

Questions Frequently Asked by Investors

Q: What is your analysis and forecast of demand and supply for electricity in the nationwide market in general and in the Major Serviced Area in particular?

A: The demand for electricity is closely related to GDP growth. China's experience in the past decade has shown that the growth in demand for electricity is generally consistent with economic growth, if not in an entirely synchronic pace.

With China's recent economic recovery, a new cycle of growth is anticipated. Growth in national demand for electricity exceeded GDP growth in 2000, suggesting strong momentum for expansion. Insufficient supply in varying degrees has occurred in some parts of the country, including the BTT Area. Given China's rapid economic growth and the generally low level of power consumption, demand for electricity is expected to sustain high growth rates in the coming years, and the growth of power supply under current planning is unlikely to fully satisfy the requirements of the growing demand for electricity supply.

Power supply in the BTT Area, for example, is expected to grow by about 4% each year in the forthcoming five years from 2001 to 2006, while the growth in demand is currently estimated to be approximately 7%. As such, tightened supply conditions for the next few years are foreseeable. With the completion of projects currently under construction, there will be a number of new plants commencing operations in the coming years. Boosted by the resulting economies of scale, Beijing Datang Power is set to benefit from the absolute growth in electricity demand, as well as from a higher utilisation rate for the current operating units driven by tightened supply in the overall market.

Q: Which target areas have been identified for the Company's business expansion? What are the assessment criteria for acquisitions in these target areas?

A: The Company's expansion in the domestic power supply market focuses on target areas providing opportunities under three models of expansion, namely, "cost-driven expansion", "policy-driven expansion" and "market-driven expansion". Areas of cost-driven expansion mainly refer to North China regions, where coal production bases with rich reserves of coal are found near the market, accessible through convenient transportation. This type of market is significant for the optimisation of the Company's cost structure. Areas of policy-driven expansion mainly refer to the western regions, where development is strongly encouraged by the government and opportunities for growth would be enhanced by supportive



government measures and favourable policies. Areas of market-driven expansion mainly refer to the southeastern coastal regions, which are generally more prosperous and where strong growth in electricity demand is anticipated. These regions are able to pay for higher prices, providing greater room of expansion for the power supply business.

As to the question of assessment criteria for acquiring assets in power plants, the Company is mainly concerned with three criteria. First, the acquisition must be conducive to the optimisation of the overall cost structure and future competitiveness of Beijing Datang Power. Second, power plants to be acquired should be significant market players charging reasonable prices, being able to make important contributions to the Company's strategic development and market leadership. Third, the target for acquisition should show potential for further development, where profitability might be enhanced through the Company's professional management. The basic principle governing any power plant acquisition would be its ability to enhance the overall yield and return for Beijing Datang Power.



Q: In what ways will the Company's growth and development be affected by China's WTO accession?

A: The power industry is more closely related to GDP growth than other industries. Thus, China's overall economic growth will always provide a major driving force to the growth in power demand.

Industrial power consumption is expected to further increase when domestic manufacturers gear up for foreign competition following China's WTO entry. Meanwhile, accession to the global trading community will fuel economic growth. Consumer activities will be boosted and the market for household and commercial electricity consumption is expected to expand by a more substantial scale.



Questions Frequently Asked by Investors (Cont'd)

The developments described above will, in varying degrees, result in the overall increase in power consumption in the country, to the advantage of power generation companies such as us. Meanwhile, we will benefit directly from lower construction costs and more sophisticated equipment with higher quality that will become available through increased competition from foreign or domestic suppliers of power generation equipment in the domestic market. In summary of the above, China's WTO accession could only be a unique opportunity for our growth. The Company will also seek to cooperate extensively with international partners in order to enhance its market position and competitive edge.

Q: What are Beijing Datang Power's competitive advantages in view of competition?

A: Beijing Datang Power's competitive strengths are underscored by:

- (1) The market edge: BTT Area where the Company currently serves is a high-growth region. It is in fact the economic, cultural and political hub of the country. During the past six years, BTT Area has consistently recorded growth in GDP and power demand at higher-than-average rates. Beijing Datang Power will continue to benefit from the rapid growth in demand as the largest power supplier in the region.
- (2) The on-grid advantage: The BTT Power Grid to which the Company supplies is an integral constituent of the North China Power Grid, which in turn is the most stable and reliable power network in China. In 2000, the North China Power Grid reported 99.99% reliability, on top of other regional networks in the country. As the State Power Company's plan to upgrade urban and rural power networks is nearing completion, the North China Power Grid continues to rank first among China's regional power networks in terms of transformation capacity, enhancement of transmission and distribution networks and transmission losses. Beijing Datang Power's sale of electricity is unlikely to be affected by any bottlenecking problems of the power grid, even amid surging demand.
- (3) The assets cost advantage: Since the listing of its shares in 1997 the Company has been consistently following a strategy of low-cost expansion. Apart from the assets that have been listed, most of the power generating units acquired subsequently are domestically made models with quality meeting international standards. As such, we have been able to lower construction costs as well as power generation costs without compromising



requirements in quality, consumption indicators and operating levels, thus building up a strong competitive position in anticipation of the future opening of the domestic market for power supply.

- (4) Economies of scale: In order to honour promises made to shareholders in our Prospectus, the Company has been striving to expand its installed capacity since the listing of its shares in 1997. As at the end of 2000, the Company's installed capacity had increased 47.6% to 4,650MW from 3,150MW at the time of its listing. Given plans of new projects and projects currently under construction, we should have by the end of 2002 a total installed capacity of 5,868MW which will exceed the target of 5,682MW stated in the Prospectus. In the coming five years, we are expecting an average annual growth in installed capacity of 11%, before taking into account any potential acquisition of existing power plants. The Company is set to achieve significant economies of scale with such impressive growth rates.

- (5) The management edge: Effective cost management since 1997 has resulted in continued reductions in power generation costs and improvements in profit after taxation. Evidenced by the reputation as one of the most reliable power generators in BTT Areas, the quality and strength of our professional management have enhanced our ability to achieve higher profit margins through management initiatives in the course of business expansion.



- (6) The financial edge: With the Company's strong assets to liability ratio and healthy cash flow, we are in a better position to capitalise on the opportunities for development presented by the government's will to separate the operation of power plants and power grids as part of the power industry's reforms, and to swiftly expand our market share and revenue base.

In view of the above, these competitive strengths will undoubtedly channel us for secured market shares and strong growth in the course of China's power industry reforms.

