

Management Discussion and Analysis



[The] Company is set to benefit from the implementation of the strategy of West China development and the gradual implementation of the West-to-East power transmission projects driven by economic growth. Meanwhile, due to the Company's pro-active and effective management, the Company was able to maintain safe and stable power generation and achieve solid profit growth, whilst rolling out its expansion strategy beyond the BTT area.

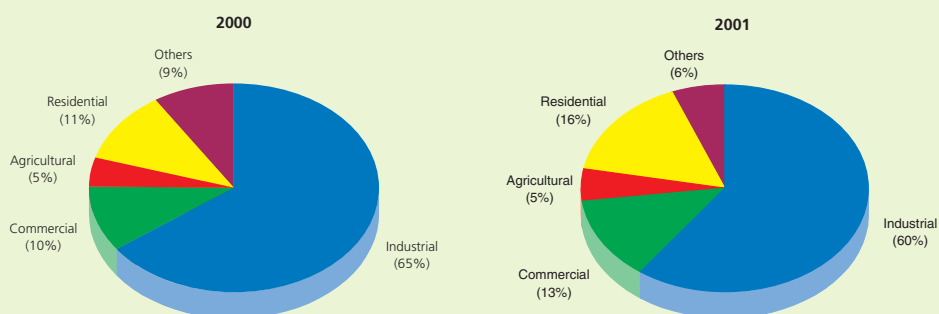
I. Operating conditions

China's economy continued to grow steadily during 2001 (the "Year"), with national GDP growth reaching 7.3%. The Beijing-Tianjin-Tangshan ("BTT") Area, the major area served by the Company, continued to outgrow the national average with a 9.92% GDP growth.

China's power supply market was driven by economic growth in 2001. Demand for power supply in the eastern coastal regions increased, development projects in West China were implemented and West-to-East power transmission projects began during the Year. Power demand nationwide grew by approximately 8% in 2001.



As a result of economic restructuring, industrial usage of power generally remained steady. Residential usage in urban and rural areas and commercial usage maintained rapid growth. Sales of electricity in the BTT Area are analysed as follows:



II. Review of Operations

The Company mainly supplied electricity to the BTT Area, which features intense economic activities, dense population and focused demand for power supply. The growth in power demands in this area was driven by its economic growth. The Company is set to benefit from the implementation of the strategy of West China development and the gradual implementation of the West-to-East power transmission projects. Meanwhile, due to the Company's pro-active and effective management, the Company was able to maintain safe and stable power generation and achieve solid profit growth, whilst rolling out its expansion strategy beyond the BTT Area.

Management Discussion and Analysis (Cont'd)

The Company now operates four wholly-owned power plants and eight majority-owned power generation companies compared to only four wholly-owned power plants when it was listed. From the listing of the Company in 1997 to the end of 2001, the installed capacity increased to 5,570MW from 3,150MW; net profit grew to Rmb1,436 million from Rmb1,143 million; the Company's asset-to-liability ratio rose to 37.98% from 27.1%; and the equivalent availability factor of the Company's units rose to 92.35% from 89.62%.

1. Production

As at 31st December 2001, the Company and its subsidiaries (collectively, the "Group") owned installed capacity of 4,950MW, and another 620MW which were integrated into the power grid and will enter into commercial operation in 2002. Total power generation for the Year amounted to 26,477,988MWh, representing an 18.58% growth over 2000 (the "Previous Year"). A total of 24,590,612MWh of on-grid electricity was completed, representing a growth of 18.51% over the Previous Year. A total of 5,477 utilisation hours were recorded and the equivalent availability factor of the Company's units was 92.35%. The growth in power generation was mainly attributable to the expansion of the Group's

installed capacity, increased demand for power supply driven by domestic economic growth and the safe and stable operation of the Group's power generation equipment.

The following tables set out certain operation statistics of the Company's four power plants for the five years ended 31st December 2001.





Dou He Power Plant

	1997	1998	1999	2000	2001
Installed capacity (MW)	1,550	1,550	1,550	1,550	1,550
Gross generation (MWh)	9,835,404	9,258,190	8,811,552	9,242,351	9,487,437
On-grid generation (MWh)	9,081,432	8,576,958	8,192,947	8,601,896	8,826,988
Available hours	7,966	8,043	8,053	8,395	8,274
Operating hours	7,431	7,187	6,769	7,414	7,211
Utilisation hours	6,345	5,973	5,685	5,963	6,121
Capacity factor (%)	72.43	68.19	64.90	67.88	69.87
Load factor (%)	85.39	83.11	83.99	80.43	84.88
Equivalent availability factor (%)	90.33	91.80	91.90	95.97	94.45
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	365	364	360	360	360

Gao Jing Power Plant

	1997	1998	1999	2000	2001
Installed capacity (MW)	600	600	600	600	600
Gross generation (MWh)	3,919,343	3,235,600	2,954,094	3,104,832	3,116,727
On-grid generation (MWh)	3,548,155	2,918,442	2,650,945	2,795,874	2,803,954
Available hours	7,523	7,833	8,340	8,341	7,966
Operating hours	7,497	6,974	6,878	7,291	7,211
Utilisation hours	6,532	5,393	4,923	5,175	5,195
Capacity factor (%)	74.57	61.56	56.20	58.91	59.30
Load factor (%)	87.13	77.32	71.58	70.97	72.04
Equivalent availability factor (%)	85.46	89.28	95.10	94.95	90.94
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	402	404	404	406	405

Management Discussion and Analysis (Cont'd)

Zhang Jia Kou Power Plant

	1997		1998	1999	2000	2001
	Unit 1	Units 3, 4	Units 1, 3 and 4	Units 1, 3, 4, 5 and 6	Units 1 to 7	Units 1 to 8
Installed capacity (MW)	300	600	900	1,500	2,100	2,400
Gross generation (MWh)	755,890	3,231,062	4,902,699	6,044,930	7,319,127	10,809,051
On-grid generation (MWh)	709,060	3,058,767	4,655,158	5,715,376	6,885,949	10,132,866
Available hours	4,108	7,819	8,057	6,619	7,937	7,910
Operating hours	3,945	7,588	7,849	5,638	6,658	7,107
Utilisation hours	2,520	5,385	5,447	5,343	4,550	4,855
Capacity factor (%)	57.06	61.47	62.24	60.99	51.80	55.42
Load factor (%)	63.90	70.97	69.46	70.13	68.34	68.31
Equivalent availability factor (%)	92.80	88.87	91.58	95.20	90.60	91.16
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	367	366	359	351	349	347

Note: Unit 8 was integrated into the power grid on 27th August 2001



Xia Hua Yuan Power Plant

	1997	1998	1999	2000	2001
Installed capacity (MW)	400	400	400	400	400
Gross generation (MWh)	2,740,005	2,269,070	2,628,738	2,662,483	2,733,054
On-grid generation (MWh)	2,481,352	2,072,465	2,438,835	2,466,796	2,532,995
Available hours	8,142	7,548	8,075	8,518	8,139
Operating hours	7,936	6,669	7,469	7,764	7,757
Utilisation hours	6,850	5,673	6,572	6,656	6,833
Capacity factor (%)	78.20	64.76	75.02	75.77	78.00
Load factor (%)	86.31	85.06	88.00	85.73	88.09
Equivalent availability factor (%)	92.96	86.12	92.20	96.97	92.91
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	390	388	383	382	382

The Company arranged 237 technological upgrade projects with a total investment of Rmb255,999,000, in a move to integrate overhaul programmes with production targets set at the beginning of the year through technological upgrade projects, with a view to achieving production safety and enhancing economic efficiency.

Major projects include:

Modification of the low-nitrogen combustion unit at Gao Jing Power Plant; modification of the steam circulation system in the medium to high-pressure tank and DCS, FSS and DEH modifications at Unit 5, modifications of ventilator No. 5 and the medium-speed coal mill and modification of the computer-aided controlling system at Dou He Power Plant; modification of Nos. 1 and 2 dust disposal systems



Management Discussion and Analysis (Cont'd)

and the 500 KV transformation system at Zhang Jia Kou Power Plant; modification of the turbine system at Units 1 & 2 of Zhang Jia Kou Power Plant; and modification of the steam circulation system at Unit 2 of Xia Hua Yuan Power Plant.

2. Operational Management

The Company secured consolidated operating revenues of approximately Rmb6,550,620,000 during the Year, representing an increase of 15.04% over the Previous Year. Consolidated net profit amounted to approximately Rmb1,438,060,000, representing an increase of 4.56% over the Previous Year. The operating targets for 2001 set by the Board of Directors at the beginning of the Year were achieved and exceeded.

During the Year, the Company continued to exercise stringent cost-control measures and conscientiously implemented the system of accountability for financial targets. Measures to reduce consumption of energy were upheld and budget estimates were set to facilitate effective control over expenditures. As a result, the Company's unit fuel cost was lowered by Rmb0.88/MWh when compared to that of the Previous Year and the coal consumption rate for electricity generation was reduced by 2.96g/kWh when compared to that of the Previous Year.



3. Business Expansion

The construction projects of the Company progressed smoothly during the Year. Power units with capacity of 920MW were integrated into the power grid, in which 300MW commenced commercial operation during the Year. Breakthroughs were achieved in preliminary project works which ensured continued growth in the Company's production capacity.



- Unit 8 (300MW) at Zhang Jia Kou Power Plant commenced commercial operation during the Year, bringing the total installed capacity of the plant to 2,400MW making it the largest power plant of the Group and in North China, as well as the second largest power plant throughout the nation.
- Unit 1 of Datang Panshan, the first 600MW unit of the Group, was integrated into the power grid during the Year and commenced commercial operation in January 2002. It is currently the largest unit of the Group as well as in the BTT power grid in terms of unit capacity.
- Units 1 and 2 of Datang Fengning Hydropower (2 X 10MW) were integrated into the power grid during the Year and commenced commercial operation in 2002, ending its history of dependence on coal-fired generation and marking the Group's breakthrough in hydropower and its first step towards the strategy of dual emphasis on hydropower and coal-fired power.
- Datang Honghe and Datang Liancheng were established during the Year. Project proposals for the two ventures have been approved by the State, marking the Group's expansion beyond North China and opening up more extensive market frontiers for the Group's swift trans-regional development.
- Feasibility studies for the power plants developed by Datang Shentou (2 X 500MW) and Datang Pingwang (2 X 200MW) and for Phase I technological upgrade works (1 X 300MW) of Datang Tangshan have been approved by the State.
- The construction of the Datang Tuoketuo Power Phase I project (2 X 600MW) progressed smoothly. The first generation unit is expected to be integrated into the power grid generation in 2003. The project proposal for Phase II construction (2 X 600MW) has been approved by the State.

Management Discussion and Analysis (Cont'd)

4. Financial Analysis

- *Operating Results*

The Group's consolidated operating revenues amounted to approximately Rmb6,550,620,000 during the Year, representing an increase of 15.04% over the Previous Year. Consolidated net profit amounted to Rmb1,438,060,000, representing growth of 4.56% over the Previous Year. Earnings per share amounted to Rmb0.28, representing an increase per share of Rmb0.01 over the Previous Year. The Group's profit growth was mainly attributed to the increase of its on-grid electricity and of its sales revenue, as well as the effective control of its costs.

During the Year, the Group's on-grid electricity increased by 18.51% over the Previous Year, while sales revenue grew by 15.04% from the Previous Year. The Group's operating costs increased by 21.97% over the Previous Year mainly due to the Company's acquisition of Unit 2 of Zhang Jia Kou Power Plant on 1st October 2000 and the commencement of commercial operation of Unit 7 and Unit 8 of Zhang Jia Kou Power Plant in January 2001 and September 2002, respectively. This led to an increase of assets which in turn led to an increase of depreciation costs on fixed assets. The corresponding costs caused by the increase in power generation also increased other operating costs. However, the Group's unit fuel cost decreased by Rmb0.88/MWh and the coal consumption rate for electricity generation decreased by 2.96g/kWh when compared to the Previous Year as a result of the Group's rigid and effective cost controls and the increase in on-grid electricity. As a consequence, the Company's profit increased by 4.56% over the Previous Year.

In view of the positive operating results, the Board of Directors has recommended a dividend of Rmb0.17 per share for the Year.



- ***Financial Conditions***

As at 31st December 2001, total assets of the Group amounted to approximately Rmb23,190,043,000, representing an increase of approximately Rmb3,203,898,000 over the Previous Year. Total liabilities amounted to approximately Rmb8,807,802,000, representing an increase of Rmb2,155,695,000 over the Previous Year. Minority interests amounted to Rmb529,890,000, representing an increase of approximately Rmb126,428,000 over the Previous Year. Shareholders' equity amounted to approximately Rmb13,852,351,000, representing an increase of Rmb921,775,000 over the Previous Year. The growth in total assets owned by the Group mainly reflected the implementation of the Group's expansion strategy and the increase in investments in projects under construction by the Company.

- ***Liquidity***

As at 31st December 2001, the Group's asset-to-liability ratio (i.e. the ratio between total assets and total liabilities, excluding minority interests) was 37.98%. The net equity-to-debt ratio (i.e. (total debt – cash and cash equivalents – short-term bank deposits for over 3 months – investments held for trading)/shareholders' equity) was 14.74%.

Cash

As at 31st December 2001, the Group had total cash and cash equivalents and short-term bank deposits for over 3 months amounting to approximately Rmb4,503,168,000, among which the equivalent of approximately Rmb2,521,506,000 of deposits was held in foreign currencies. The Company had no trust deposits or overdue fixed deposits during the Year.

Management Discussion and Analysis (Cont'd)

Borrowings

As at 31st December 2001, the Group had short-term loans of approximately Rmb241,120,000 at an annual interest rate of 5.85%. Long-term loans (excluding those repayable within 1 year) amounted to approximately Rmb6,229,064,000 and long-term loans repayable within 1 year amounted to approximately Rmb360,356,000 at annual interest rates of 0% to 6.2%, including USD loans equivalent to approximately Rmb590,450,000.

As at 31st December 2001, apart from guarantee of approximately Rmb2.3 billion for loan facilities granted to its subsidiaries, the Company did not provide any form of guarantee for any other company.

5. Stock Performance in Secondary Market and Investor Relations

The international capital markets were rather volatile in 2001. Against tough overseas market conditions, the shares of Beijing Datang Power performed strongly in the secondary market on the back of steady improvements in the Company's operating results supported by positive economic growth in China and continuous growth in power demands, with their price growing 24.7% over the Previous Year at the end of 2001 and hitting an intra-year high of HK\$3.28 or a P/E ratio of 13 times. The average share price of Beijing Datang Power for the year was HK\$2.57 or a P/E ratio of 10.41 times. Meanwhile, the Company's achievements in management and development continued to win market recognition. The Company was conferred in 2001 by *Finance Asia* the awards of "Best Managed Companies in China", "Best Investor Relations" and "Best Emphasis on Shareholders' Value". In early 2002, the Company was conferred the award of "Best Corporate Governance in China-2001" by *The Asset*.

The Company made significant moves to tap the capital markets in 2001. Its issuance of American Depositary Receipts (ADRs) had been approved by the China Securities Regulatory Commission and the Securities Exchange Commission of the United States to be traded in the U.S. over-the-counter market. The issuance of ADRs enabled the Company to expand its investors' base and make access to the U.S. market at the lowest costs.



6. Outlook for 2002

The year 2002 will be a year of expectations as well as difficulties. The implementation of the restructuring plan for China's power industry will generate enormous new business opportunities, while the Company's profitability is set to be further enhanced as the tariff rates for the four units of Zhang Jia Kou Phase II have been approved. Meanwhile, the momentum of the growth in demand and the extent of increase in fuel costs will have a significant bearing on the Company's performance. In view of the above, we need to enhance management over our production and operations this year while actively procuring progress in ongoing projects as well as preparations for new projects, with a view to ensuring continuous development. The Group shall:

1. Continue to enhance management of production safety and ensure safe and stable operation of all generation units.
2. Continue to explore new sources for revenues and opportunities for cost savings and seek growth in sales revenue by increasing power generation, raising tariffs and optimising on-grid electricity structures.
3. Actively procure the renewal and establishment of the Group's management information system and fully implement the Group's financial management model and innovative measures for job functions, work approaches and operating mechanisms.
4. Actively pursue business expansion to strengthen the Group's competitive advantages:
 - The Board of Directors of the Company has already decided to increase equity investment of an amount of approximately Rmb480 million in Datang Tuoketuo for the construction of its Phase II (2 x 600MW). The proposal of that project has already been approved by the State. With Phases I and II to be constructed in a row, Datang Tuoketuo's total installed capacity will reach 2,400MW, making it one of the two largest power plants in North China alongside Zhang Jia Kou Power Plant.



Management Discussion and Analysis (Cont'd)

- The Board of Directors of the Company has already decided to invest an amount of approximately Rmb434 million in Datang Tangshan for the construction of its Phases I and II technological upgrade projects (2 x 300MW). Both the feasibility study report of the Phase I project and the proposal of the Phase II project have already been approved by the State.
 - The Board of Directors of the Company has already decided to invest an amount of approximately Rmb43 million to jointly form a project company with the Beijing Thermal Group, for the purpose of constructing Gao Jing Power Plant's thermal pipeline project. The proposal of the project has been approved by the Beijing Government, and construction works are expected to commence within 2002.
5. Complete preliminary works for the following projects so that conditions for construction may be available within 2002:
- Datang Pingwang project (2 x 200MW)
 - Datang Shentou project (2 x 500MW)
 - Datang Liancheng project (2 x 300MW)
 - Datang Tuoketuo Phase II project (2 x 600MW)
 - Datang Tangshan Phase I project (1 x 300MW)
6. Procure completion of construction to ensure commencement of operation of Unit 2 of Datang Panshan (600MW) within 2002.

Yu Hongji

President

5th March 2002