

BUSINESS REVIEW AND PROSPECT

POWER GENERATION

Electricity generation of the Group during 2003 amounted to 29.15 million MWh, representing an increase of approximately 3.01% over 2002. The average utilization hours of the power generation facilities of the Group were 4,820 hours.

TURNOVER

In 2003, the total volume of electricity supplied by the Group to the grid was 27.26 million MWh, representing an increase of approximately 2.70% over the same period of 2002. The turnover for the year 2003 amounted to approximately RMB8,066 million, representing an increase of approximately 3.3% over 2002. The revenue from sale of electricity for the year 2003 amounted to approximately RMB7,921 million, representing an increase of approximately 3.02% over 2002. The revenue from sale of heat for the year 2003 amounted to approximately RMB145 million, representing an increase of approximately 21.5% over 2002.

PROFIT

For the year ended 31 December 2003, the Group's profits attributable to shareholders amounted to approximately RMB1,029 million, representing a decrease of approximately 12.95% from the corresponding period of 2002. Earnings per share were RMB0.196.

INFRASTRUCTURE PROJECTS AND DEVELOPMENT PROJECTS

In 2003, a total of five generating units of the Group have commenced commercial operation: the fourth 300MW generating unit of Laicheng Plant commenced operation on 6 May; the two 135MW generating units of Tengzhou Company, which have been approved by the relevant government authorities on 23 December 2003 to increase capacity to 150MW, commenced operation on 31 March and 20 November respectively; and the two 135MW generating units of Zibo Company, using Cycled Fluidized Bed Combustion Boilers, commenced operation on 31 August and 5 December respectively, totaling 870MW. Since 2002, a total of eight generating units of the Group had been put into operation, totaling 1,440MW. The on-grid electricity price for all generating units coming into operation were approved by the government and became effective since the date when the generating units commenced operation.

1. Construction in progress

To date, the Group's projects in progress include two 300MW generating units of the second phase expansion project of Guangan Company and two 330MW generating units of Zhongning Company. It is expected that these two projects will be put into operation in 2004 and 2005 respectively.

2. Preliminary projects

The Group has been seeking development opportunities for business growth with a view to enhancing its development and achieving its development objectives so as to maintain its position as one of the largest and competitive listed power companies in the PRC.

The Company plans to develop two 1,000MW class ultra-supercritical coal-fired generating units of Zouxian Plant Phase IV, which is wholly owned by the Company. The project proposal has been approved by SDRC. It is expected that construction commences in 2004 and will be completed in 2008 and 2009 respectively.

BUSINESS REVIEW AND PROSPECT

Other preliminary projects of the Group include: Two 600MW supercritical coal-fired generating units of the newly constructed Tengzhou 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 the newly constructed 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 the SDRC for approval.

3. Ningxia project

On 1 July 2003, the Company entered into share transfer agreements with relevant independent third parties to increase its equity interests in Zhongning Company from 20% to 50%.

Besides, on 26 June 2003, the Company and four independent investors (all being independent third parties) jointly established Ningxia Power Group with a registered capital of RMB900,000,000, of which the Company should contribute RMB280,000,000, representing 31.11% of the total registered capital. The remaining equity interests are held by Ningxia Yinglite Power (Group) Corporation (35.56%), 北京國際電力開發投資公司(16.67%), Ningxia Power Development & Investment Company Limited (11.11%) and 寧夏天淨電能開發有限公司(5.55%). As of 31 December 2003, the Company has made its capital contribution amounting to RMB 168,000,000.

Ningxia Power Group mainly invests in and develops the power projects in the Ningxia Autonomous Region (the "Region") and is the principal entity developing and planning future power projects in the Region. Ningxia Power Group also endeavors to study and formulate the planning of the two ten million KW class electricity bases in the Region and is responsible for commencing the preliminary work of the



Mr. Chen Jianhua
Director and
General Manager

BUSINESS REVIEW AND PROSPECT

power projects in the Region. At present, Ningxia Power Group intends to invest in, plan and construct, two power projects, which mainly include Zhongning Company and Lingwu Plant.

Ningxia power grid is an important part of the Northwest China power grid and is also an important base of the northern channel of electricity transmission from the western to the eastern region in the PRC. In recent years, the power consumption of Ningxia power grid has greatly increased, which provides development opportunities for the power generating markets. The Company's participation in the establishment of Ningxia Power Group, and the increase in its investment in Zhongning Company realised the implementation of the development strategy of the Company and seeks to create more co-operation opportunities for the Company to expand its power business into Ningxia.

BUSINESS OUTLOOK

Through several years of growth and continuous expansion, the Group's installed capacity, on-grid electricity, profitability, competitiveness and strengths always rank high as a listed power generating enterprise in China.

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 will continuously follow the development position, targets and strategies as set in early 2003 and search for opportunities to speed up development in the nation.

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

The development strategies of the Company include:

- 1) Regional development strategy: strengthen the businesses in Shandong Province with a view of expanding to other regions in the PRC and international markets, appropriately centralize its operations geographically, and integrate its short-term development with its long-term development;
- 2) Industry development strategy: principally engage in the development of high-capacity efficient and environmentally friendly thermal and electricity generating units, and expand developing the business of heat and electricity cogeneration appropriately; place emphasis on acquiring energy resources and cautiously invest in high-tech industries and power generating projects exploiting new energy source;
- 3) Development implementation strategy: carry out acquisition as well as construction of new plants with emphasis on economic benefits and scale when opportunities arise; and
- 4) Capital utilization strategy: maintain a prudent financial structure, elaborate the 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.

In 2004, it is estimated that the PRC will continue to achieve steady economic growth and electricity demand will keep on rising. In view of these, 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.



BUSINESS REVIEW AND PROSPECT

The major objectives of the Group in 2004 are as follows:

1. To ensure that the power plants will be operated safely, achieve the target of the Group related to electricity generation scheduled for 2004, tightly control the costs and maintain the leading position of the plants in terms of their technological and economic standards.
2. To ensure safety in the construction of the two 300MW generating units of Guangan Company Phase II and the two 330MW generating units of Zhongning Company, control the progress of construction projects effectively, maintain the quality of works, minimize unit costs, and strive to achieve commencement of commercial operation of the two generating units of Guangan Company Phase II in 2004 .
3. To proactively push forth the progress work of the Group's preliminary projects.
4. With the support from China Huadian, to continue with the Group's efforts in exploring power generation markets in the country based on the foundation of its consolidated market share in power markets in Shandong Province.
5. Actively investigate different channels for raising funds that help to lower the Company's finance costs and rationalize its capital structure, and prepare ahead for meeting the needs of funds arising from the Company's expansion. Proactively strive for the issue of A shares in the year.
6. Continue to enhance the efficiency of the generating units through technological improvement.

Chen Jianhua

Director and General Manager

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

