OPERATING RESULTS

A comparison between the results of the first half of year 2001 and those of year 2000. (Amounts expressed in Renminbi ("RMB") unless otherwise stated).

From 1st January 2001, Shandong Huaneng was acquired by the Company, of which Dezhou Power Plant becomes a wholly-owned branch directly managed by the Company. Dezhou Power Plant's operating results are combined into the Company. The Company holds 75%, 60% and 25.5% equity interests respectively in Jining Power Plant, Weihai Power Plant and Rizhao Power Plant. Jining Power Plant and Weihai Power Plant are the subsidiaries of the Company. Their financial statements are consolidated into that of the Company, whereas the results of Rizhao Power Plant are accounted for by equity method.

Summary

During the first half of year 2001, the power generation of the Company and its subsidiaries increased by 21.86% compared with the same period last year, amounting to 26.45 billion kWh (if the power generation of Jining Power Plant, Weihai Power Plant and Rizhao Power Plant is calculated according to the Company's shareholding percentages, the aggregate power generation would be 25.86 billion kWh, representing an increase of 19.17% compared with the relevant period of last year). Therefore, the Company achieved a relatively significant increase in net operating revenues and net profit when compared with the same period of last year. In addition, the Company insisted to adopt the continuing practice of stringent control of costs and expenses. Hence, the unit cost for power sold was basically the same as that of the same period last year despite the pressure of rising coal prices.

Net Operating Revenues

Net operating revenues are operating revenues netted of value-added tax. During the first half of year 2001, the consolidated net operating revenues of the Company and its subsidiaries were RMB7,455.9 million, representing an increase of 21.73% over RMB6,125.0 million of the same period last year.

The substantial increase in net operating revenues was resulted from the expansion of the operation scale after the successful acquisition of Shandong Huaneng. Of the original nine power plants, the amount of power sold of Nanjing Power Plant, Nantong Power Plant and Shantou Coal-fired Power Plant increased 13.75%, 9.31% and 2.27% respectively, over the same period last year. However, the amount of power sold of the other six power plants decreased, to various extent, due to different factors including climate conditions and the commencement of operation of new generating units in certain regions. Accordingly, the total amount of power sold of the original nine power plants decreased by 6.77% from the historical high record of last year.

Operating Cost

The consolidated operating costs of the Company and its subsidiaries increased by 21.62% over the same period last year, amounting to RMB5,204.2 million, which was basically at the same growth rate as the amount of power sold and net operating revenues. The unit cost for power sold was RMB207.45 per MWh, basically the same as RMB207.21 per MWh of the same period last year.

The main operating cost of the Company and its subsidiaries is fuel cost, which totalled RMB2,331.9 million for the first half of year 2001. Owing to the increase in the unit price of coal, the weighted average coal price of the original nine power plants increased by 2.09% compared with RMB221.91 per ton of the same period last year, amounting to RMB226.54 per ton. The unit fuel cost per MWh for power sold increased 1.77% and amounted to RMB93.56. However, the unit prices of coal of Dezhou Power Plant and Jining Power Plant were relatively low. The weighted average prices were RMB161.00 and RMB163.32 per ton respectively during the first half of year 2001, which were substantially lower than the original level of the Company. Therefore, the overall average unit fuel cost for power sold after the acquisition of Shandong Huaneng was reduced when compared with the average level of the original nine power plants during this period, amounting to RMB92.95 per MWh. This reflected the fact that the successful acquisition of Shandong Huaneng had positive effect on the overall operating conditions and competitive advantage of the Company.

Financial expenses

The financial expenses for the first half of year 2001 amounted to RMB456.8 million, representing a decrease of 6.81% compared with RMB490.2 million during the same period of last year. This is mainly attributable to the surplus funding of the Shandong Huaneng, which generated deposit interest income of RMB32.4 million for the Company. Accordingly, the net financial expenses after the acquisition decreased slightly despite the fact that the financial expenses of the original nine power plants were basically the same as those of the same period last year.

Income Tax

After the acquisition of Shandong Huaneng, the Huaneng Shandong branch and Dezhou Power Plant may enjoy the preferential tax treatment available to Sino-foreign enterprises and their income tax rate was reduced from 33% to 17% in the current period. Income tax expenses for the first half of the year were reduced by approximately RMB65.5 million from the amount that would have been due if the original tax rate had been applied.

Net Profit

The consolidated net profit of the Company and its subsidiaries for the first half of year 2001 was RMB1,558.3 million, representing an increase of 38.03% compared with RMB1,128.9 million for the first half of year 2000. This is mainly attributable to the new profit contributions as a result of the consolidation of the operating results of Shandong Huaneng. Moreover, amortization of the negative goodwill (RMB123.6 million) and the decrease in net financial expenses as a result of the acquisition of Shandong Huaneng caused the increase in consolidated net profit to outpace that of power sold and net operating revenues.

Owing to inadequate amount of power sold, Dandong Power Plant recorded net loss of RMB98.6 million during the first half of year 2001, representing an increase of 6.00% in net loss over the same period last year. In addition, Shantou Oil-fired Power Plant also recorded net loss of RMB15.4 million, representing a decrease of 16.23% in net loss over the same period last year.

Comparison of key financial ratios

	30th June 2000	30th June 2001	
		The Company and its subsidiaries	The Company
Current ratio	1.20	0.98	0.99
Quick ratio	1.11	0.89	0.90
Ratio of liabilities and owner's equity	0.81	0.80	0.75
Multiples of interest earned	3.56	4.49	4.63

As the noteholders have the right to redeem the US$230 million convertible notes of the principal amount together with the accrued interest in May 2002, the relevant liabilities have been classified as current liabilities as at 30th June 2001. It leads to the decrease in current ratio and quick ratio when compared with the same period of last year.

However, after the acquisition of Shandong Huaneng, the overall repayment ability (multiples of interest earned) of the Company has increased to a greater extent. As at 30th June 2001, cash and temporary cash investments of the Company and its subsidiaries amounted to approximately RMB4,842 million which were sufficient to meet the daily operating needs and to repay the principal and interest of matured liabilities.

The operating results in the first half of year 2001 reflected that the successful acquisition of Shandong Huaneng not only increased the production capacity of the Company, but also improved and strengthened its capital structure, which enhanced the competitive advantage of the Company.

As at 30th June 2001, total liabilities of the Company and its subsidiaries were approximately RMB19,335 million, and the ratio of liabilities and shareholders' equities was 0.8:1. The Company will issue A Shares to meet the funding requirements for the future development of the Company and to reduce the liability ratio, thereby improving the asset structure.

As at 30th June 2001, the balances of the foreign currency loans of the Company and its subsidiaries were US$1,548 million (including US$281 million convertible notes in principal together with accrued interests) and SwFr6 million, of which US$142 million and SwFr6 million will be due within one year. The Company and its subsidiaries will pay close attention to the fluctuations in the foreign exchange market and cautiously assess the exchange rate risk.

Most of the long-term loans of the Company and its subsidiaries are fixed-rate loans. As at 30th June 2001, the balance of the floating-rate loans of the Company and its subsidiaries were RMB2,277 million. The Company and its subsidiaries made use of the interest rate swap contracts to manage the risk of interest rate fluctuations (Please refer to Note 13 of the financial statements for details).

Calculation formular of the financial ratio:

Ratio of liabilities and owners' equity	=	balance of the liabilities at the end of the period / balance of the shareholders' equity at the end of the period
Liquidity ratio	=	balance of the current assets at the end of the period / balance of the current liabilities at the end of the period
Quick ratio	=	(balance of the current assets at the end of the period - net amount of inventory at the end of the period) / balance of current liabilities at the end of the period
Multiples of interest earned	=	(profit before taxation + interest expenses) / interest expenditures