

Report of the President



BUSINESS REVIEW

1. Operating Results

For the year ended 31st December, 2000, the Company recorded net operating revenues of Rmb12.553 billion and net profit of Rmb2.516 billion, representing increases of 19.69% and 34.67% respectively over the same period of 1999. Earnings per share were Rmb0.45, representing an increase of Rmb0.12 over the same period of 1999.

For detailed operating results, please refer to the Financial Statements.

The significant growth in the operating results was attributed to the steady growth in power generation of the power plants of the Company and effective cost control and management. Despite the pressure arising from the gradual increase in coal prices since the second half of 2000, the Company managed to reduce the unit fuel cost by 2.74% for the whole year through measures such as controlling coal purchase costs, reducing transportation costs and storage wastage, and rationalizing the operation scheduling of generating units.

At the end of 2000, the net asset value per share of the Company was Rmb4.21, representing a 9.35% increase over 1999.

2. Power Generation

In 2000, the total power generation of the Company's power plants reached 44.16 billion kWh, 11.3% above the target for 2000 and 16.7% more than that of 1999. Shangan Power Plant, Shanghai Shidongkou Second Power Plant ("Shanghai Power Plant") and Shantou Coal-fired Power Plant achieved record highs in their respective annual power generation among the Company's power plants of similar capacity.

The steady growth of the Company's power generation was attributable to the remarkable growth in power demand in most of the areas in the PRC, in particular the coastal areas where the power plants of the Company are located. The operating stability and reliability of the generating units of the Company's power plants guaranteed the steady growth of power generation. The newly operated power plants generated electricity steadily in 2000, thus contributing to a remarkable increase in power generation.

Dear Shareholders:

It is my pleasure to report to the shareholders the operating results and the status of the Company's operations for 2000 and its plans for 2001.

Year 2000 was a very important year in the development process of the Company. During the year, the Company focused on the market and seized opportunities, took the initiative in development and completed various tasks of the year beyond targets. Consequently, the Company achieved remarkable results, thus creating more benefits for the shareholders and laying a good foundation for the continued development of the Company in the new century.

In 2000, the average availability factor of the power plants of the Company was 90.03% and the average capacity factor was 57.87%; the weighted average coal consumption rates for power sold and power generated were 326 gram/kWh and 311 gram/kWh respectively; and the weighted average house consumption rate was 4.71%. Most of the Company's technical and economic indices remained to be the best among power companies in the PRC.

In 2000, five power plants of the Company in Shanghai, Liaoning and Jiangsu participated in the trial run of power sale by competitive bidding ("power pooling") in the regions where they are located. The total volume of electricity sold by power pooling was 2.354 billion kWh, representing 5.6% of the Company's total power sale of the whole year. The successful sale of such electricity volume by power pooling not only increased the local market share of the Company but also increased the profit margin of the Company.

The growth in power generation of the Company in 2000 laid the foundation for our good operating results.

3. Acquisition

In 2000, the Company successfully completed the arrangement with Shandong Huaneng to acquire all the shares of Shandong Huaneng in one lump sum in cash with a total consideration of Rmb5.768 billion (the "Acquisition"). The price of the Acquisition was negotiated and determined by both parties according to the internationally recognised valuation method. Taking into account the interests of the domestic and overseas shareholders of both companies, the Acquisition is a "win-win" transaction.

The success of the Acquisition is a significant progress made in the Company's implementation of its development strategies. The injection of the power plants originally held by Shandong Huaneng enabled the aggregate power generation capacity of the Company to increase to the present level of 10,813.5 MW and will make important contributions to the steady growth of the Company's future profits and shareholders' interests. Moreover, the Acquisition strengthened the geographical distribution advantage of the Company's business and enlarged its market share, thereby enhancing the competitive position of the Company.

4. Other results

In 2000, the Company had also other achievements as follows:

(1) Launching the preparation work for planned projects

The two project proposals of using natural gas in Huaneng Shanghai Combined Cycle Gas Turbine Power Plant and Huaneng Jinling Combined Cycle Gas Turbine Power Plant have been submitted to the State Development and Planning Commission ("SDPC") and the State Power Corporation. The development process of these two projects will be concurrent with the "West-to-East Gas Pipeline Project" and the two projects are expected to be completed for operation between 2003 and 2005. In addition, preliminary work for the expansion of Shangan Power Plant Phase III and Shantou Power Plant Phase II is in progress and the proposal on the Shangan Power Plant Phase III has been submitted to the SDPC.

(2) Awarded as "First Class Power Company of China"

In July 2000, the State Power Corporation awarded the Company as "First Class Power Company of China". It is an affirmation and recognition of the achievements in the Company's production, operation and management.

PROSPECTS FOR 2001

Year 2001 is the first year for the implementation of the Tenth Five-Year Plan in the PRC and also signifies a beginning for the Company to face the new century and new challenges. The Company believes that the PRC Government will continue to carry out strategic

adjustments to the economic structure and the mechanisms of a market economy will be further fine-tuned. The proposals on power system reforms will be gradually implemented. A good operating environment will certainly be beneficial to the long-term development of the Company. However, at the same time, the Company is also aware of the potential challenges it may encounter. Changes in the demand and supply of the power market will cause temporary instability and imbalance among various regions. Some uncertainties may exist in the process of power sale by power pooling and power sector reforms which may affect the operation of independent power companies for a certain period of time. Moreover, the Company will also face pressure from the increase of coal prices this year. However, the Company has full confidence and strength to meet the new challenges.

The main tasks of the Company in 2001 are as follows:

1. to ensure the safety and operating stability of the Company's power plants and the achievement of its annual plan of power generation;
2. to strengthen fuel management and continue to control and cut costs in all aspects;
3. to raise the Company's market sales and competitiveness by strengthening the analysis, research study and forecast on the power markets and the power pooling process;
4. to push ahead the construction work of Dezhou Power Plant Phase III and the preliminary work of the proposed projects and to explore new opportunities for asset acquisition; and

5. to implement the domestic A Share listing plan as a means to expand the financing channels.

The Company is confident about its future development. On the principle of "emphasizing both development and acquisition, emphasizing both greenfield and expansion, and emphasizing both coal-fuel and other feasible types of fuel", the Company will continue to enhance operating

effectiveness, increase shareholders' interests and maintain the long-term steady development of the Company.



Ye Daji
President

14th March, 2001

