

Report from the Board of Directors

The Board presents the report and the audited financial statements of the Company for the year ended 31st December, 2000.

BUSINESS OF THE COMPANY AND OPERATING RESULTS

In 2000, the Company achieved remarkable results as a result of the joint efforts of all the staff and management of the Company. In terms of electricity production, the Company's annual generation exceeded its target for the year. As regards operation management, the Company continued to effectively control and manage costs and accordingly the net operating revenues and net profits of the Company increased significantly. In 2000, the Company successfully completed the arrangement to acquire Shandong Huaneng. Accordingly, the aggregate generation capacity of the Company increased to 10,813.5 MW, thus enhancing the competitiveness of the Company in the power market. The Board of Directors is satisfied with the operating results of 2000.

Please refer to pages 38 to 82 of the financial statements for the operating results of the Company for the year ended 31st December, 2000.

SUMMARY OF FINANCIAL INFORMATION

Please refer to the Financial Highlights on page 6 for summary of the operating results and assets and liabilities of the Company for the year ended 31st December, 2000.

DIVIDENDS

The Board of Directors proposed to distribute a dividend of Rmb0.22 per share for year 2000 to all the shareholders.

Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi. Save and except for the dividends on foreign shares traded on the Hong Kong Stock Exchange which will be paid in Hong Kong dollars, dividends on foreign shares will be paid in United States dollars. Exchange rates for dividends paid in United States dollars and Hong Kong dollars are US\$1 to Rmb8.2772 and HK\$1 to Rmb1.0611 respectively.

The dividends will be paid before 30th June, 2001, subject to the approval of the annual general meeting of the Company.



From left to right:

Huang Long, Vice President

Feng Dawei, Vice President

Ye Daji, President

Chen Baoliang, Vice President

Li Xiaopeng, Chairman

Wang Xiaosong, Vice Chairman

Hu Jianmin, Vice President

BANK LOANS AND OTHER BORROWINGS

Please refer to Notes 17 to 20 of the financial statements for details of bank loans and other borrowings of the Company as at 31st December, 2000.

CAPITALIZED INTEREST

Please refer to Note 8 of the financial statements for details of the Company's capitalized interest during the year.

FIXED ASSETS

Please refer to Note 8 of the financial statements for changes in the fixed assets of the Company during the year.

RESERVES

Please refer to Note 14 of the financial statements for the reserves of the Company, including allocation of statutory fund during the year ended 31st December, 2000.

SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the end of 2000, the Company did not have any subsidiary or associated company.

CHANGES IN EQUITY

Please refer to the Statement of Changes in Equity of the financial statement.

STAFF RETIREMENT SCHEME

Please refer to Note 6 of the financial statements for the Staff Retirement Scheme.

PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

MAJOR SUPPLIERS AND CUSTOMERS

The five major suppliers of the Company for year 2000 were coal-fuel suppliers, namely Datong Mineral Bureau, Datong Municipal Coal Transportation and Distribution Company, Shenhua Coal Transportation and Distribution Company, Shuozhou Coal Transportation and Distribution Company and Yangquan Coal Bureau. The coal supplied by them accounted for 75.2% of the actual coal consumption of the Company for 2000.

As an independent power producer, the Company sold the electricity generated by its power plants through local power companies and did not have other customers.

None of the directors, supervisors or their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) had any interests in the five largest suppliers or customers mentioned above of the Company in 2000.

CONNECTED TRANSACTIONS

The independent Directors of the Company confirmed that all connected transactions in 2000 to which the Company was a party:

1. had been entered into by the Company in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature made by similar entities within the PRC), or (b) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

3. had been entered into either (a) in accordance with the terms of the agreements governing such transactions, or (b) where there is no such agreement, on terms no less favourable than terms available to third parties.

The auditors of the Company have reviewed the connected transactions of the Company and confirmed to the directors that:

- (a) the transactions had been approved by the directors; and
- (b) the transactions were made in accordance with the terms of the related agreements governing such transactions.

Please refer to Note 5 of the financial statements for a brief description of the connected transactions.

SHARE CAPITAL STRUCTURE

As at 31st December, 2000, the total issued share capital of the Company, excluding the shares which might be converted from the convertible notes, was 5,650,000,000 shares, of which 4,150,000,000 shares were domestic shares, representing 73.45% of the total issued share capital, and 1,500,000,000 shares were foreign shares, representing 26.55% of the total issued share capital. For domestic shares, HIPDC owns a total of 2,382,440,000 shares, representing 42.17% of the total issued share capital of the Company. Other domestic shareholders hold a total of 1,767,560,000 shares, representing 31.28% of the total issued share capital.

The US\$230 million convertible notes issued by the Company are convertible into foreign shares of the Company at a price of US\$29.2 for each ADS on or before

21st May, 2004. Assuming the convertible notes were fully converted into foreign shares of the Company, the total issued share capital of the Company would be increased by 315,068,493 shares.

The Company is not aware of any conversion of the convertible notes into shares of the Company as at 31st December, 2000.

ISSUE OF A SHARES

On 15th February, 2001, resolutions in relation to the issue of Rmb-denominated ordinary shares ("A Shares") were passed at the extraordinary general meeting of the Company. Accordingly, the Company proposed to issue not more than 350 million A Shares within the PRC of which 100 million shares will be placed to HIPDC and not more than 250 million shares by way of public subscription. The funds raised from such issue will be used:— (1) for settlement of partial consideration for the acquisition of Nanjing Power Plant; (2) for making up for short-term loans borrowed from banks as a result of the acquisition of Shandong Huaneng; and (3) for repayment of certain long-

term bank loans of the Company. Currently, the Company is proactively seeking the final approval of the proposed issue from the relevant PRC Government authorities.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not sell any other types of securities and did not purchase or redeem its own shares or other securities in 2000.

DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

For the year ended 31st December, 2000, none of the directors, senior executives, supervisors or other associates had any beneficial interests in the securities or debt instruments of the Company which were required to be recorded in the register pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies. The Company did not have

