

BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

During the first half of year 2001, the management and all staff of the Company made great efforts in tackling the difficulties in the power market and strengthening the operation and management, thus achieving satisfactory results.

1. Power Generation

During the first half of this year, total power generation of the Company's power plants calculated in terms of equity interest reached 25.86 billion kWh, completing 48.05% of the planned annual power generation and representing an increase of 19.17% compared with the same period of last year. Fully calculated power generation of the power plants of the Company and its subsidiaries (including the total power generation of Jining and Weihai but excluding Rizhao) was 26.45 billion kWh, representing an increase of 21.86% compared with the same period of last year. The increase in power generation was primarily attributable to the acquisition of Shandong Huaneng Power Development Co., Limited ("Shandong Huaneng"). However, power generation of the original power plants of the Company decreased due to newly commissioned capacity and substantial increase of hydro-electricity generation in certain regions.

2. Cost Control

Despite the negative impact of rising coal prices in the PRC, the Company reinforced its cost control measures during the first half of the year and achieved certain results. The unit fuel cost for power sold of the Company for the first half of the year remained basically the same when compared to the relevant period of last year.

3. Project development and construction

The construction work of the 2 x 660MW coal-fired generating units of Dezhou Phase III is progressing smoothly. The quality and investment of the project have been effectively controlled and works are being carried out according to schedule. At the same time, the Company is actively pushing ahead the development of two gas projects in Shanghai and Jinling as well as the expansion of Shangan Phase III, and has made progress in their preliminary work.

4. Corporate Governance

In order to improve the corporate governance of the Company and to strengthen its management, the Board has established three special committees, namely, the Financial Committee, the Technology Committee and the Management Committee. The majority of the members of the committees are external directors and independent directors and the chairmen of the committees are all external directors. The establishment of the special committees will strengthen the directing and supervising functions of the Board in respect of the Company's business activities and operations and to more effectively protect the interests of the investors.

5. **Issuance of A Shares**

On 15th February 2001, the extraordinary general meeting of the Company passed resolutions on the issuance of A Shares in the PRC. Preparation work on the issuance of A Shares is progressing smoothly.

6. **Others**

The State Power Corporation awarded Shangan Power Plant and Shantou Coal-fired Power Plant as "First Class Fossil Fuel Power Plant". To date, nine power plants of the Company have been given such an award.