



BUSINESS REVIEW OF THE PERIOD

Power Generation Management

During the first half of 2003, the total electricity generation volume of the Group amounted to 14,665 million kWh, increased by 1,053 million kWh over 13,612 million kWh for the corresponding period of the previous year, representing an increase of 7.74%. On-grid power generation volume amounted to 13,742 million kWh, representing an increase of 7.47% over 12,787 million kWh for the same period of the previous year.

As at 30 June 2003, the Group owned the entire interests in Zouxian Power Plant (with a total installed capacity of 2,500MW comprising one 300MW unit, one 330MW unit, two 335MW units and two 600MW units), Shiliquan Power Plant (with a total installed capacity of 1,255MW, comprising three 125MW units, two 140MW units and two 300MW units), Laicheng Power Plant (with a total installed capacity of 1,200MW, comprising four 300MW units) and Zibo SIPD Power Company Limited (“Zibo Company”) (with a total installed capacity of 177MW, comprising two 88.5MW heat and electricity cogenerating units and two other 135MW heat and electricity cogenerating units which are under construction). In addition to the above four wholly-owned power plants/companies, the Group also held 55% interest in Qingdao Power Plant (with a total installed capacity of 660MW, comprising two 300MW units and four heat and electricity cogenerating units with a total installed capacity of 60MW), 30% interest in Weifang Power Plant (with a total installed capacity of 630MW, comprising one 300MW unit and one 330MW unit), 70% interest in Shandong Zhangqiu Power Company Limited (“Zhangqiu Company”)(with a total installed capacity of 270MW, comprising two 135MW generating units) and 54.49% interest in Shandong Tengzhou Xinyuan Power Company Limited (“Tengzhou Company”) (with a total installed capacity of 168MW, comprising one 33MW heat and electricity cogenerating unit and one 135MW heat and electricity cogenerating unit and another 135MW heat and electricity cogenerating unit which is under construction). As at 30 June 2003, the total installed capacity managed by the Group amounted to 6,860MW and the total interested installed capacity was 5,964.5MW which represented an increase of 470MW (ie., an increase of 8.55%) over the total interested installed capacity of 5,494.5MW at the end of 2002 and accounted for 22.30% of the total installed capacity of Shandong Province.

During the Period, in the 32nd Large-scale Thermal Power Units with unit capacity of 600MW Competition of the State for the Year 2002, a total of 30 generating units from 14 power plants in China participated in this competition. These generating units were examined in accordance with such capabilities as operating efficiency, safe operating period and production rate of the generating units. Altogether 6 generating units won prizes in the competition. The rate of winning prize was 20%. All the two 600MW generating units of Zouxian Power Plant which participated in the competition won prizes, and the rate of winning prize was 100%. The No. 5 600MW generating unit of Zouxian Power Plant won top-rank prize (first prize). This was the second State championship it obtained, following the top-rank prize it won in 2000.

Infrastructure Construction Projects

The construction progress of the Group's construction projects was being undertaken smoothly as scheduled. The fourth 300MW generating unit of Laicheng Power Plant, which is wholly-owned by the Company, officially commenced commercial operation on 6 May 2003. Its on-grid electricity price was simultaneously approved by the government to be RMB320/MWh (tax included) and has been in force since the date of commencement of commercial operation.

The construction of two 135MW heat and electricity cogenerating units of Zibo Company, which is wholly owned by the Company, was in progress as scheduled. As at 30 June 2003, the construction costs incurred by Zibo Company amounted to approximately RMB657 million, representing 72.52% of the total budgeted construction costs of this project.

The first 135MW generating unit of Tengzhou Company, in which the Company owns 54.49% interest, officially commenced commercial operation on 31 March 2003. Its on-grid electricity price was also simultaneously approved by the government to be RMB320/MWh (tax included) and has been in force since the date of commencement of commercial operation. As at 30 June 2003, the construction costs incurred by Tengzhou Company in the construction of its two generating units amounted to RMB710 million, representing 71.50% of the total budgeted construction costs for this project. The second 135MW generating unit is expected to commence commercial operation in the second half of 2003.

New Investment Projects

On 1 July 2003, based on the regional development strategies of "stabilizing Shangdong, developing nationwide, having regions relatively concentrated, having the short term and long term merged", the Company entered into agreements with the relevant investing parties in Ningxia autonomous region. To the knowledge of the Directors of the Company, those investing parties are third parties independent of the Company. Pursuant to the agreements, the Company's equity interest in Ningxia Yinglite Zhongning Power Company Limited (寧夏英力特中寧發電有限公司) ("Zhongning Company") is increased from 20% to 50%. Zhongning Company plans to develop two 300MW coal-fired generating units. The proposal has been approved by the original State Development and Planning Commission. Currently, the feasibility study tasks are being undertaken.



On 26 June 2003, the Company jointly promoted with four other companies (to the knowledge of the Directors of the Company, those investing parties are third parties independent of the Company) to establish Ningxia Power Generation Company (Group) Limited (寧夏發電集團有限責任公司), in which the Company owns 31.11% interest. The remaining shares are held by Ningxia Yinglite Power (Group) Corporation (寧夏英力特電力(集團)股份有限公司) (35.56%), 北京國際電力開發投資公司 (16.67%), Ningxia Power Development & Investment Company Limited (寧夏電力開發投資有限責任公司) (11.11%) and 寧夏天淨電能開發有限公司 (5.55%). Ningxia Power Generation Company mainly invests in and develops the power source projects in the Ningxia autonomous region and is the principal entity developing future power source projects in Ningxia autonomous region. Ningxia Power Generation Company also mainly endeavors to study and formulate the planning of the two electrical power bases at 10,000MW level in the autonomous region and is responsible for commencing the preliminary work of the power source projects in the autonomous region. At present, Ningxia Power Generation Company intends to invest in, plan and construct, two power source projects, which mainly include Zhongning Company and Lingwu Power Plant.

Issue of A Shares

On 24 June 2003, in the annual general meeting for the year of 2002, the Company passed various resolutions regarding its proposed issue of A shares in the People's Republic of China (the "PRC"). The proposed issue by the Company of a maximum of 765,000,000 new A shares was conditionally approved: Out of the total number of new A shares to be issued by the Company, a maximum of 196,000,000 new A shares (in the form of unlisted Stated-owned legal person shares) were approved to be allocated and issued to China Huadian Corporation, with the remaining portion of the new A shares (which A shares being proposed to be listed on the Shanghai Stock Exchange) being proposed to be issued to natural persons and institutional investors, except those prohibited by PRC laws and/or regulations, in the PRC. Details regarding the Company's proposed issue of A shares are set out in its announcements dated 9 May, 13 May and 24 June 2003 and in its shareholders' circular dated 30 May 2003.

Other Matters

On 20 June 2003, the Company signed a "Comprehensive Cooperation Agreement" with the Shandong Branch of Industrial and Commercial Bank of China. According to the agreement, the Shandong Branch of Industrial and Commercial Bank of China will provide to the Company credit support in a total amount of RMB10 billion in accordance with the Company's capital demand in order to assist the Company to construct and acquire new power source projects.

On 24 June 2003, in the annual general meeting for the year of 2002, the Company resolved to acquire 80% equity interest in Sichuan Guangan Power Generation Company Limited (“Guangan Company”) from the controlling shareholder of the Company — China Huadian Corporation. Guangan Company was established in 1996, situated in Guangan Municipality of Sichuan Province and is mainly engaged in the business of generating electricity. The project of Guangan Company has two phases: Phase I project comprises two 300MW coal-fired power generating units which started commercial operation in October 1999 and February 2000, respectively; Phase II project comprises two 300MW coal-fired power generating units which started construction in September 2002 and are expected to be put into commercial operation in August 2004 and December 2004, respectively. Details regarding this acquisition by the Company are set out in its announcements dated 9 May, 13 May and 24 June 2003 and in its Shareholders’ circular dated 30 May 2003.