

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC CONDITIONS AND ELECTRICITY DEMAND

The economy of the PRC maintained a steady growth in 2003. The gross domestic product (“GDP”) of the country amounted to RMB11,669,400 million, representing an increase of 9.1% over 2002 determined based on comparable pricing. The GDP of Shandong Province amounted to RMB1,243,000 million, representing an increase of 13.7% over 2002 determined based on comparable pricing, the highest growth rate since 1997, and was 4.6 percentage points higher than the national average. It was the thirteenth consecutive year for the Province to record a double-digit economic growth rate.

In 2003, the power consumption of the whole society of Shandong Province was 139.57 million MWh, representing an increase of 12.4% over 2002. The industrial sector of Shandong Province consumed 107.09 million MWh, representing an increase of 14.17% over the same period of 2002 and accounted for 76.72% of the total power consumption of Shandong Province. The agriculture, fisheries and water conservancy industries consumed 5.69 million MWh, representing a decrease of 9.15% from the same period of 2002 and accounted for 4.08% of the total power consumption of Shandong Province. The power consumed by the urban and rural residents was 15.46 million MWh, representing an increase of 8.06% over the same period of 2002 and accounted for 11.08% of the total power consumption of Shandong Province. As at 31 December 2003, the total installed capacity of Shandong Province reached 30,545.234 MW, representing an increase of 21.4% over 2002.

TURNOVER AND PROFIT

In 2003, the Group strengthened the management and tightly controlled various costs and expenses so that the Group achieved the expected operating targets. The total volume of electricity supplied by the Group to the grid for the year 2003 was 27.26 million MWh. The turnover for the year 2003 amounted to approximately RMB8,066 million, representing an increase of approximately 3.3% over 2002. The Group’s net profits amounted to approximately RMB1,029 million, representing a decrease of approximately 12.95% from 2002. Earnings per share were RMB0.196. The decrease in net profit was mainly attributable to the early repayment of the World Bank loans in 2002 which generated a foreign exchange net gain of RMB116 million leading to a decrease in other income in 2003 by RMB115 million from that in 2002, and the decrease of utilization hours of power generating units of Shandong Province.

OPERATING EXPENSES

In 2003, due to growth in average generation capacity by 18% and the growth in the volume of power generation, the operating expenses of the Group increased to RMB6,011 million, representing an increase of 5.04% over 2002, of which the operating expenses for power generation increased 4.57% to RMB5,847 million, accounting for 97.3% of the total operating costs. The unit cost of electricity generation of the Group amounted to RMB214.41/MWh, representing an increase of 1.90% over 2002. The growth was attributable to the increase in the absorbed fixed cost per unit of electricity generation resulting from the decrease in utilization hours of power generating units.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2003, due to the growth in volume of power generation by 3.01%, the fuel cost of the Group amounted to approximately RMB2,843 million, representing an increase of 2.75% over 2002, of which fuel cost for electricity generation amounted to RMB2,740 million and fuel cost for heat supply amounted to RMB103 million. The unit fuel cost for electricity supply amounted to RMB100.4/MWh, representing a decrease of RMB0.69/MWh from the corresponding period in 2002.

Depreciation and amortisation expenses of the Group amounted to RMB1,283,000,000 in 2003, representing an increase of 4.8% over 2002, primarily due to the additional depreciation charge for the new generating units.

Expenses for routine repairs and maintenance mainly comprised expenses for major and minor overhauls and other expenses for routine repairs. In 2003, such expenses increased by 13.6% over 2002 to RMB622 million primarily due to the increase in the number of the Group's generating units.

In 2003, personnel costs amounted to RMB519 million, representing an increase of approximately RMB128 million over 2002. The Group's personnel costs increased primarily because now that certain projects under construction have been commencing operations during the year, personnel costs originally capitalised in construction costs were thereby charged to income statement as the Group's personnel costs, and because of the increase in the wages of employees during the year.

Selling and administration expenses amounted to RMB429 million, representing a decrease of 7.28% from 2002. The decrease was primarily due to that the Group has no longer paid interconnection and despatch management fees to power grid company since March 2003.

In 2003, other operating expenses amounted to RMB219 million, representing a decrease of RMB22 million from 2002. The decrease was primarily because of an one-off loss incurred in 2002, which loss was accounted for in 2002 under the item of other operating expenses, on disposal of certain equipment resulting from technical improvement projects for energy-saving and capacity-increase.

FINANCE COSTS

The net interest expenses borne by the Group in 2003 amounted to RMB470 million, representing a decrease of RMB15.7 million from 2002. The decrease in interest expenses was primarily due to the repayment of loan and the decrease in the average interest rate of the borrowings.

INDEBTEDNESS

As at 31 December 2003, the borrowings of the Group amounted to RMB9,344 million, of which loans denominated in US dollars amounted to US\$104 million. The assets to liabilities ratio was 54.79%, representing a decrease of 0.58 percentage points from that in 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH AND CASH EQUIVALENTS

As of 31 December 2003, the Group had cash and cash equivalents of RMB569 million.

PRODUCTION, OPERATION AND SAFETY



In 2003, the equivalent availability factor of the generating units was 94.11%; the equivalent forced suspension rate was 0.29%; and the average utilization hours of the generating units attained 4,820 hours.

In 2003, the Group's operation safety maintained at a satisfactory level. As at 31 December 2003, none of the power plants of the Group had any unsafe incidents throughout the year.

In 2003, a total of 6 major overhauls and 7 minor overhauls were undertaken in respect of the generating units of the Group and the planned overhaul rate was 5.41%, representing a decrease of 2.42 percentage points from 2002.

TECHNICAL IMPROVEMENT PROJECTS

In 2003, the technical improvement projects of the Group progressed smoothly. The purpose of these renovation projects of the Group was to enhance operation safety of the facilities and the level of automation so that the production efficiency of the generating units could be improved. The Group had introduced new technology to upgrade some of its steam turbine equipment and the effect was satisfactory.



The Group implemented technical improvement projects in respect of energy-saving and capacity-increase for the second 300MW generating unit of Zouxian Plant, the fourth 125MW generating unit of Shiliquan Plant and the second 300MW generating unit of Weifang Plant in 2003. To date, the Group has undertaken renovation to six 300MW generating units and three 125MW generating units. After the implementation of technical improvement projects in respect of energy-saving and capacity-increase, the average standard coal consumption rate of generation units was reduced by about 10-15g/kWh while the capacity of generating units was increased by 10% or above, from the original 125MW and 300MW to 140MW, 330MW and 335MW respectively. The increase in capacity for relevant plants have been formally approved by relevant government authorities.

The major technical improvement projects planned and approved to be undertaken by the Group during 2004 include the fifth 125MW generating unit of Shiliquan Plant.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION STATISTICS

The table below sets out certain major operation statistics of the Group and its power plants:

The Group

	2003	2002	2001
Installed capacity at year end (MW)	7,380	6,307.5	5,425
Amount of electricity generated ('million MWh)	29.15	28.30	26.64
On-grid electricity generation ('million MWh)	27.26	26.54	25.08
Available hours	7,717.0	7,616.9	8,063.8
Average utilization hours	4,820	5,492	5,626
Load factor (%)	69.3	73.14	72.47
Equivalent availability factor (%)	94.11	91.57	93.20
Standard generation coal consumption (g/kWh)	347.40	345.82	343.05

Zouxian Plant:

	2003	2002	2001
Installed capacity at year end (MW)	2,540	2,430	2,400
Amount of electricity generated ('million MWh)	11.78	12.85	13.56
On-grid electricity generation ('million MWh)	11.12	12.15	12.81
Available hours	8,018.6	7,852.7	8,044
Average utilization hours	4,705	5,288	5,650
Load factor (%)	67.90	71.64	72.40
Equivalent availability factor (%)	92.44	89.23	93.87
Standard generation coal consumption(g/kWh)	332.98	332.80	334.90

Shiliquan Plant:

	2003	2002	2001
Installed capacity at year end (MW)	1,270	1,237.5	1,225
Amount of electricity generated ('million MWh)	6.04	7.03	6.76
On-grid electricity generation ('million MWh)	5.64	6.59	6.33
Available hours	8,615.0	8,428.6	8,205
Average utilization hours	4,815	5,685	5,521
Load factor (%)	70.83	73.57	71.00
Equivalent availability factor (%)	98.35	96.22	94.79
Standard generation coal consumption(g/kWh)	359.25	359.60	359.40

MANAGEMENT DISCUSSION AND ANALYSIS

Laicheng Plant:

	2003	2002	2001
Installed capacity at year end (MW)	1,200	900	600
Amount of electricity generated ('million MWh)	5.07	3.80	3.40
On-grid electricity generation ('million MWh)	4.77	3.58	3.19
Available hours	7,727.3	6,100.3	7,951
Average utilization hours	4,625	5,556	5,660
Load factor (%)	71.48	73.80	73.95
Equivalent availability factor (%)	96.50	92.59	90.76
Standard generation coal consumption(g/kWh)	344.54	343.50	344.90

Qingdao Plant:

	2003	2002	2001
Installed capacity at year end (MW)	660	660	600
Amount of electricity generated ('million MWh)	3.42	3.77	3.40
On-grid electricity generation ('million MWh)	3.19	3.53	3.20
Available hours	8,106	8,183.2	7,784
Average utilization hours	5,189	5,717	5,661
Load factor (%)	69.50	73.58	73.35
Equivalent availability factor (%)	92.53	93.42	88.86
Standard generation coal consumption(g/kWh)	350.39	349.90	334.20

Weifang Plant:

	2003	2002	2001
Installed capacity at year end (MW)	660	600	600
Amount of electricity generated ('million MWh)	3.14	3.38	3.51
On-grid electricity generation ('million MWh)	2.94	3.17	3.30
Available hours	7,954	7,689.9	8,246
Average utilization hours	4,883	5,632	5,849
Load factor (%)	63.25	75.14	73.44
Equivalent availability factor (%)	90.80	87.79	94.14
Standard generation coal consumption (g/kWh)	349.47	349.80	350.00

MANAGEMENT DISCUSSION AND ANALYSIS

Zibo Company:

	2003	2002
Installed capacity at year end (MW)	477	177
Amount of electricity generated ('million MWh)	1.25	1.10
On-grid electricity generation ('million MWh)	1.09	0.96
Available hours	7,892.4	8,166.5
Average utilization hours	5,139	5,827
Load factor (%)	72.43	78.10
Equivalent availability factor (%)	92.45	92.98
Standard generation coal consumption(g/kWh)	378.53	371.70

Zhangqiu Company:

	2003	2002
Installed capacity at year end (MW)	270	270
Amount of electricity generated ('million MWh)	1.32	0.24
On-grid electricity generation ('million MWh)	1.22	0.22
Available hours	8,129.5	2,142.4
Average utilization hours	4,898	6,721
Load factor (%)	76.20	81.65
Equivalent availability factor (%)	92.41	92.71
Standard generation coal consumption(g/kWh)	374.87	383.30

Tengzhou Company:

	2003	2002
Installed capacity at year end (MW)	333	33
Amount of electricity generated ('million MWh)	0.85	0.18
On-grid electricity generation ('million MWh)	0.79	0.16
Available hours	8,396.3	7,976.0
Average utilization hours	5,664	5,503
Load factor (%)	75.37	68.99
Equivalent availability factor (%)	96.31	91.05
Standard generation coal consumption(g/kWh)	377.01	436.40