

Report of the Directors

The Directors have pleasure in presenting their annual report together with the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries (the "Group") and jointly controlled entities are the generation and sale of electricity which is all fed into the Shandong Provincial Grid operated by Shandong Electric Power (Group) Corporation ("SEPCO"), the immediate holding company of the Company, which determines to whom the electricity is sold.

As the Group is located and operates in one industry segment in Shandong Province, the People's Republic of China ("PRC"), no segmental reporting is included in the accounts.

The profit of the Group for the year ended 31 December 2000 and the state of the Group's and the Company's financial affairs as of that date in accordance with International Accounting Standards ("IAS") are set out in the accounts on pages 44 to 90.

DIVIDENDS

The Board of Directors recommended payment of a final dividend of RMB0.058 per share (totalled RMB304,853,000) for the year ended 31 December 2000 (1999 final dividend RMB0.0365 per share, totalled RMB192,014,000). This dividend distribution proposal is subject to the approval by the shareholders at the Annual General Meeting to be held on 26 April 2001.

Final dividends for domestic shares will be distributed and paid in Renminbi whereas dividends for H shares will be declared in Renminbi and paid in Hong Kong dollars (at the average exchange rate of Renminbi to Hong Kong dollars as quoted by the People's Bank of China for the week immediately preceding 26 April 2001). The final dividend for 2000 will be distributed to shareholders of the Company whose names appear on the register of members of the Company on 25 April 2001. Register of members of the Company will be closed from 27 March to 25 April 2001 (both days inclusive) during which no share transfer will be registered. Instrument of transfer and the relevant share certificate should be lodged with Hong Kong Registrars Limited, by 4:00 p.m. on 26 March 2001. Dividends will be distributed on 16 May 2001.

Interim dividends include interim dividend of RMB0.02 per share (totalled RMB105,122,000) which had been distributed and the special interim dividend of RMB0.228 per share (totalled RMB1,198,387,000) for the year 2000 (such dividend distribution proposal has been approved by the shareholders at the Extraordinary General Meeting of the Company held on 26 February 2001, and such distribution has been made on 9 March 2001).

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and jointly controlled entities at 31 December 2000 are set out in notes 15 and 16 respectively on the accounts.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2000 are set out in note 21 on the accounts.

INTEREST CAPITALISED

Details of the interest capitalised by the Group during the year are set out in note 6 on the accounts.

FIXED ASSETS

Movements in fixed assets of the Group and the Company during the year are set out in note 13 on the accounts.

RESERVES

Movements in reserves of the Group and the Company for the year ended 31 December 2000 and details of distributable reserves of the Company as at 31 December 2000 are set out in note 25 on the accounts.

DONATIONS

During the year, the Group made donations for charitable purposes amounting to RMB20,000 (1999: RMB34,000).

EMPLOYEES' RETIREMENT PLANS

Details of the Group's employees' retirement plans are set out in note 28 on the accounts.

PRE-EMPTIVE RIGHTS

According to the articles of association of the Company and the laws of the PRC, no pre-emptive rights exist which require the Company to offer new shares to the existing shareholders in proportion to their shareholding.

STAFF HOUSING

Due to new plants construction, plants acquisition and increase in number of staff, the Group sold certain quarters to its staff to satisfy their housing demand according to the regulations of the government at prices calculated in accordance with the current regulations of Shandong Province, and, as a result, incurred a loss amounting to RMB93,472,000 (1999: RMB7,635,000) in this regard.

On 6 September 2000, the Ministry of Finance of the PRC issued a notice regarding the handling of financial matters in respect of the reform of enterprise staff housing policy (Cai Qi [2000] No.295), which has been implemented on the date of issuance. The Group considered that the relevant policy as contained in the notice will not have any material financial effect on the Group.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 on the accounts.

USE OF PROCEEDS

As stated in the 1999 Annual Report of the Company, as of 31 December 1999, the Company had RMB725 million unused proceeds from the Company's initial public offering in June 1999. During the year ended 31 December 2000, all the remaining proceeds were used for the following purposes:

	<i>RMB</i>
Funding of the construction cost of the Laicheng Plant	325,000,000
Repayment of a portion of the construction loans for Zouxian Plant Phase III and Shiliquan Plant Phase IV	400,000,000
	725,000,000

MAJOR CUSTOMERS AND SUPPLIERS

All the Group's sales of electricity were made to SEPCO.

Shandong Electric Power Fuel Company, a company controlled by SEPCO, is the Group's largest supplier and responsible for the supply of coal required by the Group. It accounts for 92% of the Group's total purchases during 2000.

The aggregate of the five largest suppliers of the Group represented approximately 99% of the Group's total purchases during 2000. Among them, Shandong Electric Power Fuel Company and Shandong Electric Power Materials Company are controlled by SEPCO. Apart from the foregoing, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the five largest suppliers or customers.

SHAREHOLDINGS BY SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, substantial shareholders who held 10% or more of any class of the Company's share capital were as follows:

Name of shareholder	Shares	Number of shares held	Percentage	Percentage	Percentage
			of the total number of shares in issue as at 31 December 2000	of the total number of domestic shares in issue as at 31 December 2000	of the total number of H shares in issue as at 31 December 2000
SEPCO (note 1)	Domestic shares	2,815,075,430	53.56%	73.60%	-
Shandong International Trust and Investment Corporation ("SITIC")	Domestic shares	903,443,970	17.19%	23.62%	-
HKSCC Nominees Limited (note 2)	H shares	902,745,000	17.18%	-	63.08%
SE China Investments, Inc. (note 3)	H shares	525,083,000	9.99%	-	36.69%

Notes:

- (1) In addition to the 2,815,075,430 domestic shares held directly by SEPCO, SEPCO also owned, through a subsidiary, Shandong Luneng Development (Group) Company Limited, 86,536,800 domestic shares, representing 1.65% of the total number of shares in issue as at 31 December 2000.
- (2) According to the records of HKSCC Nominees Limited, the H shares held by it were held on behalf of a number of other persons, none of whom individually held 10% or more of the total number of shares in issue of the Company as at 31 December 2000.
- (3) SE China Investments, Inc., which has changed its name to Mirant (SIPD) Investment, Inc., is the foreign strategic investor of the Company.

The aforesaid interests were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

Save as disclosed herein, the Directors are not aware of any legal person or individual who is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of the Company as at 31 December 2000.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THEIR INTERESTS IN SHARES

The following table sets forth certain information concerning the current Directors, Supervisors and senior management of the Company. All Directors are currently serving a term of three years, renewable upon re-election and reappointment every three years.

Name	Position with the Company	Change during 2000
Da Hongxing	Executive Director and Chairman	(appointed on 26 February 2001)
Tian Peiting	Executive Director and Vice Chairman	(appointed on 26 February 2001))
Chen Jianhua	Executive Managing Director	
Lin Mingshan	Executive Director	
Fu Yijun	Non-executive Director and Vice Chairman	
Li Ruge	Non-executive Director	(appointed on 19 May 2000)

Zhao Wenan	Non-executive Director
Yang Renxiang	Non-executive Director
Cui Jiaoshan	Non-executive Director
Zhang Bingju	Non-executive Director
Frederick D Kuester	Non-executive Director
Ding Changhao	Independent non-executive Director
Kung Shaindow	Independent non-executive Director
Feng Lanshui	Chairman of the Supervisory Committee
Zheng Feixue	Member of the Supervisory Committee
Xu Qingzao	Member of the Supervisory Committee
Zhou Lianqing	Company Secretary
Zhong Tonglin	Deputy General Manager
Zhu Fangxin	Chief Accountant and Chief Supervisor of Financial Affairs
Wang Wenqi	Deputy General Manager

Mr Tian Peiting resigned from the office of the Chairman on 26 February 2001. Mr Li Yuting, the previous Vice Chairman of the Company, resigned from his office as a director on 16 January 2001. Mr Da Hongxing was appointed as a director at the extraordinary general meeting of the Company held on 26 February 2001. The Board of Directors resolved to elect Mr Da Hongxing as the Chairman and Mr Tian Peiting as the Vice Chairman of the Company on the same day with effect from 26 February 2001.

The Directors' and Supervisors' remuneration for the year ended 31 December 2000 is set out in note 7 on the accounts.

As at 31 December 2000, none of the Directors, Supervisors or senior management and their associates had any beneficial interest in the issued share capital of the Company and/or any associated corporation as recorded in the register of interest maintained by the Company under section 29 of the SDI Ordinance.

At no time during the year was the Company or any of its subsidiaries, their holding companies or jointly controlled entities a party to any arrangement to enable the Company's Directors, Supervisors, chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

The biographical details in respect of Directors, Supervisors and senior management of the Company are set out on pages 34 to 40.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contract of significance or proposed contracts of significant, to which the Company or any of its subsidiaries, holding companies or jointly controlled entities was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

No Director or Supervisor who will be elected and re-appointed at the Annual General Meeting to be held on 26 April 2001 has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

INVESTMENT

On 21 December 2000, the Company entered into an agreement (the "Agreement") with Shandong Luneng Minerals Development Company Limited ("Luneng Minerals"), Shandong Luneng Development Group Company Limited ("Luneng Development"), Shandong Heze Electricity Enterprises Group Corporation ("Heze Electricity") (all of which and Shandong Luneng Heze Minerals Development Company Limited ("Heze Minerals") are subsidiaries of SEPCO) and Shandong Heze Huamao Minerals Sources Development Company Limited, a third party independent of the Group. Pursuant to the Agreement, the Company, for a consideration of RMB91,338,493 agreed to acquire 45% of the enlarged registered capital of Heze Minerals, which was owned as to 75.39%, 10%, 5.38% and 9.23% by Luneng Minerals, Luneng Development, Heze Electricity and Heze Huamao respectively.

The principal activities of Heze Minerals are the development and exploration of coalmine and coal-electricity base in Juye coalfield. The Directors believed that the acquisition would enhance the capability of the Company in its research and development of such activities.

The Directors, including the independent non-executive Directors, considered that the terms of the Agreement are fair and reasonable so far as the Company and its shareholders are concerned, and that the acquisition is in the commercial interests of the Company.

The consideration of RMB91,338,493 which was determined after arm's length negotiation based on the unaudited net asset value of Heze Minerals as at 30 September 2000 and adjusted by the revaluation made by an independent valuer of the exploration right of Heze

Minerals for Guotun coalmine, Juye coalfield. The Directors (including the independent non-executive Directors) believed that such consideration which was funded out of the Company's internal resources, is fair and reasonable.

As SEPCO is a connected person of the Company and each of Heze Minerals, Luneng Minerals, Luneng Development and Heze Electricity is a subsidiary of SEPCO, each of Heze Minerals, Luneng Minerals, Luneng Development and Heze Electricity is therefore a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Accordingly, the acquisition constitutes a connected transaction within paragraph 14.23(1) of the Listing Rules

The transaction was completed on 5 February 2001.

CONNECTED TRANSACTIONS WHICH ARE THE SUBJECT OF EXEMPTION UNDER THE LISTING RULES AND MATERIAL CONTRACT WITH SEPCO

Connected transactions

Details of the transactions required to be disclosed by rule 14.25(1) of the Listing Rules are set out in note 27 on the accounts. The independent non-executive Directors of the Company have confirmed to the Board of Directors of the Company that they have reviewed the connected transactions and have concluded that the transactions have been entered into:

- (i) in the ordinary and usual course of business; and
- (ii) on normal commercial terms or on terms no less favourable than those available to (or from) independent third parties; and
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Material contract with SEPCO

On 12 January 1999, SEPCO and the Company entered into a letter of undertaking, pursuant to which SEPCO granted to the Company a right to acquire, develop, construct, own and operate, at the Company's option, any or all future power plants in Shandong Province. Further, SEPCO agreed not to compete with the Company in relation to the acquisition, development, construction and operation of power plants located outside the service area of

the Shandong Provincial Grid, but power generated by which will be supplied to Shandong Province.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the financial year, neither the Company nor any of its subsidiaries and its jointly controlled entities has purchased, sold or redeemed any of the Company's shares.

FINANCIAL SUMMARIES

Summaries of the results of the Group for each of the five years ended 31 December 2000 and of the Group's assets and liabilities as at 31 December 1997, 1998, 1999 and 2000 are set out on pages 91 and 92.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

MATERIAL LITIGATION

The Group was not involved in any material litigation or arbitration during 2000 or as at 31 December 2000.

PRACTICE NOTE 19

The Company did not advance any money to any entity which exceeded 25% of the Company's net assets, did not provide any financial assistance or guarantees to affiliated companies which exceeded 25% of the Company's net assets, did not have pledging of shares by the controlling shareholder to secure debts, guarantees or other support of obligations of the Company and did not make any loan agreements imposing specific performance obligations on the controlling shareholder.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31 December 2000, the Group's deposits placed with financial institutions or other parties did not include any designated or trust deposits, or any time deposits which could not be collected upon maturity.

AUDITORS

A resolution for the reappointment of KPMG Peat Marwick Huazhen and KPMG as domestic and international auditors of the Company respectively, is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Da HongXing

Chairman

Jinan, Shandong Province

People's Republic of China, 6 March 2001