportunities for the development of new power plants and expansion of some existing power plants.

Utilisation hours

There will still be a strong growth in the installed generation capacity in China in 2007. The China Electricity Council forecasts that total new capacity to be installed in 2007 will exceed 90GW, whilst the nationwide growth of electricity consumption is likely to grow by approximately 12.5%. Electricity supply and demand are basically in a balanced position, and utilisation hours are expected to be under a downward pressure. However, the utilisation hours of most of our power plants are likely to retain a high and reasonable level as demand for power in our service areas is still growing strongly year on year. The management teams of our power plants will endeavor to achieve higher utilisation hours than the average in the provinces where our power plants are located. In 2007, our large-scale, high efficiency generation units will endeavor to improve their generation volume and their profitability in provinces where the energy saving dispatchment system has been implemented.

Fuel cost control

Mainly due to factors relating to industrial policies, coal prices in 2007 have increased. In January 2007, we contracted over 90% of our total annual coal demand. We aim to lower our fuel cost and maximise our profitability by improving contract fulfillment rate, implementing the technology of blending coal of different grades, and improving our operation of generation units.

Finance and funding management

In 2007, our Company will further improve its financial management, internal control systems and cashflow management. We will keep on looking for low cost funding through various channels in both domestic and global markets to lower our overall financing costs and mitigate the risk of any potential interest rate hikes.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude toward our management team and staff members for their hard work. We will continue to create a challenging and harmonious work environment for our staff members, with an emphasis on team work and providing good opportunities for individual member's career development.



Wang Shuai Ting

Chief Executive Officer

Hong Kong, 26 March 2007