

Report from the Board of Directors

The Board presents the report and the audited financial statements of the Company and its subsidiaries for the year ended 31st December, 2001.

BUSINESS OF THE COMPANY AND OPERATING RESULTS

In 2001, the Company achieved remarkable results by overcoming various unfavourable external conditions 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. On the other hand, after the merger with former Shandong Huaneng into the Company, the Company's competitiveness in the power market is enhanced which also created good economic benefits for the Company. With regard to capital operation, the successful issue and listing of the Company's A Shares in Shanghai realized the Company's strategic contemplation of listing in New York, Hong Kong and Shanghai thus opening up new financing channels for the future development of the Company. The Board of Directors is satisfied with the operating results of 2001.

Please refer to pages 38 to 84 of the financial statements for the operating results of the Company and its subsidiaries for the year ended 31st December, 2001.

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 and its subsidiaries for the year ended 31st December, 2001.

Dividends

The Board of Directors proposed to distribute a dividend of Rmb0.30 per share for year 2001 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.

All the dividends will be paid before 30th June, 2002, subject to the approval of the Annual General Meeting of the Company.

The Board of Directors of the Company anticipated that the dividend policy of the Company for 2002 is as follows:

1. The Company would declare dividends once in 2002;
2. About 50% of the Company's net profit for the year ended 31st December, 2002 would be distributed as dividends;

3. The undistributed profit as at 31st December, 2001 would be retained;
4. The dividends may be distributed by way of cash or bonus shares, subject to the approval of shareholders on the proposal made by the then Board of Directors.

Bank Loans and Other Borrowings

Please refer to Notes 21 to 25 of the financial statements for details of bank loans and other borrowings of the Company and its subsidiaries as at 31st December, 2001.

Capitalized Interest

Please refer to Note 9 of the financial statements for details of the Company and its subsidiaries' capitalized borrowing costs during the year.

Fixed Assets

Please refer to Note 9 of the financial statements for changes in the fixed assets of the Company and its subsidiaries during the year.

Reserves

Please refer to Note 19 of the financial statements for the reserves of the Company, including allocation of statutory fund during the year ended 31st December, 2001.

Subsidiaries and Associate

As regards the subsidiaries and associate of the Company, please refer to Notes 11 and 12 of the financial statements.

Changes in Equity

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

Staff Retirement Scheme

Please refer to Note 7 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 2001 were coal suppliers, namely Datong Mineral Group, Shenhua Group, Shanxi Coal Transportation Sales Company (Datong Branch Company), Yanquan Minerals Bureau and Xishan Minerals Bureau. The amount of coal supplied was 27.26% of the total coal usage.

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) had any interests in the five largest suppliers or customers mentioned above of the Company in 2001.

Connected Transactions

The independent Directors of the Company confirmed that all connected transactions in 2001 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

- 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:

- the transactions had been approved by the Directors; and
- the transactions were made in accordance with the terms of the related agreements governing such transactions.

Please refer to Note 6 of the financial statements for a brief description of the connected transactions.

SHARE CAPITAL STRUCTURE

As at 31st December, 2001, the total issued share capital of the Company, excluding the shares which might be converted from the convertible notes, was 6,000,000,000 shares, of which 4,500,000,000 shares were domestic shares, representing 75% of the total issued share capital, and 1,500,000,000 shares were foreign shares, representing 25% of the total issued share capital. For domestic shares, HIPDC owns a total of

2,554,840,000 shares, representing 42.58% of the total issued share capital of the Company. Other domestic shareholders hold a total of 1,945,160,000 shares, representing 32.42% 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 American Depositary Share on or before 21st May, 2004. Assuming the convertible notes were fully converted into foreign shares of the Company, the total issued share 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, 2001.

Purchase, Sale or Redemption of Shares

The Company and its subsidiaries did not sell any other types of securities and did not purchase or redeem its own shares or other securities in 2001.

Directors' and Supervisors' Right to Purchase Shares

For the year ended 31st December, 2001, 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 any arrangement during 2001 whereby the above persons would acquire benefits by means of the acquisition of shares in, or debentures of the Company or other corporate body.



Major Shareholder

HIPDC and the local government investment companies were still the major shareholders of the Company. Details relating to shareholding of the Company as at 31st December, 2001 are as follows:

	No. of shares outstanding <i>(in thousands)</i>	Percentage of Shareholding <i>(%)</i>
Domestic Shares		
HIPDC	2,554,840	42.58
Hebei Provincial Construction Investment Company	452,250	7.54
Fujian International Trust & Investment Company	334,850	5.58
Jiangsu Province International Trust & Investment Company	312,375	5.20
Liaoning Energy Corporation	229,685	3.83
Dalian Municipal Construction Investment Company	226,125	3.77
Nantong Investment Management Centre	67,875	1.13
Shantou Electric Power Development Company	46,500	0.77
Shantou Power Development Joint Stock Company Limited	19,000	0.32
Dandong Energy Investment Development Centre	6,500	0.11
Domestic public shares	250,000	4.17
Sub-total	4,500,000	75.00
Foreign Shares	1,500,000	25.00
TOTAL	6,000,000	100.00

Save as aforesaid, the Company had no notice of any interest required to be recorded under section 16(1) of the Securities (Disclosure of interests) Ordinance.

Directors and Supervisors of the Company

The following table sets forth certain information concerning the Directors and supervisors of the Company. All Directors will serve a term of three years or until the election of their respective successors.

Name	Age	Position in the Company
Li Xiaopeng	42	Chairman
Wang Xiaosong	55	Vice Chairman
Ye Daji	56	Director and President
Feng Dawei*	51	Director and Vice President
Chen Baoliang	47	Director and Vice President
Huang Long	48	Director, Vice President and Company Secretary
Hu Jianmin	47	Director and Vice President
Wu Dawei**	48	Vice President and Candidate of Director
Liu Guoyue**	38	Vice President and Candidate of Director
Wang Defang	77	Director
Li Zhongshu*	63	Director
Bao Qianyuan*	61	Director
Shan Qunying	48	Director
Yang Shengming	58	Director
Xu Zujian	47	Director
Liu Shuyuan	51	Director
Bai Changnian	51	Director
Miao Kai*	39	Director
Lin Jianxin*	46	Director
Shen Weibing**	34	Candidate of Director
Shen Zongmin**	47	Candidate of Director
Gao Zongze	62	Independent Director
Zheng Jianchao	62	Independent Director
Qian Zhongwei**	63	Candidate of Independent Director
Ju Zhanghua	52	Chairman of the Supervisory Committee
Zhao Xisheng	58	Member of the Supervisory Committee
Pan Jianmin	46	Member of the Supervisory Committee

Note: * The Board of Directors has approved the resignation of such persons and the ordinary resolutions in relation to their appointments will be tabled before the annual general meeting of the Company for year 2001.

** The Board of Directors has nominated such persons as the directors of the Company and the ordinary resolutions in relation to their appointments will be tabled before the annual general meeting of the Company for year 2001.

As at the year ended 2001, none of the above persons held any types of shares of the Company

Directors' and Supervisors' Interest in Contracts and Service Contracts

Save for the service contracts mentioned below, as at the end of 2001, the Directors and supervisors of the Company did not have any material interests in any contracts entered into by the Company.

No Director or supervisor has entered into any service contract which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Each and every Director and supervisor of the Company had entered into a service contract with the Company for a term of three years commencing from the signing of the contract.

Emoluments of the Directors, Supervisors and Senior Management

Please refer to Note 8 of the financial statements for the emoluments of the Directors, supervisors and senior management.

Staff Housing

The Company made allocation to the housing fund for its employees in accordance with the relevant PRC regulations.

Major Events

- (1) The Company convened the annual general meeting for 2000 on 23rd May, 2001 at which the resignation of Mr Liu Ming as the Company's Director and the appointment of Mr Hu Jianmin and Mr Liu Shuyuan as the Company's Directors were approved. Their appointments took immediate effect and will expire on the expiration of this session of Directors.
- (2) The Company convened a Board of Directors' meeting on 19th September, 2001. It was resolved that the resignations of Mr Feng Dawei, Mr Bao Qianyuan, Ms Li Zhongshu and Mr Lin Jianxin as the Company's Directors were approved, and the Board further expressed its appreciation to their contribution. It was also resolved to appoint Mr Wu Dawei

and Mr Liu Guoyue as Vice Presidents of the Company and to nominate them, together with Mr Shen Zongmin as candidates for Directors of the Company.

Pursuant to the resolution passed in the Board meeting on 5th December, 2001, Mr Qian Zhongwei would be nominated as Director of the Company.

According to the resolution passed by the Board on 12th March, 2002, Mr Miao Kai's resignation as the Company's Director was accepted and his work was appreciated by the Board. Further, Mr Shen Weibing was nominated as candidate for Director of the Company.

The above mentioned resignations and appointments of Directors will be tabled before the shareholders' annual meeting for year 2001 for approval.

- (3) With the aim of perfecting the corporate governance, reinforcing the duties of the Directors, and protecting the interest of investors more effectively, the Board passed a resolution in the Board meeting on 23rd May, 2001 to establish special committees of the Board of Directors. The three special committees were Financial Committee, Technology Committee and Management Committee. The members of the Committees are mainly external Directors and independent Directors, and the chief officers of such committees are external directors. The establishment of these special committees can assist the Directors to supervise and monitor the management and operation of the Company.

Code of Best Practice

The Company has not established an audit committee (the "Audit Committee") with the majority of its members being the independent non-executive Directors to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of the Code of Best Practice (the "Code of Best Practice") set out in Appendix 14 to the Listing Rules. However, since the establishment of the Company, its organisational structure has in lieu a Supervisory Committee which

carries out functions similar to that of an Audit Committee. The member of the Company's Supervisory Committee are elected by and can be removed by the shareholders of the Company in general meeting. The Supervisory Committee reports to the general meeting of shareholders instead of the Board of Directors, whereas an Audit Committee is appointed amongst the non-executive Directors of a company. Apart from this, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any part of the year in compliance with the Code of Best Practice.

Designated Deposit

As at 31st December, 2001, the Company and its subsidiaries did not have any designated deposit with any financial institutions within the PRC nor any overdue fixed deposit which could not be recovered.

Legal Proceedings

As at 31st December, 2001, the Company and its subsidiaries were not involved in any material litigation or arbitration and no material litigation or

claim was pending or threatened or made against the Company and its subsidiaries.

Closure of Register

The annual general meeting for year 2001 will be held on 15th May, 2002. The H share register of the Company will be closed from 14th April, 2002 to 14th May, 2002 (both dates inclusive). Shareholders on the H share register as at 26th April, 2002 will be entitled to attend the annual general meeting of the Company and to receive the dividends for 2001.

Auditors

In 2001, Arthur Andersen & Co was appointed as the auditors of the Company and has audited the accompanying financial statements. Resolutions will be submitted at the forthcoming annual general meeting of the Company to re-appoint Arthur Andersen & Co as the Company's auditors.

By Order of the Board

Li Xiaopeng

Chairman

Beijing, the PRC
12th March, 2002