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SECURITY COVER

As filed with the Securities and Exchange Commission on April 20, 2000

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

Commission file number: 1-13314

华能国际电力股份有限公司
HUANENG POWER INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

PEOPLE'S REPUBLIC OF CHINA

(Jurisdiction of incorporation or organization)

WEST WING, BUILDING C, TIANYIN MANSION, FUXINGMENNAN STREET BEIJING, PEOPLE'S REPUBLIC OF CHINA

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary American Depositary Shares	New York Stock Exchange
Overseas Listed Foreign Shares of Rmb1.00 each	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Domestic Shares of Rmb1.00 each 4,150,000,000
Overseas Listed Foreign Shares of Rmb1.00 each 1,500,000,000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [X]

* Not for trading, but only in connection with the registration of American Depositary Shares.

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INTRODUCTION

The Company maintains its accounts in Renminbi yuan ("Renminbi" or "Rmb"), the lawful currency of the People's Republic of China (the "PRC" or "China"). References herein to "US$" or "US dollars" are to United States dollars, "HK$" are to Hong Kong dollars, "C$" are to Canadian dollars and "FF" are to French francs. References to ADRs and ADSs are to American Depositary Receipts and American Depositary Shares, respectively. Translations of amounts from Renminbi to US dollars are solely for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to US dollars or from US dollars to Renminbi were translated at the average rate announced by the People's Bank of China (the "PBOC Rate") on December 31, 1999 of US$1.00 to Rmb8.2793 (except for amounts relating to future expenditure under the Company's capital expenditure program which use an exchange rate of US1.00 to Rmb8.7, the exchange rate utilized by the Company for planning purposes). No representation is made that the Renminbi or US dollar amounts referred to herein could have been or could be converted into US dollars or Renminbi, as the case may be, at the PBOC Rate or at all. See "Item 6. Exchange Controls and Other Limitations Affecting Security Holders".

References to "Company" include, unless the context requires otherwise, the operations of the power plants, the proposed projects and the operations of HIPDC related thereto prior to the formation of the Company on June 30, 1994.

References to "HIPDC" are to Huaneng International Power Development Corporation and, unless the context requires otherwise, include the operations of the Company prior to the formation of the Company on June 30, 1994.

References to the "central government" refer to the national government of the PRC and its various ministries, agencies and commissions.

References to "local governments" in the PRC include governments at all administrative levels below the central government, including provincial governments, governments of municipalities directly under the central government, municipal and city governments, county governments and township governments.

References to the "PRC Government" include the central government and local governments.

References to "provinces" include provinces, autonomous regions and municipalities directly under the central government.

References to the "State Plan" refer to the plans devised and implemented by the PRC Government in relation to the economic and social development of the PRC.

References to "tons" are to metric tons.

Previously, the Overseas Listed Foreign Shares were also referred to as the "Class N Ordinary Shares" or "N Shares". Since January 21, 1998, the date on which the Overseas Listed Foreign Shares were listed on The Stock Exchange of Hong Kong Limited by way of introduction, the Overseas Listed Foreign Shares have been also referred to as "H Shares".

GLOSSARY

actual generation	The total amount of electricity generated by a power plant over a given period of time.
Allowed Rate of Return	The after-tax rate of return permitted to be earned by the Company under the Pricing Policy promulgated by the former Ministry of Electric Power on June 6, 1994. The Pricing Policy permits the Company to earn a blended after-tax rate of return comprised of 15% per year on equity-financed Net Fixed Assets and a minimum of 7% per year on debt-financed Net Fixed Assets. The rate of return on debt-financed Net Fixed Assets is subject to an adjustment which deducts the weighted average interest rate on the Company's debt from the 15% rate of return, up to a maximum deduction of 8%, thereby yielding a minimum 7% rate of return on debt-financed Net Fixed Assets. Thus, for example, Net Fixed Assets financed with debt bearing a weighted average interest rate of 5% are allowed a rate of return of 10% (15% rate of return less the 5% weighted average interest rate) while Net Fixed Assets financed with debt bearing a weighted average interest rate of 10% are allowed a rate of return of 7% (15% rate of return minus the maximum 8% interest rate deduction).
available hours	For a power plant for any period, the total number of hours in such period less the total number of hours attributable to scheduled maintenance and planned overhauls as well as to forced outages, adjusted for partial capacity outage hours.
availability factor	For any period, the ratio (expressed as a percentage) of a power plant's available hours to the total number of hours in such period.
capacity factor	The ratio (expressed as a percentage) of the gross amount of electricity generated by a power plant in a given period to the product of (i) the number of hours in the given period multiplied by (ii) the power plant's installed capacity.
demand	For an integrated power system, the amount of power demanded by consumers of energy at any point in time.
dispatch	The schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a plant means to direct the plant to operate.
excess output	The amount by which the total output of a power plant in a particular year exceeds its planned output for such year.
GW	Gigawatt. One million kilowatts.
GWh	Gigawatt-hour. One million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants.
installed capacity	The manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW.

internal use	Electricity consumed by a power plant in the course of generation.
kV	Kilovolt. One thousand volts.
kW	Kilowatt. One thousand watts.
kWh	Kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.
MVA	Million volt-amperes. A unit of measure used to express the capacity of electrical transmission equipment such as transformers.
MW	Megawatt. One million watts. The installed capacity of power plants is generally expressed in MW.
MWh	Megawatt-hour. One thousand kilowatt-hours.
Net Fixed Assets	The annual average of the book value of the Company's fixed assets (less accumulated depreciation) and construction work in progress, each as determined in accordance with PRC statutory accounting principles. As of June 30, 1994, the Net Fixed Assets equalled the appraised value of the fixed assets of the Company's five original operating power plants at which they were acquired by the Company from HIPDC. The fixed assets of the Company's five original operating power plants were acquired at a value of approximately Rmb10.0 billion as compared with the historical cost of such fixed assets, including regulatory assets, of approximately Rmb5.9 billion prior to their acquisition. The Company's fixed assets will be depreciated on a straight-line basis over 15 years.
peak load	The maximum demand on a power plant or power system during a specific period of time.
planned generation	An annually determined target gross generation level for each of the Company's operating power plants used as the basis for determining planned output.
planned output	An estimated amount of electricity sales by a power plant in a particular year used in the power rate setting process for such year, which is projected to allow recovery of costs and yield the relevant permitted return.
total output	The actual amount of electricity sold by a power plant in a particular year.
transmission losses	Electric energy that is lost in transmission lines and therefore is unavailable for use.
TW	Terawatt. One billion kilowatts.
TWh	Terawatt-hour. One billion kilowatt-hours.

PART I

Item 1. Description of Business

INTRODUCTION

The Company is a China-based independent power producer, committed to developing, constructing, owning and operating large modern thermal power plants throughout China. The company places equal emphasis on acquiring existing power plants and developing new power plants to achieve its business and development strategy. With its ownership and operation of nine power plants with an aggregate installed capacity of 8,700 MW, the Company believes that it is the largest independent power producer in China and one of the largest such producers in the world.

The Company operates its nine power plants in five of China's coastal provinces: Liaoning, Hebei, Fujian, Jiangsu and Guangdong, and in Shanghai Municipality, the largest financial and commercial center in mainland China. The Company's proposed 4,200 MW projects are located in the same areas. See "Description of the Company's Power Plants". As of the end of 1999, these areas had an aggregate population of approximately 301 million, which represented approximately 24% of China's total population. The Company focuses its efforts in these areas because it believes that they have the most favorable conditions for developing, constructing and operating power plants.

The total installed capacity of the Company has been increased from 2,900 MW in 1994, when the Company was first established, to 8,700 MW at the end of 1999. The increase in installed capacity is attributable to the completion of several power projects under construction, as well as the acquisition of Shanghai and Nanjing Power Plants. See "The Nanjing Power Plant Acquisition".

Three of the eight coal-fired Power Plants, Dalian, Nantong, Fuzhou Power Plants each has an installed capacity of 1,400 MW. Shangan Power Plant has an installed capacity of 1,300 MW. Dandong Power Plant has an installed capacity of 700 MW. Shantou and Nanjing Power Plants each has an aggregate installed capacity of 600 MW. Shanghai Power Plant has an installed capacity of 1,200MW consisting of two supercritical generating units. The Company's only oil-fired Power Plant, Shantou Oil-Fired Power Plant, has an installed capacity of 100 MW. See "Description of the Company's Power Plants".

In 1999, the Power Plants had an average availability factor of 90.31% and an average capacity factor of 55.97% (excluding Nantong Power Plant Phase II and Fuzhou Power Plant Phase II).

Business and Development Strategy

The Company believes that it is China's leading independent power producer based on its total installed capacity of 8,700 MW. To maintain this leadership position among independent power producers and to enhance shareholder value, the Company will continually leverage its relationship with HIPDC, its controlling shareholder, as well as with China Huaneng Group Corporation ("Huaneng Group"), the controlling shareholder of HIPDC in the acquisition and development of power projects.

As a result of a reorganization agreement and a non-competition memorandum between the Company and HIPDC dated November 10, 1997, the Company has become the exclusive developer of all greenfield coal-fired plants and other types of power plants in China which the Company may wish to develop. See "Item 13, Interest of Management in Certain Transactions". As a result of this restructuring, HIPDC has further undertaken that HIPDC will not compete with the Company in the power development business in China.

In addition, after a recent restructuring of Huaneng Group, the Company has become Huaneng Group's vehicle to participate in competitive power markets in China through either greenfield development or by acquiring and operating existing facilities. With respect to Huaneng Group, the Company has a preferential right to purchase interest in existing power plants owned by Huaneng Group and the right of first refusal on all its future power development projects that the Company may realistically develop.

The Company believes its significant capability in the development and construction of power projects, as exemplified in the completion of its projects under construction ahead of schedule, and its experience gained in the successful acquisition of the Shanghai power plant and the Nanjing power plant will enable it to take full advantage of the opportunities presented in China's power market and made available to it through its relationship with HIPDC and Huaneng Group.

With respect to the acquisition or development of any project, the Company will consider, among other factors, changes in power market conditions, and adhere to prudent commercial principles in the evaluation of the viability of the project. The Company will, in particular, focus on acquiring or developing base load power plants of large sizes due to their higher output, higher efficiency and better contribution to power system stability.

The Company will also aim to further improve its capital structure, in particular to reduce the proportion of its foreign currency denominated debt when acquiring or developing new projects.

In addition to business development through selective acquisition and new project development, the Company will continue to work on its profit enhancement through relentlessly strengthening cost control, especially in respect of fuel costs, so as to hedge against fluctuations in fuel price and increase competitiveness in the power market.

The Nanjing Power Plant Acquisition

Pursuant to the Nanjing Acquisition Agreement, the Company acquired from HIPDC and Nanjing Investment Company ("Nanjing Investment") the power generating operations and assets of Nanjing Power Plant on April 22, 1999. The acquisition was effective retroactively as of January 1, 1999 and the operating results of Nanjing Power Plant have been combined with those of the Company's other power plant as of such date. See "Description of the Company's Power Plants".

The aggregate consideration paid by the Company pursuant to the Nanjing Acquisition Agreement was Rmb2,702 million. The consideration consisted of (i) the assumption by the Company of the existing debts associated with the operation of Nanjing Power Plant in an aggregate principal amount of approximately Rmb 1,348.7 million; (ii) the issuance and allotment to HIPDC of 160,000,000 Domestic Shares and to Nanjing Investment of 40,000,000 Domestic Shares on the date on which a public offering of Domestic Shares of the Company are completed where each of the Domestic Shares is to be valued at the same issue price of such Domestic Shares; (iii) the balance to be settled in cash within ten days upon completion of the public offering of the Domestic Shares of the Company.

As the public offering of domestic shares was not completed by 31st December, 1999, the Company and HIPDC entered into a supplementary agreement ("Nanjing Acquisition Supplementary Agreement") on the same date. According to the Nanjing Acquisition Supplementary Agreement, the Company settled HIPDC' portion of the net consideration on 31st December 1999, which amounted to approximately Rmb1,111 million.

The Company has been authorized on the June 9, 1999 shareholders' meeting to issue 350,000,000 A shares and has submitted its application for the offering to China Securities Regulatory Commission ("CSRC"), the proceeds of which will be used to finance the acquisition of Nanjing Power Plant. The offering, however, has not occurred as of the date of this filing. The Company will seek final approval from CSRC to effect the offering. The Board of Directors has also resolved to submit a proposal to the annual shareholders' meeting to be held on June 6, 2000 for renewal of shareholders' authorization for another 12 months with regard to the issuance of the 350 million shares.

Description of the Nanjing Power Plant

Overview Nanjing Power Plant is located in the northern suburbs of Nanjing City, the capital of Jiangsu Province. Nanjing Power Plant has an installed capacity of 600 MW and consists of two 300 MW coal-fired units which commenced commercial operations in March and October 1994, respectively. The units use equipment introduced from the State Unitary Enterprise Foreign Economic Association of Russia. The Nanjing Power Plant sells all its electricity through the Jiangsu Provincial Power Corporation.

The following table sets forth certain operating data of the Nanjing Power Plant for 1997, 1998 and 1999.

	1997	1998	1999
Actual Generation (GWh)	3,334.1	3,173.0	2,866.8
Total Output (GWh)	3,153.4	3,002.9	2,714.8
Availability Factor (%)	89.9	89.5	91.85
Capacity Factor (%)	63.4	60.3	54.54
Coal Consumption Rate (grams/kWh)[(1)]	329	326	324.92
Weighted Average Power Rate (Rmb/MWh)[(2)]	460	366	354.61

(1) The quantity of standard coal equivalents consumed per unit of electricity generated, less internal use.

(2) The weighted average power rate includes VAT, and was changed from a sales rate of Rmb 460 to an on-grid power rate of Rmb 366 effective January 1, 1998 by eliminating the electricity transmission cost from the power rate.

Operation The Nanjing Power Plant had been operated by HIPDC before January 1, 1999 and had been subject to similar operating and financial management control measures as the Company's other power plants.

Power Sales and Power Rates Pursuant to a power sales agreement, Jiangsu Province Power Corporation ("JPPC") has agreed to be fully responsible for selling the electricity generated by Nanjing Power Plant and collecting payment for such electricity at the applicable power rate. The amount of planned generation is determined on the basis of the average capacity factor of comparable generating units in the province. The power rate for Nanjing Power Plant has been changed from an agency sales rate to an on-grid rate, which is net of any transmission cost, effective as of January 1, 1998.

Like power rates for other HIPDC's plants, the existing power rate for Nanjing Power Plant was set in accordance with State Council Document 72, which allows the recovery of all production and financing costs and a reasonable level of profit.

Development of Power Plants

The process of identifying potential sites for power plants, obtaining government approvals, completing construction and commencing commercial operations is usually lengthy. However, because of their position in the reform of the electric power industry in China and their significant experience in development and constructing power plants, the Company together with HIPDC have been able to identify promising power plant projects and to secure all required PRC Government approvals relatively quickly.

Opportunity Identification and Feasibility Study

The Company initially identifies an area in which additional electric power is needed by determining its existing installed capacity and projected demand for electric power. The initial assessment of a proposed power plant involves a preliminary feasibility study. The feasibility study examines the proposed power plant's land use requirements, access to a power grid, fuel supply arrangements, availability of water, local requirements for permits and licenses and the ability of potential customers to afford the proposed power rates. To determine projected demand, factors such as economic growth, population growth and industrial expansion are used. To gauge the expected supply of electricity, the capacities of existing plants and plants under construction or development are studied.

Approval Process

Since March of 1998, the State Development Planning Commission has inherited the governmental functions and responsibilities of the former State Planning Commission. At present, any project proposal and supporting documents for new power plants must first be submitted to the State Power Corporation and the State Development Planning Commission for approval and then be submitted to the State Council. It is expected that the new governmental structure installed by the National People's Congress will provide a more open and transparent regulatory environment for electric power developers.

Joint venture power projects are subject to additional governmental approvals. Approval by Ministry of Foreign Trade and Economic Cooperation ("MOFTEC") is also required when foreign investment is involved.

Permits and Contracts

In developing a new power plant, the Company and third parties obtain permits required before commencement of project. Such permits include operating licenses and similar approvals related to plant siting, land use, construction, and the environment. To encourage the cooperation and support of the local governments of the localities of the power plants, it has been and will be the Company's policy to seek investment in such power plants by the relevant local governments.

The Power Plants have arrangements with the Power Bureaus that manage the grids to which they are connected to transmit power to customers and collect and remit payment for such power at rates adjusted annually based on the Pricing Policy. See "Pricing Policy" and "Power Sales."

Power Plant Construction

The Company has generally acted as the general contractor for the construction of its power plants. Equipment procurement and installation, site preparation and civil works are subcontracted to domestic and foreign subcontractors through a competitive bidding process. All of its power plants were completed on or ahead of schedule, enabling certain units to enter service and begin generating income earlier than the estimated in-service date.

Import Duties

On April 1, 1996, the central government reduced the "General Level" of China's import duties to 23%. Along with the change in import duties, preferential import duty treatment, including exemptions and reductions, for equipment and raw materials imported by FIEs were eliminated. As the Power Plants were acquired from HIPDC, which is an FIE, the Company had enjoyed duty-free treatment of equipment imported for the Power Plants. Under the new regulations, equipment and raw materials imported by FIEs may continue to enjoy duty-free treatment if the relevant project was approved before April 1, 1996. In October, 1997 the central government lowered the general level of China's import duties to 17%. Any import duties will be reflected in adjustments to the Company's power rates under the Pricing Policy and the Electric Power Law. In addition, the central government in 1998 reinstated the import-duty exemption policy for equipment imported by FIEs that invested in projects encouraged by the central government under the Catalogue for the Guidance of Foreign Investment Industries.

If and when China enters WTO, China will adjust its import tariff to a level consistent with the average level of all WTO members. The Company does not expect any negative impact, so long as China does not change its policy of encouraging foreign investment with favourable policy on import duties.

Plant Start-up and Operation

The Company has historically operated and intends to continue to operate its power plants. Its power plants have established management structures based on modern management techniques. The Company selects the superintendent for a new power plant from the senior management of its operating plants early in the construction phase of the new plant, invests in the training of operations personnel, adopts various rational management techniques and structures its plant bonus program to reward efficient and cost-effective operation of the plant in order to ensure the safety, stability and high level of availability of each power plant. Senior management of the Company meets several times a year with the superintendents of the power plants as a group, fostering a team approach to operations, and conducts annual plant performance reviews with the appropriate superintendent, during which opportunities to enhance the power plant's performance and profitability are evaluated.

After a generating unit is constructed, the contractor tests its installation and systems. Following such tests, the contractor puts the unit through a continuous 168-hour trial run at full load. After successfully passing the continuous 168-hour test, the contractor delivers the unit to the Company, at which time the unit may enter into commercial operation.

Pricing Policy

Because the Company was established to develop power plants using modern equipment and technology financed with foreign and domestic loans, the Company's power rates, under the authority of State Council Document 72, were initially designed to ensure recovery of all production and financing costs and yield a profit of Rmb40 to Rmb50 per MWh during the period when such loans were outstanding.

On June 6, 1994, the former Ministry of Electric Power (MEP) announced the Pricing Policy applicable to the Company. The Pricing Policy specifies that the Company's power rates should be determined with reference to international principles and methods for setting power rates based upon the return on net fixed assets methodology to which international investors are accustomed.

The Pricing Policy establishes the Company's Allowed Rate of Return on its Net Fixed Assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of Notes to the Financial Statements.

While the Company anticipates that it will consistently generate a profitable return and recover its costs under the existing Pricing Policy, there is no assurance that the government agencies will approve the Company's proposed power rates in accordance with the Pricing Policy. The Company has not received the Allowed Rate of Return in full under the Pricing Policy during the last three years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations". The Electric Power Law, which came into effect in 1997, has provided the general principles for determining power rates in the future. The power rate granted to a power producer shall be formulated to provide reasonable compensation for costs as well as a reasonable return, to share expenses fairly and to promote the construction of power projects. The government authorities are reviewing the current rate setting mechanism and drafting new regulations (to govern the rate setting mechanism) applicable to power producers nationwide in reforming the PRC power industry. The Company believes that any new regulations adopted by the government might be different from the Pricing Policy and the formula the Company has been using to calculate its power rates.

Power Sales

The Company had entered into agency sales agreements (each, an "Agency Sales Agreement") with the respective Power Bureaus that managed the grids connecting the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant when the Company was established in 1994. Under each Agency Sales Agreement, the relevant Power Bureau agreed to sell, as agent, electricity for the relevant power plant. Each Agency Sales Agreement provided for the Power Bureau to transmit electricity to customers and collect and remit payment for such electricity at the power rates applicable to the relevant power plant. Those power rates included fees which the Power Bureaus charged the Company for their services.

The former MEP issued Tentative Procedures for the Standardizing Administration of Power Purchase Contracts (the "Tentative Procedures") in September of 1996. The Tentative Procedures have provided guidance in principal on power purchase agreements between independent power producers and grid operating enterprises.

The Company entered into a Power Purchase Agreement (the "Dalian and Dandong PPA") with the Northeast Electric Power Group with respect to its Dalian and Dandong Power Plants on July 14, 1998. The Dalian and Dandong PPA covers the generation from both Phase I and Phase II of the Dalian Power Plant and the Dandong Power Plant and is for a term of five years. The Dalian and Dandong PPA provides that the utilization hours of the Dalian and Dandong Power Plants will be determined according to the average utilization hours of the similar generating units connected to the same grid. Dalian Power Plant adopted on-grid power rate on January 1, 1998. Dandong Power Plant adopted on-grid power rate since commencement of commercial operation.

Fuzhou Power Plant adopted on-grid power rate in 1999 and the Agency Sales Agreement for Fuzhou Power Plant remained in effect. The Company, however, entered into Power Purchase Agreements for Phase I and Phase II in January, 2000 and June 1999 respectively with Fujian Power Bureau, which would set the annual generation on the basis of the capacity factor of the comparable generating units in the province.

With respect to Nantong Power Plant, the Company entered into a new Power Purchase and Sales Agreement (the "Nantong PPA") with the Jiangsu Provincial Power Company ("Jiangsu Power"). The Nantong PPA became effective as of January 1, 1999 and would expire on December 31, 2003. The Nantong PPA provides that the annual utilization hours of Nantong Power Plant would be determined in accordance with the average utilization hours of all the similar generating units connecting to the grid. Nantong Power Plant adopted on-grid power rate in 1996.

The original Agency Sales Agreement for the Shangan Power Plant was revised in 1995. The revised Agency Sales Agreement provided that generation at the Shangan Power Plant would be determined in accordance with the demand of the grid in any particular year. The revised Agency Sales Agreement was further revised in August 1997 so that the same agreement would govern the power sales from Shangan Power Plant Phase II. The Company is negotiating with Hebei Provincial Power Company for a new power purchase and sales agreement to replace the existing Agency Sales Agreement. Both parties have agreed that the existing Agency Sales Agreement will remain effective until the new power purchase and sales agreement is executed. Shangan Power Plant adopted on-grid power rate on August 1, 1998.

With respect to Shantou Oil-fired Power Plant, the Agency Sales Agreement, which was entered into in October 1994 and for a term of 20 years, remains effective currently.

Shantou Power Plant entered into a power purchase agreement and dispatch and grid interconnection management agreement (the "Shantou Power Agreement") with the Guangdong Provincial Power Company. The Shantou Power Agreement have no expiration date and provide that the generation of Shantou Power Plant, in principal, is 33 GWh annually. Shantou Power Plant has been using on-grid power rate since its commencement of commercial operation.

The Company acquired Shanghai Power Plant in 1997 from HIPDC. Pursuant to the Shanghai Management Agreement, Shanghai Power Plant has been under the management of Shanghai Municipality Power Corporation ("SMPC"). The Company has replaced HIPDC in the Shanghai Management Agreement and will continue to use SMPC's services after entering into the Change of Name Agreement with HIPDC and SMPC. The services provided by SMPC include selling the electricity generated by the Shanghai Power Plant and collecting payment on behalf of Shanghai Power Plant. These agreements remain in effect until new arrangement is entered into by the relevant parties. Shanghai Power Plant adopted on-grid power rate in 1997.

The Company acquired Nanjing Power Plant in 1999 from HIPDC and Nanjing Investment Company. Pursuant to the Power Sales Agreement, JPPC is responsible for selling the electricity generated by the Nanjing Power Plant. The amount of planned generation is determined on the basis of the average capacity factor of comparable generating units in Jiangsu Province. On January 1, 1998, Nanjing Power Plant adopted on-grid power rate.

The following table sets forth the average rates of each of the Company's Power Plants for each of the five years ended December 31, 1999.

	1995	1996	1997	1998	1999		2000
	Average Rate[(1)]	**Average Rate[(1)]**	**Average Rate[(1)]**	**Average Rate[(1)]**	**Average Rate[(1)]**	**Planned Output Rate[(1)]**	**Planned Output Rate[(1)]**
Dalian Power Plant							
Phase I	343.02	371.55	401.69	328.75[(3)]	331.69	332.30	—
Phase II	—	—	—	—	303.97	309.70	—
Fuzhou Power Plant							
Phase I	379.21	399.29	449.10	433.74	339.52	344.25	344.25
Phase II	—	—	—	—	500.00	500.00	—
Nantong Power Plant							
Phase I	386.03	325.38[(2)]	338.87[(2)]	337.07[(2)]	336.17	337.07[(2)]/334.6[(6)]	334.6
Phase II	—	—	—	—	288.66	334.60	334.60
Shangan Power Plant							
Phase I	336.37	360.75	372.68	346.08[(4)]	298.73	312.20	307
Phase II	—	—	553.00	372.78[(4)]	306.33	461	432
Shantou Oil-Fired Plant .	664.89	674.32	676.20	676.20	597.51	601.82/594.39[(5)]	594.39
Shantou Power Plant	—	—	473.85	473.61	473.85	473.85	473.85
Shanghai Power Plant.....	—	—	332.18	354.20	358.46	364.16	375.86
Dandong Power Plant	—	—	—	—	309.70	309.70	—
Nanjing Power Plant	—	—	—	—	354.61	366.11/356.11[(6)]	356.11

Notes:

(1) Includes value-added tax.

(2) Excludes transmission costs but includes agency handling fees.

(3) Dalian Power Plant adopted on-grid power rate effective as of January 1, 1998.

(4) Shangan Power Plant adopted on-grid power rate effective as of August 1, 1998.

(5) New power rate was effective as of December 1, 1999.

(6) New power rate was effective as of July 15, 1999.

As an important element of China's power industry reform, power bidding is being experimented in some regions, including Shanghai, Liaoning and Jiangsu, where some of the Company's power plants are located. Under the current bidding practice, roughly 10% of expected annual planned generation is designated for bidding sales. Usually the power rate determined under the bidding practice is lower than the power rate for planned output, primarily because the competitive bidding drives down the prices. The Company believes, however, that the output subject to the bidding practice represents only a small portion of the Company's total output and power rate applicable to this portion is calculated to enable the power plants to at least recover variable costs, part of fixed costs and also produce some profit. For the planned output of the Company, the power rate is still determined on a basis which permits the Company to recover all its operating costs plus a margin of profit. Moreover, the management is closely monitoring and taking effort to minimize the potential impact of the bidding practice on the operating results of the Company. The Company also believes that its highly efficient power plants are competitive in a more open and fair power market.

Fuel Supply Arrangements

Eight of the nine power plants are fueled by coal, and only Shantou Oil-Fired Plant is a combined-cycle facility fueled by oil.

Coal

Most of the coal supply for the eight coal-fired power plants is obtained from numerous coal producers in Shanxi Province.

In recent years, as part of its efforts to make a transition from a comprehensive planned economy to a "socialist market economy," the PRC has experimented with a variety of methods of setting coal prices. In 1996, the PRC Government allowed coal prices to fluctuate within a range around a reference price for coal allocated under the State Plan to be used in electricity generation, and set maximum allowable prices in various coal-producing areas for coal used in electricity generation. Coal prices, including transportation costs and miscellaneous expenses, for the eight coal-fired Power Plants in 1999 averaged approximately Rmb 227.41 per ton. Transportation costs have also represented a significant portion of the overall cost of coal for seven of the eight coal-fired Power Plants and, in 1999, accounted for approximately 48%, 49%, 47%, 53%, 45%, 51% and 47% of the overall cost of coal for the Dalian, Fuzhou, Nantong, Shantou, Shanghai, Dandong and Nanjing Power Plants, respectively.

The Company strives to reduce its fuel costs in a number of ways, including seeking to purchase high quality coal at competitive prices directly from coal mines or coal shipment terminals, improving coal storage management and inspection and demanding compensation from suppliers for failure to deliver coal of the specified quantity and quality in accordance with the relevant purchase arrangements.

Allocations for coal purchased under the State Plan are made at annual sales conferences attended by, among others, representatives of each of coal purchasers, the Shanxi Provincial Coal Sales Corporation, the railway authorities and the shipping companies. At these conferences, the Company obtains allocations for coal on a Company-wide basis from the central government. The Company then signs delivery orders with the coal producers and with the railway and shipping companies for the amount of coal and transportation allocated to the Company under the State Plan. These delivery orders are signed at the annual conference and specify on a monthly basis the amount of coal to be delivered to each power plant. The Company, the producers and the railway and shipping companies then hold monthly conferences to schedule the following month's allocated coal deliveries. In order to streamline the purchase of coal, achieve economies of scale, eliminate unnecessary intermediaries and reduce internal administrative and personnel expenses, the Company has entered into a coal purchase agreement (as amended by a supplemental letter dated December 15, 1997) with HIPDC pursuant to which the Company intends to purchase a substantial portion of its coal requirements through HIPDC and to pay HIPDC a service fee of Rmb 1.5-2.0 per ton, which represents approximately 0.5%-0.7% of the current cost of coal including transportation cost. The Company believes that purchasing coal through HIPDC is more advantageous than purchasing coal through independent third parties or purchasing coal through its own staff. See “Item 13. Interest of Management in Certain Transactions - Purchase of Coal.”

In 1999, the Company obtained allocations under the State Plan for 9.95 million tons of coal representing more than 70.7% of the total coal requirement for the production of the total planned generation, of which the Company purchased only 8.41 million tons of coal. During each of the five years from 1995 to 1999 the Company has generally utilized approximately 60% to 75% of the total amount of coal allocated to it under the State Plan as the coal industry has become more market-oriented. The Company has been allocated 11.06 million tons of coal and related transportation under the State Plan for 2000, which is more than 75.9% of the coal required for the total planned generation.

The Company purchased 6.13 million tons of coal on the open market in 1999. Given its good reputation and commercial relationships with open market coal suppliers and the increasing market orientation of the coal industry in China, the Company believes that it will be able to purchase sufficient coal on the open market or, on arm’s length terms, from HIPDC to meet its future requirements in excess of allocations by the PRC Government.

Oil

The Company obtains its entire supply of oil for the Shantou Oil-Fired Plant through government allocation from the Shengli Oil Field in Shandong Province. The crude oil is transported by pipeline to Huangdao in eastern Shandong Province, loaded onto ships, shipped along the coast to the Zhanjiang port in western Guangdong, trans-shipped to the Shantou port, unloaded into storage tanks in Shantou and finally transported to the Shantou Oil-Fired Plant by pipeline.

Prior to 1995, the former State Planning Commission allocated 120,000 metric tons of crude oil produced by the Shengli Oil Field to the Shantou Oil-Fired Plant each year. After 1995, due to the reduction in electric power generation, the oil allocated by the State Planning Commission decreased accordingly. The Company was allocated 40,000 metric tons in 1999. The price at which the Shantou Oil-Fired Plant purchases Shengli crude oil from the China Petrochemical Corporation is determined by the PRC Government in accordance with the State Plan. The price for crude oil has increased significantly in 1999, in line with the crude oil price in the international market.

During 1999, the average of the State Plan prices for crude oil from the Shengli Oil Field FOB Huangdao Port and CIF Shantou were Rmb 1,590 per ton and Rmb 1,680 per ton, respectively.

The Company received allocations under the State Plan of crude oil from the Shengli Oil Field and transportation sufficient to meet the Company’s oil supply requirements at the Shantou Oil-Fired Plant for 1999. The Company believes that it will continue to receive allocations of oil and transportation under the State Plan sufficient to meet its crude oil requirements.

Repair and Maintenance

The Company employs an aggregate of over 1,010 qualified engineers, of which approximately 302 are senior engineers who are responsible for supervising production as well as repair and maintenance.

Each of the Company’s power plants has a timetable for routine maintenance, regular inspections and repairs. Such timetables and the procedures for the repair and maintenance of generating units comply with the relevant regulations promulgated by the former MEP.

Pursuant to the Company's procedures, generating units with a capacity of 300 MW or more are currently operating on a cycle of four years. Such operating cycle can be extended to six years depending on the individual generating unit and its actual operating conditions. At the end of each operating cycle, an overhaul is carried out. In each cycle, there are four different levels of maintenance:

(i) regular checks and routine maintenance are carried out throughout the period during which a generating unit is in operation;

(ii) a small-scale servicing is performed every year, which takes approximately 20 days;

(iii) a medium-scale check-up is carried out between the two overhauls, the length of which depends on the actual condition of the generating unit at the time of the check-up; and

(iv) a full-scale overhaul is conducted at the end of each operating cycle, which takes approximately 60 days.

With respect to the Shantou Oil-Fired Plant, repair and maintenance are scheduled according to cumulative operating hours. A small-scale servicing takes approximately seven days. A full-scale maintenance takes approximately 30 days.

Description of the Company's Power Plants

The following table presents certain summary information on the power plants and proposed projects.

Summary Information on the Company's Power Plants and Proposed Projects

Plant or Expansion	Province/Municipality	Actual/Estimated In-service Date[1]	Total Actual Cost[2]	Installed Capacity	Ownership	Attributable Capacity	Type of Fuel	Equipment Supplier
(Names as defined below)			(Millions Rmb/ Millions US$)	(MW)	%	MW		
Power Plants								
Shantou Oil-Fired Plant	Guangdong	Units I & II: Jan. 1987 Unit III: April 1988	215/24.7	2 x 35 1 x 30	100%	100	Oil	Alsthom
Dalian Power Plant, Phase I	Liaoning	Unit I: Sep. 1988 Unit II: Dec. 1988	1,569/180	2 x 350	100%	700	Coal	Mitsubishi Consortium including MHI, MELCO and MC
Phase II[4]		Unit III: Jan. 1999 Unit IV: Jan. 1999	3,376/388	2 x 350	100%	700	Coal	An international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C.
Fuzhou Power Plant Phase I	Fujian	Unit I: Sep. 1988 Unit II: Dec. 1988	1,713/197	2 x 350	100%	700	Coal	Mitsubishi Consortium including MHI, MELCO and MC
Phase II [6]		Unit III: Oct. 1999 Unit IV: Oct. 1999	3,689/424	2 x 350	100%	700	Coal	An international consortium including Siemens Aktiengesellschaft and Mitsui Babcock Energy Limited
Nantong Power Plant Phase I	Jiangsu	Unit I: Sep. 1989 Unit II: March 1990	1,682/193	2 x 350	100%	700	Coal	General Electric Consortium including GE, B&W and Ansaldo
Phase II [7]		Unit III: Jul. 1999 Unit IV: Oct. 1999	3,723/428	2 x 350	100%	700	Coal	An international consortium including GE, the Babcock & Wilcox Company and Black & Veatch International Company
Shangan Power Plant Phase I	Hebei	Unit I: Aug. 1990 Unit II: Dec. 1990	1,959/225	2 x 350	100%	700	Coal	General Electric Consortium including GE, B&W and Ansaldo
Phase II		Unit III: Oct. 1997 Unit IV: Oct. 1997	2,804/322	2 x 300	100%	600	Coal	Dongfang Boiler Works, Dongfang Turbine Works and Dongfang Electrical Machinery Works
Shantou Power Plant	Guangdong	Unit I: Jan. 1997 Unit II: Jan. 1997	4,799/552	2 x 300	100%	600	Coal	Energomachexport Corp. Ltd. and Dongfang Boiler Works[3]
Shanghai Power Plant	Shanghai	Unit I: Jun. 1992 Unit II: Dec. 1992	4,395/505	2 x 600	100%	1,200	Coal	An international consortium including ABB, Combustion Engineering, Sulzer and Sargent & Lundy
Dandong Power Plant[5]	Liaoning	Unit I: Jan. 1999 Unit II: Jan. 1999	4,782/550	2 x 350	100%	700	Coal	An international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C.
Nanjing Power Plant	Jiangsu	Unit I: March 1994 Unit II: Oct. 1994	3,212/369	2 x 300	100%	600	Coal	State Unitary Enterprise Foreign Economic Association
			Subtotal	8,700		8,700		
Proposed Projects								
Shangan Phase III Expansion	Hebei	*	**	2 x 600	100%	1,200	coal	**
Shantou Phase II Expansion	Guangdong	*	**	1 x 600	100%	600	coal	**
Shanghai Combined-cycle Project	Shanghai	*	**	1,200	100%	1,200	gas	**
Jinling Combined-cycle Project	Jiangsu	*	**	1,200	**	**	gas	**
			Subtotal	4,200				
			TOTAL	12,900				

Notes:

(1) Commencement of commercial operations. See "Development of Power Plants — Plant Start-up and Operation."

(2) Including start-up costs and interest expense during construction assuming, for estimated costs, an 8% interest rate. At the exchange rate of US$1.00 to Rmb8.7, which the Company uses for planning purposes.

(3) Using boiler technology under license from Foster Wheeler Energy Corporation.

(4) Assumes a current construction cost of US$388 per kW. The final construction costs have not been determined as of the date of filing.

(5) Assumes a current construction cost of US$550 per kW. The final construction costs have not been determined as of the date of filing.

(6) Assumes a current construction costs of US$424 per kW. The final construction costs have not been determined as of the date of filing.

(7) Assumes a current construction cost of US$428 per kW. The final construction costs have not been determined as of the date of filing.

* Construction is not scheduled to commence until after the year 2001.

** To be determined.

The following table presents the availability factors and the capacity factors for the years 1997, 1998 and 1999 for each of the Power Plants.

	Availability factor (%)			Capacity factor (%)		
	1997	1998	1999	1997	1998	1999
Dalian Phase I	93.0	91.6	93.1	66.0	62.9	65.3
Phase II	—	—	88.7	—	—	32.8
Fuzhou Phase I	92.8	90.8	92.9	62.0	60.5	62.2
Phase II	—	—	99.1	—	—	37.5
Shangan Phase I	91.7	81.7	86.7	63.8	59.7	61.7
Phase II	—	68.8	97.3	—	49.7	63.2
Nantong Phase I	90.4	92.4	89.1	63.1	58.7	49.4
Phase II	—	—	73.4	—	—	26.3
Dandong	—	—	86.9	—	—	46.1
Shantou Oil-Fired	82.8	90.4	92.0	25.8	16.6	22.2
Shantou	84.8	94.4	85.7	38.8	53.2	60.4
Shanghai	92.4	89.8	90.8	66.9	64.8	64.5
Nanjing	89.9	89.5	91.9	63.4	60.3	54.5

The following table presents selected information about the regions in which the Company's Power Plants are located.

	Liaoning	Fujian	Hebei	Jiangsu	Guangdong	Shanghai
Area (square kilometers)(1)	146,000	121,400	188,000	102,600	177,900	6,340
Population (million)(1)	41.7	33.2	66.1	72.1	72.7	14.7
% of total population of China(1)	3.3	2.6	5.3	5.7	5.8	1.2
Average annual GDP growth 1995 - 1999	8.2%	13.3%	11.9%	12.1%	11.1%	12%
Grid supervising authority	Northeast Power Adminis-tration	Fujian Provincial Power Bureau	North China Power Adminis-tration	East China Power Adminis-tration	Guangdong Provincial Power Bureau	East China Power Administration
Total capacity in province (MW)(2)	13,800	8,102	13,284	16,274	29,069	9,526
HPI's capacity as % of provincial capacity(2)	15.2	8.6	9.8	4.3	2.4	12.6
Electricity generation (TWh)(2)	60.5	32.2	68.9	78.1	103.8	48.2
Electricity consumption (TWh)(2)	67.6	32	68.2	78.5	98.7	48.3

Sources: State Statistical Bureau of China.

(1) as of end of 1999.

(2) as of end of 1998.

The Power Plants, their respective operations and proposed projects are described below, each preceded by a brief introduction of the province they serve.

Liaoning Province

An Overview of Liaoning Province

Economic Data Liaoning Province is located in northeastern China and has an area of approximately 146,000 square kilometers. Its population at the end of 1999 was approximately 41.7 million, representing approximately 3.3% of the total population of China. Liaoning has a rich industrial base that includes the manufacture of tools, machinery and petrochemicals. The province is a leading producer of heavy industrial goods in China. From 1995 through 1999, Liaoning's GDP increased from Rmb 279.3 billion to Rmb 413.6 billion. Based on overall price indexes published by the PRC Government, these increases represent an average annual real compounded growth rate of approximately 8.8% for GDP.

Power Supply The major power plants in Liaoning as of the end of 1999 which are in operation or under development, all which are coal-fired, are set out below (those owned by the Company appear in bold):

Plant	Operational Capacity (MW)	Additional Planned Capacity (MW)[1]
Qinghe Power Plant	1,200	—
Jinzhou Power Plant	1,200	—
Liaoning Power Plant	650	—
Tieling Power Plant	1,200	—
Dalian Power Plant	**1,400**	**—**
Suizhong Power Plant	800	800
Dandong Power Plant	**700**	**—**
Yingkou Power Plant[2]	600	—

(1) Includes power plants which are either under construction or in the formal approval process.

Power Plants

Huaneng Dalian Power Plant ("Dalian Power Plant") Dalian Power Plant is located on the outskirts of Dalian, on the coast of Bohai Bay. Dalian Power Plant, including Phase I and Phase II, has an installed capacity of 1,400 MW and consists of four 350 MW coal-fired units which commenced commercial operations in 1988 and 1999 respectively. The units for Phase I and Phase II were supplied by the Mitsubishi Consortium and an international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C respectively.

Dalian Power Plant sells all its electricity through the Northeast Power Administration. Prior to 1998, the Northeast Power Administration charged commissions for its services. Dalian Power Plant adopted on-grid power rate effective as of January 1, 1998.

The coal supply for the Dalian Power Plant is obtained from several coal producers located mostly in northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and shipped by special 27,000 ton automatic unloading ships to the wharf at the Dalian Power Plant. The wharf is owned and maintained by the Dalian Port Authority and is capable of handling 30,000 ton vessels. The Dalian Power Plant typically stores 140,000 to 150,000 tons of coal on site.

Dalian Power Plant consumes 14,000 tons of coal per day when operating at maximum generating capacity. In 1999, Dalian Power Plant obtained 52.8% of its total consumption of coal pursuant to PRC Government allocations and the remainder on the open market. The weighted average cost of coal for Dalian Power Plant was Rmb243.44 per ton in 1999.

Electricity generated by Dalian Power Plant is delivered to the Northeast Power Grid.

Huaneng Dandong Power Plant ("Dandong Power Plant") Dandong Power Plant is located on the outskirts of the city of Dandong in Liaoning. Dandong Power Plant had originally been developed by HIPDC which, pursuant to the Reorganization Agreement, transferred all its rights and interests therein to the Company effective December 31, 1994. See "Item 13. Interest of Management in Certain Transactions." In March 1997, the Company began construction of Dandong Power Plant, which comprises two 350 MW coal-fired units supplied by an international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C.

Dandong Power Plant consumes 6,200 tons of coal per day when operating at maximum generating capacity. In 1999, Dandong Power Plant obtained 40.3% of its total consumption of coal pursuant to PRC government allocation and the remainder on the open market. The weighted average cost of coal for Dandong Power Plant was Rmb232.01 per ton in 1999.

All the electricity generated by the Dandong Power Plant is delivered to the Northeast Power Grid and was sold through the Northeast Power Administration, which charged a commission of Rmb1 per MWh for its services. The coal supply is obtained from several coal producers in northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and shipped by barge to the Dadong port in Dandong, where it is unloaded and transported to Dandong Power Plant using special coal handling facilities. The wharf is owned and maintained by Dandong Power Plant and is capable of handling 28,000 ton vessels. Dandong Power Plant typically stores 200,000 tons of coal on site.

Fujian Province

An Overview of Fujian Province

Economic Data Fujian Province is located on the southeastern coast of China, opposite the island of Taiwan. The province has an area of approximately 121,400 square kilometers and its population in 1999 was approximately 33.2 million, representing approximately 2.6% of the total population of the PRC. Economic development in the province is concentrated in the Open Coastal City of Fuzhou, the provincial capital, the special economic zone of Xiamen and other coastal open economic areas. Special preferential tax and other policies apply to certain enterprises in Open Coastal Cities, special economic zones and coastal open economic areas, which encourage the economic development of those areas.

Because of its proximity and cultural links to Taiwan, Fujian benefits from the developed economy of Taiwan. Partially as a result of a high level of investment from Taiwanese investors, Fujian has experienced rapid economic growth during the 1980s and early 1990s. From 1995 through 1999, Fujian's GDP increased from Rmb216.1 billion to Rmb362.8 billion. Based on overall price indexes published by the PRC Government, these increases represent average annual real compounded growth rates of 13.3% for GDP.

Power Supply In the 1980s, Fujian largely relied on hydroelectric power plants for its supply of electricity. Although the marginal cost of hydroelectric power is lower than that of thermal power plants, the generation of hydroelectric power is dependent on rainfall and, therefore, is both seasonal and unreliable. Power supply shortfalls have occurred frequently during the winter, which is Fujian's dry season. As of the end of 1998, approximately 58.64% of Fujian's installed capacity was accounted for by hydroelectric power plants. Summer, Fujian's wet season, is the season of reduced demand for thermal power in Fujian, unlike most other areas of China which have little hydroelectric power and where peak demand results from high agricultural needs during the summer. Hydroelectric power generation is insufficient to meet demand in the winter and during periods of drought. As a result, the demand for output from thermal power plants is higher at those times.

The major power plants in operation or under development in Fujian as of the end of 1999 are set out below (those owned by the Company appear in bold):

Plant	Operational Capacity(MW)	Additional Planned Capacity (MW)[1]
Thermal Power Plants:		
Fuzhou Power Plant	**1,400**	**—**
Songyu Power Plant	600	—
Houshi Power Plant	600	1,800
Hydroelectric power plants:		
Shuikou	1,400	—
Shaxikou	300	—
Gutianxi	259	—

(1) Includes power plants which are either under construction or in the formal approval process.

Power Plants

Huaneng Fuzhou Power Plant ("Fuzhou Power Plant") Fuzhou Power Plant is located on the south bank of the Min River, southeast of the city of Fuzhou. Fuzhou Power Plant, including Phase I and Phase II, has an installed capacity of 1,400 MW and consists of four 350 MW coal-fired units which commenced commercial operations in 1988 and 1999 respectively. The units of Phase I and Phase II were respectively supplied by the Mitsubishi Consortium and an international consortium including Siemens Aktiengesellschaft and Mitsui Babcock Energy Limited.

All the electricity sales of Fuzhou Power Plant are made through the Fujian Provincial Power Bureau, which charges a commission of Rmb 5 per MWh for its services for Fuzhou Phase I.

The coal supply for Fuzhou Power Plant is obtained from several coal producers located mostly in northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship down the east coast of China and up the Min River to a wharf located at Fuzhou Power Plant. The Company owns and maintains the wharf, which is capable of handling vessels of up to 20,000 tons and of unloading 10,000 tons to 15,000 tons of coal per day. Fuzhou Power Plant typically stores 170,000 to 180,000 tons of coal on site.

Fuzhou Power Plant consumes up to 14,000 tons of coal per day when operating at maximum generating capacity. In 1999, the Fuzhou Power Plant obtained 62.4% of its total consumption of coal pursuant to PRC Government allocations and the remainder was obtained on the open market. The weighted average cost of coal for the Fuzhou Power Plant in 1999 was Rmb260.67 per ton.

Electricity generated by Fuzhou Power Plant is delivered to the Fujian Provincial Power Grid.

Hebei Province

An Overview of Hebei Province

Economic Data Hebei Province is located on the North China seaboard and has an area of approximately 188,000 square kilometers. Its population in 1999 was approximately 66.1 million, representing 5.3% of the total population of the PRC. Shijiazhuang, the provincial capital, is an industrial center and a rail-highway hub approximately 270 kilometers south of Beijing.

Hebei completely encircles Beijing and surrounds Tianjin on all sides except the sea. The industrial and economic influence of these two large urban centers has positively influenced the development of Hebei. From 1995 through 1999, Hebei's GDP increased from Rmb 285 billion to Rmb 455.7 billion. Based on overall price indexes published by the PRC Government, these increases represent average annual real compounded growth rates of 11.9% for GDP.

Power Supply Most of Hebei's electricity is generated by coal-fired power plants. Because of its proximity to the major coal fields, Hebei's per unit cost of electricity generation is relatively low. The table below shows the major power plants in operation or under development in Hebei as of the end of 1999, all of which are thermal power plants (those owned by the Company appear in bold):

Plant	Operational Capacity (MW)	Additional Planned Capacity (MW)(1)
Douhe Power Plant	1,550	—
Xingtai Power Plant	1,255	—
Shalingzi Power Plant	1,200	—
Matou Power Plant	800	—
Shangan Power Plant Phase I	**700**	**—**
Shangan Power Plant Phase II	**600**	**—**
Xibaipo Power Plant	1,200	—
Qinhuangdao Power Plant	1,000	—
Hengshui Power Plant	600	—
Sanhe Power Plant	350	350
Hanfeng	—	1,320

(1) Includes power plants which are either under construction or in the formal approval process.

Power Plant

Huaneng Shangan Power Plant ("Shangan Power Plant") Shangan Power Plant is located on the outskirts of Shijiazhuang. Shangan Power Plant has been developed in two separate expansion phases. The Shangan Power Plant Phase I has an installed capacity of 700 MW and consists of two 350 MW coal-fired units which commenced commercial operations in 1990. The units were supplied by the General Electric Consortium. Shangan Power Plant Phase II shares with the Shangan Power Plant Phase I certain facilities, such as coal storage facilities and effluence pipes, which have been built to accommodate the requirements of plant expansions. The Shangan Power Plant Phase II utilizes two 300 MW coal-fired units supplied by China Dongfang Group using technology licensed for boilers from Foster Wheeler Energy Corporation. The two generating units commenced commercial operation in 1997.

Shangan Power Plant sells all its electricity through the Hebei Provincial Power Bureau which charged commission for its services prior to August 1, 1998. Since August 1, 1998 when the Shangan Power Plant adopted on-grid power rate, no commission has been paid by the Shangan Power Plant Phase I.

Electricity generated by the Shangan Power Plant is delivered to the North China Power Grid.

The coal supply for Shangan Power Plant is obtained from numerous coal producers in central Shanxi Province, which is approximately 64 kilometers from Shangan Power Plant. The coal is transported by rail from the mines to the Shangan Power Plant. The Company owns and maintains the coal unloading facilities which are capable of unloading 10,000 tons of coal per day. The Shangan Power Plant typically stores 80,000 to 120,000 tons of coal on site.

The Shangan Power Plant consumes 9,000 tons of coal per day when operating at maximum generating capacity. In 1999, the Shangan Power Plant obtained 68.3% of its total consumption of coal pursuant to PRC Government allocations and the remainder was obtained on the open market. The weighted average cost of coal for the Shangan Power Plant in 1999 was Rmb152.04 per ton.

Proposed Project

Huaneng Shangan Power Plant Phase III ("Shangan Phase III Expansion") The Shangan Phase III Expansion is expected to be adjacent to the Shangan Power Plant Phase I and the Shangan Power Plant Phase II. The Shangan Phase III Expansion is expected to consist of two 600 MW coal-fired units, and construction is planned to begin after the year 2001.

Jiangsu Province

An Overview of Jiangsu Province

Economic Data Jiangsu Province is located on the eastern coast of the PRC and has an area of approximately 102,600 square kilometers. Its population in 1999 was approximately 72.1 million, representing approximately 5.7% of the total population of the PRC. From 1995 through 1999, Jiangsu Province's GDP increased from Rmb 515.5 billion to Rmb 770.1 billion. Based on overall price indexes published by the PRC Government, these increases represent average annual real compounded growth rates of 12.1% for GDP.

Power Supply Most of the electricity consumed in Jiangsu Province is generated by thermal power plants located in Jiangsu or is imported through the East China Power Grid. The major power plants in operation or under development in Jiangsu as of the end of 1999, are set out below (those owned by the Company appear in bold):

Plant	Operational Capacity (MW)	Additional Planned Capacity (MW)[1]
Jianbi Power Plant	1,625	—
Xuzhou Power Plant	1,300	—
Changshu Power Plant	1,200	—
Nantong Power Plant	**1,400**	**—**
Ligang Power Plant	1,400	—
Nanjing Power Plant[2]	**600**	**—**
Jinling Power Plant	—	1,200
Yangzhou Power Plant	1,200	—
Tianwan (Nuclear Power)	—	2,000

(1) Includes power plants which are either under construction or in the formal approval process.

(2) Acquired from HIPDC in 1999

Power Plants

Huaneng Nantong Power Plant ("Nantong Power Plant") The Nantong Power Plant is located in the city of Nantong. The Nantong Power Plant, including Phase I and Phase II, has an installed capacity of 1,400 MW and consists of four 350 MW coal-fired units which commenced commercial operations in 1989, 1990 and 1999, respectively. The units were supplied by the General Electric Consortium.

The coal supply for the Nantong Power Plant is obtained from several coal producers located mostly in northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship to Yaogang, 7.5 kilometers from the Nantong Power Plant, where it is transhipped onto Company barges for the last stage of the journey up the Yangtze River to the wharf located adjacent to the Nantong Power Plant. The Company owns and maintains the wharf which is capable of handling 5,000 ton barges and of unloading 15,000 tons of coal per day. The Nantong Power Plant typically stores 120,000 to 150,000 tons of coal on site.

The Nantong Power Plant consumes up to 14,000 tons of coal per day when operated at maximum generating capacity. In 1999, the Nantong Power Plant obtained 61.7% of its total consumption of coal pursuant to PRC Government allocations and the remainder was obtained on the open market. The weighted average cost of coal for the Nantong Power Plant in 1999 was Rmb243.25 per ton.

Electricity generated by the Nantong Power Plant is delivered to the East China Power Grid.

Huaneng Nanjing Power Plant ("Nanjing power plant") The Nanjing Power Plant has an installed capacity of 600 MW consisting of two 300 MW coal-fired units which commenced commercial operations in March and October 1994, respectively.

The coal supply for the Nanjing Power Plant is obtained from several coal producers located in the Shanxi and Anhui Provinces. The coal is transported by rail from the mines to Yuxikou Port and Pukou Port and shipped to the plant's own wharf facilities. The wharf is capable of handling 6,000 ton vessels. Nanjing Power Plant typically stores 100,000 tons of coal on site and consumes 5,000 tons of coal per day when operating at maximum generating capacity.

In 1999, Nanjing Power Plant obtained approximately 76.3% of its total consumption of coal pursuant to government allocations and the remainder was obtained on the open market. The weighted average cost of coal for Nanjing Power Plant in 1999 was Rmb 246.74 per ton.

Electricity generated by Nanjing Power Plant is delivered to the East China Power Grid.

Proposed Projects

Huaneng Jinling Gas Combined-cycle Project ("Jinling Combined-cycle Project") The project is expected to be located on the outskirts of Nanjing. The Company's proposal to build a 1,200 MW combined-cycle power plant has received support from Jiangsu provincial government and the local power administration. The new power plant will use natural gas as its primary fuel.

Shanghai Municipality

An Overview of Shanghai Municipality

Economic Data With a population of 14.7 million, Shanghai is the largest financial and commercial center in mainland China, and one of the country's most important industrial cities. Located on China's east coast, Shanghai covers a land area of 6,430 square kilometers and is situated at the center of one of China's fastest growing regional economies. Shanghai has experienced rapid growth in finance, trading, transportation and real estate, as well as significant industrial development in steel and motor vehicles manufacturing, electronic telecommunications equipment manufacturing and petrochemical and fine chemical processing. Shanghai's GDP in 1999 was Rmb 403.5 billion, and over the period of 1995 to 1999 its real GDP grew at an annual average compounded rate of 12%.

Power Supply Most of the electricity consumed in Shanghai is generated by thermal power plants located in Shanghai or is imported through the East China Power Grid. The major power plants in operation or under development in Shanghai as of the end of 1999, all of which are thermal power plants, are set out below (those owned by the Company appear in bold):

Plant	**Operational Capacity (MW)**	**Additional Planned Capacity (MW)(1)**
Wujin	825	1,200
Minhang	720	—
Shidongkou No.1	1,200	300
Waigaoqiao	1,200	1,800
Shanghai Power Plant	**1,200**	**1,200**

(1) Includes power plants which are either under construction or in the formal approval process.

Power Plant

Huaneng Shanghai Shidongkou Second Power Plant (Shanghai Power Plant) The Shanghai Power Plant is located in the northern suburbs of Shanghai. The Shanghai Power Plant has an installed capacity of 1,200 MW and consists of two 600 MW coal-fired super-critical units which commenced commercial operations in June and December 1992, respectively. The units supplied by a consortium of international suppliers led by Sargent & Lundy L.L.C. The Shanghai Power Plant sells all its electricity through the SMPC.

The coal supply for the Shanghai Power Plant is obtained from several coal producers located mostly in northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port or Tianjin port and shipped to the plant's own wharf facilities. The wharf is capable of handling 35,000 ton vessels. The Shanghai Power Plant typically stores 140,000 to 180,000 tons of coal on site and consumes 11,450 tons of coal per day when operating at maximum generating capacity. In 1999, the Shanghai Power Plant obtained 54.5% of its total consumption of coal pursuant to PRC Government allocations and the remainder was obtained on the open market. The weighted average cost of coal for the Shanghai Power Plant in 1999 was Rmb 237.10 per ton.

Electricity generated by the Shanghai Power Plant is delivered to the East China Power Grid.

Proposed Projects

Shanghai Gas Combined-cycle Power Project ("Shanghai Combined-cycle Project") The Company plans to build a 1,200 MW combined-cycle power plant that will use natural gas as its primary fuel. The Company's proposal has received support from local government and Shanghai Power Administration.

Guangdong Province

An Overview of Guangdong Province

Economic Data Guangdong Province is located in southern China and has an area of approximately 177,900 square kilometers. Its population at the end of 1999 was approximately 72.7 million, representing approximately 5.8% of the total population of China. Of the five special economic zones established in China under the direction of the PRC Government since 1980, Shenzhen, Zhuhai and Shantou are located in Guangdong. In 1984, the cities of Guangzhou, the provincial capital, and Zhanjiang were designated two of the fourteen Open Coastal Cities that were opened to foreign capital to facilitate further implementation of the PRC's open door policy. Tax and other incentives in the special economic zones and open coastal cities have attracted considerable foreign investment. The geographical proximity of Guangdong to Hong Kong and Guangdong's developed infrastructure have provided favorable conditions for Guangdong to develop its industrial and commercial base.

From 1995 through 1999, Guangdong's GDP increased from Rmb 538.2 billion to Rmb 846 billion. Based on overall price indices published by the PRC Government, these increases represent average annual real compounded growth rates of 11.1% for GDP.

Power Supply Thermal, nuclear and hydroelectric power plants provide electric power to Guangdong. Over the past two years, the installed capacity in Guangdong has increased significantly. At the same time, the demand for power has increased because of continued economic development.

The major thermal power plants, hydroelectric power plants and nuclear power plants currently in operation or under development in Guangdong as of the end of 1999 are set out below (those owned by the Company appear in bold):

Plant	Operational Capacity (MW)	Additional Planned Capacity (MW)(1)
Thermal Plants:		
Huangpu Power Plant	1,100	—
Shaoguan Power Plant	625	—
Shajiao "A"	1,200	—
Shajiao "B"	700	—
Shajiao "C"	1,980	—
Mawan Power Plant	1,200	—
Zhujiang I	600	—
Zhujiang II	600	—
Shantou Power Plant	**600**	**—**
Shantou Phase II Expansion	**—**	**600**
Nuclear Power Stations:		
Daya Bay I	1,800	—
Daya Bay II	—	1,800
Lingao	—	2,000
Hydroelectric Power Plants:		
Guangzhou Pumped Storage Station	1,200	—
Xinfengjiang Power Station	293	—

(1) Includes power plants which are either under construction or in the formal approval process.

Power Plants

Huaneng Shantou Oil-Fired Power Plant ("Shantou Oil-Fired Plant") The Shantou Oil-Fired Plant is located on the outskirts of the city of Shantou. The Shantou Oil-Fired Plant has an installed capacity of 100 MW and consists of two gas turbine units and a single steam turbine unit. The two gas turbine units commenced commercial operations in January 1987, and the Shantou Oil-Fired Plant commenced full-scale commercial operations in April 1988. The units were supplied by Alsthom.

All of the electricity sales of the Shantou Oil-Fired Plant are made through the Shantou Municipal Power Bureau, which charges a commission of Rmb5 per MWh for its services under the Agency Sales Agreement with Shantou Municipal Power Bureau.

The Shantou Oil-Fired Plant obtains 100% of its crude oil requirements pursuant to government allocation under the State Plan. Prior to 1995, each year the State Planning Commission allocated 120,000 tons of crude oil produced by the Shengli Oil Field to the Shantou Oil-Fired Plant. This allocation is currently made in accordance with the Company's planned electricity generation. The crude oil purchased by the Shantou Oil-Fired Plant is transported from the Shengli Oil Field to the Huangdao port in Shandong Province and shipped by the Guangzhou Ocean Shipping (Group) Company by tanker to storage facilities at the Maoming Petrochemical Facility in Zhanjiang. The crude oil is then transported twice a month by 5,000 ton barge loads to the port in Shantou where the oil is stored in a 30,000 cubic meter storage tank. From the Shantou port, the crude oil is pumped once a week through a 14-kilometer pipeline to the Shantou Oil-Fired Plant. The Shantou Oil-Fired Plant typically stores 2,500 tons of oil on site and consumes 200 tons of oil per day.

The average price for crude oil from the Shengli Oil Field CIF Shantou during 1999 was Rmb 1,680 per ton.

Electricity generated by the Shantou Oil-Fired Plant is delivered to the Guangdong Power Grid.

Huaneng Shantou Coal-Fired Power Plant ("Shantou Power Plant") The Shantou Power Plant had originally been developed and constructed by HIPDC which, pursuant to the Reorganization Agreement, transferred all its rights and interests therein to the Company effective December 31, 1994. See "Item 13. Interest of Management in Certain Transactions." Located on the outskirts of the city of Shantou near the Shantou Oil-Fired Plant, the Shantou Power Plant was begun with the support of the Shantou municipal government and the Guangdong provincial government. The Shantou Power Plant consists of two 300 MW coal-fired units with boilers supplied by Dongfang Group using technology from Foster Wheeler Energy Corporation and Russian-made turbines and generators. The two units commenced commercial operation on January 1, 1997.

All the electricity sales of the Shantou Power Plant are made to the Shantou Municipal Power Bureau and the Guangdong Provincial Power Bureau pursuant to the Shantou Power Agreements.

The coal supply for the Shantou Power Plant is obtained from several coal producers located mostly in the northern area of Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship down the east coast of China to the wharf located at the Shantou Power Plant, which is maintained by the Shantou Port Authority and is capable of handling 35,000 ton vessels. The Shantou Power Plant typically stores 140,000 to 150,000 tons of coal on site.

The Shantou Power Plant will consume up to 5,000 tons of coal per day when operated at maximum generating capacity. In 1999, the Shantou Power Plant obtained 51.2% of its total consumption of coal pursuant to PRC Government allocations and the remainder was purchased on the open market. The weighted average costs of coal for the Shantou Power Plant in 1999 was Rmb 266.55 per ton.

Electricity generated by the Shantou Power Plant is delivered to the Guangdong Power Grid.

Proposed Project

Huaneng Shantou Coal-Fired Power Plant Phase II ("Shantou Phase II Expansion") The Shantou Phase II Expansion is expected to be adjacent to the Shantou Power Plant. The Company expects that the

Shantou Phase II Expansion will share with the Shantou Power Plant certain facilities, such as coal unloading and storage facilities and effluence pipes, which have been built to accommodate the requirements of plant expansions. The Shantou Phase II Expansion is expected to consist of one 600 MW coal-fired unit, and construction is expected to commence after the year 2001.

Competition and Dispatch

All power plants in China are subject to dispatch conducted by various dispatch centers. A dispatch center is required to dispatch electricity pursuant to the Regulations on the Administration of Electric Power Dispatch to Networks and Grids, issued by the State Council with effect from November 1, 1993, and in accordance with its agreements with power plants subject to its dispatch. As a result, there is competition for favorable dispatch treatment in the PRC electric power industry, especially during the off-peak load periods. More efficient power plants usually operate at higher output than less efficient power plants. The Company believes that in order to increase system stability, large and efficient power plants such as those of the Company will be preferred as base load plants to generate power for the grids to which they connect. The Company believes that its dispatch arrangements with the Power Bureaus and dispatch centers, superior quality equipment, lower coal consumption rate, higher efficiency of plant operation, lower emission levels and larger capacity represent competitive advantages over its competitors in every market in which it operates.

Since 1985, a number of foreign power developers and foreign companies (including Hong Kong companies), have been pursuing investment opportunities in the PRC electric power industry, which opportunities include the development of power plants (through joint ventures with PRC partners) or the purchase of interests in existing power plants. While the Company believes that it currently possesses advantages over such foreign developers because of its extensive experience in the electric power industry of China and its close relationships with the central and local governments, there can be no assurance that the Company will not experience increased competition in the future.

As part of China's power industry reform, "power bidding" is being implemented on a trial basis within some regions, including Shanghai, Liaoning and Jiangsu where some of the Company's power plants are located. See "Description of Business — Power Sales".

Environmental Regulation

The Company is subject to the PRC Environmental Protection Law, the regulations of the State Council issued thereunder, the PRC Law on the Prevention and Treatment of Water Pollution, the PRC Law on the Prevention and Treatment of Air Pollution, the Emission Standard of Air Pollutants for Thermal Power Plants (the "New Emission Standards") thereunder and the PRC Law on Ocean Environment Protection (collectively the "National Environmental Laws") and the environmental rules promulgated by the Local Governments in whose jurisdictions the Company's various power plants are located (the "Local Environmental Rules"). According to the National Environmental Laws, the State Environmental Protection Bureau sets national environmental protection standards and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards.

The Local Environmental Rules generally set discharge standards for emissions into the air and water. The Local Environmental Rules set forth schedules of base-level discharge fees for various polluting substances and specify that, if such levels are exceeded, the polluting entity will be required to pay an excess discharge fee to the local governments. The Local Environmental Rules do not make it a violation to exceed these limits, but rather set forth a graduated scale of fees that are required for each incremental unit of excess discharge. Up to a certain level, as the discharge levels increase, the fee per unit also increases. Above a certain level, local governments may issue orders to cease or reduce such discharge levels. To date, the Company has not incurred any such annual increases. Each power plant, when commissioned, had been tested and approved by local environmental agencies, and since commissioning has been subject to continuous government monitoring.

The National Environmental Laws also provide that, where pollution is causing environmental damage, the local governments have the authority to issue orders requiring the polluting entities to cure the problem within a certain time period. Non-compliance with such orders may result in the entities being shut down. The Local Environmental Rules also specify acts for which fines, as opposed to fees, are to be levied. These are acts of an irregular nature, such as damaging, failing to install or not maintaining environmental protection equipment, permitting accidental pollution or discharging more than minimal amounts of certain particularly dangerous chemicals into the environment. Fines and excess discharge fees are required to be paid out of after-tax profits. The Company is in compliance in all material respects with applicable environmental standards.

According to the New Emission Standards, promulgated by the State Environmental Protection Agency and State Technology Supervision Administration with effect from January 1, 1997, more restrictive standards to control sulfur dioxide and nitrous oxide emissions are applicable to all thermal power plant projects for which environmental impact study reports are yet to be approved. These restrictive standards govern both the total sulfur dioxide emissions from the power plant and the emission density of each chimney. Although the New Emission Standards are not applicable to the Power Plants, they apply to the Proposed Projects as well as any additional projects that the Company decides to undertake. The Company estimates that the equipment necessary to comply with the New Emission Standards may constitute approximately 10% of the total cost of equipment for a power plant. The Company believes, however, that the New Emission Standards may be applied to restrict regional rather than individual plant emissions. To the extent that the New Emission Standards are implemented to control total emissions in a region, the Company may be able to reduce the overall cost of complying with the new standards by assisting the heaviest polluters in such region to deploy emission control equipment.

The Company has adopted measures to control different emissions into the atmosphere. In order to reduce fly ash, the Company uses very high-efficiency electrostatic precipitators. Sulfur emissions are reduced by burning low-sulfur content coal, which is reflected in the design of the coal-fired Power Plants.

Each Power Plant has a waste water treatment facility to treat water used by the Power Plant before it is released into the river or the sea. The Company pays discharge fees on the basis of measurements made at discharge points of each plant where waste is released. The PRC currently does not have any regulations regarding thermal pollution of the cooling water used by the electric power industry.

Approximately 20-30% of the fine ash remaining after the combustion of coal is used in the manufacture of bricks and other construction materials. Coarse-grained ash, however, is disposed of by placing it into containers which are shipped to remote disposal sites or by mixing it with water which is piped to an open ash yard.

In 1997, 1998, and 1999, the Company paid discharge fees to local governments of approximately Rmb2,103,973, Rmb8,828,500 and Rmb8,414,000 respectively.

The Company believes that it has implemented systems that are adequate to control environmental pollution caused by its facilities. In addition to the measures identified above, each power plant has its own environment protection office and staff responsible for monitoring and operating the environmental protection equipment. The environmental protection departments of the local governments monitor the level of emissions and base their fee assessments on the results of their tests.

The Company believes its environmental protection systems and facilities for the power plants are adequate for it to comply with applicable national and local environmental protection regulations. However, the PRC Government may impose additional, stricter regulations similar to the New Emission Regulations which would require additional expenditure on compliance with environmental regulations.

Insurance

The Company currently maintains with the People's Insurance Company of China, Dazhong Insurance Co. Ltd. of China, China Pacific Insurance Co., Ltd. and Ping'an Insurance Co. approximately Rmb34.79 billion of coverage on its property, plant and equipment (including erection insurance).

The Company does not currently carry any third party liability insurance to cover claims in respect of personal injury or property or environmental damage arising from accidents on Company property or relating to Company operations. The Company has not had a third party liability claim filed against it during the last three years. The Company does not carry business interruption insurance, which is not customarily carried by power companies in the PRC.

The Company believes that its insurance coverage is adequate and is standard for the power industry in China.

Employees

As of December 31, 1999, there were 5,485 persons employed by the Company. Of these, 999 are head quarter management staff and power plant level management personnel, 3,447 are power plant personnel directly involved in the operation of the power plants and the remainder are maintenance personnel, ancillary service workers and others. Approximately 37% of the Company's work force graduated from university or technical college.

The Company conducts continuing education programs for its employees at the head office and at each Power Plant. The Company provides training in language, computer, accounting and other areas to its professionals and technicians in their relevant fields. Employees are trained in accordance with the different requirements for professional and managerial positions.

The Company has reformed the labor system by introducing individual labor contracts. Currently, all employees are employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. Short-term employment contracts have fixed terms of typically one to five years, at the end of which they may be renewed with the agreement of both the Company and the employee. The remaining personnel are employed for an indefinite term.

The contract system imposes discipline, provides incentives to adopt better work methods and provides the Company with a greater degree of management control over its work force. The Company believes that, by linking remuneration to productivity, the contract system has also improved employee morale.

Each of the Company's power plants also has a trade union and the employees of the Company's headquarters are also members of HIPDC's trade union. These trade unions protect employee's rights, aim to fulfill economic objectives of the Company, encourage employees to participate in management decisions and mediate disputes between the Company and union members. The Company has not been subject to any strikes or other labor disturbances interfering with the Company's operations, and the Company believes that its relations with its employees are good.

Total remuneration of the Company's employees includes salary, bonuses and allowances. The employees also receive certain benefits in the form of housing, education and health services subsidized by the Company and other miscellaneous subsidies.

In compliance with the relevant regulations, the Company and its employees participate in the electric power industry pension plan under which all the employees are entitled to upon retirement the pensions payments. See Note 6 to the Financial Statements. Other pension payments to its retiring employees are not required under applicable PRC laws and regulations.

The Company does not carry workmen's compensation or other similar insurance. However, all employees (both contract and non-contract employees) who are unable to work due to illness or disability, whether or not such illness or disability is job-related, will continue, based on seniority, to receive some or all of their base salary and certain subsidies throughout the period of their absence, subject to certain PRC Government specified time limitations. Employees who are unable to work due to job-related illnesses or disabilities will receive certain compensation from the Company, depending on the severity of the illness or disability. The present workmen's insurance reforms being implemented by the central and local governments and the Company's own implementation of the joint stock limited company accounting and financial principles may result in certain adjustments of the funding, management and payment methods for these types of workmen's compensation arrangements.

Item 2. Description of Property

The Company's headquarters, comprised of approximately 6,500 square meters, are located at West Wing, Building C, Tianyin Mansion, 2C, Fuxingmennan Street, Xicheng District, Beijing, PRC, which are leased from HIPDC. See "Item 13. Interest of Management in Certain Transactions."

Pursuant to an approval issued by the State Land Administration Bureau dated June 15, 1994, HIPDC was permitted to transfer land use rights for the land on which the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant are located to the Company. HIPDC acquired from the relevant local Land Administration Bureaus such land use rights for an aggregate fee of Rmb148 million which represented an average of 26.4% of the aggregate value of the land use rights as appraised by a qualified PRC appraiser. HIPDC then entered into agreements with the Company to transfer such land use rights to the Company. In accordance with such agreements, the Company has made annual payments for the land use rights since 1995 and will continue to do so until the year 2004. The Company acquired the land use rights for the Shantou and Dandong Power Plants directly from the local Land Administration Bureaus for Rmb 27.2 million and Rmb 128.0 million, respectively. In connection with the Shanghai Power Plant Acquisition, HIPDC has agreed to lease the land use rights in respect of the land on which the Shanghai Power Plant is located to the Company until the expiry of the land use term of the relevant land use certificate with annual rental payment of Rmb 6 million per year. In connection with the Nanjing Power Plant Acquisition, HIPDC agree to lease the land use rights in respect of the land on which the Nanjing Power Plant is located to the Company until the expiry of the land use term of the relevant land use certificate with annual rental payment of Rmb1.3 million approximately per year. See "Item 13. Interest of Management in Certain Transactions."

The following table lists the land use rights which the Company has leased for the Nanjing Power Plant, and has acquired for the remaining Power Plants. No land use rights have been acquired for the proposed projects.

Power Plant	Province	Remaining Terms of the Land Use Right	Approximate Area (Land/Buildings)
		(years)	(sq.m.)
Shanghai Power Plant	Shanghai	48	405,720
Shantou Oil-Fired Plant	Guangdong	45	29,016
Shantou Power Plant	Guangdong	48	697,195
Dalian Power Plant Phase I and Phase II	Liaoning	45	1,179,209
Fuzhou Power Plant Phase I and Phase II	Fujian	45	902,979
Nantong Power Plant Phase I and Phase II	Jiangsu	45	421,561
Shangan Power Plant Phase I and Phase II	Hebei	45	1,947,364
Dandong Power Plant	Liaoning	48	2,644,462
Nanjing Power Plant	Jiangsu	49	208,409

Item 3. Legal Proceedings

The Company is not a defendant in any material litigation or arbitration and no litigation or claim of material importance is known to the Company or any member of the Board of Directors of the Company to be pending or threatened against the Company.

Item 4. Control of Registrant

The outstanding ordinary shares of the Company consist of Domestic Shares and the Overseas Listed Foreign Shares, each with a par value of Rmb1.00 per share. The following table sets forth certain information regarding the ownership of the outstanding shares of the Company as of December 31, 1999 with respect to (i) each person known by the Company to own beneficially more than 5% of any class of the outstanding shares of the Company, (ii) the directors and officers of the Company as a group and (iii) local government investment companies.

	Number of Domestic Shares (in thousands)	Number of Overseas Shares (in thousands)	Percentage of Total Number of Shares Outstanding
HIPDC	2,382,440	—	42.17%
Hebei Provincial Construction Investment Company	452,250	—	8.00%
Fujian International Trust & Investment Company Limited	334,850	—	5.93%
Jiangsu Province International Trust and Investment Company Limited	312,375	—	5.53%
Liaoning Energy Corporation	229,685	—	4.07%
Dalian Municipal Construction & Investment Company	226,125	—	4.00%
Fujian Enterprises (Holdings) Co. Ltd	72,400	—	1.28%
Nantong Investment Management Center	67,875	—	1.20%
Shantou Electric Power Development Company	46,500	—	0.82%
Shantou Power Development Joint Stock Company Limited	19,000	—	0.34%
Dandong Energy Investment Development Center	6,500	—	0.11%
Officers and Directors	—	—	0.00%
TOTAL	4,150,000	—	73.45%

When the Company was established on June 30, 1994, the assets, liabilities and businesses of the Dalian, Fuzhou, Nantong and Shangan Power Plants (excluding Shangan Power Plant Phase II) and Shantou Oil-Fired Plant were acquired by the Company from HIPDC and, in return, HIPDC received a then 53.64% equity interest in the Company. The local governments of the respective provinces or municipalities in which the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant are located had previously extended long-term loans to these Power Plants to finance their construction. Such loans were subsequently assigned to the local government investment companies. In accordance with the Promoters' Agreement dated February 28, 1994 (the "Promoters' Agreement") between HIPDC and the local government investment companies and an understanding between HIPDC and the local government investment companies, the local government investment companies agreed to retire approximately Rmb435 million of the loans extended to Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant and to forfeit certain rights to participate in profits of these five Power Plants in exchange for a then aggregate of 46.36% of the equity in the Company.

At the completion of the Initial Public Offering in October 1994, HIPDC and the local government investment companies have owned, respectively, 40.23% and 34.77% of the total number of outstanding shares of the Company.

On January 21, 1998, the Company listed its H Shares on the Hong Kong Stock Exchange by way of introduction. On February 26, 1998, the Company placed 250 million H Shares in the H Share Placement at the price of HK$4.40 per H Share or US$22.75 per ADS. Simultaneously with the H Share Placement, the Company issued 400 million Domestic Shares to its controlling shareholder HIPDC as part of the consideration paid for the acquisition of the Shanghai Power Plant, pursuant to the Shanghai Acquisition Agreement. After the completion of the H Share Placement, the total amount of issued shares of the Company is 5,650 million ordinary shares. HIPDC and the local government investment companies each has held 42.17% and 31.28% equity interest, respectively.

The holders of Domestic Shares listed above have entered into the Shareholders Agreement dated May 31, 1994 (the “Shareholders Agreement”) which, among other things, grants to HIPDC the right to vote all the shares owned by each of the other seven signatories to the Shareholders Agreement so as to enable HIPDC to have majority voting rights in general meetings for so long as the Company is in existence. The Shareholders Agreement also provides that Directors designated by HIPDC will have majority representation on the board of directors of the Company (the “Board of Directors”) and each of the other signatories to the Shareholders Agreement will have one representative designated by it appointed as a member of the Board of Directors. The Shareholders Agreement also provides that for so long as the Company is in existence (i) HIPDC and the other signatories to the Shareholders Agreement will maintain their combined shareholdings to ensure their collective majority control of the Company, (ii) HIPDC has certain priority rights to purchase the shares held by the other signatories to the Shareholders Agreement and (iii) if HIPDC does not exercise its priority rights to purchase such shares, each of the signatories to the Shareholders Agreement other than HIPDC has a priority right to purchase such shares on a pro rata basis and (iv) no shares may be sold or transferred unless their transferees agree to abide by the terms of the Shareholders Agreement.

As a result of the Shareholders Agreement and after the issuance of shares pursuant to the Shanghai Acquisition Agreement, HIPDC currently has 73.45% of the total voting rights of the outstanding shares. As a result, HIPDC will continue to control the Company and will continue to have the power, subject to the Shareholders Agreement, to control the election of all Directors of the Company and to direct the Company’s management and policies.

In January 2000, Huaneng Group underwent a restructuring, in which State Power Corporation transferred its 17.22% interest in HIPDC to Huaneng Group. Huaneng Group became a 51.98% shareholder of HIPDC. At the same time, Huaneng Group has granted the Company a preferential right to purchase interest in existing power plants owned by Huaneng Group and the right of first refusal on all future power development projects of Huaneng Group that the Company may realistically develop.

Item 5. Nature of Trading Market

The ADSs have been listed on the New York Stock Exchange since October 6, 1994. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity of ADSs on the New York Stock Exchange.

	Closing Price Per ADS		Average Daily Trading Volume
	High	Low	(ADSs)
	(US$)	(US$)	
1998 First Quarter	26.06	16.94	166,720
Second Quarter	24.38	13.19	146,068
Third Quarter	15.25	6.50	185,805
Fourth Quarter	16.81	10.19	153,922
1999 First Quarter	14.50	8.38	153,885
Second Quarter	17.13	9.94	106,230
Third Quarter	17.44	9.88	140,867
Fourth Quarter	13.56	9.25	74,963

Source: Bloomberg

On December 31, 1999, the closing price per ADS on the New York Stock Exchange was US$10.56. Each ADS represents 40 Overseas Listed Foreign Shares. As of December 31, 1999, there were 54 registered holders of American Depositary Receipts evidencing ADS.

On January 21, 1998, the Company listed its H shares on the Hong Kong Stock Exchange. On February 26, 1998, the Company placed 250 million H Shares Placement at the price of HK$4.40 per H share or $22,75 per ADS. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity of H shares on the Hong Kong Stock Exchange.

	Closing Price Per H shares		Average Daily Trading Volume
	High	**Low**	**('000 of H shares)**
	(HK$)	**(HK$)**	
1998 First Quarter	5.10	4.15	2,346.7
Second Quarter	4.70	2.575	2,643.2
Third Quarter	2.90	1.26	2,983.6
Fourth Quarter	3.225	2.05	5,129.5
1999 First Quarter	2.75	1.72	6,670.2
Second Quarter	3.30	2.00	5,826.1
Third Quarter	3.175	1.92	4,605.9
Fourth Quarter	2.45	1.82	2,416.4

Source: Bloomberg

On December 30, 1999, the closing price per H Share on the Hong Kong Stock Exchange was HK$1.85. As of December 30, 1999, there were 36 registered holders of H Shares.

Item 6. Exchange Controls and Other Limitations Affecting Security Holders

PRC Foreign Exchange System

Prior to January 1, 1994, China had a dual-track foreign exchange system. Under this system, SAFE published an official exchange rate (the "Official Exchange Rate") at which foreign exchange transactions would take place at authorized financial institutions (which rate reflected a consistent devaluation of the Renminbi against the US dollar). At the same time, foreign exchange transactions could be effected with government permission at swap centers at rates (the "Swap Center Rates") set in part by supply and demand. Significant variances developed in 1992 and 1993 between the Official SAFE Exchange Rate and the Swap Center Rates.

Effective January 1, 1994, a new unitary, managed floating-rate system was introduced to replace the dual foreign exchange system. Under the new system, the PBOC sets and publishes daily a base exchange rate (the "PBOC Rate") with reference primarily to the supply and demand of Renminbi against the US dollar in the market during the prior day. The PBOC also takes into account other factors such as the general conditions in the international foreign exchange markets. Authorized banks and financial institutions are allowed to quote buy and sell rates for Renminbi within a specified range around the daily PBOC Rate.

Upon adoption of the new managed floating-rate system, the Government announced that the PBOC would try to balance the demand for and supply of foreign currencies in China and stabilize the Renminbi exchange rate mainly through macro-economic measures, including management of monetary policy and interest rates.

In April 1994, the Government established a national inter-bank foreign exchange market the China Foreign Exchange Trading System (the "CFETS") — in Shanghai to provide foreign exchange trading and settlement. At the end of 1996, the CFETS had linked 373 banks and financial institutions in 25 cities in China. The CFETS is supervised and managed by SAFE in accordance with the PBOC policy.

Notwithstanding these developments, prior to July 1, 1996, FIEs were still required to receive SAFE approval for each foreign exchange transaction. The SAFE typically provided approvals to facilitate the remittance of profits to foreign investors and the payment of foreign debts. As of December 1, 1996, the Renminbi became fully convertible for current account items, including profit distributions, interest payments and receipts and expenditures from trade and labor. No approvals are needed in order to acquire foreign exchange for a current account transaction. A FIE may undertake a current account foreign exchange transaction, including payment of interest on its foreign currency denominated debt and dividends with respect to overseas listed foreign shares, by producing relevant resolutions of its board of Directors or commercial documents evidencing the transaction, provided that it is processed through certain banks and financial institutions in China designated by SAFE. Strict controls, primarily prior SAFE approval, continue for capital account transactions in foreign exchange. Capital account items include loans, direct capital investments and investments in negotiable securities. The Company believes that these measures will allow it to access foreign exchange for interest payments on its foreign currency denominated debt and dividends with respect to the H Shares without prior regulatory approval. Principal repayments, however, require SAFE approval as transactions under the capital account.

In order to access the swap centers and to open a foreign currency bank account, the Company has obtained a Foreign Exchange Registration Certificate ("FERC") from SAFE. The FERC is routinely granted to FIEs when they fulfill certain specified conditions, and is reviewed annually in an audit conducted by SAFE.

Renminbi

From 1985 to the end of 1993, the Official Exchange Rate depreciated gradually but significantly against major foreign currencies, falling from an average of Rmb 3.20 per US$1.00 in 1985 to Rmb 5.8145 per US$1.00 on December 31, 1993, the final day before the 1994 reforms. Under the prior system, the Official Exchange Rate of Renminbi for US dollars was substantially lower than the Swap Center Rates. For example, on December 31, 1993, the exchange rate at the Shanghai Swap Center was Rmb 8.7000 per US$1.00.

Generally the exchange rate of the Rmb has been stable since 1994, appreciating slightly in recent years. The Rmb appreciated against the US dollar from an exchange rate of Rmb 8.4662 to US$1.00 at the end of 1994 to Rmb 8.3284 to US$1.00 at the end of 1996, and continued the gradual upward trend during 1997, ending the year at Rmb 8.2798 to US$1.00. The Rmb remained stable throughout 1998 and 1999, ending at Rmb 8.2787 and Rmb 8.2793 to US$1.00 respectively.

The following table sets forth the noon buying rates in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") for the periods indicated:

		Noon Buying Rate			
Period		**Period End**	**Average(1)**	**High**	**Low**
		(expressed in Rmb per US$)			
1995		8.3374	8.3685	8.4647	8.2916
1996		8.3284	8.3387	8.3549	8.3267
1997		8.3100	8.3166	8.3290	8.2911
1998		8.2789	8.2968	8.3180	8.2774
1999	First Quarter	8.2800	8.2789	8.2800	8.2774
	Second Quarter	8.2786	8.2789	8.2800	8.2774
	Third Quarter	8.2775	8.2773	8.2787	8.2770
	Fourth Quarter	8.2793	8.2786	8.2797	8.2770

Source: Datastream

Note:

(1) Determined by averaging the rates on the last business day of each month during the respective period.

Foreign Exchange Requirements of the Company

Although most of its operating, raw material and fuel expenses are incurred and paid in Renminbi, the Company has significant foreign currency denominated debt obligations, incurred predominantly to pay for imported equipment. Furthermore, while the Company plans to explore domestic financing opportunities, it expects to incur further foreign exchange liabilities to finance capital expenditure. In the event the Company pays dividends on the Overseas Listed Foreign Shares, pursuant to the Articles of Association, any such dividends may be paid in HK dollars or US dollars.

Item 7. Taxation

The following is a summary of (i) certain tax consequences from acquiring, owning and disposing the H Shares and ADSs based on tax laws of the PRC, the United States and Hong Kong SAR and the Income Tax Treaty between the PRC and the United States (the "Tax Treaty") as in effect as of April 20, 2000, and is subject to changes in PRC or United States law, including changes that could have retroactive effect, and (ii) the principal PRC taxes to which the Company is subject. The following summary does not take into account or discuss the tax laws of any country or region other than the PRC, the United States and Hong Kong, nor does it take into account the individual circumstances of an investor. This summary does not purport to be a complete technical analysis or examination of all potential tax effects relevant to an investment in the H Shares or ADSs and current and prospective investors in all jurisdictions of the H Shares or ADSs are advised to consult their tax advisors as to PRC, United States or other tax consequences of the purchase, ownership and disposition of the H Shares or ADSs. This summary also does not purport to be a complete technical analysis or examination of all potential PRC taxes that may be levied upon the Company.

The People's Republic of China

Tax on Dividends

Individual Investors. According to the Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System (the "Provisional Regulations"), dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, the PRC State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals ("Tax Notice") which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange, such as H Shares (including H Shares represented by ADSs), would not be subject to PRC withholding tax.

The Amendments to the Individual Income Tax Law of the PRC (the "Amendments") were promulgated on October 31, 1993 and became effective on January 1, 1994. The Amendments state that they shall supersede the provisions of any contradictory prior administrative regulations concerning individual income tax. The Amendments and the amended Individual Income Tax Law can be interpreted as providing that foreign individuals are subject to withholding tax on dividends paid by a PRC company at a rate of 20% unless specifically exempted by the financial authority of the State Council. However, in a letter dated July 26, 1994 to the SCRES, the State Securities Commission and the China Securities Regulatory Commission, the PRC State Administration of Taxation (the "SAT", the PRC central government tax authority which succeeded the State Tax Bureau) reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event that this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, the Amendments and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Under the Tax Treaty, China may tax a dividend paid by the Company to an eligible US Holder up to a maximum of 10% of the gross amount of such dividends.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies to enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in China receiving dividends paid with respect to a PRC company's H Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced pursuant to an applicable double taxation treaty.

Capital Gains Tax on Sales of Shares

There is no provision in the Share System Tax Regulations of the PRC that capital gains realized on the sales or dispositions of shares by shareholders are subject to capital gains tax. Furthermore, a ruling issued by the State Tax Bureau on July 21, 1993 (the "July 21, 1993 Notice") provides that a foreign enterprise selling or disposing of shares of a PRC corporation listed overseas not having its own establishment in the PRC will be exempt from PRC income tax on such capital gains. With respect to shareholders who are foreign individuals, whether or not resident in the PRC, the PRC's Individual Income Tax Law, which superseded the July 21, 1993 Notice with respect to this particular matter, provides that such capital gains realized by individuals will be taxable and authorizes the State Tax Bureau to promulgate implementing regulations. However, in April 1994 the State Tax Bureau expressed its intention not to impose the tax for two years. In March 1996, the Ministry of Finance and the State Tax Bureau jointly issued a notice stating that personal income tax shall not be collected on capital gains realized on the sales or dispositions of shares in 1996. Under a notice issued by the State Taxation Bureau in 1993, foreign enterprises are temporarily exempted from capital gains tax on sales or disposition of ADSs or H Shares, and a notice issued by the PRC Ministry of Finance and the PRC State Tax Bureau in 1996 temporarily exempting individuals from capital gains tax on the sale or disposition of ADSs or H Shares has expired. There can be no assurance that such exemption will be available. In the event that capital gains tax is imposed on gains from the sale or disposition of H Shares or ADSs, foreign holders would be subject to a 20% tax unless reduced by an applicable double-taxation treaty. Pursuant to the terms of the Tax Treaty, gains derived from the alienation of H Shares or ADSs by a Foreign Holder that is a resident of the United States for purposes of the Tax Treaty should not be subject to PRC tax; provided that such foreign holder owns H Shares or ADSs which represent a participation of less than 25% in the Company. The PRC has not, however, promulgated any rules or regulations that address the procedures that a Foreign Holder must follow in order to claim the benefits of the Tax Treaty. Accordingly, it is currently unclear how a Foreign Holder may claim the benefits of the Tax Treaty.

Tax Treaties

Non-PRC Investors. Foreign Holders resident in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to such Foreign Holders of the Company. The PRC currently has double-taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Stamp Tax

Under the Provisional Regulations of The People's Republic of China Concerning Stamp Tax, PRC stamp tax is not imposed on the transfer of shares of PRC publicly traded companies (including H Shares or ADSs) effected outside China.

Taxation of the Company

Income tax. Pursuant to the Income Tax Law of the People's Republic of China concerning Foreign Invested Enterprises and Foreign Enterprises (the "EIT Law"), Sino-foreign joint stock companies are subject to a 30% national income tax plus 3% local income tax. In certain special zones, however, such tax rate may be reduced. In addition, manufacturing FIEs with an operating period of more than ten years enjoy a tax holiday of a two-year exemption and a three-year 50% reduction starting from the first profit-making year.

The Company is a Sino-foreign joint stock company and enjoys the tax holiday described above. Pursuant to Document 327 (1989) of the PRC State Tax Bureau, the Dalian, Fuzhou, Nantong and Shangan Power Plants (excluding Shangan Power Plant Phase II) and Shantou Oil-Fired Plant, which previously belonged to HIPDC, were subject to income tax supervision by the local tax bureaus and were entitled to calculate each of their tax holidays separately. Following the Reorganization, the Company has continued to pay tax pursuant to the EIT Law, so these five Power Plants enjoyed the tax holidays available to them prior to the Reorganization. The tax holiday for each of these five Power Plants has expired. For new projects, including the Shantou Power Plant, each new plant will enjoy its own tax holiday to be calculated separately.

All the Company's power plants are subject to a 15% national income tax, without considering the tax holiday described above.

Value-added tax. The Company was previously subject to a 5.05% Industrial and Commercial Consolidated Tax rate on its total sales of electricity. Since January 1, 1994, the government has implemented a turnover tax system applicable to FIEs. Under the new turnover tax provisions, the Company has to collect from its electricity customers and pay to the PRC tax authorities a value-added tax ("VAT") on its sales. The tax rate on sales of electricity by the Company is 17% of total sales. The amount of VAT payable by the Company is this VAT on sales reduced by the VAT paid by the Company on its purchases of coal, fuel and other inputs. Pursuant to Document 115 of the State Tax Bureau, however, an FIE established before December 31, 1993 can apply for a refund of the excess of the effective tax under the new law over the old law. The refund of the excess may continue for five years. Because the Dalian, Fuzhou, Shangan, Nantong and Shantou Oil-Fired Power Plants previously belonged to HIPDC, the State Tax Bureau, in State Tax Bureau Document 381, has granted these Power Plants and their expansion power plants similar treatment of the refund for five years starting in 1994. Such refund of VAT has expired at the end of 1998. The Company will not receive any VAT refund in 1999.

Item 8. Selected Financial Data

Balance sheet data as of December 31, 1999, December 31, 1998, December 31, 1997, December 31, 1996 and December 31, 1995, and income statement and cash flow data for each of the year in the five-year period ended December 31, 1999, are derived from the actual historical financial statements of the Company. The Selected Financial Data should be read in conjunction with the Financial Statements and "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations". The Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). For numerous reasons, including the Shanghai Power Plant Acquisition and Nanjing Power Plant Acquisition, the phasing in of the Allowed Rate of Return, the implementation of potentially different power rate regulations under the Electric Power Law, the anticipated capital expenditures associated with the power plants and power projects under construction over the next several years, the economic reform programs of the PRC Government, changes in the prices of fuel, the change in the tax basis of the Company's assets and the change in the sales tax rate, the Selected Financial Data may not be indicative of future earnings, cash flows or financial position.

	Year Ended December 31,					
	1995 (Rmb)	**1996 (Rmb)**	**1997 (Rmb)**	**1998 (Rmb)**	**1999 (Rmb)**	**1999 (US$)[1]**
Renminbi and US dollars in thousands						
Income Statement Data						
Operating Revenue, Net	4,589,361	4,837,372	6,739,765	8,082,496	10,488,158	1,266,793
Operating Expenses	(3,773,833)	(3,964,823)	(5,702,328)	(6,273,822)	(7,892,727)	(953,310)
Refund of Excess VAT Paid	355,196	309,388	449,803	504,220	—	—
Income before Financial income (expenses)	1,170,724	1,181,937	1,487,240	2,312,894	2,595,431	313,483
Total Financial income (expenses)	31,840	149,503	174,768	(474,383)	(727,256)	(87,840)
Net Income	1,202,564	1,331,440	1,662,008	1,838,511	1,868,175	225,643
Cash Flow Data						
Depreciation	654,907	660,589	1,107,310	1,526,163	2,391,998	288,913
Drawdown of Short-term Bank Loans	705,974	999,430	1,177,096	172,000	142,000	17,151
Repayment of Short-term Bank Loans	145,660	756,344	1,368,650	904,096	419,000	50,608
Drawdown of Long-term Loans	1,877,189	2,471,943	7,171,607	3,647,945	1,069,853	129,220
Repayment of Long-term Loans	1,363,759	845,383	7,624,873	2,330,545	2,405,488	290,543
Capital Expenditures	2,440,818	2,124,526	6,846,907	6,457,432	2,274,342	274,702

	As of December 31,					
	1995 (Rmb)	1996 (Rmb)	1997 (Rmb)	1998 (Rmb)	1999 (Rmb)	1999 (US$)(1)
Renminbi and US Dollars in thousands						
Balance Sheet Data						
Current Assets	7,794,200	9,820,145	7,960,456	5,709,831	5,866,082	708,524
Property, Plant and Equipment, Net	14,244,217	15,708,154	27,400,770	32,315,351	34,603,329	4,179,499
Other Long-Term Assets	93,357	88,715	128,134	116,529	113,319	13,687
Total Assets	22,131,774	25,617,014	35,489,360	38,141,711	40,582,730	4,901,710
Current Liabilities	3,032,885	3,575,926	7,789,539	4,102,009	6,237,140	753,342
Long-Term Liabilities	7,089,242	8,700,001	12,696,726	14,193,978	13,083,691	1,580,289
Shareholders' Equity	12,009,647	13,341,087	15,003,095	19,845,724	21,261,899	2,568,079
Total Liabilities and Owner's Equity	22,131,774	25,617,014	35,489,360	38,141,711	40,582,730	4,901,710

(1) The US dollar data has been translated from Renminbi solely for convenience at the PBOC Rate on December 31, 1999 of US$1.00 to Rmb8.2793.

Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company develops, constructs, owns and operates large thermal power plants throughout China. The Company's business was previously carried on by HIPDC and was transferred to the Company as part of the Reorganization. For numerous reasons, including the Shanghai Power Plant Acquisition and Nanjing Power Plant Acquisition, the phasing in of the Allowed Rate of Return, the implementation of potentially different power rate regulations under the Electric Power Law, the anticipated capital expenditures associated with the power plants and power projects under construction over the next several years, the economic reform programs of the PRC Government, changes in the prices of fuel, the change in the tax basis of the Company's assets and the change in the tax rate, the Financial Statements of the Company may not be indicative of future earnings, cash flows or financial position. These factors are discussed further below. See "Item 1. Description of Business — Pricing Policy and Power Sales," "Item 7. Taxation," and "Item 13. Interest of Management in Certain Transactions."

The Company's financial performance has been affected by factors arising from operating in a regulated industry and in a planned economy. These factors include the fact that many of the Company's inputs, including fuel and transportation, are subject to PRC Government allocations and a power rate setting process whereby the power rate is subject to PRC Government approval. The PRC Government is implementing certain economic reform programs which have reduced its involvement in allocations of fuel and transportation services.

SFAS 71

The Financial Statements have been prepared in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71") which guides the accounting for rate-regulated enterprises which meet certain criteria. These criteria require, and the Company believes, that a) the Company's power rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish power rates that bind customers; b) the regulated power rates are designed to recover the Company's costs of providing the regulated services or products; and c) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that power rates set at levels that will recover the Company's costs can be charged to and collected from customers; this criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. SFAS 71 recognizes that the regulatory process produces economic effects which should be reflected in the financial statements. In order to recognize the economics of the rate setting process, foreign exchange losses due to the devaluation of the Renminbi are treated as an expense when and to the extent they are actually recovered through power rates as related foreign borrowings are repaid. Depreciation expense reflects the period over which the cost of fixed assets is being recovered through rates. See Note 3(b) of Notes to the Financial Statements.

Pricing Policy and Prospective Changes

The Pricing Policy announced by the former MEP on June 6, 1994 became applicable to the Company effective with the Reorganization. The Pricing Policy provides that the Company's power rates include operating expenses (including fuel, depreciation and taxes) and debt service costs (including any actual costs incurred as a result of foreign exchange rate fluctuations). The Pricing Policy also stipulates that the Company's rates will be adjusted to reflect changes in fuel prices, transportation costs, foreign exchange rate fluctuations and other variables, and, in principle, will be adjusted once a year.

In connection with the Pricing Policy, the Company has depreciated its assets of the five original Power Plants over a 15-year period on a straight-line basis, instead of the ten-year depreciation period previously used by the Company. Under PRC GAAP, permitted depreciable lives of power generating assets range between 12 and 18 years. Under State Council Document 72, the five original Power Plants were permitted to use a preferential ten-year depreciation period for their fixed assets. In connection with the Reorganization and the adoption of the Pricing Policy, the Company obtained an approval document from the former MEP and the State Tax Bureau which addresses certain tax matters, including specifying that the 15 year depreciation period. Under prevailing PRC practice, companies generally use the same depreciation schedules for tax, regulatory and financial reporting purposes, and the Company received a written notice from the former MEP that a 15-year depreciation period is to be used in determining depreciation for rate setting purposes for its five original Power Plants. While this change in the Company's depreciation schedule has reduced the annual depreciation charge, the larger depreciable fixed asset base, due to the appraisal in connection with the Reorganization, has resulted in larger depreciation charges than historically applicable. Similarly, other expenses related to the value of fixed assets, such as maintenance expense reserves which are calculated on a percentage of fixed assets basis, have increased. For the Company's Power Plants other than the five original ones, depreciation of the fixed assets was the straight-line method over their estimated useful lives, after taking into consideration their respective residual values of up to 11%. See Note 3(b) of Notes to the Financial Statements.

The Pricing Policy states that power rate increases may be gradually phased in over several years to take into account the ability of localities to absorb the new rates. The Company has adopted such a phase-in schedule and the power rate adjustments obtained in 1995 and 1996 were consistent with the Pricing Policy and resulted, at the aggregate total outputs and including financial expense/income for those years, in an annual rate of return of 7% on debt-financed Net Fixed Assets and an annual rate of return on equity-financed Net Fixed Assets of 12.6% and 12.1% in 1995 and 1996, higher than the 11% and 12% targeted for such years. Discussions with and review by the PRC Government of proposed power rates, however, have become increasingly complex and time consuming as the Company's power rates are now also subject to the approval of the State Development Planning Commission as well as those of local governments. The Company's approved power rates for 1997 were designed to permit the Company to earn an annual rate of return of 14% on equity-financed Net Fixed Assets and an annual rate of return of 7% on debt-financed Net Fixed Assets. The Company applied for power rates for 1998 and 1999 designed to achieve the Allowed Rate of Return. The Company's proposed power rates, however, were not approved in 1998. In 1998 and 1999 the Company put into service significant expansions of existing power projects. The Company is working with the appropriate government authorities to obtain approval of rates which permit it to achieve the Allowed Rate of Return over time and take into consideration the extent to which the rate increase is acceptable to the end users. At the same time, the Company is focusing on controlling its operating costs to increase its net operating income. See "Item 1. Description of Business — Fuel Supply Arrangement." The actual annual return achieved by the Company in any year will depend on a number of factors, including availability factors of the Power Plants, dispatch (which can be affected by weather and market conditions), the actual level of fuel costs and other operating and financial conditions. Because of a number of these factors in 1997, 1998 and 1999 including outages for scheduled maintenance, weather and market conditions, as well as rapid increases in fixed assets, the Company's annual rate of return on equity-financed Net Fixed Assets for 1997, 1998 and 1999 were 10.2%, 5.6% and 4.6% respectively, and its annual rate of return on debt-financed Net Fixed Assets was 7%. The Company's operating net income, on the other hand, increased substantially due to commencement of operations of new power plants and the acquisition of the Shanghai Power Plant and Nanjing Power Plant. Detail rules of the power rate calculation are being reviewed by the State Council and other relevant authorities. Revised formula has not yet been issued at this stage. Such revised formula, if any, might be different from the current Pricing Policy and formula of the Company.

Results of Operations

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

General

Despite the expiration of VAT refund, both net operating revenue and net income increased in 1999. The increases were primarily due to the following factors: first, Dalian Power Plant Phase II, Dandong Power Plant, Nantong Power Plant Phase II and Fuzhou Power Plant Phase II commenced commercial operation in 1999; second, the operating results of Nanjing Power Plant, which the Company acquired from HIPDC in 1999, were also included in the Company's operating results. As a result, total output increased 41.84% compared to 1998. The Company has also improved on cost control, especially control over fuel cost, which led to a 3.55% decline in unit cost.

Operating Revenues, Net Net operating revenues is the operating revenue less sales incentives paid to Power Bureaus usually as an incentive to dispatch more output from the power plants. See "Business — Pricing Policy" and "Business — Power Sales." Net operating revenues increased 29.76% to Rmb10.4882 billion in 1999 from Rmb8.0825 billion in 1998. The increase was primarily due to the commencement of commercial operation of Dalian Power Plant Phase II, Dandong Power Plant on January 1, 1999, the increase in output of Shantou Power Plant, and the inclusion of Nanjing Power Plant's operating results.

Dalian Power Plant's net operating revenues increased 51.74% to Rmb 1.5765 billion in 1999 from Rmb 1.0389 billion in 1998. This increase was primarily due to the commencement of commercial operation of Dalian Power Plant Phase II in 1999.

Net operating revenue of Dalian Power Plant Phase I declined 15.06% to Rmb 882.5 million in 1999 from Rmb1.0389 billion in 1998. It was primarily due to the fact that the scheduled overhaul of a generating unit, the low growth rate of power demand in the northeast region and the pressure on the capacity factor of Dalian Power Plant Phase I because of the commissioning of Dalian Power Plant Phase II, which caused the total output to drop 8.48% to 3.1133 TWh. The average tariff rate, however, increased 0.91% to Rmb332 per MWh, partially offsetting the impact of the drop in output on net operating revenue.

During the first full year of commercial operation, the two generating units of Dalian Power Plant Phase II produced an output of 2.6891 TWh, realized Rmb694.0 million net operating revenue. Its average tariff rate for 1999 is Rmb304 per MWh.

Fuzhou Power Plant's net operating revenue increased 8.58% to Rmb1.3181 billion in 1999 from Rmb1.2139 in 1998. It is primarily due to the commencement of commercial operation of Fuzhou Power Plant Phase II.

Fuzhou Power Plant Phase I's net operating revenue declined 13.86% to Rmb1.0457 billion in 1999 from Rmb1.2139 billion in 1998. The decline was primarily due to the fact that Fuzhou Power Phase I adopted on-grid tariff rate from sales tariff rate, and the new rate did not include transmission and transforming expenses. As a result, the weighted average tariff rate for Fuzhou Power Plant Phase I declined 21.66% to Rmb340 per MWh.

Fuzhou Power Plant Phase II started commercial operation in October, 1999. It produced net operating revenue of Rmb272.4 million, on an output of 638.8 GWh at a weighted average tariff rate of Rmb 500 per MWh.

Shangan Power Plant's net operating revenue declined 0.57% to Rmb 1.7252 billion in 1999 from Rmb 1.7351 billion in 1998.

Shangan Power Plant Phase I's net operating revenues decreased 7.20% to Rmb918.2 million in 1999 from Rmb989.4 million in 1998. The decrease was primarily due to the fact that effective from August 1, 1998, Shangan Power Plant Phase I adopted on-grid tariff rate, as a result, the weighted average tariff rate of Shangan Power Plant Phase I declined 13.58% to Rmb299 per MWh in 1999 from Rmb346 per MWh in 1998.

Year 1999 was the second full year in which both generating units of Shangan Power Plant Phase II contributed to the operating results of the Company. Its net operating revenue was Rmb807 million on an output of 3.0907 TWh, up 8.22% and 32.06% respectively from 1998.

Nantong Power Plant's net operating revenues increased 6.54% to Rmb 1.0648 billion in 1999 from Rmb 999.4 million in 1998. The increase was primarily due to the commencement of commercial operation of Nantong Power Plant Phase II, which increased the total output by 10.76% from 1998.

Nantong Power Plant Phase I's net operating revenue declined 15.81% to Rmb 841.4 million in 1999 from 999.4 million in 1998. The scheduled overhaul of both of the two generating units and low growth rate of power demand caused a 15.4% decline in power output to 2.9349 TWh. In addition, The weighted average tariff rate in 1999 was Rmb 336 per MWh, 0.30% below Rmb 337 per MWh in 1998.

Nantong Power Plant Phase II started commercial operation in the second half of 1999. Net operating revenue was Rmb 223.4 million, on an output of 907.4 GWh.

Shantou Oil-Fired Plant's net operating revenues increased 17.80 % to Rmb 94.5 million in 1999 from Rmb80.2 million in 1998. The total output is 185.2 GWh, representing a 33.48% increase over 1998.

Shantou Coal-Fired Power Plant's net operating revenues increased 15.78% to Rmb1.1841 billion in 1999 from Rmb 1.0227 billion in 1998. Its total output increased 15.68% and weighted average power rate remained approximately the same as 1998.

Shanghai Power Plant's net operating revenues were Rmbl.9899 billion with the total output of 6.4991 TWh in 1999, which are approximately the same as 1998. The weighted average tariff rate of the Shanghai Power Plant was Rmb358 per MWh in 1999, increasing 1.13% from Rmb 354 per MWh in 1998.

Dandong Power Plant generated a revenue of Rmb 712.2 million during its first full year of operation in 1999 with total output of 2.6907 TWh. The weighted average tariff rate was Rmb 309.70 per MWh.

Nanjing Power Plant's net operating revenue was Rmb 822.8 million, on an output of 2.7148 TWh, at a weighted average tariff rate of Rmb 355 per MWh.

Total sales incentives incurred by the Company was Rmb63 million in 1999, representing a 145.64% increase over 1998. Sales incentives as a percentage of total operating revenues (including sales incentives) increased from 0.32% in 1998 to 0.60% in 1999. Sales incentives on a per MWh basis of combined total output of all power plants increased from Rmb1.02 in 1998 to Rmb1.78 in 1999. To ensure sufficient dispatching from Dalian Power Plant Phase II and Dandong Power Plant and maintain market share in a slow growth power market, the Company paid a significant amount of sales incentive to Northeast Power Company. In 1999, sales incentives incurred by Dalian, Shangan, Shantou Oil-Fired and Shanghai Power Plants were Rmb32.5 million, Rmb21.35 million, Rmb 0.799 million and Rmb8.35 million respectively. Fuzhou, Nantong, Shantou, Dandong and Nanjing Power Plant did not incur any sales incentives in 1999.

Operating Expenses Total operating expenses increased 36.80% to Rmb7.8927 billion in 1999 from Rmb5.7696 billion in 1998. The increase in operating expenses resulted primarily from the inclusion of operating expenses of Dandong Power Plant, Dalian Power Plant Phase II, Fuzhou Power Plant Phase II and Nantong Power Plant Phase II, which all commenced commercial operation in 1999, the increase in operating expenses at Shantou Power Plant due to the significantly increased output, and the inclusion of the operating expenses of Nanjing Power Plant.

Fuel costs, including associated transportation costs, increased 29.3% to Rmb3.3462 billion in 1999 from Rmb2.5879 billion in 1998. The increase in fuel costs was primarily due to 41.84% increase in total output. The weighted average unit cost of coal dropped 5.39%, from Rmb240.37 per ton in 1998 to Rmb227.41 per ton in 1999. On a per MWh basis of combined total output of the Company's Power Plants, fuel was costed 8.84% less in 1999 than 1998, declining to Rmb94 per MWh from Rmb103.1 per MWh.

Fuel costs were the most significant operating expense of the Company, representing 42.40% of the total operating expenses and 31.9% of the net operating revenues. The cost of coal for the Company's power plants excluding Shantou Oil-Fired Plant accounted for 96.89% of the total fuel costs in 1999. The remaining balance of total fuel costs represented the cost of oil, which were largely consumed as the fuel by the Shantou Oil-Fired Plant.

Depreciation and amortization increased 56.73% to Rmb2.3920 billion in 1999. The increase was mainly attributable to the depreciation related to Dandong Power Plant, Dalian Power Plant Phase II, Fuzhou Power Plant Phase II, Nantong Power Plant Phase II and Nanjing Power Plant.

Transmission fees consist of an agency handling fee levied on a per MWh basis for transmission services, as an reimbursement for transmission costs incurred by the local Power Bureaus. In 1999, transmission fees were paid by Fuzhou Power Plant Phase I, Shantou Oil-Fired Power Plant and Nanjing Power Plant. Fuzhou Power Plant Phase I adopted an on-grid tariff that did not require reimbursement of transmission costs of local Power Bureau, therefore, the transmission fees paid by Fuzhou Power Plant Phase I only consisted of agency handling fee of Rmb5 per MWh. Nantong Power Plant and Nanjing Power Plant ceased to pay transmission fees, effective from July, 1999. As a result of these changes, transmission fees declined 91.04% from Rmb305.1 million in 1998 to Rmb27.3 million in 1999.

The service fee to HIPDC includes a fee for the use of its transmission facilities (including grid connection facilities) based on reimbursement of cost plus an agreed profit. Pursuant to the Service Agreement dated June 30, 1994 between the Company and HIPDC (the "Service Agreement"), HIPDC has agreed, among other things, to allow the Company to use its transmission and transformer facilities, to rent certain office and headquarters space and to use certain telecommunications facilities. See "The Company's Relationship with HIPDC" for a further discussion of the Service Agreement. The service fee payable by the Company to HIPDC for the use of transmission and transformer facilities is calculated on the basis of overhaul and maintenance expenses, financing charges, insurance premiums and taxes payable by HIPDC relating to the transmission facilities and reasonable profits to HIPDC (calculated on the basis of 10% of the current net fixed asset value of the transmission facilities) and depreciation expenses (10% of the original net fixed asset value of such transmission facilities on a straight line basis) until such facilities are fully depreciated. HIPDC is responsible for the repair and maintenance of such transmission facilities and bear the related costs. The Company entered into another service agreement in relation to the power transmission and transformer equipment of the Company's new power plants on December 4, 1997 (as amended by a supplemental letter dated December 5, 1997) (collectively known as the "T&T Service Agreement") with HIPDC. According to this agreement, HIPDC agreed to allow the Company's new power plants or expanded power plants which commence commercial operation after January 1, 1997 or power plants acquired in the future to use its transmission and transformer facilities for a fixed fee payable to HIPDC equal to 12% of the original book value of the assets of HIPDC's transmission and transformer facilities.

In 1998, HIPDC, transferred the relevant transmission and transformer facilities in connection with Dalian, Dandong, Nanjing and Nantong Power Plants to Northeast Electric Power Group and Jiangsu Provincial Electric Power Corporation, as a result of which, these affected power plants were no longer required to pay service fees to HIPDC. Fuzhou Power Plant Phase II was not required to pay service fees to HIPDC because the transmission and transformer facility was invested by Fujian Power Bureau. Fuzhou Power Plant Phase I, Shangan Power Plant, Shantou Oil-Fired Plant, Shantou Power Plant and Shanghai Power Plant were still required to pay the service fees. The net fixed assets value of these power plants, however, has decreased due to depreciation and amortization, which led to a smaller base on which the 10% service fees were levied. The service fees paid to HIPDC declined 10.57% to Rmb305.8 million in 1999 from Rmb341.9 million in 1998. See "The Company's Relationship with HIPDC."

Maintenance expense primarily includes the provision for major repairs and maintenance determined on the basis of 1 % of fixed asset costs and expenses for ordinary repairs and maintenance. See Note 3(i) of Notes to Financial Statements. Repairs and maintenance expenses in 1999 were Rmb568.1 million, up 31.53% from Rmb431.9 million in 1998. The increase in maintenance expense was primarily due to the provisions for Dandong Power Plant, Nanjing Power Plant, Dalian Power Plant Phase II, Nantong Power Plant Phase II and Fuzhou Power Plant Phase II.

Labor costs increased 21.97% in 1999 to Rmb497.8 million from Rmb408.2 million in 1998. The increase in labor costs reflected the inclusion of labor costs in Nanjing Power Plant, as well as, the adjustments to salaries in 1999. Labor costs accounted for 6.31% of total operating costs in 1999. The Company believes that labor costs will continue to increase.

The Company has been accorded special tax treatment by the PRC State Taxation Bureau, pursuant to which income tax is levied on a non-combined basis. Under this regime, each Power Plant (although it is not a separate legal entity) is taxed individually on its net income. Because PRC tax law grants certain sino-foreign joint venture companies a tax exemption for two years following the first year in which any such company achieves a cumulative profit and grants a 50% reduction in the income tax rate for the three-years following such two-year tax exempt period. The Company has paid less taxes on a non-combined basis than it would have paid on a combined basis, because each Power Plant individually enjoys the tax exemption and reduction. See Note 3(j) of Notes to Financial Statements for further discussion of the tax treatment accorded the Company. The PRC State Taxation Bureau has confirmed that it will continue to levy taxes on the Company on a non-combined basis in the foreseeable future.

Income tax payment increased 3.66% in 1999 to Rmb384.6 million from Rmb371.0 million in 1998. The increase was primarily due to the fact that the income tax rate for Shanghai Power Plant increased to 16.5% in 1999 from 8.25% in 1998. The acquisition of Nanjing Power Plant also led to an increase in income tax payment. The income tax rate for Shangan Power Plant, however, decreased to 16.5% in 1999 from 31.5% in 1998, partially offsetting the effect of Shanghai Power Plant's increase of income tax rate. The effective income tax rate of the Company was 17% in 1999, as consistent with 1998.

Other expenses increased 22.98% to Rmb370.9 million in 1999 from Rmb301.6 million in 1998, reflecting expenses related to Dandong Power Plant, Dalian Power Plant Phase II, Nantong Power Plant Phase II, Fuzhou Power Plant Phase II and Nanjing Power Plant.

The Company had been granted an exemption (the "VAT Exemption") from paying the full VAT at the mandated 17% rate. Under the VAT Exemption, the Company is required to pay VAT calculated at 17% of its revenues, less the amounts of VAT already paid on the purchase of fuel and materials. The net amount of VAT payable is then compared with the amount which would have been paid under the previous legislation for the industrial and commercial consolidated tax ("ICCT Legislation"). Any excess amount paid was compensated by way of a refund from the tax bureau. The VAT Exemption, however, expired for by 1998. As a result, the Company did not receive any VAT refund in 1999.

Income before Financial expenses Income before financial expense (profit from operations) increased 12.22% to Rmb2.5954 billion in 1999 from Rmb2.3129 billion in 1998. This increase was primarily due to the fact that the growth of net operating revenue outpaced that of operating expenses.

Total Financial Expenses Total financial expense increased 53.31% to Rmb727.3 million in 1999 from Rmb474.4 million in 1998, primarily due to increase of interest expenses in relation to Dandong Power Plant, Dalian Power Plant Phase II, Nantong Power Plant Phase II, and Fuzhou Power Plant Phase II which started commercial operation in 1999, and the inclusion of the full year interest expenses of Nanjing Power Plant. As a result, interest charge increased 49.95% to RMB 899.8 million in 1999 from RMB 600 million in 1998. In addition, the decline in deposit interest rate led to 24.02% decrease in interest income earned. The appreciation of Renmenbi over Swiss Franc, however, produced a exchange gain of Rmb 63.9 million, partially offsetting the increase of interest expenses.

Net Income As a result of the foregoing, net income increased 1.61% to Rmb1.8682 billion in 1999 from Rmb1.8385 billion in 1998. The expiration of VAT Exemption in 1999 reduced approximately Rmb 660 million in the Company's net income. Shangan Power Plant Phase II and Shantou Power Plant, however, improved on profitability in 1999. Fuzhou Power Plant Phase II generated Rmb 58.9 million net profit during its first year of commercial operation. The inclusion of Nanjing Power Plant's operating results also improve the Company's profit.

Primarily due to fine-tuning of generation facilities, Dandong Power Plant, Dalian Power Plant Phase II and Nantong Power Plant Phase II incurred loss of Rmb 146.8 million, Rmb 19.5 million and Rmb 15.8 million, respectively. Shantou Oil-Fired Power Plant suffered a loss of Rmb 13.2 million, 37.72% less than that of 1998.

Dividend Payable

The Board of Directors of the Company proposed a dividend of Rmb0.09 per ordinary share for the year ended December 31, 1999, based on a resolution passed on April 5, 2000. The total dividend payable was Rmb508.5 million.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

General

In 1998, the Company experienced reduced Total Output in most of its Power Plants except Shangan Power Plant Phase II and Shantou and Shanghai Power Plants (the "New Power Plants"). The decrease in output of these power plants would have adversely affected its operating revenues without the contribution of revenues from the New Power Plants. Various factors resulted in such reduced output at these power plants including: abundant rainfall in Fujian Province in 1998, which led to increased hydroelectric power generation and a corresponding reduction in dispatch of Fuzhou Power Plant, and scheduled maintenance at the Company's Fuzhou Power Plant, Shangan Power Plant Phase I and Shantou Oil-Fired Power Plant. More important, the significant increase in the installed capacity in China, including in those regions served by the Company's Power Plants, has led to a decrease of imbalance of power supply and demand in recent years. The adverse economic development in many Asian countries, which began in mid-1997, has also negatively affected the economy of PRC, though to a lesser degree. Such adverse impact led to reduced economic growth rate in PRC, which in turn contributed to slower growth in demand for power supply in PRC. However, the Company believes that sustained growth in the national economy and improvement in the quality of the life in China will continue to increase the demand for and use of electricity in the future. See "Business — Description of the Company's Power Plants".

Operating Revenues, Net Net operating revenues reflect the deduction of sales incentives paid to Power Bureaus usually as an incentive to dispatch more output from the Power Plants. See "Business — Pricing Policy" and "Business — Power Sales." Net operating revenues for 1998 were Rmb8,082.5 million, an increase of 19.92% over operating revenues of Rmb6,739.8 million for 1997, due primarily to Shangan Power Plant Phase II's coming into commercial service for the full year, increased output at Shantou Power Plant and inclusion of the full year's operating results of Shanghai Power Plant, offset by decreases in net revenues at the Company's Power Plants other than the New Power Plants.

Dalian Power Plant's net operating revenues in 1998 decreased approximately 15.3% as compared with 1997, declining by Rmb187.8 million to Rmb1,038.9 million. This decrease was attributable primarily to a 18.2% decrease in weighted average power rate in 1998 over 1997. Dalian Power Plant adopted an on-grid power rate in 1998, replacing the old power rate, which had included a transmission fee. In addition, because HIPDC had transferred its transmission and transformer facilities to the Northeast Electric Power Group and stopped charging the Dalian Power Plant a service fee designed to provide HIPDC with reimbursement of cost and agreed profit, the power rate of Dalian Power Plant was further reduced to reflect this decrease of transmission cost. As a result of the above charges, the weighted average power rate for the Dalian Power Plant for 1998 was reduced to Rmb329 per MWh.

Fuzhou Power Plant's net operating revenues in 1998 decreased approximately 6.5% as compared with 1997, declining to Rmb1,213.9 million from Rmb1,298.2 million. This decrease was attributable both to a decrease in output and a decrease in its weighted average power rate. The decrease in output was resulting from increased use of hydroelectric power following high rainfall in Fujian Province in the first half of 1998 and a scheduled maintenance of one generating unit. As a result, the output at the Fuzhou Power Plant in 1998 decreased 3.2% to 3,283.5 million kWh. The weighted average power rate was Rmb434 per MWh, a 3.3% decrease over 1997.

Shangan Power Plant Phase I's net operating revenues in 1998 decreased approximately 9.6% as compared with 1997, declining to Rmb989.4 million from Rmb1,094.8 million. This decrease was mainly attributable to decrease in weighted average power rate. Also, Shangan Power Plant Phase I had one generating unit scheduled for maintenance in 1998, which led to a 2.9% decrease in output over 1997. Effective as of August 1, 1998, Shangan Power Plant Phase I adopted on-grid power rate, as a result the weighted average power rate of Shangan Power Plant Phase I decreased 7.2% to Rmb346 per MWh in 1998.

1998 was the first full year in which both generating units of Shangan Power Plant Phase II contributed to the operating results of the Company after their entering into commercial operation at the end of 1997. Its net operating revenue was Rmb745.7 million on an output of 2,438.7 million kWh. Its total output was below expectation in 1998 due primarily to an accidental outage, which adversely affected generation.

Nantong Power Plant's net operating revenues in 1998 decreased approximately 6.9% as compared with 1997, declining to Rmb999.4 million. This decrease was attributable to approximately 6.4% decrease in output combined with a decrease in weighted average power rate. Effective as of January 1, 1998, HIPDC transferred its transmission and transformer facilities connected with the Nantong Power Plant to the Jiangsu Provincial Power Corporation and stopped charging the Company the service fee related to the Nantong Power Plant. As a result, the power rate of the Nantong Power Plant could no longer include the amount which had been calculated to reimburse the Company for its payment of transmission expenses to HIPDC. The power rate of Nantong Power Plant declined to Rmb337 per MWh in 1998, a decreased of 0.6%.

The Shantou Oil-Fired Plant's net operating revenues decreased 33.9% in 1998, declining to Rmb80.2 million from Rmb121.3 million in 1997, due primarily to power surplus in Guangdong Province. The decrease in output was also attributable partly to the scheduled maintenance of one generating unit. The current power surplus in Guangdong Province is caused by increase in installed capacity. The structure of the Guangdong power grid and the excessive number of small power plants (including all kinds of oil-fired units) with individual installed capacity less than 50 MW have further contributed to oversupply of electric power. The Company, however, is confident that the power market in Guangdong Province will eventually improve as a result of the continuance of economic growth, the gradual phasing out of a combined capacity of 600 MW of small power plants in the region, and improvement in the structure of the provincial power grid network.

Shantou Power Plant's net operating revenues were Rmb1,022.7 million in 1998, a 38.3% increase over 1997. Its total output increased 38.2% and weighted average power rate remained the same as 1997.

Shanghai Power Plant's net operating revenues were Rmb1,992.2 million for the full year in 1998, compared with Rmb1,035.8 million for the second half in 1997. The output at the Shanghai Power Plant was 6,591.3 million kWh, compared with an output of 3,369 million kWh for the second half of 1997. The weighted average power rate of the Shanghai Power Plant was Rmb354 in 1998 an increase of 6.6% over 1997.

Total sales incentives paid in 1998 was Rmb25.6 million, representing a 48.9% decrease over the level in 1997. Sales incentives as a percentage of total operating revenues (including sales incentives) decreased from 0.74% in 1997 to 0.32% in 1998. Sales incentives on a per MWh basis of combined Total Output decreased from Rmb2.53 in 1997 to Rmb1.02 in 1998. In 1998, sales incentives paid by Fuzhou, Shangan and Shanghai Power Plants were Rmb5.6 million, Rmb3.4 million and Rmb16.7 million respectively. Dalian, Nantong, Shantou Oil-Fired and Shantou Power Plants did not pay any sales incentives in 1998.

Operating Expenses Total operating expenses in 1998 as compared with 1997 increased 9.8% to Rmb5,769.6 million from Rmb5,252.5 million. The increase in operating expenses was primarily resulting from the inclusion of operating expenses of Shangan Power Plant Phase II, which was in commercial operation in 1998 for the full year, the increase in operating expenses at Shantou Power Plant, which was due to the significantly increased output, and the increased operating expenses of Shanghai Power Plant as a result of inclusion of its full year's operating results (only second half results of the Shanghai Power Plant were included in 1997).

Fuel costs, including associated transportation costs, increased by 5.8% to Rmb2,587.9 million in 1998 from Rmb2,446.4 million in 1997. Fuel costs rose due primarily to increases in coal consumption, offset in part by declining weighted average cost of coal. Coal consumption rose in 1998 because of the 26.4% increase in the Total Output of the Company, which was in turn brought by the inclusion of full year operation results of Shanghai Power Plant and Shangan Power Plant Phase II in 1998 and the increased output at Shantou Power Plant. The weighted average cost of coal decreased 11.1%, from Rmb270.26 per ton in 1997 to Rmb240.37 per ton in 1998. On a per MWh basis of combined Total Output of the Company's Power Plants, fuel costs decreased by 16.3% in 1998 over 1997, declining to Rmb103.1 per MWh from Rmb123.2 per MWh.

Fuel costs were the most significant operating expense of the Company, representing 44.9% of the total operating expenses and 32.0% of the net operating revenues. The cost of coal for the Company's Power Plants excluding Shantou Oil-Fired Plant accounted for 96.7% of the total fuel costs in 1998. The balance of total fuel costs represented the cost of oil, which were largely consumed as the primary fuel by the Shantou Oil-Fired Plant. The Company anticipates fuel costs for its Power Plants, including associated transportation costs, would not likely remain at the current low level for sustainable period in the future.

Depreciation and amortization increased substantially to Rmb1,526.2 million in 1998, an increase of 37.8%. The increase was mainly attributable to the depreciation related to the Shangan Power Plant Phase II and the Shanghai Power Plant, which in turn was due to the first time inclusion of their operating results for the full year.

Transmission fees consist of an agency handling fee levied on a per MWh basis for transmission services and reimbursement of transmission costs incurred by the local Power Bureaus. In 1998, transmission fees were paid by Fuzhou, Nantong, Shangan (including both Phase I and Phase II) and Shantou Oil-Fired Power Plants, respectively. Since Nantong Power Plant adopted an on-grid tariff that did not require reimbursement of transmission costs, the transmission fees paid by Nantong consisted of agency handling fee only. In addition, Dalian, Shanghai and Shangan also adopted on-grid tariffs one after another in 1998. As a result of these changes, transmission fees in 1998 declined substantially as compared with 1997, falling from Rmb537.1 million to Rmb305.1 million, a 43.2% decrease.

The service fee payable to HIPDC includes a fee for the use of its transmission facilities (including grid connection facilities) based on reimbursement of cost plus an agreed profit. Pursuant to the Service Agreement dated June 30, 1994 between the Company and HIPDC (the "Service Agreement"), HIPDC has agreed, among other things, to allow the Company to use its transmission and transformer facilities, to rent certain office and headquarters space and to use certain telecommunications facilities. See "The Company's Relationship with HIPDC" for a further discussion of the Service Agreement. The service fee payable by the Company to HIPDC for the use of transmission and transformer facilities is calculated on the basis of overhaul and maintenance expenses, financing charges, insurance premiums and taxes payable by HIPDC relating to the transmission facilities and reasonable profits to HIPDC (calculated on the basis of 10% of the current net fixed asset value of the transmission facilities) and depreciation expenses (10% of the original net fixed asset value of such transmission facilities on a straight line basis) until depreciation is no longer calculated. HIPDC is responsible for the repair and maintenance of such transmission facilities and related costs. The Company entered into a Service Agreement in relation to the power transmission and transformer equipment of the Company's new power plants on December 4, 1997 (as amended by a supplemental letter dated December 5, 1997) (collectively known as the "T&T Service Agreement") with HIPDC. According to this agreement, HIPDC agreed to allow the Company's new power plants or expanded power plants which commence commercial operation after January 1, 1997 or power plants acquired in the future to use its transmission and transformer facilities for a fixed fee payable to HIPDC equal to 12% of the original book value of the assets of HIPDC's transmission and transformer facilities.

Principally as a result of the Shanghai Acquisition and the commencement of commercial operations of the Shangan Power Plant Phase II in 1998, which increased both the fixed asset book value of HIPDC's transmission facilities and the costs of using HIPDC's transmission facilities, the service fee paid to HIPDC increased significantly in 1998. The increase of service fee, however, was offset partially by the elimination of Dalian and Nantong Power Plants' service fee payment to HIPDC, which resulted from the transfer of the relevant transmission and transformer facilities from HIPDC to Northeast Electric Power Group and Jiangsu Provincial Electric Power Corporation. The service fee paid to HIPDC increased 30.8% in 1998, rising to Rmb341.9 million from Rmb261.5 million in 1997. See "The Company's Relationship with HIPDC."

Repair and maintenance expenses primarily include the provision for major repair and maintenance calculated on the basis of 1% of fixed asset value and expenses for ordinary repairs and maintenance. See Note 3(j) of Notes to Financial Statements. Repair and maintenance expenses in 1998 were Rmb431.9 million, up 27.0% from Rmb340.1 million in 1997. The increase in repair and maintenance expenses was due primarily to provisions for major repairs at the Shangan Power Plant Phase II and Shanghai Power Plant based on the plants' fixed asset value.

Labor costs increased 11.1% in 1998 as compared with 1997, rising to Rmb408.2 million from Rmb367.3 million. The increase in labor costs reflected the labor costs increase at the Shanghai Power Plant and adjustments to salaries that were made in 1998. Labor costs accounted for 7.1% of total operating costs in 1998 as compared with 7.0% in 1997. The Company believes that labor costs will continue to increase.

The Company has been accorded special tax treatment by the PRC State Taxation Bureau pursuant to which corporate income tax is levied on a non-consolidated basis. Under this regime, each Power Plant (although it is not an independent legal entity) is taxed individually on its net income. Because PRC tax law grants certain sino-foreign joint venture companies a tax exemption for two years following the first year in which any such company achieves a cumulative profit and grants a 50% reduction in the income tax rate for the three-years following such two-year tax exempt period, the Company has paid lower taxes on a non-consolidated basis than it would have paid on a consolidated basis because each Power Plant individually enjoys the tax exemption and reduction. See Note 3(l) of Notes to Financial Statements for further discussion of the tax treatment accorded the Company. The PRC State Taxation Bureau has confirmed that it will continue to levy taxes on the Company on a non-consolidated basis for the foreseeable future.

Income tax decreased 2.8% in 1998 as compared with 1997, declining to Rmb371.0 million from Rmb381.7 million. The decrease in income taxes was attributable principally to lower operating revenues of the Company's Power Plants excluding the New Power Plants, offset in part by increase in income tax attributable to the Shanghai Power Plant. Because the income tax rate for Shanghai Power Plant was 8.25% and zero percent for Shantou Power Plant (because it was in the two year tax exemption period), the average income tax rate of the Company reduced 2% in 1998, declining to 17% from 19% in 1997.

Other expenses rose 15.6% in 1998 as compared with 1997, increasing to Rmb301.6 million from Rmb260.8 million reflecting expenses related to the start-up costs of Shangan Power Plant Phase II and increased expenses of Shanghai Power Plant.

The Company has been granted an exemption (the "VAT Exemption") from paying the full VAT at the mandated 17% rate. Under the VAT Exemption, the Company is required to pay VAT calculated at 17% of its revenues, less the amounts of VAT already paid on the purchase of fuel and materials. The net amount of

VAT payable is then compared with the amount which would have been paid under the previous legislation for the industrial and commercial consolidated tax ("ICCT Legislation"). Any excess amount paid is compensated by way of a refund from the tax bureau. The VAT Exemption is available for five years, starting with the 1994 fiscal year. 1998 was the last year for the Company to enjoy the benefit of VAT Exemption. As a result, the Company will experience the impact of the normal VAT regime on its earnings starting in fiscal year 1999.

The VAT refund increased 12.1% in 1998 as compared with 1997, rising to Rmb504.2 million from Rmb449.8 million. The increase primarily reflects the increased sales revenues, which increased the net amount of VAT payable.

Income before Financial Income Income before financial income (profit from operations) increased 55.5% in 1998 as compared with 1997, rising to Rmb2,312.9 million from Rmb1,487.2 million. This increase was due primarily to the 19.9% increase in net operating revenues, partly offset by the 9.8% increase in net operating expenses.

Total Financial Income Total financial income of Rmb174.8million in 1997 became total financial expense of Rmb474.4 million in 1998, due primarily to the decrease of interest income and increase of interest charge of Shangan Power Plant Phase II, which entered into commercial operation, and the inclusion of the full year interest charge of Shanghai Power Plant. A key component of financial income of 1997 was foreign exchange gains, which were Rmb163.3 million and representing 93.5% of the total financial income in 1997. The Company had recorded foreign exchange loss 17.3 million in 1998.

Net Income As a result of the foregoing, net income in 1998 increased 10.6% over 1997, rising to Rmb1,838.5 million from Rmb1,662.0 million. The increase was attributable to the better operating results of Shanghai, Dalian, Shangan Phase I and Shantou Power Plants in 1998. Shangan Power Plant Phase II incurred a loss of Rmb39.8 million partially due to an unexpected outage resulting from the breakdown of one of its generating units and partially due to the fact that 1998 was the first year of its commercial operation. Shantou Oil-Fired Power Plant incurred a loss of Rmb21.1 million due primarily to the temporary power surplus in Guangdong Province and also due to the scheduled maintenance of one of its generating units.

Dividend Payable

Because the Company is approaching the end of its peak capital expenditure period, and because the Company wants to return value to its shareholders both in China and outside China, the Company decided to declare a dividend of Rmb0.08 per ordinary share for the fiscal year of 1998 after the Board of the Directors passed a board resolution on April 8, 1999. The total dividend payable was Rmb452 million.

Liquidity and Capital Resources

During the year ended December 31, 1999, net cash provided by operating activities was approximately Rmb5,007 million. The major contributors, after adding back the Rmb2,392 million major non-cash item of depreciation and amortization were an increase in net income to Rmb1,868 million and a increase of Rmb1,071 million in accounts payable and accrued liabilities (mainly for payable to contractors), offset in part by a increase of Rmb726 million in accounts receivable. During the year ended December 31, 1999, net cash used in investing activities, primarily representing cash used in capital expenditures of Rmb2,274 million, cash used in repayment of payable of Nanjing Acquisition of Rmb1,111 million and cash provided by a decrease in temporary cash investment of Rmb586 million, was Rmb2,635 million. Net cash used in financing activities, primarily representing the repayment of long-term bank loans and loans from shareholders of Rmb511 million and Rmb1,836 million respectively, as well as dividend paid of Rmb452 million less the drawdown of long-term bank loans of Rmb1,051 million, was Rmb2,065 million. As a results, cash and cash equivalents increased by Rmb308 million, resulting in a balance of cash and cash equivalents at December 31, 1999 of Rmb2,493 million.

During the year ended December 31, 1998, net cash provided by operating activities was approximately Rmb5,963 million. The major contributors, after adding back the Rmb1,526 million major non-cash item of depreciation and amortization were an increase in net income to Rmb1,839 million and a decrease of Rmb1,681 million in other receivables and assets (mainly for repayment to contractors). During the year ended December 31, 1998, net cash used in investment activities, primarily representing cash used in capital expenditures of Rmb6,457 million, repayment of payable to HIPDC of Rmb1,395 million and cash provided by a decrease in temporary cash investment of Rmb873 million, was Rmb6,965 million. See Note 28 to Financial Statements for explanations of reclassification for 1998 comparative figures. Net cash provided by financing activities, primarily representing the net proceeds of Rmb1,122 million from issuance of Foreign Share in February 1998, the drawdown of long-term bank loan of Rmb3,588 million less repayment of long-term bank loans and loans from shareholders of Rmb559 million and Rmb1,771 million respectively, was Rmb1,708 million. As a result, cash and cash equivalents increased by Rmb705 million, resulting in a balance of cash and cash equivalents at December 31, 1998 of Rmb2,185 million.

For 1997 net cash provided by operating activities was approximately Rmb3,487 million. The major contributors, after adding back the Rmb1,107 million major non-cash item of depreciation and amortization, were an increase in net income to Rmb1,662 million and an increase of Rmb681 million in accounts payable and accrued liabilities, offset in part by an increase of Rmb424 million in accounts receivable. During the year ended December 31, 1997, net cash flows used for investment activities, primarily representing cash used in capital expenditures of Rmb6,847 million and in temporary cash investment of Rmb1,848 million. Net cash provided by financing activities, primarily representing the proceeds of Rmb1,860 million from the issuance of US$230,000,000 principal amount of 1.75% convertible notes due 2004, convertible into ADSs (“Convertible Notes”) in May 1997, the drawdown of long-term bank loans of Rmb5,955 million less the repayment of Rmb7,351 million long-term shareholder loans, was Rmb1,218 million. As a result, cash and cash equivalents decreased by Rmb288 million, resulting in a balance of cash and cash equivalents at December 31, 1997 of Rmb1,480 million.

Capital expenditures in 1999 were Rmb2,274 million (US$275 million), primarily for the construction of Dandong Power Plant, Dalian Power Plant Phase II, Fuzhou Power Plant Phase II and Nantong Power Plant Phase II.

Capital expenditures in 1998 were Rmb6,457 million (US$780 million), primarily for the construction of Dalian Power Plant Phase II, Dandong Power Plant, Fuzhou Power Plant Phase II and Nantong Power Plant Phase II.

Capital expenditures in 1997 totaled Rmb6,847 million (US$827 million) and were made primarily in connection with the Dalian Power Plant Phase II, Dandong Power Plant, Fuzhou Power Plant Phase II, Nantong Power Plant Phase II and Shangan Power Plant Phase II.

Capital expenditures have been financed by long-term borrowings and cash form operations. The Company’s anticipated capital expenditures will be financed by cash in hand, cash from operations and future debt and equity offerings.

As of December 31, 1999, the Company had short-term unsecured bank loan repayable of in an amount that was approximately equivalent to Rmb50 million (US$6 million), which were used primarily for working capital needs. The Company’s short-term bank loans may be extended with the consent of the bank.

The terms of the existing bank and Local Government loans of the Company do not restrict the ability of the Company to pay dividends in respect of the shares of the Company. In accordance with the US$16 million Tax Spared Term Loan Agreement dated November 11, 1996 (the "DKB Loan") between the Company and the Dai-Ichi Kangyo Bank, Limited ("DKB"), absent DKB approval, the Company may not incur additional *pari passu* or subordinated debt other than in ordinary course of business. DKB has agreed to waive this requirement for the purposes of the Shanghai Power Plant Acquisition, the Offering and Nanjing Power Plant Acquisition. On December 31, 1999, US$16 million was outstanding under the DKB Loan. The Company's other existing bank loan and Local Government loans do not restrict its ability to incur additional *pari passu* or subordinated debt. None of the Company's loan are secured.

In connection with the Shanghai Power Plant Acquisition, the Company assumed approximately Rmb1,386 million of foreign denominated loans and approximately Rmb490 million of HIPDC and bank loans denominated in Rmb that were used to finance the construction of the Shanghai Power Plant. In connection with Shanghai Power Plant Acquisition, the Company had made four cash payments to HIPDC; Rmb550 millon paid on December 31, 1997, (ii) Rmb1,000 million paid on January 1,1998, (iii) Rmb550 million paid on March 30, 1998 and (iv) Rmb690 million paid on June 30, 1998. See "Item 1.Description of Business - The Shanghai Power Plant Acquisition."

In connection with the Nanjing Power Plant Acquisition, the Company assumed approximately Rmb252 million of foreign denominated loans and approximately Rmb444 million and Rmb349 million of loans denominated in Rmb on lent by HIPDC and Nanjing Investment respectively. In connection with the Nanjing Power Plant Acquisition, the Company had made a cash payment to HIPDC amounted to approximately Rmb1,111 million, as the Company had not issued the domestic shares in the local stock exchange in mainland China on December 31, 1999.

The Company is currently constructing some complementary facilities and renovation projects for the Fuzhou Power Plant Phase II and Nantong Power Plant Phase II. Annual construction estimate amounts to approximately Rmb330 million (representing approximately Rmb170 million and Rmb160 million to Fuzhou Power Plant Phase II and Nantong Power Plant Phase II respectively) in 2000. The construction programs are subject to periodic review and revision. The actual construction costs may vary from the above estimates.

As of December 31, 1999, approximately Rmb14,940 million of total long-term debt, including long-term loans (including current portion) convertible notes and accrued put premium, was outstanding, of which approximately Rmb13,205 million was denominated in foreign currencies. Because of the number of different provinces in which the Company operates, the Company believes that operational failure at any Power Plant would not affect its ability to make principal and interest payments under its financing obligations.

Impact of Inflation

The national retail inflation rates in the PRC were 6.1% and 0.8% per annum in 1996 and 1997, respectively. Nationwide retail prices decreased 2.6% and 1.4% in 1998 and 1999. The Company is permitted under the Pricing Policy to pass on increases in its costs to customers through power rate adjustments. As a result, the Company believes that inflation and PRC Government efforts to curb inflation have not had a significant impact on the Company's profitability or financial position. However, more severe measures or other actions by the PRC Government to control inflation or otherwise regulate the economy could decrease overall demand for electricity in China.

Year 2000 Computer Compliance

The Company and third parties with whom it does business rely on numerous computer systems, equipment and facilities in our operations. The company has not experienced any disruption in power production and transmission caused by the failure of our computer systems, equipment and facilities used in our operations or those of any third parties due to the year 2000 problems. The Company spent Rmb 8 million in resolving the Computer Year 2000 problem.

Item 9A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates and fuel prices.

Foreign currency exchange rate risk exists with respect to (i) the Company's indebtedness denominated in currencies other than Renminbi and (ii) its equipment purchase commitments. Fluctuations in exchange rates may lead to significant fluctuations in the exposure of the Company's foreign currency denominated liabilities.

The Company is subject to market rate risks due to fluctuations in interest rates, principally as a result of the Company's indebtedness that bears interests at variable rates. To mitigate its exposure to interest rate risks, the Company entered into certain interest rate swap agreements in 1999 for the total principal amount of US$114 million with a weighted average rate of 6.43% per annum. The Company uses such interest rate swap transactions solely for risk hedging purposes. As of December 31, 1999, the principal amount of interest rate swap agreements which the Company was exposed to was approximately Rmb943.84 million.

The Company is also exposed to market rate risk due to fluctuations in fuel prices, mainly coal prices. For the year ended December 31, 1999, the Company's total fuel costs were Rmb3,346.2 million.

The following table provides information, by maturity date, regarding the Company's foreign currency sensitive financial instruments, which consist of cash and cash equivalent, temporary cash investment, short-term and long-term debt obligations and capital commitments as of December 31, 1999.

	As of December 31, 1999							
	Expected Maturity Date						Total recorded value	Fair value
	2000	2001	2002	2003	2004	Thereafter		
	(Rmb expressed in million, expect interest rate)							
On-balance sheet financial instruments								
Cash and cash equivalents:								
in US Dollars	91	—	—	—	—	—	91	91
in Rmb	2,402	—	—	—	—	—	2,402	2,402
Temporary cash investments:								
in US Dollars	299	—	—	—	—	—	299	299
in Rmb	952	—	—	—	—	—	952	952
Debts:								
Fixed rate banks and other loans:								
in US$	745	694	686	686	686	4,627	8,124	7,699
Average interest rate	6.54%	6.25%	6.23%	6.23%	6.23%	6.25%		
In French Francs ("FRC")	1	—	—	—	—	—	1	1
Average interest rate	6.5%	—	—	—	—	—	—	—
In Swiss Francs ("SFRC")	181	52	—	—	—	—	233	232
Average interest rate	4.57%	4.25%	—	—	—	—		
Convertible notes(US$)	—	—	—	—	1,904	—	1,904	1,961
Average interest rate	—	—	—	—	1.75%	—	—	—
Variable rate banks and other loans (US$)	378	448	448	837	563	2	2,676	2,618
Average interest rate (1)	6.71%	6.49%	6.49%	6.74%	6.87%	6.68%		
Capital commitments (in US$)	437	—	1,071	—	—	—	1,508	1,508

(1) The interest rates for variable rate banks and other loans are calculated based on the year end indice.

The following table provides information, by maturity date, regarding the Company's interest rate sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 1999.

	As of December 31, 1998							
	Expected Maturity Date						Total recorded value	Fair value
	2000	2001	2002	2003	2004	Thereafter		
	(Rmbexpressedinmillion,expectinterestrate)							
Debts								
Fixed rate banks and other loans	1,463	1,033	843	843	803	4,867	9,852	9,425
Average interest rate	6.09%	6.12%	6.21%	6.21%	6.21%	6.24%		
Convertible notes	—	—	—	—	1,904	—	1,904	1,961
Average interest rate	—	—	—	—	1.75%	—		
Various rate banks and other loan(1)	443	512	512	901	596	2	2,966	2,910
Average interest rate	6.64%	6.45%	6.45%	6.70%	6.84%	6.68%		

(1) The interest rates for variable rate banks and other loans are calculated based on the year end induce.

Item 10. Directors and Officers of Registrant

The following table sets forth certain information concerning the Directors and executive officers and members of the supervisory committee of the Company (the "Supervisory Committee"). All Directors will serve a term of three years or until the election of their respective successors.

Name	Age	Positions with the Company
Li Xiaopeng	40	Chairman of the Board of Directors
Wang Defang	75	Director
Wang Xiaosong	53	Vice Chairman
Ye Daji	54	Director and President
Feng Dawei(1)	49	Vice President
Chen Baoliang(1)	45	Vice President
Huang Long(1)	46	Vice President
Li Rongyue	62	Director
Yang Shengming	56	Director
Zhao Guozhen	58	Director
Liu Ming	45	Director
Bai Changnian(1)	49	—
Miao Kai	37	Director
Lin Jianxin	44	Director
Li Zhongshu	61	Director
Bao Qianyuan	59	Director
Gao Zongze	60	Independent Non-Executive Director
Zheng Jianchao	60	Independent Non-Executive Director
Zhou Wanjun	63	Chairman of the Supervisory Committee
Zhao Xisheng	56	Member of the Supervisory Committee
Shi Yuxiang	66	Member of the Supervisory Committee
Ju Zhanghua	50	Secretary of the Board of Directors

(1) director nominees, subject to shareholders' approval

Directors and members of the supervisory Committee

Directors

Li Xiaopeng was elected Chairman of the Board of Directors in April 1999. He had been a Director of the Company since June 1994 and held the position of Vice Chairman since February 1996. Mr. Li was appointed the President of Huaneng Group in January 2000 and continued to be the Chairmen of the Board of Directors of the Company. Between December 1995 and January 2000, Mr. Li had been President of the Company. Prior to his tenure on 1995, Mr. Li had been a Vice President of the Company. He joined HIPDC in 1991 and worked as Assistant to the President then Vice President. He continues to serve as President of HIPDC. Mr. Li is a senior engineer. He previously served as Deputy Division Chief of the Planning and Operations Division and as Director of the Power Technology and Economy Research Department, Electric Power Research Institute. Mr. Li graduated from the North China Institute of Electric Power in 1982 specializing in power plants and power systems.

Wang Defang has been a Director of the Company since June 1994 and was Chairman of the Board of Directors until February 1996. He participated in the establishment of HIPDC in 1985 as Vice Chairman and President and served as its Chairman from 1989 until 1995. Mr. Wang continues to serve as a Director of HIPDC. Mr. Wang is a senior administrator with extensive experience in power industry management and development. He has served as Vice Director of the East China Power Administration, Director of the Planning Department of the former Ministry of Electric Power, Vice Minister of the State Energy Commission and President of the Electric Power Planning and Design Institute under the Ministry of Water Resources and Electric Power. Mr. Wang graduated from Shandong University in 1946 and is a Standing Member of the Steering Committee of the Chinese Society of Electrical Engineering.

Wang Xiaosong was appointed a Director of the Company since February 1996. In January 2000, he was elected the Vice Chairman of the Company where previously he was appointed the Vice President of Huaneng Group. During the period from December 1995 to January 2000 he was Vice President of the Company, Mr. Wang had been the General Manager of the Securities Department of the Company. He is a senior engineer. He joined HIPDC in 1993 as General Manager of the Securities Department. Mr. Wang had also served as Deputy Director of the Fushun Power Plant, Director of the Yuanbaoshan Power Plant and then as Chief of the Labor and Wages Division of the Northeast Power Administration. He graduated from the Beijing Institute of Electric Power in 1970 specializing in thermal power.

Ye Daji was appointed a Director and a Vice President of the Company in February 1996 and in December 1995, respectively. In January 2000, he was appointed the President of the Company where previously he was elected as a director of Huaneng Group. He is a senior engineer. Mr. Ye had served as Director of the Huaneng Shanghai Shidongkou Second Power Plant and as Deputy General Manager and Assistant to the General Manager of HIPDC's Shanghai Branch. Prior to joining HIPDC, Mr. Ye had served as Deputy Chief Engineer of Shanghai Shidongkou Power Plant. He graduated from Shanghai Jiaotong University in 1967, specializing in mechanical engineering.

Feng Dawei was appointed a Vice President of the Company and a candidate for Board director in January 2000. Mr. Feng joined the Company in 1996 and had worked as General Manager of the Huaneng Guangdong Branch, Director of Shantou Power Plant and General Manager of Engineering Department and Production Department of the Company. He was appointed General Manager of the Huaneng Beijing Co-generation Power Co. Ltd. and Director of HIPDC Beijing Co-generation Power Plant in 1998. He is a senior engineer and had been Deputy Director and Director of Harbin Third Power Plant prior to joining the Company. With a degree of M.S., Mr. Feng graduated from Hefei Polytechnic University in 1996.

Chen Baoliang was appointed a Vice President of the Company and a candidate for Board director in January 2000. Mr. Chen joined the Company in 1996 and had worked as General Manager of Huaneng Dalian

Branch and Director of Huaneng Dalian Power Plant. He is a senior engineer and had been Deputy Chief Engineer of Liaoning Qinghe Power Plant, Deputy Division Chief of the Establishment Division and the Construction Division of Tieling Power Plant and Director of Yuan Bao Shan Power Plant prior to joining the Company. With a degree of M.S., Mr. Chen graduated from North China Electronic Power University in 1998.

Huang Long was appointed a Vice President of the Company and a candidate for Board director in January 2000. He had served as Deputy General Manager and then General Manager of Department of International Cooperation since June 1994. Mr. Huang was Project Manager of the Engineering Department, Division Chief in Engineering Management and Deputy General Manager of the Department of International Cooperation since joining HIPDC in 1985. Mr. Huang is a senior engineer and, with a degree of M.S., he graduated from North Carolina University in the United States of America.

Li Rongyue has been a Director of the Company since June 1994. He had been General Manager of Hebei Province Construction Investment Corporation. Mr. Li is a senior economist. Prior to joining Hebei Province Construction Investment Corporation in 1989, he worked for over twenty-five years in the Hebei Provincial Planning Commission, serving as Deputy Division Chief and then Division Chief of the Industrial Division. Mr. Li graduated in 1961 from Hebei Agricultural College, specializing in agricultural economics.

Yang Shengming was appointed a Director of the Company on April 15, 1998. Mr. Yang has been Deputy General Manager of the Fujian Province International Trust and Investment Company since December 1994. Mr. Yang graduated from Institute of Light Industry in Beijing in 1968. He is a senior economist.

Zhao Guozhen was appointed a Director of the Company on June 26, 1997. Mr. Zhao has served as the Vice Chairman and President for the Jiangsu Province International Trust and Investment Company since 1995. Prior to joining the International Trust and Investment Company of Jiangsu Province, Mr. Zhao served as the Magistrate of Liyang County, the Deputy Secretary of the Changzhou Municipal Government, and Deputy Director of the Party Group of the Jiangsu Province Planning Economic Committee. Mr. Zhao graduated from Nanjing Aviation College in 1967, specializing in aviation.

Liu Ming was appointed a Director of the Company on June 26, 1997. He is General Manager of the Liaoning Energy Corporation. Mr. Liu was transferred there in August 1989, where he previously held the positions of Assistant to the General Manager and Deputy Chief Engineer. Prior to joining the Liaoning Energy Corporation, he served as Director of the Planning Office of the Northeast Economic Zone under the State Council. With M.S. degree, Mr. Liu graduated from Harbin Industry University in 1984, specializing in dynamic engineering.

Bai Changnian was nominated a candidate for director according to the Board Resolution dated August 10, 1999. Prior to working as Deputy Director of Dalian Planning Commission and General Manager of Dalian Construction Investment Corporation in 1994, he was Deputy Director of the Economic Research Center of Dalian Municipal Government, Deputy Director of Dalian Economic Research Institute, Deputy Director of Economic Research Institute of Dalian Planning Commission and a lecturer of Dalian Science and Polytechnic University. Mr. Bai is a senior economist and graduated from Liaoning University in 1977, specializing in economics.

Lin Jianxin was appointed a Director of the Company on February 5, 1996. He is General Manager of the Shantou Power Development Corporation. Mr. Lin previously worked as General Manager of the Shantou Ceramics (Group) Company and was named one of "Shantou's Ten Outstanding Youths" in 1988. He graduated from the Graduate Institute of Jilin University and has a master's degree in economics.

Li Zhongshu was appointed a Director of the Company on June 30, 1994. She is a senior administrator of the Huaneng Fuzhou Power Plant. She is a senior engineer with over thirty years of experience in the power industry. Ms. Li was previously Deputy Director and then Director of the Huaneng Fuzhou Power Plant. Ms. Li also served as Director of the Fujian Provincial Fuzhou Power Plant and Deputy Manager of the Fujian Provincial Thermal Power Engineering Contract Corporation. Ms. Li graduated from Qinghua University in 1960, specializing in thermal energy, and is a standing member of the steering committees of several professional associations and organizations.

Bao Qianyuan was appointed a Director of the Company on June 30, 1994. He is Director of the Huaneng Nantong Power Plant. He is a senior engineer with extensive experience in construction. He previously held a number of positions, including Manager of the first Branch of the Nantong Municipal Construction Installation Corporation and Director of the Nantong Municipal Construction Engineering Bureau. Mr. Bao graduated in 1958 from Suzhou Architectural School, specializing in industrial and civil construction.

Miao Kai has been a Director of the Company since June 1999 and is Director of Nantong Investment Management Center. Prior to joining Nantong Investment Management Center in 1998, he had worked for Nantong Construction Investment Corporation and Nantong Planning Commission, etc. He has been engaged in the investment and finance management for many years and has extensive experience in the infrastructure and the capital market. Mr. Miao is an economist and, with a master's degree in economics, graduated from Zhejiang University in 1985.

Independent Directors

Gao Zongze was appointed a Director of the Company on November 2, 1997. He is the Director and senior partner at C&I Partners. Mr Gao is an approved arbitrator of China International Economic and Trade Arbitration Commission and China Marine Affairs Arbitration Commission. He is also the Vice President of All China Lawyers Association. Mr Gao graduated from Dalian Marine Institute. Mr Gao received a master degree in Law from the Law Department of Graduate Study Institute of Chinese Academy of Social Science.

Zheng Jianchao Zheng Jianchao was appointed a Director of the Company on November 2, 1997. He is Honorary President of Electric Power Research Institute in China and Chairman of its Academic Committee. Mr. Zheng was elected to the Chinese Academy of Engineering in 1995 and to be a standing member of the Energy and Mining Engineering Department of the academy at the same time. Mr Zheng is a Study Committee member of CIGRE, a standing board member of CSEE and the editor-in-chief of the Journal of Chinese Electrical Engineering. He is also adjunct professor at Qinghua University and Shanghai Jiaotong University. Mr. Zheng graduated from Qinghua University, majoring in electrical engineering, and graduated from its Graduate School in 1965.

Secretary

Ju Zhanghua was the Secretary of the Board and General Manager of Securities and Finance Department of the Company from December 1995 to September 1998. He has been General Manager of Management Department of the Company since October 1998 and continues to serve as the Secretary of the Board. He was the Deputy General Manager of the Management Department from June 1994 to December 1995. Mr. Ju is a senior engineer and had worked in the Electricity Planning and Design Institute before joining HIPDC in 1985. Mr. Ju graduated from Qinghua University in 1975 specializing in Power Systems and Automations.

Supervisory Committee

As required by the Opinion of the Commission for the Restructuring of the Economic System on the Standardization of the Joint Stock Limited Company (the "Standard Opinion"), the Company Law of the People's Republic of China promulgated by the National People's Congress on December 29, 1993 with effect from July 1, 1994 and the Special Regulations of the State Council for Overseas Stock Offerings and Listings by Joint Stock Limited Companies promulgated on August 4, 1994 and effective from such date and other implementing regulations expected to be promulgated thereunder (collectively, the "Company Law") and the Articles of Association, the Company has formed the Supervisory Committee, whose primary duty is the supervision of senior management of the Company, including the Chairman of the Board of Directors, the Board of Directors, the President and other senior officers. The function of the Supervisory Committee is to ensure that senior management of the Company acts in the interest of the Company, its shareholders and employees and does not abuse its power. The Supervisory Committee reports to the shareholders in general meeting. The Articles of Association provide the Supervisory Committee with the right to investigate the business and the financial affairs of the Company and to request shareholders' meetings from time to time. The Supervisory Committee is comprised of three members, two of whom, pursuant to the Articles of Association, are appointed by shareholders of the Company and one by the Company's employees, each for a three-year term.

Zhou Wanjun joined HIPDC in 1987. Mr. Zhou is Chairman of the Supervisory Committee. He is a Senior Engineer. Mr. Zhou was the General Manager of the Management Department and the Supervising and Auditing Department. Mr. Zhou was previously the Vice President of the Electric Power Research Institute of the Ministry of Water Resources and Electric Power. He graduated from the Beijing Institute of Electric Power, specializing in power plant and power systems, and is the secretary of the HIPDC branch of the China Electric Power Enterprise Management Association.

Zhao Xisheng joined HIPDC in 1992. Mr. Zhao was elected as a member of the Supervisory Committee of the Company in June 1997. He currently holds the post of General Manager of the Supervising and Auditing Department. Since joining the Company, Mr. Zhao has served as Deputy Director, Director, and the Deputy General Manager, respectively, of the Financial Department. Prior to joining the Company, he served as Section Chief, Deputy Chief Accountant in the Shijingshan Power Plant. Mr. Zhao graduated from the People's University of China, specializing in financial accounting.

Shi Yuxiang joined HIPDC in 1985. He is a Senior Engineer. Mr. Shi is a member of the Supervising and Auditing Department. Mr. Shi has extensive experience in supervising management and employees. He graduated from the Changchun College of Electrical Machinery in 1953.

Item 11. Compensation of Directors and Officers

The Company paid Rmb1,412,188 (US$162,320) to its Directors and Supervisors as aggregate cash compensation for the year ended December 31, 1999 for services performed as Directors, Supervisors and officers or employees of the Company. In addition, Directors and Supervisors who are also officers or employees of the Company receive certain other benefits-in-kind, such as subsidized or free health care services, housing and transportation, which are customarily provided by large enterprises in the PRC to their employees. See "Item 1. Description of Business — Employees".

Item 12. Options to Purchase Securities from Registrant or Subsidiaries

None.

Item 13. Interest of Management in Certain Transactions

On June 30, 1994, the Company was issued a business license by the State Administration of Industry and Commerce and established as a joint stock limited company with FIE status. As part of the Reorganization and in preparation for the Initial Public Offering, HIPDC and the Company entered into a reorganization agreement dated June 30, 1994 (the "Reorganization Agreement"). Pursuant to the reorganization report that HIPDC submitted to the relevant authorities on May 23, 1994, to the Reorganization Agreement and to the approval of the State Commission for the Restructuring of the Economic System dated June 24, 1994, all assets, including the development rights, and certain liabilities of HIPDC with respect to each of (i) the Dalian Power Plant, Fuzhou Power Plant, Shangan Power Plant, Nantong Power Plant, Shantou Oil-Fired Plant, Dalian Phase II Expansion, Shangan Phase II Expansion, Nantong Phase II Expansion, Fuzhou Phase II Expansion, Dalian Phase III Expansion, Shangan Phase III Expansion, Nantong Phase III Expansion, Fuzhou Phase III Expansion, Jinling Power Plant and Jinling Phase II Expansion were transferred to the Company on June 30, 1994 and (ii) the Shantou Power Plant, Dandong Power Plant and their respective phase II expansions were to be transferred to the Company.

Transfer Agreements

According to PRC laws and regulations, the Shantou Power Plant and the Dandong Power Plant had to be appraised prior to transfer and, if transferred, such transfer had to be at a price not less than their appraised values. HIPDC and the Company entered into a transfer agreement dated February 27, 1995 and a transfer agreement dated January 10, 1995 (collectively, the "Transfer Agreements") which transferred the Shantou Power Plant, the Dandong Power Plant and their respective Phase II expansions to the Company effective December 31, 1994 at a price equal to the sum of (i) their aggregate appraised value as of June 30, 1994 and (ii) the amount HIPDC actually invested in developing the Shantou Power Plant and the Dandong Power Plant in the second half of 1994. On such basis, the total transfer price was Rmb2,786.95 million, of which Rmb2,665.55 million was for the Shantou Power Plant and Rmb121.40 million was for the Dandong Power Plant. Under the Reorganization Agreement and the Transfer Agreements, the Company agreed to pay the applicable transfer price in twenty equal semiannual installments, starting upon the commencement of commercial operations of the first unit of the Shantou Power Plant or the Dandong Power Plant, as appropriate, plus interest calculated at a rate equal to 110% of the then applicable PBOC lending rate, as adjusted from time to time for loans of such tenor. The two units of the Shantou Power Plant commenced commercial operation on January 1, 1997. Dandong Power Plant commenced commercial operation in 1999. On January 1, 1997, the Company and HIPDC entered into two supplemental agreements ("Supplemental Transfer Agreements") pursuant to which the Company paid to HIPDC in one lump sum the entire consideration together with interest thereon from December 31, 1994 to December 31, 1996 for the acquisition of the Shantou Power Plant and the Dandong Power Plants, respectively.

Retention of Certain Assets and Liabilities

HIPDC has retained all the assets and liabilities that are not to be expressly transferred to the Company pursuant to the Reorganization Agreement and the Transfer Agreements. HIPDC agreed in the Reorganization Agreement that, as between the Company and HIPDC, the Company would be the exclusive developer of all new greenfield coal-fired power plants in China with a planned installed capacity of 300 MW or greater (the "Agreed Power Plants") other than (i) the power plants with units having at least 300 MW installed capacity owned by HIPDC as of June 30, 1994 (the "Retained HIPDC Plants") and their expansion projects and (ii) those additional greenfield power plant developments which the Company does not have a realistic opportunity to effectively develop but where HIPDC does have such an opportunity and where such development will not compete with the Company.

In addition, pursuant to the Non-Competition Memorandum, HIPDC has undertaken that notwithstanding the provisions of the Reorganization Agreement, as between the Company and HIPDC the Company shall have the first right to develop coal-fired power plants with units having less than 300 MW installed capacity and other types of power plants. Moreover, to avoid any possible conflict of interest between HIPDC and the Company, HIPDC has stated that it will not compete with the Company in its business of developing, constructing and operating power plants in the PRC.

Although HIPDC has majority voting rights in the general meetings of the Company and has the power to designate a majority of the Board of Directors of the Company, and therefore to direct the Company's management and policies, the Articles of Association of the Company impose upon both its Directors and HIPDC, as the Company's controlling shareholder, certain fiduciary duties which preclude them from favoring HIPDC.

The Reorganization Agreement gives the Company the priority right to buy any of HIPDC's power plants at any time and from time to time when HIPDC wishes to dispose of such assets under terms which are no less advantageous than those that HIPDC may offer to a third party (the "Right of First Refusal"). Before the Company exercises its Right of First Refusal to acquire assets from HIPDC, the following conditions must be satisfied: (i) the terms and conditions of the transfer must be approved by a majority of the Directors; (ii) in the case of an existing power plant, an independent technical consultant must issue a technical report on the operation and condition of the power plant and the state of the power plant's equipment; (iii) in the case of an existing power plant, the plant must be appraised by an independent appraiser jointly appointed by the Company and HIPDC, and the acquisition price must be determined on the basis of the appraised value and must be mutually agreed upon by the Company and HIPDC; and (iv) (A) in the case of power plants under development or construction, if an appraisal under PRC law is required, the purchase price must be the appraised value and must be paid as mutually agreed upon by the Company and HIPDC, and (B) if an appraisal is not required, the purchase price must be based on the total out-of-pocket cost to HIPDC for such power plant. Such purchase prices are to be paid over a term to be mutually agreed with interest payable on the outstanding balance of the purchase price calculated at a rate equal to 110% of the then applicable PBOC lending rate, as adjusted from time to time for loans of such tenor. Should the Company acquire an existing power plant from HIPDC, the view of an independent investment banking firm as to the fairness of the transfer price will be sought. Any decision not to accept an offer from HIPDC under the Right of First Refusal by the executive Directors will be subject to review and approval by the independent non-executive Directors.

Any decision as to which plants may be offered to the Company by HIPDC in the future, however, will be made based upon the Company's views at the time as to available financing, financial returns to its shareholders, the relationship of the opportunity to the Company's business strategy and other factors.

Selected data on the Retained HIPDC Plants are set forth in the following table:

Name	Province/ Municipality	Actual/ Estimated In-service Date	Installed Capacity (MW)	HIPDC's Ownership	Type of Fuel	Expansion Project[(1)]
Luohuang Power Plant	Chongqing	Unit I: August 1991 Unit II: February 1992 Unit III: December 1998 Unit IV: December 1998	4x350	100%	Coal	Yes
Yueyang Power Plant	Hunan	Unit I: September 1991 Unit II: December 1991	2x350	100%	Coal	Yes
Yingkou Power Plant	Liaoning	Unit I: January 1996 Unit II: December 1996	2x300	100%	Coal	Yes
Beijing Cogeneration Power Plant . .	Beijing	Unit I, II: January 1998 Unit III: December 1998 Unit IV: June 1999	700	50%	Coal	Yes

(1) Unless otherwise noted, an expansion project is expected to be located in the same province or municipality and have the same installed capacity as the related Retained HIPDC Plant, and be 100% owned by HIPDC and coal-fired.

The Company expects the Retained HIPDC Plants to service their respective local markets, and the Company believes that the Retained HIPDC Plants do not present dispatch competition to the power plants

Promoters' Agreement

As part of the Reorganization, the assets, liabilities and the business of the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant were acquired by the Company from HIPDC and in return, pursuant to the Promoters Agreement, dated February 28, 1994 entered into between HIPDC and the Local Government Investment Companies HIPDC received a then 53.64% equity interest in the Company. The Local Governments of the respective provinces or municipalities in which the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant are located had previously extended long-term loans to these Power Plants to finance their construction. Such loans were subsequently assigned to the Local Government Investment Companies. In accordance with the Promoters' Agreement, the Local Government Investment Companies agreed to retire approximately Rmb435 million of the loans extended to the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant and to forfeit certain rights to participate in the profits of these five Power Plants in exchange for a then aggregate of 46.36% of the equity in the Company. Obligations under other loans to HIPDC from Local Government Investment Companies for the development of the Power Plants were assumed by the Company and will be repaid by the Company in accordance with their terms. Immediately following the Reorganization, the remaining total amount outstanding under such loans was approximately Rmb1,112 million.

After the H Share placement and without giving effect to the possible conversion of any Convertible Notes, HIPDC and the Local Government Investment Companies owned, respectively, 42.17% and 31.28% of the total number of outstanding shares of the Company. See "Item 4. Control of Registrant".

Inter-company Debt Service Agreements

With respect to funds provided by lenders other than Local Governments to HIPDC to finance the Dalian, Fuzhou, Nantong, Shangan and Shantou Power Plants and Shantou Oil-Fired Plant, the Company has made arrangements and has entered into intercompany debt service agreements (the "Intercompany Debt Service Agreements") with HIPDC under which HIPDC has remained the primary obligor under certain bank credit facilities and supplier credits (the "Power Plant Loans"), denominated in both Rmb and foreign currencies (predominantly US dollars), incurred in connection with the development of the Dalian, Fuzhou, Nantong, Shangan and Shantou Power Plants and Shantou Oil-Fired Plant. Under such arrangements and the Intercompany Debt Service Agreements, the Company pays such sums to HIPDC as are sufficient to enable HIPDC to perform its scheduled repayment obligations and certain other payment obligations under the Power Plant Loans to the extent such Power Plant Loans were used to finance the Dalian, Fuzhou, Nantong, Shangan and Shantou Power Plants and Shantou Oil-Fired Plant. As of December 31, 1999, part of the Power Plant Loans has been repaid in full and the outstanding liabilities included approximately US$136 million, SF$49 million and FF0.63 million in foreign currency-denominated loans.

In order to enable HIPDC to perform its repayment obligations under the Power Plant Loans on time, the Company pays HIPDC before the due date on which HIPDC is required to repay the creditors. Such sums of money paid by the Company to HIPDC which have not been applied by HIPDC in its repayment to the creditors is treated as a debt owing by HIPDC to the Company.

Guarantees

As of December 31, 1999, the Company had long-term loans of approximately Rmb692 million which are guaranteed by HIPDC.

Service Agreement

Pursuant to the Service Agreement, dated June 30, 1994 entered into between HIPDC and the Company (the "Service Agreement") HIPDC has agreed to provide certain services to the Company. The service fee payable by the Company to HIPDC for the use of transmission and transformer facilities is calculated on the basis of overhaul and maintenance expenses, financing charges, insurance premiums and taxes payable by HIPDC relating to the transmission facilities and reasonable profits to HIPDC (calculated on the basis of 10% of the current net fixed asset value of the transmission facilities) and depreciation expenses (10% of the original net fixed asset value of such transmission facilities on a straight line basis) until depreciation is no longer calculated. HIPDC is responsible for the repair and maintenance of such transmission facilities and related costs. Other services and fees include: (i) the renting of office and headquarters space by HIPDC to the Company at a yearly rental of Rmb500,000; (ii) the shared use of the satellite telecommunications facilities owned by HIPDC at a yearly fee of Rmb300,000; (iii) the training by HIPDC of the Company's personnel for a nominal fee plus reimbursement of HIPDC's actual out-of-pocket expenses if both parties agree; and (iv) the provision of other consulting services relating to production, operation and management of the Company, subject to payment of service fees equal to at least HIPDC's actual costs to be mutually agreed. The Service Agreement has a term of 10 years.

The Company entered into a new lease agreement with respect to office headquarters with an area of 6,500 square meters at 40 Xueyuan Nanlu, Haidian District, Beijing, PRC on December 1, 1997 revising the term of its lease of office space from HIPDC pursuant to the Service Agreement as set out above. This agreement was renewed on June 30, 1999 and expanded to cover the lease of the headquarters at Tianyin Mansion on June 30, 1999. The Company believes that the terms of the Service Agreement are as favorable to the Company as those which could have been obtained from unrelated parties in arms' length negotiations.

Pursuant to the T&T Service Agreement the Company agreed to pay service fees to HIPDC in relation to the provision of transmission and transformer facilities for the Company's newly constructed power plants, power plants under expansion and acquired power plants which commence commercial operations after January 1, 1997 for a fixed fee equal to 12% of the original book value of the transmission and transformer facilities as set forth in the financial statements of HIPDC. The terms of the T&T Service Agreement are to be reviewed after a period of 10 years.

Purchase of Coal

The Company entered into a coal purchase agreement with HIPDC dated July 1, 1997 as amended by a supplemental letter dated December 15, 1997 (together, the "Coal Purchase Agreement", both effective as of July 1, 1997). Pursuant to the Coal Purchase Agreement, HIPDC has agreed to purchase coal on behalf of the Company and the Company has agreed to pay HIPDC a service fee of Rmb 1.5-2.0 per ton. The Company believes that such arrangement is more advantageous than purchasing coal from independent third parties or procuring coal through its own internal staff.

Land Use Rights Assignments and Leasing Agreement

Pursuant to five land use rights assignment agreements entered into between the Company and HIPDC dated August 22, 1994, July 12, 1994, July 12, 1994, August 22, 1994 and August 22, 1994 (collectively, the "Land Use Rights Assignment Agreements"), HIPDC transferred the land use rights for the land on which the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant are located to the Company for approximately Rmb35.4 million, Rmb 27.7 million, Rmb12.6 million, Rmb70.0 million, Rmb2.3 million, respectively. According to the Land Use Rights Assignment Agreements, the Company has made annual payments for the land use rights since 1995 and will continue to do so until the year 2004.

The Company acquired the land use rights for the Shantou and Dandong Power Plants directly from the local Land Administration Bureaus for Rmb27.2 million and Rmb128 million, respectively. In connection with the Shanghai Power Plant Acquisition, the Company entered into a leasing agreement with HIPDC on December 5, 1997 ("Leasing Agreement") pursuant to which HIPDC agreed to lease the land use rights for the Shanghai Power Plant to the Company for a term of 30 years for an annual rental payment of Rmb 6 million. Subsequently, on December 30, 1997, the Company entered into a letter agreement with HIPDC, supplementing the Leasing Agreement (the "Supplemental Letter") pursuant to which the term of lease under the Leasing Agreement was extended to last until the expiry of the land use term under the relevant land use certificate. The land used by Nanjing Power Plant were not part of the assets acquired by the Company. To continue to operate Nanjing Power Plant, the Company entered into a leasing agreement with HIPDC and Nanjing Investment whereby HIPDC and Nanjing Investment leased to the Company the land for 50 years commencing from the completion of the Nanjing Acquisition with an annual rental payment of approximately Rmb 1.3 million. The annual rental is adjustable for each three years where the increase shall be in any event, not more than 30% of the previous period.

Acquisition of Shanghai Power Plant

Pursuant to the Shanghai Acquisition Agreement, on December 2, 1997 (with effect from July 1, 1997), the Company acquired from HIPDC the power generating operations and assets of Shanghai Power Plant (including the development rights to its second phase expansion) for an aggregate consideration of Rmb 6,546.3 million. The Shanghai Power Plant is a coal-fired plant with two 600 MW supercritical generating units.

Acquisition of Nanjing Power Plant

Pursuant to the Nanjing Acquisition Agreement, on April 22, 1999 (with effect from January 1, 1999), the Company acquired from HIPDC Nanjing Power Plant for an aggregate consideration of Rmb 2,702 million. See "Item 1 Description of Business — The Nanjing Power Plant Acquisition."

PART II

Item 14. Description of Securities to be Registered

Not applicable.

PART III

Item 15. Defaults Upon Senior Securities

None.

Item 16. Change in Securities and Changes in Security for Registered Securities

None.

PART IV

Item 17. Financial Statements

The Company is providing Financial Statements pursuant to Item 18 below.

Item 18. Financial Statements

See pages F-1 through F-27, incorporated by reference.

Item 19. Financial Statements and Exhibit

(a) The following financial statements, together with the report of Arthur Andersen & Co thereon, are filed as part of this Annual Report:

(b) Documents filed as exhibits to this Annual Report:

None

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO HUANGENG POWER INTERNATIONAL, INC.:

We have audited the accompanying balance sheets of Huaneng Power International, Inc. (hereinafter referred to as the "Company") (established in the People's Republic of China) as of December 31, 1999 and 1998, and the related statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999, expressed in Chinese Renminbi. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 1998, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles in the United States of America.

ARTHUR ANDERSEN & CO

Hong Kong, April 5, 2000

HUANENG POWER INTERNATIONAL, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(Amounts expressed in thousands, except per share data)

	Year Ended December 31,			
	1999		1998	1997
	Rmb	US$	Rmb	Rmb
Operating revenue, net	10,488,158	1,266,793	8,082,496	6,739,765
Operating expenses:				
Fuel	(3,346,158)	(404,160)	(2,587,913)	(2,446,442)
Maintenance	(568,119)	(68,619)	(431,914)	(340,096)
Depreciation and amortization	(2,391,998)	(288,913)	(1,526,163)	(1,107,310)
Labor	(497,835)	(60,130)	(408,173)	(367,307)
Transmission fees	(27,343)	(3,303)	(305,106)	(537,115)
Service fees to HIPDC	(305,792)	(36,935)	(341,931)	(261,502)
Income tax	(384,555)	(46,448)	(370,995)	(381,720)
Refund of excess VAT paid	—	—	504,220	449,803
Others	(370,927)	(44,802)	(301,627)	(260,836)
Total operating expenses	(7,892,727)	(953,310)	(5,769,602)	(5,252,525)
Income before financial (expenses) income	2,595,431	313,483	2,312,894	1,487,240
Interest expense	(899,780)	(108,678)	(600,049)	(388,726)
Interest income	108,601	13,117	142,940	400,149
Exchange gains (losses), net	63,923	7,721	(17,274)	163,345
Total financial (expenses) income	(727,256)	(87,840)	(474,383)	174,768
Net income	1,868,175	225,643	1,838,511	1,662,008
Basic earnings per ordinary share	0.33	0.04	0.33	0.33
Basic earnings per equivalent ADS	13.23	1.60	13.28	13.30
Diluted earnings per ordinary share	N/A	N/A	0.33	0.32
Diluted earnings per equivalent ADS	N/A	N/A	13.18	12.88

The accompanying notes are an integral part of these financial statements.

HUANENG POWER INTERNATIONAL, INC.
BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 1998
(Amounts expressed in thousands)

	December 31, 1999		December 31, 1998
	Rmb	US$	Rmb
ASSETS			
Property, plant and equipment, net	34,603,329	4,179,499	32,315,351
Other long-term assets	113,319	13,687	116,529
Current assets			
Cash and cash equivalents	2,493,198	301,136	2,185,418
Temporary cash investments	1,250,544	151,045	1,837,033
Accounts receivable	1,403,371	169,504	617,876
Materials and supplies	543,421	65,636	517,339
Other receivables and assets	146,965	17,751	552,165
Due from HIPDC	28,583	3,452	—
Total current assets	5,866,082	708,524	5,709,831
Total assets	40,582,730	4,901,710	38,141,711
CAPITALIZATION AND LIABILITIES			
Capitalization			
Shareholders' equity			
4,150,000,000 Domestic Shares, par value Rmb1.00 each	4,150,000	501,250	4,150,000
1,500,000,000 Overseas Listed Foreign Shares, par value Rmb1.00 each	1,500,000	181,175	1,500,000
Additional paid-in capital	7,717,674	932,165	7,717,674
Dedicated capital	1,559,961	188,417	1,207,491
Retained earnings	6,334,264	765,072	5,270,559
Total shareholders' equity	21,261,899	2,568,079	19,845,724
Convertible notes	1,904,178	229,993	1,904,178
Long-term loans from shareholders	1,068,033	129,000	2,277,378
Long-term loan from Nanjing Investment	226,033	27,301	—
Long-term bank loans	9,618,471	1,161,749	9,845,504
Total capitalization	34,078,614	4,116,122	33,872,784
Other non-current liabilities			
Accrued put premium for convertible notes	266,976	32,246	166,918
Current liabilities			
Short-term bank loan	50,000	6,039	205,000
Current portion of long-term loans from shareholders	673,482	81,345	594,481
Current portion of long-term loan from Nanjing Investment	64,581	7,800	—
Current portion of long-term bank loans	1,118,036	135,040	351,001
Accounts payable and accrued liabilities	3,159,602	381,628	1,942,740
Due to HIPDC	—	—	2,633
Payable to Nanjing Investment	241,641	29,186	—
Taxes payable	511,065	61,728	473,140
Staff welfare and bonus payable	418,733	50,576	533,014
Total current liabilities	6,237,140	753,342	4,102,009
Total capitalization and liabilities	40,582,730	4,901,710	38,141,711

The accompanying notes are an integral part of these financial statements.

HUANENG POWER INTERNATIONAL, INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(Amounts expressed in thousands, except number of shares)

	Ordinary Shares		Additional Paid-in Capital	Dedicated Capital			Retained Earnings	Total
	Number	Rmb	Rmb	Statutory surplus reserve fund	Statutory public welfare fund	Sub-total	Rmb	Rmb
				Rmb	Rmb	Rmb		
Balance at December 31, 1996	5,000,000,000	5,000,000	5,363,556	566,611	—	566,611	2,410,920	13,341,087
Net income for the year ended December 31, 1997	—	—	—	—	—	—	1,662,008	1,662,008
Transfer to dedicated capital	—	—	—	312,671	—	312,671	(312,671)	—
Balance at December 31, 1997	5,000,000,000	5,000,000	5,363,556	879,282	—	879,282	3,760,257	15,003,095
Issuance and sale of 250,000,000 new Foreign Shares	250,000,000	250,000	872,279	—	—	—	—	1,122,279
Issuance of 400,000,000 new Domestic Shares to HIPDC	400,000,000	400,000	1,481,839	—	—	—	—	1,881,839
Net income for the year ended December 31, 1998	—	—	—	—	—	—	1,838,511	1,838,511
Transfer to dedicated capital	—	—	—	187,548	140,661	328,209	(328,209)	—
Balance at December 31, 1998	5,650,000,000	5,650,000	7,717,674	1,066,830	140,661	1,207,491	5,270,559	19,845,724
Net income for the year ended December 31, 1999	—	—	—	—	—	—	1,868,175	1,868,175
Transfer to dedicated capital	—	—	—	201,411	151,059	352,470	(352,470)	—
Dividend declared*	—	—	—	—	—	—	(452,000)	(452,000)
Balance at December 31, 1999	5,650,000,000	5,650,000	7,717,674	1,268,241	291,720	1,559,961	6,334,264	21,261,899

* Dividend for the year ended December 31, 1998 was Rmb0.08 per share for all outstanding shares at May 17, 1999, which was approved by the shareholders on their Annual General Meeting on June 9, 1999.

The accompanying notes are an integral part of these financial statements.

HUANENG POWER INTERNATIONAL, INC.
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(Amounts expressed in thousands)

	Year Ended December 31,			
	1999		1998	1997
	Rmb	US$	Rmb	Rmb
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	1,868,175	225,643	1,838,511	1,662,008
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,391,998	288,913	1,526,163	1,107,310
Amortization of deferred assets	6,814	823	6,814	4,182
Unrealized exchange gain	(56,243)	(6,793)	—	—
Loss on disposals of fixed assets	6,444	778	7,769	—
(Increase) decrease in assets:				
Accounts receivable	(726,257)	(87,720)	270,774	(424,090)
Materials and supplies	18,720	2,261	101,828	140,579
Other receivables and assets	422,965	51,087	1,680,824	25,603
Due from HIPDC	(28,583)	(3,452)	25,875	23,115
Increase (decrease) in liabilities:				
Accrued put premium for convertible notes	100,058	12,085	105,610	61,308
Accounts payable and accrued liabilities	1,070,514	129,301	370,781	681,422
Due to HIPDC	(2,633)	(318)	2,633	—
Taxes payable	54,443	6,576	(56,326)	132,107
Staff welfare and bonus payable	(119,038)	(14,378)	82,083	73,411
Net cash provided by operating activities	5,007,377	604,806	5,963,339	3,486,955
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	(2,274,342)	(274,702)	(6,457,432)	(6,846,907)
Proceeds from disposals of fixed assets	17,234	2,082	8,919	—
(Increase) decrease in other long-term assets	(3,197)	(386)	4,791	5,846
Decrease in temporary cash investments	586,489	70,838	873,093	1,847,871
Repayment of payable to HIPDC	—	—	(1,394,859)	—
Net cash inflow from acquisition of Nanjing Power Plant	150,229	18,145	—	—
Repayment of payable of Nanjing Acquisition	(1,111,375)	(134,236)	—	—
Net cash used in investing activities	(2,634,962)	(318,259)	(6,965,488)	(4,993,190)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of Overseas Listed Foreign Shares	—	—	1,122,279	—
Net proceeds from issuance of convertible notes	—	—	—	1,860,146
Drawdown of short-term bank loans	142,000	17,151	172,000	1,177,096
Repayment of short-term bank loans	(419,000)	(50,608)	(904,096)	(1,365,680)
Drawdown of long-term loans from shareholders	18,383	2,220	60,254	1,216,673
Repayment of long-term loans from shareholders	(1,835,897)	(221,746)	(1,771,416)	(7,351,207)
Repayment of long-term loan from Nanjing Investment	(58,123)	(7,020)	—	—
Drawdown of long-term bank loans	1,051,470	127,000	3,587,691	5,954,934
Repayment of long-term bank loans	(511,468)	(61,777)	(559,129)	(273,666)
Dividend paid	(452,000)	(54,594)	—	—
Net cash (used in) provided by financing activities	(2,064,635)	(249,374)	1,707,583	1,218,296
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	307,780	37,173	705,434	(287,939)
Cash and cash equivalents, beginning of year	2,185,418	263,963	1,479,984	1,767,923
CASH AND CASH EQUIVALENTS, END OF YEAR	2,493,198	301,136	2,185,418	1,479,984

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on June 30, 1994. The Company currently owns and operates nine power plants, which are located in various provinces of the PRC. The Company's power plants are principally engaged in the generation and sale of electric power to consumers through the respective regional or provincial power companies.

Particulars of Company's power plants are as follows:

Operating Plants	Total installed capacity (MW)	Province/ Municipality located
Five original operating plants:		
Huaneng Dalian Power Plant (the "Dalian Power Plant")	700	Liaoning
Huaneng Shangan Power Plant (the "Shangan Power Plant")	700	Hebei
Huaneng Nantong Power Plant (the "Nantong Power Plant")	700	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	Fujian
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	100	Guangdong
New operating plants:		
Huaneng Shantou Power Plant (the "Shantou Power Plant")	600	Guangdong
Huaneng Shangan Power Plant Phase II (the "Shangan Phase II")	600	Hebei
Huaneng Shanghai Shidongkou Second Power Plant (the "Shanghai Power Plant")	1,200	Shanghai
Huaneng Dalian Power Plant Phase II (the "Dalian Phase II")	700	Liaoning
Huaneng Dandong Power Plant (the "Dandong Power Plant")	700	Liaoning
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	600	Jiangsu
Huaneng Nantong Power Plant Phase II (the "Nantong Phase II")	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II")	700	Fujian

Five of these plants were already in commercial operations at the time of the Company's incorporation in 1994 (hereinafter collectively referred to as the "five original operating plants"). The five original operating plants were previously divisions of Huaneng International Power Development Corporation ("HIPDC"), which is a Sino-foreign equity joint venture established in the PRC. In accordance with the Reorganization Agreement dated June 30, 1994, the Company acquired the assets, liabilities and businesses of the five original operating plants from HIPDC which in return received an equity interest in the Company (the "Reorganization").

The new operating plants were either constructed or acquired by the Company after the Reorganization.

The Dalian Phase II, Dandong Power Plant, Nantong Phase II and Fuzhou Phase II were completed and placed into commercial service during 1999. The Company also acquired the Nanjing Power Plant from HIPDC and Nanjing Investment Company ("Nanjing Investment") (See Note 5(d)). These new power plants increased the total installation capacity of the Company to 8,700MW as of December 31, 1999.

As of December 31, 1999, the Company's shares were owned as follows (see Note 23):

Shareholders	Number of shares issued and credited as fully paid	Percentage of ownership
	'000	%
Domestic Shares		
HIPDC	2,382,440	42.17
Hebei Provincial Construction Investment Company	452,250	8.00
Fujian International Trust & Investment Company Limited	334,850	5.93
Jiangsu Province International Trust & Investment Company Limited	312,375	5.53
Liaoning Energy Corporation	229,685	4.07
Dalian Municipal Construction Investment Company	226,125	4.00
Fujian Enterprises (Holdings) Company Limited	72,400	1.28
Nantong Investment Management Center	67,875	1.20
Shantou Electric Power Development Company	46,500	0.82
Shantou Power Development Joint Stock Company Limited	19,000	0.34
Dandong Energy Investment Development Centre	6,500	0.11
Sub-total	4,150,000	73.45
Overseas Listed Foreign Shares - public shareholders	1,500,000	26.55
Total	5,650,000	100.00

The parent company and ultimate parent company of the Company are HIPDC and China Huaneng Group Corporation respectively. Both of the companies are incorporated in the PRC.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"), including, where applicable, Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), which is explained in more detail in the following paragraphs.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Power rates charged by the Company have been historically determined based on a well developed regulatory process, under a cost recovery framework set by the former Ministry of Electric Power ("MEP"). Pursuant to a pricing policy issued by the former MEP in June 1994, (which became effective in 1995), the Company is entitled to charge power rates which permit it the opportunity to recover all operating and debt service costs and to earn a reasonable return on its rate base comprising the average net book value of fixed assets, including construction-in-progress, after deducting the relevant interest expenses of the fixed asset construction loans. Subject to approval of the relevant government authorities, the tariff rates are to be adjusted annually, taking into account fluctuations in fuel prices, foreign exchange rates and other operating costs. Under this structure, there is a direct correlation between the rates charged and costs incurred. Market conditions are such that each plant has been able to collect the rates as approved by the relevant government authorities from its customers.

SFAS 71 recognizes that the regulatory process produces economic effects which should be reflected in the financial statements. Because revenues are based on costs, SFAS 71 governs the period in which various costs are included in the statements of income with the objective of matching costs with revenues.

In order to apply SFAS 71, three criteria must be met. These criteria require that a) the power rates for regulated services or products provided to customers be established by or are subject to approval by an independent, third-party regulator or by an entity's own governing board empowered by statute or contract to establish power rates that bind customers; b) the regulated power rates are designed to recover the costs of providing the regulated services or products; and c) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that power rates set at levels that will recover costs can be charged to and collected from customers; this criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. The Company believes these criteria have been met. First, its power rates are established by an independent regulator, the provincial or local price bureau. Further, the MEP pricing policy provides for rate-setting based on the specific costs of the Company. This process has operated historically and will continue under the pricing policy. Finally, based on the significant demand for electricity in its service territory, it is reasonable to assume that the authorized power rates will be collected from customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Foreign Currency Translation

Foreign currency transactions are translated into Renminbi ("Rmb") at the applicable exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Rmb using the applicable PBOC exchange rates prevailing at the balance sheet date. Any resulting exchange gains are recorded in the statements of income when they occur.

Under the rate-setting process, exchange loss can be recovered through adjustments in power rates. Accordingly, to the extent that the amount of an exchange loss has not been recovered currently but it is probable that such amount will be recovered in future power rates, the relevant amount will be recorded as a regulatory asset and amortized to the statements of income when and to the extent it is actually recovered through the power rates. As of December 31, 1999, no such regulatory assets have been recorded.

For the convenience of the reader, translation of amounts from Rmb into United States dollars ("US$") has been made at the rate of US$1.00=Rmb8.2793 announced by the PBOC on December 31, 1999. No representation is made that Rmb amounts could have been, or could be, converted into US$ at that rate on December 31, 1999, or at any other rate.

b. Property, Plant and Equipment

Property, plant and equipment of the five original operating plants acquired from HIPDC upon the formation of the Company is stated at the acquisition cost determined at fair market values by an independent professional appraiser certified by the relevant authorities to perform such valuation in the PRC. As required under PRC laws and regulations, the asset appraisal was conducted using internationally recognized principles, taking into consideration the current replacement costs and economic depreciation (physical condition) of the assets, remaining useful lives and other relevant factors. The property, plant and equipment of the five original operating plants was recorded by the Company at the appraised value because, under the rate-making process applicable to the Company, future revenues in amounts approximately equal to such bases are charged to and recovered from customers. Such revenues result from inclusion of the higher value for the purpose of determining depreciation and calculating a return in determining annual revenue requirements.

Depreciation of the property, plant and equipment of the five operating plants is calculated on a straight-line basis over 15 years. On an overall basis, taking into account the operating periods prior to the formation of the Company, the average depreciable life of the five original operating plants is approximately 20 years, which is not materially different from the normal estimated useful lives of other power plants and is followed in the rate making process of the Company.

Property, plant and equipment constructed subsequent to the formation of the Company, which includes the Shantou Power Plant, the Shangan Phase II, the Dalian Phase II, the Dandong Power Plant, the Nantong Phase II and the Fuzhou Phase II is stated at cost. Property, plant and equipment related to the Shanghai Power Plant and the Nanjing Power Plant is stated at the acquisition cost determined at fair market values determined by independent professional appraisers certified by the relevant authorities to perform such valuation in the PRC. Similar to the five original operating plants, this appraised value is recoverable through future revenues charged to customers under the rate-making process applicable to the Company. Depreciation of these fixed assets is provided using the straight-line method over their estimated useful lives as approved by the Ministry of Finance, after taking into consideration their respective estimated residual values of up to 11%. This depreciation basis which is applicable to property, plant and equipment, constructed or acquired subsequent to the formation of the Company, is followed in the rate-making process of the Company. Accordingly, the same depreciation basis is adopted for financial reporting purposes to recognize the effect of capital recovery in the regulatory process. The applicable depreciation periods are summarized below:

Buildings	22 years
Electric utility plant in service	8-27 years
Transportation facilities	13-27 years
Others	6-13 years

Amortization of land use rights is calculated on a straight-line basis over the relevant land use rights period starting from the commencement of operations of the related power plants.

The cost of routine maintenance, repairs and replacements of minor items of property is charged to repair and maintenance expenses when incurred. The cost of major overhauls of generator units is charged to the provision for major repair and maintenance which is recorded as described in Note 3(i) below. Gains or losses realized upon retirement of individual fixed asset items are included in or charged to the statements of income in the current period.

Construction-in-progress represents buildings and transportation facilities under construction and electric utility plant pending installation. This includes the costs of construction, plant and machinery and an allowance for borrowed funds used during construction ("AFDC") which represents an allocation of interest costs to construction activities. AFDC is determined based on the actual interest on the borrowed funds.

No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into operating use.

c. *Cash and Cash Equivalents*

Cash represents cash on hand and deposits with any banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks or other financial institutions repayable within three months from dates of the advances.

d. Temporary Cash Investments

Temporary cash investments represent cash invested in fixed-term deposits with original maturities ranging from more than three months to one year.

e. Materials and Supplies

Materials and supplies are stated at the lower of weighted average costs and net realizable values and are expensed to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate. Cost of materials and supplies includes direct material cost and transportation expenses incurred in bringing the materials and supplies to the working locations.

f. Convertible Notes

Convertible notes are stated at the amount of the consideration received on the issue of the notes. Direct issuance costs (including issuance commissions) are recorded as deferred assets and amortized on a straight-line basis over the term of the notes. If the notes are redeemed or converted before the expiration date (May 21, 2004), the unamortized issuance costs will be charged to the statements of income upon redemption or charged against additional paid-in capital upon conversion.

As further discussed in Note 16, the convertible notes were issued at par with a put option allowing the investors to redeem the notes at a premium for cash at 128.575% of the par value on May 21, 2002. Accordingly, a liability is accrued for the “put premium” over the period from the issuance date of the notes to the exercise date of the put option.

On May 21, 2002, if the put option is not exercised, the accrued put premium will be credited to additional paid-in capital if the market value of American Depositary Share (“ADS”) that could be converted at that time exceeds the put price, or will be amortized on a straight-line basis over the remaining term of the notes if the market value of the ADS that could be converted at that time is lower than the put price.

g. Revenue and Income Recognition

Revenue and income are recognized on the following bases:

(i) Operating revenue, net

Operating revenue represents amounts billed for electricity generated and transmitted to the ultimate consumers through the respective regional or provincial power companies (net of Value Added Tax (“VAT”)), less sales incentive fees paid to the power companies as an incentive to dispatch electricity in excess of the annual minimum offtake. Revenues are billed and recognized upon transmission of electricity to the power grid controlled and owned by the respective power companies and include billings for generation through the end of each month.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized as earned.

h. Fuel Expenses

Fossil fuel inventories are stated at lower of weighted average costs (net of VAT) and net realizable value and are charged to fuel expenses based on actual inventory usage. Changes in the level of fuel expenses can be recovered or adjusted through increases or decreases in power rates in accordance with the rate-setting mechanism.

i. Repair and Maintenance Expenses

A provision for major repairs and maintenance determined on the basis of 1% of the fixed asset cost is allowed as an expense recoverable through power rates. It is estimated that, over the useful life of a power plant, this basis would approximate the total expenses for major repair and maintenance actually incurred. In a particular year, to the extent that the actual repair and maintenance expenses incurred is less than the provision determined on the above basis, the difference represents revenue collected in excess of actual expenses incurred. Such difference is recorded as a regulatory liability.

j. Taxation

(i) VAT

Under the relevant tax laws implemented on January 1, 1994, the Company is subject to VAT. The Company is subject to output VAT levied at the 17% of the Company’s operating revenue. The input VAT paid on purchases of coal, water and materials can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because the VAT is a tax on the customer and the Company collects such tax from the customers and pays such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenues or operating expenses. Under a protection clause of the relevant tax regulations in the PRC, the Company, being treated as the continued operation of a foreign investment enterprise established prior to December 31, 1993, was entitled to a refund of any VAT paid in excess of the amount which would had been paid under the previous Industrial and Commercial Consolidated Tax (“ICCT”) legislation. Accordingly, the maximum actual VAT was limited to the previous ICCT tax rate (5.05% of operating revenues) as it was applied under the former ICCT regulations. This protection was valid for five years from 1994 to 1998. The refund of VAT paid in excess of the previous 5.05% ICCT tax rate for years up to the end of 1998 was recorded as income. Starting from January 1, 1999, the Company is no longer entitled to such refund.

(ii) Income Tax

Pursuant to the income tax laws of the PRC, Sino-foreign joint stock companies are in general subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes). For enterprises located in specially designated regions or cities, or specially approved by the National Tax Bureau, lower tax rates apply. Income tax is computed based on taxable income as reported in the statutory financial statements adjusted for income and expense items which are not assessable or deductible for income tax purposes.

All power plants are exempted from the PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% reduction of the applicable tax rate for the next three years (“tax holiday”).

The tax holiday of the Head Office, the five original operating plants and the Shanghai Power Plant had already expired prior to 1999. The tax holiday of the remaining operating plants will expire in 2001 or 2002.

The effective income tax rates applicable to the Head Office and the individual power plants, after taking the effect of tax holiday into consideration are summarized below:

	1999	1998	1997
Head Office	15.0%	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II)	15.0%	15.0%	15.0%
Shangan Power Plant (including Shangan Phase II)	16.5%	31.5%	31.5%
Nantong Power Plant (including Nantong Phase II)	15.0%	15.0%	15.0%
Fuzhou Power Plant (including Fuzhou Phase II)	15.0%	15.0%	15.0%
Shantou Oil-Fired Plant	15.0%	15.0%	15.0%
Shantou Power Plant	Exemption	Exemption	N/A
Shanghai Power Plant	16.5%	8.25%	8.25%
Nanjing Power Plant	7.5%	N/A	N/A
Dandong Power Plant (commenced operation in 1999)	—	N/A	N/A

According to Guo Shui Han [1999] No.604 approved by the National Tax Bureau, the Shangan Power Plant (including the Shangan Phase II) is subject to an overall income tax rate of 16.5% starting from January 1, 1999. Apart from this change, the Company had not received any notification from the relevant tax authority in respect of any material change of the present tax rates applicable to the Company.

The Company provides for deferred income taxes using the liability method under which deferred income taxes are recognized for all significant temporary difference between the tax and financial statement bases of assets and liabilities.

k. Earnings Per Share

Basic earnings per share are computed by dividing the net income attributable to shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are computed by dividing the adjusted net income attributed to shareholders by the weighted average number of ordinary shares outstanding during the year based on the assumption that the convertible notes were fully converted on the issuance date. For the purpose of calculating the diluted earnings per share, the net income attributable to shareholders is adjusted by adding back interest and other expenses which would not have been incurred if conversion had taken place.

l. Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

m. Interest Rate Swaps

Interest rate swap agreements are undertaken by the Company to hedge its debt obligations against the risk of interest rate movements. The interest differentials to be paid or received under such swaps are recognized over the life of the agreements as adjustments to interest expenses.

4. SALES OF ELECTRIC POWER

The Company has contractual arrangements for the sale of electric power with the local power companies. All power output is sold at rates designed to cover all operating and debt service costs, taxes and any exchange losses incurred, plus a reasonable return on the Company's rate base.

In respect of the Nantong Power Plant prior to April 1, 1996, the Dalian Power Plant prior to January 1, 1998, the Shangan Power Plant Phase I and II prior to August 1, 1998, the Fuzhou Power Plant prior to January 1, 1999 and the Shantou Oil-Fired Power Plant, the operating revenues were billed at the retail rates being charged to the ultimate consumers. The respective local power companies collected revenues from the ultimate consumers and remitted them to these power plants after deducting the cost of transmission and an agreed-upon amount of handling fees. These power plants recognized the gross amounts received from the local power companies as revenues with the reimbursement of transmission costs and payment of handling fees to the local power companies being separately recorded as transmission fees under operating expenses.

In respect of the Nantong Power Plant starting from April 1, 1996, the Nantong Phase II, the Dalian Power Plant starting from January 1, 1998, the Dalian Phase II, Shangan Power Plant Phase I and II starting from August 1, 1998, the Fuzhou Power Plant starting from January 1, 1999, the Fuzhou Phase II, the Shantou Power Plant, the Shanghai Power Plant, the Dandong Power Plant and the Nanjing Power Plant, the operating revenues were billed at the on-grid wholesale rates to the local power companies. Such on-grid rates were lower than the retail rates charged to the ultimate customers by the local power companies since the on-grid rates excluded the transmission costs incurred by the local power companies. Accordingly, no transmission fees were recorded by these power plants for the relevant periods.

Sales incentives are paid to the power companies usually as an incentive to dispatch electricity of the Company in excess of the amount the Company has agreed to generate for them during the year. Sales incentives paid were as follows:

	Year ended December 31,		
	1999	**1998**	**1997**
Sales incentives paid	63 million	26 million	50 million

5. RELATED PARTY TRANSACTIONS

a. In accordance with a service agreement dated June 30, 1994 (the "Service Agreement") signed between the Company and HIPDC, the transmission and transformer facilities owned by HIPDC have been used to transmit power from the five original operating plants to the grids. In return, the Company has paid service fees to HIPDC for the various costs of transmission plus a profit margin of 10% of the average net book value of HIPDC's transmission facilities. On January 1, 1998, HIPDC transferred the transmission and transformer facilities servicing the Dalian Power Plant and the Nantong Power Plant to the respective local power companies which agreed not to charge the power plants any service fee for using the facilities. Accordingly, no service fees were paid for the Dalian Power Plant and the Nantong Power Plant since January 1, 1998.

   On December 4, 1997, the Company entered into a new service agreement (the "T&T Service Agreement") with HIPDC for the Company's power plants which commenced operations or were acquired on or after January 1, 1997. Pursuant to the T&T Service Agreement, HIPDC provides transmission and transformer facilities to the Shantou Power Plant, the Shangan Power Plant Phase II and the Shanghai Power Plant. In return, the Company pays HIPDC a fixed annual service fee equal to 12% of the original book value of HIPDC's transmission and transformer facilities.

Such service fees represent recoverable costs for rate setting purposes. The total service fees to HIPDC were as follows:

	Year ended December 31,		
	1999	**1998**	**1997**
	'000	**'000**	**'000**
Total service fees to HIPDC	305,792	341,931	261,502

For the Dalian Phase II, the Nantong Phase II, the Dandong Power Plant and the Nanjing Power Plant, which were put into commercial operation or acquired in the current year, the transmission and transformer facilities have been transferred to the respective local power companies. For Fuzhou Phase II, the transmission and transformer facilities were directly invested by the local power company. Therefore, no such service charge is levied by HIPDC.

b. At the time of the formation of the Company, HIPDC transferred the land use rights pertaining to existing sites occupied by the five original operating plants for a period of 50 years in return for an amount of approximately Rmb148 million. Payments to HIPDC for the land use rights are being made in 10 equal, non-interest bearing, annual installments starting in 1994. The land use rights have been included in the fixed assets of the Company and are being amortized over the land use period of 50 years. Amortization expenses are recovered under the rate setting scheme.

c. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use rights of the Shanghai Power Plant is leased to the Company for a period of 50 years at an annual rental payment of Rmb6 million.

d. Pursuant to an acquisition agreement entered into amongst the Company, HIPDC and Nanjing Investment in 1999 (the "Nanjing Acquisition Agreement"), the Company acquired from HIPDC and Nanjing Investment, the existing power generation facilities and related assets and liabilities of the Nanjing Power Plant. The total purchase price was approximately Rmb2,702 million which was based on the appraised value of the assets acquired as determined by an independent appraiser. According to the Nanjing Acquisition Agreement, the total purchase price was to be settled as follows:

(i) assumption by the Company of the current and long-term liability of Nanjing Power Plant in an aggregate principal amount of approximately Rmb1,349 million (including Rmb98 million payable to HIPDC);

(ii) issuance and allotment to HIPDC of 160,000,000 domestic share and to Nanjing Investment of 40,000,000 domestic shares on the date on which a public offering of domestic shares of the Company is completed on or before December 31, 1999 where each of the domestic shares are to be valued at the same issue price of the public offering;

(iii) remaining balance to be settled in cash within ten days upon completion of the public offering of the Domestic Shares of the Company;

(iv) if the public offering of the Domestic Shares is not completed by December 31, 1999, the net consideration payable would be fulfilled partly by cash payment of approximately Rmb776 million (composed of Rmb534 million and Rmb242 million payable to HIPDC and Nanjing Investment respectively on or before 15th January, 2000). There were no specific repayment terms regarding the remaining balance of approximately Rmb577 million payable to HIPDC.

As the public offering of Domestic Shares was not completed by December 31, 1999, the Company and HIPDC entered into a supplementary agreement ("Nanjing Acquisition Supplementary Agreement") on the same date. According to the Nanjing Acquisition Supplementary Agreement, the Company settled the current liability of Nanjing Power Plant of approximately Rmb98 million (included in (i)) and the cash payment of Rmb534 million and Rmb577 million to HIPDC (included in(iv)) on December 31, 1999.

e. With reference to the Nanjing Acquisition Agreement, the Company, HIPDC and Nanjing Investment entered into a leasing agreement whereby HIPDC and Nanjing Investment leased to the Company the land where the Nanjing Power Plant operates for 50 years with an annual rental payment of approximately Rmb1.3 million, starting from the year ended December 31,1999.

f. Prior to July 1, 1997, certain amounts of coal were purchased from divisions of HIPDC at prices which approximated the market prices (inclusive of handling charges) of coal purchased from third party suppliers. The amount of coal purchased from divisions of HIPDC for the year ended December 31, 1997 was approximately Rmb315 million.

   Effective from July 1, 1997, pursuant to a coal purchase agreement and a supplemental letter relating thereto entered into between the Company and HIPDC, HIPDC agreed to purchase coal on behalf of the Company and charge a handling fee at Rmb1.5 to 2.0 per ton. The total handling fees paid to HIPDC for the year ended December 31, 1999 approximately Rmb5.3 million (1998: Rmb1.3 million, 1997: Rmb0.6 million).

g. As of December 31, 1999 current deposits of approximately Rmb420 million (1998: Rmb124 million) and fixed deposits of approximately Rmb650 million (1998: Rmb1,174 million) were placed with a non-bank PRC financial institution, which is a subsidiary of China Huaneng Group Corporation, a controlling shareholder of HIPDC (see Note 13).

h. The Company entered into a service agreement with HIPDC under which, effective from July 1, 1997, HIPDC agreed to lease certain office space to the Company at an annual rental of Rmb500,000 and permit the Company to use its satellite telecommunication facilities at an annual fee of Rmb300,000.

i. As described in Note 18 (b), certain bank loans were on-lent from HIPDC to the Company.

j. As of December 31, 1999, long-term bank loans of approximately Rmb692 million (1998: short-term bank loan of Rmb5 million and long-term bank loan of Rmb400 million) were guaranteed by HIPDC.

k. The balances with HIPDC are unsecured, non-interest bearing and repayable within one year.

6. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Company is required to make contributions to the state-sponsored retirement plan at a specified rate, currently set at 17% to 19%, of the basic salary of the PRC employees. The retirement plan contributions paid were as follows:

	Year ended December 31,		
	1999	1998	1997
	’000	’000	’000
Contributions paid to retirement plan	28,961	29,000	27,000

In addition, the Company has implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company, and the Company is required to make a contribution equal to twice the employees’ contributions. Moreover, the Company may, at its discretion, provide additional contributions to the retirement fund depending on the operating results of the year. The employees will receive the total contributions upon their retirement. The contributions paid by the Company were as follows:

	Year ended December 31,		
	1999	1998	1997
	’000	’000	’000
Supplementary contributions paid to retirement plan	33,659	28,516	20,196

The Company has no further obligation for post-retirement benefits beyond the above annual contributions made.

7. INTEREST EXPENSE

An analysis of interest expense is shown below:

	Year ended December 31,		
	1999	1998	1997
	’000	’000	’000
Total interest incurred	1,402,855	903,516	750,526
Less: amount capitalized in construction-in-progress	(503,075)	(303,467)	(361,800)
Total interest expense	899,780	600,049	388,726

8. PROVISION FOR INCOME TAX

The reconciliation of the effective income tax rate to the statutory income tax rate in the PRC is as follows:

	Year ended December 31,		
	1999	1998	1997
Average statutory tax rate	16%	18%	18%
Effect of tax holiday	(2%)	(3%)	(1%)
Others	3%	2%	2%
Effective tax rate	17%	17%	19%
Effect of tax holiday (Rmb’000)	56,487	64,000	21,000

The average statutory tax rate for the year ended December 31, 1999, 1998 and 1997, represented the weighted average tax rate of the Head Office and the individual power plants calculated on the basis of the relative amounts of net income before tax and the applicable statutory tax rates.

As discussed in Note 3(j), the Company accounts for deferred tax under the liability method. For the years ended December 31, 1999, 1998 and 1997, there were no significant differences between the tax and financial statement bases of assets and liabilities. Accordingly, no deferred income taxes were provided.

9. EARNINGS PER SHARE

	Year ended December 31,								
	1999			1998			1997		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	Rmb'000	'000	Rmb	Rmb'000	'000	Rmb	Rmb'000	'000	Rmb
Earnings per Share									
Net income	1,868,175	5,650,000	0.33	1,838,511	5,537,808	0.33	1,662,008	5,000,000	0.33
Interest on convertible notes (net of tax effect and excluding interest capitalized)	118,809	—		89,892	—		4,682	—	
Effect of assumed conversion	—	315,068		—	315,068		—	191,856	
Diluted Earnings per Share									
Net income plus effect of assumed conversion	1,986,984	5,965,068	N/A	1,928,403	5,852,876	0.33	1,666,690	5,191,856	0.32

Basic earnings per share was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year. On a diluted basis, both net income and the weighted average number of ordinary shares outstanding were adjusted on the assumption that the convertible notes (see Note 16) had been fully converted on the issuance date. For the year ended December 31, 1999, the 1.75% convertible notes had no dilution effect on the earning per share.

10. APPROPRIATION AND DISTRIBUTION OF PROFIT

The Board of Directors decides on an annual basis the percentages of the profit after taxation, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory surplus reserve fund, the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be optional. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of registered capital. The statutory public welfare fund can only be utilized on capital items for the collective benefits of the Company's employees such as construction of dormitories, canteen and other staff welfare facilities. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

For the year ended December 31, 1999, the Board of Directors resolved the following on April 5, 2000:

(i) to appropriate 10% and 7.5%, respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund, amounting to approximately Rmb352 million in total;

(ii) to make no appropriation to the discretionary surplus reserve fund;

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the least of the amounts determined in accordance with (a) the PRC accounting standards and regulations and (b) the accounting standards applicable in the countries in which its shares are listed. The amounts of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended December 31, 1999 was approximately Rmb1.52 billion (1998: Rmb1.51 billion, 1997: Rmb1.35 billion). The cumulative balance of distributable profit as of December 31, 1999 was approximately Rmb6.33 billion (1998: Rmb5.27 billion, 1997: Rmb3.76 billion).

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised:

	1999							1998
Cost	**Land Use Right**	**Buildings**	**Electric Utility Plant in Service**	**Transportation Facilities**	**Others**	**Construction -in-progress**	**Total**	**Total**
	’000	’000	’000	’000	’000	’000	’000	’000
Beginning of year	563,969	1,421,132	19,876,066	426,045	962,504	13,336,827	36,586,543	30,151,151
Acquisition of Nanjing Power Plant	—	57,589	2,204,723	102,743	37,838	26,419	2,429,312	—
Addition	1,733	—	9,550	1,760	15,680	2,245,619	2,274,342	6,457,432
Transfer from CIP	—	327,438	14,689,017	188,319	33,026	(15,237,800)	—	—
Disposals	—	(8,804)	(10,061)	(5,748)	(5,921)	—	(30,534)	(22,040)
End of year	565,702	1,797,355	36,769,295	713,119	1,043,127	371,065	41,259,663	36,586,543
Accumulated Depreciation								
Beginning of year	24,794	239,708	3,737,472	90,891	178,327	—	4,271,192	2,750,381
Charge for the year	11,347	103,668	2,149,941	42,621	84,421	—	2,391,998	1,526,163
Written back on disposals	—	(1,669)	(1,466)	(2,130)	(1,591)	—	(6,856)	(5,352)
End of year	36,141	341,707	5,885,947	131,382	261,157	—	6,656,334	4,271,192
Net Book Value								
End of year	529,561	1,455,648	30,883,348	581,737	781,970	371,065	34,603,329	32,315,351
Beginning of year	539,175	1,181,424	16,138,594	335,154	784,177	13,336,827	32,315,351	27,400,770

AFDC of approximately Rmb503 million was charged to construction-in-progress for the year ended December 31, 1999 (1998: Rmb303 million, 1997: Rmb362 million) based on the actual interest rates of 3.6% to 8.8% incurred during the construction period for the year ended December 31, 1999 (1998: 5.4% to 10.35%, 1997: 5.95% to 6.87%).

12. DEFERRED ASSET

Deferred asset, which is included in other long-term assets, represents direct costs incurred for the issuance of the convertible notes in May 1997. Movement during the years ended December 31, 1999 and 1998 was as follows:

	Year ended December 31,	
	1999	1998
	’000	’000
Balance, beginning of year	36,701	43,515
Amortization during the year	(6,814)	(6,814)
Balance, end of year	29,887	36,701

13. TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of fixed-term deposits denominated in Renminbi and U.S. dollars with original maturities ranging from more than 3 months to 1 year.

As of December 31, 1999, deposits of approximately Rmb650 million (1998: Rmb1,174 million) were placed with a non-bank financial institution, which is a subsidiary of China Huaneng Group Corporation (see Note 5(g)). The annual interest rate and interest earned from that financial institution were as follows:

	Year ended December 31,		
	1999	1998	1997
Interest rate	3.78%-5.62%	4.5%-8.0%	4.88%-10.08%
Interest earned	35 million	20 million	234 million

14. MATERIALS AND SUPPLIES

Materials and supplies comprised:

	Year ended December 31,	
	1999	1998
	’000	’000
Fuel (coal and oil) for power generation	153,217	136,457
Construction and other supplies	390,204	380,882
	543,421	517,339

15. OTHER RECEIVABLES AND ASSETS

Other receivables and assets comprised:

	Year ended December 31,	
	1999	1998
	’000	’000
Prepayments for materials and supplies	11,353	33,512
Prepayments for contractors	72,356	363,010
Advances to other parties	—	8,797
Refund of excess VAT paid	—	59,745
Others	63,256	87,101
	146,965	552,165

16. CONVERTIBLE NOTES

In May 1997, the Company issued at par value convertible notes with an aggregate principal amount of US$230 million at 1.75% due 2004. These notes are listed on the New York Stock Exchange and the Luxemburg Stock Exchange. The notes mature on May 21, 2004, unless previously redeemed or converted.

The notes will be convertible, at the option of the noteholders, at any time from and including August 21, 1997 up to and including the date of maturity, unless previously redeemed, at an initial conversion price of US$29.20 per ADS, each of which represents 40 Overseas Listed Foreign Shares, subject to adjustment in certain circumstances. No noteholder had converted the convertible notes to ADS during the year ended December 31, 1999.

The notes may be redeemed, at the option of the noteholders, in whole or in part, on May 21, 2002 at 128.575% of the principal amount of the notes together with accrued interest, if any. The Company has accrued for the put premium liability together with the interest payable on the notes using the effective interest rate of 6.66%.

The notes may be redeemed, at the option of the Company, at any time on or after May 21, 2000, but prior to maturity, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes, together with accrued interest, if any, if the closing price of the ADSs for a period of 30 consecutive trading days is at least 130% of the conversion price in effect on each such trading day.

17. SHORT-TERM BANK LOAN

Short-term bank loan is denominated in Renminbi and drawn primarily for working capital purposes. It is unsecured, bears interest at the prevailing floating rates in the PRC, which was 5.58% per annum for the year ended December 31, 1999 (1998: 6.12% to 10.98%, 1997: 9.13% to 11.18%), and is repayable within one year.

As of December 31, 1998, short-term bank loan of Rmb5 million was guaranteed by HIPDC (1999: nil).

18. LONG-TERM LOANS FROM SHAREHOLDERS

Long-term loans from shareholders comprised:

	As of December 31,	
	1999	1998
	'000	'000
Loans from local governments (a)	382,000	1,045,625
Foreign currency bank loans on-lent by HIPDC (b)	1,359,515	1,826,234
	1,741,515	2,871,859

a. Interest-bearing Renminbi loans were borrowed from the local governments by the five original operating plants to finance construction. These government loans bore interest at rates ranging from 3.6% to 6.21% per annum for the year ended December 31, 1999 (1998: 3.6% to 11.16%, 1997: 3.6% to 11.16%) and are repayable in accordance with the agreed repayment schedules.

b. The foreign currency bank loans bear interest at the lending rates (both fixed and floating) prescribed by the contract, which ranged from 4.25% to 8.8% per annum for the year ended December 31, 1999 (1998: 3.75% to 8.8%, 1997: 5.5% to 8.8%), and are repayable in accordance with the repayment schedules set by the banks. The amounts outstanding comprised:

	Year ended December 31,		
	1999	1999	1998
	Original Currency '000	Rmb'000	Rmb'000
Amounts denominated in US$	135,995	1,125,528	1,546,912
Amounts denominated in French Francs ("FRC") . .	632	802	2,789
Amounts denominated in Swiss Francs ("SFRC") . .	48,979	233,185	276,533
		1,359,515	1,826,234

The foreign-currency bank loans were previously borrowed by HIPDC for financing construction. All these outstanding long-term bank loans were restructured. HIPDC continued to borrow the loans from the banks and then on-lent the proceeds to the Company as shareholders' loans. The existing terms of the loans including interest rates and repayment schedules remained intact after the restructuring.

c. The shareholders' loans are repayable as follows:

	As of December 31, 1999
	'000
2000	673,482
2001	233,336
2002	13,007
2003	401,993
2004	401,993
Thereafter	17,704
	1,741,515
Less: Amount due within one year included under current liabilities	(673,482)
	1,068,033

19. LONG-TERM BANK LOANS

Long-term bank loans comprised:

	Year ended December 31,		
	1999	1999	1998
	US$'000	Rmb'000	Rmb'000
Renminbi bank loans (a)		1,062,000	1,413,433
United States dollar bank loans (b)	1,168,614	9,674,507	8,783,072
		10,736,507	10,196,505

a. Renminbi bank loans were borrowed from local banks for the Shangan Phase II Expansion, the Nantong Phase II Expansion and the Shantou Power Plant to finance their construction. These loans bore interest at the prevailing lending rates ranging from 5.85% to 6.21% per annum for the year ended December 31, 1999 (1998: 7.56% to 10.98%, 1997: 8.64% to 12.42%) and are repayable in accordance with the agreed repayment schedules set by the banks. As of December 31, 1999, Renminbi bank loans of Rmb692 million (1998: Rmb400 million) were guaranteed by HIPDC.

b. United States dollar bank loans were borrowed mainly to finance the construction of the Dandong Power Plant, the Fuzhou Phase II Expansion, the Nantong Phase II Expansion and the Dalian Phase II Expansion. These loans bore interest at the lending rates (both fixed and floating) ranging from 5.95% to 6.6% per annum for the year ended December 31, 1999 (1998: 5.4% to 6.6%, 1997:5.95% to 6.87%), and are repayable in accordance with the agreed repayment schedules set by the banks.

c. The long-term bank loans are repayable as follows:

	As of December 31, 1999
	’000
2000	1,118,036
2001	1,247,363
2002	1,277,363
2003	1,277,363
2004	964,767
Thereafter	4,851,615
	10,736,507
Less: Amount due within one year included under current liabilities	(1,118,036)
	9,618,471

20. LONG-TERM LOAN FROM NANJING INVESTMENT

An interest bearing Renminbi loan was previously borrowed by the Nanjing Power Plant from Nanjing Investment to finance its construction. Upon the acquisition of the Nanjing Power Plant, the Company assumed the loan, as stipulated in the Nanjing Acquisition Agreement (See Note 5(d)(i)), which bore floating interest at the prevailing lending rate in the PRC ranging from 6.21% to 7.56% per annum for the year ended December 31, 1999. The loan from Nanjing Investment is repayable as follows:

	As of December 31, 1999
	’000
2000	64,581
2001	64,581
2002	64,581
2003	64,581
2004	32,290
	290,614
Less: Amount due within one year included under current liabilities	(64,581)
	226,033

21. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	As of December 31,	
	1999	1998
	’000	’000
Accrual for purchase of raw materials	276,690	157,501
Provision for major repair and maintenance	355,276	206,595
Payable to contractors for construction costs incurred	1,802,414	1,068,026
Deposits payable to contractors	42,471	40,871
Accrued interest	297,963	114,187
Payable to power companies	82,216	163,266
Others	302,572	192,294
	3,159,602	1,942,740

22. TAXES PAYABLE

Taxes payable comprised:

	As of December 31,	
	1999	1998
	’000	’000
VAT payable	146,569	133,626
Income tax payable	347,451	332,998
Others	17,045	6,516
	511,065	473,140

23. CAPITALIZATION

Authorized Share Capital

The original authorized share capital comprised 3,750,000,000 Domestic Shares of Rmb1.00 each and 1,250,000,000 Overseas Listed Foreign Shares of Rmb1.00 each. By a special shareholders’ resolution passed on September 29, 1997, the authorized share capital of the Company was increased to 4,500,000,000 Domestic Shares of Rmb1.00 each and 1,500,000,000 Overseas Listed Foreign Shares of Rmb1.00 each.

As of December 31, 1999, share capital comprising of 4,150,000,000 Domestic Shares and 1,500,000,000 Overseas Listed Foreign Shares were issued and fully paid. The holders of Overseas Listed Foreign Shares and Domestic Shares, with minor exceptions, are entitled to the same economic and voting rights.

Public Offering

On June 30, 1994, the Board of Directors authorized the issuance and sale of 1,250,000,000 Overseas Listed Foreign Shares of the Company, par value Rmb1.00 each, in a public offering. ADSs, each of which represents 40 Overseas Listed Foreign Shares, were offered to the public at a price of US$20.00 per ADS before underwriting discounts and commissions of US$0.62 per ADS. The 31,250,000 ADSs were listed on the New York Stock Exchange on October 6, 1994. Direct costs of US$4 million were incurred to sell the ADSs and reduced the net proceeds.

On January 21, 1998, 1,250,000,000 existing Overseas Listed Foreign Shares and 315,068,493 potential new Overseas Listed Foreign Shares issuable upon full conversion of the convertible notes were listed by way of introduction on the Stock Exchange of Hong Kong Limited (the "SEHK"). All of the shares are designated as H Shares for the purpose of the listing on the SEHK.

On February 26, 1998, 250,000,000 new ordinary shares, par value Rmb1.00 each, in the form of H Shares or ADSs, were issued in a public offering at HK$4.4 per H Share or US$22.73 per ADS before underwriting discounts and commissions of HK$0.10 per H Share or US$0.5 per ADS. These new shares were approved for listing on both the NYSE and SEHK and commenced trading on March 4, 1998. The net proceeds from the offering of approximately US$138.9 million were used to finance a portion of the purchase consideration for the acquisition of the Shanghai Power Plant.

On March 4, 1998, 400,000,000 new Domestic Shares of Rmb1.00 each were issued to HIPDC at HK$4.4 each pursuant to the Shanghai Acquisition Agreement.

On June 9, 1999, a resolution was passed at the annual general meeting authorized the Company, subject to the approval of the relevant government authorities, to issue up to 350,000,000 Domestic Shares on a stock exchange in mainland China before June 9, 2000.

24. OBLIGATIONS AND COMMITMENTS

The Company is constructing some complementary facilities and renovation projects for existing power plants. Annual construction estimates amount to approximately Rmb330 million in 2000. The construction programs are subject to periodic review and revision. The actual construction costs may vary from the above estimates.

Capital commitments and coal purchase commitments contracted as of December 31, 1999 not provided for in the balance sheet was approximately Rmb4.43 billion.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, temporary cash investments and short-term borrowings approximate fair value due to the short-term maturity of these instruments.

The estimated fair value of long-term debt including current maturities was Rmb12.28 billion and Rmb13.41 billion, respectively, as of December 31, 1999 and December 31, 1998 based on current market interest rates for comparable instruments. The book value of these liabilities was Rmb12.76 billion and Rmb13.07 billion, respectively, as of December 31, 1999 and 1998.

The quoted market rate of the convertible notes was 103% and 93.82%, as of December 31, 1999 and December 31, 1998 respectively (100% as of the issue date with total proceeds of US$230 million or Rmb1,908 million equivalent).

26. HEDGING OF INTEREST RATE RISK

The Company has entered into interest rate swap agreements with a local bank to convert its floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities. As of December 31, 1999, the notional amount of the outstanding interest rate swap agreements was approximately US$114 million.

27. NOTES TO STATEMENTS OF CASH FLOW

a. Major non-cash transaction

(i) On 4th March,1998, 400 million Domestic Shares of Rmb1.00 each were issued to HIPDC at HK$4.4 each to settle part of the payable to HIPDC arising from the acquisition of Shanghai Power Plant.

(ii) The Company acquired the Nanjing Power Plant from HIPDC and Nanjing Investment (see Note 5(d)). The fair value of the assets acquired and the liabilities assumed were as follows:

	'000
Cash	150,229
Accounts receivable	59,238
Materials and supplies	44,802
Other receivables and assets	17,765
Other long term assets	407
Property, plant and equipment, net	2,429,312
Total purchase price	2,701,753
Short-term bank loans	(122,000)
Accounts payable and accrued liabilities	(146,348)
Taxes payable	16,518
Staff welfare and bonus payable	(4,757)
Long-term loans	(1,092,150)
Liability assumed (Note 5 (d) (i))	(1,348,737)
Net consideration	1,353,016
Less: Cash of Nanjing Power Plant	(150,229)
Cash settlement of purchase consideration	(1,111,375)
Total non-cash amount in respect of the acquisition of Nanjing Power Plant	91,412

b. Undrawn borrowing facilities

As of December 31, 1999, the undrawn borrowing facilities available to finance the Company's capital commitments for its various power plant construction projects amounted to approximately Rmb1.5 billion. Such borrowing facilities would be drawn down in accordance with the financial requirements of the projects. Based on current plans, such borrowing facilities will be utilized as follows:

	As of December 31, 1999
	'000
Amount to be drawn down:	
Within one year	436,583
Between two to five years	1,071,316
	1,507,899

c. Supplemental disclosure of cash paid

	Year ended December 31,		
	1999	1998	1997
	’000	’000	’000
Interest	615,946	442,193	393,712
Value added tax	1,351,255	589,110	498,420
Income tax	370,102	378,383	299,621

28. POST BALANCE SHEET EVENT

On April 5, 2000, the Board of director declared a year-end dividend of Rmb0.09 (1998: Rmb0.08) per Domestic Share and Overseas Listed Foreign Share, totaling approximately Rmb509 million (1998: Rmb452 million). Such dividend will be recorded in the Company’s financial statements for the year ending December 31, 2000.

29. CONCENTRATION OF RISK

(a) Business Risk

The Company conducts its operations in the PRC and accordingly is subject to considerations and significant risks not typically associated with investments in equity securities in the United States of America and Western European companies. These include risks associated with, among others, the political, economic & legal environment, restructuring of the PRC electric power industry and regulatory reform, new regulation pertaining to setting of power tariff, and availability of fuel supply at stable price.

(b) Interest Rate Risk

The interest rates and terms of repayment of the convertible notes, bank loans, shareholders loans and other loans of the Company are disclosed in Note 16, 17, 18, 19 and 20.

(c) Foreign Currency Risk

The Company has foreign currency risk as a significant portion of its long term bank loans and shareholder loans are denominated in foreign currencies, principally US dollars, as described in Note 16, 18 (b) and 19 (b). Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Company’s results of operation.

30. PRIOR YEAR COMPARATIVES

Certain 1998 comparative figures have been reclassified to conform to the current year’s presentation.

31. NEWLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”). SFAS 133 stipulates accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at their fair values. Changes in fair values for derivatives are recorded in either current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and the type of the hedge transaction. SFAS 133, as recently revised by SFAS 137, is effective for fiscal years beginning after June 15, 2000. The Company has not yet assessed the impact of the adoption of these standards.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

By /s/ Wang Xiaosong
Name: Wang Xiaosong
Title: Vice Chairman

Date: April 20, 2000

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