

# Management Discussion and Analysis

## ECONOMIC ENVIRONMENT

The growth of the PRC's GDP was 7.9% in the first half of 2001. The growth in GDP of Shandong Province, the area served by the Group, reached 10.4% which was higher than the national average. The power consumption of the whole society of Shandong Province during the Period was 51,614 million kWh, representing an increase of 6.58% over the same period of the previous year. The industrial sector of Shandong Province consumed 38,281 million kWh, representing an increase of 6.51% over the same period of the previous year and accounted for 74.22% of the total power consumption of Shandong Province. The agriculture, fisheries and water conservancy industries consumed 2,775 million kWh, accounted for 5.60% of the total power consumption of Shandong Province, representing an increase of 2.40% over the same period of the previous year. The power consumed by the urban and rural residents was up to 6,368 million kWh, representing an increase of 7.23% over the same period of last year and accounted for 12.26% of the total power consumption of Shandong Province. As at 30 June 2001, the total installed capacity of Shandong Province was 19,569.68MW, representing an increase of 4.56% over the same period of the previous year.

## OPERATING REVENUE AND PROFIT

During the Period, the operating revenue of the Group amounted to RMB 3,607 million, representing an increase of 6.42% when compared with the corresponding period of the previous year; net profit increased by RMB 50 million to RMB 748 million, representing an increase of 7.2% over the same period of the previous year. The increase in profit was mainly attributable to the increase in electricity generation (for details, please refer to the section headed "Power Generation Management") and the achievement of better cost control during the Period.

## OPERATING COSTS

The major operating cost of the Group was the cost of fuel which increased by 7.47% over the same period of the previous year as a result of an increase in electricity generation and increase in the prices of coal. The prices of coal in the PRC rebounded since the end of 2000. During the first half of the year, the Group endeavoured to optimise its sources of coal supply and made use of its competitive edge in bulk purchase in order to control the prices of coal. In addition, the Group had enhanced its management and upgraded its technology so as to improve the efficiency of its facilities as well as to reduce the net generation coal consumption rate and has achieved remarkable effectiveness. During the first half of the year, the unit cost of fuel of the Group amounted to RMB81.72/MWh, representing only a slight increase of 1.95% when compared with the corresponding period of the previous year.

The costs for major overhauls and maintenance of the generating units of the Group increased by 34.7% over the same period of last year. The increase was attributable to the undertaking of major overhauls to three generating units, part of the ancillary facilities and utilities facilities whereas there was only one major overhaul undertaken to one generating unit, part of the ancillary facilities and utilities facilities during the same period of the

previous year.

During the Period, wages and staff welfare amounted to RMB107 million, an increase of RMB22,477 million over the same period of the previous year. This was attributed to the commencement of operation of the second generating unit of Laichang Plant and the increase in the number of staff for the development of new projects as well as a slight increase in wages.

## **FINANCE COSTS**

During the Period, the finance costs of the Group decreased by RMB42,500,000 which was attributable to the repayment of bank loans and reduced interest rate.

## **INDEBTEDNESS**

As at 30 June 2001, the borrowings of the Group totalled RMB9,569 million, of which US\$229 million was a loan advanced by the World Bank. As at 30 June 2001, the net liability to asset ratio of the Group was 37.6%

On 30 June 2001, the Group obtained a loan from domestic banks in the sum of RMB450 million which was secured by an equivalent amount of deposit in US dollars.

## **MAJOR TECHNOLOGICAL UPGRADE PROJECTS**

The primary purposes of the technology upgrade projects undertaken by the Group were to enhance the capacity of electricity generation, the technological level of its facilities and the efficiency of the generating units and to protect the environment.

During the first half of the year, various technology upgrade projects in respect of the generating unit number 2 (125MW) at Shiliquan and the generating unit number 4 (300MW) at Zouxian Plant have been completed. These projects mainly included the through-flow project of steam turbine of generating unit, upgrading of the installed capacity of generating unit and upgrading of the automatic control system of the boiler dust removers. After completion of such technology upgrade projects, the electricity generation capacity and the efficiency of such generating units had been improved significantly. The net generation coal consumption rate of the generating units reduced by 15g/kwh and 17g/kwh respectively. As the effect of the technology upgrade projects was satisfactory under normal operations, the Group will continue to undertake technology upgrade projects with respect to some of its generating units.