

Business Review of the Period

POWER GENERATION MANAGEMENT

During the first half of 2001, the total electricity generation of the Group amounted to 13,197 million kWh which was calculated according to the proportionate share of generators owned by the Group, increased by 668 million kWh over the corresponding period of the previous year, representing an increase of 5.33%. On-grid electricity generation totalled 12,429 million kWh, representing an increase of 5.41% over the same period of last year. The Group owns the entire interests in Zouxian Plant, Shiliquan Plant and Laiching Plant, which together had a total electricity generation of 11,661 million kWh during the Period, representing an increase of 5.22% over the corresponding period of the previous year. Although the total installed capacity of the Group calculated according to the proportionate share of generators owned by the Group increased by 6.76% during the Period when compared with the same period of last year, the Group had undertaken major overhauls to three generating units, namely generating unit number 2 at Shiliquan Plant, generating unit number 4 at Zouxian Plant and generating unit number 2 at Laicheng Plant, with respect to a total overhaul capacity amounted to 725MW as scheduled, representing an increase of 600MW over the corresponding period of the previous year. Besides, a total of 6 generating units had undergone small scale overhauls. The capacity available for generation only increased by 0.56% when compared with the same period of the pervious year. Due to the concerted efforts of the staff, all the generating units of the Group operated efficiently and attained a satisfactory growth in electricity generation over the same period of last year.

The Group owns the entire interests in Zouxian Plant (with a total installed capacity of 2,400MW comprising four 300MW generating units and two 600MW generating units), Shiliquan Plant (with a total installed capacity of 1,225MW comprising five 125MW generating units and two 300MW generating units) and Laicheng Plant (comprising four 300MW generating units, two of which have commenced commercial operation). In addition to the above wholly-owned plants, the Group also owns 55% and 30% of the equity interests in Qingdao Plant Phase I (comprising two 300MW generating units) and Weifang Plant Phase I (comprising two 300MW generating units) respectively. As at 30 June 2001, the total installed capacity of the Group under proportionate sharing was 4,735MW.

Subsequent to the achievements attained by the first 300MW unit of Laiching Plant, which commenced operation at the end of 1999, in respect of its technology and construction quality and the test run standards which complied with the standard of high quality project of the State as well as the record made in terms of operating for the longest time without any major incident affecting safety since it has commenced operation, the second 300MW unit of such plant made a new record in 2000 of the State of operating for 131 consecutive days without any major incident affecting safety. Such record has been included in the Guinness Book of Records. These paved the way for smooth constructions and operations of the third and the fourth generating units of Laiching Plant.

A total of 152 generating units from 56 power plants of the State participated in the 30th Large-scale Thermal Power Units Competition of the People's Republic of China (the "PRC") (unit capacity of 300MW and above) held in 2000. These generating units were examined in accordance with such capabilities as operating efficiency, safe operating period

and production rate, etc. Altogether 48 generating units won prizes. The rate of winning prize was about 31.6%. A total of 12 generating units of 300MW and 600MW of the Group participated in this competition and 10 of which won prizes. The rate of winning prize was about 83.3%. Generating unit number 5 of 600MW at Zouxian Plant won top-rank prize (first prize), generating unit number 2 of 300MW at Qingdao Plant won top-rank prize (first prize) of domestically produced units. All these indicated that the management of the Group had attained remarkable achievements.

CONSTRUCTION IN PROGRESS AND FUTURE DEVELOPMENT PROJECTS

The construction progress of the Group's construction projects was undertaken smoothly. The construction work of the third and the fourth 300MW generating units of Laicheng Plant, which is wholly-owned by the Group, will be in progress as scheduled. The budgeted construction cost is RMB2,350 million. It is planned that such two units will commence operation in 2002 and 2003 respectively.

The project proposal of two 600MW units of Zouxian Plant Phase IV, which is wholly-owned by the Group, has been submitted to Shandong Development Planning Commission and State Power Corporation. As the manufacturing of facilities of 1,000MW generating unit in the PRC will be difficult to carry out in the near future, the construction of 1,000MW unit as originally planned has been changed to 600MW unit instead in order to expedite the progress for approval. It is expected that the project proposal will be submitted to the State Development Planning Commission for approval during the year.

The Group's project proposal of the two 600MW units of Weifang Plant Phase II has been currently submitted to the State Development Planning Commission for approval.

At present, the number of coalmines in Heze district, over which Shandong Luneng Heze Minerals Development Company Limited, in which the Group has a 45% interest, has exploration right, has increased to four through explorations and development.