





Focusing on Management,
Exercising Stringent Cost Controls —
Geared for Enhancing Operating Efficiency.

Report of 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 2003.

BUSINESS OF THE COMPANY AND OPERATING RESULTS

In 2003, 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 power generation, the Company's annual generation exceeded its target for the year. Regarding the operation management, on the one hand, the Company continued to effectively control and manage costs, on the other hand, power project development and acquisition also made significant contribution to the remarkable growth of the Company's operating results for year 2003. The Board of Directors is very satisfied with the operating results of 2003.

Please refer to pages 73 to 122 of the financial statements for the operating results of the Company and its subsidiaries for the year ended 31st December 2003.

Summary of Financial Information

Please refer to the Financial Highlights on page 8 for summary of the operating results and assets and liabilities of the Company and its subsidiaries for the year ended 31st December 2003.

Dividends and Other Distribution

The Company and its subsidiaries aim to bring long-term, stable and growing returns to the shareholders. In alignment with this target, on the board meeting held on 16th March, 2004, the Board of Directors resolved to propose in the 2003 annual general meeting for the year ended 31st December, 2003 a cash dividend of Rmb0.50 per ordinary share, totaling approximately Rmb3.014 billion, together with an issue of bonus shares on the basis of 5 bonus shares for every 10 existing ordinary shares.

Cash dividends will be denominated and declared in Renminbi. Cash dividends on domestic shares will be paid in Renminbi. Save for the dividends on foreign shares traded on the Hong Kong Stock Exchange which will be paid in Hong Kong dollars, cash 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 Rmb8.27715 and HK\$1 to Rmb1.06175 respectively.

All the cash dividends will be paid and the bonus shares will be issued to shareholders on or before 30th June 2004, subject to the approval of the annual general meeting of the Company.

Conversion of the Additional Paid-In Capital and the Surplus Reserve Fund

In addition to the dividends and other distribution as mentioned above, on 16th March 2004, the Board resolved to propose to convert part of the additional paid-in capital and the statutory surplus reserve fund into share capital by issuing new shares to all of its shareholders on the basis of 5 new shares for every 10 existing ordinary shares (three of which from additional paid-in capital and two from statutory surplus reserve fund). The proposal is subject to shareholders' approval at the annual general meeting to be held on 11th May 2004.

Board Resolutions of the Board of Directors in 2003

In 2003, the Board of Directors has held six meetings. Details of the resolutions are as follows:

1. On 12th March 2003, the Board of Directors (“the Board”) convened the second meeting of the Fourth Session of the Board. Twelve Directors were eligible to attend the meeting. The attendants of the meeting included twelve Directors (either in person or by proxy), The convening of this meeting complied with the Companies Law of the People’s Republic of China and the articles of association of the Company. The following resolutions were considered and approved at the meeting:-

- (1) The working report from the Board of Directors of the Company for year 2002.
- (2) The working report from the President of the Company for year 2002.
- (3) The audited financial statements of the Company for year 2002.
- (4) The profit distribution plan of the Company for year 2002.

Having been audited by PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd. and PricewaterhouseCoopers, the Company’s net profit under the PRC GAAP, International Financial Reporting Standards and US GAAP were Rmb4,082,350,589, Rmb3,921,003,301 and Rmb3,895,191,644 respectively. 10% and 7.5% of the net profit for year 2002 of the Company under the PRC GAAP (Rmb4,082,350,589) should be appropriated to the statutory surplus reserve fund and the statutory public welfare fund respectively, amounting to a total of Rmb714,411,353. No appropriation will be made to discretionary surplus reserve fund. According to the articles of association of the Company, dividends for distribution by the Company will be based on the lowest of the amounts determined in accordance with the aforesaid standards. The amount of the profit attributable to shareholders was RMB3,180,780,291. The distribution of profit for year 2002 by the Company should be based on the total issued share capital of 6,000,273,960 shares of the Company, and the Company would make a distribution of cash dividends to all shareholders on the basis of Rmb3.40 (including tax) for each 10 shares of the Company. It is estimated that the total amount of dividends to paid would be Rmb2,040,093,146.40. The remaining Rmb1,140,687,145 would be reserved for future distribution and the Company would not capitalize the statutory surplus reserve fund for this year.

- (5) The Company’s 2002 annual report and its extract.
- (6) The proposal regarding the re-appointment of the Company’s auditors.

It was resolved to appoint PricewaterhouseCoopers Zhong Tian CPAs Co. Ltd as the PRC auditors of the Company and PricewaterhouseCoopers as the Company’s international auditors for 2003 with a total remuneration of US\$1.25 million.

- (7) The proposal regarding the amendments to the articles of association of the Company.
- (8) The Rules and Procedures for Shareholders’ meeting.
- (9) Rules and Procedures for the Board of Directors Meetings, the Rules and Procedures for the Supervisory Committee Meetings, the Detailed Rules on the Work of the General Manager, the Detailed Rules on the Work of the Strategy Committee of the Board of Directors, the Detailed Rules on the Work of the Audit Committee of the Board of Directors, the Detailed Rules on the Work of the Remuneration and Appraisal Committee of the Board of Directors, the Detailed Rules on the Work of the Nomination Committee of the Board of Directors.

- (10) The proposal regarding the total amount of wages in 2003.
- (11) The Consolidated Plan in 2003.
- (12) The proposal regarding the remuneration of Independent Directors
 - i During the term of service, the Company shall pay to each Independent Director an annual allowance of Rmb40,000 (tax exclusive) by two instalments.
 - ii The Company shall reimburse to the Independent Directors all their expenses (including travelling expenses and administrative expenses) reasonably incurred by them for the purpose of attending the meetings of Board of Directors and shareholders meetings and performing their duties as required by the relevant laws and under the Company's articles of association.
 - iii Save and except for the above, the Company shall not provide any other benefit to the Independent Directors.
- (13) To authorise The Stock Exchange of Hong Kong Limited to act on behalf of the Company to submit all necessary documents as required by the Securities and Futures Ordinance (the "SFO") to the Securities and Futures Commission and further to authorise any of the directors of the Company to execute the relevant power of attorney.
- (14) The proposal regarding the convening of the annual general meeting of year 2002.

The resolutions numbered (1), (3), (4), (6), (7), (8) and (12) above were submitted to the general meeting of the Company for approval.

2. On 28th April 2003, in accordance with the relevant laws and requirements under the articles of association of the Company, the Board of Directors unanimously reviewed and approved the First Quarterly Report of 2003 by way of written resolutions.
3. On 5th June 2003, in accordance with the relevant laws and requirements under the articles of association of the Company, the following resolutions were considered and approved by way of written resolutions :
 - (i) The proposal regarding the Company's acquisition from China Huaneng Group a 55% interest in Henan Huaneng Qinbei Power Generation Limited, a 60% interest in Shanxi Huaneng Yushe Power Limited and all the assets and liabilities of China Huaneng Group Xindian Power Plant (the "Acquisition") and the transfer agreement between the Company and China Huaneng Group in relation of the transfer of Henan Huaneng Qinbei Power Generation Limited, Shanxi Huaneng Yushe Power Limited and China Huaneng Group Xindian Power Plant (the "Transfer Agreement"):
 - 1.1 To approve the Acquisition and the Transfer Agreement; and to authorise Mr. Ye Daji to execute the Transfer Agreement on behalf of the Company.
 - 1.2 To approve the Connected Transactions Notice;
 - 1.3 To approve the Acquisition and the Transfer Agreement to be included in the agenda of the shareholders' general meeting, which will take effect after approval of the shareholders.



- (2) The proposal regarding the connected transaction due to the Acquisition:
- 2.1 To approve the guarantee arrangements and the relevant agreements between Henan Huaneng Qinbei Power Generation Limited, Shanxi Huaneng, Xindian Power Plant and China Huaneng Group;
 - 2.2 To approve the facilities arrangements and the relevant agreements between Shanxi Huaneng Yushe Power Limited and China Huaneng Group;
 - 2.3 To approve the deposit and facilities arrangements and the relevant agreements between Henan Huaneng Qinbei Power Limited, China Huaneng Group Xindian Power Plant and China Huaneng Finance Limited;
 - 2.4 To approve to submit connected transaction arrangements in items 2.1 and 2.3 above to general meeting, and to execute the relevant agreements after they have been approved by the shareholders' general meeting.

- (3) To discuss and approve the proposal regarding the first temporary shareholders' general meeting.

Since the Acquisition and the Transfer Agreement in Resolution (1) and the connected transaction arrangements and the relevant agreements in items 2.1 and 2.3 in Resolution (2) shall require approval from the shareholders, the Board of Directors decided to convene the first extraordinary general meeting. Time, date and agenda of such meeting were to be announced later.

4. On 6th August 2003, the Board of Directors of the Company convened the third meeting of the Fourth Session of the Board. Twelve Directors were eligible to attend the meeting, of which twelve attended the meeting (either in person or by proxy). The convening of this meeting complied with the Companies Law and the articles of association of the Company.

The following resolutions were considered and passed unanimously at the meeting:

- (1) the interim report for the first half of 2003 and the summary thereof; and
- (2) the appointment of Mr Zhang Hong as Vice President of the Company.

5. On 30th September 2003, in accordance with the relevant laws and requirements in the Articles of Association of the Company, the Board of Directors unanimously approved the "Measures on the Management to Investor Relationship" by way of written resolution.
6. On 21st October 2003, the Board of Directors convened the fourth meeting of the Fourth Session of the Board. Twelve Directors were eligible to attend the meeting, of which twelve attended the meeting (either in person or by proxy). The convening of this meeting has complied with the Companies Law and the articles of association of the Company. The Third Quarterly Report of 2003 was discussed and approved at the meeting.

Bank Loans and Other Borrowings

Please refer to Notes 23 to 25 of the financial statements for details of bank loans of the Company and its subsidiaries as at 31st December 2003.

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 2003.

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.

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 when it issues such new shares.



Major Suppliers and Customers

The five major suppliers of the Company for year 2003 were coal suppliers, namely Shenhua Coal Transportation Company, Datong Coal Limited Company, Shanxi Guoyang Xinneng Limited Company, Shanxi Coking Coal Group and Zhun Ge Er Company. The purchase amount of coal supplied by the five major suppliers was about 30.3% of the total amount of the coal consumption of the Company in 2003.

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 2003.

Connected Transactions

The Independent Directors of the Company confirmed that all connected transactions in 2003 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 2003, the total issued share capital of the Company, excluding the shares which might be converted from the convertible notes, was 6,027,671,200 shares, of which 4,500,000,000 shares were domestic shares, representing approximately 74.66% of the total issued share capital, and 1,527,671,200 shares were foreign shares, representing approximately 25.34% of the total issued share capital. For domestic shares, HIPDC owns a total of 2,554,840,000 shares, representing 42.39% of the total issued share capital of the Company. Other domestic shareholders hold a total of 1,945,160,000 shares, representing 32.27% 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. As at 31st December 2003, there was an aggregate amount of USD115,000 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 157,520 foreign shares at most.

As at 31st December 2003, the Company had no notice of any person redeemed the remaining convertible notes into company's shares.

Shareholding of the Company

The following table sets forth the shareholding position of the Company's shares as at 31st December 2003:

	No. of Shares outstanding <i>(in thousands)</i>	Percentage of Shareholding <i>(%)</i>
Domestic Shares		
Huaneng International Power Development Corporation	2,554,840	42.39
Hebei Provincial Construction Investment Company	452,250	7.50
Fujian International Trust & Investment Company	334,850	5.56
Jiangsu Province International Trust & Investment Company	312,375	5.18
Liaoning Energy Investment (Group) Limited Liability Company*	229,685	3.81
Dalian Municipal Construction Investment Company	226,125	3.75
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	0.31
Dandong Energy Investment Development Centre	6,500	0.11
Domestic public shares	250,000	4.15
Sub-total	4,500,000	74.66
Foreign Shares	1,527,671	25.34
TOTAL	6,027,671	100.00

*Note: On 17th September 2003, Liaoning Energy Corporation changed its name to Liaoning Energy Investment (Group) Limited Liability Company
On 15th February, 2004, China Securities Registration Limited Liability Company altered its record accordingly.

Save as mentioned above, as at 31st December 2003, the register maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO"). SFO recorded no other interests or short positions in shares and underlying shares of the Company.



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. Issued 273,960 overseas listed shares to a holder of convertible notes as a conversion of USD200,000 convertible notes on 21st August 2002, and issued 27,397,240 overseas listed shares to a holder of convertible notes of USD20,000,000 convertible notes on 24th April 2003. 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 2003.

Directors' and Supervisors' Interests

As at 31st December 2003, none of the directors, senior executives, supervisors or their associates had any interests or short positions in any shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO 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.

Directors' and Supervisors' Interest in Contracts and Service Contracts

Save for the service contracts mentioned below, as at the end of 2003, 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.

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 2003, 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

1. Through tendering, the Company has acquired 25% interests in the enlarged share capital of Shenzhen Energy Group Co. Ltd. after its increase in share capital, enhancing the Company's market share in Guangdong region, a rapidly-growing market for power demand. The acquisition was effective on 22nd April 2003.
2. The Company acquired 55% equity interest in Henan Huaneng Qinbei Power Generation Limited, 60% equity interest in Shanxi Huaneng Yushe Power Power Limited and all of the assets and liabilities of China Huaneng Group Xindian Power Plant formerly owned by China Huaneng Group. The acquisition took effect on 27th October 2003.
3. On 6th August 2003, the third meeting of the fourth session of the Board of Directors of the Company approved the resolution in relation to the appointment of Zhang Hong as Vice President.

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 2003 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 2003, 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 2003, 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 2003 will be held on 11th May 2004. The H share register of the Company will be closed from 11th April 2004 to 10th May 2004 (both dates inclusive). Shareholders on the H share register as at 16th April 2004 will be entitled to attend the 2003 annual general meeting of the Company and to receive the cash dividends, bonus shares and new shares issued pursuant to the capital conversion plan.

By Order of the Board

Li Xiaopeng

Chairman

Beijing, the PRC
16th March 2004

