

BUSINESS REVIEW AND PROSPECT



RESULTS

For the year ended 31 December 2001, profit attributable to shareholders of Shandong International Power Development Company Limited (the "Company") and its subsidiaries (the "Group") amounted to approximately RMB1,379 million, representing an increase of approximately 3% over the same period of 2000, and earnings per share were RMB0.262.

POWER GENERATION

Electricity generation of the Group during 2001 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% over the same period of 2000. The average facility utilisation hours of the power generation facilities of the Group were 5,626 hours, which was 142 hours more than those of the grid average in Shandong Province.

The reasons for growth in power generation of the Company include (i) the annual electricity generation contributed by the second generating unit of Laicheng Plant for the entire year of 2001 whereas its contribution in 2000 was for a period of only three months; (ii) the further improvement in the safety production level as well as an increase in the equivalent availability factor of the generating units; and (iii) the steady increase in the total power consumption of the whole society of Shandong Province.

The growth in electricity generation of the Group in 2001 paved the way for its remarkable operating results.

OPERATING REVENUE

In 2001, the total amount of electricity sold by the Group to the grid was 25.08 million MWh, representing an increase of approximately 4.8% over the same period of the previous year (23.93 million MWh). The operating revenue for the year amounted to approximately RMB7,142 million, representing an increase of approximately 4.08% over the corresponding period of 2000.

BASIC INFRASTRUCTURE AND DEVELOPMENT PROJECTS

The Group has been endeavouring to seek new business opportunities in order to expedite the development of the Company and to strengthen and improve its competitiveness, and the development projects were progressing smoothly. In addition to ensuring that the existing projects which are under construction in the initial stage are progressing as scheduled, the Group has also, through investments and acquisitions, acquired and owned the equity interests or assets, in whole or in part, of three power plants in Shandong Province in 2001. Furthermore, the Group has preliminarily agreed in principle with the relevant investing party in Guizhou to jointly construct Guizhou Nayong Power Plant and Nayong No. 2 Power Plant.

1. CONSTRUCTION IN PROGRESS

The construction progress of the Group's construction projects was undertaken smoothly. The construction work of the third and fourth 300MW units of Laicheng Plant, which are wholly-owned by the Group, was in progress as scheduled. The budgeted cost of the project is RMB2,349,890,000. As at 31 December 2001, the construction cost incurred in this project by the Group amounted to RMB887,069,000, representing 37.75% of the total budgeted cost. In 2002, the Group will further incur construction cost of RMB987,900,000. It is expected that the third and the fourth units will commence commercial operation in 2002 and 2003 respectively.

2. NEWLY-INVESTED PROJECTS

In December 2001, the Company entered into an agreement with an investing party, which is independent of the Company or its subsidiaries, any director, chief executive or substantial shareholder of such companies or an associate of any of them, in respect of investment in Shandong Zhangqiu Power Company Limited ("Zhangqiu"), of which two 135MW generating units are under construction, to become its largest shareholder holding its 70% equity interest therein for a consideration of approximately RMB24,281,000. It is expected that the first unit will commence operation in 2002. The Company started to exercise effective control over Zhangqiu as from January 2002.

On 17 December 2001, the Company entered into an agreement with Shandong Luneng Development (Group) Company Limited ("Luneng Development") pursuant to which the Company has agreed to acquire from Luneng Development all the assets owned by Luneng Development in connection with the business operated by Shandong Luneng Development (Group) Company Limited Zibo Branch (which is currently wholly-owned by Zibo SIPD Power Company Limited) for a consideration of RMB74,200,000. These assets, business and liabilities were transferred to Zibo SIPD Power Company Limited, which is, in turn, wholly-owned by the Company, in January 2002. The current installed capacity of Zibo SIPD Power Company Limited is two 88.5MW heat and electricity cogenerating units. In addition, Zibo SIPD Power Company Limited is in the development of its two 135MW heat and electricity cogenerating units and both units are expected to commence operation in 2003.

On 17 December 2001, the Company entered into an agreement with Luneng Development pursuant to which the Company has agreed to acquire from Luneng Development its entire 30% equity interest in Shandong Tengzhou Xinyuan Power Company Limited ("Xinyuan") and 60% of the development right of its proposed new project to construct and develop two 135MW heat and electricity co-generating units in Tengzhou for an aggregate consideration of RMB13,620,000. Upon reorganization of Xinyuan and after injecting capital in an amount of approximately RMB120 million in the expansion projects of Xinyuan in accordance with the investment ratio of the Company in Xinyuan, the Group holds 54.49% equity interest of Xinyuan. The Company started to exercise effective control over Xinyuan as from January 2002. Xinyuan currently operates one 33MW heat and electricity cogenerating unit, and the construction of two new 135MW heat and electricity cogenerating units is in the pipeline. It is expected that the above-mentioned two 135MW units will commence operation in 2003.

Total investment in the six generating units of the three projects mentioned above is

estimated to be approximately RMB2,900 million.

On 17 December 2001, the Company entered into an agreement with Shandong Luneng Fuel (Group) Company Limited (the "Fuel Company") pursuant to which the Company has, for a consideration of RMB39 million, agreed to acquire 13% of the enlarged registered capital of the Fuel Company.

3. PRELIMINARY PROJECTS

The Group will develop two 600MW coal-fired generating units of Zouxian Plant Phase IV, which is wholly-owned by the Group. The project proposal of such project has been submitted to the State Development Planning Commission for approval.

The Group has preliminarily agreed with the relevant investing parties to jointly develop the proposed two 600MW coal-fired generating units of Weifang Plant Phase II. It is agreed that the Group will own 60% of the development right of Weifang Plant Phase II. The project proposal has been submitted to the State Development Planning Commission for approval.

4. GUIZHOU PROJECT

The Group has preliminary agreed in principle with the relevant investing party in Guizhou to jointly construct Guizhou Nayong Power Plant (with an installed capacity of four 300 MW coal-fired generating units which are under construction and are expected to commence operation during 2003 to 2005) and Nayong No. 2 Power Plant (with a planned capacity of four 300MW coal-fired generating units).

BUSINESS OUTLOOK

Speeding up growth, developing and renovation, maximizing the profit of the Company are our objectives all along. The development strategies of the Group include:

1. Regional development strategy: concentrating in Shandong Province with a view to expanding to other regions in the PRC which are relatively centralized geographically;
2. Industry development strategy: engaging in the development of thermal power as well as developing hydro-electric power and expanding to develop the business of heat and electricity cogeneration appropriately; actively exploring new energy; emphasizing on acquiring new source of energy and investing in power environment conservation and high-tech industries in a prudent manner;

3. Development implementation strategy: both acquisitions and constructions of new plants with emphasis placed on economic benefits and scale.

In 2002, the Group will adhere to the above formulated development strategies and grasp the unprecedented opportunities of the PRC electricity system reform, the "Grand Western Development" and "Electricity Transmission from Western China to Eastern China" to expedite development, strengthen management, secure and maintain a steady growth of the Group.

The major objectives of the Group in 2002 are as follows:

1. Ensuring the power plants are operated safely and attaining the targets of the Group related to electricity generation scheduled in 2002; maintaining the leading position of the plants in terms of their technological and economic standards.
2. Continuing to enhance management standard and maintaining remarkable results of the Group.
3. Increasing its efficiency in the construction of the third and the fourth 300MW units of Laicheng Plant and the other six 135MW units (including Zhangqiu, Zibo and Xinyuan) invested by the Group in Shandong Province, controlling their construction projects effectively, ensuring quality and minimizing unit costs.
4. Continuing to implement the strategy of cross regional development and actively procuring the development projects in Guizhou Province.
5. Continuing to enhance the efficiency of the generating units through technological advancement.
6. Strengthening management in finance and funding, providing sufficient funds required for the development projects of the Company and optimizing its debt structure.
7. Continuing to strengthen the exchange of ideas as well as co-operation with Mirant Corporation.

Chen Jianhua
General Manager

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