



Mr. Yu Hongji
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Management Discussion and Analysis

ANALYSIS OF THE OPERATING ENVIRONMENT

China continued to achieve steady economic growth during 2000 with an 8% GDP growth. The Major Serviced Area, namely the Beijing-Tianjin-Tangshan (BTT) Area, continued to outperform the national average with a 10.20% GDP growth. Driven by the economic development, recovery in power demand was evident. The national power demand grew by 9.5% in 2000, while power demand in the BTT Area grew by 10.54%.

The pattern of electricity consumption in the BTT Area was generally in line with the national trend during 2000. As the major driving force behind the areas' economic growth, the industrial sector continued to account for a significant 65% of gross power consumption. Power demand from the commercial sector and household users grew by nearly 20% which was well above the national average, representing a strong growth niche in the Major Serviced Area in the years to come.

ANALYSIS OF THE COMPANY'S RESULTS

During the year, the Company enhanced the implementation of financial budgeting and carried out measures in target cost management to exercise effective control over variable costs. The management of construction projects in progress was also strengthened in order to enhance effective fund allocation and reduce capital costs. Efforts were made to reduce prices of projects in construction so that fixed costs can be effectively controlled. With these efforts, the operating targets set by the Company have basically been achieved. On a year-on-year basis, the Company's net operating revenues grew by 9.09% while profit after taxation increased by 10.01% in 2000. Earnings per share increased Rmb0.03.

1 . Operating Conditions

In 2000, the Company achieved net operating revenue of Rmb5,694,195,000, increased by 9.09% compared to the previous year. Profit after taxation amounted to Rmb1,375,300,000, representing a 10.01% growth compared to the previous year. Earnings per share was Rmb0.27.



Production operations

As at the end of 2000, the Company's installed capacity amounted to 4,650MW. Stable operation of our equipment was reported. Operational soundness had been enhanced with the frequency of unscheduled stoppages being reduced by 8 times compared to that of 1999.

A total of 22,328,793MWh of electricity was generated and a total of 20,750,515MWh was on-grid, well exceeding the targets set by the Board of Directors at the beginning of the year.

A total of 5,374 utilisation hours were recorded on a fully operational basis.

The Equivalent availability factor of our generating units was 93.3%, being basically close to that of the previous year.

The following tables set out certain operation statistics of the Company's power plants for the prior five fiscal years ended 31st December.

Dou He Power Plant

	1996	1997	1998	1999	2000
Installed capacity (MW)	1,550	1,550	1,550	1,550	1,550
Gross generation (MWh)	9,911,780	9,835,404	9,258,190	8,811,552	9,242,351
On-grid generation (MWh)	9,145,820	9,081,432	8,576,958	8,192,947	8,601,896
Available hours	7,817	7,966	8,043	8,053	8,395
Operational hours	7,532	7,431	7,187	6,769	7,414
Utilization hours	6,395	6,345	5,973	5,685	5,963
Capacity factor (%)	73.00	72.43	68.19	64.90	67.88
Load factor (%)	84.90	85.39	83.11	83.99	80.43
Equivalent availability factor (%)	89.46	90.33	91.80	91.90	95.97
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	365	365	364	360	360



Management Discussion and Analysis (Cont'd)

Gao Jing Power Plant

	1996	1997	1998	1999	2000
Installed capacity (MW)	600	600	600	600	600
Gross generation (MWh)	3,962,910	3,919,343	3,235,600	2,954,094	3,104,832
On-grid generation (MWh)	3,603,720	3,548,155	2,918,442	2,650,945	2,795,874
Available hours	7,786	7,523	7,833	8,340	8,341
Operational hours	7,705	7,497	6,974	6,878	7,291
Utilization hours	6,605	6,532	5,393	4,923	5,175
Capacity factor (%)	75.40	74.57	61.56	56.20	58.91
Load factor (%)	85.72	87.13	77.32	71.58	70.97
Equivalent availability factor (%)	89.23	85.46	89.28	95.10	94.95
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	399	402	404	404	406

Zhang Jia Kou Power Plant

	1996	1997	1998	1999	2000
Unit No.	3 & 4	1 3 & 4	1, 3, 4	1, 3, 4, 5, 6	Units 1-7
Installed capacity (MW)	600	300 600	900	1,500	2,100
Gross generation (MWh)	2,915,520	755,890 3,231,062	4,902,699	6,044,930	7,319,127
On-grid generation (MWh)	2,757,490	709,060 3,058,767	4,655,158	5,715,376	6,885,949
Available hours	7,376	4,108 7,819	8,057	6,619	7,937
Operational hours	6,810	3,945 7,588	7,849	5,638	6,658
Utilization hours	4,859	2,520 5,385	5,447	5,343	4,550
Capacity factor (%)	55.47	57.06 61.47	62.24	60.99	51.80
Load factor (%)	71.35	63.90 70.97	69.46	70.13	68.34
Equivalent availability factor (%)	83.72	92.80 88.87	91.58	95.20	90.60
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	378	367 366	359	351	349

Notes: Unit 1 was acquired by the Company on 1st July, 1997.
 Unit 2 was acquired by the Company on 1st October, 2000.
 Unit 3 commenced commercial operation on 16th October, 1994.
 Unit 4 commenced commercial operation on 2nd September, 1995.
 Unit 5 commenced commercial operation on 5th March, 1999.
 Unit 6 commenced commercial operation on 18th December, 1999.
 Unit 7 commenced on-grid generation on 17th December, 2000.



Xia Hua Yuan Power Plant

	1996	1997	1998	1999	2000
Installed capacity (MW)	400	400	400	400	400
Gross generation (MWh)	2,753,000	2,740,005	2,269,070	2,628,738	2,662,483
On-grid generation (MWh)	2,509,940	2,481,352	2,072,465	2,438,835	2,466,796
Available hours	8,202	8,142	7,548	8,075	8,518
Operational hours	7,628	7,936	6,669	7,469	7,764
Utilization hours	6,883	6,850	5,673	6,572	6,656
Capacity factor (%)	78.57	78.20	64.76	75.02	75.77
Load factor (%)	90.23	86.31	85.06	88.00	85.73
Equivalent availability factor (%)	93.26	92.96	86.12	92.20	96.97
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	391	390	388	383	382

Technological Improvements

During the year under review, the Company has sought to enhance production safety and increase economic efficiency through technological upgrades. According to unit overhaul programmes and production targets set at the beginning of the year, a total of 171 technological upgrade projects, with a total investment of approximately Rmb211,830,000, have been conducted.

Among these projects were:

- modification of the ash and residual disposal systems at Gao Jing Power Plant;
- modification of the turbine system at Units 5 & 6, Dou He Power Plant;
- modification of the ash and dust disposal system at Zhang Jia Kou Power Plant;
- modification of the turbine system at Units 1 & 2, Zhang Jia Kou Power Plant;
- modification of the fire extinction devices and controls of the thermal control system at Unit 1, Zhang Jia Kou Power Plant; and
- modification of the main turbine system at Unit 2, Xia Hua Yuan Power Plant.



Management Discussion and Analysis (Cont'd)

Cost Controls

The Company continued to focus on efforts in fuel cost reductions in 2000, such as the consolidation of bill settlements for fuel purchase, improved inspection, testing and controls of quality and prices and the increased use of locally sourced coal which resulted in lower incoming coal prices. In 2000, the Company's unit fuel cost was reduced by Rmb6.25/MWh, compared to the previous year, to Rmb81.64/MWh. The coal consumption rate for electricity supplied was 365.24gm/kWh, which was 3.26gm/kWh less than that of the previous year.

2. Financial Position

As at 31st December, 2000, total assets of the Company and its subsidiaries amounted to Rmb19,986,145,000; shareholders' equity was Rmb12,930,576,000; and asset to liability ratio was 35.3%, an improvement of 8.5 percentage points over that of 1999; gearing ratio was 39.28% (total of short-term and long-term loans over equity).

Cash on Hand

As at 31st December, 2000, cash and bank deposits of the Company and its subsidiaries amounted to approximately Rmb4,195,020,000, which included foreign currency deposits equivalent in value to approximately Rmb2,448,495,000. There were no trust deposits or overdue fixed deposits for the year. The Company and its subsidiaries had total long-term and short-term loans amounting to approximately Rmb5,078,743,000, including an equivalent amount of Rmb332,599,000 denominated in US dollars.

Plans for Enhancing Profitability

Operations of the Company were conducted in line with the decisions and instructions given by the Board of Directors, focusing on the maximisation of shareholder value. Efforts were made to strengthen fuel cost management, budget management and cost management for construction in progress, resulting in better controls and reductions of overall costs, improvements in cost structure and enhanced competitiveness. With a view of enhancing shareholder value, the Company was also actively engaged in endeavours to broaden financing channels, lower capital costs, strengthen asset management and optimise the capital structure of the Company.

3. Business Development

In 2000, the Company completed the acquisition of Unit 2 of Zhang Jia Kou Power Plant, the equity investment in North China Electric Power Research Institute Company Limited and Hebei Huaze Hydropower Development Company Limited. The acquisition of a 60% equity interest in Shanxi Shentou Huajin Power Generation Company Limited (Phase 2 of Shentou No. 2 Power Plant) has been approved by the Board of Directors and is now actively going through relevant procedures.



The Company's projects currently under construction are progressing smoothly. These projects include:

- Unit 8 of Zhang Jia Kou Power Plant Phase II is expected to commence commercial operation in 2001;
- Two 10MW units of Fengning Hydropower Plant of Hebei Huaze Hydropower Development Company Limited will be put into operation in 2001;
- Two 600MW coal-fired units of Phase 2 of Panshan Power Plant are expected to commence commercial operation in 2001 and 2002, respectively;
- Two 600MW coal-fired units of Phase 1 of Tuoketuo Power Plant are expected to commence commercial operation in 2003 and 2004, respectively;

Besides, the Company is actively carrying out the preliminary construction of three other projects: the technological renovation project of replacing small units with larger units at Tangshan Power Plant (1 x 300MW unit); Phase 2 of Shentou Power Plant No. 2 (2 x 500MW units) and Yunnan Kaiyuan Power Plant (2 x 300MW units).



According to the above plans and schedules, the Company is expecting steady annual growth of installed capacity in the forthcoming years. By the end of 2004, the total installed capacity of the Company is expected to reach 6,588MW, which will provide solid foundations for the Company's profit growth and business expansion.



Management Discussion and Analysis (Cont'd)

4. Development Strategy

In the new century, the Company will actively seek to expand beyond the areas that it currently serves, capitalising on the growth opportunities emerging from China's power industry reforms. The Company will accelerate its efforts in pursuing participation and acquisitions in cost-driven, policy-driven and market-driven regions. This will help to build up and consolidate the Company's market share and position in the nationwide power market, achieving economies of scale and meeting group development goals.

We will actively explore and broaden channels for financing, work to lower the weighted average capital cost of the Company and ensure proper financial and risk management. We aim to further enhance shareholder return and satisfy the funding requirements of the Company's business expansion at the same time.

Market researches will be actively conducted so as to enable us to adjust to the requirements of the power market. Marketing strategies will be formulated to respond to the competitive environment, seeking to increase efforts in expanding channels for sales and to develop direct marketing to end-users within the scope of the existing regulatory regime of the power industry.

The Company will also study and implement appropriate management strategies for corporatisation, in light of its rapid business expansion. Drawing on our wealth of management experience in the industry, we will seek to reinforce our management philosophy and practices as our business expands, and ensure that we add value to the Company's growth by extending our management edge.

INVESTOR RELATIONS AND INTERNATIONAL COOPERATION

In 2000, the Company made further efforts in investor relations and external communication. The management has been actively engaged in marketing activities to increase exchange and communication with investors. Through more frequent investor visits and constant updating of our company website, broader communication between the Company and the market has been facilitated to enhance the management's transparency. Meanwhile, the Company has adopted an open mind in looking for cooperation opportunities with international industry peers, with a view to adding value to our management and development and benchmarking our management standards to



an international level. In 2000, the Company was named one of the “Best-managed Companies in China 2000” and one of “Asia’s Top 100 Companies 2000” by *Asian Money* and HSBC, respectively, reflecting the trust in, and recognition of, Beijing Datang Power by investors at large in the international capital markets.

Yu Hongji

President

6th March, 2001

