

Management Discussion and Analysis

Economic Environment and Power Demand

The economy of the People's Republic of China ("the PRC") maintained steady growth in the first half of 2002. Gross Domestic Product ("GDP") of the State amounted to approximately RMB4,553.6 billion, representing an increase of 7.8% over the same period of the previous year. GDP of Shandong Province was approximately RMB473.17 billion, representing an increase of 11.2% over the same period of the previous year, and was 3.4 percentage points over the national average.

During the Period, the power consumption of the whole society of Shandong Province was 57.468 million MWh, representing an increase of 8.23% over the same period of last year when calculated in accordance with the same standard. The industrial sector of Shandong Province consumed 43.113 million MWh, representing an increase of 8.42% over the same period of last year when calculated in accordance with the same standard, and accounting for 75.02% of the total power consumption of Shandong Province. The agriculture, fisheries and water conservancy industries in Shandong Province consumed 3.055 million MWh, representing an increase of 10.10% over the same period of last year and accounting for 5.32% of the total power consumption of Shandong Province. The power consumed by the urban and rural residents in Shandong Province amounted to 6.669 million MWh, representing an increase of 4.73% over the same period of last year and accounting for 11.60% of the total power consumption of Shandong Province.

Operating Revenue and Profit

During the Period, the operating revenue of the Group amounted to RMB3,794 million, representing an increase of 5.18% when compared with that for the corresponding period of the previous year; net profit decreased by RMB93 million, when compared with that for the corresponding period of the previous year, to RMB655 million. The decrease in profit was mainly attributable to the increase in operating cost. The increase in the cost of coal was the main factor which resulted in the increase in operating cost during the Period.

Operating Costs

During the Period, the unit operating cost of the Group amounted to RMB206.78/MWh, representing an increase of 16.17% when compared with that for the corresponding period of the previous year.

The principal operating cost of the Group was the cost of coal. During the Period, the Group's cost of coal was RMB 1.33 billion which accounted for 49.52% of the Group's total operating cost and represented an increase of RMB 315 million when compared with that for the corresponding period of the previous year. Such increase was resulted from an increase in electricity generation and increase in the price of coal. The crude coal price of the Group for the first half of this year was RMB218.05/ton, representing an increase of 19.8% when compared with that for the same period of last year.



During the Period, the costs for major overhauls and maintenance of the generating units of the Group amounted to RMB257 million, representing an increase of RMB31.31 million over the same period of last year. Wages and staff welfare amounted to RMB137 million, representing an increase of RMB30.27 million over the same period of last year. Sales and administration expenses amounted to RMB283 million, representing an increase of RMB49.12 million over the same period of last year. Depreciation and amortization cost amounted to RMB569 million, representing an increase of RMB36.21 million over the same period of last year. Increases in all above-mentioned operating costs were primarily due to the operation of the newly-invested power plants of the Group.

Finance Costs

During the Period, net interest expenses of the Group decreased by RMB66.81 million to RMB258 million, representing a decrease of 20.6% when compared with those for the corresponding period of the previous year. Such decrease was mainly attributable to the decrease of interest expenses resulting from the early repayment at the beginning of this year of loans in an aggregate amount of US\$208.5 million advanced by the World Bank. The interest income of the Group decreased from RMB61.19 million to RMB6.32 million because of the decrease of the US dollar deposit and the decrease in interest rate.

A net gain of approximately RMB116 million arising from the early repayment of loans advanced by the World Bank was included in other income in the Consolidated Income Statement (see notes 3 and 13 on the interim financial report).

Indebtedness

As at 30 June 2002, the borrowings of the Group amounted to RMB9,171 million and the net liability to asset ratio of the Group was 46.7%.

Other Matters

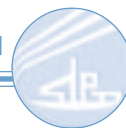
On 13 May 2002 and on 15 May 2002, the Company signed Cooperation Agreements with China Construction Bank Shandong Branch and Bank of China respectively and the Company has thereby secured the credit support of an aggregate of RMB 18 billion by the above-mentioned two banks to finance the Company in the acquisition of power plants and construction and development of the power projects.

On 27 February 2002, the Company agreed in principle with Inner Mongolia Electric Power (Group) Company Limited, the controlling shareholder of Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited ("NMHD") (a joint stock company limited by shares incorporated in the PRC and whose shares are listed on the Shanghai Stock Exchange), to acquire from it a minimum of 10% shareholding in NMHD, details of which are set out in the announcement dated 27 March 2002 issued by the Company. As at 30 June 2002, the relevant formal agreement in connection with the proposed acquisition had not been signed.

Major Technological Upgrade Projects

The primary purposes of the technological 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, the technological upgrade projects mainly included the through-flow project of steam turbine and the decentralised control system of the third unit of Zouxian Plant.



Major Operating Statistics

The table below sets out the major operating statistics of the Group's power plants during the first half of 2002:

Items	Power plants/companies							Total
	Zouxian	Shiliquan	Laicheng	Qingdao	Weifang	Zibo	Tengzhou	
Interest owned(%)	100	100	100	55	30	100	54.49	N/A
Installed capacity (MW)	2,430	1,237.5	600	660	600	177	33	5,005.5*
Average utilization hours	2,624	2,709	2,952	2,558	3,109	2,831	2,668	2,727
Total amount of electricity generated ('million MWh)	6.38	3.35	1.77	1.69	1.87	0.54	0.09	13.57*
Net amount of electricity generated ('million MWh)	6.04	3.14	1.67	1.58	1.75	0.47	0.08	12.75*
Equivalent availability factor (%)	89.67	97.32	99.98	87.42	94.97	92.51	92.70	92.80
Capacity factor(%)	60.41	62.36	67.96	58.82	71.57	67.00	61.41	62.80
Equivalent forced outage rate (%)	0.12	0	0.02	0	0.94	0	0	0.16
Net generation coal consumption (g/kWh)	332.53	359.28	341.55	350.22	349.77	363.79	435.79	344.75

Note:

* Calculated in proportion to the percentage of interest owned by the Company.

Business Outlook for the Second Half of 2002

1. Ensuring the power plants of the Group are operated safely and attaining the targets of the Group relating to electricity generation scheduled for 2002;
2. Ensuring the construction of the third and the fourth 300MW units of Laicheng Plant and the other six 135MW units (including Zhangqiu, Zibo and Tengzhou) invested by the Group in Shandong Province will be progressed as scheduled and ensuring the third 300MW unit of Laicheng Plant and the first 135MW unit developed and constructed by Zhangqiu Company will commence commercial operation as scheduled;
3. Grasping such opportunities as the development of Western China and the transmission of electricity from Western China to Eastern China, and if opportunities arise, actively exploring and taking part in development projects outside Shandong Province;
4. Endeavoring to enhance the progress of the preliminary work of the Group's development projects within Shandong Province with a view to obtaining the relevant government approval for such projects as soon as possible.