



MANAGEMENT DISCUSSION AND ANALYSIS

Economic Environment and Power Demand

The economy of the PRC maintained steady growth in the first half of 2003. Gross Domestic Product (“GDP”) of the State amounted to approximately RMB5,005.3 billion, representing an increase of 8.2% over the same period of the previous year. GDP of Shandong Province on which the Group’s services are mainly based was approximately RMB561.008 billion, representing an increase of 12.9% over the same period of the previous year, and was 4.7 percentage over the national average.

In the first half of 2003, the power consumption of the whole society of Shandong Province was 65,778 million kWh, representing an increase of 14.46% over the same period of last year. The industrial sector of Shandong Province consumed 49,873 million kWh, representing an increase of 15.68% over the same period of last year, and accounted for 75.82% of the total power consumption of Shandong Province. The agriculture, fisheries and water conservancy industries in Shandong Province consumed 2,792 million kWh, representing a decrease of 8.61% over the same period of last year and accounted for 4.24% of the total power consumption of Shandong Province. The power consumed by the urban and rural residents in Shandong Province amounted to 7,618 million kWh, representing an increase of 14.23% over the same period of last year and accounted for 11.58% of the total power consumption of Shandong Province.

Operating Revenue and Profit

During the Period, the operating revenue of the Group amounted to RMB4,096 million, representing an increase of 7.95% when compared with that for the corresponding period of the previous year; the operating profit amounted to RMB1,258 million, representing an increase of 13.54% when compared with that for the corresponding period of the previous year; net profit amounted to RMB671 million, representing an increase of 2.30% over that for the corresponding period of the previous year.

Operating Expenses

During the Period, the operating expenses of the Group amounted to RMB2,838 million, representing an increase of 5.65% when compared with those for the corresponding period of the previous year, and were lower than the growth of the operating revenue.

The principal operating expense of the Group was the cost of coal. During the Period, the cost of coal was RMB1.419 billion which accounted for 50% of the Group's total operating expenses and represented an increase of RMB89.08 million or 6.7% when compared with that for the corresponding period of the previous year, and was lower than the growth of electricity generation amount. The coal cost of unit electricity supply of the Group for the first half of this year was RMB99.38/MWh, representing a decrease of 1.33% 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 RMB247 million, representing a decrease of RMB10 million over the same period of last year. The main reason was that fewer generating units had major overhauls in the first half of this year. The cost of personnel costs amounted to RMB204 million, representing an increase of RMB11.88 million over the same period of last year. Depreciation and amortization cost amounted to RMB619 million, representing an increase of RMB49.37 million over the same period of last year. The main reason is due to the increase in depreciation of the generating units which newly commenced operation at the end of last year and in the first half of this year. Other operating expenses amounted to RMB85.89 million, representing an increase of RMB14.78 million when compared with those for the same period of last year. The increase was mainly attributable to an increase in fuel oil cost which, in turn, resulted from an increase in the number of the Company's generating units and in the volume of electricity supply, and to an increase in water cost which, in turn, resulted from an increase in the rate for water supply. Selling and administration expenses amounted to RMB213 million, representing a decrease of RMB7.84 million from the same period of last year.

Finance Costs

During the Period, net finance cost of the Group amounted to RMB236 million, representing a decrease of 6.46% when compared with that for the corresponding period of the previous year. Of which, the interest expenses amounted to RMB243 million, representing a decrease of 6.01% when compared with those for the corresponding period of the previous year. This was mainly attributable to loan repayments and the decrease in interest rate of the borrowings.

Indebtedness

As at 30 June 2003, the borrowings of the Group amounted to RMB9,037 million and the net liability to asset ratio of the Group was 43.18%.

Major Technological Upgrade Projects

The main purposes of the technological upgrade projects undertaken by the Group were to enhance the capacity of electricity generating units, 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 undertaken by the Group mainly included: technological improvement project in respect of energy saving and increase in the capacity of the second generating unit of Weifang Plant.

Major Operating Statistics

The table below sets out the major operating statistics of the Group's power plants during the first half of 2003:

Items	Power plants/companies								Total
	Zouxian	Shiliquan	Laicheng	Qingdao	Weifang	Zibo	Zhangqiu	Tengzhou	
Interest owned(%)	100	100	100	55	30	100	70	54.49	—
Installed capacity (MW)	2,500	1,255	1,200	660	630	177	270	168	6,860 *
Average utilization hours	2,390	2,614	2,583	2,728	2,255	2,536	2,364	3,066	2,496 *
Total amount of electricity generated (million MWh)	5.98	3.28	2.56	1.80	1.42	0.48	0.64	0.31	14.66 **
Net amount of electricity generated (million MWh)	5.65	3.06	2.42	1.68	1.33	0.42	0.59	0.29	13.75 **
Equivalent availability factor (%)	93.00	100	100	90.57	82.31	93.64	86.24	97.77	93.92
Capacity factor(%)	55.02	61.02	60.36	62.81	51.91	60.47	54.43	70.47	57.79
Equivalent forced outage rate (%)	0.01	0	0	0.57	0.30	1.47	3.71	1.02	0.27
Net generation standard coal consumption (g/kWh)	333.36	358.51	343.97	350.02	344.45	364.41	375.86	382.08	346.15


Note:

* Calculated on the basis of gross amount of all units

** For Qingdao and Weifang Power Plants, the relevant items were calculated in proportion to the percentage of interest the Company owned. Such items were calculated on a 100% basis in respect of the other power plants and companies.

Business Outlook for the Second Half of 2003

1. Ensuring the power plants of the Group are operated safely and attaining the targets of the Group relating to electricity generation scheduled for 2003;
2. Ensuring the construction of the two 135MW generating units of Zibo Company and the second 135MW generating unit of Tengzhou Company being in progress as scheduled;

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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 power source development projects in Ningxia autonomous region;
 4. Endeavoring to enhance the progress of the preliminary work of the Group's development projects within Shandong Province with a view to commencing the work for such projects as soon as possible.