

REPORT OF THE DIRECTORS

The Directors hereby present the annual report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Group and its jointly controlled entities are the generation and sale of electricity and heat. All electricity generated by the Group is fed into the Shandong Provincial Grid operated by Shandong Electric Power (Group) Corporation (“SEPCO”), the former immediate holding company of the Company. SEPCO determines to whom the electricity is then sold.

As the Group is located, and has been operating one single business, in Shandong Province, the People’s Republic of China (“PRC”), no segmental reporting was included in the financial statements.

The profit of the Group for the year ended 31 December 2003 and the position of the Group’s and the Company’s financial affairs as of that date prepared in accordance with International Financial Reporting Standards are set out in the financial statements on pages 38 to 83.

DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.035 per share (totalling approximately RMB183,963,000) for the financial year ended 31 December 2003 (2002: a final dividend of RMB0.036 per share, totalling approximately RMB189,219,000). This dividend distribution proposal is subject to the approval by the shareholders of the Company at the forthcoming 2003 Annual General Meeting.

An interim dividend of RMB0.02 per share (totalling approximately RMB105,122,000) for the six months ended 30 June 2003 was distributed on 26 September 2003 (2002: an interim dividend of RMB0.02 per share, totalling approximately RMB105,122,000, was distributed on 30 October 2002).

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company’s subsidiaries, associated companies and jointly controlled entities as at 31 December 2003 are set out in notes 19, 20 and 21 respectively on the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2003 are set out in note 27 on the financial statements.

INTEREST CAPITALIZED

Details relating to the interest capitalized by the Group during the year are set out in note 9 on the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details relating to movements in property, plant and equipment of the Group and that of the Company during the year are set out in note 15 on the financial statements.

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RESERVES

Details relating to movements in reserves of the Group and the Company for the year ended 31 December 2003 and details of distributable reserves of the Company as at 31 December 2003 are set out in note 30 on the financial statements.

DONATIONS

During the year, the Group made donations for charitable purposes in an aggregate amount of approximately RMB1,421,000 (2002: RMB141,205).

EMPLOYEES' RETIREMENT PLANS

Details of the Group's employees' retirement plans are set out in note 32 on the financial statements.

PRE-EMPTIVE RIGHTS

According to the articles of association of the Company and the laws of the PRC, no rule relating to pre-emptive rights exists which requires that the Company shall offer and issue new shares to its existing shareholders in proportion to their respective shareholding interests in the Company.

EMPLOYEES' MEDICAL INSURANCE

i) Basic medical insurance

Since 1 January 2003, the management of basic medical insurance has been transferred from the industry sector to the local government in accordance with "the Implementing Proposal to Establish the Basic Medical Insurance Rules for the Urban and Rural Employees in Shandong Province", under the management of local governments, pursuant to which the basic medical insurance fund will be jointly contributed by the enterprise concerned and its staff. The employees are required to pay medical insurance fees calculated as 2% of their total wages of the previous year. The Group is required to pay such fees ranging from 6% to 8% of the total wages of its employees of the previous year according to the policies promulgated by the local government where the enterprise is situated. Such fees are paid out of the welfare fund.

ii) Supplementary corporate medical insurance

Apart from participating in the basic medical insurance, the Group began to establish supplementary corporate medical insurance for its staff from 1 January 2003 in accordance with "the Decision of the State Council regarding Establishment of the Basic Medical Insurance Rules for the Urban and Rural Employees". The required fund will be paid out of the welfare fee payable by the enterprise concerned as calculated as 4% of the total wages of employees of the previous year. Any shortfall in the welfare fees shall be directly charged to cost of production as costs of labour insurance fee.

The Group anticipates that implementation of the above medical insurance will not have any significant impact on the business operation and financial position of the Group. Apart from the above contributions, the Group is not required to pay any other medical expenses for its staff.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 on the financial statements.

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MAJOR CUSTOMERS AND SUPPLIERS

During the financial year, details regarding the percentage of the Group's sales and purchases attributable to its major customers and major suppliers, respectively, are as follows:

	Percentage of the Group's Sales	Percentage of the Group's Purchases
The largest customer	98.2%	
The five largest customers	99.7%	
The largest supplier		83.3%
The five largest suppliers		96.3%

All electricity generated by the Group was sold to SEPCO, the former controlling shareholder of the Company. None of the Directors, their associates and shareholders of the Company (each of which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these suppliers or customers of the Group at any time during the year.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, chief executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2003 which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or was otherwise, as at 31 December 2003, interested in 5% or more of any class of the then issued share capital of the Company, or was, as at 31 December 2003, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company:

Name of shareholder	Type of shares	Number of shares held	Interest			Short position
			Approximate percentage of shareholding in the Company's total issued share capital as at 31 December 2003	Approximate percentage of shareholding in the Company's total issued domestic shares as at 31 December 2003	Approximate percentage of shareholding in the Company's total issued H shares as at 31 December 2003	
China Huadian Corporation	Domestic shares	2,815,075,430	53.56%	73.60%	—	—
Shandong International Trust and Investment Company Limited	Domestic shares	903,443,970	17.19%	23.62%	—	—
HKSCC Nominees Limited (Note)	H shares	1,418,070,000	26.98%	—	99.09%	—

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Note:

Based on the information available to and obtained by the Directors as at 31 December 2003, the information available on the website of the Stock Exchange and so far as the Directors are aware, as at 31 December 2003:

1. Among the 1,418,070,000 H shares held by HKSCC Nominees Limited, J.P. Morgan Chase & Co. had an interest, direct and indirect, in an aggregate of 124,644,000 H shares of the Company (representing approximately 8.71% of the then total issued H shares). Out of which 124,644,000 H shares, J.P. Morgan Chase & Co. had an interest in a lending pool comprising 55,192,000 H shares (representing approximately 3.86% of the then total issued H shares). Based on the information available on the website of the Stock Exchange and so far as the Directors are aware, J.P. Morgan Chase & Co. was, as at 31 December 2003, interested in the aforesaid 124,644,000 H shares of the Company in the manner as follows:
 - (a) 68,636,000 H shares (representing approximately 4.796% of the Company's then total issued H shares) were held in the capacity as investment manager by JF Asset Management Limited. JF Asset Management Limited was approximately 99.99% held by J.P. Morgan Fleming Asset Management (Asia) Inc., which, in turn, was ultimately 100% held by J.P. Morgan Chase & Co.;
 - (b) 55,192,000 H shares (representing approximately 3.857% of the Company's then total issued H shares) were held (in a lending pool) by JPMorgan Chase Bank, which was 100% held by J.P. Morgan Chase & Co.;
 - (c) 650,000 H shares (representing approximately 0.045% of the Company's then total issued H shares) were held in the capacity as beneficial owner by J.P. Morgan Securities Ltd., J.P. Morgan Securities Ltd. was 90% held by J.P. Morgan Holdings (UK) Limited, which, in turn, was ultimately 100% held by J.P. Morgan Chase & Co.; and
 - (d) 166,000 H shares (representing approximately 0.012% of the Company's then total issued H shares) were held in the capacity as beneficial owner by J.P. Morgan Whitefriars Inc., which was ultimately 100% held by J.P. Morgan Chase & Co..
2. Among the 1,418,070,000 H shares held by HKSCC Nominees Limited, UBS AG had an interest, direct and indirect, in an aggregate of 100,502,000 H shares of the Company (representing approximately 7.02% of the then total issued H shares), out of which 100,502,000 H shares, 8,122,000 H shares (representing approximately 0.57% of the then total issued H shares) being held in the capacity as beneficial owner, with the remaining 92,380,000 H shares (representing approximately 6.45% of the then total issued H shares) being held in the capacity as investment manager. According to the information as disclosed in the website of the Stock Exchange and so far as the Directors are aware, UBS AG held its indirect interests in the Company in the manner as follows:
 - (a) 6,414,000 H shares (representing approximately 0.45% of the Company's then total issued H shares) were held by UBS Global Asset Management (Americas) Inc., which in turn was 100% held by UBS AG;
 - (b) 35,992,000 H shares (representing approximately 2.52% of the Company's then total issued H shares) were held by UBS Global Asset Management (UK) Limited, which in turn was 100% held by UBS AG;
 - (c) 6,949,000 H shares (representing approximately 0.49% of the Company's then total issued H shares) were held by UBS Fund Services (Luxembourg) SA, which in turn was 100% held by UBS AG; and
 - (d) 20,749,000 H shares (representing approximately 1.45% of the Company's then total issued H shares) were held by UBS Global Asset Management (Singapore) Limited, which in turn was 100% held by UBS AG.
3. Among the 1,418,070,000 H shares held by HKSCC Nominees Limited, Templeton Asset Management Limited had a direct interest in the capacity of investment manager in an aggregate of 88,318,000 H shares of the Company (representing approximately 6.17% of the then total issued H shares).
4. Among the 1,418,070,000 H shares held by HKSCC Nominees Limited, Government of Singapore Investment Corporation Pte Ltd had a direct interest in an aggregate of 74,232,000 H shares of the Company (representing approximately 5.19% of the then total issued H shares).

Save as disclosed above, according to the records of HKSCC Nominees Limited and other information available to the Directors as at 31 December 2003, the other H shares held by HKSCC Nominees Limited were held by it on behalf of a number of other persons, and to the knowledge of the Directors, none of such persons individually was interested in 5% or more of the then total issued H shares of the Company as at 31 December 2003.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2003, no other person (other than the Directors, Supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Listing Rules) of the Company.

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DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND SENIOR MANAGEMENT

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

Name	Position in the Company	Changes
He Gong	Chairman of the Board of Directors	(appointed with effect from 15 April 2003)
Da Hongxing	Vice Chairman of the Board of Directors	
Zhu Chongli	Vice Chairman of the Board of Directors	
Chen Jianhua	Director, General Manager	
Tian Peiting	Director	
Peng Xingyu	Director	(appointed with effect from 15 April 2003)
Zhang Bingju	Director	
Wang Yingli	Director	(appointed with effect from 15 April 2003)
Ding Huiping	Independent non-executive Director	(appointed with effect from 22 October 2003)
Zhao Jinghua	Independent non-executive Director	(appointed with effect from 22 October 2003)
Hu Yuanmu	Independent non-executive Director	(appointed with effect from 22 October 2003)
Wang Chuanshun	Independent non-executive Director	(appointed with effect from 22 October 2003)
Feng Lanshui	Chairman of the Supervisory Committee	
Li Changxu	Supervisor	(appointed with effect from 15 April 2003)
Zheng Feixue	Supervisor	
Zhou Lianqing	Company Secretary	
Zhong Tonglin	Deputy General Manager	
Sun Qingsong	Deputy General Manager	(appointed with effect from 5 January 2004)
Wang Wenqi	Deputy General Manager	
Zhu Fangxin	Chief Supervisor of Financial Affairs	

Mr. Li Ruge, Mr. Geng Yuanzhu and Mr. Cui Jianbo resigned as Directors of the Company with effect from 15 April 2003. According to the ordinary resolution passed at the Company's Extraordinary General Meeting held on 15 April 2003, Mr. He Gong, Mr. Peng Xingyu and Ms. Wang Yingli were appointed as Directors of the Company. On the same day, Mr. Da Hongxing resigned as Chairman and Mr. Tian Peiting resigned as Vice-Chairman. According to the resolutions passed at the eighth meeting of the Third Session of the Board of Directors held on 15 April 2003, Mr. He Gong was elected as the Chairman of the Board of Directors and Mr. Da Hongxing was elected as Vice-Chairman of the Board of Directors. Also on the same day, as Mr. Xu Qingzao resigned as the Supervisor of shareholders' representative, according to the resolution passed at the Extraordinary General Meeting of the Company, Mr. Li Changxu was elected as the Supervisor of shareholders' representative with effect from 15 April 2003.

On 22 October 2003, a resolution was passed at the Extraordinary General Meeting of the Company held on that day at which Mr. Ding Huiping, Mr. Zhao Jinghua, Mr. Hu Yuanmu and Mr. Wang Chuanshun were elected as independent non-executive Directors of the Company. On the same day, Mr. Lin Mingshan, Mr. Wang Guisheng, Mr. Ding Changhao and Mr. Kung Shaindow resigned as Directors of the Company.

Mr. Ding Huande resigned as deputy general manager of the Company, according to the resolutions passed at the eleventh meeting of the Third Session of the Board of Directors held on 20 August 2003.

Mr. Sun Qingsong was elected as the deputy general manager of the Company, according to the resolutions passed at the fourteenth meeting of the Third Session of the Board of Directors.

The Directors' and Supervisors' remunerations for the year ended 31 December 2003 are set out in note 10 on the financial statements.

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As at 31 December 2003, none of the Directors, Supervisors, chief executives or members of senior management of the Company and their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), or which was otherwise required to be entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules in force as at 31 December 2003.

During the year of 2003 and as at 31 December 2003, none of the Directors, Supervisors, chief executives or members of senior management of the Company or any of their respective spouses or children under 18 years of age were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

The biographical details in respect of the existing Directors, Supervisors and members of senior management of the Company are set out on pages 31 to 34.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contract of significance or proposed contracts of significance, 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 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).

CONNECTED TRANSACTIONS

During the year of 2003, the Company entered into the following transactions which constituted connected transactions for the Company under the Listing Rules then in force.

1. Agreement for the Acquisition of Guangan Company

On 9 May 2003, the Company entered into an agreement (the "Guangan Acquisition Agreement") with China Huadian Corporation ("China Huadian"), the Company's controlling shareholder, for the acquisition from China Huadian of its then 80% equity interest in Guangan Company for a consideration of RMB475.50 million (subject to adjustment).

This acquisition constituted a discloseable transaction of the Company under the then Rule 14.12(1) of the Listing Rules. Furthermore, as China Huadian is the controlling shareholder of the Company, the acquisition and all transactions contemplated under the Guangan Acquisition Agreement constituted connected transactions for the Company under the Listing Rules and were subject to the approval of independent shareholders being obtained at a shareholders' meeting with China Huadian abstaining from voting. The Guangan Acquisition Agreement and transactions thereunder were approved by independent shareholders of the Company at its 2002 Annual General Meeting held on 24 June 2003. Pursuant to the Guangan Acquisition Agreement, RMB237.80 million has been paid by the Company to China Huadian in cash before 30 December 2003, Guangan Company has since 1 January 2004 become a subsidiary of the Company. Other details regarding this acquisition are set out in the Company's announcements dated 9 May, 13 May and 24 June 2003 and in its shareholders' circular dated 30 May 2003.

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2. Agreement Regarding the Sea Water Desulphurization Technology Improvement Project for the Nos.1 and 2 Generating Units of Qingdao Plant

On 23 December 2003, Qingdao Plant, a power plant held as to 55% by the Company, and Qingdao Municipality Tender Centre entered into an Agreement Regarding the Sea Water Desulphurization Technology Improvement Project for the Nos.1 and 2 Generating Units of Qingdao Plant with China Huadian Engineering (Group) Corporation (“China Huadian Engineering”) and ALSTOM Power Norway AS (ALSTOM Power Norway AS being a company which is not a connected person of the Company), as vendors. Pursuant to the agreement, Qingdao Plant has agreed to purchase and accept the service, and the vendors have agreed to (i) sell two sets of key facilities of the vendors’ sea-water desulphur systems to be supplied by the vendors (which key facilities being used to filter the sulphur dioxide emission of the boiler of the power generating units) and (ii) design the sea-water desulphur systems, both for the use by the two 300MW power generating units of Qingdao Plant. The vendors were awarded the exclusive right by Qingdao Municipality Tender Centre to sell the relevant key facilities and design the systems as contemplated under the agreement after an open tender process, during which a total of two companies submitted tenders. Qingdao Municipality Tender Centre was appointed by Qingdao Plant to be its agent to carry out tender process and such tender process adopted the international tender practice. The vendors were selected because their technologies are more advanced and mature, and better satisfy the requirement of Qingdao Plant. The terms of the agreement were on normal commercial terms in the ordinary and usual course of business of the Group. The total consideration was not more than US\$5,900,000, the Group’s share of which (i.e., in the amount of not more than US\$3,245,000) would be funded out of the Group’s internal resources. Under the agreement, the consideration shall be payable in cash in the following manner:

- (a) 10% of the consideration shall be payable in cash as an advance payment within 15 days after the signing of the agreement;
- (b) progress payments totalling 70% of the consideration shall be payable in cash within 45 days after the signing of the agreement in accordance with the progress of the construction and shipment of the key facilities;
- (c) balance payments totalling 20% of the consideration shall be payable in cash within 11 months after the signing of the agreement in accordance with the test-run schedule of the key facilities.

As China Huadian is a connected person of the Company and China Huadian Engineering is a wholly-owned subsidiary of China Huadian, China Huadian Engineering is considered a connected person of the Company under the Listing Rules. Accordingly, the entering into of this agreement constituted a connected transaction of the Company within paragraph 14.23(1)(a) of the Listing Rules then in force.

As the aggregate consideration to be paid by Qingdao Plant under the agreement represented an amount less than the higher of HK\$10 million or 3% of the book value of the then latest published net tangible assets of the Group and, therefore, fell within the de minimis provision under paragraph 14.25(1) of the Listing Rules then in force, the entering into by Qingdao Plant of the agreement was required to be disclosed by way of a press announcement but no approval from the shareholders of the Company was required. Other details of the transactions are set out in the announcement of the Company dated 23 December 2003.

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CONNECTED TRANSACTIONS WHICH ARE THE SUBJECT OF WAIVER UNDER THE LISTING RULES

Apart from the transactions disclosed above, most of the transactions undertaken by the Group and its jointly controlled entities during the first quarter of 2003 were entered into with SEPCO (the former immediate holding company of the Company) or entities controlled by it on such terms as have been agreed between the relevant parties. Under the Listing Rules, the above parties were connected persons of the Company at the time when the relevant transactions took place in the first quarter of 2003 and the relevant transactions constituted connected transactions for the Company. After the reallocation in the Company's controlling shareholding interest on 1 April 2003 as part of the restructuring of the PRC power industry, the entire shareholding interest in 2,815,075,430 domestic shares in the Company originally held by SEPCO was transferred by way of administrative allocation to China Huadian. SEPCO ceased to be a connected person of the Company and the transactions between the Group and SEPCO and its controlled entities described below since then did not and in future will not constitute any connected transaction for the Company (please refer to the paragraph below headed "Important matters - Reallocation of controlling shareholding interest" for details). Details of these transactions, which are required by any waiver under the Listing Rules to be disclosed herein, are set out below and in note 31 on the financial statements.

	<i>Notes</i>	2003 RMB'000	2002 RMB'000
Sale of electricity	(i)	1,885,413	7,688,975
Interconnection and dispatch management fees	(ii)	14,537	79,788
Repair and maintenance services	(iii)	48,473	216,372
Technical supervision, assistance and testing services	(iv)	4,267	17,343
Electricity consumed	(v)	5,243	20,832

- (i) All electricity generated by the Group was sold to SEPCO. See note 31 on the financial statements for details.
- (ii) Interconnection and dispatch management fees were paid to SEPCO. See note 31 on the financial statements for details.
- (iii) Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited, which is controlled by SEPCO, was responsible for the repair and maintenance works, including major overhauls of the Group. The amount payable was determined on a cost reimbursement basis.
- (iv) Shandong Electric Power Scientific Research Institute, which is controlled by SEPCO, was responsible for the provision of technical supervision, assistance and testing services to the Group. Such services were charged at a rate of RMB3.66 per KW (including value-added tax) of installed capacity per year.
- (v) The Group purchased electricity from SEPCO at the published tariff rates for use in certain of its operations and for its head office and staff quarters where they are located in areas under the cover of the grid operated by SEPCO.

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 above and have concluded that these transactions had been entered into:

- (i) in the ordinary and usual course of business;
- (ii) either on normal commercial terms or on terms no less favorable 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.

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At the same time, the independent non-executive directors of the Company have also confirmed that the respective aggregate amount of payments involved in the transactions entered into by the Group and each of Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited and Shandong Electric Power Research Institute in 2003 did not exceed an amount representing 3% of the book value of the relevant net tangible assets of the Group for the year. In addition, the Company's auditors, KPMG, have reviewed these transactions in respect of the provision of repairs and maintenance services and technical supervision, assistance and testing services to the Group mentioned above and confirmed to the Board of Directors that:

- (i) these transactions had been approved by the Board of Directors;
- (ii) these transactions were entered into in accordance with the pricing policies stated in the financial statements of the Company (if any) and the terms of the relevant agreements governing these transactions; and
- (iii) the aggregate consideration paid and payable in 2003 in respect of these transactions did not exceed 3% of the book value of the relevant net tangible assets of the Group of the year 2003.

IMPORTANT MATTERS

1. Reallocation of controlling shareholding interest

Pursuant to the State's policy regarding restructuring of State-owned power assets, the entire shareholding interest in 2,815,075,430 domestic shares in the Company, which was originally held by SEPCO, was transferred by way of administrative allocation on 1 April 2003 to China Huadian. SEPCO is no longer a connected person of the Company. Accordingly, after the shareholding reallocation as described above, any transactions previously entered into between the Group and SEPCO and/or its subsidiaries, associated companies, and agencies and departments under its control cease to constitute connected transactions of the Company. All transactions that were since then and may in future be entered into between the Group and SEPCO and/or its group members will not constitute connected transactions of the Company.

China Huadian, as the controlling shareholder of the Company, has agreed and undertaken to the Company that, for so long as China Huadian retains a controlling shareholding interest in the Company:

- i) the Group is, and will continue to serve as, China Huadian's primary vehicle for developing power projects and a principal power-generating enterprise, and, in this connection, China Huadian will support the future business developments of the Group;
- ii) the treatment to be received by the Group with respect to the developments of projects and investment opportunities will, subject to the operation of market principles and on normal commercial terms, be more favourable than the treatment received or to be received by other power stations and departments in the Shandong Province and other areas in which China Huadian has operation;
- iii) subject to satisfaction of all applicable government and/or other regulatory requirements and to obtaining any applicable third-party consent, the Group shall, at its option, have a preferential right to acquire, develop, construct, own and/or operate China Huadian's interests in all of its power plants and power projects within the Shandong Province or other areas in which China Huadian has operation; and
- iv) China Huadian will not compete with the Group in relation to acquisition and development of power plants and power projects.

Details regarding reallocation of the controlling shareholding interest in the Company and the relevant matters are set out in the announcement of the Company dated 8 April 2003.

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2. Change of Company name

On 1 November 2003, the Shandong Provincial Administration for Industry and Commerce issued a new business licence to the Company, and with effect from the same date, the name of the Company has been changed from “山東國際電源開發股份有限公司 Shandong International Power Development Company Limited” to “華電國際電力股份有限公司 Huadian Power International Corporation Limited”. Please refer to the Company’s announcement dated 3 November 2003 for details. Since the name of the Company has been changed, the Company started using share certificates with its new name printed thereon on 28 November 2003. Please refer to the Company’s announcement dated 26 November 2003 for details.

3. Proposed issue of A shares and acquisition of Guangan Company

On 24 June 2003, at the Annual General Meeting for the year of 2002, the Company passed, by way of special resolutions, relevant resolutions regarding its proposed issue of A shares in the PRC whereby, among other things, the proposed issue by the Company of a maximum of 765,000,000 new A shares was conditionally approved: Out of the total number of new A shares to be issued by the Company, a maximum of 196,000,000 new A shares (in the form of unlisted State-owned legal person shares) were approved to be allocated and issued to China Huadian, with the remaining portion of the new A shares (which A shares being proposed to be listed on the Shanghai Stock Exchange) being proposed to be issued to individuals and institutional investors, except those prohibited by PRC laws and/or regulations, in the PRC. Details regarding the Company’s proposed issue of A shares are set out in its announcements dated 9 May, 13 May and 24 June 2003 and in its shareholders’ circular dated 30 May 2003. At present, the issue of A shares is not completed and is in progress as scheduled. When there is material development in relation to the proposed issue of A shares, the Company will proceed and make further timely disclosure as is appropriate in accordance with relevant requirements under the Listing Rules.

On 9 May 2003, the Company entered into an agreement with China Huadian for the acquisition from China Huadian of its then 80% equity interest in Guangan Company, where the remaining 20% equity interest being held by四川巴蜀電力開發有限責任公司(a third party independent of the Company). The agreement had been approved by independent shareholders of the Company at the 2002 Annual General Meeting held on 24 June 2003. The consideration of the acquisition was RMB475.50 million, of which RMB237.8 million has been paid by the Company to China Huadian in cash before 30 December 2003, and Guangan Company has since 1 January 2004 become a subsidiary of the Company.

Guangan Company’s Phase I project, which comprises two 300MW coal-fired power generating units, started commercial operation in October 1999 and February 2000 respectively. Total investment, which has been fully paid, deployed in the construction of Guangan Company’s Phase I project amounted to RMB2,731 million. Guangan Company’s Phase II project, which comprises two 300MW coal-fired power generating units, with its feasibility study report approved by the former State Development and Planning Commission, started construction in September 2002. These two units are expected to commence commercial operation in 2004. Details regarding the acquisition of Guangan Company are set out in the Company’s announcements dated 9 May, 13 May and 24 June 2003 and in its shareholders’ circular dated 30 May 2003.

4. Approval for project proposal of Zouxian Plant Phase IV- two 1,000MW class ultra-supercritical generating units

On 20 October 2003, the SDRC issued a document in respect of its approval of the Zouxian Plant Phase IV project proposal for the two 1,000MW-class ultra-supercritical generating units. Total investment in the project, which is proposed to be wholly-owned and constructed by the Company, is expected to be amounted to RMB7,800 million (including the desulphurization process). The construction of the two units, which are expected to be put into commercial operation in 2008 and 2009, respectively, is expected to commence in 2004. The technology of ultra-supercritical generating units is an advanced electrical power technology characterised with features of being highly efficient, coal-saving, water-saving with the characteristics of purifying, highly reliable, having room for expansion with relatively less investment.

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OTHER MATTERS

On 20 June 2003, the Company signed an agreement with the Shandong Branch of Industrial and Commercial Bank of China, pursuant to which the Shandong Branch of Industrial and Commercial Bank of China will provide the Company a credit support in a total amount of RMB10 billion in accordance with the Company's capital demand in order to assist the Company to construct and acquire new power projects.

INVESTMENT

On 1 July 2003, based on the regional development strategies of "stabilizing Shandong, developing nationwide, having regions relatively concentrated, having the short term and long term integrated", the Company entered into agreements with the relevant investing parties (all being independent third parties) in Ningxia Autonomous Region. Pursuant to the agreements, the Company's equity interests in Zhongning Company was increased from 20% to 50%. Zhongning Company plans to develop two 330MW coal-fired generating units. The proposal has been approved by the SDRC. It is expected that the two generating units will commence commercial operation in 2005.

Besides, on 26 June 2003, the Company and four independent investors (all being independent third parties) jointly established Ningxia Power Group with a registered capital of RMB900,000,000, of which the Company should contribute RMB280,000,000, representing 31.11% of the total registered capital. The remaining equity interests are held by Ningxia Yinglite Power (Group) Corporation (35.56%), 北京國際電力開發投資公司(16.67%), Ningxia Power Development & Investment Company Limited (11.11%) and 寧夏天淨電能開發有限公司(5.55%). As of 31 December 2003, the Company has made its capital contribution amounting to RMB 168,000,000.

Ningxia Power Group mainly invests in and develops the power projects in the Ningxia Autonomous Region (the "Region") and is the principal entity developing and planning future power projects in the Region. Ningxia Power Group also endeavors to study and formulate the planning of the two ten million KW class electricity bases in the Region and is responsible for commencing the preliminary work of the power projects in the Region. At present, Ningxia Power Group intends to invest in, plan and construct, two power projects, which mainly include Zhongning Company and Lingwu Plant.

Ningxia power grid is an important part of the Northwest China power grid and is also an important base of the northern channel of electricity transmission from the western to the eastern region in the PRC. In recent years, the power consumption of Ningxia power grid has greatly increased, which provides development opportunities for the power generating markets. The Company's participation in the establishment of Ningxia Power Group, and the increase in its investment in Zhongning Company realised the implementation of the development strategy of the Company and seeks to create more co-operation opportunities for the Company to expand its power business into Ningxia.

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

During the financial year of 2003, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of its securities (the word "securities" shall have the meaning as defined in the Listing Rules).

FINANCIAL SUMMARIES

Summaries of the results and the assets and liabilities of the Group for each of the five years ended 31 December 2003 are set out on page 84.

During the financial year of 2003, 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 guarantee to affiliated companies which exceeded 25% of the Company's net assets, did not know of any 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.



REPORT OF THE DIRECTORS

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Group has throughout the year of 2003 complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

MATERIAL LITIGATION

The Group was not involved in any material litigation or arbitration during the financial year of 2003. As at 31 December 2003, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

DESIGNATED DEPOSITS AND OVERDUE MATERIAL DEPOSITS

As at 31 December 2003, none of the Group's deposits placed with financial institutions or other parties were designated or trust deposits or material deposits which could not be collected by the Group upon maturity.

AUDITORS

The Company has not changed its auditors in any of the preceding three years. A resolution for the reappointment of KPMG Huazhen and KPMG as statutory auditors and international auditors of the Company respectively for the financial year of 2004 is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
He Gong
Chairman

Jinan, Shandong Province,
The People's Republic of China
28 March 2004

