


# CHAIRMAN'S STATEMENT

## Dear Shareholders,

The year 2002 is a year full of challenges. During the year, despite the keen competition and various unfavourable factors, the Company, under the support of the government and shareholders as well as the concerted efforts and diligence of the management and the staff, completed various predetermined targets for the year.

In 2002, 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 achieved.

Electricity generation of the Group during the year ended 31 December 2002 amounted to 28.30 million MWh, representing an increase of approximately 6.22% over 2001. The operating revenue for the year amounted to approximately RMB7,808 million, representing an increase of approximately 9.32% over 2001. The Group's profits attributable to shareholders amounted to approximately RMB1,182 million, representing a decrease of approximately 14.3% over 2001. Earnings per share were RMB0.225. The Board recommended the payment of a final dividend of RMB0.036 per share for the financial year ended 31 December 2002.



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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. In 2002, the Group's development projects in Shandong Province were progressing smoothly. The Company completed the investment or acquisition of the whole or part of the equity interest in or assets of the existing and newly developed electricity generating units held by three power plants in Jinan, Zibo and Tengzhou. In addition, the preliminary works of two 1,000MW super thermal power generating units of Zouxian Plant Phase IV Project, two 600MW super thermal power generating units of Tengzhou Plant Phase II project, two 600MW super thermal power generating units of Weifang Plant Phase II Project and two 300MW thermal power generating units of Qingdao Plant Phase II Project were progressing as scheduled.

During the year, the Company seized the opportunities arising from the State's implementation of "grand development in the western region" and "transmission of electricity from the western region to the eastern region" and agreed in principle with Inner Mongolia Electric Power (Group) Company Limited, the controlling shareholder of Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited, to acquire from it a minimum of 10% shareholding in Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited. At the same time, the Company jointly invested and established Ningxia Yinglite Zhongning Power Company Limited with relevant investors in Ningxia Autonomous Region. As a result, the Company implemented the first investment in the power projects outside Shandong Province. The investment creates more cooperation opportunities for the Company to expand the business in the power generating markets in the Ningxia region.

The Company is located in Shandong Province, where the growth rate of gross domestic product (GDP) in 2002 was 11.6%, which was 3.6 percentage over the national average of 8%. It was the twelfth consecutive year that the province has recorded 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 western development strategy and the in-depth reform in the electricity system of the State will create splendid opportunities for further development of the Group.

As China Huadian Corporation, being one of the five power generation group enterprises, is the controlling shareholder of the Company, the Group will take full advantage of the competitive edges and operation scale of Huadian in the industry, as well as its undertaking given in favour of the Company. The Group will grasp this opportunity in an attempt to further expand the scale and strengthen the competitiveness of the Company, increase the Company's market share and utilise its competitive edge in management and high operating efficiency in an attempt to secure a continuous expansion of the Group and stable 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. In addition, I would like to express my appreciation to the shareholders for their confidence support towards the Company.

**He Gong**  
*Chairman*

Jinan, Shandong Province, The People's Republic of China  
15 April 2003