

# Report of the Directors

The Directors are pleased to present the audited results of the Company for the year ended 31 December 2007.

## 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. During 2007, due to the conversion of part of the aforementioned US Dollar convertible bond, the Company issued an additional 226,353,893 H shares; pursuant to the resolution passed at the 2006 AGM, the Company utilised its capital reserve fund to issue 10 bonus shares for every 10 shares held and issued an additional 5,844,880,580 shares. Due to such changes, as at 31 December 2007, the total number of shares of the Company was 11,734,083,473 shares. Apart from that, the Company did not issue any new shares.

Performance of the Company's H shares during 2007:

Closing price per H share as at 31 December 2007	HK\$6.96
Highest trading price per H share between 1 January and 31 December 2007	HK\$12.60
Lowest trading price per H share between 1 January and 31 December 2007	HK\$4.78
Total number of H shares traded between 1 January and 31 December 2007	9,087,289,000 shares

Performance of the Company's A shares during 2007:

Closing price per A share as at 27 December 2007	RMB20.62
Highest trading price per A share between 1 January and 27 December 2007	RMB44.08
Lowest trading price per A share between 1 January and 27 December 2007	RMB10.23
Total number of A shares traded between 1 January and 27 December 2007	5,461,528,000 shares

## Public Float

The Company confirms that 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 2007 are set out in the Consolidated Income Statement on page 63. The financial position of the Company and its Subsidiaries as at 31 December 2007 is set out in the Balance Sheets on page 64 and 65.

The Company and its Subsidiaries' consolidated cash flows for the year ended 31 December 2007 are set out in the Consolidated Cash Flow Statement on page 68.

## Principal Businesses

The Company is principally engaged in the development and operation of power plants, the sale of electricity and thermal power, and the repair and testing of power equipment and 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:

	2007	2006
<b>Purchases</b>		
The largest supplier	12.47%	12.73%
Top five suppliers	39.85%	30.82%
<b>Sales</b>		
The largest customer	53.39%	58.97%
Top five customers	90.82%	92.11%

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 97 to page 106.

## Dividend, Earnings per Share

The Board recommended the distribution of proposed cash dividend of RMB0.12 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.

As there may be further conversion of the US dollar convertible bonds into H shares of the Company for the period from 1 January 2008 to the registration date for the Company's distribution of dividends. The Company will distribute cash dividend and adjust relevant data in the Company's profit distribution proposal, according

to actual registered shares as on the registration date for the Company's distribution of dividends, the date of dividend distribution.

Details of dividends and earnings per share are set out in note 34 and 35 of the Notes to the Financial Statements on page 148 to page 149.

## Reserves

Movements in reserves during the Year are set out in note 20 of the Note to the Financial Statements on page 121 to page 123, among which, the details of the reserves attributable to be distributed to shareholders are set out in Note 20(f) to the Financial statements on page 123.

## Property, Plant and Equipment

Details of movements in property, plant and equipment during the Year are set out in note 5 of the Notes to the Financial Statements on page 95 to page 97.

## Donation

During the Year, the Company and subsidiaries have made charity and relief donations of approximately RMB4,481,000.

## Share Capital

As at 31 December 2007, the total share capital of the Company amounted to 11,734,083,473 shares, divided into 11,734,083,473 shares carrying a nominal value of RMB1.00 each. Movements in share capital during the Year are set out in note 19 of the Notes to the Financial Statements on page 120.

## Share Capital Structure

As at 31 December 2007, the total number of shares issued by the Company was 11,734,083,473. 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 3,959,241,160 shares, 1,343,584,800 shares, 1,343,584,800 shares, 1,212,012,600 shares, 605,936,640 shares and 3,269,723,473 shares, respectively, representing 33.74%, 11.45%, 11.45%, 10.33%, 5.16% and 27.87%, 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 2007 were as follows:

Total number of shareholders	347,192
Holders of domestic shares	346,930
Holders of H shares	262

### Substantial Shareholders of the Company

As far as the Directors of the Company are aware, as at 31 December 2007, the interests or short positions of the person or entities 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 ( <i>Note</i> )	A shares	3,959,241,160	33.74	46.775	–
Beijing Energy Investment (Holding) Company Limited ( <i>Note</i> )	A shares	1,343,584,800	11.45	15.873	–
Hebei Construction Investment Company ( <i>Note</i> )	A shares	1,343,584,800	11.45	15.873	–
Tianjin Jinneng Investment Company ( <i>Note</i> )	A shares	1,212,012,600	10.33	14.177	–
UBS AG	H shares	273,701,482 (L) 27,480,000 (S)	2.33 0.23	– –	8.39 (L) 0.84 (S)
JPMorgan Chase & Co	H shares	238,144,391 (L) 6,962,917 (S) 156,842,414 (P)	2.03 0.06 1.34	– – –	7.33 (L) 0.21 (S) 4.83 (P)

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

Notes:

- Each of Mr. Zhai Ruoyu, Mr. Hu Shengmu and Mr. Fang Qinghai, all non-executive Directors, is an employee of China Datang Corporation.
- Mr. Liu Haixia, a non-executive director, is an employee of Beijing Energy Investment (Holding) Company Limited.
- Ms. Guan Tiangang, a non-executive director, is an employee of Beijing Jinneng International Energy Company Limited, a wholly-owned subsidiary of Beijing Energy Investment (Holding) Company Limited.
- Each of Mr. Su Tiegang and Mr. Ye Yonghui, both non executive Directors, is the employee of Hebei Construction Investment Company.
- 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 2007, save and except Mr. Fang Qinghai, being a Director, who held 24,000 A Shares of the Company, 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 which required to make disclosure in accordance with the requirements of the SFO.



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

As at 31 December 2007, save and except Mr. Fang Qinghai, being a Director, who held 24,000 A shares of the Company, none of the Directors, supervisors and chief executives 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 2007, the Company has not entered into any service contracts with its 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

Based on positional salary adopted for the Company Directors, supervisors and senior management, and appraisals were carried out in accordance with the three accountability appraisal management systems. The Remuneration and Appraisal Committee assessed such person's work results and salary level.

All of the highest paid individuals of the Company during the Year include Directors, supervisors and senior management staff. Details of their remuneration are set out in note 33 of the Notes to the Financial Statements on page 146 to page 148.

## 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, short-term loans from banks, other short-term loans, long-term loans from banks, other long-term loans and loans from shareholders as set out in notes 21 and 22 of the Notes to the Financial Statements on page 124 to page 127, there were no other loans of the Company as at 31 December 2007.

## 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, the Company or its Subsidiaries performed the following major continuing connected transactions (as defined in Chapter 14A of the Listing Rules) with its connected parties as defined by the Listing Rules, and such transactions were in compliance with the requirements on connected transactions under Chapter 14A of the Listing Rules.



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Details of such major transactions	Amount (RMB'000)
Ash disposal fee to China Datang Corporation (Note 1)	57,892
Rental fee to China Datang Corporation (Note 2)	7,228
Fuel management fee to China Datang Corporation (Note 3)	11,190
Deposits in Datang Finance Company (31 December 2007) (Note 4)	600,296
Balance of average daily deposit per annum (including any interest accrued therefore) in Datang Finance Company (Note 5)	57,615

Note 1: In 2005, the Company and its controlling shareholder, China Datang Corporation have entered into a supplement agreement of "Ash removal Agreement" (the "Supplemental Agreement"). Pursuant to the agreement, from 2005 to 2007, the Company will pay ash disposal fee of not more than RMB60 million to China Datang Corporation annually.

Note 2 and 3: Pursuant to the Listing Rules, the connected transactions above are exempt from the reporting, announcement and approval from the independent shareholders' requirements.

Note 4 and 5: In 2007, the Company and China Datang Corporation Finance Company Limited ("Datang Finance"), the subsidiary of China Datang Corporation, entered into the "Financial Services Agreement", pursuant to the agreement, the Company's daily average deposit at Datang Finance shall not exceed RMB1.3 billion.

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

- (1) the above transactions were made in the ordinary and the usual course of business of the Company;
- (2) the above transactions were made with the following terms: (a) normal commercial 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 made with the following terms: (a) according to the investment terms supervising those transactions or (b) terms not worse than those made with third parties.

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 32 to the Notes to the Financial Statements for the year ended 31 December 2007;

- (c) The said transactions have not exceeded the respective cap applicable to those transactions.

On 9 January 2007, the Company and its substantial shareholders, Beijing Energy Investment (Group) Company Limited ("BEIG"), China Datang Corporation ("CDC") and Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited ("MDHN") entered into the "Agreement of investment and construction of Tuoketuo Phase 4, 5 4x600 MW coal-fired power generation units" (the "Investment Agreement"). On 10 February 2007, the investing parties entered into the "Supplemental Agreement", in which they agreed that Beijing Jingneng International Energy Company Limited ("BEIC"), the subsidiary of BEIG, to replace BEIG as investing parties. Pursuant to the Investment Agreement and the Supplemental Agreement, the investing parties will invest and establish Inner Mongolia Datang International Tuoketuo No. 2 Power Generation Company Limited ("Tuoketuo No. 2 Power Co."), to develop and construct the aforementioned Phase 4, 5 4x600 MW coal-fired generation units, the total investment amount of the project is approximately RMB10.193 billion (subject to the final approval by the relevant government authorities in the PRC). The final registered capital of Tuoketuo No. 2 Power Co. amounts to approximately RMB2.039 billion. The Company, BEIC, CDGC and MDHN agreed to contribute to the establishment of Tuoketuo No. 2 Power Co. in the proportion of 40%, 25%, 20% and 15%, respectively. The investment matters have been considered and approved by the Board and at the 2007 first extraordinary general meeting of the Company. The connected transaction complied with the requirements as set out in Chapter 14A of the Listing Rules.

### 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 RMB1,522,434,000.

## Other Significant Matters

1. Pursuant to the resolution passed at the 2006 annual general meeting held on 29 June 2007 and based on the total share capital of 5,844,880,580 shares as at 18 July 2007, the Company distributed a 2006 cash dividend of RMB0.23075 per share to all shareholders and implemented the share capital expansion proposal by utilising the capital reserve fund to issue 10 additional shares for every 10 shares held.
2. The term of the members of the fifth session of the Company's Board and Supervisory Committee had expired on 30 June 2007. Pursuant to the resolutions passed at the 2006 annual general meeting held on 29 June 2007, it was resolved to appoint the following persons as members of the sixth session of the Company's Board and Supervisory Committee:
  - (1) Mr. Zhai Ruoyu, Mr. Zhang Yi, Mr. Hu Shengmu, Mr. Fang Qinghai, Mr. Zhou Gang, Mr. Liu Haixia, Ms. Guan Tiangang, Mr. Su Tiegang, Mr. Ye Yonghui, Mr. Li Gengsheng, Mr. Xie Songlin, Mr. Yu Changchun, Mr. Liu Chaoan and Mr. Xia Qing be appointed as members of the sixth session of the Board for a term from 1 July 2007 to 30 June 2010;
  - (2) Mr. Zhang Jie, Mr. Zhang Wantuo, Mr. Fu Guogiang and Mr. Shi Xiaofan be appointed as members of the sixth session of the Supervisory Committee (among which Mr. Zhang Jie and Mr. Shi Xiaofan are Supervisors representing the staff) for a term from 1 July 2007 to 30 June 2010.
  - (3) the term of the fifth session of the Board members, Mr. Yang Hongming, Mr. Tong Yunshang and Mr. Xu Daping has expired, and will no longer be the sixth session of the Board.

The audit Committee considers that the 2007 annual results of the Company and its Subsidiaries have complied with the applicable accounting standards, and that the company has made appropriate disclosure thereof.

## 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 Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors 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 2007 financial statements prepared under International Financial Reporting Standards have been audited by PricewaterhouseCoopers ("PwC"). The 2007 financial statements prepared under the PRC Financial Regulations and Accounting Standards have been audited by PricewaterhouseCoopers Zhong Tian CPAs Co, 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. The Company has not changed its auditors in the previous six years.

By Order of the Board

**Zhai Ruoyu**  
Chairman

26 March 2008

