

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



**Annual Report On Form 20-F**  
**2000**

As filed with the Securities and Exchange Commission on April 5, 2001

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2000**

Commission file number: 1-13314

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**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,  
2C, 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.

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

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

**NONE**

(Title of Class)

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

**NONE**

(Title of Class)

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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  No

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

Item 17  Item 18

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

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## INTRODUCTION

We maintain our 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. 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, 2000 of US\$1.00 to Rmb8.2781 (except for amounts relating to future expenditure under our capital expenditure program which use an exchange rate of US\$1.00 to Rmb8.7, the exchange rate utilized by us 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.

References to the “Company” include, unless the context requires otherwise, Huaneng Power International, Inc, the operations of our power plants and our proposed projects.

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

<b>actual generation</b>	The total amount of electricity generated by a power plant over a given period of time.
<b>auxiliary power</b>	Electricity consumed by a power plant in the course of generation.
<b>availability factor</b>	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.
<b>available hours</b>	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.
<b>capacity factor</b>	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.
<b>demand</b>	For an integrated power system, the amount of power demanded by consumers of energy at any point in time.
<b>dispatch</b>	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.
<b>excess output</b>	The amount by which the total output of a power plant in a particular year exceeds its planned output for such year.
<b>GW</b>	Gigawatt. One million kilowatts.
<b>GWh</b>	Gigawatt-hour. One million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants.
<b>installed capacity</b>	The manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW.
<b>kV</b>	Kilovolt. One thousand volts.
<b>kW</b>	Kilowatt. One thousand watts.
<b>kWh</b>	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.
<b>MVA</b>	Million volt-amperes. A unit of measure used to express the capacity of electrical transmission equipment such as transformers.
<b>MW</b>	Megawatt. One million watts. The installed capacity of power plants is generally expressed in MW.
<b>MWh</b>	Megawatt-hour. One thousand kilowatt-hours.

<b>Net Fixed Assets</b>	The annual average of the book value of our fixed assets (less accumulated depreciation) and construction work in progress, each as determined in accordance with PRC statutory accounting principles.
<b>peak load</b>	The maximum demand on a power plant or power system during a specific period of time.
<b>planned generation</b>	An annually determined target gross generation level for each of our operating power plants used as the basis for determining planned output.
<b>total output</b>	The actual amount of electricity sold by a power plant in a particular year, which equals total generation less auxiliary power.
<b>transmission losses</b>	Electric energy that is lost in transmission lines and therefore is unavailable for use.
<b>TW</b>	Terawatt. One billion kilowatts.
<b>TWh</b>	Terawatt-hour. One billion kilowatt-hours.

## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### Selected financial data

Balance sheet data as of December 31, 2000, 1999, 1998, 1997 and 1996 and income statement and cash flow data for each of the years in the five-year period ended December 31, 2000, are derived from the historical financial statements of the Company. The Selected Financial Data should be read in conjunction with the Financial Statements and “Item 5. Operating and Financial Review and Prospects”. The Financial Statements have been prepared in accordance with International Accounting Standards (“IAS”) which differ from United States generally accepted accounting principles (“US GAAP”). The differences between IAS and US GAAP that would have had a significant impact on the net income of the Company for each of the years in the three-year period ended December 31, 2000 and the equity of the Company as of December 31, 1999 and 2000 are set forth in Note 36 to the Financial Statements. The Selected Financial Data may not be indicative of future earnings, cash flows or financial position.

	Year Ended December 31,					
	1996	1997	1998	1999	2000	2000
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$) <sup>(1)</sup>
<i>RMB and US dollars in thousands</i>						
<i>except per share data</i>						
<b>Income Statement Data</b>						
<b>IAS</b>						
Operating revenue, net . . . . .	4,837,372	6,739,765	8,082,496	10,488,158	12,553,254	1,516,441
Operating expenses . . . . .	(3,426,815)	(4,870,805)	(5,398,607)	(7,508,172)	(8,646,356)	(1,044,486)
Profit before financial income						
(expenses) . . . . .	1,410,557	1,868,960	2,683,889	2,979,986	3,906,898	471,955
Total financial income (expenses) . .	149,503	174,768	(474,383)	(727,256)	(979,866)	(118,368)
Profit before taxation . . . . .	1,560,060	2,043,728	2,209,506	2,252,730	2,927,032	353,587
Provision for income tax . . . . .	(228,620)	(381,720)	(370,995)	(384,555)	(411,202)	(49,673)
Net profit . . . . .	<u>1,331,440</u>	<u>1,662,008</u>	<u>1,838,511</u>	<u>1,868,175</u>	<u>2,515,830</u>	<u>303,914</u>
Basic earnings per share . . . . .	0.27	0.33	0.33	0.33	0.45	0.05
Fully diluted earnings per share . . . .	N/A	0.32	0.33	N/A	0.44	0.05
<b>US GAAP</b>						
Operating revenue . . . . .	4,837,372	6,739,765	8,082,496	10,488,158	12,553,254	1,516,441
Net profit . . . . .	1,331,440	1,662,008	1,838,511	1,868,175	2,489,678	300,755
Basic earnings per share . . . . .	0.27	0.33	0.33	0.33	0.44	0.05
Fully diluted earnings per share . . . .	N/A	0.32	0.33	N/A	0.44	0.05
<b>Cash Flow Data</b>						
<b>IAS and US GAAP</b>						
Depreciation and amortization . . . .	660,589	1,107,310	1,526,163	2,391,998	2,666,949	322,169
Drawdown of short-term bank loans . .	999,430	1,177,096	172,000	142,000	1,511,000	182,530
Repayment of short-term bank loans . .	756,344	1,365,680	904,096	419,000	261,000	31,529
Drawdown of long-term loans . . . . .	2,471,943	7,171,607	3,647,945	1,069,853	165,215	19,958
Repayment of long-term loans . . . . .	845,383	7,624,873	2,330,545	2,405,488	1,737,382	209,877
Capital expenditures . . . . .	2,124,526	6,846,907	6,457,432	2,274,342	351,966	42,518

	As of December 31,					
	1996	1997	1998	1999	2000	2000
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$) <sup>(1)</sup>
<i>RMB and US dollars in thousands except per share data</i>						
<b>Balance Sheet Data</b>						
<b>IAS</b>						
Current assets . . . . .	9,820,145	7,960,456	5,709,831	5,866,082	10,061,689	1,215,458
Property, plant and equipment, net . . . . .	15,708,154	27,400,770	32,315,351	34,603,329	32,219,595	3,892,149
Other long-term assets . . . . .	88,715	128,134	116,529	113,319	185,664	22,428
Total assets . . . . .	<u>25,617,014</u>	<u>35,489,360</u>	<u>38,141,711</u>	<u>40,582,730</u>	<u>42,466,948</u>	<u>5,130,035</u>
Current liabilities . . . . .	3,575,926	7,789,539	4,102,009	6,237,140	7,070,603	854,133
Long-term liabilities . . . . .	8,700,001	12,186,220	13,683,472	12,573,185	11,616,610	1,403,294
Equity . . . . .	<u>13,341,087</u>	<u>15,513,601</u>	<u>20,356,230</u>	<u>21,772,405</u>	<u>23,779,735</u>	<u>2,872,608</u>
Total liabilities and equity . . . . .	<u>25,617,014</u>	<u>35,489,360</u>	<u>38,141,711</u>	<u>40,582,730</u>	<u>42,466,948</u>	<u>5,130,035</u>
<b>US GAAP</b>						
Total assets . . . . .	25,617,014	35,489,360	38,141,711	40,582,730	42,466,948	5,130,035
Total liabilities . . . . .	(12,275,927)	(20,486,265)	(18,295,987)	(19,320,831)	(19,197,719)	(2,319,097)
Equity . . . . .	<u>13,341,087</u>	<u>15,003,095</u>	<u>19,845,724</u>	<u>21,261,899</u>	<u>23,269,229</u>	<u>2,810,938</u>
<b>Other Financial Data</b>						
<b>IAS and US GAAP</b>						
Dividend declared per share . . . . .	—	—	0.08	0.09	0.22	0.03
Number of ordinary shares ('000) . . . . .	5,000,000	5,000,000	5,650,000	5,650,000	5,650,000	5,650,000

(1) The US dollar data has been translated from RMB solely for convenience at the PBOC Rate on December 31, 2000 of US\$1.00 to RMB8.2781.

### Capitalization and indebtedness

Not applicable.

### Reasons for the offer and use of proceeds

Not applicable.

### Risk factors

#### *Risks relating to our business and the PRC's power industry*

*Government regulation of power rates and other aspects of the power industry may negatively affect our business*

Similar to electric power companies in other countries, we are subject to governmental and electric power grid regulations in virtually all aspects of our operations, including the amount and timing of electricity generation, the setting of power rates, performance of scheduled maintenance and compliance with power grid control and dispatch directives. There can be no assurance that these regulations will not change in the future in a manner which could adversely affect our operations. In particular, because proposed power rates are now subject to approval by the State Development Planning Commission, as well as by the local governments, review of proposed power rates has become increasingly complex and time consuming. There can be no assurance that PRC Government will approve our future tariff proposals. Since 1995, we have charged and collected power rates that were designed to enable us to recover all operating and debt service costs and to earn a fixed return on our Net Fixed Assets. However, there can be no assurance that there will not be any change in the implementation of the principles of setting tariff rates that could materially adversely affect our operations. In addition, the PRC government started in 1999 to experiment with a program to effect power sales through a bidding process in some of the provinces we operate our power plants. Although the



power sales through the bidding process in 1999 and 2000 constituted only a small fraction of our total output, there is no assurance that the government will not choose to expand the program in the future. And if the PRC government chooses to expand the bidding program, the tariffs and the revenues of our power plants may be adversely affected.

*If our power plants receive less despatching than Planned Generation, the power plant will sell less electricity than planned*

Our profitability depends, in part, upon each of our power plants generating electricity at a level sufficient to meet or exceed the Planned Generation, which in turn will be subject to local demand for electric power and dispatching to the grids by the dispatch centers of the local power corporations.

The dispatch of electric power generated by a power plant is controlled by the Dispatch Center of the applicable power corporations pursuant to a dispatch agreement with us and to governmental dispatch regulations adopted in 1993. Because many of the power plants in the markets in which we sell electric power are associated with the power corporations, no assurance can be given that the Dispatch Centers, which are under the jurisdiction of the power corporations, will not give preferential dispatch to the power plants associated with such power corporations. A reduction by the Dispatch Center in the amount of electric power dispatched relative to a Power Plant's Planned Generation could have an adverse effect on the profitability of our operations. However, we have not encountered any such bias in the past.

*We are effectively controlled by HIPDC, whose interest may differ from those of our other shareholders*

HIPDC, as our controlling shareholder, together with other Local Government Investment Companies, is able to elect the entire board of directors. HIPDC's interests may sometimes conflict with those of our other minority shareholders. There is no assurance that HIPDC will always vote its shares, or direct the directors nominated by it to act, in a way that will benefit our other minority shareholders.

*Disruption in Fuel supply and its transportation may negatively affect the normal operation of our power plants*

We have obtained our coal and oil supplies for our power plants through a combination of purchases pursuant to allocations under the State Plan and purchases on the open market. At the same time, we have also enjoyed priority access pursuant to PRC Government allocations to transportation services required to transport our coal and oil supplies. PRC Government allocations help to assure priority in the receipt of certain limited resources, sometimes at regulated prices. We currently operate and intend to pursue only power plants included in the State Plan, thereby ensuring that such power plants have priority access through PRC Government allocations of coal, oil and transportation services. Although we have received sufficient and timely allocations of fuel supply and transportation services for our operations and have not experienced shutdowns or reduced electricity generation caused by inadequate fuel supply or transportation services, there can be no assurance that the system of PRC Government allocations which ensures priority access by the major power plants to coal, oil and transportation will continue in the future, that we will continue to obtain allocations to match our operation requirements or that the loss of priority access through PRC Government allocations will not, in the event of national supply shortfalls, adversely affect our operations.

*Power plant development, acquisition and construction are a complex and time-consuming process, the delay of which may negatively affect the implementation of our growth strategy*

We develop, construct, own and operate large power plants; success depends upon our ability to secure all required PRC Government approvals, power sales and dispatch agreements, construction contracts, fuel supply and transportation and electricity transmission arrangements. Delay or failure to secure any of these

could increase cost or delay or prevent commercial operation of the affected power plant. Although each of our power plants and the power plants under construction received all required PRC Government approvals in a timely fashion, no assurances can be given that all the future projects will receive approvals in a timely fashion or at all.

We have generally acted as, and intends to continue to act as, the general contractor for the construction of our power plants. As with any major infrastructure construction effort, the construction of a power plant involves many risks, including shortages of equipment, material and labor, labor disturbances, accidents, inclement weather, unforeseen engineering, environmental, geological, delays and other problems and unanticipated cost increases, any of which could give rise to delays or cost overruns. Construction delays may result in the loss of revenues. The failure to complete construction according to specifications may result in liabilities and decrease power plant efficiency, increase operating costs and reduce earnings. Although the construction of each of our power plants was completed on or ahead of schedule and within its budget, no assurance can be given that construction of future projects will be completed on schedule or within budget.

In addition, from time to time, we may acquire existing power plants from HIPDC or other parties. The timing and the likelihood of the consummation of any such acquisition will depend, among other things, on our ability to obtain financing and relevant PRC Government approvals and to negotiate relevant agreements.

*Investment and acquisition of new power plants need substantial capital, the failure to obtain of which on reasonable commercial terms will increase our financing cost and cause delay in our expansion plans*

An important component of our growth strategy is to acquire operating power plants and related development rights from HIPDC or other companies on commercially reasonable terms. Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, credit availability from banks or other lenders, investor confidence in us and the continued success of our power plants. Although we have historically been able to obtain financing on terms acceptable to us, there can be no assurance that financing for future acquisitions will be available on terms acceptable to us or, in the event of an equity offering, that such financing will not result in substantial dilution to existing shareholders.

*Operation of power plants involve many risks and we may not have enough insurance to cover the economic losses if any of our power plant's ordinary operation is interrupted*

The operation of power plants involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards and industrial accidents. The occurrence of material operational problems, including but not limited to the above events, may adversely affect the profitability of a power plant. We maintain insurance typical in the electric power industry in China and in amounts that we believe to be adequate. Such insurance, however, may not provide adequate coverage in certain circumstances. In particular, in accordance with industry practice in the PRC, we do not currently carry any business interruption insurance or, except for third party liability insurance coverage for accidents during capital construction and equipment installation and other types of assets insurances, any third party liability insurance to cover claims in respect of bodily injury or property or environmental damage arising from accidents on our property or relating to our operation. Although each of our power plants has a good record of safe operation, there is no assurance that the afore-mentioned accidents will not occur in the future.

*If the PRC government imposes new and stricter environmental laws and additional capital expenditure is required for the compliance with such laws, the operation of our power plants may be interrupted and we may be required to make more investment in compliance with environmental law*

Our power plants, like all coal-and oil-fired power plants, discharge pollutants into the environment. We are subject to central and local government environmental protection laws and regulations which currently impose base-level discharge fees for various polluting substances and graduated schedules of fees

for the discharge of waste substances in excess of applicable standards, require the payment of fines for violations of laws, regulations or decrees and provide for the possible closure by the central government or local government of any power plant which fails to comply with orders requiring it to cease or cure certain activities causing environmental damage. We have implemented a system that is designed to control pollution caused by our power plants, including the establishment of an environmental protection office at each power plant and the installation of certain pollution control equipment. We believe our environmental protection systems and facilities for the power plants are adequate for us to comply with applicable central government and local government environmental protection laws and regulations. The PRC Government may impose new, stricter laws and regulations which would require additional expenditure on environmental protection.

The PRC is a party to the Framework Convention on Climate Change (“Climate Change Convention”), which is intended to limit or capture emissions of “greenhouse” gases, such as carbon dioxide. Ceilings on such emissions could limit the production of electricity from fossil fuels, particularly coal, or increase the costs of such production. At present, ceilings on the emissions of “greenhouse” gases have not been assigned to developing countries such as the PRC under the Climate Change Convention, and the PRC has objected to any imposition of such ceilings. If the PRC were to agree to such ceilings, or otherwise reduce its reliance on coal-fired power plants, our business prospects could be adversely affected.

In view of environmental protection, we have included environment-friendly combined-cycle gas turbine power plants in our expansion plan for the next five years.

*If there is a devaluation of Renminbi, our debt burden will increase and the dividend return to our overseas shareholders may decrease*

As a power producer operating only in China, we collect our revenues in Renminbi and have to convert Renminbi into foreign currencies to (i) repay some of our borrowings which are denominated in foreign currencies, (ii) purchase foreign made equipment and parts for repair and maintenance, and (iii) pay out dividend to our overseas shareholders. Although China has had a stable foreign exchange rate for Renminbi for the last several years, there is no assurance that there will not be a significant devaluation of Renminbi in the future. And if there is such a devaluation, our debt servicing cost will increase and the return to our overseas investors may decrease.

*Forward-looking information may prove inaccurate*

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “anticipate,” “believe,” “estimate,” “expect,” “going forward” and similar expressions, as they relate to us or our management, are intended to identify forward-looking statement. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. We do not intend to update these forward-looking statements.

### ***Risks relating to the PRC***

*PRC economic, political and social conditions as well as government policies could significantly affect our business*

All of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including: government involvement, level of development, economy growth rate, control of foreign exchange, and allocation of resources.

The economy of China has been transitioning from a planned economy to a more market oriented economy. Although the majority of productive assets in China are still owned by the PRC government at

various levels, in recent years the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a high level of management autonomy. Some of these measures will benefit the overall economy of China, but may have a negative effect on us. For example, our operating results and financial condition may be adversely affected by: changes in taxation, changes in tariff for our power plants, changes in the usage and costs of state controlled transportation services, and state policies affecting the power industry.

*Interpretation of PRC laws and regulations involves significant uncertainties*

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedent presidential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of precedence force, interpretation and enforcement of these laws and regulations involve significant uncertainties. In addition, as the PRC legal system develops, we cannot assure that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on our business operations.

Although China has promulgated the Electric Power Law, the government is still studying how to implement the reforms in power industry as exhorted in the Electric Power Law. There is no assurance that any future regulations will not adversely affect our business.

We are subject to certain PRC regulations governing PRC companies that are listed overseas. These regulations contain certain provisions that are required to be included in the articles of association of these PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the US, the UK and other developed countries or regions. Such limited investor protections are compensated for, to a certain extent, by the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas and certain additional requirements that are imposed by the Listing Rules of the Hong Kong Stock Exchange with a view to reducing the magnitude of differences between the Hong Kong company law and PRC Company Law. The articles of association of all PRC companies listed in Hong Kong must incorporate such Mandatory Provisions and these additional requirements. Although our Articles of Association have incorporated such provisions and requirements, there can be no assurance that our shareholders will enjoy protections that they may be entitled to in other jurisdictions.

## **Legal proceedings**

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

## **Item 4. Information on the Company**

### **History and development of the Company**

We were established in June 1994 as a company limited by shares organized under the laws of the People's Republic of China. We are a power producer, committed to serving China's growing demand for electricity by developing, constructing, owning and operating large thermal power plants throughout China. We place equal emphasis on acquiring existing power plants and developing new power plants to achieve its

business and development strategy. In January 2001, we completed a RMB5.768 billion acquisition of Shandong Huaneng Power Development Co., Ltd. (“Shandong Huaneng”). The acquisition added 2,113.5 MW to our generation capacity, bringing the total generation capacity to 10,813.5 MW. We now own (entirely or in part) thirteen power plants, and we believe that we are the largest independent power producer in China and one of the largest such producers in the world.

Our power plants are in six of China’s coastal provinces: Liaoning, Hebei, Shandong, Fujian, Jiangsu and Guangdong, and in Shanghai Municipality, the largest financial and commercial center in mainland China. We also have plans to build 4,200 MW generation capacity in the same areas. As of the end of 1999, these areas had an aggregate population of approximately 389 million, which represented approximately 30.9% of China’s total population. We believe that these areas present greater potential for increasing demand for electricity and enjoy the most favorable conditions for running power plants.

Twelve of our power plants are coal-fired. Three of them, Dalian, Nantong, Fuzhou Power Plants each has a generation capacity of 1,400 MW. Shangan Power Plant has a generation capacity of 1,300 MW. Dandong Power Plant has a generation capacity of 700 MW. Shantou and Nanjing Power Plants each has an aggregate generation capacity of 600 MW. Shanghai Power Plant has a generation capacity of 1,200MW consisting of two supercritical generating units. Our only oil-fired power plant, Shantou Oil-Fired Power Plant, has a generation capacity of 100 MW. Among the power plants acquired as a result of the merger with Shandong Huaneng, Dezhou Power Plant has a generation capacity of 1,200 MW; Weihai Power Plant has a generation capacity of 850 MW, of which we have 60% proportionate interest; Jining Power Plant has a generation capacity of 300 MW, of which we have 75% of proportionate interest, Rizhou Power Plant has a generation capacity of 700 MW, of which we hold 25.5% of proportionate interest.

In 2000, our power plants had an average availability factor of 90.03% and an average capacity factor of 57.87% (excluding power plants acquired from Shandong Huaneng).

### **Business overview**

We are China’s leading independent power producer based on the total generation capacity of 10,813.5 MW. To maintain this leadership position among independent power producers and to enhance shareholder value, we will focus on more efficient operation of our current power plants and aggressively pursue our development strategy. Our development strategy will emphasize both acquisition and project construction, which includes both construction of greenfield and expansion plants, utilizing both coal-fuel and other types of fuel plants. We will also continue to leverage our relationship with HIPDC, our controlling shareholder, as well as with China Huaneng Group Corporation (“Huaneng Group”), the controlling shareholder of HIPDC in respect of acquisition and development of power projects.

Within HIPDC, we are the exclusive developer of all greenfield coal-fired power plants and other types of power plants in China which we may wish to develop. HIPDC has also undertaken that it will not compete with us in the power development business in China.

With respect to Huaneng Group, we have 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 we may realistically develop.

We believe our significant capability in the development and construction of power projects, as exemplified in the completion of our projects under construction ahead of schedule, and our experience gained in the successful acquisition of the Shanghai Power Plant, Nanjing Power Plant and Shandong Huaneng will enable us to take full advantage of the opportunities presented in China’s power market and made available to us through our relationship with HIPDC and Huaneng Group.

With respect to the acquisition or development of any project, we will consider, among other factors, changes in power market conditions, and adhere to prudent commercial principles in the evaluation of the feasibility of the project. We 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.

In addition to business development strategies, we will continue to work on our 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.

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

Pursuant the Agreement of Merger by Absorption dated July 18, 2000, we agreed to merge with Shandong Huaneng and pay RMB5.768 billion in consideration to Shandong Huaneng's shareholders. The merger became effective on January 1, 2001 (the "Huaneng Merger").

As a result of the merger, our total generation capacity increased from 8,700 MW to 10,813.5 MW, and we have also obtained additional 1,320 MW installed capacity under construction in Shandong province. The Huaneng Merger also improved our geographic coverage and increased our market share in China.

### ***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 our significant experience in development and constructing power plants, we, 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***

We 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 and 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.

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, we 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 our policy to seek investment in such power plants by the relevant local governments.

The power plants have arrangements with the local power corporations that manage the grids to which they are connected to transmit electric power to customers and collect and remit payment for such power at rates adjusted annually based on the Pricing Policy.

### *Power Plant Construction*

We have generally acted as the general contractor for the construction of our 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 our 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, we 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 our 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. We do 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*

We have historically operated and intends to continue to operate our power plants. Our power plants have established management structures based on modern management techniques. We select the superintendent for a new power plant from the senior management of our 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. Our senior management 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 us, at which time the unit may enter into commercial operation.

### ***Pricing policy***

Because we were established to develop power plants using advanced equipment and technology financed with foreign and domestic loans, our 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 us. The Pricing Policy specifies that our 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. See “Operating and Financial Review and Prospects — Pricing policy and prospective change.”

While we anticipate that we will consistently generate a profitable return and recover our costs under the existing Pricing Policy, there is no assurance that the government agencies will approve our proposed power rates in accordance with the Pricing Policy. We have received power rates that delivered a return below the permitted 15% return on the Net Fixed Assets in the last several years. 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. We believe that any new regulations adopted by the government might be different from the Pricing Policy and the formula we have been using to calculate our power rates.

### ***Power sales***

We had entered into agency sales agreements (each, an “Agency Sales Agreement”) with the respective Power Corporations that managed the grids connecting the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Plant when we were established in 1994. Under each Agency Sales Agreement, the relevant Power Corporation agreed to sell, as agent, electricity for the relevant power plant. Each Agency Sales Agreement provided for the Power Corporation to transmit electricity to customers and collect and remit payment for such electricity at the power rates applicable to the relevant power plant.

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.

We entered into the Power Purchase Agreements (the “Dalian PPA” and “Dandong PPA”) with the Northeast Electric Power Group with respect to our Dalian and Dandong Power Plants on July 14, 1998. The Dalian and Dandong PPAs 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 annual utilization hours of the Dalian and Dandong Power Plants will be determined according to the average annual 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. We, however, entered into Power Purchase Agreements for Phase I and Phase II in January, 2000 and June 1999 respectively with Fujian Power Corporation, 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, we 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 available hours of Nantong Power Plant would be determined in accordance with the average available 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. We entered into a Power Purchase and Sales Agreement with Hebei Provincial Power Company in September, 2000 to replace the Agency Sales Agreement.

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.

We 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”). We have 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.

We acquired Nanjing Power Plant in 1999 from HIPDC and Nanjing Investment Company. Pursuant to the Power Sales Agreement, Jiangsu Provincial Power Corporation is responsible for selling the electricity generated by the Nanjing Power Plant. The amount of annual 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 the power plants which we operate, including the power plants acquired under the Huaneng Merger, for each of the five years ended December 31, 2000 and the planned output rate for 2000 and 2001.

	1996	1997	1998	1999	2000		2001
	Average Rate <sup>(1)</sup>	Average Rate <sup>(1)</sup>	Average Rate <sup>(1)</sup>	Average Rate <sup>(1)</sup>	Average Rate <sup>(1)</sup>	Approved Rate <sup>(1)</sup>	Approved Rate
Dalian Power Plant							
Phase I .....	371.55	401.69	328.75 <sup>(3)</sup>	331.69	316.53	323.3/321 <sup>(5)</sup>	321
Phase II .....	—	—	—	303.97	305.42	309.7/321 <sup>(5)</sup>	321
Fuzhou Power Plant							
Phase I .....	399.29	449.10	433.74	339.52	353.40	344.25/362.3 <sup>(6)</sup>	362.3
Phase II .....	—	—	—	500.00	405.35	500/394 <sup>(6)</sup>	394
Nantong Power Plant							
Phase I .....	325.38 <sup>(2)</sup>	338.87 <sup>(2)</sup>	337.07 <sup>(2)</sup>	336.17	323.71	334.57	334.57
Phase II .....	—	—	—	288.66	323.71	334.57	334.57
Shangan Power Plant							
Phase I .....	360.75	372.68	346.08 <sup>(4)</sup>	298.73	283.30	307	307
Phase II .....	—	553.00	372.78 <sup>(4)</sup>	306.33	379.50	432	432
Shantou Oil-Fired Plant ....	674.32	676.20	676.20	597.51	669.77	594.39	594.39
Shantou Power Plant .....	—	473.85	473.61	473.85	473.85	473.85	473.85
Shanghai Power Plant .....	—	332.18	354.20	358.46	362.44	375.86	375.86
Dandong Power Plant .....	—	—	—	309.70	306.27	309.7/330 <sup>(5)</sup>	330
Nanjing Power Plant .....	—	—	—	354.61	325.68	356.11	356.11
Dezhou Power Plant.....	—	—	—	—	—	—	352.20
Jining Power Plant .....	—	—	—	—	—	—	280.76
Weihai Power Plant.....	—	—	—	—	—	—	395.85

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 July 15, 2000.
- (6) New power rate was effective as of May 20, 2000.

As an important element of China's power industry reform, power bidding is being experimented in some regions, including Shanghai, Liaoning, Shandong and Jiangsu, where some of our power plants and the power plants acquired from the Huaneng Merger are located. Under the current bidding practice, about 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 generation, primarily because the competitive bidding drives down the prices. We believe, however, that the output subject to the bidding practice represents only a small portion of our 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 our planned generation, the power rate is still determined on a basis which permits us to recover all the operating costs plus a margin of profit. Moreover, our management is closely monitoring and taking effort to minimize the potential impact of the bidding practice on our operating results. We also believe that our highly efficient power plants are competitive in a more open and fair power market.

### ***Fuel supply arrangements***

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

*The following discussion does not include the information on the power plants acquired under the Huaneng Merger.*

### ***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 2000 averaged approximately Rmb 220.91 per ton. Transportation costs have also represented a significant portion of the overall cost of coal for the eight coal-fired power plants in 2000, accounted for approximately 47%, 53%, 50%, 54%, 48%, 50%, 48% and 19% of the overall cost of coal for the Dalian, Fuzhou, Nantong, Shantou, Shanghai, Dandong, Nanjing and Shangan Power Plants, respectively.

We strive to reduce the 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. We have also started to experiment in some of our power plants with the method of mixing different terms of coal as a measure of cost reduction.

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, we obtain allocations for coal on a company-wide basis from the central government. We then sign delivery orders with the coal producers and with the railway and shipping companies for the amount of coal and transportation allocated to us 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. We, 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, we have entered into a coal purchase agreement (as amended by a supplemental letter dated December 15, 1997) with HIPDC pursuant to which we intend to purchase a substantial portion of our coal requirements through HIPDC and to pay HIPDC a service fee of Rmb 1.5-2.0 per ton, which represents less than 1% of the current cost of coal including transportation cost. We believe that purchasing coal through HIPDC is more advantageous than purchasing coal through independent third parties.

In 2000, we obtained allocations under the State Plan for 11.06 million tons of coal representing more than 69.8% of the total coal requirement for the production of the total planned generation, of which we purchased only 10.53 million tons of coal. During each of the five years from 1996 to 2000 we have generally

utilized approximately 60% to 75% of the total amount of coal allocated to us under the State Plan as the coal industry has become more market-oriented. We have been allocated 11.67 million tons of coal and related transportation under the State Plan for 2001, which is more than 72% of the coal required for the total planned generation.

We purchased 6.05 million tons of coal on the open market in 2000. Given our good reputation and commercial relationships with open market coal suppliers and the increasing market orientation of the coal industry in China, we believe that we will be able to purchase sufficient coal on the open market or, on arm's length terms, from HIPDC to meet our future requirements in excess of allocations by the PRC Government.

### *Oil*

We obtain our 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.

We were allocated 60,000 metric tons in 2000. The price at which the Shantou Oil-Fired Plant purchases Shengli crude oil from the China Petroleum and Chemical Corporation is determined by the PRC Government in accordance with the State Plan. The price for crude oil has increased significantly in 2000, in line with the crude oil price in the international market.

During 2000, the average of the State Plan prices for crude oil from the Shengli Oil Field and CIF Shantou was Rmb1,862 per ton.

We received allocations under the State Plan of crude oil from the Shengli Oil Field and transportation sufficient to meet our oil supply requirements at the Shantou Oil-Fired Plant for 2000. We believe that we will continue to receive allocations of oil and transportation under the State Plan sufficient to meet our crude oil requirements.

### ***Repair and maintenance***

We employ an aggregate of over 1,388 qualified engineers, of which approximately 440 are senior engineers who are responsible for supervising production as well as repair and maintenance.

Each of our 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 our procedures, generating units with a capacity of 350 MW or more are currently operating on a cycle of four to six years. 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;

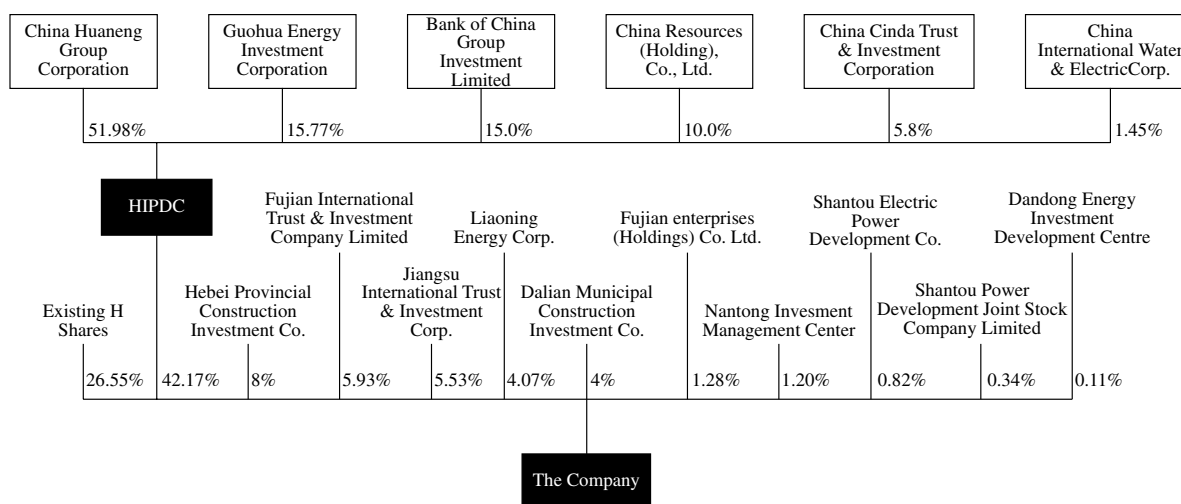
- (iii) a medium-scale check-up is carried out between the two overhauls, the length of which depends on the actual condition of the generating unit at the time of the check-up; and
- (iv) a full-scale overhaul is conducted at the end of each operating cycle, which takes approximately 60 days.

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.

### Organizational Structure

We are 42.17% owned by HIPDC, which in turn is a subsidiary of Huaneng Group. Huaneng Group was established in 1988 with the approval of the State Council. Huaneng Group has invested in industries that are related to power generation which include energy, coal mining, transportation and raw materials development. HIPDC was established in 1985 as a joint venture with 51.98% of its interest currently owned by Huaneng Group. HIPDC is engaged in developing power plants with foreign capital, and some of the power plants currently owned and operated by us were originally built and later transferred by HIPDC. Both Huaneng Group and HIPDC have agreed to give us preferential rights in the power development business.

The following organizational chart sets forth the organizational structure of us and HIPDC:



### Property, plants and equipment

The following table presents certain summary information on our power plants, project under construction and proposed projects.

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

Plant or Expansion (Names as defined below)	Province/ Municipality	Actual/Estimated In-service Date <sup>(1)</sup>	Total Actual Cost <sup>(2)</sup> (Millions Rmb/ Millions US\$)	Installed Capacity (MW)	Ownership %
<b>Power Plants</b>					
Shantou Oil-Fired Plant	Guangdong	Units I & II: Jan. 1987 Unit III: April 1988	215/24.7	2 x 35 1 x 30	100%
Dalian Power Plant, Phase I	Liaoning	Unit I: Sep. 1988 Unit II: Dec. 1988	1,569/180	2 x 350	100%
Phase II <sup>(4)</sup>		Unit III: Jan. 1999 Unit IV: Jan. 1999	3,376/388	2 x 350	100%
Fuzhou Power Plant Phase I	Fujian	Unit I: Sep. 1988 Unit II: Dec. 1988	1,713/197	2 x 350	100%
Phase II <sup>(6)</sup>		Unit III: Oct. 1999 Unit IV: Oct. 1999	3,689/424	2 x 350	100%
Nantong Power Plant Phase I	Jiangsu	Unit I: Sep. 1989 Unit II: March 1990	1,682/193	2 x 350	100%
Phase II <sup>(7)</sup>		Unit III: Jul. 1999 Unit IV: Oct. 1999	3,723/428	2 x 350	100%
Shangan Power Plant Phase I	Hebei	Unit I: Aug. 1990 Unit II: Dec. 1990	1,959/225	2 x 350	100%
Phase II		Unit III: Oct. 1997 Unit IV: Oct. 1997	2,804/322	2 x 300	100%
Shantou Power Plant	Guangdong	Unit I: Jan. 1997 Unit II: Jan. 1997	4,799/552	2 x 300	100%
Shanghai Power Plant	Shanghai	Unit I: Jun. 1992 Unit II: Dec. 1992	4,395/505	2 x 600	100%
Dandong Power Plant <sup>(5)</sup>	Liaoning	Unit I: Jan. 1999 Unit II: Jan. 1999	4,782/550	2 x 350	100%
Nanjing Power Plant	Jiangsu	Unit I: March 1994 Unit II: Oct. 1994	3,212/369	2 x 300	100%
Dezhou Power Plant	Shandong	Units I & II: 1992 Units III & IV: Jun. 1994,	1,313 1,760	2 x 300 2 x 300	100% 100%
Jining Power Plant	Shandong	May 1995 Units I & II: 1973	43	2 x 50	75%
Weihai Power Plant	Shandong	Units III & IV: 1976 & 1978 Units I & II: May 1994, Jan. 1995	69 1,110	2 x 100 2 x 125	75% 60%
Rizhao Power Plant	Shandong	Units III & IV: Mar. Nov. 1998 Units I & II: Apr. 2000	2,834 **	2 x 300 2 x 350	60% 25.5%
			Subtotal	11,750	
<b>Project under Construction</b>					
Dezhou Phase III	Shandong	Unit V: 2002 Unit VI: 2003	* *	1 x 660 1 x 660	100% 100%
			Subtotal	1,320	
<b>Proposed Projects</b>					
Shangan Phase III Expansion	Hebei	*	**	2 x 600	**
Shantou Phase II Expansion	Guangdong	*	**	1 x 600	**
Shanghai Gas turbine Project	Shanghai	*	**	1,200	**
Jinling Gas turbine Project	Jiangsu	*	**	1,200	**
			Subtotal	4,200	
			TOTAL	17,270	

**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 cost of US\$388 per kW. The final construction costs have not been determined as of the date of filing.  
(7) Assumes a current construction cost of US\$550 per kW. The final construction costs have not been determined as of the date of filing.

Installed Capacity (MW)	Ownership %	Attributable Capacity MW	Type of Fuel	Equipment Supplier
2 x 35 1 x 30 2 x 350	100%	100	Oil	Alsthom
2 x 350	100%	700	Coal	Mitsubishi Consortium including MHI, MELCO and MC
2 x 350	100%	700	Coal	An international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C.
2 x 350	100%	700	Coal	Mitsubishi Consortium including MHI, MELCO and MC
2 x 350	100%	700	Coal	An international consortium including Siemens Aktiengesellschaft and Mitsui Babcock Energy Limited
2 x 350	100%	700	Coal	General Electric Consortium including GE, B&W and Ansaldo
2 x 350	100%	700	Coal	An international consortium including GE, the Babcock & Wilcox Company and Black & Veatch International Company
2 x 350	100%	700	Coal	General Electric Consortium including GE, B&W and Ansaldo
2 x 300	100%	600	Coal	Dongfang Boiler Works, Dongfang Turbine Works and Dongfang Electrical Machinery Works
2 x 300	100%	600	Coal	Energomachexport Corp. Ltd. and Dongfang Boiler Works <sup>(3)</sup>
2 x 600	100%	1,200	Coal	An international consortium including ABB, Combustion Engineering, Sulzer and Sargent & Lundy
2 x 350	100%	700	Coal	An international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C.
2 x 300	100%	600	Coal	State Unitary Enterprise Foreign Economic Association
2 x 300	100%	600	Coal	Haerbin Boiler Works, Dongfang Turbine Works and Dongfang Electrical Machinery Works
2 x 300	100%	600	Coal	Haerbin Boiler Works, Dongfang Turbine Works and Dongfang Electrical Machinery Works
2 x 50	75%	75	Coal	Shanghai Boiler Works, Herbin Turbine Works and Herbin Electrical Machinery Works
2 x 100	75%	150	Coal	Haerbin Boiler Works, Beijing Heavy Machinery Works
2 x 125	60%	150	Coal	Shanghai Boiler Works, Shanghai Turbine Works and Shanghai Electrical Machinery Works
2 x 300	60%	360	Coal	Dongfang Boiler Works, Shanghai Turbine Works and Shanghai Electrical Machinery Works
2 x 350	25.5%	178.5	Coal	Siemens and Foster Wheeler Energy Corporation
<u>11,750</u>		<u>10,813.5</u>		
1 x 660	100%	660	Coal	Deutsche Babcock, General Electric Company and Siemens
1 x 660	100%	660	Coal	Deutsche Babcock, General Electric Company and Siemens
<u>1,320</u>				
2 x 600	**	**	coal	**
1 x 600	**	**	coal	**
1,200	**	**	gas	**
1,200	**	**	gas	**
<u>4,200</u>				
<u><u>17,270</u></u>				

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- (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, 1999 and 2000 for the power plants which we operate.

	Availability factor (%)				Capacity factor (%)			
	1997	1998	1999	2000	1997	1998	1999	2000
Dalian								
Phase I . . . . .	93.0	91.6	93.1	89.35	66.0	62.9	65.3	53.58
Phase II . . . . .	—	—	88.7	88.81	—	—	32.8	50.13
Fuzhou								
Phase I . . . . .	92.8	90.8	92.9	89.33	62.0	60.5	62.2	57.11
Phase II . . . . .	—	—	99.1	89.61	—	—	37.5	47.71
Shangan								
Phase I . . . . .	91.7	81.7	86.7	93.86	63.8	59.7	61.7	66.51
Phase II . . . . .	—	68.8	97.3	90.48	—	49.7	63.2	62.99
Nantong								
Phase I . . . . .	90.4	92.4	89.1	86.78	63.1	58.7	49.4	55.24
Phase II . . . . .	—	—	73.4	90.09	—	—	26.3	46.50
Dandong . . . . .	—	—	86.9	90.03	—	—	46.1	52.55
Shantou Oil-Fired	82.8	90.4	92.0	92.69	25.8	16.6	22.2	19.88
Shantou . . . . .	84.8	94.4	85.7	92.41	38.8	53.2	60.4	74.39
Shanghai . . . . .	92.4	89.8	90.8	91.25	66.9	64.8	64.5	69.99
Nanjing . . . . .	89.9	89.5	91.9	86.92	63.4	60.3	54.5	57.71
Dezhou Power								
Plant . . . . .	90.0	89.4	88.1	90.37	65.9	56.2	58.2	63.76
Jining Power								
Plant . . . . .	91.7	93.5	93.9	93.83	58.3	49.9	57.2	68.14
Weihai Power								
Plant . . . . .	93.7	66.8	87.3	90.58	64.5	43.9	47.8	55.42



The following table presents selected information about the regions in which our power plants are located.

	Liaoning	Fujian	Hebei	Jiangsu	Guangdong	Shanghai	Shandong
Area (square kilometers) <sup>(1)</sup>	146,000	121,400	188,000	102,600	177,900	6,340	153,774
Population (million) <sup>(1)</sup>	41.7	33.2	66.1	72.1	72.7	14.7	88.8
% of China total <sup>(1)</sup>	3.3	2.6	5.3	5.7	5.8	1.2	7.1
Average annual GDP growth <sup>(2)</sup>	8.6%	10.4%	11%	11.2%	10.3%	11.4%	11%
Grid <sup>(3)</sup> supervising authority	Northeast Power Corporation	Fujian Provincial Power Corporation	Hebei Provincial Power Corporation	Jiangsu Provincial Power Corporation	Guangdong Provincial Power Corporation	Shanghai Municipality Power Corporation	Shandong Provincial Power Corporation
Total capacity in the grid (MW) <sup>(1)</sup>	35,944	9,657	7,686	18,457	30,333	9,964	18,018
HPI's capacity share <sup>(1)</sup>	5.8	14.5	16.9	10.8	2.3	12.0	10.7
Grid generation (TWh) <sup>(1)</sup>	144.9	35.6	44.9	84.6	114	50.0	91.2
HPI's generation share <sup>(1)</sup>	6.1	13	15.8	8.3	3.0	13.6	N/A

Sources: State Statistical Bureau of China.

(1) as of end of 1999.

(2) from 1996 to 2000.

(3) limited only to the grid to which a power plant is connected.

Our power plants, their respective operations and proposed projects are described below, each preceded by a brief introduction of the province they serve.

### ***An overview of Liaoning Province***

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 1996 through 2000, Liaoning's GDP increased from Rmb 315.8 billion to Rmb 466.8 billion. Based on overall price indexes published by the PRC Government, these increases represent an average annual real compounded growth rate of approximately 8.6% for GDP.

### ***Power plants in Liaoning Province***

*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.

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 2000, Dalian Power Plant obtained 70% 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 Rmb240.01 per ton in 2000.

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. 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 2000, Dandong Power Plant obtained 50.4% 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 Rmb215.90 per ton in 2000.

All the electricity generated by the Dandong Power Plant is delivered to the Northeast Power Grid and was sold through the Northeast Power Administration. 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.

### ***An overview of Fujian Province***

Fujian Province is located on the southeastern coast of China, opposite 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 1996 through 2000, Fujian’s GDP increased from Rmb258.4 billion to Rmb392 billion. Based on overall price indexes published by the PRC Government, these increases represent average annual real compounded growth rates of 10.4% for GDP.

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 1999,

approximately 52.22% 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.

### ***Power plants in Fujian Province***

*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 Corporation, which charges a commission of Rmb5 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 2000, the Fuzhou Power Plant obtained 57% 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 2000 was Rmb248.97 per ton.

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

### ***An overview of Hebei Province***

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 1996 through 2000, Hebei's GDP increased from Rmb 345.3 billion to Rmb 507.6 billion. Based on overall price indexes published by the PRC Government, these increases represent average annual real compounded growth rates of 11.0% for GDP.

### ***Power plant in Hebei Province***

*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 Corporation 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.

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 2000, 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 2000 was Rmb151.93 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. The project proposal has been submitted to the State Development Planning Commission.

### ***An overview of Jiangsu Province***

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 1996 through 2000, Jiangsu Province’s GDP increased from Rmb 600.4 billion to Rmb 858.5 billion. Based on overall price indexes published by the PRC Government, these increases represent average annual real compounded growth rates of 11.2% for GDP.

### ***Power plants in Jiangsu Province***

*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 2000, the Nantong Power Plant obtained 68.93% 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 2000 was Rmb223.46 per ton.

Electricity generated by the Nantong Power Plant is delivered to the Jiangsu Provincial 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 2000, Nanjing Power Plant obtained approximately 79.8% 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 2000 was Rmb 230.47 per ton.

Electricity generated by Nanjing Power Plant is delivered to the Jiangsu Provincial Power Grid.

### ***Proposed projects***

*Huaneng Jinling Combined-cycle Gas turbine Project (“Jinling Gas turbine Project”)* The project is expected to be located on the outskirts of Nanjing. 3 sets of combined cycle gas turbines with a total capacity of 1,200MW will be constructed and the project investment is estimated to be approximately RMB 4.2 billion. The Huaneng Jinling Gas turbine Project will be jointly developed by us, Jiangsu Province Investment Management Company, Ltd. and Nanjing Municipal Investment Corporation and is expected to be rolled out during 2003 to 2005. The project proposal for Jinling Gas turbine Project has been submitted to the State Power Corporation. We have signed a letter of intent with PetroChina Company Limited with regard to the purchase and transportation of natural gas for Jinling Gas turbine Project.

### ***An overview of Shanghai Municipality***

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 2000 was Rmb 455.1 billion, and over the period of 1996 to 2000 its real GDP grew at an annual average compounded rate of 11.4%.

### ***Power plant in Shanghai Municipality***

*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 2000, the Shanghai Power Plant obtained 50.5% 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 2000 was Rmb 226.53 per ton.

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

### ***Proposed projects***

*Shanghai Combined-cycle Gas Turbine Power Plant ("Shanghai Gas Turbine Project")* 3 sets of combined-cycle gas turbines with a total capacity of 1,200MW will be constructed, and the project investment is estimated to be approximately RMB 4.5 billion. Shanghai Gas turbine Project will be jointly developed by us, Shenergy Company, Ltd. and Shanghai Municipal Electric Power Corporation and is expected to be rolled out during 2003 to 2005. The project proposal for Shanghai Gas turbine Project has been submitted to the State Development Planning Commission. We have signed a letter of intent with Shanghai Natural Gas Pipeline Company with regard to the purchase and transportation of natural gas for Shanghai Gas turbine Project.

### ***An overview of Guangdong Province***

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 7.1% 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 1996 through 2000, Guangdong's GDP increased from Rmb 651.9 billion to Rmb 950.6 billion. Based on overall price indices published by the PRC Government, these increases represent average annual real compounded growth rates of 10.3% for GDP.

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.

### ***Power plants in Guangdong Province***

*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 Corporation, which charges a commission of Rmb5 per MWh for its services under the Agency Sales Agreement with Shantou Municipal Power Corporation.

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 Development 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 our planned 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 2000 was Rmb 1,862 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 7. Major Shareholders and Related 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 Corporation and the Guangdong Provincial Power Corporation 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 2000, the Shantou Power Plant obtained 48.7% 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 2000 was Rmb 262.97 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. We expect 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.

### ***An overview of Shandong Province***

Shandong Province is located on the east coast of China. Shandong Province is among the prosperous coastal regions that have enjoyed rapid economic development in the past several years. The province has an area of 153,774 square kilometers and a population of 88.8 million in 1999. All of our four power plants in Shandong Province were acquired through the Huaneng Merger.

### ***Power plants in Shandong Province***

*Dezhou Power Plant ("Dezhou Plant")* The Dezhou Plant, which was acquired from the Huaneng Merger, is located in Dezhou City, near the border between Shandong and Hebei Provinces, close to an industrial zone that is an important user of electric power for industrial and commercial purposes. Dezhou City is an administrative center with jurisdiction over eight counties and three municipalities having an aggregate population as of the end of 1999 of approximately 5.3 million. The site of the Dezhou Plant is approximately 200 km from Taiyuan, Shanxi Province, the source of the plant's coal supply. The plant is located on the Taiyuan-Shijiazhuang-Dezhou rail line, giving it access to transportation facilities for coal. The plant is connected to the main trunk rail line at Dezhou by a dedicated 3.5 km spur line owned by us. The plant is located 22 km from its reservoir and 108 km from the Yellow River, which supplies water to the reservoir.

The Dezhou Plant comprises of three Phases, with Phases I and II each consisting of two 300 MW coal-fired generators. Phases I and II have been completed. The Dezhou Plant Phase III project has been approved by the relevant government agencies. The Phase III project contemplates that two 660 MW coal-fired generators (i.e., Unit 5 and Unit 6 of the Dezhou Plant) will be added to the Dezhou Plant, and hence the aggregate design capacity of the Dezhou Plant will reach 2,520 MW. In June 1998, Shandong Huaneng entered into equipment supply contracts with each of Deutsche Babcock, General Electric Company and Siemens for the construction of Dezhou Phase III (the capital expenditures contemplated by these contracts amount to US\$310 million). Shandong Huaneng commenced the construction of Phase III in September 1999, with the completion of Unit 5 expected by the fourth quarter of 2002 and the completion of Unit 6 expected by the fourth quarter of 2003. However, the completion of Phase III depends upon a number of factors, including availability of financing for equipment.

Because the generators of the Dezhou Plant are equipped with sub-critical pressure turbines and reheating boilers, coal consumption per KWh of output is lower than coal consumption of high or intermediate pressure units on the Shandong Grid that are not similarly equipped. Consequently, the generating units of the Dezhou Plant have a higher load factor than the grid average. In addition, the Dezhou Plant has among the lowest costs per ton of delivered coal of any plant on the Shandong Grid. The Dezhou Plant Phase III generators will also be equipped with sub-critical pressure turbines and reheaters. We therefore expect that its per unit coal consumption will be lower than the average for the Shandong Grid.

The Dezhou Plant's generators are generally operated at full capacity during peak demand periods, at an average of approximately 70% to 80% of installed capacity during medium demand periods and approximately 60% of installed capacity during low load periods. Actual generation for the Dezhou Plant in 2000 was 6.72 billion KWh. The Dezhou Plant is connected to the Shandong Grid by one 500 KV circuit and six 220 KV circuits.

*Jining Power Plant (the "Jining Plant")* As a result of the Huaneng Merger, we now hold a 75% interest in the Jining Plant, the remaining 25% of which is owned by Shandong Electric Power Corporation. The facility is located in Jining City, near the Jining load center and near numerous coal mines. Yanzhou coal mine, which is adjacent to the plant, alone has annual production of approximately 20 million tons.

The Jining Plant comprises four coal-fired generators, with an aggregate installed capacity of 300 MW, of which our proportionate share is 225 MW.



The Jining Plant facilities have undergone replacement, renovation and construction as necessary. The Jining Plant has higher rates of auxiliary power and coal consumption than many larger and newer plants.

The generators at the Jining Plant are generally operated at 100% of installed capacity to meet peak load. During medium demand periods, the Jining Plant usually operates at approximately 75% of installed capacity and at approximately 60% of installed capacity during low load hours. In addition to shutdowns for scheduled maintenance and planned overhaul, units of the Jining Plant are sometimes shut down during holidays (when many industrial consumers of electricity either shut down or reduce their own production) and at night during the periods of lowest demand. The generators of the Jining Plant are connected to the Shandong Grid through a combination of 110 KV and 220 KV lines.

*Weihai Power Plant (the "Weihai Plant")* As a result of the Huaneng Merger, we now hold a 60% interest in the Weihai Plant, the remaining 40% interest of which is owned by Weihai International Trust and Investment Corporation ("WITIC"). The facility is situated approximately 16 km southeast of Weihai City, on the shore of the Bohai Gulf. Its location provides access to cooling water for operations and transportation of coal as well as ash and slag disposal facilities.

The Weihai Plant, developed in two phases, consists of four coal-fired generators with an aggregate design capacity of 850 MW. Phase I consists of two 125 MW generators (Units 1 and 2), and Phase II consists of two 300 MW generators (Units 3 and 4). Unit 1 was completed in November 1993 and began commercial operation in May 1994, and Unit 2 entered trial and commercial operations in July 1994 and January 1995, respectively.

Construction of Phase II commenced in December 1995. The construction of Unit 3 was completed in December 1997, and the commercial operation of Unit 3 commenced in March 1998. The construction of Unit 4 was completed in November 1998, and the commercial operation commenced in the same month. Phase I comprises two domestically manufactured coal-fired generators. Phase II comprises two domestically manufactured coal-fired generators with sub-critical pressure turbines and reheating boilers.

The generators at the Weihai plant are generally operated at 85% of installed capacity to meet peak load. During medium demand periods, the Weihai Plant usually operates at approximately 60% of installed capacity and at approximately 51% of installed capacity during low load hours. The Weihai Plant units are operated as base load generators. The Weihai Plant, which is the only large-scale power generating plant in Weihai City is located at one end of the Shandong Grid, remote from other major power plants. As a consequence, its operation is important to the stabilization of the grid. Weihai City is located in a coastal open economic area of eastern Shandong Province, which contains a number of development zones that have adopted policies intended to attract industrial development and foreign investment. On-grid output of the Weihai Plant for 2000 was 4.138 billion KWh.

*Rizhao Power Plant (the "Rizhao Plant")* As the successor of Shandong Huaneng, we inherited a proportionate interest in the Rizhao Plant of 25.5%.

The registered capital of the Rizhao joint venture is approximately US\$150 million. Long-term financing required in excess of the amount of the joint venture's registered capital is currently estimated to be approximately US\$474 million, of which US\$350 million will be arranged by the non-Chinese party.

Construction work for Phase I of the Rizhao Plant commenced in the second half of 1996. The construction of Unit 1 and Unit 2 of the Rizhao Plant, each a coal-fired generator with installed capacity of 350 MW, was completed in September 1999 and January 2000, respectively. The equipment was supplied by Siemens Aktiengesellschaft and Foster Wheeler Energy Corporation. Both units commenced commercial operation in April 2000.

The Rizhao Plant is located on the east coast of Shandong province on the Yellow Sea 9 km southeast of Rizhao City and 4 km southwest of Shijiu Port. Rizhao is located in the coastal open economic area of eastern Shandong Province. Rizhao Plant supplies power to the Shandong Grid through 220 KV circuits. The supply and transportation of coal in adequate amounts have been included in the current State Plan.

### ***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 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. We believe that in order to increase system stability, large and efficient power plants such as those of us will be preferred as base load plants to generate power for the grids to which they connect. We believe that our dispatch arrangements with the local power corporations 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 our competitors in every market in which we operate.

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 we believe that we currently possess advantages over such foreign developers because of our extensive experience in the electric power industry of China and our close relationships with the central and local governments, there can be no assurance that we 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, Shandong and Jiangsu where some of our power plants are located.

### ***Environmental regulation***

We are 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 our 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, we have 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. We are 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 we decide to undertake. We estimate 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. We believe, 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, we 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.

We have adopted measures to control different emissions into the atmosphere. In order to reduce fly ash, we use 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. We pay 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 1998, 1999 and 2000, we paid discharge fees to local governments of approximately Rmb8.8 million, Rmb8.4 million and Rmb9.7 million respectively.

We believe that we have implemented systems that are adequate to control environmental pollution caused by our 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.

We believe our environmental protection systems and facilities for the power plants are adequate for us 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***

We currently maintain with the People's Insurance Company of China and China Pacific Insurance Co., Ltd. approximately Rmb46.2 billion of coverage on our property, plant and equipment (including erection insurance of Dezhou Phase III).

We do 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 our property or relating to our operations. We have not had a third party liability claim filed against it during the last three years. We do not carry business interruption insurance, which is not customarily carried by power companies in the PRC.

We believe that our insurance coverage is adequate and is standard for the power industry in China.

### ***Land use rights***

Our headquarters, comprised of approximately 27,800 square meters, are located at West Wing, Building C, Tianyin Mansion, 2C, Fuxingmennan Street, Xicheng District, Beijing, PRC, which are leased from HIPDC.

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 us. 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 us to transfer such land use rights to us. In accordance with such agreements, we have made annual payments for the land use rights since 1995 and will continue to do so until the year 2004. We 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 us 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 us 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.

The land for Dezhou Power Plant (Phase I and II) was leased from Shandong Provincial Government for a term of 30 years, for annual lease payment of RMB29.9 million. Jining Power Plant and Weihai Power Plant each have allocated land use rights for their land.

The following table lists the land use rights which we have leased for the Shanghai and Nanjing Power Plant, and have acquired for other power plants.

<b>Power Plant</b>	<b>Province</b>	<b>Remaining Terms of the Land Use Right (years)</b>	<b>Approximate Area (Land/Buildings) (sq.m.)</b>
Shanghai Power Plant . . . . .	Shanghai	47	405,720
Shantou Oil-Fired Plant . . . . .	Guangdong	44	29,016
Shantou Power Plant . . . . .	Guangdong	47	697,195
Dalian Power Plant Phase I and Phase II . . . . .	Liaoning	44	1,179,209
Fuzhou Power Plant Phase I and Phase II . . . . .	Fujian	44	902,979
Nantong Power Plant Phase I and Phase II . . . . .	Jiangsu	44	421,561
Shangan Power Plant Phase I and Phase II . . . . .	Hebei	44	1,947,364
Dandong Power Plant . . . . .	Liaoning	47	2,644,462
Nanjing Power Plant . . . . .	Jiangsu	48	208,409

## **Item 5. Operating and Financial Review and Prospects**

We develop, construct, own and operate large thermal power plants throughout China. For numerous reasons, including the Shanghai Power Plant Acquisition, Nanjing Power Plant Acquisition and Huaneng Merger, 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 our assets and the change in the tax rate, the Financial Statements of ours may not be indicative of future earnings, cash flows or financial position.

Our 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 our 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.

### **Pricing policy and prospective changes**

The Pricing Policy announced by the former MEP on June 6, 1994 provides that our 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 our 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.

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. We have 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. Our 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.

While we anticipate that we will consistently generate a profitable return and recover our costs under the existing Pricing Policy, there is no assurance that the government agencies will approve our proposed power rates in accordance with the Pricing Policy. 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. We believe that any new regulations adopted by the government might be different from the Pricing Policy and the formula we have been using to calculate our power rates.

## Certain Operating and Financial Data

The following table sets forth certain unaudited operating and financial data for each of our power plants (excluding the power plants acquired under the Huaneng Merger) for the fiscal year ended December 31, 2000.

	<u>Dalian</u>	<u>Fuzhou</u>	<u>Nantong</u>	<u>Shangan I</u>
<i>Renminbi in millions, except as otherwise indicated</i>				
<b>Operating data</b>				
Actual Generation (million kWh) . . . . .	6,377.2	6,444.7	6,275.6	4,089.7
Planned Generation (million kWh) . . . . .	5,800.0	5,700.0	6,100.0	3,600.0
Total Output (million kWh) . . . . .	6,116.3	6,127.4	6,037.5	3,884.0
Bidding Output (million kWh) . . . . .	611.6	—	308.6	—
Coal Consumption Rate (grams/kWh) . . . . .	308.0	308.6	316.0	318.0
Weighted Average Rate (Rmb/MWh) . . . . .	311.16	377.08	323.71	283.30
<b>Financial Data</b>				
Operating Revenue, Net . . . . .	1,626.6	1,971.7	1,668.5	940.5
Fuel . . . . .	(573.5)	(629.4)	(567.1)	(247.9)
Maintenance . . . . .	(99.8)	(106.5)	(92.3)	(58.0)
Depreciation and amortization . . . . .	(388.9)	(401.5)	(391.0)	(162.0)
Labor . . . . .	(77.4)	(88.1)	(87.2)	(52.8)
Transmission fees . . . . .	—	(14.3)	—	—
Service fees to HIPDC . . . . .	—	(2.3)	—	(18.2)
Other operating expenses . . . . .	<u>(56.9)</u>	<u>(33.0)</u>	<u>(52.9)</u>	<u>(35.5)</u>
Profit (Loss) before financial expenses . . . . .	430.1	696.6	478.0	366.1
Financial Expenses . . . . .	<u>(200.9)</u>	<u>(171.7)</u>	<u>(194.8)</u>	<u>(27.6)</u>
Profit (Loss) before taxation . . . . .	229.2	524.9	283.2	338.5
Provision for income tax . . . . .	<u>(40.1)</u>	<u>(88.8)</u>	<u>(51.7)</u>	<u>(64.1)</u>
Net profit (loss) . . . . .	<u><u>189.1</u></u>	<u><u>436.1</u></u>	<u><u>231.5</u></u>	<u><u>274.4</u></u>

of our power  
ended December

<u>Nantong</u>	<u>Shangan I</u>	<u>Shangan II</u>	<u>Shantou-oil</u>	<u>Shantou</u>	<u>Shanghai</u>	<u>Dandong</u>	<u>Nanjing</u>
6,275.6	4,089.7	3,320.1	180.1	3,920.5	7,377.6	3,132.0	3,041.4
6,100.0	3,600.0	3,200.0	230.0	3,000.0	6,550.0	2,850.0	2,650.0
6,037.5	3,884.0	3,064.5	166.2	3,626.0	7,110.0	2,998.2	2,877.8
308.6	—	—	—	—	879.7	134.6	419.3
316.0	318.0	326.0	330.4	314.5	298.3	312.0	307.7
323.71	283.30	379.50	669.77	473.85	362.44	306.27	325.68
1,668.5	940.5	994.0	95.1	1,468.5	2,202.5	784.8	801.1
(567.1)	(247.9)	(209.0)	(78.5)	(400.1)	(611.6)	(288.3)	(235.3)
(92.3)	(58.0)	(53.5)	(10.1)	(66.0)	(78.8)	(62.5)	(43.5)
(391.0)	(162.0)	(178.8)	(24.9)	(307.9)	(401.2)	(257.1)	(151.2)
(87.2)	(52.8)	(53.8)	(8.3)	(82.9)	(108.8)	(22.3)	(74.5)
—	—	—	(2.8)	—	—	—	—
—	(18.2)	(113.2)	(0.2)	(84.0)	(92.9)	—	—
(52.9)	(35.5)	(25.6)	(3.1)	(64.3)	(74.0)	(65.1)	(39.9)
478.0	366.1	360.1	(32.8)	463.3	835.2	89.5	256.7
(194.8)	(27.6)	(29.8)	(0.7)	(68.8)	(177.3)	(266.5)	(38.7)
283.2	338.5	330.3	(33.5)	394.5	657.9	(177.0)	218.0
(51.7)	(64.1)	—	—	(31.4)	(122.8)	—	(18.7)
<u>231.5</u>	<u>274.4</u>	<u>330.3</u>	<u>(33.5)</u>	<u>363.1</u>	<u>535.1</u>	<u>(177.0)</u>	<u>199.3</u>

## Results of Operations

*Effective from the fiscal year 2000, we have decided to prepare our financial statements under International Accounting Standards (“IAS”). The audited financial statements are accompanied with notes setting out the differences from and reconciliation under U.S. generally accepted accounting principles (“US GAAP”). The following management’s discussion and analysis is based on the financial information prepared under IAS, for material differences between IAS and US GAAP, please refer to Note 36 to the Financial Statements. The following discussion does not cover the financial position and results of operations of the power plants acquired under the Huaneng Merger.*

*Year Ended December 31, 2000 Compared to Year Ended December 31, 1999*

### *General*

In 2000, our net operating revenues and net profits significantly increased from 1999. The increase was primarily due to the following two factors. First, the steady growth of national economy and upgrading of urban and rural grid stimulated power demand. The power demand significantly increased in most of the areas in the PRC, particularly in coastal areas where our power plants are located. The good and reliable condition of the power generating units in our plants and the full year commercial operation of Nantong Power Plant Phase II and Fuzhou Power Plant Phase II in 2000 led to a significant increase of 18.01% in our total output in 2000 from 1999. Second, we have also improved on cost control, especially control over fuel cost, which led to a 2.41% decline in unit cost.

*Net Operating Revenues* Net operating revenues is the operating revenues less sales incentives paid to local power corporations usually as an incentive to dispatch more output from the power plants. Net operating revenues increased 19.69% to Rmb12.5533 billion in 2000 from Rmb10.4882 billion in 1999. The increase was primarily due to the commercial operation of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II in the full 2000 and the significant increase in output of Shangan Power Plant, Shanghai Power Plant and Shantou Power Plant, which reached a record high of annual output among our similar plants. In addition, the rise of tariff rate in Shanghai Power Plant and the increase of planned output at approved tariff rate in Shangan Power Plant Phase II also contributed to the increase in our net operating revenues in 2000.

Dalian Power Plant’s net operating revenues increased 3.18% to Rmb1.6266 billion in 2000 from Rmb1.5765 billion in 1999. Although the average tariff rate of the whole plant declined 2.41% from Rmb318.84 per MWh due to the impact of the power sale through the bidding process, which accounted for 10% of the total output, the increase in total output of 5.41% still enabled the operating revenues to increase.

Net Operating revenues of Dalian Power Plant Phase I declined 3.10% to Rmb855.1 million in 2000. Although the total output increased 1.53%, the weighted average tariff rate of Dalian Power Plant Phase I declined 4.57% from that of 1999 due to the impact of the power sale through the bidding process of 316.1 GWh.

During the second full year of commercial operation in 2000, the two generating units of Dalian Power Plant Phase II entered into normal production period and enjoyed a 9.90% increase in total output from 1999, which included sale through the bidding process of 295.5 GWh. The total operating revenues for Dalian Power Plant Phase II increased 11.17% from 1999 to Rmb771.5 million in 2000.

Fuzhou Power Plant’s net operating revenues increased 49.58% to Rmb1.9717 billion in 2000 from Rmb1.3181 billion in 1999. The increase was primarily due to the fact that Fuzhou Power Plant Phase II had the first full year of normal commercial operation in 2000 and its total output increased 44.16% from 1999.



Fuzhou Power Plant Phase I's net operating revenues declined 3.99% to Rmb1.0040 billion in 2000 from Rmb1.0457 billion in 1999. The decline was primarily due to the downward pressure of the commencement of Phase II on the on-grid output of Phase I.

Fuzhou Power Plant Phase II started commercial operation in October 1999. It produced net operating revenues of Rmb967.7 million in 2000, on an output of 2.7931 TWh at a weighted average tariff rate of Rmb405.35 per MWh.

Shangan Power Plant's net operating revenues increased 12.13% to Rmb1.9345 billion in 2000 from Rmb1.7252 billion in 1999. The increase was primarily due to the significant rise of output of Shangan Power Plant Phase II sold at the approved tariff rate.

Shangan Power Plant Phase I's net operating revenues increased 2.42% to Rmb940.5 million in 2000. The total output increased 7.90% to 3.8840 TWh in 2000.

Shangan Power Plant Phase II's net operating revenues increased 23.18% to Rmb994.0 million in 2000 from Rmb807.0 million in 1999. The increase was primarily due to the increase of output sold at approved tariff rate to 2.3195 TWh in 2000 from 1 TWh in 1999, which resulted in the 23.89% increase of weighted average tariff rate to Rmb379.50 per MWh in 2000 from Rmb306.33 per MWh in 1999.

Nantong Power Plant's net operating revenues increased 56.69% to Rmb1.6685 billion in 2000 from Rmb1.0648 billion in 1999. The increase was primarily due to the fact that Nantong Power Plant Phase II had the first full year of normal commercial operation in 2000 and accordingly increased the total output by 57.14% from 1999 to 6.0375 TWh, of which sale through the bidding process accounted for 5.11%.

Nantong Power Plant Phase I's net operating revenues increased 8.38% to Rmb912.0 million in 2000. The increase was primarily due to the 12.44% increase of output from 1999 and the integration of tariff rates of Phase I and Phase II. The weighted average tariff rate of the whole plant decreased 3.71% from 1999 to Rmb323.71 per MWh in 2000. Nantong Power Plant Phase I had sales through the bidding process of 168.6 GWh, resulting in reduction of operating revenues of Rmb19.78 million.

Nantong Power Plant Phase II's net operating revenues was Rmb756.5 million and total output was 2.7375 TWh in 2000, in which sales through the bidding process was 140 GWh, resulting in reduction of operating revenues of Rmb16.41 million.

Shantou Oil-Fired Plant's net operating revenues was Rmb95.1 million in 2000, roughly holding par with Rmb94.5 million in 1999. The total output decreased 10.30% from 1999 to 166.2 GWh due to the pressure of high fuel costs resulted from the sharp rise of oil price in 2000. However, Shantou Municipal Energy Office and Pricing Bureau approved the fuel price subsidy at peak hours and accordingly the actual weighted average tariff rate reached Rmb669.77 per MWh in 2000, an increase of 12.09% from Rmb597.51 per MWh in 1999, which to some extent mitigated the negative impact of decrease in output.

Shantou Power Plant's net operating revenues increased 24.02% to Rmb1.4685 billion in 2000 from Rmb1.1841 billion in 1999. Power demand increased 20.3% in Guangdong Province in 2000 from 1999 due to its fast economic growth. Accordingly, the total output of Shantou Power Plant increased 24.07% to 3.6260 TWh in 2000 and the weighted average tariff rate was Rmb473.85 per MWh, holding par with 1999.

Shanghai Power Plant's net operating revenues increased 10.68% to Rmb2.2025 billion in 2000 from Rmb1.9899 billion in 1999. The total output increased 9.40% from 1999 to 7.110 TWh, in which sales through the bidding process were 879.7 GWh and generated Rmb242.1 million revenue. The weighted average tariff rate increased 1.11% to Rmb362.44 per MWh in 2000 from Rmb358.46 per MWh in 1999.

Dandong Power Plant's net operating revenues increased 10.19% to Rmb784.8 million in 2000 from Rmb712.2 million in 1999. The increase was primarily due to the 11.43% increase of total output from 1999 to 2.9982 TWh in 2000. Sales through the bidding process of 134.6 GWh in 2000 made the average tariff rate decrease 1.11% to Rmb306.27 per MWh in 2000 from Rmb309.70 per MWh in 1999.

Nanjing Power Plant's net operating revenues decreased 2.64% from 1999 to Rmb801.1 million in 2000. The total output increased 6.00% to 2.8778 TWh, in which sales through the bidding process were 419.3 GWh, accounting for 14.57% of the total output. The weighted average tariff rate dropped 8.16% from Rmb354.61 per MWh in 1999 to Rmb325.68 per MWh in 2000.

*Operating Expenses* Total operating expenses increased 15.16% to Rmb8.6464 billion in 2000 from Rmb7.5082 billion in 1999. The increase in operating expenses resulted primarily from the inclusion of operating expenses of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II, which were in commercial operation in full 2000, as well as the increase of cost due to the significantly increased total output in 2000.

Fuel costs, including the associated transportation costs, increased 14.78% to Rmb3.8407 billion in 2000 from Rmb3.3462 billion in 1999. The increase in fuel costs was primarily due to 18.01% increase in total output. The weighted average unit cost of coal dropped 2.86%, from Rmb227.41 per ton in 1999 to Rmb220.91 per ton in 2000. On a per MWh basis of combined total output of our power plants, fuel costed 2.74% less in 2000 than in 1999, declining to Rmb91.44 per MWh from Rmb94.00 per MWh.

Fuel costs were the most significant operating expenses for us, representing 44.42% of the total operating expenses and 30.60% of the net operating revenues. The cost of coal for our power plants excluding Shantou Oil-Fired Plant accounted for 98.61% of the total fuel costs in 2000. 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.

Maintenance expense primarily includes the provision for major repairs and maintenance reserved on the basis of 1% of fixed asset value and expenses for ordinary repairs and maintenance. Repairs and maintenance expenses in 2000 were Rmb671.0 million, up 18.11% from Rmb568.1 million in 1999. The increase in maintenance expense was primarily due to the provisions for Nantong Power Plant Phase II and Fuzhou Power Plant Phase II.

Depreciation and amortization increased 11.49% to Rmb2.6669 billion in 2000. The increase was mainly attributable to the increase of depreciation of fixed assets related to Fuzhou Power Plant Phase II and Nantong Power Plant Phase II, which had the first full year of commercial operation in 2000.

Labor costs increased 34.57% in 2000 to Rmb669.9 million. The increase in labor costs reflected the adjustments to salaries and the inclusion of labor costs in Fuzhou Power Plant Phase II and Nantong Power Plant Phase II, which had commercial operation in full 2000. Labor costs accounted for 7.75% of total operating costs in 2000.

Transmission fees consist of handling fees levied on a per MWh basis for transmission services and an reimbursement for transmission costs incurred by the local power corporations. In 2000, transmission fees were paid by Fuzhou Power Plant Phase I and Shantou Oil-Fired Plant. Fuzhou Power Plant Phase I adopted

an on-grid tariff in 1999 and the transmission fees paid by Fuzhou Power Plant Phase I only consisted of handling fee of Rmb5 per MWh. Effective from July 1999, Nantong Power Plant and Nanjing Power Plant ceased to pay transmission fees to local power corporations. As a result of these changes, transmission fees declined 37.48% to Rmb17.1 million in 2000.

The service fee paid to HIPDC refers to a fee for the use of its transmission facilities (including grid connection facilities) based on reimbursement of cost plus an agreed-on profit. Pursuant to the Service Agreement dated June 30, 1994 between us and HIPDC (the "Service Agreement"), HIPDC has agreed, among other things, to allow us to use its transmission and transformer facilities. The service fee payable by us to HIPDC for the use of transmission and transformer facilities is calculated on the basis of reimbursement of cost 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). We entered into another service agreement in relation to the power transmission and transformer equipment of our 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 our new power plants, expanded power plants or power plants acquired after January 1, 1997 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, Nantong and Nanjing 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 directly invested by Fujian Provincial Electric Power Corporation. 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 service fees paid to HIPDC was Rmb310.7 million in 2000, roughly equal to Rmb305.8 million in 1999.

We have been accorded special preferential 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. We have 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. The PRC State Taxation Bureau has confirmed that it will continue to levy taxes on us on a non-combined basis in the foreseeable future.

Income tax expenses increased 6.92% to Rmb411.2 million in 2000 from Rmb384.6 million in 1999. The increase was primarily due to the fact that the 2-year income tax exemption period for Shantou Power Plant expired on December 31, 1999. The 3-year 50% reduction in the income tax rate, which is 7.5% after reduction, has begun to apply to Shantou Power Plant since January 1, 2000. In addition, the commercial operation of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II in 2000 also led to an increase in income tax expenses for us.

Other expenses increased 26.70% to Rmb470.0 million in 2000, reflecting the increase of other expenses related to Nantong Power Plant Phase II and Fuzhou Power Plant Phase II. Other expenses also include rent paid by us to HIPDC. Pursuant to a Leasing Agreement ("Leasing Agreement") between us and HIPDC signed on December 26, 2000, HIPDC agreed to lease a new office building to us for 5 years, and the annual rent is Rmb25 million. The Leasing Agreement became effective as of January 1, 2000.

*Income before Financial Expenses* Income before financial expense increased 31.10% to Rmb3.907 billion in 2000 from Rmb2.980 billion in 1999. This increase was primarily due to the fact that the growth of net operating revenues (19.69%) outpaced that of operating expenses (15.16%).

*Total Financial Expenses* Total financial expense increased 34.73% to Rmb979.9 million in 2000 from Rmb727.3 million in 1999, primarily due to increase of interest expenses in relation to Nantong Power Plant Phase II and Fuzhou Power Plant Phase II, which entered into full year production in 2000. The interest expenses increased 13.88% to Rmb1.0247 billion in 2000 from Rmb899.8 million in 1999. In addition, the decline in deposit interest rate led to 26.59% decrease in interest income earned to Rmb79.7 million. Because of the end of barter trade in 2000, exchange gain of renminbi over Swiss Franc sharply decreased from 1999 and as a result the net exchange loss was Rmb34.9 million in 2000.

*Net Income* Net income increased 34.67% to Rmb2.5158 billion in 2000 from Rmb1.8682 billion in 1999. The increase was primarily due to significant improvement on profitability of Shangan Power Plant, Shanghai Power Plant and Shantou Power Plant, as well as the full year commercial operation of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II in 2000.

Dandong Power Plant incurred a loss of Rmb177 million in 2000, its second year of commercial operation, primarily due to the large financial expense, depreciation and maintenance expense. The loss of Shantou Oil-Fired Plant dramatically increased to Rmb33.7 million in 2000 from Rmb13.2 million in 1999, because the price of oil, its primary fuel, increased 42.14% to Rmb1,862 per ton in 2000 from Rmb1,310 per ton in 1999.

#### *Dividend Payable*

Our Board of Directors proposed a dividend of Rmb0.22 per ordinary share for the year ended December 31, 2000, based on a resolution passed on March 14, 2001. The total dividend payable was Rmb1.243 billion. The proposal is subject to approval by the Shareholders' General Meeting.

#### *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 we acquired from HIPDC in 1999, were also included in our operating results. As a result, total output increased 41.84% compared to 1998. We have also improved on cost control, especially control over fuel cost, which led to a 3.55% decline in unit cost.

*Net Operating Revenues* Net operating revenues is the operating revenue less sales incentives paid to local power corporations usually as an incentive to dispatch more output from the power plants. 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 our operating results. 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 Rmb1.9899 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 us 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, we 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 39.08% to Rmb7.5082 billion in 1999 from Rmb5.3986 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 our 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 our most significant operating expense, representing 42.40% of our total operating expenses and 31.9% of the net operating revenues. The cost of coal for our 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 Corporations. In 1999, transmission fees were paid by Fuzhou Power Plant Phase I, Shantou Oil-Fired 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 Corporation, 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 us and HIPDC (the "Service Agreement"), HIPDC has agreed, among other things, to allow us to use its transmission and transformer facilities, to rent certain office and headquarters space and to use certain telecommunications facilities. The service fee payable by us 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. We entered into another service agreement in relation to the power transmission and transformer equipment of our 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 our 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 Corporation. 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.

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 2(m) 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. We believe that labor costs will continue to increase.

We have 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. We have 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 2(p) of Notes to Financial Statements for further discussion of the tax treatment accorded. The PRC State Taxation Bureau has confirmed that it will continue to levy taxes on us 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. Our effective income tax rate 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.

We had been granted an exemption (the "VAT Exemption") from paying the full VAT at the mandated 17% rate. Under the VAT Exemption, we are 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, we did not receive any VAT refund in 1999.

*Profit before Financial Expenses* Profit before financial expense (profit from operations) increased 11.03% to Rmb2.9800 billion in 1999 from Rmb2.6839 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 Profit* 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 our 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 our 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 total dividend paid for 1999 was Rmb508.5 million.

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

#### *General*

In 1998, we experienced reduced Total Output in most of our 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 our 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 our 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 our 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, we believe 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.

*Net Operating Revenues* Net operating revenues reflect the deduction of sales incentives paid to Power Corporations usually as an incentive to dispatch more output from the Power Plants. 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 our 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 our operating results 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 us 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 us 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. We, however, are 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 10.84% to Rmb5,398.6 million from Rmb4,870.8 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 our Total Output, 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 our 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 our most significant operating expense, representing 44.9% of the total operating expenses and 32.0% of the net operating revenues. The cost of coal for our 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. We anticipate 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 Corporations. 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 us and HIPDC (the "Service Agreement"), HIPDC has agreed, among other things, to allow us to use its transmission and transformer facilities, to rent certain office and headquarters space and to use certain telecommunications facilities. The service fee payable by us 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. We entered into a Service Agreement in relation to the power transmission and transformer equipment of our 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 our 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.

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. 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. We believe that labor costs will continue to increase.

We have 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, we have 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. The PRC State Taxation Bureau has confirmed that it will continue to levy taxes on us 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 our 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), our average income tax rate 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.

We have been granted an exemption (the “VAT Exemption”) from paying the full VAT at the mandated 17% rate. Under the VAT Exemption, we are 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 us to enjoy the benefit of VAT Exemption. As a result, we will experience the impact of the normal VAT regime on our 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.

*Profit before Financial Income* Income before financial income (profit from operations) increased 43.6% in 1998 as compared with 1997, rising to Rmb2,683.9 million from Rmb1,869.0 million. This increase was due primarily to the 19.9% increase in net operating revenues, partly offset by the 10.84% 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. We had recorded foreign exchange loss 17.3 million in 1998.

*Net Profit* 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*

The total dividend paid for 1998 was Rmb452 million.

### **Liquidity and Capital Resources**

During the year ended December 31, 2000, net cash provided by operating activities was approximately Rmb5,643 million. The major contributors, after adding back the Rmb2,667 million major non-cash item of depreciation and amortization were an increase in profit before taxation to 2,927 million and a decrease of Rmb207 million in accounts receivable, offset in part by a decrease of Rmb359 million in accounts payable and accrued liabilities. During the year ended December 31, 2000, net cash used in investing activities, primarily representing cash used in prepayment of consideration for the acquisition of Shandong Huaneng of Rmb5,768 million, cash used in capital expenditure of Rmb352 million, cash used in repayment of payable to Nanjing Investment of Rmb100 million and cash provided by a decrease in temporary cash investments of Rmb956 million, was Rmb5,318 million. Net cash used in financing activities, primarily representing the repayment of long-term bank loans and loans from shareholders of Rmb942 million and Rmb737 million, as well as dividend paid of Rmb509 million less drawdown of short-term bank loans of Rmb1,511 million, was Rmb831 million. As a results, the cash and cash equivalents decreased by Rmb505 million, resulting in a balance of cash and cash equivalents on December 31, 2000 of Rmb1,988 million.

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 profit before taxation to Rmb2,253 million and a increase of Rmb887 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 profit before taxation to Rmb2,210 million and a decrease of Rmb1,652 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. Net cash provided by financing activities, primarily representing the net proceeds of Rmb1,122 million from issuance of Overseas Listed 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.

Capital expenditures in 2000 were Rmb 352 million (US\$43 million), primarily for the construction of some complementary facilities of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II.

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 have been financed by long-term borrowings and cash from operations. Our anticipated capital expenditures will be financed by cash in hand, cash from operations and future debt and equity offerings.

As of December 31, 2000, we had short-term unsecured bank loan repayable of in an amount that was approximately equivalent to Rmb1,300 million (US\$157 million), which were used primarily to prepay the Rmb5,768 million merger consideration to Shandong Huaneng's shareholders.

The terms of our existing bank and Local Government loans do not restrict our ability to pay dividends in respect of our shares. In accordance with the US\$16 million Tax Spared Term Loan Agreement dated November 11, 1996 (the "DKB Loan") between us and the Dai-Ichi Kangyo Bank, Limited ("DKB"), absent DKB approval, we 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, 2000, US\$16 million was outstanding under the DKB Loan. Our other existing bank loan and Local Government loans do not restrict its ability to incur additional *pari passu* or subordinated debt. None of our loan are secured.

In connection with the Shanghai Power Plant Acquisition, we 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, we had made four cash payments to HIPDC; Rmb550 million 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.

In connection with the Nanjing Power Plant Acquisition, we 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, we had made a cash payment to HIPDC amounted to approximately Rmb1,111 million and a cash payment of Rmb100 million to Nanjing Investment, as we had not issued the domestic shares in the local stock exchange in mainland China.

We are currently constructing some complementary facilities and renovation projects for the Fuzhou Power Plant Phase II and Nantong Power Plant Phase II. Annual construction cost was Rmb352 million in 2000.

As of December 31, 2000, approximately Rmb13,836 million of total long-term debt, including long-term loans (including current portion) convertible notes and accrued put premium, was outstanding, of which approximately Rmb12,275 million was denominated in foreign currencies. Because of the number of different provinces in which we operate, we believe 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 0.8% and 2.6% per annum in 1997 and 1998, respectively. Nationwide retail prices decreased 1.4% and 0.4% in 1999 and 2000. We are permitted under the Pricing Policy to pass on increases in our costs to customers through power rate adjustments. As a result, we believe that inflation and PRC Government efforts to curb inflation have not had a significant impact on our profitability or financial position in the past. However, more severe measures or other actions by the PRC Government to control inflation in the future or otherwise regulate the economy could decrease overall demand for electricity in China.

## Item 6. Directors, Senior Management and Employees

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

<u>Name</u>	<u>Age</u>	<u>Positions with us</u>
Li Xiaopeng . . . . .	41	Chairman
Wang Xiaosong . . . . .	54	Vice Chairman
Ye Daji . . . . .	55	Director and President
Feng Dawei . . . . .	50	Director and Vice President
Chen Baoliang . . . . .	46	Director and Vice President
Huang Long . . . . .	47	Director, Vice President
Wang Defang . . . . .	76	Director
Li Zhongshu . . . . .	62	Director
Bao Qian yuan . . . . .	60	Director
Shan Qunying . . . . .	47	Director
Yang Shengming . . . . .	57	Director
Xu Zujian . . . . .	46	Director
Bai Changnian . . . . .	50	Director
Miao Kai . . . . .	38	Director
Lin Jianxin . . . . .	45	Director
Gao Zongze . . . . .	61	Independent Non-Executive Director
Zheng Jianchao . . . . .	61	Independent Non-Executive Director
Ju Zhanghua . . . . .	51	Chairman of the Supervisory Committee
Zhao Xisheng . . . . .	57	Member of the Supervisory Committee
Pan Jianmin . . . . .	45	Member of the Supervisory Committee
Hu Jianmin <sup>(1)</sup> . . . . .	46	Vice President, Candidate for Director
Liu Shuyuan <sup>(1)</sup> . . . . .	50	Candidate for Director

(1) nominated for director election at the Annual General Meeting to be held on 23rd May, 2001

### Directors and members of the supervisory Committee

#### *Directors*

**Li Xiaopeng** is Chairman of the Company, Chairman and President of HIPDC, as well as Director and President of China Huaneng Group. From June 1994 to January 2000, Mr Li was Vice President, President and Vice Chairman of the Company as well as Vice President and Vice Chairman of HIPDC. Before joining HIPDC, he had successively served as Engineer of the Power System Research Division, as Deputy Division Chief of the Planning and Operations Division, and as General Manager of the Power Technology and Economic Research Division, Electric Power Research Institute. Mr Li is a senior engineer and graduated from the North China Institute of Electric Power specializing in power plants and power systems.

**Wang Xiaosong** is Vice Chairman of the Company, Director and Vice President of HIPDC, and Director and Vice President of China Huaneng Group. From June 1994 to January 2000, he was General Manager of the Securities Department of the Company and Vice President of the Company. Before joining the Company,



he had served as Deputy General Manager of Fushun Power Plant, General Manager of Yuanbaoshan Power Plant and Chief of the Labour and Wages Division of Northeast Power Administration. Mr Wang is a senior engineer and graduated from Beijing Institute of Electric Power specializing in thermal power engineering.

**Ye Daji** is Director and President of the Company and Director of China Huaneng Group. After joining the Company, he has been Deputy General Manager of Huaneng Shanghai Branch and General Manager of Huaneng Shanghai Shidongkou Second Power Plant. From December 1995 to January 2000, he was Vice President of the Company and Vice President of HIPDC. Before joining the Company, he had served as Deputy Chief Engineer of Shanghai Shidongkou Power Plant. Mr Ye is a senior engineer and graduated from Shanghai Jiaotong University specializing in mechanical engineering.

**Feng Dawei** is Director and Vice President of the Company. After joining the Company in 1996, he has been General Manager of Huaneng Guangdong Branch, General Manager of Huaneng Shantou Power Plant and General Manager of the Engineering Department and Production Department of the Company. In 1998, he served as General Manager of Huaneng Beijing Co-generation Power Co. Ltd. and General Manager of HIPDC Beijing Co-Generation Power Plant. Before joining the Company, he had been Deputy General Manager and General Manager of Harbin Third Power Plant. Mr Feng is a senior engineer and graduated from the Management Department of Hefei Polytechnic University with an M.S. degree.

**Chen Baoliang** is Director and Vice President of the Company. He joined the Company in 1996 and has worked as General Manager of Huaneng Dalian Branch and General Manager of Dalian Power Plant. Before joining the Company, he had been Deputy Chief Engineer of Liaoning Qinghe Power Plant, Deputy Chief of the Preparation Department and Deputy General Manager of the Construction of Tieling Power Plant and General Manager of Yuan Bao Shan Power Plant. Mr Chen is a senior engineer and graduated with an M.S. degree from North China Electric Power University specializing in thermal power engineering.

**Huang Long** is Director and Vice President of the Company as well as Secretary of the Board of Directors. After joining the Company, he has served as Deputy General Manager and General Manager of the International Co-operation Department of the Company. Mr Huang is a senior engineer and graduated with an M.S. degree from North Carolina State University in the U.S. specializing in communications and control.

**Hu Jianmin** is appointed as Vice President by the Board of Directors of the Company on 15th February 2001. From April 1998 to January 2001, he worked as Chief Engineer of Shandong Electric Power Group Corp. Before joining the Company, he had been Chairman of Shandong Rizhao Power Company Limited, General Manager of Shandong Liaocheng Power Plant, Shiheng Power Plant and Zouxian Power Plant respectively. Mr Hu is a senior engineer and graduated from Shandong Industrial Institute specializing in relay protection. Mr Hu was nominated as a candidate for Director at the board meeting on 15th February 2001 pending the approval of the annual general meeting.

**Wang Defang** is Director of the Company. He was Chairman of the Company prior to February 1996. He had served as President, Vice President and Chairman of HIPDC. Before joining the Company, Mr Wang had 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.

**Li Zhongshu** is Director and Senior Consultant of the Company. She has served as General Manager of the Company's Fuzhou Branch and Deputy General Manager and General Manager of Huaneng Fuzhou Power Plant. Before joining the Company, she had served as General Manager of Fujian Provincial Fuzhou Power Plant and Deputy General Manager of Fujian Provincial Thermal Power Engineering Contract Corporation. Ms Li is a senior engineer and graduated from Qinghua University specializing in thermal energy.

**Bao Qianyuan** is Director of the Company and General Manager of the Company's Nantong Branch. Before joining the Company, he had been the General Manager of the First Branch of Nantong Municipal Construction Installation Corporation and Director of Nantong Municipal Construction Engineering Bureau. Mr Bao is a senior engineer and graduated from Suzhou Architectural School specializing in industrial and civil architecture.

**Shan Qunying** is Director of the Company and Vice President of Hebei Provincial Construction Investment Company. He had been the Division Chief of Hebei Provincial Construction Investment Company. Mr Shan is a senior engineer and graduated from the former Beijing Steel Institute specializing in automation.

**Yang Shengming** is Director of the Company, Vice President of Fujian International Trust and Investment Company Limited and Chairman of Fujian International Leasing Company. Mr Yang is a senior economist and graduated from Beijing Light Industries Institute.

**Xu Zujian** is Director of the Company, Vice President of Jiangsu International Trust and Investment Company Limited and President of Jiangsu Investment Management Co. Ltd. He formerly served as Section Chief and Deputy Chief of the Infrastructure Division of Jiangsu Planning and Economics Commission. Mr Xu is a senior economist. He graduated from Liaoning Finance Institute majoring in infrastructure finance.

**Liu Shuyuan** is President of Liaoning Enterprises Group Company and Liaoning Energy Corporation. He has been the General Manager of Liaoning Tieling Steel Plant, Director of Tieling Municipal Construction Commission and Assistant to the Mayor. Mr Liu is a senior economist and a postgraduate specializing in economic management. He was nominated as a candidate for Director at the board meeting on 15th February 2001 pending approval of the general meeting.

**Bai Changnian** is Director of the Company and President of Dalian Municipal Construction Investment Company. He became Deputy Director of Dalian Planning Commission in May 1994. Mr Bai is a senior economist and graduated from Liaoning University specializing in economics.

**Miao Kai** is Director of the Company and Director of Nantong Investment Management Centre. He has worked as Vice President of Nantong Construction Investment Corporation and Section Chief of Nantong Planning Commission. Mr Miao is a senior economist and graduated from Zhejiang University with a master's degree in economics.

**Lin Jianxin** is Director of the Company and President of Shantou Power Development Corporation. He has worked as President of Shantou Ceramics (Group) Company. Mr Lin is a senior economist and graduated from the graduate school of Jilin University with a master's degree in economics.

#### *Independent Directors*

**Gao Zongze** is an independent Director of the Company and Senior Partner at C&I Partners. He is an approved arbitrator of China International Economic and Trade Arbitration Commission and China Marine Affairs Arbitration Commission and President of All China Lawyers Association. Mr Gao graduated from Dalian Marine Institute and received a master's degree in law from the Law Department of the Graduate School of the Institute of China Academy of Social Sciences.

**Zheng Jianchao** is an independent Director of the Company and Honorary President of Electric Power Research Institute in China and Chairman of its Academic Committee. He was elected to the Chinese Academy of Engineering in 1995 and became Deputy Director of the Energy and Mining Engineering Department of the Academy. He was also a member of the Academic Committee of CIGRE, Vice President of China Electrical Engineering Institute and editor-in-chief of the Journal of Chinese Electrical Engineering. Mr Zheng graduated from Qinghua University majoring in electrical engineering and graduated from its Graduate School in 1965.

### **Supervisory Committee**

As required by the Company Law, the Special Regulations of the State Council for Overseas Stock Offerings and Listings by Joint Stock Limited Companies and other implementing regulations (collectively, the “Company Law”) and the Articles of Association, we have formed the Supervisory Committee, whose primary duty is the supervision of our senior management, 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 our senior management acts in the interest of us, our 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 us 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 our shareholders of the Company and one by our employees, each for a three-year term.

#### *Supervisors*

**Ju Zhanghua** is Chairman of the Supervisory Committee of the Company, Secretary of the Board of HIPDC and General Manager of the Management Department of China Huaneng Group. He has been Secretary of the Board of the Company and General Manager of the Securities Department. Mr Ju is a senior engineer and graduated from Qinghua University specializing in power plants and power systems.

**Zhao Xisheng** is a member of the Supervisory Committee of the Company and General Manager of the Supervising and Auditing Department. He has served as Deputy General Manager of the Finance Department and General Manager of the Management Department of the Company. Before joining the Company, he had served as Section Chief, Deputy Chief Accountant and Deputy General Manager of Beijing Shijingshan Power Plant. Mr Zhao is a senior accountant and graduated from the People’s University of China specializing in industrial economics.

**Pan Jianmin** is a member of the Supervisory Committee of the Company and General Manager of the Finance Department of China Huaneng Group. He has served as Deputy Division Chief of the Finance Department and Deputy General Manager of the Supervising and Auditing Department of China Huaneng Group and Deputy General Manager of Beijing Huaneng Real Estate Development Company. Mr Pan is a senior accountant and graduated from Liaoning Economic and Finance Institute specializing in infrastructure finance and credit.

### **Compensation of Directors and Officers**

We paid Rmb1,311,250 to our Directors and Supervisors as aggregate cash compensation for the year ended December 31, 2000 for services performed as Directors, Supervisors and officers or employees of us. In addition, Directors and Supervisors who are also officers or employees of us 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.

## **Employees**

As of December 31, 2000, we employed 5,602 persons. Of these, 1,048 are head quarter management staff and power plant level management personnel, 3,405 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 38% of our work force graduated from university or technical college.

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

We have 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 us 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 us with a greater degree of management control over its work force. We believe that, by linking remuneration to productivity, the contract system has also improved employee morale.

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

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

In compliance with the relevant regulations, we and our 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 our retiring employees are not required under applicable PRC laws and regulations.

We do 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 us, depending on the severity of the illness or disability. The present workmen's insurance reforms being implemented by the central and local governments and our 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 7. Major Shareholders and Related Transactions

### Major shareholders

Our outstanding ordinary shares consist of Domestic Shares and the Overseas Listed Foreign Shares, each with a par value of RMB1.00 per share. The following table set forth certain information regarding the ownership of the outstanding shares of us as of December 31, 2000 with respect to (i) each person known by us to own beneficially more than 5% of any class of the outstanding shares of us, (ii) our directors and officers and (iii) local government investment companies.

	Number of Domestic Shares	Number of Overseas Shares	Percentage of Total Number of Shares Outstanding
	(in thousands)	(in thousands)	
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 .....	<u>4,150,000</u>	<u>—</u>	<u>73.45%</u>

When we were 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 us from HIPDC and, in return, HIPDC received a then 53.64% equity interest in us. 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 us.

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 our outstanding shares.

On January 21, 1998, we listed our H Shares on the Hong Kong Stock Exchange by way of introduction. On February 26, 1998, we placed 250 million H Shares in the H Share Placement at the price of HK\$4.40 per H Share or US\$22.73 per ADS. Simultaneously with the H Share Placement, we issued 400 million Domestic Shares to our 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 us 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 we are in existence. The Shareholders Agreement also provides that Directors designated by HIPDC will have majority representation on our board of directors (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 we are in existence (i) HIPDC and the other signatories to the Shareholders Agreement will maintain their combined shareholdings to ensure their collective majority control of us, (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% of the total voting rights of the outstanding shares. As a result, HIPDC will continue to control us and will continue to have the power, subject to the Shareholders Agreement, to control the election of all of our Directors and to direct our 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 us 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 we may realistically develop.

### **Related party transactions**

On June 30, 1994, we were 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 we 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 us on June 30, 1994 and (ii) the Shantou Power Plant, Dandong Power Plant and their respective phase II expansions were to be transferred to us.

### ***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 we 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 us 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, we 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, we 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 us pursuant to the Reorganization Agreement and the Transfer Agreements. HIPDC agreed in the Reorganization Agreement that, as between us and HIPDC, we 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 we do not have a realistic opportunity to effectively develop but where HIPDC does have such an opportunity and where such development will not compete with us.

In addition, pursuant to the Non-Competition Memorandum, HIPDC has undertaken that notwithstanding the provisions of the Reorganization Agreement, as between us and HIPDC, we 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 us, HIPDC has stated that it will not compete with us in the business of developing, constructing and operating power plants in the PRC.

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

The Reorganization Agreement gives us 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 we exercise our 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 us and HIPDC, and the acquisition price must be determined on the basis of the appraised value and must be mutually agreed upon by us 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 us 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 we 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 us by HIPDC in the future, however, will be made based upon our views at the time as to available financing, financial returns to its shareholders, the relationship of the opportunity to our business strategy and other factors.

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

<u>Name</u>	<u>Province/ Municipality</u>	<u>Actual/ Estimated In-service Date</u>	<u>Installed Capacity (MW)</u>	<u>HIPDC's Ownership</u>	<u>Type of Fuel</u>	<u>Expansion Project<sup>(1)</sup></u>
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.



We expect the Retained HIPDC Plants to service their respective local markets, and we believe 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 us 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 us. 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 us. Obligations under other loans to HIPDC from Local Government Investment Companies for the development of the Power Plants were assumed by us and will be repaid by us 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 our outstanding shares.

### **Guarantees**

As of December 31, 2000, we had long-term loans of approximately Rmb418 million which are guaranteed by HIPDC.

### ***Service Agreement***

Pursuant to the Service Agreement, dated June 30, 1994 entered into between HIPDC and us (the "Service Agreement") HIPDC has agreed to provide certain services to us. The service fee payable by us 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 us 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 our 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 us, 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, excluding (i) and (ii) above which expired on December 31, 1999.

We entered into a 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 the 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 the time when we moved to Tianyin Mansion.

Pursuant to a new leasing agreement between us and HIPDC signed on December 26, 2000, HIPDC agreed to lease Tianyin Mansion with an area of 27,800 square meters to us for 5 years, and the annual rent is Rmb25 million. The Leasing Agreement was effective retroactive as of January 1, 2000.

Pursuant to the T&T Service Agreement we agreed to pay service fees to HIPDC in relation to the provision of transmission and transformer facilities for our 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***

We 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 us and we have agreed to pay HIPDC a service fee of Rmb 1.5-2.0 per ton. We believe that such arrangement is more advantageous than purchasing coal from independent third parties or procuring coal through our own internal staff.

#### ***Land use rights assignments and leasing agreement***

Pursuant to five land use rights assignment agreements entered into between us 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 us 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, we have made annual payments for the land use rights since 1995 and will continue to do so until the year 2004.

We 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, we 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 us for a term of 30 years for an annual rental payment of Rmb 6 million. Subsequently, on December 30, 1997, we 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 us. To continue to operate Nanjing Power Plant, we entered into a leasing agreement with HIPDC and Nanjing Investment whereby HIPDC and Nanjing Investment leased to us 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, we 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, we acquired from HIPDC Nanjing Power Plant for an aggregate consideration of Rmb 2,702 million.

### ***Merger with Shandong Huaneng***

We entered into a merger agreement with Shandong Huaneng Power Development Co., Ltd. on July 18, 2000, pursuant to which we would merge with Shandong Huaneng and pay the shareholders of Shandong Huaneng RMB1.34 per share for the merger. The merger was completed at the beginning of 2001. Please see our proxy statement filed with the Securities Exchange Commission under Schedule 13E-3 for the particulars of the merger.

### **Item 8. Financial Information**

See page F-1 to F-33.

### **Item 9. The Offer and Listing**

#### **Offer and listing details and markets**

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 of the ADSs on the New York Stock Exchange.

	Closing Price Per ADS	
	High	Low
	(US\$)	(US\$)
1996 .....	23.63	14.38
1997 .....	29.25	18
1998 .....	26.06	6.5
1999 .....	17.44	8.38
2000 .....	18.94	7
1999 First Quarter .....	14.50	8.38
Second Quarter .....	17.13	9.94
Third Quarter .....	17.44	9.88
Fourth Quarter .....	13.56	9.25
2000 First Quarter .....	10.69	7
Second Quarter .....	13.38	7.38
Third Quarter .....	17.38	13.25
Fourth Quarter .....	18.94	13.69
2000 October .....	16.06	13.69
November .....	17.69	15.19
December .....	18.94	15.5
2001 January .....	18.88	16.56
February .....	20.95	18.7
March (through March 28, 2001) .....	20.4	17.8

Source: Bloomberg

Each ADS represents 40 Overseas Listed Foreign Shares. As of December 31, 2000, there were 62 registered holders of American Depositary Receipts evidencing ADS.

On January 21, 1998, we listed our H shares on the Hong Kong Stock Exchange. On February 26, 1998, we placed 250 million H Shares Placement at the price of HK\$4.40 per H share or US\$22.73 per ADS. The table below sets forth, for the periods indicated, the high and low closing prices of H shares on the Hong Kong Stock Exchange.

		<b>Closing Price Per H shares</b>	
		<b>High</b>	<b>Low</b>
		<b>(HK\$)</b>	<b>(HK\$)</b>
1996	.....	N/A	N/A
1997	.....	N/A	N/A
1998	.....	5.1	1.26
1999	.....	3.3	1.72
2000	.....	3.77	1.27
1999	First Quarter .....	2.75	1.72
	Second Quarter .....	3.30	2.00
	Third Quarter .....	3.175	1.92
	Fourth Quarter .....	2.45	1.82
2000	First Quarter .....	2.13	1.27
	Second Quarter .....	2.67	1.46
	Third Quarter .....	3.45	2.52
	Fourth Quarter .....	3.77	2.75
2000	October .....	3.27	2.75
	November .....	3.5	3.05
	December .....	3.77	3.05
2001	January .....	3.77	3.17
	February .....	4.17	3.7
	March (through March 28, 2001) .....	4.125	3.575

*Source: Bloomberg*

As of December 31, 2000, there were 34 registered holders of H Shares.

## **Item 10. Additional Information**

### **Memorandum and articles of association**

The information under the heading “Description of Capital Stock” in the Registration Statement on Form F-3 filed with SEC on December 25, 1997 is incorporated herewith by reference.

### **Exchange controls**

#### *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. We believe that these measures will allow us to access foreign exchange for interest payments on our 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, we have 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, 1999 and 2000, ending at Rmb 8.2787, Rmb 8.2793 and Rmb 8.2781 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:

Period	Noon Buying Rate			
	Period End	Average <sup>(1)</sup>	High	Low
	(expressed in Rmb per US\$)			
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 .....	8.2795	8.2785	8.2800	8.2770
2000 .....	8.2774	8.2784	8.2799	8.2768
2000 September .....	8.2798	—	8.2799	8.2770
October .....	8.2775	—	8.2790	8.2775
November .....	8.2777	—	8.2786	8.2768
December .....	8.2774	—	8.2781	8.2768
2001 January .....	8.2781	—	8.2786	8.2764
February .....	8.2783	—	8.2783	8.2763
March (through March 28) .....	8.2777	—	8.2784	8.2768

Source: Datastream

Note:

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

## 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 we are 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 us.

### ***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 us 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 us. 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 us. 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.

We are 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, we have 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 of our power plants are subject to a 15% national income tax, without considering the tax holiday described above.

*Value-added tax.* We were 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, we have 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 us 17% of total sales. The amount of VAT payable by us is this VAT on sales reduced by the VAT paid by us on our purchases of coal, fuel and other inputs.

### **Documents on display**

We are subject to the information reporting requirements of the Securities Exchange Act and, in accordance with the Act, file certain reports and other information with the SEC. You may read and copy and report, statement or other information filed by us at the SEC’s public reference rooms in Washington, D.C., New York and Chicago, Illinois. Please call the SEC at 1-800-0330 for further information on the public reference rooms.

### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are 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) our 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 our foreign currency denominated liabilities.

We are subject to market rate risks due to fluctuations in interest rates, principally as a result of our indebtedness that bears interests at variable rates. To mitigate its exposure to interest rate risks, we entered into certain interest rate swap agreements for the total notional amount of US\$114 million with a weighted average rate of 6.43% per annum. We use such interest rate swap transactions solely for risk hedging purposes. As of December 31, 2000, the notional amount of interest rate swap agreements which we were exposed to was approximately US\$114 million.

We are also exposed to market rate risk due to fluctuations in fuel prices, mainly coal prices. For the year ended December 31, 2000, our total fuel costs were Rmb3,840.7 million.

The following table provides information, by maturity date, regarding our foreign currency sensitive financial instruments, which consist of cash and cash equivalent, temporary cash investments, short-term and long-term debt obligations and capital commitments as of December 31, 2000.

As of December 31, 2000								Total recorded value	Fair value
Expected Maturity Date						Thereafter			
2001	2002	2003	2004	2005					
(Rmb expressed in million, except interest rate)									
<b>On-balance sheet financial instruments</b>									
Cash and cash equivalents:									
in US Dollars . . . . .	14	—	—	—	—	—	14	14	
in Rmb . . . . .	1,974	—	—	—	—	—	1,974	1,974	
Temporary cash investments:									
in US Dollars . . . . .	—	—	—	—	—	—	—	—	
in Rmb . . . . .	295	—	—	—	—	—	295	295	
Debts:									
Fixed rate banks and other loans:									
in US\$ . . . . .	745	727	727	727	727	4,357	8,010	7,785	
Average interest rate . . . . .	6.28%	6.26%	6.26%	6.26%	6.26%	6.29%			
in Swiss Francs ("SFRC") . . . . .	71	—	—	—	—	—	71	71	
Average interest rate . . . . .	4.25%	—	—	—	—	—	—	—	
Convertible notes (US\$) . . . . .	—	—	—	1,904	—	—	1,904	2,232	
Average interest rate . . . . .	—	—	—	1.75%	—	—	—	—	
Variable rate banks and other loans (US\$):									
Average interest rate <sup>(1)</sup> . . . . .	6.57%	6.56%	6.82%	6.95%	—	—	2,292	2,182	
Capital commitments (in US\$)	588	—	919	—	—	—	1,507	1,507	

(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 our interest rate sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 2000.

As of December 31, 2000								Total recorded value	Fair value
Expected Maturity Date						Thereafter			
2001	2002	2003	2004	2005					
(Rmb expressed in million, except interest rate)									
<b>Debts</b>									
Fixed rate banks and other loans:									
Average interest rate . . . . .	5.36%	6.25%	6.25%	6.25%	6.26%	6.29%	10,329	10,105	
Convertible notes . . . . .	—	—	—	1,904	—	—	1,904	2,232	
Average interest rate . . . . .	—	—	—	1.75%	—	—	—	—	
Various rate banks and other loan <sup>(1)</sup> :									
Average interest rate . . . . .	6.53%	6.52%	6.78%	6.88%	—	—	2,524	2,415	

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

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**PART III**

**Item 17. Financial Statements**

See pages F-1 through F-33 incorporated by reference.

**Item 18. Financial Statements**

Not applicable.

**Item 19. Exhibits**

- 1.1 Amended Articles of Association of Huaneng Power International, Inc., incorporated by reference to Exhibit 1.1 of the our annual report on Form 20-F, dated April 23, 1997.
- 3.1 Shareholders Agreement dated May 31, 1994, incorporated by reference to Exhibit 9.1 of our Registration Statement on Form F-1, filed with the SEC on August 24, 1994.
- 4.1 Agreement of Merger by Absorption (Amended and Restated), dated as of July 18, 2000, incorporated by reference to Annex A to Schedule 13E-3, filed with the SEC on August 16, 2000.

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

**TO THE SHAREHOLDERS OF HUANENG POWER INTERNATIONAL, INC.  
(Incorporated in the People's Republic of China with limited liability)**

We have audited the accompanying balance sheets of Huaneng Power International, Inc. (the "Company") as of December 31, 2000 and 1999, and the related statements of income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2000. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing issued by the International Federation of Accountants. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and of the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in accordance with International Accounting Standards issued by the International Accounting Standards Committee.

Certain accounting principles used by the Company in preparing the accompanying financial statements conform with International Accounting Standards, but do not conform with the accounting principles generally accepted in the United States of America. A description of the significant differences between those two standards and the effects of those differences on net income and shareholders' equity is set forth in Note 36 to the financial statements.

**ARTHUR ANDERSEN & CO**  
*Certified Public Accountants*

Hong Kong, March 14, 2001

**HUANENG POWER INTERNATIONAL, INC.**  
**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2000 AND 1999**  
**(Amounts expressed in thousands)**

	Note	2000		1999
		Rmb	US\$	Rmb Restated (Note 32)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment, net	8	32,219,595	3,892,149	34,603,329
Other long-term assets	24	185,664	22,428	113,319
Total non-current assets		<u>32,405,259</u>	<u>3,914,577</u>	<u>34,716,648</u>
<b>Current assets</b>				
Cash and cash equivalents		1,988,373	240,197	2,493,198
Temporary cash investments	9	294,925	35,627	1,250,544
Short-term investments		60,000	7,248	—
Accounts receivable	10	1,196,072	144,486	1,403,371
Materials and supplies, net	11	563,741	68,100	543,421
Other receivables and assets, net	12	5,958,578	719,800	146,965
Due from HIPDC	5(l)	—	—	28,583
Total current assets		<u>10,061,689</u>	<u>1,215,458</u>	<u>5,866,082</u>
<b>Total assets</b>		<u><u>42,466,948</u></u>	<u><u>5,130,035</u></u>	<u><u>40,582,730</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
4,150,000,000 Domestic Shares, par value				
Rmb1.00 each	13	4,150,000	501,323	4,150,000
1,500,000,000 Overseas Listed Foreign Shares,				
par value Rmb1.00 each	13	1,500,000	181,201	1,500,000
Additional paid-in capital		7,717,674	932,300	7,717,674
Dedicated capital	14	2,022,701	244,344	1,559,961
Equity component of convertible notes	16	510,506	61,669	510,506
Retained earnings		7,878,854	951,771	6,334,264
Total equity		<u>23,779,735</u>	<u>2,872,608</u>	<u>21,772,405</u>
<b>Non-current liabilities</b>				
Liability component of convertible notes	16	1,393,388	168,322	1,393,672
Long-term loans from shareholders	18	782,825	94,566	1,068,033
Long-term loan from Nanjing Investment	19	174,368	21,064	226,033
Long-term bank loans	20	8,885,634	1,073,390	9,618,471
		<u>35,015,950</u>	<u>4,229,950</u>	<u>34,078,614</u>
<b>Other non-current liabilities</b>				
Accrued put premium for convertible notes	16	380,395	45,952	266,976
<b>Current liabilities</b>				
Short-term bank loans	17	1,300,000	157,041	50,000
Current portion of long-term loans from				
shareholders	18	218,995	26,455	673,482
Current portion of long-term loan from Nanjing				
Investment	19	58,123	7,021	64,581
Current portion of long-term bank loans	20	1,431,713	172,952	1,118,036
Accounts payable and accrued liabilities	21	2,717,957	328,331	3,159,602
Taxes payable	22	529,661	63,983	511,065
Staff welfare and bonus payable		542,355	65,517	418,733
Due to HIPDC	5(l)	130,158	15,723	—
Payable to Nanjing Investment	5(d)	141,641	17,110	241,641
Total current liabilities		<u>7,070,603</u>	<u>854,133</u>	<u>6,237,140</u>
<b>Total equity and liabilities</b>		<u><u>42,466,948</u></u>	<u><u>5,130,035</u></u>	<u><u>40,582,730</u></u>

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

**HUANENG POWER INTERNATIONAL, INC.**  
**INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**  
(Amounts expressed in thousands, except per share data)

	<i>Note</i>	<b>2000</b>		<b>1999</b>	<b>1998</b>
		<b>Rmb</b>	<b>US\$</b>	<b>Rmb</b>	<b>Rmb</b>
Operating revenue, net	3	12,553,254	1,516,441	10,488,158	8,082,496
Operating expenses					
Fuel		(3,840,690)	(463,958)	(3,346,158)	(2,587,913)
Maintenance		(670,994)	(81,057)	(568,119)	(431,914)
Depreciation and amortization		(2,666,949)	(322,169)	(2,391,998)	(1,526,163)
Labor		(669,916)	(80,926)	(497,835)	(408,173)
Transmission fees		(17,094)	(2,065)	(27,343)	(305,106)
Service fees to HIPDC	5(a)	(310,742)	(37,538)	(305,792)	(341,931)
Refund of excess VAT paid		—	—	—	504,220
Others		(469,971)	(56,773)	(370,927)	(301,627)
Total operating expenses		<u>(8,646,356)</u>	<u>(1,044,486)</u>	<u>(7,508,172)</u>	<u>(5,398,607)</u>
Profit before financial expenses		<u>3,906,898</u>	<u>471,955</u>	<u>2,979,986</u>	<u>2,683,889</u>
Interest expense, net		(944,930)	(114,148)	(791,179)	(457,109)
Exchange (losses) gains, net		(34,936)	(4,220)	63,923	(17,274)
Total financial expenses		<u>(979,866)</u>	<u>(118,368)</u>	<u>(727,256)</u>	<u>(474,383)</u>
Profit before taxation	4	<u>2,927,032</u>	<u>353,587</u>	<u>2,252,730</u>	<u>2,209,506</u>
Provision for income tax	25	<u>(411,202)</u>	<u>(49,673)</u>	<u>(384,555)</u>	<u>(370,995)</u>
Net profit		<u><u>2,515,830</u></u>	<u><u>303,914</u></u>	<u><u>1,868,175</u></u>	<u><u>1,838,511</u></u>
Proposed dividend	15	<u><u>1,243,000</u></u>	<u><u>150,155</u></u>	<u><u>508,500</u></u>	<u><u>452,000</u></u>
Proposed dividend per share	15	<u><u>0.22</u></u>	<u><u>0.03</u></u>	<u><u>0.09</u></u>	<u><u>0.08</u></u>
Basic earnings per share	26	<u><u>0.45</u></u>	<u><u>0.05</u></u>	<u><u>0.33</u></u>	<u><u>0.33</u></u>
Fully diluted earnings per share	26	<u><u>0.44</u></u>	<u><u>0.05</u></u>	<u><u>N/A</u></u>	<u><u>0.33</u></u>

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

**HUANENG POWER INTERNATIONAL, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**  
**(Amounts expressed in thousands, except number of shares)**

	Share Capital	Additional Paid-in Capital	Dedicated Capital <i>(Note 14)</i>			Equity Component of Convertible Notes <i>(Note 16)</i>	Retained Earnings	Total				
			Rmb	Rmb	Statutory surplus reserve fund	Statutory public welfare fund			Sub-total	Rmb	Rmb	Rmb
Balance at December 31, 1997 as previously reported . . . . .	5,000,000	5,363,556	879,282	—	879,282	510,506	3,760,257	15,513,601				
Issuance and sale of 250,000,000 new Foreign Shares . . . . .	250,000	872,279	—	—	—	—	—	1,122,279				
Issuance of 400,000,000 new Domestic Shares to HIPDC . . . . .	400,000	1,481,839	—	—	—	—	—	1,881,839				
Net profit 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)	—				
Proposed dividend as previously reported <i>(Note 15)</i> . . . . .	—	—	—	—	—	—	(452,000)	(452,000)				
Effect of change in accounting policy with respect to dividend <i>(Note 32)</i> . . . . .	—	—	—	—	—	—	452,000	452,000				
Balance at December 31, 1998 as restated . . . . .	5,650,000	7,717,674	1,066,830	140,661	1,207,491	510,506	5,270,559	20,356,230				
Net profit 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)	—				
Proposed dividend as previously reported <i>(Note 15)</i> . . . . .	—	—	—	—	—	—	(508,500)	(508,500)				
Effect of change in accounting policy with respect to dividend <i>(Note 32)</i> . . . . .	—	—	—	—	—	—	56,500	56,500				
Balance at December 31, 1999 as restated . . . . .	5,650,000	7,717,674	1,268,241	291,720	1,559,961	510,506	6,334,264	21,772,405				
Net profit for the year ended December 31, 2000 . . . . .	—	—	—	—	—	—	2,515,830	2,515,830				
Transfer to dedicated capital . . . . .	—	—	264,423	198,317	462,740	—	(462,740)	—				
Effect of change in accounting policy with respect to dividend <i>(Note 32)</i> . . . . .	—	—	—	—	—	—	(508,500)	(508,500)				
Balance at December 31, 2000 . . . . .	<u>5,650,000</u>	<u>7,717,674</u>	<u>1,532,664</u>	<u>490,037</u>	<u>2,022,701</u>	<u>510,506</u>	<u>7,878,854</u>	<u>23,779,735</u>				

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



**HUANENG POWER INTERNATIONAL, INC.**  
**CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**  
**(Amounts expressed in thousands)**

	<i>Notes</i>	2000		1999	1998
		Rmb	US\$	Rmb	Rmb
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		2,927,032	353,587	2,252,730	2,209,506
Adjustments to reconcile profit before taxation to net cash provided by operating activities:					
Depreciation and amortization		2,666,949	322,169	2,391,998	1,526,163
Unrealized exchange gain		(2,709)	(327)	(56,243)	—
Amortization of other long-term assets		15,657	1,891	6,814	6,814
Provision for bad debts		4,588	554	—	—
Provision for inventory obsolescence		10,608	1,281	—	—
Loss on disposals of fixed assets		50,879	6,146	6,444	7,769
Interest income		(79,723)	(9,631)	(108,601)	(142,940)
Interest expenses		1,024,653	123,779	899,780	600,049
Decrease (increase) in assets:					
Accounts receivable		207,299	25,042	(726,257)	270,774
Materials and supplies		(30,928)	(3,736)	18,720	101,828
Other receivables and assets		(25,151)	(3,038)	407,779	1,651,897
Due from HIPDC		28,583	3,453	(28,583)	25,875
Other long-term assets		(86,952)	(10,504)	—	—
(Decrease) increase in liabilities:					
Accounts payable and accrued liabilities		(359,046)	(43,372)	886,738	318,535
Taxes payable		36,087	4,359	39,990	(48,938)
Staff welfare and bonus payable		123,622	14,934	(119,038)	82,083
Due to HIPDC		130,158	15,723	(2,633)	2,633
Interest paid		(649,193)	(78,423)	(615,946)	(442,193)
Income tax paid		(428,693)	(51,786)	(370,102)	(378,383)
Interest received		79,641	9,621	123,787	171,867
Net cash provided by operating activities		<u>5,643,361</u>	<u>681,722</u>	<u>5,007,377</u>	<u>5,963,339</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures		(351,966)	(42,518)	(2,274,342)	(6,457,432)
Proceeds from disposals of fixed assets		17,872	2,159	17,234	8,919
(Increase) decrease in other long-term assets		(1,050)	(127)	(3,197)	4,791
Decrease in temporary cash investments		955,619	115,439	586,489	873,093
Increase in short-term investments		(60,000)	(7,248)	—	—
Repayment of payable to HIPDC		—	—	—	(1,394,859)
Net cash inflow from acquisition of Nanjing Power Plant	27(a)	—	—	150,229	—
Repayment of payable to Nanjing Investment	5(d), 27(a)	(100,000)	(12,080)	(1,111,375)	—
Expenditures for Shandong Huaneng acquisition	34	(10,096)	(1,220)	—	—
Prepayment of consideration for Shandong Huaneng acquisition	34	(5,767,898)	(696,766)	—	—
Net cash used in investing activities		<u>(5,317,519)</u>	<u>(642,361)</u>	<u>(2,634,962)</u>	<u>(6,965,488)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Net proceeds from issuance of overseas listed foreign share		—	—	—	1,122,279
Drawdown of short-term bank loans		1,511,000	182,530	142,000	172,000
Repayment of short-term bank loans		(261,000)	(31,529)	(419,000)	(904,096)
Drawdown of long-term loans from shareholders		—	—	18,383	60,254
Repayment of long-term loans from shareholders		(737,270)	(89,063)	(1,835,897)	(1,771,416)
Repayment of long-term loan from Nanjing Investment		(58,123)	(7,021)	(58,123)	—
Drawdown of long-term bank loans		165,215	19,958	1,051,470	3,587,691
Repayment of long-term bank loans		(941,989)	(113,793)	(511,468)	(559,129)
Dividend paid		(508,500)	(61,427)	(452,000)	—
Net cash (used in) provided by financing activities		<u>(830,667)</u>	<u>(100,345)</u>	<u>(2,064,635)</u>	<u>1,707,583</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>					
Cash and cash equivalents, beginning of year		<u>2,493,198</u>	<u>301,181</u>	<u>2,185,418</u>	<u>1,479,984</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>1,988,373</u>	<u>240,197</u>	<u>2,493,198</u>	<u>2,185,418</u>

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

**HUANENG POWER INTERNATIONAL, INC.**  
**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. As of December 31, 2000, the Company had 5,602 employees (1999: 5,485 employees; 1998: 4,743 employees). The Company currently owns and operates nine power plants, which are all located in various provinces of the PRC. The Company’s power plants are principally engaged in the generation and sale of electric power to 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 Coal-Fired 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 Nantong Power Plant Phase II (the “Nantong Phase II”) . . . . .	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the “Fuzhou Phase II”) . . . . .	700	Fujian
Huaneng Nanjing Power Plant (the “Nanjing Power Plant”) .	600	Jiangsu

The Dalian Phase II, Dandong Power Plant, Nantong Phase II and Fuzhou Phase II were placed into commercial service during 1999. The Company also acquired the Nanjing Power Plant from HIPDC and Nanjing Investment Company (“Nanjing Investment”) in 1999 (See Note 5(d)). These new power plants increased the total installation capacity of the Company to 8,700MW as of December 31, 2000.

The parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation (“HIPDC”) and China Huaneng Group Corporation (“China Huaneng Group”) respectively. Both companies are incorporated in the PRC.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company are as follows:

*a. General*

The accompanying financial statements are prepared in accordance with International Accounting Standards (“IAS”) formulated by the International Accounting Standards Committee (“IASC”).

*b. Basis of presentation*

The accompanying financial statements are prepared under the historical cost convention.

*c. Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The cost of additions to, and replacements or betterment of, units of property, plant and equipment is capitalized. The cost of routine maintenance, repairs and replacements of minor items of property is charged to repair and maintenance expenses when incurred.

When assets are sold or retired, their costs and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are as follows:

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 remaining amortization periods for the land use rights ranged from 43 to 48 years.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

*d. Long-term Investments*

Investments held for long term are stated at cost less any impairment in value and are included in other long-term assets. An assessment of long-term investments is performed when there is an indication that the asset has been impaired.

Upon disposal of a long-term investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

*e. Cash and Cash Equivalents*

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

*f. Temporary Cash Investments*

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

*g. Materials and Supplies*

Materials and supplies are stated at the lower of weighted average costs and net realizable values after provision for obsolete items, 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.

*h. Convertible Notes*

The proceeds received on the issue of the convertible notes were allocated into liability and equity components. The liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issue of the notes.

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. The equivalent amount was either charged to the income statement or capitalized in the construction-in-progress, depending on the usage of proceeds.

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 the 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.

*i. Provisions*

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

*j. Foreign Currency Translation*

The Company maintains its books and records in Renminbi (“Rmb”). Transactions in other currencies are translated into 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 other currencies are re-translated into Rmb using the applicable PBOC exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods, other than those capitalized as a component of borrowing cost, are recognized in the income statement in the period in which they arise.

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=Rmb8.2781 announced by the PBOC on December 31, 2000. No representation is made that Rmb amounts could have been, or could be, converted into US\$ at that rate on December 31, 2000, or at any other rate.

*k. Revenue and Income Recognition*

Revenue and income are recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to 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 earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective power companies.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis that takes into account the effective yield on the assets.

*l. Fuel Expenses*

Fossil fuel inventories are stated at the lower of moving 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.

*m. Repair and Maintenance Expenses*

Major repairs and maintenance determined on the basis of 1% of the fixed asset cost is allowed as an expense recoverable through power rates. The Company estimates that, over the useful life of its power plants, 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 amount determined on the above basis, the difference represents revenue collected in excess of actual expenses incurred. Such difference is recorded as a regulatory liability.

*n. Operating Leases*

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessors are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

*o. Borrowing Costs*

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

*p. 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 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.

(ii) Income Tax

Prior to January 1, 1999, 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.

Effective from January 1, 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, the reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country.

All power plants are exempted from 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 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 to 2003.

The adjusted statutory 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:

	2000	1999	1998
Head Office . . . . .	15.0%	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II) . . . . .	15.0%	15.0%	15.0%
Shangan Power Plant . . . . .	16.5%	16.5%	31.5%
Shangan Phase II . . . . .	Exempted*	Exempted*	Not applicable
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 . . . . .	7.5%	Exempted	Exempted
Shanghai Power Plant . . . . .	16.5%	16.5%	8.25%
Nanjing Power Plant . . . . .	7.5%	7.5%	Not applicable
Dandong Power Plant . . . . .	Not applicable	Not applicable	Not applicable

\* In accordance with Guo Shui Han [2000] No. 194, the tax holiday of the Shangan Phase II is determined separately from the Shangan Power Plant. The Shangan Phase II is entitled to the tax holiday starting from the first profit making year (after covering any accumulated deficits). The excess income tax paid by the Shangan Phase II for the year ended December 31, 1999 was refunded to the Company in 2000.

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying account of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

*q. 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.

*r. Financial Instruments*

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investments, accounts receivable and payable, other receivables and payables, loans and borrowings. The significant accounting policies on recognition and measurement of the major items are disclosed in the respective accounting policies above.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

*s. Hedging Interest Rate Exposure*

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.

*t. Impairment of Assets*

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income for items of property, plant and equipment and intangibles carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income.

Based on its most recent analysis, the Company believed that there was no impairment of its assets as at December 31, 2000.

*u. Contingencies*

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

*v. Subsequent Events*

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### **3. 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.



For the years ended December 31, 2000 and 1999 and 1998, all operating revenues were billed at the on-grid wholesale rates to the local power companies, except for the Shantou Oil-Fired Power Plant whereby operating revenues were billed at the retail rate being charged to the ultimate consumers.

Under the retail rate arrangement, the local power company collected revenue from the ultimate consumers and remitted it to the Shantou Oil-Fired Power Plant after deducting the cost of transmission and an agreed amount of handling fees. The Shantou Oil-Fired Power Plant recognized the gross amount received as revenue with the reimbursement of transmission costs and payment of handling fees to the local power company being separately recorded as transmission fees under operating expense. For power plants subject to on-grid wholesale rates, since such rates excluded the transmission costs incurred by the local power companies, no transmission fees were recorded.

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. No sales incentives were paid for the year ended December 31, 2000 (1999: Rmb63 million, 1998: RMB26 million).

#### 4. PROFIT BEFORE TAXATION

Profit before taxation was determined after charging and (crediting) the following:

	2000	1999	1998
	'000	'000	'000
Interest expenses on convertible notes . . . . .	146,762	139,776	127,054
Interest expenses on:			
- bank loans wholly repayable within 5 years . . . . .	135,835	111,776	85,344
- bank loans repayable beyond 5 years . . . . .	572,040	894,766	366,542
Interest expenses on:			
- shareholders loans wholly repayable within 5 years . . . . .	153,044	120,190	141,599
- shareholders loans repayable beyond 5 years . . . . .	—	113,644	182,977
Interest expenses on loan from Nanjing Investment wholly repayable within 5 years . . . . .	16,972	22,703	—
	<u>1,024,653</u>	<u>1,402,855</u>	<u>903,516</u>
Less: amount capitalized in property, plant and equipment . . . . .	—	(503,075)	(303,467)
Total interest expenses . . . . .	1,024,653	899,780	600,049
Interest income . . . . .	(79,723)	(108,601)	(142,940)
Interest expense, net . . . . .	<u>944,930</u>	<u>791,179</u>	<u>457,109</u>
Auditors' remuneration . . . . .	7,119	4,796	4,471
Loss on disposals of fixed assets . . . . .	50,879	6,444	7,769
Operating lease rentals . . . . .	32,334	7,834	6,000
Exchange loss (gain), net . . . . .	34,936	(63,923)	17,214
Depreciation and amortization . . . . .	2,666,949	2,391,998	1,526,163
Cost of materials and supplies . . . . .	4,001,614	3,499,699	2,722,731
Pension cost . . . . .	80,608	62,620	58,000
Provision for doubtful accounts . . . . .	4,588	—	—
Provision for inventory obsolescence . . . . .	10,608	—	—

## 5. RELATED PARTY TRANSACTIONS

- a. Pursuant to the relevant service agreements, HIPDC provides transmission and transformer facilities to some of the power plants of the Company and receives service fees. Such service fees represent recoverable costs for rate setting purposes. For the Shangan Power Plant, Fuzhou Power Plant and Shantou Oil-Fired Power Plant, such service fees include various costs of transmission incurred by HIPDC plus a profit margin of 10% of the average net book value of HIPDC's transmission facilities. For Shantou Power Plant, Shangan Power Plant Phase II and Shanghai Power Plant, the annual service fees were fixed and equal to 12% of the original book value of HIPDC's transmission and transformer facilities. The total service fees paid to HIPDC for the year ended December 31, 2000 was approximately Rmb311 million (1999: Rmb306 million, 1998: RMB342 million).
- 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). 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. In 2000, the Company paid Rmb100 million to Nanjing Investment to settle part of the remaining consideration for Nanjing Acquisition.

- 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. 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, 2000 was approximately Rmb2.27 million (1999: Rmb5.3 million, 1998: Rmb1.3 million).
- g. As of December 31, 2000, current deposits of approximately Rmb166 million (1999: Rmb420 million) and fixed deposits of approximately Rmb100 million (1999: Rmb650 million) were placed with a non-bank PRC financial institution, which is a subsidiary of China Huaneng Group (see Note 9).
- 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. Such agreement expired on December 31, 1999.
- i. Pursuant to the leasing agreement between the Company and HIPDC signed on December 26, 2000, HIPDC agreed to rent its building to the Company as new office for 5 years at an annual rental of Rmb25 million effective from January 1, 2000.
- j. As of December 31, 2000, long-term bank loans of approximately Rmb418 million (1999 : Rmb692 million) were guaranteed by HIPDC.
- k. As described in Note 18(b), certain bank loans were on-lent from HIPDC to the Company.
- l. 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 20%, of the basic salary of the PRC employees. The retirement plan contributions paid for the year ended December 31, 2000 was approximately Rmb42 million (1999: Rmb29 million, 1998: Rmb29 million).

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 for the year ended December 31, 2000 was approximately Rmb39 million (1999: Rmb34 million, 1998: Rmb29 million).

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

**7. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS**

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	'000	'000	'000
Fees for executive directors . . . . .	—	—	—
Fees for non-executive directors . . . . .	—	—	—
Fees for supervisors . . . . .	—	—	—
Other emoluments for executive directors			
- basic salaries and allowances . . . . .	396	492	394
- bonus . . . . .	544	523	444
- retirement benefits . . . . .	134	118	101
Other emoluments for non-executive directors . . . . .	—	—	—
Other emoluments for supervisors . . . . .	237	279	258

No director had waived or agreed to waive any emoluments during the year.

The annual emoluments paid during the year to each of the directors and supervisors (including the five highest paid employees) fell within the band from Rmb nil to Rmb1 million.

Details of emoluments paid to the five highest paid employees (all being directors) were:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	'000	'000	'000
Basic salaries and allowances . . . . .	223	266	211
Bonus . . . . .	369	298	244
Retirement benefits . . . . .	86	66	58

During the year, no emolument was paid to the five highest paid individuals (all being directors) as an inducement to join or upon joining the Company or as compensation for loss of office.

## 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised:

	2000						1999	
	Land Use Right	Buildings	Electric Utility Plant in Service	Transportation Facilities	Others	Construction- in-progress	Total	Total
Cost	'000	'000	'000	'000	'000	'000	'000	'000
Beginning of year . . . . .	565,702	1,797,355	36,769,295	713,119	1,043,127	371,065	41,259,663	36,586,543
Reclassification . . . . .	59,040	(158,210)	671,546	(203,718)	(368,658)	—	—	—
Acquisition of Nanjing Power Plant . . . . .	—	—	—	—	—	—	—	2,429,312
Addition . . . . .	—	648	40,008	6,560	8,772	295,978	351,966	2,274,342
Transfer from CIP . . . . .	—	14,435	395,655	6,353	15,415	(431,858)	—	—
Disposals . . . . .	—	—	(8,082)	—	(66,628)	—	(74,710)	(30,534)
End of year . . . . .	<u>624,742</u>	<u>1,654,228</u>	<u>37,868,422</u>	<u>522,314</u>	<u>632,028</u>	<u>235,185</u>	<u>41,536,919</u>	<u>41,259,663</u>
<b>Accumulated Depreciation</b>								
Beginning of year . . . . .	36,141	341,707	5,885,947	131,382	261,157	—	6,656,334	4,271,192
Reclassification . . . . .	—	(25,817)	153,835	(43,575)	(84,443)	—	—	—
Charge for the year	12,536	63,805	2,511,197	22,629	56,782	—	2,666,949	2,391,998
Written back on disposals . . . . .	—	—	(3,578)	—	(2,381)	—	(5,959)	(6,856)
End of year . . . . .	<u>48,677</u>	<u>379,695</u>	<u>8,547,401</u>	<u>110,436</u>	<u>231,115</u>	<u>—</u>	<u>9,317,324</u>	<u>6,656,334</u>
<b>Net Book Value</b>								
End of year . . . . .	<u>576,065</u>	<u>1,274,533</u>	<u>29,321,021</u>	<u>411,878</u>	<u>400,913</u>	<u>235,185</u>	<u>32,219,595</u>	<u>34,603,329</u>
Beginning of year . . . . .	<u>529,561</u>	<u>1,455,648</u>	<u>30,883,348</u>	<u>581,737</u>	<u>781,970</u>	<u>371,065</u>	<u>34,603,329</u>	<u>32,315,351</u>

No interest was capitalized to construction-in-progress for the year ended December 31, 2000 (1999: Rmb503 million, 1998: Rmb303 million). The interest rates for such funds ranged from 3.6% to 8.8% per annum for the year ended December 31, 1999 (1998: 5.4% to 10.4%).

## 9. 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 three months to one year.

As of December 31, 2000, deposits of approximately Rmb100 million (1999: Rmb650 million) were placed with a non-bank financial institution, which is a subsidiary of China Huaneng Group (see Note 5(g)). The annual interest rate and interest earned from that financial institution were as follows:

	2000	1999	1998
	'000	'000	'000
Interest rate . . . . .	1.89%-2.25%	3.78%-5.62%	4.5%-8.0%
Interest earned . . . . .	25 million	35 million	20 million

## 10. ACCOUNTS RECEIVABLES

Accounts receivables comprised:

	<u>2000</u>	<u>1999</u>
	'000	'000
Accounts receivables . . . . .	1,126,072	1,400,566
Notes receivables . . . . .	<u>70,000</u>	<u>2,805</u>
	<u>1,196,072</u>	<u>1,403,371</u>

The Company usually grants one month credit period to all the local power companies from the end of the month in which the sales are made. As of December 31, 2000 and 1999, all accounts receivable were aged within one year.

## 11. MATERIALS AND SUPPLIES, NET

Materials and supplies comprised:

	<u>2000</u>	<u>1999</u>
	'000	'000
Fuel (coal and oil) for power generation . . . . .	176,628	153,217
Construction and other supplies . . . . .	<u>397,721</u>	<u>390,204</u>
	574,349	543,421
Less: Provision for obsolescence . . . . .	<u>(10,608)</u>	<u>—</u>
	<u>563,741</u>	<u>543,421</u>

Materials and supplies are stated at cost. There was no write-down of any materials and supplies during the year.

## 12. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	<u>2000</u>	<u>1999</u>
	'000	'000
Prepayments for materials and supplies . . . . .	24,224	11,353
Prepayments for contractors . . . . .	65,010	72,356
Prepayment for consideration of acquisition of Shandong Huaneng . . . . .	5,767,898	—
Deferred expenditure relating to acquisition of Shandong Huaneng . . . . .	23,070	—
Others . . . . .	<u>82,964</u>	<u>63,256</u>
	5,963,166	146,965
Less: Provision for bad debt . . . . .	<u>(4,588)</u>	<u>—</u>
	<u>5,958,578</u>	<u>146,965</u>

### **13. 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, 2000, 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.

### **14. 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. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the shareholders.

For the year ended December 31, 2000, the Board of Directors resolved the following on March 14, 2001:

- (i) to appropriate 10% and 7.5% (1999: 10% and 7.5%; 1998: 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 Rmb463 million (1999: Rmb352 million; 1998: Rmb328 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, 2000 was approximately Rmb2.03 billion (1999: Rmb1.52 billion, 1998: Rmb1.51 billion). The cumulative balance of distributable profit as of December 31, 2000 was approximately Rmb7.85 billion (1999: Rmb6.33 billion (as restated), 1998: Rmb5.27 billion (as restated)).

## **15. DIVIDENDS**

On March 14, 2001, the Board of Directors proposed a dividend of Rmb0.22 (1999: Rmb0.09, 1998: Rmb0.08) per share, totaling approximately Rmb1,243 million (1999: Rmb509 million, 1998: Rmb452 million) for the year ended December 31, 2000. The proposed dividend distribution is subject to shareholders' approval in their next meeting. Because of the adoption of the revised IAS 10 "Events After the Balance Sheet Date", the dividend will be recorded in the Company's financial statements for the year ending December 31, 2001 (Note 32).

## **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 are 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, 2000.

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.

The proceeds received were allocated for accounting purposes into a liability component of approximately US\$168 million (equivalent to Rmb1,393 million) and an equity component of approximately US\$62 million (equivalent to Rmb511 million) at the issuance date.



## 17. SHORT-TERM BANK LOANS

Short-term bank loans are denominated in Renminbi and drawn primarily as bridging loans for acquisition of Shandong Huaneng (Note 34). They are unsecured, bears interest at the prevailing interest rates in the PRC, which was 5.02% per annum for the year ended December 31, 2000 (1999: 5.58%, 1998: 6.12% to 10.98%), and repayable within one year.

## 18. LONG-TERM LOANS FROM SHAREHOLDERS

Long-term loans from shareholders comprised:

	<u>2000</u>	<u>1999</u>
	'000	'000
Loans from local investment companies (a) . . . . .	120,000	382,000
Foreign currency bank loans on-lent by HIPDC (b) . . . . .	<u>881,820</u>	<u>1,359,515</u>
	<u>1,001,820</u>	<u>1,741,515</u>

- a. Interest-bearing Renminbi loans were borrowed from the local investment companies by the five original operating plants to finance construction. These loans bore interest at 6.21% per annum for the year ended December 31, 2000 (1999: 3.60% to 6.21%, 1998: 3.60% to 11.16%) and are repayable in accordance with the agreed repayment schedules.
- b. The foreign currency bank loans bear interest at the prevailing lending rates (both fixed and floating) prescribed by the contract, which ranged from 4.25% to 7.40% per annum for the year ended December 31, 2000 (1999: 4.25% to 8.80%, 1998: 3.75% to 8.80%), and are repayable in accordance with the repayment schedules set by the banks. The amounts outstanding comprised:

	<u>2000</u>	<u>2000</u>	<u>1999</u>
	Original Currency '000	Rmb'000	Rmb'000
Amounts denominated in United States Dollar ("US\$")	97,936	810,721	1,125,528
Amounts denominated in French Francs ("FRC") . . . . .	—	—	802
Amounts denominated in Swiss Francs ("SFRC") . . . . .	14,040	<u>71,099</u>	<u>233,185</u>
		<u>881,820</u>	<u>1,359,515</u>

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:

	<u>2000</u>	<u>1999</u>
	'000	'000
Within one year .....	218,995	673,482
Between one to two years .....	4,967	233,336
Between two to five years .....	777,858	816,993
Over five years .....	—	17,704
	<u>1,001,820</u>	<u>1,741,515</u>
Less: Amount due within one year included under current liabilities .....	(218,995)	(673,482)
	<u>782,825</u>	<u>1,068,033</u>

## 19. 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)), which bore interest at the prevailing lending rate in the PRC at 6.21% per annum for the year ended December 31, 2000 (1999: 6.21% to 7.56%). The loan from Nanjing Investment is repayable as follows:

	<u>2000</u>
	'000
Within one year .....	58,123
Between one to two years .....	58,123
Between two to five years .....	116,245
	<u>232,491</u>
Less: Amount due within one year included under current liabilities .....	(58,123)
	<u>174,368</u>

## 20. LONG-TERM BANK LOANS

Long-term bank loans comprised:

	<u>2000</u>	<u>2000</u>	<u>1999</u>
	US\$'000	Rmb'000	Rmb'000
Renminbi bank loans (a) .....	—	828,000	1,062,000
United States dollar bank loans (b) .....	1,146,229	9,489,347	9,674,507
		<u>10,317,347</u>	<u>10,736,507</u>

a. Renminbi bank loans were borrowed from local banks to finance the construction of the Shangan Phase II, the Dalian Phase II, the Nantong Phase II and the Shantou Power Plant. These loans bore interest at the prevailing lending rates at 6.21% per annum for the year ended December 31, 2000 (1999: 5.85% to 6.21%, 1998: 7.56% to 10.98%) and are repayable in accordance with the agreed repayment schedules set by the banks. As of December 31, 2000, Renminbi bank loans of Rmb418 million (1999: Rmb692 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, the Nantong Phase II and the Dalian Phase II. These loans bore interest at lending rates (both fixed and floating) ranging from 5.95% to 6.60% per annum for the year ended December 31, 2000 (1999: 5.95% to 6.60%, 1998: 5.40% to 6.60%), and are repayable in accordance with the agreed repayment schedules set by the banks.
- c. The long-term bank loans are repayable as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Within one year . . . . .	1,431,713	1,118,036
Between one to two years . . . . .	1,429,713	1,247,363
Between two to five years . . . . .	3,098,607	3,519,493
Over five years . . . . .	4,357,314	4,851,615
	<u>10,317,347</u>	<u>10,736,507</u>
Less: Amount due within one year included under current liabilities . . . . .	(1,431,713)	(1,118,036)
	<u>8,885,634</u>	<u>9,618,471</u>

## 21. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	<u>2000</u>	<u>1999</u>
	'000	'000
Accounts payable . . . . .	361,591	276,690
Regulatory liability for repair and maintenance (see Note 2(m)) . . . . .	535,588	355,276
Payable to contractors for construction costs incurred . . . . .	1,249,780	1,802,414
Deposits payable to contractors . . . . .	24,832	42,471
Accrued interest . . . . .	202,390	297,963
Payable to power companies . . . . .	36,550	82,216
Others . . . . .	307,226	302,572
	<u>2,717,957</u>	<u>3,159,602</u>

As of December 31, 2000 and 1999, the aging analysis of accounts payable were as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Within one year . . . . .	356,527	272,485
Between one to two years . . . . .	3,527	73
Over two years . . . . .	1,537	4,132
	<u>361,591</u>	<u>276,690</u>

## 22. TAXES PAYABLE

Taxes payable comprised:

	<u>2000</u>	<u>1999</u>
	'000	'000
VAT payable . . . . .	193,000	146,569
Income tax payable . . . . .	329,960	347,451
Others . . . . .	<u>6,701</u>	<u>17,045</u>
	<u>529,661</u>	<u>511,065</u>

## 23. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As of December 31, 2000, the net current assets of the Company amounted to approximately Rmb2,991 million (1999: net current liabilities Rmb371 million). On the same date, the total assets less current liabilities was approximately Rmb35,396 million (1999: Rmb34,346 million).

## 24. HOUSING SCHEME

In accordance with the PRC housing reform regulations, the Company is required to make contributions to the State-sponsored housing fund at 5% - 25% of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company's contribution out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended December 31, 2000, the Company contributed approximately Rmb27 million (1999: Rmb27 million, 1998: Rmb17 million) to the fund.

In addition, the Company provided housing benefits to certain employees to enable them to purchase living quarters from the Company at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The housing benefits are expected to benefit the Company over the estimated remaining average service life of the relevant employees.

For the year ended December 31, 2000, the housing benefits provided by the Company to the employees amounted to approximately Rmb87million (1999: Nil, 1998: Nil) which is recorded as a long-term deferred asset and amortized over the remaining average service life of the relevant employees which is estimated to be 10 years.

The Company has no further obligation for housing benefits.

## 25. PROVISION FOR INCOME TAX

Provision for income tax comprised:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	'000	'000	'000
Current tax expense . . . . .	445,244	384,555	370,995
Adjustment for current tax of prior year of Shangan Phase II (See Note 2p(ii)) . . . . .	(31,824)	—	—
Others . . . . .	<u>(2,218)</u>	<u>—</u>	<u>—</u>
	<u>411,202</u>	<u>384,555</u>	<u>370,995</u>

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Average statutory tax rate . . . . .	16%	16%	18%
Effect of tax holiday . . . . .	(4%)	(2%)	(3%)
Others . . . . .	<u>2%</u>	<u>3%</u>	<u>2%</u>
Effective tax rate . . . . .	<u>14%</u>	<u>17%</u>	<u>17%</u>

The aggregate effect of the tax holiday was approximately Rmb112 million for the year ended December 31, 2000 (1999: Rmb56 million, 1998: Rmb64 million).

The average statutory tax rate for the year ended December 31, 2000 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 profit before tax and the applicable statutory tax rates.

State Council has issued a directive requesting some local governments to correct their policies of requesting business enterprises to prepay taxes which were not authorized by the relevant national authorities. Such policies were suspended on January 1, 2000. During the year ended December 31, 2000, the Company did not make any unauthorized tax prepayment.

For the year ended December 31, 2000, there were no deferred tax assets or liabilities recognized or reversed.

## 26. EARNINGS PER SHARE

	Years ended December 31,								
	<u>2000</u>			<u>1999</u>			<u>1998</u>		
	Net Profit	Shares	Per Share Amount	Net Profit	Shares	Per Share Amount	Net Profit	Shares	Per Share Amount
	Rmb'000	'000	Rmb	Rmb'000	'000	Rmb	Rmb'000	'000	Rmb
<b>Earnings per Share</b>									
Net profit attributable to shareholders . .	2,515,830	5,650,000	0.45	1,868,175	5,650,000	0.33	1,838,511	5,537,808	0.33
Interest on convertible notes (net of tax effect and excluding interest capitalized) . . . .	122,546	—		118,809	—		89,892	—	
Effect of assumed conversion . . . . .	—	315,068		—	315,068		—	315,068	
<b>Diluted Earnings per Share</b>									
Net profit attributable to shareholders plus effect of assumed conversion . . . . .	<u>2,638,376</u>	<u>5,965,068</u>	0.44	<u>1,986,984</u>	<u>5,965,068</u>	N/A	<u>1,928,403</u>	<u>5,852,876</u>	0.33

Basic earnings per share was computed by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares outstanding during the year. On a diluted basis, both net profit attributable to shareholders 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 at the beginning of the year. For the year ended December 31, 1999, the 1.75% convertible notes had no dilution effect on the earnings per share.

## 27. NOTES TO CASH FLOW STATEMENT

### a. Major non-cash transaction

- (i) On March 4, 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)) in 1999. The fair value of the assets acquired and the liabilities assumed were as follows:

	<u>Rmb'000</u>
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
<b>Total assets acquired . . . . .</b>	<u>2,701,753</u>
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)
<b>Total liability assumed . . . . .</b>	<u>(1,348,737)</u>
<b>Net purchase consideration . . . . .</b>	1,353,016
Less: Cash of Nanjing Power Plant . . . . .	(150,229)
Cash settlement of net purchase consideration . . . . .	<u>(1,111,375)</u>
<b>Total non-cash amount in respect of the acquisition of Nanjing Power Plant . . . . .</b>	<u><u>91,412</u></u>

b. *Undrawn borrowing facilities*

As of December 31, 2000, 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 (1999: 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:

	<u>2000</u>	<u>1999</u>
	'000	'000
Amount to be drawn down:		
Within one year . . . . .	587,738	436,583
Between two to five years . . . . .	919,358	1,071,316
	<u>1,507,096</u>	<u>1,507,899</u>

**28. OBLIGATIONS AND COMMITMENTS**

a. *Capital Commitments*

Commitments mainly relate to the construction of some complementary facilities and renovation projects for existing power plants and the purchase of coal. Commitments outstanding as of December 31, 2000 not provided for in the balance sheet were as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Authorized and contracted for . . . . .	1,585,005	4,434,318
Authorized but not contracted for . . . . .	112,729	—
	<u>1,697,734</u>	<u>4,434,318</u>

b. *Operating lease commitments*

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 5). Some of the leases contain renewal options. Most of the leases contain escalation clauses. Lease terms do not contain restriction on the Company's activities concerning dividends, additional debts or further leasing.

Total future minimum lease payments under non-cancelable operating leases are as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Land and buildings		
- not later than one year . . . . .	32,334	7,334
- later than one year and not later than two years . . . . .	32,334	7,334
- later than two years and not later than five years . . . . .	72,002	22,002
- later than five years . . . . .	306,362	313,696
	<u>443,032</u>	<u>350,366</u>

## **29. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

The estimated fair value of long-term debt including current maturities was Rmb11.22 billion and Rmb12.28 billion, respectively, as of December 31, 2000 and December 31, 1999 based on current market interest rates for comparable instruments. The book value of these liabilities was Rmb11.55 billion and Rmb12.76 billion, respectively, as of December 31, 2000 and 1999.

The quoted market rate of the convertible notes was 117% and 103% as of December 31, 2000 and December 31, 1999 respectively (100% as of the issue date with total proceeds of US\$230 million or Rmb1,908 million equivalent).

## **30. BANKING FACILITIES**

In accordance with the banking facilities agreement signed between the Company and Bank of China (“BOC”), BOC granted the company unsecured banking facilities amounting to approximately Rmb6.95 billion for one year. The banking facilities included Rmb6 billion of bridging loan for acquisition of Shandong Huaneng or other power plants, Rmb0.9 billion of short-term loan and Rmb50 million of unsecured letter of credit.

As of December 31, 2000, the unused facilities amounted to Rmb6.15 billion.

## **31. 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, 2000, the notional amount of the outstanding interest rate swap agreements was approximately US\$114 million (1999: US\$114 million).

## **32. PRIOR YEAR ADJUSTMENTS**

In prior years, dividends proposed or declared after the balance sheet date were recognized as a liability as of the balance sheet date. Because of the adoption of the revised IAS 10 “Events After the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are no longer permitted to be recognized as a liability as of the balance sheet date. As a result, the dividend of Rmb1.243 billion for the year ended December 31, 2000 declared by the Board of Directors on March 14, 2001 should be recorded in the Company’s financial statements for the year ending December 31, 2001.

This change in accounting policy has been applied retrospectively with the result that the Company’s retained earnings as of December 31, 1998 and 1999 were increased by Rmb452 million and Rmb508.5 million respectively, being the amount of dividends declared by the Company after the respective balance sheet dates. Comparative figures as of December 31, 1999 and for the year then ended have been restated to reflect this change in accounting policy.

## **33. CONCENTRATION OF RISK**

### *a. Business Risk*

The Company conducts its operations in the PRC and accordingly is subject to special 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 and 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, shareholders loans, bank loans and other loans of the Company are disclosed in Notes 16, 18, 19 and 20.

c. *Foreign Currency Risk*

The Company has foreign currency risk as its convertible notes and a significant portion of its long-term bank loans and shareholder loans are denominated in foreign currencies, principally US dollars, as described in Notes 16, 18(b) and 20 (b). Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Company's results of operation.

d. *Credit risks*

Significant portion of the Company's cash and cash equivalents and temporary cash investments maturing over three months are deposited with the four largest state-owned banks of the PRC.

Each power plant of the Company sells the electricity generated to its sole customer (i.e. provincial or regional power company) in the province or region where the power plant is situated.

#### **34. SUBSEQUENT EVENT**

On July 18, 2000, the Company and Shandong Huaneng Power Development Co., Ltd. ("Shandong Huaneng") entered into an agreement under which the Company would acquire the net assets of Shandong Huaneng. The shareholders of Shandong Huaneng are entitled to Rmb1.34 per ordinary A share or US\$0.1618 per ordinary N share (the "Transaction"). The total consideration of the Transaction is approximately Rmb5,768 million payable in cash.

Before the Transaction, Shandong Huaneng owned and operated the net assets of Dezhou Power Plant and held 60%, 75% and 25.5% equity interests in Waihai Power Plant, Jining Power Plant and Rizhao Power Plant respectively. These power plants own coal-fired power generating facilities in Shandong province and sells all the power generated to Shandong Electric Power Group Corporation. After obtaining all the necessary government approvals on the Transaction, the Company took over the control of the net assets and operations of Shandong Huaneng from January 1, 2001.

The acquired identifiable assets and liabilities are recorded based on their respective fair values on January 1, 2001. The Company estimated that the fair value of the net identifiable assets and liabilities of Shandong Huaneng on that date to be approximately Rmb8.248 billion. Such estimation was made by the Company based on the current information available, taking into consideration the recoverability and realizability of each asset and liability. The Company may adjust these fair values estimates, after taking into account the possible industry regulatory reform and other matters. On the above basis, the resulting negative goodwill amounted to approximately Rmb2.457 billion, which would be amortized over the expected useful life of 10 years on the straight-line basis, starting from January 1, 2001.

The fair market values on the identifiable assets and liabilities of Shandong Huaneng on January 1, 2001 were as follows:

	<u>Rmb'000</u>
Cash and cash equivalents and investments . . . . .	4,116,910
Account receivables . . . . .	167,324
Materials and supplies . . . . .	68,460
Other current assets . . . . .	202,154
Property, plant and equipment, net . . . . .	5,420,623
Other long-term assets . . . . .	324,457
Total assets . . . . .	<u>10,299,928</u>
Current liabilities . . . . .	703,696
Long-term loans . . . . .	1,348,024
Total liabilities . . . . .	<u>2,051,720</u>
<b>Fair values of net assets</b> . . . . .	<u>8,248,208</u>
Less: Total consideration of the Transaction . . . . .	(5,767,898)
Direct costs relating to the Transaction . . . . .	(23,070)
<b>Negative goodwill</b> . . . . .	<u><u>2,457,240</u></u>

As if the acquisition of Shandong Huaneng had been completed on January 1, 2000, the unaudited pro forma combined net operating revenue and net profit of the Company and Shandong Huaneng for the year ended December 31, 2000 are Rmb15.453 billion and Rmb3.225 billion, respectively. The unaudited pro forma information do not purport to represent what the results of operations would actually have been if the acquisition of Shandong Huaneng been completed as of the assumed date or to project the results of operations of any future date. Pro forma operating results are for information purpose only.

### 35. NEWLY ISSUED ACCOUNTING STANDARDS

IASC issued IAS 39, “Financial Instruments: Recognition and Measurement” and IAS 40, “Investment Property”. IAS 39 stipulates accounting and reporting standards for derivative instruments and for hedging activities. IAS 39 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or recognized directly in equity through the statement of changes in equity, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. IAS 40 prescribes the accounting treatment for investment property. Both standards will become effective for fiscal years beginning on or after January 1, 2001. Based on the current assessment of the Company, the impact of the adoption of these standards on the Company’s operating results and financial position is not expected to be significant.

### 36. SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

The accounting policies adopted by the Company conform to IAS which differ in certain respects from generally accepted accounting principles in the United States of America (“US GAAP”). The principal differences having a significant effect on its financial statements are set out below.

#### a. *Housing benefits provided by HIPDC*

HIPDC provided housing benefits to certain qualified employees of the Company whereby the living quarters owned by HIPDC were sold to these employees at preferential prices. Under IAS, such housing benefits provided by HIPDC are not reflected in the financial statements of the Company. Under US GAAP, the amount of housing benefits provided by HIPDC to the employees of the Company are recognized as the Company’s operating expenses on a straight-line basis over the estimated remaining average service life of the employees. The corresponding amount is recorded as a capital contribution.

*b. Convertible Notes*

Under US GAAP the entire proceeds of the issue of convertible notes as described in Note 16 are recorded as long-term liabilities without distinguishing between the equity and liability components.

*c. US Regulatory Accounting*

Statement of Financial Accounting Standard Number 71 "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71") is applicable to utilities in the United States whose regulators have the power to approve and/or regulate rates that may be charged to 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 income statements with the objective of matching costs with revenues. Provided that, through the rate setting process, the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. The regulatory process may also impose a liability on a rate-regulated enterprise, usually representing obligations to the enterprise's customers, which should be recognized as regulatory liability.

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. Firstly, its power rates are established by an independent regulator, the provincial or local price bureau. Further, the pricing policy applicable to the Company 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.

Under IAS, as there is no equivalent regulatory accounting standard, the Company's policy is to recognize regulatory assets established under SFAS 71 only where they comprise rights or other access to future economic benefits as a result of past events; or to recognize regulatory liabilities only where they comprise a present obligation the settlement of which is expected to result in an outflow of resources embodying economic benefits.

For the years ended December 31, 2000 and 1999, there was no difference in the recognition of regulatory assets and liabilities between IAS and US GAAP.

*d. Impairment of Long-lived Assets*

The carrying amounts of fixed assets under IAS is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the assets discounted to their present value or the asset's net selling price. A subsequent increase in the recoverable amount is written back to the income statement when circumstances and events that led to the write-down cease to exist.

Under US GAAP, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an assets to future undiscounted

net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount of fair value less cost to sell.

For the years ended December 31, 2000 and 1999, no differences arose in respect of the timing and the amount of impairment in long-lived assets recognized.

Differences between IAS and US GAAP which affect the shareholders' equity and net income of the Company are summarized below:

	Note	Net Income		
		For the years ended December 31		
		2000	1999	1998
		Rmb'000	Rmb'000	Rmb'000
Balances under IAS . . . . .		2,515,830	1,868,175	1,838,511
Impact of US GAAP adjustments: . . . . .				
Recording of housing benefits provided by HIPDC . . . . .	(a)	(26,152)	—	—
Balances under US GAAP . . . . .		<u>2,489,678</u>	<u>1,868,175</u>	<u>1,838,511</u>
Basic earnings per ordinary share under US GAAP (Rmb) (i) . . . . .		<u>0.44</u>	<u>0.33</u>	<u>0.33</u>
Basic earnings per equivalent ADS under US GAAP (Rmb) (i) . . . . .		<u>17.63</u>	<u>13.23</u>	<u>13.28</u>
Diluted earnings per ordinary share under US GAAP (Rmb) (i) . . . . .		<u>0.44</u>	<u>N/A</u>	<u>0.33</u>
Diluted earnings per equivalent ADS under US GAAP (Rmb) (i) . . . . .		<u>17.52</u>	<u>N/A</u>	<u>13.18</u>

(i) *Earnings per ordinary shares and per equivalent ADS were calculated by dividing the net income for the financial year under US GAAP by the weighted average number of ordinary shares and ADS in issue during the financial year. On a diluted basis, both net income for the financial year and the weighted average number of ordinary shares and ADS outstanding for the financial year were adjusted on the assumption that the convertible notes had been fully converted at the beginning of the year.*

	Note	Shareholders' Equity	
		As of December 31	
		2000	1999
		Rmb'000	Rmb'000
Balances under IAS as previously reported . . . . .		23,779,735	21,263,905
Effect of change in accounting policy with respect to dividend (Note 32) . . . . .		—	508,500
Balances under IAS as restated . . . . .		23,779,735	21,772,405
Impact of US GAAP adjustments: . . . . .			
Reversal of equity component of convertible notes . . .	(b)	(510,506)	(510,506)
Balances under US GAAP . . . . .		<u>23,269,229</u>	<u>21,261,899</u>

In preparing the summary of differences between IAS and US GAAP, management is required 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. Accounting estimates have been employed in these financial statements to determine reported amounts, including realizability, useful lives of fixed assets and other areas. Actual results could differ from those estimates.

### **Reclassifications**

The reconciliation of net income and shareholders' equity from IAS to US GAAP as presented above include those items which have a net effect on net income or shareholders' equity. There are no other major GAAP differences not included in the reconciliation which would affect the classification of assets and liabilities or income and expenses.

### **Cash Flow Statement**

The Company adopts IAS 7 "Cash Flow Statements". Its objectives and principles are similar to those set out in the Statement of Financial Accounting Standard Number 95 "Statement of Cash Flows". There is no material difference in the cash flow statements of the Company between these two standards for each of the year in the three-year period ended December 31, 2000.

### **Statement of Comprehensive Income**

Under US GAAP, certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. However, for each of the year in the three-year period ended December 31, 2000, apart from the net income, there was no other comprehensive income which should be included in the statements of comprehensive income.

## 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 5, 2001



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