



RESULTS

For the year ended 31 December 2002, 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.

POWER GENERATION

Electricity generation of the Group during 2002 amounted to 28.30 million MWh, representing an increase of approximately 6.22% over 2001. The average utilization hours of the power generation facilities of the Group were 5,492 hours.

The growth in power generation of the Group was primarily attributable to the continuous growth in total social demand for electricity in Shandong Province and the electricity generation contributed by the generating units which were acquired by the Company and commenced operation.

COMMENCEMENT OF OPERATION OF GENERATING UNITS AND APPROVAL OF ELECTRICITY PRICE

The approval was obtained from the government in respect of the price for joining the grid for the second 300MW generating unit and the third 300MW generating unit of Laicheng Plant and the first 135MW generating unit of Zhangqiu Plant of the Company, which had commenced operation on 27 September 2000, 19 September 2002 and 27 September 2002. The price was implemented with effect from 1 September 2002 and the electricity price for joining the grid was RMB320 per MWh (including value added tax).

The electricity price of RMB320 per Wh for the second 135MW generating unit of Zhangqiu Plant and the first 135MW generating units of Tengzhou Plant, which commenced operation on 31 December 2002 and 31 March 2003 respectively, and the new price was implemented with effect from 1 January 2003 and the date when the generating units commenced joint electricity generation respectively.

OPERATING REVENUE

In 2002, the total volume of electricity supplied by the Group to the grid was 26.54 million MWh, representing an increase of approximately 5.86% over 2001 (2001: 25.08 million MWh). The operating revenue for the year amounted to approximately RMB7,808 million, representing an increase of approximately 9.32% over 2001. The revenue from sale of electricity for the year amounted to approximately RMB7,689 million, representing an increase of approximately 7.65% over 2001. The revenue from sale of heat for the year amounted to approximately RMB119 million (2001: nil).

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.

During the year of 2002, the existing construction in progress and those projects in the initial stage were progressing as scheduled. The third 300 MW generating unit of Laicheng Plant and two 135 MW generating units of Zhangqiu Company (totalled 570 MW) commenced commercial operation in September and December 2002, respectively. The first 135 MW generating unit of Tengzhou Company also commenced operation on 31 March 2003. In addition, the Company achieved a breakthrough in its development projects outside Shandong Province. The Company entered into mutual understanding or investment agreements with relevant investors in Inner Mongolia Autonomous Region and Ningxia Autonomous Region, respectively. In particular, the investment and establishment of Zhongning Company (details see paragraph "Zhongning Project" below) is the first time for the Company to invest in power projects outside Shandong Province, and thereby creates more cooperation opportunities for the Company to develop into the power generating markets in the northwestern region of the PRC.

1. Construction in Progress

The third 300MW generating unit of Laicheng Plant, which is wholly-owned by the Company, formally commenced commercial operation on 19 September 2002. As at 31 December 2002, the construction cost incurred for the third and the fourth generating units of Laicheng Plant ("Phase II project") amounted to RMB1,523 million, representing 64.8% of the total budgeted cost of the Phase II project. It is expected that the fourth generating unit will commence commercial operation in the first half of 2003.

The budgeted cost of the construction work of two 135MW generating units of Zibo Company is RMB906 million. As at 31 December 2002, the construction cost incurred in this project by Zibo Company amounted to RMB346 million, representing 38.1% of the total budgeted cost of the project. It is expected that these two units will commence operation in 2003.

The two 135MW generating units of Zhangqiu Company, which is 70% owned by the Company, commenced commercial operation on 27 September 2002 and 31 December 2002 respectively. The total construction cost of these two 135MW units amounted to approximately RMB756 million.

The budgeted cost of the construction work of two 135MW generating units of Tengzhou Company, which is 54.49% owned by the Company, is RMB993 million. As at 31 December 2002, the construction cost incurred in this project by Tengzhou Company amounted to RMB546 million, representing 54.95% of the total budgeted cost of the project. The first 135MW generating unit of Tengzhou Company commenced commercial operation ahead of the schedule on 31 March 2003. It is expected that the second 135MW generating unit will commence commercial operation in the second half of 2003.

2. Preliminary Projects

The Company proposes to develop two 1,000MW coal-fired generating units of Zouxian Plant Phase IV, which will be wholly owned by the Company. The project proposal has been submitted to the State Development and Reform Commission for approval and the project evaluation has been completed.

The Company proposes to develop two 600MW coal-fired generating units of Tengzhou Plant Phase I, which is wholly owned by the Company. The project proposal has been submitted to the State Development and Reform Commission for approval.

The Company proposes to develop two 300MW coal-fired heat and electricity cogenerating units of Qingdao Plant Phase II project, which will be 55% owned by the Company, together with other relevant investing parties. The project proposal has been submitted to the State Development and Reform Commission for approval.

The Group has entered into a preliminary agreement with the relevant investing parties to jointly develop the two 600MW coal-fired generating units of Weifang Plant Phase II project. It is agreed that the Group will own 60% equity interest of Weifang Plant Phase II. The project proposal has been submitted to the State Development and Reform Commission for approval.

3. Zhongning Project

On 28 November 2002, the Company jointly invested and established Ningxia Yinglite Zhongning Power Company Limited with Ningxia Yinglite Power (Group) Corporation, Ningxia Power Development & Investment Company Limited and Ningxia Power Construction General Corporation, which are interested in 20%, 45%, 20% and 15% of the registered capital of Zhongning Company respectively. The registered capital of Zhongning Company in the first phase was RMB 11.2 million, of which RMB2.24 million was injected by the Company in November 2002 in proportion to the equity interest of 20% held by the Company.

Zhongning Company plans to construct two 330MW generating units and still has excellent expansion conditions. The total budgeted cost of the project amounts to approximately RMB2.3 billion. The two units are expected to commence commercial operation in 2005 and 2006 respectively. The project proposal has been approved by the State Development and Reform Commission. This investment in Zhongning Company is the first time for the Company to invest in the power projects outside Shandong Province. The Ningxia Power grid is an important part of the Northwest China Power grid and is also an important basis of the northern channel of electricity transmission from the western region to the eastern region in the PRC. In recent years, the power consumption of Ningxia power grid has greatly increased, which provides enormous development opportunities for the power generating markets.

4. Inner Mongolia Project

In early 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 (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 Inner Mongolia Mengdian Thermal Power Corporation Limited, details of which are set out in the announcement dated 27 March 2002 issued by the Company. As at 31 December 2002, the relevant formal agreement in connection with the proposed acquisition had not been signed.

BUSINESS OUTLOOK

Through eight years of rapid growth and continuous expansion, the Company's installed capacity, on-grid electricity, profit earning ability, competitiveness and strengths have always maintained at the first position in electric power industry of Shandong Province, play the leading role in electricity generating markets of Shandong Province and rank high amongst the nationwide listed power generating enterprises.

The national power reform creates new opportunities and plenty of room for development in the market for the Company to develop the power projects throughout the country. Accordingly, in the future, the Company has set out new position, targets and strategies, and strives to speed up its development.

The position for the Company's development is to become the core enterprise of China Huadian Corporation for the development, operation and management of power projects in the whole country and to maintain the position of being one of the listed electricity generation companies with the best competitive advantages in the PRC.

The development strategies of the Group include:

1. Regional development strategy: strengthens the businesses in Shandong Province with a view of expanding to other regions in the PRC and international markets, appropriately centralised its operations geographically, and integrate its short-term development with its long-term development;
2. Industry development strategy: focus on the development of thermal power generating units with large capacity, efficient and of environment conservation nature and expand to develop the business of heat and electricity cogeneration and hydro power projects appropriately; place emphasis on acquiring new source of energy and cautiously invest in high-tech new energy power projects;
3. Development implementation strategy: carry out acquisition as well as construction of new plants with emphasis on economic benefits and scale; and
4. Capital utilization strategy: maintain a prudent financial structure, elaborate this competitive advantages of raising funds in the capital market, strengthen the co-operation with banks and other financial institutions and adopt various effective channels of raising funds at appropriate time.

The Company seizes the opportunity as may be presented from the recent power reform and, as part of the implementation of the reform, may pursue proposed acquisition of electricity and power-generating assets. At the same time, the Company expedites the work in the initial stage of newly development power plant projects and strives to commence construction of new projects.

In 2003, it is estimated that the PRC will continue to achieve steady economic growth, which is favorable to the development of the power industry. Meanwhile, the restructuring of the PRC's power industry has also entered into the stage of effective implementation, signaling a new era for industry players as well as providing a positive operating environment for the Company's expansion. In view of these developments, the Company will continue to leverage on its strengths, seize any opportunities and constantly explore and expand its operations. The Company is confident that with its strengths it will capitalize on every opportunity and meet every challenge to secure and maintain a steady growth of the Company.

The major objectives of the Group in 2003 are as follows:

1. Ensure that the power plants will be operated safely, achieve the targets of the Group related to electricity generation scheduled in 2003, tightly control the costs and maintain the leading position of the plants in terms of their technological and economic standards.
2. Ensure the smooth progress in the construction, and the commencement of commercial operation in 2003, of the fourth 300MW generating unit of Laicheng Plant, one 135MW generating unit of Zibo Company and two 135MW generating units of Tengzhou Company, control the progress of the construction projects effectively, maintain the quality of works, minimize unit costs; and try to put the other 135MW generating unit of Zibo Company into commercial operation within 2003.
3. Continue to implement the strategy of cross regional development and actively expedite the development projects outside Shandong Province.
4. Actively investigate different channels of raising funds that will help to lower the Company's finance costs and rationalize its capital structure, and prepare ahead for meeting the requirements of funds arising from the Company's rapid expansion;
5. Continue to enhance the efficiency of the generating units through technical improvement.

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