HUANENG POWER INTERNATIONAL INC
Form 6-K
April 06, 2004

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March, 2004

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)
Form 20-F __X__ Form 40-F _____

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)
Yes ____ No __X__

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-__________.)
N/A

Huaneng Power International, Inc.
West Wing, Building C, Tianyin Mansion
No. 2C Fuxingmennan Street
Xicheng District
Beijing, 100031 PRC

This Form 6-K consists of:

An announcement on 2003 annual report, made on March 30, 2004, in English by Huaneng Power International Inc.

AS A POWER COMPANY, HUANENG POWER INTERNATIONAL, INC. IS COMMITTED TO SUPPLYING ABUNDANT, RELIABLE AND ENVIRONMENTAL-FRIENDLY ELECTRICITY TO ITS CUSTOMERS. AS A PUBLICLY LISTED COMPANY, WE ARE DEDICATED TO GENERATING LONG-TERM AND STEADILY INCREASING RETURN FOR OUR SHAREHOLDERS. TO ACHIEVE BOTH, WE NEVER CEASE TO PURSUE SUSTAINABLE, STABLE AND HEALTHY GROWTH OF THE COMPANY.

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COMPANY PROFILE

HUANENG POWER INTERNATIONAL, INC. ("HUANENG POWER" OR THE "COMPANY") AND ITS SUBSIDIARIES ARE ENGAGED IN DEVELOPING, CONSTRUCTING, OPERATING AND MANAGING LARGE-SCALE COAL-FIRED POWER PLANTS THROUGHOUT CHINA. THE COMPANY IS ONE OF THE LARGEST INDEPENDENT POWER PRODUCERS IN CHINA WITH EQUITY-BASED GENERATION CAPACITY OF 15,736MW AND A TOTAL CAPACITY OF 3,060MW UNDER CONSTRUCTION.

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The Company was incorporated on 30th June 1994. It completed its initial public offering of 1,250,000,000 overseas listed foreign shares ("foreign shares") in October 1994 and such shares (represented by 31,250,000 American Depository Shares) were listed on the New York Stock Exchange (NYSE: HNP). In January 1998, the foreign shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by way of introduction (Stock Code: 902). Subsequently, in March 1998, the Company successfully completed a global placement of 250,000,000 foreign shares along with a private placement of 400,000,000 domestic shares. In November 2001, the Company successfully completed the issue of 350,000,000 A shares in the PRC, of which 250,000,000 shares were domestic public shares. Currently, the total share capital of the Company amounts to approximately 6 billion shares, approximately 1.75 billion shares of which are tradable listed shares.

Currently, the Company and its subsidiaries wholly own 14 power plants and have controlling interests in 5 power plants and minority interests in 3 power companies. Its power plants have advanced equipment with high efficiency and stability. Their operations were widely located in those regions in China where there are rapid economic growth and fast-increasing power demand. The core business of the Company is to develop, construct, and operate large-scale coal-fired power plants by making use of modern technology and equipment and financial resources available domestically and internationally. The Company was the first power company in China to achieve listing status in New York, Hong Kong and Shanghai, while our Huaneng Dalian Power Plant was the first one to be awarded with the honour of "First Class Coal-fired Power Plant" in China. The Company was also the first to introduce 600MW supercritical coal-fired generating units in China. The planned Huaneng Yuhuan Power Plant will adopt the internationally advanced ultra-supercritical technology and will be the largest-scale coal-fired power generation unit in China. The overall manpower efficiency of the Company has been remaining at the forefront in China's power industry. In 2000, the Company was conferred the honour of "First Class Power Company in China" by the former State Power Corporation.

Throughout the years, with efforts in seeking expansion and operating the business in a prudent manner, the Company has expanded gradually, with steady profit growth and increasing competitive strengths. The success of the Company is attributable to the following competitive advantages: (1) advanced equipment, highly efficient generating units and stable operation of power plants; (2) high-quality staff and experienced management; (3) a regulated corporate governance structure and rationalised decision-making mechanisms; (4) geographical advantages of the locations of the power plants which present promising prospects in the power market; (5) good credit standing and reputation inside and outside China and rich experience in the capital markets; and (6) strong and full support from the parent Company.

As regards future development, the Company will continue to explore development opportunities according to the principle of "emphasising both development and acquisition, emphasising both greenfield and expansion, emphasising both coal-fuel and other types of fuels, and emphasising both domestic and overseas funds". At the same time, the Company will continue to focus on the improvement of management, cost controls and enhancement of efficiency, so as to increase shareholder value and maintain long-term stable growth.

Huaneng International Power Development Corporation ("HIPDC"), the Company's parent company and controlling shareholder, was incorporated as a Sino-foreign joint venture enterprise in 1985. The Company was incorporated by way of joint promotion by HIPDC and local government investment companies in the regions where the power plants are located.

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CORPORATE STRUCTURE

>> Huaneng International Power Development Corporation	42.39%
>> Hebei Provincial Construction Investment Company	7.50%
>> Fujian International Trust & Investment Company	5.56%
>> Jiangsu Province International Trust & Investment Company	5.18%
>> Liaoning Energy Investment (Group) Limited Liability Company	3.81%
>> Dalian Municipal Construction Investment Company	3.75%
>> Nantong Investment Management Centre	1.13%
>> Shantou Electric Power Development Company	0.77%
>> Shantou Power Development Joint Stock Company Limited	0.31%
>> Dandong Energy Investment Development Centre	0.11%
>> Domestic Public Shares	4.15%
>> Foreign Shares	25.34%

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MAJOR CORPORATE EVENTS IN 2003

1ST HALF YEAR	MAJOR CORPORATE EVENTS
>> 6 January	Asiamoney published the poll results on the Overall Best Managed Company in Asia for 2002: Huaneng Power ranked 5th in Overall Best Managed Company in China, 4th in Best Corporate Strategy, 5th in Best Financial Management and 5th in Best Operational Efficiency.
>> 21 January	Huaneng Power ranked 6th in the Top Ten Best in Corporate Governance in China for 2002 - The Asset.

>>	28 January	Huaneng Power signed an agreement in relation to the acquisition of 25% equity interest in Shenzhen Energy Group Co. Ltd.
>>	23 February	Huaneng Power announced that its proposal on the Shanghai Gas-fired project had been approved.
>>	13 March	Huaneng Power held the 2002 annual results press conference in Hong Kong announcing that its net profit increased 13.63%.
>>	19 March	Huaneng Power announced that its proposal on Jinling Combined-Cycle-Gas-Turbine Project, Zhejiang Huaneng Yuhuan Power Plant and Huaneng Shantou Coal-fired Power Plant Phase II as well as the feasibility study report on the construction of Huaiyin Power Plant Phase II had been approved.
>>	14 April	Huaneng Power announced that its total generation in the first quarter of 2003 increased 42.86% when compared to the same period of the previous year.
>>	22 April	The agreement in relation to the acquisition of 25% equity interest in Shenzhen Energy Group Co. Ltd. by Huaneng Power became effective.
>>	28 April	Huaneng Power announced its first quarterly operating results for 2003. Its net profit increased 41.87% when compared to the same period of the previous year.
>>	5 June	The Board of Directors of Huaneng Power approved the acquisition of 55% equity interest in the registered capital of Henan Qinbei Power Plant, 60% equity interest in the registered capital of Shanxi Yushe Power Plant and all the assets and liabilities of Shandong Xindian Power Plant owned by China Huaneng Group.

2ND HALF YEAR MAJOR CORPORATE EVENTS

>>	9 July	Huaneng Power announced that the total generation for the first half of 2003 increased 39.63% when compared to the same period of the previous year.
>>	17 July	Generating unit No.5 of Huaneng Power Jining Power Plant completed full-load trial operation.
>>	22 July	The resolutions on the acquisition of 55% equity interest in the registered capital of Henan Qinbei Power Plant, 60% equity interest in the registered capital of Shanxi Yushe Power Plant and all the assets of Shandong Xindian Power Plant owned by China Huaneng Group were passed at the extraordinary general meeting of Huaneng Power.
>>	6 August	Huaneng Power announced its interim results for 2003: net profit increased 28.58%.
>>	21 August	Generating unit No.6 of Huaneng International Jining Power

	Plant commenced commercial operation.
>> 4 September	Construction works of Huaneng Power Huaiyin Power Plant Phase II commenced.
>> 19 September	Huaneng Power obtained credit facilities of Rmb27 billion granted by Bank of China.
>> 13 October	Huaneng Power announced that the total generation for the first three quarters of 2003 increased 31.3% when compared to the same period of the previous year.
>> 21 October	Huaneng Power announced the results for the first three quarters of 2003: net profit increased 30.52%.
>> 27 October	The acquisitions of interests and assets in Henan Qinbei Power Plant, Shanxi Yushe Power Plant and Shandong Xindian Power Plant owned by China Huaneng Group became effective.
>> 10 November	In the PRC Listed Enterprises 100 for 2003 announced by Asiaweek, Huaneng Power ranked 2nd in PRC Listed Enterprises 100, 3rd in Highest Net Profit Enterprises, ranked 5th in Highest Business Turnover and 8th in Enterprises with Highest Aggregate Asset Value.
>> 19 November	Huaneng Power signed the Main Equipment Procument Contract in relation to the 1,000MW-class ultra-supercritical coal-fired generating units of Huaneng Yuhuan Power Plant.
>> 20 November	Huaneng Power won IR Magazine's "2003 Best IR from a Chinese Company--Large Cap" award.
>> 3 December	The on-grid tariff for newly operated generating units No.5 and No.6 of Jining Power Plant was approved. The on-grid tariff was Rmb320/MWh (including tax).
>> 22 December	Huaneng Power announced that the Feasibility Study Report on its Huaneng Yuhuan Power Plant was approved.

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FINANCIAL HIGHLIGHTS
(Amounts expressed in thousands of Rmb, except per share data)

INCOME STATEMENT (Note 1)

	Year ended 31st December			
	1999	2000	2001	200
Net operating revenue	10,488,158	12,553,254	15,791,362	18,474,46
Profit before taxation	2,252,730	2,927,032	4,237,109	5,057,89
Taxation	(384,555)	(411,202)	(715,220)	(980,85
Profit after taxation	1,868,175	2,515,830	3,521,889	4,077,03

Minority interests	--	--	(71,231)	(156,03
Net profit	1,868,175	2,515,830	3,450,658	3,921,00
Basic earnings per share (Rmb/share)	0.33	0.45	0.61	0.6
Fully diluted earnings per share (Rmb/share)	N/A	0.44	0.60	0.6

BALANCE SHEET (Note 2)

	As at 31st December			
	1999	2000	2001	20
Total assets	40,582,730	42,466,948	47,292,775	48,461,0
Total liabilities	(18,810,325)	(18,687,213)	(18,512,984)	(17,134,2
Minority interests	--	--	(486,261)	(910,7
Equity	21,772,405	23,779,735	28,293,530	30,416,0

Notes:

1. The results for the years ended 31st December 1999, 2000 and 2001 are derived from the historical financial statements of the Company. The results for the years ended 31st December 2002 and 2003 are set out on page 73.

2. The balance sheets as at 31st December 1999,2000 and 2001 are derived from the historical financial statements of the Company. The balance sheets as at 31st December 2002 and 2003 are set out on pages 74 to 75.

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LETTER TO SHAREHOLDERS

To all our shareholders:

AS A POWER COMPANY, HUANENG POWER IS COMMITTED TO SUPPLYING ABUNDANT, RELIABLE AND ENVIRONMENTAL-FRIENDLY ELECTRICITY TO ITS CUSTOMERS. AS A PUBLICLY LISTED COMPANY, WE ARE DEDICATED TO GENERATING LONG-TERM AND STEADILY INCREASING RETURN FOR OUR SHAREHOLDERS. TO ACHIEVE BOTH, WE NEVER CEASE TO PURSUE SUSTAINABLE, STABLE AND HEALTHY GROWTH OF THE COMPANY.

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In 2003, the Company recorded net operating revenues of Rmb23,388 million and net profit of Rmb5,430 million, representing increases of 26.60% and 38.50% as compared to the same period of last year. Earnings per share were Rmb0.90, representing an increase of Rmb 0.25 over the same period of last year. The good performance of the Company was reflected in the share prices of the Company during the past year. The overseas share price of the Company rose 115% during the year. By the end of year 2003, the overall capitalization of the Company has exceeded US$ 10 billion. The domestic share price has also reached a new high, up 53% over the year.

HUANENG POWER IS COMMITTED TO SUPPLYING ABUNDANT, RELIABLE AND ENVIRONMENTAL-FRIENDLY ELECTRICITY TO CONSUMERS

Year 2003 was a year full of opportunities and challenges. Despite the unexpected "SARS" epidemic in the months between spring and summer, the PRC economy still maintained a continued and steadily growing trend. GDP increased by 9.1%, thereby giving an impetus to the strong growth in power demand. The nation's power demand increased by 15.4%. In particular, the southern region continuously recorded high temperatures in summer last year, and hydropower generation was reduced drastically as a result of the low water level. Starting from November, there was a short supply of coal in the PRC power industry, which had not happened for many years. However, at the same time, power demand remained at a high level. As a power generation company, the Company's power plants strengthened equipment maintenance and operation management in order to enhance reliability and to ensure safe and full-load production of the generating units so as to satisfy the requirements of the society, thereby warranting the safe operation of the power grids and supporting the economic development. The Company achieved power generation of 90.91billion kWh in the whole year, an increase of 27.3% when compared to last year. The equivalent availability factor of the power plants of the Company was 92.15% and the average utilization hour was 5,933 hours.

In the fourth quarter of 2003, coal prices increased as a result of the substantial increase in demand for coal and lack of transportation capacity. . In view of the adverse situation, the Company strengthened cost controls, particularly control of fuel costs, by adopting measures including coal blending burning and optimising the level of operation of the generating units in order to reduce coal consumption, and at the same time stringently controlled coal purchase costs and strived to reduce transportation costs and storage loss. As a result, the Company succeeded in maintaining the unit fuel cost for power sold to Rmb105.05, an increase of 2.28% only when compared to the previous year. The average coal consumption rates for power generated and power sold, on an equity basis, were 318.23g/kWh and 335.12g/kWh respectively.

At the same time of achieving effective control of production costs, we also strived to economise financial charges and reduce financing costs by way of scientific and rationalised arrangements for collection and payment of funds and by obtaining favourable lending terms. Owing to effective cost controls by the Company during the year, the unit cost for power sold of the Company decreased by 1.21% when compared to the previous year. As the power industry is a capital intensive industry with a long payback period, the Company has been adopting prudent financial policies. Good credit standing and sufficient cash flow have guaranteed fund requirements for the strategic developments of the Company on new construction, expansion, acquisition, and so forth.

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All along, the Company adhered to the development strategy of emphasising both acquisition and development. After the Company completed the acquisition of 25%

equity interest of Shenzhen Energy Group Co. Ltd. at the beginning of the year, it also realized the acquisition of the assets of Huaneng Xindian Power Plant owned by China Huaneng Group, and the equity interests of Henan Huaneng Qinbei Power Generation Limited Company and Shanxi Huaneng Yushe Power Limited Company, thereby increasing the generation capacity and generation capacity under construction of the Company on an equity basis by 770MW and 1,020MW respectively. Such acquisitions brought about further rationalization of the Company's geographical deployment of power production, and enhanced the competitiveness of the Company in the central region market, while enabling the Company to have new generation capacity added for the next two years.

As regards development and construction, generating units No.5 and No.6 of Jining Power Plant commenced commercial operation in July and August 2003 respectively, thus increasing the power generation capacity of the Company on an equity basis by 270MW. Construction of two 330MW coal-fired generating units at Huaiyin Power Plant Phase II and one 600MW coal-fired generating unit at Shantou Power Plant Phase II had commenced and they were expected to commence operation in 2005 and 2006 respectively. The feasibility study report on the project of constructing China's first two 1,000MW ultra-supercritical coal-fired generating units at Yuhuan Power Plant Phase I has been approved by the State. The project proposals in relation to the construction of two 600MW coal-fired generating units at Taicang Power Plant Phase II, three 300MW-class Combined-Cycle-Gas-Turbine generating units of Shanghai Gas-fired Power Plant and three 300MW-class Combined-Cycle-Gas-Turbine generating units of Jinling Gas-fired Power Plant have been approved by the State. The operating scale of the Company was enlarged continuously as a result of acquisitions and development. As at the end of 2003, the generation capacity of the Company on an equity basis amounted to 15,736MW, with additional works-in-progress capacity of 3,060 MW, thus maintaining the Company's advantageous position in the PRC's power industry and ensuring good development momentum.

While creating economic value, the Company also strives to reduce pollution to the environment during its power generation . All along, the Company has been committed to protecting the environment on which we depend to live, and providing abundant, reliable and environmental-friendly electricity to the consumers. In 2003, the Company paid close attention to the environmental protection policies of the State and participated in the formulation and amendment of certain environmental protection standards. The Company implemented effective measures including stringent requirements for environmental protection management of its power plants, controlling the sulphur content of fuel coal, enhancing the efficiency of electric dust removal and operation, actively promoting the direct use of dry ash and reducing ash water discharge, thereby enabling the Company to stay at the forefront in the PRC for its environmental protection endeavours. In 2003, the total waste discharge fees paid by the Company to local governments were approximately Rmb72.68 million.

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HUANENG POWER IS COMMITTED TO GENERATING LONG-TERM AND STEADILY INCREASING RETURN FOR THE SHAREHOLDERS

The continued expansion of the operating scale and the continued and stable profit growth of the Company brought about continued and steadily increasing return for the shareholders. The Company has declared dividends to shareholders annually ever since 1998, and the dividend payout ratio has been over 50% for 4 consecutive years since 2000. In order to provide good return to our shareholders and at the same time in view of the further development of the Company, the Board of Directors of the Company has passed a resolution to propose the following plan of dividend distribution for 2003: for all shareholders, every 10 shares will receive a cash dividend of RMB 5.0 and 10 shares (five being bonus shares and the other five to be converted from reserve fund). This resolution will be submitted to the annual general meeting for approval. In the future, the Company will continue to adopt a pro-active, balanced and stable dividend distribution policy and will endeavour to achieve continued growth in shareholder return.

At the same time, the Company also attaches great importance to communication with its investors and strives to establish good communication channels and carry out open and transparent disclosure of information. In 2003, the Company conducted a total of 74 press releases, held more than a hundred "one-on-one" meetings with overseas investors through road shows and conferences with the investment sector, and organized domestic and foreign investors to visit power plants so as to directly exchange views with the management of the power plants. The transparency of the Company met the demands of the investors to understand the production, operation, financial position and strategic information of the Company in a timely manner, and attracted the following of more and more investors who have become confident about the prospects of the Company. During the Year, the Company obtained the "2003 Best IR from a Chinese Company -D Large Cap" award given by IR Magazine, the "Best Investor Relationship for PRC Companies" award and the "Best Investor Relationship for Energy Utilities in Asia-Pacific Region" award given by Institutional Investor, the "Overall Best Managed Company in China" award given by Asiamoney and the "Best Public Utilities Company in Asia" award given by Euromoney.

HUANENG POWER WILL PURSUE ITS SUSTAINABLE, STABLE AND HEALTHY GROWTH

Looking ahead in 2004, the government has announced that the anticipated target for PRC's GDP increase would be 7%, and the authorities concerned have estimated that the nationwide power consumption growth rate would reach approximately 11% and new installed capacity will amount to 37,000MW. However, the power supply situation in the PRC will remain to be tight. Considering the future development environment for the Company, again, there will be opportunities as well as challenges.

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In respect of power generation, the fact that demand will undergo continued, substantial growth will provide the Company with a favourable condition to generate more electricity and thus more profits on the one hand, but will create pressure on safety and stability of the operation due to long, heavy loading of the generation units on the other hand. As one of the challenges we encounter this year, we will ensure a safe operation of our generating units and facilities, thus achieving a safe production.

Another challenge we face is related to coal supply. For a number of reasons, coal has been in rather short supply since the second half of last year and coal prices rose. The Company adopted a series of measures to ensure a sufficient supply of coal. The Company believes that under the government's guidance, suppliers and customers will co-operate with each other, thus ensuring a healthy coal market for the power industry.

In respect of development projects, economic growth and people's rising living standards provide more room for market development, which on the one hand gives better opportunity to the Company for rapid expansion, and on the other hand imposes heavy pressure upon project management due to the large-scale power plant construction. Ensuring the construction projects to be completed on schedule and with high quality, as well as controlling the construction costs, will be a challenge for the coming year.

We have full confidence to seize the opportunities and face the challenges to realize the goals of the Company. First, we have strong support from the parent company. HIPDC and China Huaneng Group, the direct and indirect parent companies of the Company, have power-generating assets respectively across the country and are continuously expanding. They have committed to giving the Company first right of refusal when developing and transferring power generating assets. Moreover, the parent companies will give strong support to the Company in other aspects. The Company shall take full advantage of such support to continuously enhance its strengths and profitability.

Our competitive advantages include: regulated and outstanding management and an experienced management team; economies of scale and geographical advantage on the distribution of power plants; advanced and highly efficient power generation equipment and technology; and abundant capital and strong financing capabilities.

Given the above advantages, the Company will develop far and beyond amidst competition, capture more market shares in power generation and in terms of generation capacity. The Company has full confidence to maintain its leadership position among independent power producers in China.

The Company will focus on the following objectives in 2004:

(1) To ensure safe and operating stability of the Company's power plants, and the achievement of their annual power generation plans; and on this basis, to analyse and formulate effective market strategies with respect to power market and power pooling, and to enlarge our power market shares;

(2) To undertake stringent control of operating costs and other costs, in particular fuel costs and construction costs;

(3) To actively develop the proposed projects and push forward the work for the power plants under construction, with a view to expanding the Company's operating scale and enhancing its business strength; and

(4) To actively seek new opportunities in order to assure continuous growth of the Company's profits and shareholders' interests.

THE COMPANY WILL CONTINUE TO PURSUE A MAXIMIZATION OF SHAREHOLDERS' INTERESTS AS ITS OPERATING OBJECTIVES AND GOALS. GIVEN THE STEADY AND STABLE ECONOMIC GROWTH IN CHINA, THE GOOD OPPORTUNITIES PROVIDED BY THE POWER REFORM, THE STRONG SUPPORT FROM GOVERNMENT OF ALL LEVELS AND ITS PARENT COMPANY, AND ESPECIALLY THE SUPPORT AND TRUST FROM INVESTORS AND SHAREHOLDERS, THE COMPANY WILL FOR SURE BE ABLE TO CONTINUE ITS HEALTHY AND STEADY GROWTH UNDER THE EFFICIENT AND EXPERIENCED MANAGEMENT TEAM, BRINGING LONG-TERM AND STABLE GROWTH OF RETURN TO OUR SHAREHOLDERS.

WANG XIAOSONG	LI XIAOPENG	YE DAJI
Vice Chairman	Chairman	President

Beijing, the PRC
30 March 2004

EXTENDING OUR COVERAGE,
SPREADING OUR NETWORK --
DEVOTED TO EXPANDING OUR MARKET SHARES.

<<MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW OF YEAR 2003

Year 2003 was a year full of challenges and opportunities. The steady growth of China's economy boosted power demand, the nation's power demand increased by 15.4% and more than 20 provinces experienced power shortage. During the year, the Company continued to strengthen its 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 annual targets.

1. STEADY GROWTH OF OPERATING RESULTS

For the twelve months ended 31st December 2003, the Company recorded net operating revenues of Rmb23.388 billion and a net profit of Rmb5.430 billion, representing increases of 26.60% and 38.50%, respectively, as compared to the same period of 2002. Earnings per share was Rmb0.90, representing an increase of Rmb0.25 over the same period of 2002.

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 impact of project development and asset acquisition also made significant contribution to the growth of the Company's operating results for year 2003. At the same time, facing an increasingly competitive power market, and in view of the twofold pressure of escalating fuel prices 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. Despite the increase of raw coal price by 2.89%, the average unit fuel cost for power sold increased only 2.28% over the previous year.

As at the end of 2003, net asset per share of the Company was Rmb5.63, representing an increase of 11.05% when compared to 2002.

2. SAFE AND STABLE POWER GENERATION

In 2003, the operating power plants of the Company and its subsidiaries achieved power generation totalling 90.91 billion kWh on a consolidated basis (including the power generation from Yushe Power Plant and Xindian Power Plant in November and December), representing an increase of 27.3% over the same period of the previous year. The growth in power generation of the Company in 2003 laid the foundation for the good operating results.

The growth in the Company's power generation was due to the increased power demand driven by the rapid and steady economic growth of the country. On the other hand, the increase in power generation was attributable to the whole-year power generation contribution from the two generating units at Dezhou Power Plant Phase III which commenced operation in 2002, the power generation contribution from the commercial operation of two generating units at Jining Power Plant, together with the contribution of the two months power generation from the newly acquired Yushe Power Plant and Xindian Power Plant, thus significantly increasing the power generation capacity of the Company. At the same time, the rationalised scheduling of the planned maintenance of the generating units also created favourable conditions for the increased power generation of the Company.

In 2003, the average availability factor of the power plants of the Company and its subsidiaries was 92.15%, with an average capacity factor of 68.06% while the average coal consumption rates for power sold and for power generated were 335.12 gram/kWh and 318.23 gram/kWh, respectively. The average house consumption rate was 4.76%. The Company's technical and economic indices remained at the forefront among all other power companies in the PRC.

In 2003, the Company's power plants in Shanghai, Liaoning and Jiangsu participated in the pilot scheme of power pooling in their respective regions. The power generation subject to power pooling is 5.159 billion kWh, accounting for 5.98% of the total power sale in the year. Power pooling not only increased the market share of the Company in local regions, but also increased the marginal profit of the Company.

Moreover, taking into account the oil price increase and for the purpose of controlling generation costs, the Company decided to shut down the two 100MW oil-fired generating units at Xindian Power Plant Phase I, which have been in operation for 30 years and is making losses currently. The generation capacity at Xindian Power Plant was reduced from 650MW to 450MW.

3. BREAKTHROUGHS IN ASSET OPERATION

(1) Through tendering, the Company has acquired 25% interest in Shenzhen Energy Group Co. Ltd. ("SEG") after the latter's 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) In 2003, the Company acquired 55% equity interest in the registered capital of Qinbei Power Plant, 60% equity interest in the registered capital of Yushe Power Plant, and all the assets and liabilities of Xindian Power Plant from China Huaneng Group. The acquisitions were effective on 27th October 2003, thereby increasing the generation capacity of the Company on an equity basis by 770MW, and the generation capacity under construction on an equity basis by 1,020MW. These have enhanced the competitiveness of the Company in Central China and also contributed to the growth of the Company's annual results.

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4. ACHIEVEMENTS IN PROJECT CONSTRUCTION

(1) Owing to the Company's careful organisation and various parties' efforts, generating units 5 and 6 at Jining Power Plant expansion project (using Cycled Fluidised Bed Combustion Boilers) commenced commercial operation in July and August 2003 respectively, thereby making contribution to the growth in power generation of the Company.

(2) Construction works of Huaiyin Power Plant Phase II project (2x330MW coal-fired generating units) and the project of one 600 MW coal-fired

generating unit at Shantou Power Plant Phase II have commenced, with works quality and investment costs under effective control and works being carried out on schedule.

(3) Construction works of two 600MW coal-fired generating units at Qinbei Power Plant Phase I and two 300MW coal-fired generating units at Yushe Power Plant Phase II have been progressing smoothly, and it is estimated that the plants will be put into full operation in 2004 and 2005 respectively.

5. A NEW CHAPTER OF SUSTAINABLE DEVELOPMENT

The feasibility study report on the project of two 1,000MW ultra-supercritical coal-fired generating units, which is the first case in China, at Huaneng Yuhuan Power Plant Phase I has been approved by the State. Project proposals in relation to the construction of Taicang Power Plant Phase II (2x600MW coal-fired generating units), Shanghai Gas-fired Power Plant (3x300MW-class Combined-Cycle-Gas-Turbine generating units) and Jinling Gas-fired Power Plant (3x300MW-class Combined-Cycle-Gas-Turbine generating units) have obtained approvals from the State. The Company will actively push forward the progress of the proposed projects in accordance with commercially viable principles.

PROSPECTS FOR 2004

Year 2004 is also a year of full of challenges and opportunities. In respect of power generation, the demand will continue to increase with substantial growth. On the one hand, this provides the Company with a favourable condition to generate more generation, thus creating more profits. On the other hand, the consistently heavy loading of the generating units will create pressure on safety and stability of the operation. As one of the challenges we encounter this year, we will ensure a safe operation of our generating units and facilities, thus achieving a safe production.

Another challenge we face is related to coal supply. For a number of reasons, coal has been in rather short supply since the second half of last year and coal prices rose. The Company adopted a series of measures to ensure a sufficient supply of coal. The Company believes that under the government's guidance, suppliers and customers will co-operate with each other, thus ensuring a healthy coal market for the power industry.

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In respect of development projects, economic growth and rising people's living standards provide more room for market development, which on the one hand gives better opportunity to the Company for rapid expansion, and on the other hand imposes heavy pressure upon project management due to the large-scale power plant construction. Ensuring the construction projects to be completed on schedule and with high quality and controlling the construction costs are also a challenge for the coming year.

As emphasized in the Letter to Shareholders, the Company will focus on the following objectives in 2004:

(1) To ensure safe and operating stability of the Company's power plants, and the achievement of their annual power generation plans; and on this basis, to analyse and formulate effective market strategies with respect to power market and power pooling, and to enlarge our power market shares;

(2) To undertake stringent control of operating costs and other costs, in particular fuel costs and construction costs;

(3) To actively develop the proposed projects and push forward the work for the power plants under construction, with a view to expanding the Company's operating scale and enhancing its business strength; and

(4) To actively seek new opportunities in order to assure continuous growth of the Company's profits and shareholders' interests.

The Company will continue to pursue a maximization of shareholders' interests as its operating objectives and goals. Given the steady and stable economic growth in China, the good opportunities provided by the power reform, the strong support from government of all levels and its parent company, and especially the support and trust from investors and shareholders, the Company will for sure be able to continue its healthy and steady growth under the efficient and experienced management team, bringing long-term and stable growth of return to the shareholders.

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OPERATING RESULTS

Comparison of the operating results between the year 2003 and the year 2002.

SUMMARY

In 2003, the Company has achieved very good operating results.

In 2003, the electricity sale of the Company and its subsidiaries reached 86.242 billion kWh, increased by 28.08% from the 67.332 billion kWh of last year. Accordingly, net operating revenue, net profit and earnings per share increased considerably when compared with those of 2002. The Board of Directors of the Company was satisfied with the operating results of the year 2003.

The Company's good performance is mainly attributable to the rapid development of the national economy and concerted efforts of all the staff of the Company.

In 2003, the rapid development of the national economy has resulted in a strong demand for electricity. The growth rate of the production and consumption of electricity exceeded that of the GDP. In the peak seasons, such as in the hot summer days when urban residents had higher demand for electricity supply, and in the arid winter days when hydro power generation decreased significantly, there was a serious shortage of electricity supply in some regions of the country, especially in the comparatively developed south-eastern coastal areas. The local government called on people to save electricity, and part of users had to pause electricity consumption or was restricted in electricity consumption. The local government took measures to ensure and faster the production of the power-generation enterprises, and to limit the electricity consumption of high power-consuming enterprises in order to ensure the supply to residential end-consumers and key users such as hospitals.

The Company and its subsidiaries face a prosperous environment as the power output and the operating hours of the domestic thermal power plants had increased significantly in 2003, due to the strong demand for electricity caused by a number of factors including: the rapid development of the national economy, the significant increase of the consumption of high power-consuming enterprises; and the arid atmosphere in certain areas.

The Company and its subsidiaries accomplished and significantly exceeded the annual production and sale plan despite of the SARS conditions, tight situation in coal transportation and the rarely high temperature in the summer. The Company and its subsidiaries took advantage of the macro-environment, carefully maintained the equipments, arranged the overhaul projects with the consideration of the market demand, managed to meet the demand for fuel. The superior technology and equipments enhanced the Company's competition position. For the year ended 31st December 2003, the power generation of the Company and its subsidiaries reached 90.91 billion kWh, increased by 27.3% compared to the prior year.

The growth of the Company and its subsidiaries' power generation was attributed to the following factors:

(1) the rapid-growth of the national economy, which resulted in a significant increase in the demand of electricity and accordingly the increase of generation of the power plants of the Company and its subsidiaries;

(2) the significant decrease of hydro power generation in Fujian Province, which resulted in more power generation of the power plants of the Company in Fujian province;

(3) the remarkable increase of the generation capacity of the Company with two generation units of Jining Power Plant put into operation in 2003 and the full year generation capacity of two generation units of Dezhou Power Plant Phase III which were put into commercial operation in 2002;

(4) two months' power generation contribution from Yushe Power Plant and Xindian Power Plant, both of which were acquired in 2003.

In 2003, the Company made great achievement in capital transaction.

On 22nd April 2003, the Company acquired equity interests representing 25% of the enlarged share capital of SEG at a consideration of Rmb2.39 billion. Through this acquisition, the Company entered the Shenzhen power market, which is a high potential market. The Company is confident that it can work together with local power developers to exploit the Shenzhen power market, to provide power to local customers and to obtain satisfactory returns from this strategic investment.

On 27th October 2003, the Company acquired from China Huaneng Group all the assets and liabilities of Xindian Power Plant, 60% of the equity interests of Yushe Power Plant and 55% of the equity interests of Qinbei Power Plant at a total consideration of Rmb550 million. This acquisition was in the alignment with the Company's market development strategy to consolidate the advantages in the coastal regions and to expand in the middle China. The three power plants mentioned above are located in Shandong Province, Henan Province and Shanxi Province, respectively. The Company and its subsidiaries' entry into Henan and Shanxi Province enlarged its regional coverage to the larger power market in middle China. Henan Province located at the lower reaches of the Yellow River. It is a main energy base in China with high production output of coal and oil. Shanxi Province located at North China, and is the top coal-output province in China with coal reserve accounted for one third of the total coal reserve in China. The acquisition was the continuance of the development strategy of the Company "to focus on both development and acquisition".

NET OPERATING REVENUE

Net operating revenue represents operating revenue net of the value-added tax and deferred revenue. For the year ended 31st December 2003, the consolidated net operating revenue of the Company and its subsidiaries was Rmb23.388 billion, representing an increase of 26.60% over net operating revenue of Rmb18.474 billion of last year.

The significant increase of net operating revenue was primarily because of the 28.08% increase of power output compared to last year. Among the power plants of the Company and its subsidiaries, the operating revenue of Dezhou Power Plant, Fuzhou Power Plant, Dalian Power Plant and Dandong Power Plant had increased significantly. The output of Dezhou Power Plant had increased 42.91% compared to last year. The main reason of the increase was that the Phase III of Dezhou Power Plant was put into commercial operation in the second half of 2002. The increase of output of Fuzhou Power Plant was because that the significant reduction of hydro power generation in Fujian Province offered the opportunity to our plant to enlarge its generation. The operating revenue of Dalian Power Plant and Dandong Power Plant increased because of the continuous expansion of the power market in Liaoning Province.

DEVELOPING GAS-FIRED,
PROTECTING THE ENVIRONMENT --
EQUIPPED WITH DIVERSIFIED GENERATION ASSETS.

The lower growth rate of operating revenue, when compared with that of power output, was due to the decrease of the average tariff rate. The average tariff rate decreased 2.06% from Rmb325.38 per MWh in 2002 to Rmb318.68 per MWh in 2003. The decrease of the average tariff rate was due to the adjustment of approved tariff rates and the increase of the percentage of excess generation portion as the total power output increased. In addition, the tariff rates of the newly acquired Xindian Power Plant and Yushe Power Plant were lower than that of the original power plants of the Company and its subsidiaries.

DALIAN POWER PLANT

Dalian Power Plant's net operating revenue increased by 19.74% to Rmb1.900 billion in 2003 from Rmb1.587 billion of last year. The average tariff rate was Rmb272.69 per MWh, which decreased by 2.79% from Rmb280.53 MWh in 2002. The power output of Dalian Power Plant reached 8.145 billion kWh, increased by 20.43% compared to last year. The significant increase of power output was due to the continuous expansion of the power market of Liaoning Province and the increasing power consumption. The increase of power output net of the impact caused by the decrease of the average tariff rate and resulted in the significant increase of the operating revenue.

FUZHOU POWER PLANT

Fuzhou Power Plant's net operating revenue increased by 26.51% to Rmb2.390 billion in 2003 from Rmb1.889 billion of last year. The average tariff rate was Rmb331.82 per MWh, which increased by 1.23% from Rmb327.80 MWh in 2002. The increase of average tariff rate was caused by the change of the structure the power output, among which, planned generation portion increased and the excess generation portion decreased. The power output of Fuzhou Power Plant was 8.464 billion kWh, increased by 23.13% when compared to last year. Both the increase of the average tariff rate and the power output resulted in significant increase of the net operating revenue and net operating profit. The main reason of the increase of the power generation of Fuzhou Power Plant was mainly that Fuzhou Power Plant had the opportunity to enlarge power generation since the hydro power generation declined significantly due to the arid climate in Fujian Province while the power demand increased.

SHANG'AN POWER PLANT

Shang'an Power Plant's net operating revenue increased by 4.34% to Rmb2.008 billion in 2003 from Rmb1.924 billion in 2002. The average tariff rate was Rmb307.94 per MWh, which decreased by 2.44% from Rmb315.65 MWh of last year. The decrease of the average tariff rate was mainly caused by the change of the structure of the power sales. All the increased portion of power output was in the excess generation category with a lower tariff rate. The increase of the net operating revenue of Shang'an Power Plant was due to the increase of power output. The lower growth rate of net operating revenue and net profit was caused by the decrease of the average tariff rate.

NANTONG POWER PLANT

Nantong Power Plant's net operating revenue increased by 9.86% to Rmb2.147 billion in 2003 from Rmb1.955 billion in 2002. The average tariff rate was Rmb312.52 per MWh, which increased by 0.96% from Rmb309.54 MWh of last year. The power output of Nantong Power Plant reached 8.078 billion kWh, increased by 7.65% compared to last year. The increase of the net operating revenue and the net profit of Nantong Power Plant was caused by two factors: the increase of the power output and the increase of the average tariff rate. The increase of the average tariff rate was due to the increase of the tariff rate of the excess generation.

SHANTOU OIL-FIRED POWER PLANT

Shantou Oil-fired Power Plant's net operating revenue increased by 56.57% to Rmb178 million in 2003 from Rmb114 million in 2002. The average tariff rate was Rmb672.41 per MWh, which increased by 8.28% from Rmb621.02 MWh of last year. The power output of Shantou Oil-fired Power Plant reached 296 million kWh, increased by 45.15% compared to last year.

DANDONG POWER PLANT

Dandong Power Plant's net operating revenue increased by 22.87% to Rmb927 million in 2003 from Rmb754 million in 2002. The increase of the net operating revenue was mainly caused by the 20.23% increase of power output of Dandong Power Plant, which reached 4.046 billion kWh in 2003. The increase of power output was due to the same factors that benefited Dalian Power Plant, namely the continuous expansion of the power market of Liaoning Province and the continuous growth of power consumption. The other significant reason was that the average tariff rate increased by 1.19% to Rmb276.95 MWh in 2003 from Rmb273.70 per MWh of last year.

SHANTOU COAL-FIRED POWER PLANT

Shantou Coal-fired Power Plant's net operating revenue increased by 2.33% to Rmb1.522 billion in 2003 from Rmb1.487 billion in 2002. The average tariff rate was Rmb435.17 per MWh, which decreased by 4.56% from Rmb455.95 MWh of last year. The power output of Shantou Coal-fired Power Plant reached 4.125 billion kWh, increased by 6.55% compared to last year. The lower growth rate of the net operating revenue, when compared with that of power output, was due to that certain portion of the increase of the power output was offset by the decrease of the average tariff rate.

SHIDONGKOU SECOND POWER PLANT

Shidongkou Second Power Plant's net operating revenue increased by 6.84% to Rmb2.250 billion in 2003 from Rmb2.106 billion in 2002. The average tariff rate was Rmb332.85 per MWh, which decreased by 3.77% from Rmb345.90 MWh of last year. The power output of Shidongkou Second Power Plant reached 8.024 billion kWh, increased by 10.40% compared to last year. The increase of the power output was due to that the power demand in the East China (especially in Shanghai) exceeded the power supply in 2003, which resulted in the significant increase of the net operating revenue and net profit.

NANJING POWER PLANT

Nanjing Power Plant's net operating revenue increased by 10.03% to Rmb1.027 billion in 2003 from Rmb933 million in 2002, which was mainly caused by two factors: 1) The average tariff rate reached Rmb307.31 per MWh in 2003, increased by 1.07% from Rmb304.07 MWh of last year. The increase of the average tariff rate was mainly due to the increase of the bidding tariff rate and the tariff rate for the excess generation. 2) The power output of Nanjing Power Plant reached 3.867 billion kWh, increased by 7.16% compared to last year. The increase of power generation was mainly due to the significant increase of power demand of the East China grid.

DEZHOU POWER PLANT

Dezhou Power Plant's net operating revenue increased by 40.27% to Rmb3.206 billion in 2003 from Rmb2.286 billion in 2002. The average tariff rate was Rmb333.34 per MWh, which decreased by 1.85% from Rmb339.64 MWh of last year. The increase of the net operating revenue of Dezhou Power Plant was mainly due to that the increase in the power output offset the impact of decrease of the average tariff rate. The increase of power output was mainly due to that the Phase III project (2X660MW) formed additional stable generation capacity.

JINING POWER PLANT

Jining Power Plant's net operating revenue increased by 7.28% to Rmb453 million in 2003 from Rmb422 million in 2002. The average tariff rate was Rmb274.66 per MWh, which decreased by 0.18% from Rmb275.15 per MWh of last year. The power output of Jining Power Plant reached 1.928 billion kWh, increased by 6.82% compared to last year. The increase of the net operating revenue of Jining Power Plant was mainly due to the increase of power output. The increase of power output was mainly due to that the Phase III project (2X135MW) was put into commercial operation in 2003, which enlarged the total installation capacity of Jining Power Plant.

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CHANGXING POWER PLANT

Changxing Power Plant became a wholly-owned plant of the Company on 1st July, 2002. In 2003, Changxing Power Plant's net operating revenue was Rmb454 million. Its power output was 1.657 billion kWh with the average tariff rate of Rmb320.57 per MWh.

SHIDONGKOU FIRST POWER PLANT

The Company acquired 70% of the equity interests of Shidongkou First Power

Plant on 1st July, 2002, and subsequently acquired the remaining 30% equity interests on 31st December, 2002. Since then, the plant became a wholly-owned plant. In 2003, the net operating revenue, power output and average tariff rate of Shidongkou First Power Plant were Rmb1.623 billion, 7.395 billion kWh and Rmb256.64 per MWh, respectively.

XINDIAN POWER PLANT

Xindian Power Plant became a branch of the Company by the end of October 2003. The net operating revenue of Xindian Power Plant from November to December was Rmb150 million. The power output and average tariff rate of Xindian Power Plant were 512 million kWh and Rmb342.41 per MWh, respectively.

TAICANG POWER PLANT

The Company acquired 70% of the equity interests of Taicang Power Plant on 1st July, 2002 and subsequently acquired 5% of the equity interests on 31st December, 2002. In 2003, the net operating revenue, power output and average tariff rate of Taicang Power Plant were Rmb1.105 billion, 4.062 billion kWh and Rmb321.80 per MWh, respectively.

HUAIYIN POWER PLANT

The Company acquired 44.16% of the equity interests of Huaiyin Power Plant on 1st July, 2002, and subsequently acquired 19.48% equity interests on 31st December, 2002. In 2003, the net operating revenue, power output and average tariff rate of Huaiyin Power Plant were Rmb652 million, 2.435 billion kWh and Rmb317.21 per MWh, respectively.

WEIHAI POWER PLANT

The Company owns 60% equity interests in Weihai Power Plant. The net operating revenue of Weihai Power Plant decreased by 4.66% to Rmb1.340 billion in 2003 from Rmb1.405 billion of last year. The decrease was mainly caused by two factors: 1) The power output of Weihai Power Plant decreased by 2.79% to 4.107 billion kWh from 4.225 billion kWh of last year. 2) The average tariff rate of Weihai Power Plant decreased by 1.84% to Rmb386.50 per MWh from Rmb393.74 per MWh of last year. The decrease of the average tariff rate was mainly due to the change of the structure of power output, among which the portion of the planned generation decreased and the portion of the generation applied to lower tariff rates increased.

YUSHE POWER PLANT

The Company acquired 60% of the equity interests of Yushe Power Plant by the end of October 2003. The net operating revenue of Yushe Power Plant from November to December were Rmb57 million. The power output and average tariff rate of Yushe Power Plant were 259 million kWh and Rmb200.63 per MWh, respectively.

QINBEI POWER PLANT

The Company acquired 55% equity interests of Qinbei Power Plant by the end of October 2003. Two sets of generation units of Qinbei Power Plant, with the capacity of 600 MW each, were still under construction.

OPERATING EXPENSES

The total operating expenses of the Company and its subsidiaries increased by 26.51% to Rmb16.315 billion in 2003 from Rmb12.896 billion of last year. The growth rate of operating expenses was lower than that of power output.

The primary operating expenses of the Company and its subsidiaries was fuel cost. The fuel cost increased by 30.49% to Rmb9.025 billion in 2003, when compared to Rmb 6.916 billion of last year. The weighted average unit price of natural coal increased by 2.89% to Rmb239.06 per ton in 2003 from Rmb232.34 per ton in 2002. Accordingly the unit fuel cost of power output increased by 2.28% to Rmb105.05 per MWh. Xindian Power Plant and Yushe Power Plant's unit fuel cost of power output was Rmb103.48 per MWh, which was lower than the average level of original power plants of the Company.

MAINTENANCE EXPENSE

The maintenance expense incurred by the Company and its subsidiaries was Rmb922 million in 2003. The maintenance expense increased by 51.64% when compared to Rmb608 million of last year. The increase of the maintenance expense was mainly due to two factors: 1) The plants acquired in 2002, including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant, were consolidated in 2003 on a full-year basis. 2) The original power plants such as Dezhou Power Plant, Dalian Power Plant and Fuzhou Power Plant, carried out major overhaul according the annual plan and incurred more maintenance expense.

DEPRECIATION AND AMORTIZATION

The depreciation and amortization of the Company and its subsidiaries was Rmb4.117 billion in 2003, increased by 16.50% from Rmb3.534 billion of last year. The depreciation and amortization of the original power plants and the headquarter of the Company were Rmb4.093 billion, increased by 15.82% compared to last year. The newly acquired power plants including Xindian Power Plant and Yushe Power Plant incurred depreciation and amortization Rmb24 million in 2003. The increase of depreciation and amortization was mainly due to that the Phase III of Dezhou Power Plant was put into commercial operation in late 2002, and that the plants acquired in 2002, including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant, were consolidated in 2003 on a full-year basis.

LABOR COST

The labor cost of the Company and its subsidiaries was Rmb1.439 billion in 2003, which increased by 38.90% from Rmb1.036 billion of last year. The increase of labor cost was mainly due to that the plants acquired in second half of 2002, including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant, were consolidated in 2003 on a full-year basis.

SERVICE FEE PAID TO HIPDC

The service fee paid to HIPDC refers to a fee for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit.

In 2003, the Company incurred the service fee in relation to the grid connection and transmission facilities for Shang'an Power Plant and Shantou Coal-fired Power Plant (HIPDC had transferred the ownership of transmission and transformation facilities of Fuzhou Power Plant Phase I and Shidongkou Second Power Plant to Fujian Electric Power Company and Shanghai Power Corporation, respectively, on 1st July, 2002. The Company was not required to pay the service fee for the two plants since the transfer). The service fee paid to HIPDC was Rmb215 million in 2003, decreased by 18.56% when compared with Rmb264 million in 2002.

INCOME TAX EXPENSES

Pursuant to the relevant tax regulations, the Company is a Sino-foreign equity joint venture and enjoys the preferential income tax policy. Each of the power plants of the Company is exempted from PRC income tax for two years starting from the first profit-making year after covering the accumulated deficits followed by a 50% reduction of the applicable tax rate for the next three years. In addition, as confirmed by the State Tax Bureau, the Company's wholly-owned power plants pay their respective income tax to local tax authorities, although they are not separate legal entities. The consolidated income tax expenses of the Company and its subsidiaries were Rmb1.149 billion, which increased by 17.13% compared to Rmb981 million of last year. The income tax expenses of the original power plants and headquarters of the Company (excluding the newly acquired power plants in 2003) were Rmb1.138 billion, increased by 16.00% compared to last year. The consolidated income tax of the newly acquired plant, including Xindian Power Plant and Yushe Power Plant, were Rmb11 million.

OTHER EXPENSES

With the rapid growth of the power output, the other expenses of the Company and its subsidiaries were Rmb597 million in 2003, increased by 10.76% from Rmb539 million of last year. Another factor that caused the increase of other expenses was the consolidation of the other expenses of the newly acquired plants, including Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant. The consolidated other expenses of the original plants and headquarter of the Company, excluding the newly acquired Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant were Rmb581 million, which increased by 7.79% compared to Rmb539 million of last year.

NET PROFIT BEFORE FINANCIAL EXPENSES

The net profit before financial expenses of the Company and its subsidiaries in 2003 was Rmb7.073 billion, which increased by 26.80% compared to Rmb5.578 billion in 2002.

FINANCIAL EXPENSES

The consolidated net financial expenses of the Company and its subsidiaries were Rmb544 million in 2003, which increased by 6.67% compared to Rmb510 million of last year. The increase of financial expenses was mainly due to the decrease of interest income.

NET PROFIT

The consolidated net profit of the Company and its subsidiaries was Rmb5.430 billion in 2003, increased by 38.50% compared to Rmb3.921 billion of last year. The significant increase of net profit was primarily due to the increase of power output, the full year contribution from the plants acquired in 2002 (including Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiying Power Plant), the full year contribution from Dezhou Power Plant Phase III, the commercial operation of the expansion project of Jining Power Plant and the investment income from SEG.

COMPARISON OF KEY FINANCIAL RATIOS

	THE COMPANY AND ITS SUBSIDIARIES	
	2003	2002
Current ratio	0.90	1.00
Quick ratio	0.81	0.88
Ratio of liabilities and owner's equity	0.54	0.56
Multiples of interest earned	12.03	8.28

After the investment in SEG and the acquisitions of Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant, the current ratio and quick ratio of the Company decreased slightly when compared with that in the beginning of 2003.

Multiples of interest earned of the Company and its subsidiaries increased when compared with that of last year.

The Company and its subsidiaries had strong financing capability. The Company obtained unsecured borrowing facilities from bank, amounting to Rmb7 billion and Rmb5 billion, to finance its funding requirement for a period of three years starting from 18th September, 2003 and 4th March, 2002, respectively.

After the acquisition of the 25% equity interests of SEG and the acquisitions of Xindian Power Plant, Yushe Power Plant and Qinbei Power Plant, the Company and its subsidiaries still maintained its strong debt repayment ability.

As at 31st December, 2003, the loans denominated in foreign currencies of the Company and its subsidiaries amounted to approximately USD872 million and Japanese Yen1.786 billion, of which USD250 million and Japanese Yen238 million was repayable within one year. The Company and its subsidiaries will closely monitor the fluctuation in the foreign exchange market and cautiously assess the exchange rate risk.

The long-term loan of the Company and its subsidiaries were mainly fixed-rate loans. As at 31st December, 2003, the balance of the floating-rate loans of the Company and its subsidiaries were approximately USD262 million and Japanese Yen1.786 billion according to the original loan agreements. The Company and its subsidiaries adopted interest swap contracts to reduce its floating rate risk.

Calculation formula of financial ratios:

Ratio of liabilities and shareholders' equity	=	balance of liabilities at the end of the year/balance of shareholders' equity at the end of the year
Current ratio	=	balance of current assets at the end of the year/balance of current liabilities at the end of the year
Quick ratio	=	(balance of current assets at the end of the year - balance of inventories at the end of the year)/balance of current liabilities at the end of the year
Multiples of interest earned	=	(profit before tax + interest expense)/ interest expenditure (including

capitalized interests)

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EXPANDING OUR OPERATIONS,
GROWING OUR PROFITS --
COMMITTED TO ENHANCING SHAREHOLDER RETURN.

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<<CORPORATE GOVERNANCE

THE COMPANY WILL ADOPT OPTIMISATION OF THE INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS AS THE STARTING POINT TO GOVERN THE COMPANY IN A STRINGENT, SCIENTIFIC AND REGULATED MANNER, AND TREAT ALL SHAREHOLDERS EQUALLY IN ORDER TO ENSURE THE LONG-TERM AND STEADILY INCREASING RETURN FOR THE SHAREHOLDERS.

As a public company listed in three places inside and outside the PRC, the Company is under the governance of the securities regulatory authorities of the three places where its shares are listed and under the oversight of the investors. Accordingly, the Company will uphold the principles of a synergic legal person governance structure by striking balances and checks between power of decision-making, supervision and operation rights. Honesty and trustworthiness, compliance with the law, and regulated operation according to the law are the basic operational guidelines of the Company. Prior to the promulgation of the relevant regulations of the State's securities regulatory authority, the Company took the lead in appointing two Independent Directors and established a management committee, a technology committee and a finance committee under the Board of Directors. At the same time, the Company also formulated a comprehensive management system involving various areas including administration, legal affairs, information, planning, construction, production, operation, foreign affairs, business affairs, finance, securities, personnel, monitoring and auditing in order to ensure the Company to operate in a regulated and proper manner. In 2002, the Company amended and included certain new clauses in its Articles of Association according to the requirements and stipulations of the State's relevant regulations, including the Standards for Governance of Listed Companies, and made adjustments to the composition of the Board of Directors and the Supervisory Committee of the Company. The number of members of the Board of Directors was changed from 19 to 12. All vice presidents of the Company will no longer hold the posts of directors of the Company. The Company has taken in certain personnel with more extensive management experience in the power industry to join the Board of Directors, in particular an expert with professional accounting knowledge has joined the Board of Directors as an Independent Director. Accordingly, the number of Independent Directors in the Board of Directors now amounts to four, representing one-third of the members of the Board of Directors, which is in compliance with the requirements of the relevant regulations and the amended Articles of Association. The number of members of the Supervisory Committee was changed from three to seven by adding four shareholder representatives. The management committee, technology committee and finance committee under the Board of Directors were remodelled to Strategy Committee, Audit Committee, Nomination Committee and Remuneration and Appraisal Committee. Except for the Strategy Committee, the majority of members of the other three committees were Independent Directors who hold the posts of chairmen.

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Through adjustments, the Board of Directors and the Supervisory Committee of the Company have met the requirements of the relevant laws and regulations to a greater extent in terms of scale and personnel composition, thus enabling the Board of Directors to make effective, scientific and prompt decisions and the Supervisory Committee to exercise independent and effective supervision and inspection powers upon the directors, presidents and other senior management and upon the finance matters of the Company. The establishment and regulated operation of the four special committees under the Board of Directors will also be conducive to bringing about a highly effective operation and scientific decision-making process of the Board of Directors.

In 2003, the Company formulated and passed the Rules and Procedures for Shareholders' Meetings, the 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 President, 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 and the Measures on the Management of Investor Relations. The Board discussed and passed the proposal on the amendments to the Articles of Association. The Audit Committee of the Board of Directors of the Company has held various seminars on the financial management issues encountered by the Company during the course of operation and sought scientific resolutions. At the same time, the Board of Directors of the Company strengthened the liaison with regulatory bodies including Beijing Securities Management Authority, and successfully completed various reports including "Investigation on Shareholdings of Insiders of Listed Companies" and "Investigation on the Appointment of Independent Directors", thereby further enhancing the governance level of the Company.

In 2004, the Company will further improve its corporate governance according to the laws and regulations imposed by the securities regulatory authorities of the three places where the shares of the Company are listed. The Company will improve the working conditions of the Independent Directors by installing personal e-mail boxes for all the Independent Directors and disclosing the same to the public in order to ensure clear communication channels between the Independent Directors and all kinds of investors. The Company will enhance its internal control system in all aspects and establish a scientific and practical internal control mechanism. At the same time, the Company will actively proceed to establish transparent procedures for election and appointment of directors in accordance with the requirements of the relevant laws and regulations and the actual situation of the Company, and will implement a cumulative voting system when circumstances permit.

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DUTIES OF THE SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

Duties of the Strategy Committee of the Board of Directors: mainly responsible for conducting studies on long-term development strategies, important policy-making on investment and important policy-making on technology, and putting forward proposals to the Board of Directors.

Duties of the Nomination Committee of the Board of Directors: mainly responsible for conducting studies on the standards and procedures for the election of candidates of directors and senior management personnel of the Company according to the requirements of the operation and management of the Company and putting forward proposals to the Board of Directors; searching for qualified candidates of directors and senior management personnel on a broad basis; conducting examination on the candidates of directors and senior management personnel and putting forward proposals.

Duties of the Audit Committee of the Board of Directors: mainly responsible for the communication, supervision and verification of the internal and external auditing of the Company.

Duties of the Remuneration and Appraisal Committee of the Board of Directors: mainly responsible for conducting studies on the appraisal standards for directors and senior management personnel of the Company, conducting appraisal and putting forward proposals; responsible for conducting studies and inspection of the remuneration policies and proposals for directors and senior management personnel of the Company, and shall be accountable to the Board of Directors.

COMPOSITION OF THE SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

Strategy Committee:
Li Xiaopeng (chairman), Zheng Jianchao (vice-chairman), Wang Xiaosong, Ye Daji, Huang Jinkai, Liu Jinlong, Qian Zhongwei (members).

Audit Committee:
Xia Donglin (chairman), Wang Xiaosong, Shan Qunying, Zheng Jianchao, Qian Zhongwei (members).

Nomination Committee:
Qian Zhongwei (chairman), Huang Jinkai, Yang Shengming, Gao Zongze, Zheng Jianchao (members).

Remuneration and Appraisal Committee:
Gao Zongze (chairman), Liu Jinlong, Xu Zujian, Zheng Jianchao, Xia Donglin (members).

All financial reports disclosed to the public by the Company have been examined and passed by the Audit Committee of the Board of Directors of the Company, and discussed and approved by the Board of Directors of the Company. All non-executive directors of the Company conscientiously perform their duties and diligently perform their duties through the Board of Directors in order to seek optimisation of shareholders' interests.

PERFORMANCE OF DUTIES BY THE INDEPENDENT DIRECTORS

The Independent Directors of the Company attended or appointed proxies to attend all board meetings in 2003, and expressed independent opinions on the appointment of senior management personnel and important matters including connected transactions. The Independent Directors of the Company have independently, honestly and diligently performed their duties according to the relevant laws and regulations and the powers conferred by the Articles of Association, and have indeed fulfilled their function of protecting the interests of shareholders, particularly medium and small shareholders.

<<INVESTOR RELATIONS

INVESTOR RELATIONS WORK IN 2003

The Company attaches great importance to communication with investors and strives to establish clear communication channels and carry out open and transparent disclosure of information. In 2003, in line with the businesses of the Company, we disclosed information of the Company in a timely and accurate manner by various means. We were able to have information disclosed by the Company and external publicity complied with the regulatory requirements of various listing places so that investors have a relatively objective and comprehensive understanding of the Company and reforms of the power industry in order to safeguard and enhance the credibility of the Company and its image in the capital markets.

During the year, the Company dispatched a total of 74 press releases and held more than a hundred "one to one" meetings for overseas investors through road shows and conferences with the investment sector, and organized investors inside and outside the PRC to visit power plants so as to provide them with opportunities to have direct communication with the power plants' management. "Openness of the Company" satisfied the demand of the investors to obtain an understanding of the production and operation, financial position and strategic information of the Company in a timely manner, and attracted the attention of more and more investors who have developed their confidence in the prospects of the Company. During the year, the Company obtained the "2003 Best IR from a Chinese Company--Large Cap" award given by IR Magazine, the "Best Investor Relationship for PRC Companies" award and the "Best Investor Relationship for Energy Utilities in Asia-Pacific Region" award given by Institutional Investor, the "Overall Best Managed Company in China" award given by Asiamoney and the "Best Public Utilities Company in Asia" award given by Euromoney.

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QUESTIONS FREQUENTLY ASKED BY INVESTORS

HOW DOES THE COMPANY COPE WITH FUEL COST INCREASE?

The Company copes with fuel cost increase mainly through the following measures:

(1) to control coal procurement costs and to reduce transportation costs and storage loss;

(2) to continue to promote coal blending burning work in order to off-set the price increase of the originally designed major burning coal types;

(3) to further reduce the oil consumption of certain power plants through enhancing the operating efficiency of the generating units;

(4) to reduce unit coal consumption through optimising the operational mode of the generating units;

(5) the economies of scale of centralized coal procurement of the Company is instrumental in reducing procurement costs.

SINCE THE GOVERNMENT HAS ADOPTED THE NEW ADMINISTRATION PROVISIONS REGARDING THE COLLECTION AND APPLICATION OF WASTE DISPOSAL FEE, DOES THE COMPANY HAVE ANY DETAILED PLAN OR MEASURES TO RENOVATE OR MODIFY THE EXISTING POWER PLANTS?

The Company carried out unified planning in accordance with its development plan and the State's environment protection requirements: for the reduction of SO2 release, we plan to build sulphur reduction facilities in major areas gradually and to increase the ratio of low-sulphur coal as fuel in all our power plants. To control the release of nitrogen oxide chemicals, the power plants are required to follow strict operation management rules to minimise the release of nitrogen oxide chemicals, and at the same time we will make renovation or modification arrangements of low-nitrogen combustion facilities.

Currently the Company is arranging the construction of the flue gas de-sulphurization facilities for the 2X300MW units of Shantou Coal-fired Power Plant and the 2X300MW units of Taicang Power Plant.

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WHAT MEASURES WILL THE COMPANY ADOPT TO IMPROVE THE PERFORMANCE OF THE ACQUIRED POWER PLANTS AS A WHOLE?

The Company will strengthen its management, further implement the management methods of the Company, and seek synergy in the following aspects:

o To strengthen financial management: examples include sorting out the situation of the power plants in relation to loans, improving loans structure and optimising debt cost.

o To adopt "Status Reparation" system so that the reparation input can have a higher return.

o To strengthen the administration of bidding and contracting in relation to reparation and technology improvement projects to lower the costs.

o The Company will apply to the relevant bodies after the completion of the acquisition to seek favourable tax rates of sino-foreign joint ventures for the power plants wholly owned by the Company.

WHAT IS THE CONSIDERATION BEHIND THE FIRST-EVER MOVE BY HUANENG POWER TO DISTRIBUTE SUBSTANTIAL BONUS SHARES?

In the distribution this time, we gave the shareholders RMB0.5 and 1 share to every share he holds (0.5 being bonus share, and 0.5 to be converted from reserve fund). The principal considerations are:

First, to ensure the distribution of a cash dividend will enable shareholders to receive actual benefit. The cash distribution is RMB0.5 / share, accounting for 56% of the profit of the year;

Secondly, to consider the further development of the Company. The assets scale and profit level of the Company have been increasing year by year since its establishment. Taking generation capacity as an example, when the overseas listing of the Company was completed 10 years ago, it had a total issued share capital of 5 billion shares and an equity-based generation capacity of 2,900MW; by the end of 2003, our equity-based generation capacity has reached 15,736MW while the total issued shares has been increased by merely 20% to approximately 6 billion shares. After the issue of bonus shares and implementation of the capital conversion plan, the capital of the Company will increase to match the scale of the Company, which will benefit its business development and increase its market influence.

In summary, our operation guideline is to maximize the interest of the shareholders and make them receive actual return.

WHAT OPPORTUNITIES AND CHALLENGES DOES THE COMPANY FACE IN YEAR 2004?

In 2004, the Company faces both opportunities and challenges.

In terms of power generation, the continued substantial increase in the demand of power will enable the Company to generate more electricity and hence more profits, but on the other hand the highly charged operation of power generating facilities over a long period of time has brought pressure upon operational safety and stability. It is one of the challenges this year to achieve safe, stable yet full-load operation so to ensure safe power supply.

Coal supply is another challenge the Company will face this year. Since the second half of last year, affected by various factors, the coal supply has been tight and coal prices have been rising. The Company has adopted a series of measures to ensure coal supply. The Company believes that under the correct guidance of the government, suppliers and the purchasers will cooperate to ensure a safe supply of coal to the power industry.

Regarding the power construction aspect, the economic developments and the improvements of people's living standards have created enormous room for market development. This has brought good opportunities for the Company to speed up its developments, but large-scale power construction has brought huge pressure on project management. It is one of the challenges this year to ensure that all work-in-progress projects achieve timely and high-quality operation and construction costs be under control.

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 fellows:

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.

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(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 :

(1) 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.

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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 (in thousands)	PERCENTAG SHAREHOL
DOMESTIC SHARES		
Huaneng International Power Development Corporation	2,554,840	4
Hebei Provincial Construction Investment Company	452,250	
Fujian International Trust & Investment Company	334,850	
Jiangsu Province International Trust & Investment Company	312,375	
Liaoning Energy Investment (Group) Limited Liability Company*	229,685	
Dalian Municipal Construction Investment Company	226,125	
Nantong Investment Management Centre	67,875	
Shantou Electric Power Development Company	46,500	
Shantou Power Development Joint Stock Company Limited	19,000	
Dandong Energy Investment Development Centre	6,500	
Domestic public shares	250,000	
Sub-total	4,500,000	7
Foreign Shares	1,527,671	2
TOTAL	6,027,671	10

*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.

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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

<<REPORT OF THE SUPERVISORY COMMITTEE

TO: ALL SHAREHOLDERS

During this reporting period, all members of the Supervisory Committee, aiming at protecting the interest of the shareholders and the benefit of the Company, have performed their supervisory functions in accordance with the Company Law of the People's Republic of China ("Company Law") and the relevant provisions in the Articles of Association of the Company and relevant laws and regulations. By following the principle of acting honestly and in good faith, the Supervisory Committee has carried out its work diligently. The Supervisory Committee has also conducted review on the operational situation, financial position of the Company for 2003 and the performance of duties of the senior management of the Company in 2003. On behalf of the Supervisory Committee of the Company, I am pleased to submit the working report as follows:

I. WORKING REPORT OF THE SUPERVISORY COMMITTEE FOR 2003

During the reporting period, the Supervisory Committee has held two meetings. Details of the time, venue, attendance and contents of the meetings are as follows:

1. On 11th March 2003, the second meeting of the fourth session of the Supervisory Committee was held in Beijing. All seven members of the Supervisory Committee attended the meeting in person or by proxy. At the meeting, (1) the Working Report of the Company's Supervisory Committee for 2002, (2) the audited financial statement of the Company for 2002, (3) the Company's profit distribution plan for 2002, (4) the annual report and summary of the Company of 2002, and (5) Rules and Procedures for of the Supervisory Committee of Huangeng Power International Inc. together with its extract were discussed and approved.

   The Supervisory Committee was of the view that:

   (1) In 2003, the Company strictly observed the Company Law, the Company's Articles of Association and relevant laws and regulations. The Directors and the senior management of the Company, in observing their duties, did not violate laws or regulations or the Company's Articles of Association, or prejudice the Company's interests.

   (2) All connected transactions conducted by the Company were fair and reasonable, and did not prejudice the interests of shareholders.

2. On 5th August 2003, the third meeting of the fourth session of the Supervisory Committee was held in Beijing. All seven members of the Supervisory Committee attended the meeting in person. The meeting complied with the relevant requirements of the Company Law and the Company's Articles of Association. The interim report of the Company of 2003 and its summary were approved.

   During the reporting period, the Supervisors of the Company attended all meetings of the Company's Board of Directors, the annual general meeting of 2002 and the extraordinary general meeting in 2003. At such meetings, all members of the Supervisory Committee conducted careful review and supervision on the lawful operation of the Company.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE RELEVANT MATTERS OF THE COMPANY IN 2003

1. LAWFUL OPERATION OF THE COMPANY

The Supervisory Committee performed effective supervision on the procedures for convening the shareholders' meeting and board meetings, adoption of resolutions, implementation of the resolutions of the shareholders' meeting by the Board of Directors, performance of duties of the senior management of the Company and internal management system of the Company according to the relevant laws and regulations.

The Supervisory Committee is of the view that the Board of Directors is capable of conducting regulated operation in strict compliance with the Companies Law, the Securities Law, the Articles of Association of the Company and the relevant regulations and rules and members of the Board of Directors have performed dutifully and diligently and their decisions are scientific and reasonable. The management systems of the Company are effective and the business activities of the Company are lawful. Moreover, the Company was actively improving its internal control system in line with its development. When examining the financial conditions of the Company and supervising the performance of duties by the directors and senior management personnel of the Company, the Supervisory Committee had not found any of their behaviour which contravened any relevant laws or regulations or any issues that has caused damage to the interests of the shareholders.

2. EXAMINING THE FINANCIAL CONDITIONS OF THE COMPANY

The Supervisory Committee has carefully examined and verified the financial reports of the Company for 2003, profit distribution proposal and capital conversion plan of the Company for 2003 and the 2003 financial statements audited by the auditors inside and outside the PRC without any reservation.

The Supervisory Committee is of the view that the financial reports of the Company for 2003 are true and reliable and objectively reflect the financial positions and operating results of the Company. The Supervisory Committee agreed to the auditors' report issued by the Company's auditors and the profit distribution proposal and capital conversion plan of the Company for 2003.

3. USE OF THE FUNDS RAISED BY THE COMPANY

The most recent fund raising by the Company was the issue of A Shares in November 2001. The actual use of the fund raised complies with the Company's undertakings in the A share prospectus.

4. ACQUISITION AND CONNECTED TRANSACTION

During this reporting period, the Company has acquired 25% of interests in Shenzhen Energy Group at Rmb2.39 billion, 55% of the equity interest in the registered capital of Henan Huaneng Qinbei Power Generation Limited, 60% of the equity interest on the registered capital of Shanxi Huaneng Yushe Power Limited Liability Company and all the assets and liabilities of Shandong Huaneng Xindian Power Plant previously owned by China Huaneng Group at Rmb550 million. The latter acquisition constituted connected transaction under the Hong Kong Listing Rules and Shanghai Listing

Rules .

The Supervisory Committee was of the view that during the reporting period, the consideration paid by the Company for the acquisitions was reasonable, and was in the benefit of the Company and all of its shareholders.

5. IMPLEMENTATION OF THE RESOLUTIONS OF THE SHAREHOLDERS' MEETING

During this reporting period, all members of the Supervisory Committee participated in all board meetings of the Company in 2003 and attended two shareholders' meetings. The Supervisory Committee does not have any objection to the reports and proposals submitted by the Board of Directors to the shareholders' meetings. The Supervisory Committee conducted careful supervision on the implementation of the resolutions adopted at the shareholders' meetings.

The Supervisory Committee is of the view that the Board of Directors is capable of seriously implementing the resolutions adopted at the shareholders' meetings.

The Supervisory Committee will continue to live up to the shareholders' expectations in 2004 and as usual will work hard to safeguard the interests of the Company and its shareholders and act in strict compliance with the Companies Law and the relevant provisions of the Articles of Association of the Company for the purpose of regulating its operation. The Supervisory Committee will perform its supervisory functions according to law, act on the basis of honesty and credibility, enhance its supervision strength and continue to work hard.

By Order of the Supervisory Committee
WEI YUNPENG
Chairman of the Supervisory Committee

15th March 2004

<<PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

LI XIAOPENG Mr. Li is Chairman of the Company, Chairman and President of HIPDC, as well as President of China Huaneng Group. Starting from June 1994, Mr. Li was Vice President, President and Vice Chairman of the Company as well as Vice President, President and Vice Chairman of HIPDC, Chairman of China Huaneng Group and Vice President of State Power Corporation. Before joining HIPDC, he had successively served as Engineer of the Power System Research Division, as Deputy Division Chief of the Planning and Operations Division, and as General Manager of the Power Technology and Economic Research Division, Electric Power Research Institute. Mr. Li is a senior engineer and graduated from the North

China Institute of Electric Power specializing in power plants and power systems.

WANG XIAOSONG Mr. Wang is Vice Chairman of the Company, Director and Vice President of HIPDC, and Vice President of China Huaneng Group. Beginning from June 1994, he was General Manager of the Capital Market Department of the Company, Vice President of the Company, Vice President of HIPDC and Director of China Huaneng Group. Before joining the Company, he had served as Deputy General Manager of Fushun Power Plant, General Manager of Yuanbaoshan Power Plant and Chief of the Labour and Wages Division of Northeast Power Administration. Mr. Wang is a senior engineer and graduated from Beijing Institute of Electric Power specializing in thermal power engineering.

YE DAJI Mr. Ye is Director and President of the Company. After joining the Company, he has been Deputy General Manager of Huaneng Shanghai Branch and General Manager of Huaneng Shanghai Shidongkou Second Power Plant. From December 1995, he was Vice President of the Company, Vice President of HIPDC and Director of China Huaneng Group. Before joining the Company, he had served as Deputy Chief Engineer of Huaneng Shanghai Shidongkou Second Power Plant. Mr. Ye is a senior engineer and graduated from Shanghai Jiaotong University specializing in mechanical engineering.

HUANG JINKAI Mr. Huang is the Director of the Company. He served as Director (General Manager) of the Northeast Power Administration Group Company, Chairman of the Company, Chairman of HIPDC, General Manager (Director) of North China Power Group Corporation (Power Administration) and Vice Chairman of China Huaneng Group. He is a senior engineer and graduated from Shenyang Agricultural Institute, specialising in agricultural electrization.

LIU JINLONG Mr. Liu is the Director of the Company. He served as General Manager of Central China Power Group Corporation and Director of Central China Power Administration, Chairman, General Manager, and Vice Chairman of China Huaneng Group. Mr. Liu is a senior engineer and graduated from Wuhan Hydroelectric Institute, specialising in power generation.