

CHAIRMAN'S STATEMENT



To Shareholder,

The year 2001 is the third consecutive year during which the Group earned stable income and profit growth since the Company has been listed and achieved outstanding operating results due to the support of the government and shareholders as well as the concerted efforts of the management and the staff.

In 2001, the Group continued its commitment in building a good image for the PRC power industry, by striving to become a power producer with top class management. It continued its emphasis on production safety and stability while also improving the safety and efficiency of its operations and reducing operation costs. The Group also optimised its capital utilisation, improved its debt structure, reduced interest expenses and increased its economic efficiency. As a result, the targets of the Group in respect of electricity generation, operation, acquisitions and basic infrastructure have been attained.

For the financial year ended 31 December 2001, electricity generation of the Group amounted to 26.64 million MWh which was calculated according to the proportionate share

of interests owned by the Group, representing an increase of approximately 4.67% when compared with the corresponding period of 2000; the operating revenue amounted to approximately RMB7,142 million, representing an increase of approximately 4.08% when compared with the corresponding period of 2000. Despite the influence of such unfavourable factors as increase in fuel costs, net profit of approximately RMB1,379 million was recorded, representing an increase of approximately 3% over the same period of 2000; basic earnings per share were RMB0.262. The Board of Directors recommended payment of a final dividend for the Year 2001 of RMB0.17 per share.

In order to bring about better returns to shareholders and enhance its core competitiveness, the Group endeavours to seek new development opportunities in electricity generation with an aim to maintain its leading position as the largest power producer in Shandong Province. At present, the development projects of the Group are progressing smoothly. The Group has, through investments and acquisitions, acquired the equity interests or assets, in whole or in part, of the existing and newly-constructed generating units of three power plants which are located at Jinan, Zibo and Tengzhou respectively. In addition, the preliminary work in respect of the two 600MW coal-fired units of Zouxian Plant Phase IV and the two 600MW coal-fired units of Weifang Plant Phase II was being implemented as scheduled.

During the year, the Group grasped the unprecedented opportunities of the "Grand Western Development" and "Electricity Transmission from Western China to Eastern China" and has preliminarily agreed in principle with the relevant investing party in Guizhou to jointly develop and construct Nayong Power Plant and Nayong No. 2 Power Plant. The Group has achieved a substantial breakthrough in respect of cross regional development and initiated the strategy of expanding to other regions in the PRC.

The Group is located in Shandong Province, where the growth rate of gross domestic product (GDP) in 2001 was 10.1%, which was 2.8 percentage over the national average of 7.3%. It was the eleventh consecutive year in the province recording a two-digit economic growth rate. Shandong Province, being a coastal province, with its sophisticated transportation network, has an edge in economic development over other provinces. The PRC's accession to the World Trade Organization, the western development strategy and the in-depth reform in the electricity system of the State will further improve the internal economic situation of the PRC and will create splendid opportunities for further development of the Group.

As the development of the electricity market of the PRC will be accelerated in the forthcoming years, the Group will grasp this opportunity in an attempt to further expand the scale, utilize its competitive edge in management and high operating efficiency. Also, the Group will earnestly adhere to the regional development strategy of "developing in the

regions which are relatively centralised geographically for integration in the future", the development implementation strategy of "both acquisitions and constructions of new plants with emphasis placed on economic benefits and scale" and the industry development strategy of "engaging in development of thermal as well as developing hydro-electric power" in an attempt to secure a continuous expansion of the Group and better returns to its shareholders.

I hereby would like to express my gratitude to the management and our staff for their efforts and contribution to our remarkable results. Also , I would like to express my appreciation to the shareholders for their confidence in and immense support towards the Company.

Da Hongxing
Chairman

25 February 2002

