

Report of the President



BUSINESS REVIEW

1. Steady growth of operating results

For the twelve months ended 31st December 2002, the Company recorded net operating revenues of Rmb18.474 billion and net profit of Rmb3.921 billion, representing increases of 16.99% and 13.63%, respectively, as compared to the same period of 2001. Earnings per share was Rmb0.65, representing an increase of Rmb0.04 over the same period of 2001.

The steady growth in the operating results of the Company was, on the one hand, attributable to the contribution from increased power generation of the power plants originally owned by the Company. On the other hand, the successful acquisition of equity interests in Shanghai Shidongkou Power Limited Company ("Shidongkou First Power Plant"), Suzhou Industrial Park Huaneng Power Limited Liability Company ("Taicang Power Plant") and Jiangsu Huaneng Huaiyin Power Limited Company ("Huaiyin Power Plant") and the net assets of China Huaneng Group Zhejiang Changxing Power Plant ("Changxing Power Plant") formerly owned by Huaneng Group has enlarged the Company's operating scale as well as enhanced its strength and competitiveness, thereby also making significant contribution to the remarkable growth of the Company's operating results for the year 2002. At the same time, facing an increasingly competitive power market, and in view of the twofold pressure of escalating fuel price and decreasing power tariffs, the Company and its subsidiaries enlarged market shares, reinforced the sales strength of the power market, enhanced internal management and strengthened cost control. As a result, the unit fuel cost has been controlled efficiently. Despite the increase of coal price, the average unit fuel cost for output, excluding the power plants acquired in 2002, increased only 6.41% over the last year.

As at the end of 2002, net asset per share of the Company was Rmb5.07, representing an increase of 7.42% when compared to 2001.

2. Safe and stable power generation

In 2002, the operating power plants of the Company and its subsidiaries achieved power generation totalling 71.43 billion kWh on a consolidated basis (including the power generation of Shidongkou First Power Plant, Taicang Power Plant and Changxing Power Plant from July to December), representing an increase of 25.34% over the same period of the preceding year. If the power generation of the three power plants referred to above is not included, the Company has achieved power generation of 64.27 billion kWh, exceeding the annual plan by 12.75% and representing an increase of 12.77% over the same period of the preceding year on the same basis.

Dear Shareholders,

It is my pleasure to report to the shareholders the operating results and the status of the Company's operations for 2002 and its plan for 2003. Year 2002 is a landmark year in the development history of the Company. During the Year, the Company continued to strengthen management, enlarge market shares, control costs and enhance efficiency by focusing on economic benefits and on the basis of safe operation, with a view to optimising shareholders' interests. The management and all staff of the Company and its subsidiaries have seized the favourable opportunity of the market upturn and accomplished various tasks exceeding the annual target.

On the one hand, the increase in power generation was attributable to the contribution of power generation from the acquired Shidongkou First Power Plant, Taicang Power Plant and Changxing Power Plant and commencement of operation of generating Unit 5 and Unit 6 of Dezhou Power Plant ahead of planned schedule, thus significantly increasing the power generation capacity of the Company. On the other hand, economic growth of the regions where the power plants of the Company are located boosted local power demand, thus leading to a general increase in power generation of the Company's power plants. At the same time, the rational scheduling of the planned maintenance of the generating units also created favourable conditions for the increased power generation of the Company.

In 2002, the average availability factor of the power plants of the Company and its subsidiaries was 92.51% and the average capacity factor was 61.95%; the average coal consumption rates for power sold and power generated were 335.36 gram/kWh and 318.41 gram/kWh, respectively; and the average house consumption rate was 4.90%. The Company's technical and economic indices remained to be in the forefront among all other power companies in the PRC.

3. New breakthrough in asset operation

In 2002:

- (1) The Company acquired 70% of the equity interest in the registered capital of Shidongkou First Power Plant, 70% of the equity interest in the registered capital of Taicang Power Plant, 44.16% of the interest in the registered capital of Huaiyin Power Plant and the net assets of Changxing Power Plant formerly owned by China Huaneng Group ("Huaneng Group"). The acquisition was effective on 1st July 2002, thereby increasing the generation capacity of the Company by 1,687 MW and contributing to the growth of the annual results of the Company.
- (2) On 31st December, the Company has acquired the remaining 30% equity interest in the registered capital of Shidongkou First Power Plant and the remaining 5% equity interest in the registered capital of Taicang Power Plant formerly owned by Huaneng Group. The acquisition has made Shidongkou First Power Plant a wholly-owned power plant of the Company and has enhanced the competitiveness of the Company in East China.
- (3) The transfer of 19.48% equity interest in Huaiyin Power Plant from Jiangsu Huaiyin Investment Company to the Company has enabled the Company to obtain the controlling right of Huaiyin Power Plant and the development right of Huaiyin Power Plant Phase Two. This acquisition was effective on 31st December 2002.

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- (4) The Company acquired 3% of the shareholding in China Chang Jiang Power Co. Ltd., taking the first step in the development of hydro-power generation.
- (5) The Company entered into an Entrusted Management Agreement with Huaneng Group and Huaneng International Power Development Corporation (“HIPDC”) in relation to the management of their thermal power plants. By entering into the Entrusted Management Agreement, the Company will further accumulate management experience as a result of the expansion of the Company’s operation scale and set a precedent for large-scale and multi-entities entrusted management in the PRC.

In 2003:

- (6) The Company entered into an agreement with Shenzhen Municipal Investment Management Corporation and Shenzhen Energy Group Co., Ltd. to acquire 25% interest of the enlarged share capital of Shenzhen Energy Group Co., Ltd. by way of international tendering. After the transaction has obtained the relevant government approvals, the Company will be able to enlarge its market shares in Guangdong area, a fast growing market for power demand.

4. Adding new achievements to project construction

- (1) Owing to the Company’s careful organisation and various parties’ efforts, generating Units 5 and 6 of Dezhou Power Plant completed trial operation of 168 hours on 29th June and 13th October respectively, which was one year ahead of the project’s original planned schedule, thereby making contribution to the power generation growth of the Company.
- (2) Construction works of the expansion project of Jining Power Plant Phase Two (using Cycled Fluidized Bed Combustion Boilers) has been progressing smoothly. The quality of the works and investment were under effective control and the works are being conducted according to schedule.

5. Opening a new chapter in sustainable development

Project proposals in relation to the proposed projects of Huaneng Shanghai Gas-fired Power Plant (3x300 MW-class Combined-Cycle-Gas-Turbine generating units), Huaneng Jinling Gas-fired Power Plant (3x300 MW-class Combined-Cycle-Gas-Turbine generating units), Huaneng Shantou Coal-fired Power Plant Phase Two (1x600 MW Coal-fired generating unit), and Huaneng Yuhuan Power Plant (2x1,000 MW-class Coal-fired generating units) have been approved by the State Development and Planning Committee. The feasibility study report of Huaneng Huaiyin Power Plant Phase Two (2x300 MW-class Coal-fired generating units) has also been approved by the State Development and Planning Committee. The aggregate planned capacity of these planned projects is estimated to be approximately 4,800 MW. The Company will actively push forward the progress of the proposed projects according to commercially viable principles.

PROSPECTS FOR 2003

Year 2003 is the first year that the power industry enters into a new era of stable development and is also the first year after the implementation of the State's power sector reform scheme. A stable growth trend prevails in the national economy of the PRC and it is expected that growth in power demand will be greater than that of last year. With the deepening of the power sector reform, a new power market and a new set of regulatory mechanisms will be established. A sound operating environment will be conducive to the Company, allowing it to bring its advantages into full play amidst competition and to seize opportunities to expand its operation scale. However, at the same time, the Company is also aware of challenges in various aspects. For instance, the market competition will become more severe; the pressure of the rising coal price will increase difficulties for the Company to control power generation costs. Moreover, the pressure of downward power tariffs will affect the profitability of the Company. The Company is fully aware of the co-existence of opportunities and challenges in 2003. The Company has full confidence and strength to seize opportunities and deal with challenges, and will endeavour to fulfill the following objectives in 2003:

- (1) to ensure the safety and operating stability of the power plants and the achievement of their annual plans of power generation;
- (2) to reinforce sales and marketing efforts, and to enhance the research on the power market competition mode for the regions in which power plants of the Company are located in order to analyse and formulate effective market strategies, thus bringing economies of scale and integrative advantages of the Company into full play and continuing to enlarge its market shares;
- (3) to undertake stringent control of operating costs, in particular to enhance fuel management in order to realise management efficiency;
- (4) to actively push forward the preparatory work for the planned projects;
- (5) to prepare itself well for asset operation with a view to seizing opportunities to expand the Company's operating scale and enhance its business strength; and
- (6) to establish an information management system and implement all-inclusive budget management under comprehensive planning guidance.

The Company is fully confident of its future development. Following the principles of "emphasising both development and acquisition, emphasising both greenfield and expansion, emphasising both coal-fuel and other types of fuel; and emphasising both domestic and overseas funds", the Company will continue to endeavour to enhance operating efficiency, and maintain a continuous, stable and healthy development of the Company, so as to provide a long-term and stable growth of return to the shareholders.