

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the audited annual results of the Group for the year ended 31 December 2003.

During the year, despite the keen competition and various unfavorable factors, the Company, under the support of the government and shareholders as well as the concerted efforts and diligence of the management and our staff, accomplished various predetermined targets for the year.

Electricity generation of the Group during the year ended 31 December 2003 amounted to 29.15 million MWh, representing an increase of approximately 3.01% over 2002. The operating revenue for the year amounted to approximately RMB8,066 million, representing an increase of approximately 3.30% over 2002. The Group's profits attributable to shareholders amounted to approximately RMB1,029 million, representing a decrease of approximately 12.95% from 2002. Earnings per share were RMB0.196. The Board recommended the payment of a final dividend of RMB0.035 per share for the financial year ended 31 December 2003.

During the year, the Group proactively implemented the strategy of "Outward Development" and entered into agreement with relevant parties to form Ningxia Power Group, increased its investment in Zhongning Company and acquired 80% equity interest in Guangan Company, by which the Company is able to stride a concrete step to realize its intra-regional development and lay a solid foundation for its future nationwide development.

To further expand the financing channels, and improve the financial structure of the Company in order to integrate into its development, in the first half of the year, the Group initiated the work for issuing A shares. At present, the work of the proposed issue of A shares is in progress as scheduled.

To increase the rate of return for shareholders and strengthen its core competitiveness, the Group continuously searches for new opportunities for the development of electricity business nationwide with a view to maintaining its position as one of the largest and competitive listed power companies in China. In 2003, the project development of the Group was in smooth progress. The State Development and Reform Commission ("SDRC") issued a document in respect of its approval of the Zouxian Plant Phase IV project proposal for the 2x1,000MW class ultra-supercritical coal-fired generating units. It is expected that construction will commence in 2004 and will be completed in 2008 and 2009 respectively, by then the units are expected to be ready to commence operation.

Mr. He Gong
Chairman



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In addition, the Group plans to construct two 600MW supercritical coal-fired generating units of the newly constructed Tengzhou Power Plant Phase I, which is wholly owned by the Company; two 300MW coal-fired heat and electricity cogenerating units of Qingdao Plant Phase II, which is 55% owned by the Company; two 600MW supercritical coal-fired generating units of Weifang Plant Phase II, which is 60% owned by the Company; two 600MW coal-fired generating units of newly constructed Ningxia Lingwu Power Plant ("Lingwu Plant"), which is 70% owned by the Company; and two 600MW coal-fired generating units of Guangan Company Phase III, which is 80% owned by the Company. The project proposals have been submitted to SDRC for approval.

Shandong Province's growth rate of gross domestic product (GDP) in 2003, determined based on comparable pricing, reached 13.7% which was 4.6 percentage points higher than the national average of 9.1% determined based on comparable pricing. It was the thirteenth 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, being one of the five electricity generating group enterprises in the PRC, is the controlling shareholder of the Company, the Group will take full advantage of the competitive edge and operation scale of China Huadian in the industry, as well as its undertaking given in support 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 with an aim to securing a continuous expansion of the Group and stable returns to its shareholders.

During the past year, the Group's achievement in its operating results was attributable to the ceaseless efforts devoted by the staff of the Company as well as the support of shareholders. I hereby express my heartfelt thanks to them. In future operational development, the Company will keep up with its efforts to create brighter results as a way to grant satisfactory return to shareholders.

He Gong
Chairman

Jinan, Shandong Province, The People's Republic of China
28 March 2004