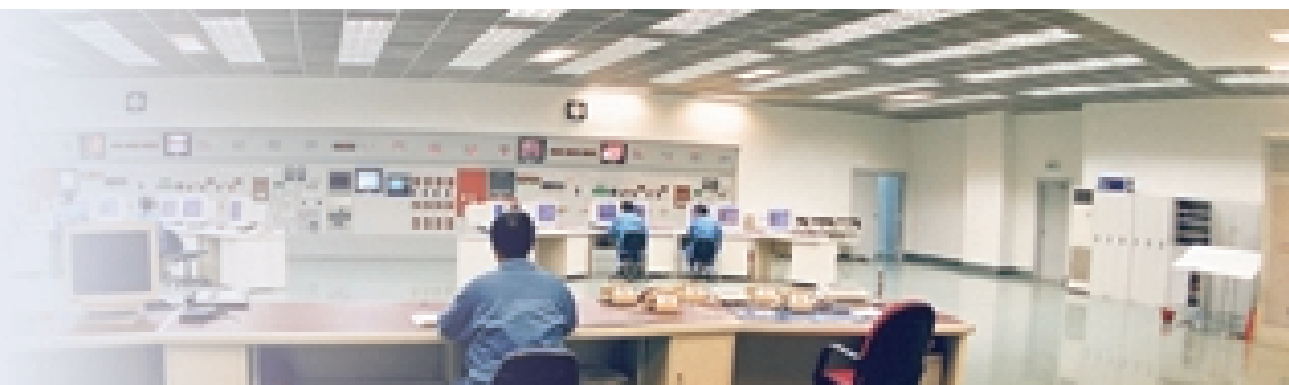


# Report of the Board of Directors



## **BUSINESS OF THE COMPANY AND OPERATING RESULTS**

In 2002, 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. Regarding the operation management, the Company continued to effectively control and manage costs. During the year, the Company acquired from Huaneng Group 100% equity interest in Shanghai Shidongkou First Power Plant, 75% equity interest in Taicang Power Plant, 63.64% equity interest in Huaiyin Power Plant and all net assets of Changxing Power Plant. These acquisitions will increase the Company's market shares in East China, a region undergoing high economic growth and faced with strong demand for electricity. They have also enabled the Company to enter the market of Zhejiang Province, one of the fastest growing power markets in the PRC, for the first time. The Board of Directors is satisfied with the operating results of 2002.

Please refer to pages 60 to 114 of the financial statements for the operating results of the Company and its subsidiaries for the year ended 31st December 2002.

## **Summary of Financial Information**

Please refer to the Financial Highlights on page 16 for summary of the operating results and assets and liabilities of the Company and its subsidiaries for the year ended 31st December 2002.

## **Dividends**

The Board of Directors proposed to distribute a dividend of Rmb0.34 per share for year 2002 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 USD1 to Rmb8.2725 and HK\$1 to Rmb1.06095 respectively.

All the dividends will be paid before 30th June 2003, subject to the approval of the Annual General Meeting of the Company's shareholders.

*The Board presents the report and the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2002.*

### **Bank Loans and Other Borrowings**

Please refer to Notes 23 to 25 of the financial statements for details of bank loans and other borrowings of the Company and its subsidiaries as at 31st December 2002.

### **Capitalized Interest**

Please refer to Note 10 of the financial statements for details of the Company and its subsidiaries' capitalized borrowing costs during the year.

### **Fixed Assets**

Please refer to Note 10 of the financial statements for changes in the fixed assets of the Company and its subsidiaries during the year.

### **Reserves**

Please refer to Note 20 of the financial statements for the reserves of the Company, including allocation of statutory fund during the year ended 31st December, 2002.

### **Subsidiaries and Associated Companies**

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

### **Changes in Shareholders' Equity**

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

### **Staff Retirement Scheme**

Please refer to Note 8 of the financial statements for the Staff Retirement Scheme.

# Report of the Board of Directors

## 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 2002 were coal suppliers, namely Shenhua Coal Transportation Company, Datong Mineral Bureau, Yangquan Mineral Bureau, Shanxi Coking Coal Group and Zhun Ge Er Company. The amount of coal supplied by the five major suppliers was about 31.7% of the total coal consumption of the Company in 2002.

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 2002.

## Connected Transactions

The Independent Directors of the Company confirmed that all connected transactions in 2002 to which the Company and/or any of its subsidiaries was a party:

1. had been entered into by the Company and/or any of its subsidiaries 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 7 of the financial statements for a brief description of the connected transactions.

## Share Capital Structure

As at 31st December 2002, the total issued share capital of the Company, excluding the shares which might be converted from the convertible notes, was 6,000,273,960 shares, of which 4,500,000,000 shares were domestic shares, representing approximately 75% of the total issued share capital, and 1,500,273,960 shares were foreign shares, representing approximately 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 USD230 million convertible notes issued by the Company are convertible into foreign shares of the Company at a price of USD29.2 for each American Depositary Share on or before 21st May 2004. According to the terms as stipulated in the convertible notes and at the request of a noteholder, the Company redeemed an aggregate amount of USD209,685,000 convertible notes on 21st May 2002 and issued 273,960 overseas listed shares to holders of convertible notes as a conversion of USD200,000 convertible notes on 21st August 2002. As at 31st December 2002, there was an aggregate amount of USD20,115,000 convertible notes which had not been redeemed. 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 27,554,760 foreign shares at most.

## Purchase, Sale or Redemption of Shares

According to the terms as stipulated in the convertible notes issued by the Company and at the request of a noteholder, the Company redeemed an aggregate amount of USD209,685,000 convertible notes on 21st May 2002 and issued 273,960 overseas listed shares to a holder of convertible notes as a conversion of USD200,000 convertible notes on 21st August 2002. Save and except for the above, 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 2002.

## Directors' and Supervisors' Right to Purchase Shares

For the year ended 31st December 2002, 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 2002 whereby the above persons would acquire benefits by means of the acquisition of shares in, or debentures of the Company or other corporate body.

# Report of the Board of Directors

## Shareholding of Major Shareholders

The following table sets forth the shareholding position of the Company's shares as at 31st December 2002:

	<b>No. of Shares outstanding</b> <i>(in thousands)</i>	<b>Percentage of Shareholding</b> <i>(%)</i>
<b>Domestic Shares</b>		
Huaneng International Power Development Corporation	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	1,500,274	25.00
TOTAL	6,000,274	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' Interest in Contracts and Service Contracts

Save for the service contracts mentioned below, as at the end of 2002, 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.

On 23rd December 2002, the Company commenced an extraordinary general meeting to approve the resolutions relating to the change of session of directors and supervisors. The appointment of the new session of directors took effect on the date of the passing of the relevant resolutions and the term of services was three years commencing from such appointment date.

## Staff Housing

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

## Staff Medical Insurance Scheme

During year 2002, the Company and its subsidiaries have fulfilled their obligations regarding staff medical insurance in accordance with the relevant rules and regulations imposed by the local governments of the places where they are located. The Directors of the Company are of the view that the performance of such obligations by the Company did not and will not have significant impact on the Company's financial position.

## Major Events

In 2002,

1. The Company acquired from Huaneng Group 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 all net assets of Changxing Power Plant. The acquisition was effective on 1st July 2002, thereby increasing the generation capacity of the Company by 1,687 MW.
2. After formal announcement of the power sector reform scheme, the Company 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. This 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 get the controlling right of Huaiyin Power Plant and obtain the development right of Huaiyin Power Plant Phase Two. This acquisition was effective on 31st December 2002.
4. The Company has acquired 3% of the shareholding in China Chang Jiang Power Co. Ltd., taking the first step in the development of hydro-power.
5. The Company entered into an Entrusted Management Agreement with Huaneng Group and 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.

# Report of the Board of Directors

6. On 23rd December 2002, the Company convened an extraordinary general meeting to approve the resolutions relating to change of session of the board of directors. Messrs. Li Xiaopeng, Wang Xiaosong, Ye Daji, Huang Jinkai, Liu Jinlong, Shan Qunying, Yang Shengming and Xu Zujian were elected directors of the fourth session of the board of directors of the Company. Messrs. Gao Zongze, Zheng Jianchao, Qian Zhongwei and Xia Donglin were elected independent directors of the fourth session of the board of directors of the Company.
7. On 23rd December 2002, the Company convened an extraordinary general meeting to approve the resolutions relating to the change of session of supervisors. Messrs. Wei Yunpeng, Liu Shuyuan, Pan Jianmin, Li Yonglin, Shen Weibing and Shen Zongmin were elected supervisors of the fourth session of supervisors of the Company.
8. On 23rd December 2002, the Company convened an extraordinary general meeting to approve the resolution relating to the establishment of the Strategy Committee, Audit Committee, Nomination Committee, and Remuneration and Appraisal Committee.
9. On 23rd December 2002, the Company convened the first meeting of the fourth session of the board of directors. The meeting has approved the resolution in relation to the proposal regarding the election of the Chairman and Vice Chairman of the fourth session of the board of directors. Mr Li Xiaopeng was elected the Chairman and Mr Wang Xiaosong was elected Vice Chairman of the fourth session of the board of directors of the Company.
10. The proposal regarding the appointments of the Vice President, Chief Economic Engineer, Chief Accountant was considered and approved in the first meeting of the fourth session of the board of directors. Messrs. Na Xizhi, Li Shiqi and Huang Jian were appointed Vice President, Chief Economic Engineer and Chief Accountant of the Company respectively.

In 2003,

11. 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.

### **Code of Best Practice**

During the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company established an audit committee on 23rd December 2002 with written terms of reference. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company.

The audit committee comprises five members, among whom two are non-executive Directors, namely, Messrs. Wang Xiaosong and Shan Qunying, and three are independent directors, namely, Messrs. Xia Donglin, Zheng Jianchao and Qian Zhongwei.

The audit committee has reviewed the Company's financial report for the year ended 31st December 2002 and was of the view that the report has complied with all applicable accounting standards and relevant regulations and laws, and has made sufficient disclosure.

### **Designated Deposit**

As at 31st December 2002, the Company and its subsidiaries did not have any designated deposit with any financial institutions within the PRC nor any overdue fixed deposits which could not be recovered.

### **Legal Proceedings**

As at 31st December 2002, 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.

### **Annual General Meeting and Closure of Register**

The annual general meeting for 2002 will be held on 28th May 2003. The H share register of the Company will be closed from 28th April 2003 to 27th May 2003 (both dates inclusive). Shareholders on the H share register as at 8th May 2003 will be entitled to attend the annual general meeting of the Company and to receive the dividends for 2002.

By Order of the Board

**Li Xiaopeng**

*Chairman*

Beijing, the PRC  
12th March 2003