

The codes on corporate governance practices adopted by the Company include, without limitation to, the following documents:

1. Articles of Association;
2. Code on Shareholders' Meetings, Code on Board Practices and Code on Supervisory Committee\*;
3. Working procedures for Audit Committee, Remuneration and Appraisal Committee and Strategic Committee of the Company's Board;
4. Code on the Company's investment projects;
5. Code on Trading of the Company's Securities by Directors (Supervisors) of Huadian Power International Corporation Limited); and
6. Code on Trading of the Company's Securities by Employees of Huadian Power International Corporation Limited.

The Board is committed to principles of corporate governance consistent with prudent management and with the aim to enhance shareholders' value. These principles enshrine transparency, accountability and independence.

Upon review of the relevant documents about corporate governance, the Board is of the view that the corporate governance practices adopted by the Company meet the requirements under the principles, code provisions and most of the recommended best practices as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In certain aspects, the corporate governance practices adopted by the Company are more stringent than code provisions set out in the Code.

The followings describe the major aspects and practices which are more stringent than the code provisions set out in the Code:

- the Company has formulated the Code on Trading of the Company's Securities by Directors (Supervisors) of Huadian Power International Corporation Limited and the Code on Trading of the Company's Securities by Employees of Huadian Power International Corporation Limited, which are not less strict than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
- In addition to the Audit Committee and the Remuneration and Appraisal Committee, the Company has established its Strategic Committee and stipulated the Working Procedures for the Strategic Committee.
- In the financial year of 2006, altogether 7 Board meetings of the Company were held.
- The Audit Committee comprises five members, including two non-executive directors and three independent non-executive directors.

\* On 5 February 2007, the Extraordinary General Meeting approved the adoption of Code on Shareholders' Meetings, Code on Board Practices and Code on Supervisory Committee as appendices of the Articles of Association. Details are set out in the notice of extraordinary general meeting and the circular dated 22 December 2006 respectively and the announcement dated 5 February 2007.

## The Board of Directors

As an efficient leader of the Company, the Board is responsible for leadership and supervision of the Company. Directors as a whole are responsible for advancing activities of the Company through commanding and monitoring. We are of the opinion that all directors can act on an objective basis and make decisions in the interest of the Company.

As of the date of this annual report, members of the Board of the Company are set out below:

Cao Peixi	Chairman, non-executive director
Chen Feihu	Vice Chairman, non-executive director
Zhu Chongli	Vice Chairman, non-executive director
Chen Jianhua	Executive director
Tian Peiting	Executive director
Wang Yingli	Non-executive director
Zhang Bingju	Non-executive director
Peng Xingyu	Non-executive director
Ding Huiping	Independent non-executive director
Zhao Jinghua	Independent non-executive director
Wang Chuanshun	Independent non-executive director
Hu Yuanmu	Independent non-executive director

The biographical details of Directors and connections between them are detailed in the section headed "Biographic Details of Directors, Supervisors and Senior Management" in this annual report. All Directors are currently serving a term of three years, renewable upon re-election and reappointment. The term of office for independent non executive directors is renewable with a limit of six years. A director who is appointed to fill temporary vacancies shall be elected by shareholders at the first general meeting following his appointment, and his term of office shall be terminated upon re-election of directors. A director who is appointed for the first time shall report to the Board his position as director or other roles in other companies or entities upon his appointment, and such reporting of relevant interests is revised annually. In case that the Board recognises conflict of interest for a director or any of his associates for consideration of any proposal, the director shall report such interest and abstain from voting.

Independent non-executive directors of the Company have submitted written confirmation of their independency as required by Rules 3.13 of the Listing Rules. Independent non-executive directors of the Company have extensive expertise and experience. Among ten non-executive directors, four of them (amounting to one-third of Directors) are independent non-executive directors, where Mr. Wang Chuanshun is an accounting professional. While playing an important role of check and balance, they safeguard the interest of shareholders and the Company as a whole. Directors are of the opinion that all independent non-executive directors are able to deliver effective independent judgement under the independence guidelines set out in Rules 3.13 of the Listing Rules, and are independent in accordance with the guidelines.

To ensure the compliance with the Board procedures and all applicable rules, each director is eligible to access to advice and service of the Secretary to the Board.

## Chairman and General Manager\*

To improve independence, accountability and responsibility, the positions of Chairman and General Manager of the Company are assumed by different individuals with distinct roles. Mr. Cao Peixi and Mr. Chen Jianhua have been currently appointed as Chairman and General Manager respectively. As legal representative of the Company, Chairman presides over the Board, aiming to ensure that the Board is acting in the best interest of the Company, operates effectively, duly performs its responsibilities and engages in discussion of important and appropriate matters, as well as Director's access to accurate, timely and clear information. In addition, Chairman appoints the Secretary to the Board to arrange agenda of every Board meeting and consider any matter proposed by other directors to be included in the agenda, thus ensuring that all directors are properly briefed over matters discussed at the Board meeting and their access to adequate reliable information. In particular, Chairman of the Board is entitled to exercise power over, including but not limited to, the following:

To preside over general meetings and to convene and preside over the Board meetings;

To check on the implementation of resolutions of the Board meetings;

To sign securities certificates issued by the Company;

To sign important documents of the Board and other documents that shall be signed by legal representative of the Company;

To exercise the powers of the legal representative; and

To exercise special disposal powers that are conferred under and in compliance with laws, administrative regulations and in the interests of the Company on matters of the Company in case of force majeure emergencies such as extraordinary serious natural calamities, and provide post-event reports to the Board and the general meeting.

General Manager heads the management and is responsible for daily operation of the Company. With the aid of other executive directors and management team of every functional department, General Manager looks after business management of the Company, including implementation of policies adopted by the Board and reporting to the Board in respect of the overall operation of the Company. Details of the powers of General Manager are set out on page 41 of this annual report.

## The Board Meetings\*

The Board shall convene at least four meetings annually, approximately one for each quarter. Chairman of the Board should convene the Board Meeting, ensure the Board's effective discharge of its duties, schedule agenda of the meeting and consider matters proposed by other directors to be included in the agenda. Notice of meetings shall be delivered in fourteen days prior to date of regular meeting, and agenda of the meeting and relevant documents shall be despatched to all directors in ten days prior to the meeting.

\* On 5 February 2007, the extraordinary general meeting approved the proposed amendments to the Articles of Association, including the changes in duties of Chairman and General Manager and the changes in the mode to convene and the mode to discuss in Board meetings. Details are set out at the notice of extraordinary general meeting and the circular dated 22 December 2006 respectively and the announcement dated 5 February 2007.

The Chairman of the Board shall sign the notice to convene an extraordinary meeting of the Board within seven business days in case of any of the following circumstances:

When deemed as necessary by the Chairman of the Board;

When proposed jointly by more than one-third of the directors;

When proposed jointly by more than one-half of the independent non-executive directors;

When proposed by the supervisory committee; or

When proposed by the General Manager.

Notices of Board meetings and extraordinary Board meetings should be served on all directors, either by facsimile, express mail, registered mail or by hand.

If the time and venue for a regular meeting have been previously determined by the Board, no notice is necessary. Otherwise, Chairman of the Board or relevant proposer shall inform the Secretary to the Board of the Company of the proposal and agenda of the Board meeting in writing, and the Secretary to the Board shall then dispatch a notice containing time, venue and agenda of the Board meeting to directors in ten days prior to date of the meeting. However, any director may waive his right for being served with the notice of the Board meeting prior or subsequent to the dispatch of the notice. The Secretary to the Board should send a copy of the above-mentioned notice of the Board meeting to Chairman of Supervisory Committee.

Each director has a ballot for voting. The Board's resolutions shall be passed by over one half or two-thirds majority of the directors in accordance with stipulations of relevant laws, regulations and Articles of Association of the Company.

A director shall attend Board meetings in person. Ordinary or extraordinary Board meetings can be held by way of teleconference meeting or by virtue of similar telecommunication device. So long as the participating director can hear and communicate effectively with each other, all participating directors are deemed to as if they had participated in the meeting in person.

A director shall appoint, in writing, another director to attend the meeting on his behalf due to his absence. The scope of authorisation shall be specified in the power of attorney. The director attending the meeting on behalf of the entrusting director shall only exercise the rights within the power of attorney. Should a director neither attend a Board meeting nor appoint another director to attend on his behalf, the said director shall be deemed to have waived his voting rights at the meeting.

The Secretary to the Board shall prepare detailed minutes for the matters put to the Board meeting for consideration and resolutions achieved, including any uncertain or dissenting opinion raised by the directors. Within a reasonable period of time following the conclusion of the Board meeting, the Secretary to the Board shall dispatch to all directors the draft and final minutes of meetings for comments and for records respectively.

The proposals to be passed by written resolution shall be dispatched to each director, either by hand, mail, telex or facsimile, instead of convening the Board meeting. Unless otherwise stipulated by applicable laws, regulations and/or relevant Listing Rules, a resolution shall come into effect without otherwise convening a Board meeting when the number of directors signing and consented to the written resolution meets the quorum for the resolution as required by the laws and regulations and the Articles of Association in connection therewith, and the signed resolution is returned to the Secretary to the Board by the aforesaid means.

Any written resolution without execution by directors in accordance with legal procedures, even agreed by each director by otherwise means, shall not come into legal force as a resolution of the Board.

Minutes of meetings of the Board and its committees shall be kept by the Secretary to the Board, and upon any director's request to review, the Secretary to the Board shall produce to him the requested minutes within a reasonable period of time.

To ensure sound corporate governance, the Board has established the following committees: Audit Committee, Remuneration and Appraisal Committee and Strategic Committee, and specified their respective terms of references in accordance with principles stipulated by laws, regulations and the Code. Relevant administrative departments set up by those special committees in the Company are responsible for the preparation of meeting documents while the special committees report to the Board.

The Board reports to the general meeting, and is also responsible for the completeness of financial data as well as the effectiveness of internal control system and risk management procedures of the Company. Besides, the Board shall bear the responsibility for preparation of corporate financial statements, while General Manager accepts duties of attaining business goals and attending to daily operations of the Company. Through regular reviews of functions of General Manager and his authorised powers, the Board ensures the rationality of such arrangement. In addition, the Board also regularly reviews performances in relation to budget and business goals of respective operating departments, and exercises various powers, including:

- (1) To convene the general meetings and report its work to general meetings;
- (2) To implement the resolutions passed at general meetings;
- (3) To decide the Company's business plans and investment schemes;
- (4) To formulate the Company's annual budget scheme and budget implementation proposal;
- (5) To formulate the Company's profit distribution plan and loss recovery plan;
- (6) To formulate proposals for increases or reductions of the Company's registered capital and the issue of corporate debentures or other securities and the listing thereof;
- (7) To draw up plans for material acquisition, purchase of the Company's shares or the proposal for merger, division or dissolution of the Company;
- (8) To determine the risk of investment, assets mortgage and other guarantee matters of the Company within the authorisation of the general meeting;
- (9) To determine the establishment of the Company's internal management structure;
- (10) To appoint or dismiss the Company's general manager and the Secretary to the Board, and pursuant to the general manager's nominations to appoint or dismiss senior management including the deputy general managers and financial officers of the Company and determine their remuneration, bonus and penalties;
- (11) To formulate the Company's basic management system;
- (12) To formulate the proposed amendments to Articles of Association;
- (13) To manage the information disclosure of the Company;
- (14) To propose at general meetings for the appointment or change of accountants conducting auditing for the Company;
- (15) To hear the work report and inspect the work of the general manager;
- (16) To exercise any other powers specified in relevant laws and regulations or the Articles of Association and conferred by the shareholders at general meetings.

Except for the Board's resolutions in respect of the matters specified in item (6), (7), (12) and external guarantees which shall be passed by two-thirds majority of the directors, the Board's resolutions in respect of any other aforesaid matters may be passed by more than half of the directors.

General Manager of the Company reports to the Board, and exercises the following powers:

To preside over the production, operation and management of the Company, and to implement resolutions of the Board;

To formulate development plans, annual production and operation goals, annual financial budget scheme and budget implementation proposal, the Company's profit (after tax) distribution plan and loss recovery plan;

To implement the Company's annual business plans and investment schemes;

To formulate the establishment of the Company's internal management structure;

To formulate the Company's basic management system;

To formulate the Company's basic regulations;

To propose to appoint or dismiss the Company's deputy general manager and financial officers;

To appoint or dismiss the Company's senior management other than those to be appointed or dismissed by the Board;

To determine remuneration, bonus and penalties of employees of the Company and to determine appointment or dismissal of them;

To propose convening of extraordinary meeting of the Board;

To handle significant business on behalf of the Company; and

To exercise other powers within the authorisation of Articles of Association and the Board.

The Company convened 7 Board meetings during the financial year from 1 January 2006 to 31 December 2006.

Director		Number of attendance <i>Note</i>	Number of meetings
He Gong*	Chairman	7	7
Chen Feihu	Vice Chairman	7	7
Zhu Chongli	Vice Chairman	7	7
Chen Jianhua	Executive director	7	7
Tian Peiting	Executive director	7	7
Wang Yingli	Non-executive director	7	7
Zhang Bingju	Non-executive director	7	7
Peng Xingyu	Non-executive director	7	7
Ding Huiping	Independent non-executive director	7	7
Zhao Jinghua	Independent non-executive director	7	7
Wang Chuanshun	Independent non-executive director	7	7
Hu Yuanmu	Independent non-executive director	7	7

\* Mr. He Gong was no longer Chairman of the Company with effect from 5 February 2007 (the conclusion of the 2007 Extraordinary General Meeting).

Note: Including attendance by proxies.

## Director'S Responsibilities in respective of Financial Statements

Directors confirm that they are responsible for preparation of financial statements of the Group.

The Company has provided Mr. Zhu Fangxin in the discharge of his duties as the Company's qualified accountant in charge of the accounts department with access to the assistance of a consultant, Mr. Chow Hiu Tung, Harry (an associate member of Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants). With the assistance of the department, the directors ensure that the financial statements of the Company are prepared in compliance with relevant laws, regulations and applicable accounting policies. The Directors also confirm that the financial statements will be timely published.

The responsibility statement made by the Company's auditors in respect of the financial statements is set out in the section headed "Report of the International Auditors" on page 52 of the annual report.

## Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. In addition, it formulated the Code on Trading of the Company's Securities by Directors (Supervisors) of Huadian Power International Corporation Limited which requires the directors and supervisors to sign, as early as the commencement of their term of office, a statement on share transaction undertaking that any share transaction by directors or supervisors and their associates will be reported to the Board or the Supervisory Committee. No security transaction should be conducted by the directors or supervisors prior to a written consent with a specific date certifying compliance of the proposed transaction with the listing rules of The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange and the requirements regarding transaction of securities of listed companies by directors and supervisors as stipulated in the abovementioned codes.

After specific inquiries with all directors and supervisors, the directors and supervisors of the Company have complied with the relevant codes on securities transactions by directors and supervisors set out in the Model Code and the Code on Trading of the Company's Securities by Directors (Supervisors) of Huadian Power International Corporation Limited during the year ended 31 December 2006.

## Audit Committee

In accordance with the Listing Rules, the Board set up the Audit Committee in August 1999. Subsequently, in accordance with the PRC listing rules, the Board set up another Audit Committee in March 2004. The two committees comprise the same five members, including three independent non-executive directors and two non-executive directors of the Company. Currently, one of the five members is an accounting professional. In addition to carrying out duties in accordance with the Listing Rules and requirements stipulated in the "A Guide for the Formation of an Audit Committee" issued by Hong Kong Institute of Certified Public Accountants and the Principle on Governance of Listed Companies issued by the CSRC, the said committees comprising such five members formulated the Working Rules for the Audit Committee of the Board of Directors of Huadian Power International Corporation Limited by setting out their power and functions in details.

The current Audit Committee is chaired by Independent Non-executive Director Mr. Hu Yuanmu and comprises four members including two independent non-executive directors Ding Huiping and Wang Chuanshun and two non-executive directors Peng Xingyu and Wang Yingli. They are responsible for the communication between the Company's internal and external auditors, supervision and examination while giving advice to the Board on audit, internal control and corporate governance.

Power of the Audit Committee is set out at the Company's website (<http://www.hdpi.com.cn/st/TZ/DSWYH/SHENGJI.HTM>).

In 2006, the Audit Committee held 2 meetings in total, the average attendance of which is 100%. The attendance of each director is as follows:

Director	Times of attendance/ times of meeting	Attendance Rate
Hu Yuanmu	2/2	100%
Ding Huiping	2/2	100%
Wang Chuanshun	2/2	100%
Peng Xingyu	2/2	100%
Wang Yingli	2/2	100%

The Audit Committee audited the relevant information in annual and interim financial statements of the Company and reviewed the Directors' Report and the Auditors' Report.

## Internal Control

The Board takes the ultimate responsibility for the internal control system of the Company and reviews the effectiveness of relevant systems through the Audit Committee during the year. The Board always lays emphasis on the establishment and completion of the internal control system while the Audit Committee, the management and external auditors are committed to improving the internal control system of the Company. The Board understands its responsibility for assuring the soundness, appropriateness and effectiveness of the internal control system of the Company so as to provide rational guarantee for attainment of the objectives of the Company.

In 2006, the Board approved the internal control proposal put forward by the Audit Committee and set to evaluate the effectiveness of internal controls. The general objective is to streamline, standardise, systemise and formalise the internal controls of the Company to further strengthen its risk management and internal controls.

In light of the arrangements of the Board, the management is responsible for evaluating the effectiveness of the design of the internal control system and improving such system. In 2006, a special internal control and risk management team was set up with its office at the Strategic Management Office of the Company. The Audit Committee of the Board assumes the responsibility for evaluating the effective execution of the internal control system with its office at the Supervision and Audit office of the Company (the internal audit department of the Company). Subsidiaries have an internal audit department in place and establish a special work group of internal control, which is responsible for boosting the improvement and evaluation of the internal control system under the leadership of their respective boards of directors.

In 2006, the evaluation on the internal controls of the Company and its subsidiaries covered operation control, financial control, compliance control and risk management under the guidance of Basic Framework of Internal Control and Risk Management issued by Hong Kong Society of Accountants. Without material internal control defects discovered in the evaluation, it is convinced that the Company is in full compliance with the provisions relating to internal control as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the future, the Company will, in light of the principle of continuous improvement, review and improve its internal control practices based on its accumulated experience, shareholders' opinions, domestic and international development trend as well as changing internal and external risks with reference to the Listing Rules.

## Remuneration and Appraisal Committee

The Company has a Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee is a specialised committee of the Board established under the resolution of the general meeting. It is responsible for studying the appraisal standards for the directors and the senior management of the Company, performing appraisal and giving its advice. It is also responsible for research and review of the remuneration policy and scheme for the directors and the senior management of the Company. The Remuneration and Appraisal Committee reports to the Board. It has reviewed the current remuneration policy and proposed to the Board to change the remuneration policy and scheme. After each meeting, the committee will report to the Board. None of the directors shall participate in the determination of their own remuneration.

Powers of the Remuneration and Appraisal Committee were approved by the Board and set out at the Company's website (<http://www.hdpi.com.cn/st/TZ/DSWYH/XINCHOU.HTM>)

The current Remuneration and Appraisal Committee is chaired by Mr. Zhao Jinghua, an independent non-executive director, and comprises Vice Chairman Chen Feihu, non-executive director Wang Yingli and independent non-executive directors Ding Huiping and Hu Yuanmu.

On 21 March 2006, the 2nd meeting of the fourth session of the Remuneration and Appraisal Committee was held. Attendance of each member is as follows:

Director	Times of attendance/ times of meeting	Attendance Rate
Zhao Jinghua	1/1	100%
Chen Feihu	1/1	100%
Wang Yingli	1/1	100%
Ding Huiping	1/1	100%
Hu Yuanmu	1/1	100%

The remuneration of Executive Directors, the General Manager and other senior management of the Company were determined based on their calibre, education level and commitment to work with reference to the Company's results and profit, industry comparables and the market condition.

## Annual Salary Scheme for the General Manager in 2006

In order to provide for the necessary safeguard for the accomplishment of the strategic targets for the year 2006 and to ensure completion of the annual missions of the Board, the Company linked the annual salary scheme for the General Manager with the annual results of the Company with reference to the Company's actual circumstances.

Based on the Company's development strategies, corporate culture, corporate life cycle, actual circumstances and reference to the salary level of listed companies of the same category, the Remuneration and Appraisal Committee determined the annual base salary for the General Manager in 2006 in line with such principles as integration of incentives and constraints, combination of short-term and long-term incentives, priority to efficiency while giving considerations to impartiality, and combination of material and ideological incentives.

## Motivation and Appraisal Methods for Other Senior Management in 2006

In order to secure the accomplishment of the strategic targets for the year 2006 and to ensure completion of the annual missions of the Board, the Remuneration and Appraisal Committee formulated the motivation and assessment methods for other senior management members (including the Deputy General Manager, the Financial Controller, the Chief Engineer and the Secretary to the Board, hereinafter referred to as the "Relevant Senior Management Members") in 2006 with reference to the Company's actual circumstances and the advice from consultancy institutions.

The motivation and assessment methods for the Relevant Senior Management Members are proposed by the Managing Director and carried out by the Remuneration Committee upon approval of the Board.

The Remuneration Committee conducts the assessment of the Relevant Senior Management Members under the principles of safeguarding interests of owners, maintenance of the market subject right of the enterprise and combination of assessment with reward and punishment.

## Allowance of Independent Non-executive Directors

In 2006, each independent non-executive was paid the independent directors' allowance of RMB50,000 (before tax) by the Company.

## Remuneration (allowance) of directors, supervisors and the senior management (before income tax)

Name	Position	Director's remuneration (allowance) (RMB0'000)
He Gong*	Chairman, non-executive Director	0
Chen Feihu	Vice Chairman, non-executive director	0
Zhu Chongli	Vice Chairman, non-executive director	0
Chen Jianhua	Executive director and General Manager	73.47
Tian Peiting	Executive director	73.52
Peng Xingyu	Non-executive director	0
Zhang Bingju	Non-executive director	0
Wang Yingli	Non-executive director	0
Ding Huiping	Independent non-executive director	5.00
Zhao Jinghua	Independent non-executive director	5.00
Wang Chuanshun	Independent non-executive director	5.00
Hu Yuanmu	Independent non-executive director	5.00
Feng Lanshui	Chairman of the Supervisory Committee	0
Li Changxu	Supervisor	0
Zheng Feixue	Supervisor	41.62
Zhou Lianqing	Secretary to the Board and Company Secretary	50.24
Zhong Tonglin	Deputy General Manager	66.84
Geng Yuanzhu	Deputy General Manager	60.85
Zhu Fangxin	Chief Accountant	60.79
Wang Wenqi	Deputy General Manager	60.67
Gou Wei	Deputy General Manager	60.65

\* Mr. He Gong was no longer Chairman of the Company with effect from 5 February 2007 (conclusion of the 2007 Extraordinary General Meeting).

## Nomination of Directors

The Company has not set up a Nomination Committee. The Board, the Supervisory Committee or shareholders are responsible for nomination of directors directly. They choose and recommend candidates for directors according to relevant standards, including recommendations by others and, when necessary, making use of services of recruitment companies. The relevant standards include a director's proper professional knowledge and experience in the industry, personal integrity, calibre and commitment on devotion of time.

List of candidates for directors are submitted to the general meeting in form of a proposal for consideration. Candidates for directors other than independent non-executive director are nominated by the Board, the Supervisory Committee or shareholders individually or jointly holding 5% or more of the Company's shares with voting rights and elected at the general meeting of the Company.

Candidates for independent non-executive directors of the Company are nominated by the Board, the Supervisory Committee or shareholders individually or jointly holding 1% or more of the Company's shares with voting rights and elected at the general meeting of the Company.

At the 14th meeting of the fourth session of the Board on 20 December 2006, the Board specifically considered the proposal for change of Director. As Mr. He Gong intended to resign from his office as a director for work-related reasons, the meeting approved Mr. Cao Peixi as a candidate for director of the Company to be submitted to the general meeting for approval. The meeting was presided over by Mr. He Gong as the Chairman and all directors attended the meeting.

At the extraordinary general meeting held on 5 February 2007, Mr. He Gong was approved to resign as the Chairman of the Company and Mr. Cao Peixi was elected as a Director of the Company. At the 15th meeting of the fourth session of the Board held on the same day, Mr. Cao Peixi was elected as the Chairman of the Company.

## Auditors

During the year ended 31 December 2006, fees charged by KPMG and KPMG Huazhen, the auditors of the Company, amounted to approximately RMB7 million for audit service and RMB0.6 million for other services. The audit fees were considered by the Audit Committee and the Board and approved at general meeting.

The Audit Committee has resolved to re-appoint KPMG Huazhen and KPMG to conduct the statutory audit for the financial year of 2007. The resolution was approved by the Board and is subject to the final approval and authorisation by the shareholders at the forthcoming 2006 Annual General Meeting.

## Investor Relations

The Company undertakes that it shall make impartial disclosure and full and transparent reporting. The ultimate duty of the Chairman is to ensure effective communication with the investors and the Board's understanding of the opinions from substantial shareholders. In this regard, the Chairman shall meet with the shareholders. The Secretary to the Board is responsible for day-to-day contacts between the Board and substantial shareholders.

The last annual general meeting was held in Beijing on 26 May 2006, at which the Chairman, the chairman of the Audit Committee and the chairman of the Remuneration and Appraisal Committee answered questions. At the general meeting, each matter was put forward in form of a separate proposal and voted by way of poll.

The senior management shall preside over presentations and attend the meetings with institutional investors and financial analysts for intercommunication in respect of the Company's results and business prospects, which is a regular function of investor relations. Investors and the public may access the Company's website to download documents about these meetings. The website also sets out the detailed information on the Company's businesses.

In addition, the Company arranged for roadshow for analysts and investors in November 2006, to foster direct communication and understanding between the management of the Company, the management of operating companies, front line staff and users. It also arranges for field visits for inspecting the businesses and business places of branch offices in various areas.

For any inquiry addressed to the Board, shareholder can contact the Secretary to the Board through shareholder hotlines (86531-82366808, 82366095 or 82366096) or by email ( hdpi@hdpi.com.cn) or by fax (86531-82366090), or raise the questions at the annual general meeting or the extraordinary general meeting. Inquiry can also be made through the above means to the Secretary to the Board for procedures concerning convening an annual general meeting or extraordinary general meeting and putting forward a proposal.

By Order of the Board

**Cao Peixi**

*Chairman*

Beijing, the PRC  
23 March, 2007