

Questions Frequently Asked by Investors



1) How will the tariff adjustment in early 2001 affect the Company's profitability? To what extent are tariffs expected to be further adjusted in the future?

With the approval of the State Development Planning Commission, the tariffs of Units 5–8 of the Company's Zhang Jia Kou Power Plant Phase II were approved. The average on-grid tariff for these four units was adjusted to Rmb317 per MWh. The new tariff will help to boost the Company's average on-grid tariff and overall profitability.

According to the principles and spirit underlying the relevant documents issued by the State, the Company expects the principles for setting tariffs for all newly constructed power generation units to be based on the method of social average costing in place of individual costing, with a view to encouraging efficiency enhancement and cost reductions among power companies. The Company has been persistently carrying out



rigid cost controls and has succeeded in minimising construction costs of generation units by using domestically made generation units and equipment wherever possible, applying a stringent tender management system in the course of construction and lowering finance costs. At the same time, the Company's power plants are strategically located near coal mines and such proximity has contributed to an overall competitive cost structure by effectively reducing the Company's variable costs. Given the Company's track record and its history in management effectiveness, it has advantages from both the strategic and management perspectives in satisfying the management objective of achieving a cost level lower than the social average cost. Under the system of social average costing, the Company is expected to gain sufficient room for growth in profit margins in order to further increase its market share as it will benefit from a more competitive cost structure. As the current average on-grid tariff of the Company is still lower than that of the regional network, further reduction in its tariffs in the course of further tariff adjustments in the future is very unlikely.

2) How did the Company manage to achieve its objective of lowering its unit fuel cost in 2001 amid tough conditions in the coal market? What are the Company's future strategies in controlling fuel costs and hedging against market risks?

Facing tough conditions in the coal market, the Company entered into a one-year purchase agreement with major coal suppliers at the beginning of 2001, effectively freezing the prices for planned coal purchases, which accounted for more than 85% of the total amount of annual coal purchases. Thanks to successful negotiations, such prices remained unchanged for the rest of the year. In respect of unplanned purchases, which accounted for the remaining 15% of the total amount of annual coal purchases, we shifted some of the orders to larger coal mines after small mines were closed by the State. Our coal procurement structure was changed as a result and this had a net effect of increasing our unit fuel cost by 0.8% as at the end of the first half of the year. The Company adopted measures to adjust its coal procurement structure and effectively curbed the rise in coal prices. Meanwhile, the Company also implemented effective cost control management and lowered the level of coal consumption while increasing power

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generation, successfully reducing the coal consumption rate which was 2.96g/kWh lower than that of the previous year. Given the two factors discussed above, the Company managed to lower its unit fuel costs by 1.78% for the full year despite the external pressure of rising coal prices in the national market, reflecting the ability of the management to control costs and enhance competitiveness.

Taking into account the expected situation in the coal market in 2002, Beijing Datang Power, through its negotiations based on the coordinated results in the national coal supply conferences held at the beginning of the year, has managed to keep the price level for planned coal supplies, equivalent to 85% of its coal requirements, at a slight increase of 3.8% from the corresponding period of last year, contrasted with the national average of 5% increase. Small coal mines will resume production in the second quarter of 2002 after a streamlining process which started at the end of 2001 and continued through early 2002, and the tight supply in the coal market will therefore be relieved. Coal prices for the year are expected to stabilise from the second quarter onwards and may gradually reduce. The Company's costs on its coal purchases should increase by no more than 4%, according to conservative estimates.

With respect to the Company's advantages and strategies in hedging price risks in the coal market, the Company enjoys bargaining power in negotiations as the single largest coal buyer in North China, while its longstanding relationship with major coal suppliers means that stable cooperation based on mutual benefits will be sought. Meanwhile, the Company will further enhance the management of power plant operations to further lower coal consumption and achieve overall reduction in fuel costs for power generation.



3) Please give a preliminary detailed analysis on the objectives, content, timetable and implementation measures of the structural reforms of China's power industry.

The primary objective of the structural reforms of China's power industry is to introduce market competition and enhance the overall efficiency of China's power industry for the ultimate benefit of end-users and the national economy as a whole. The main content of the reforms includes the separation of power plants from power grids, the introduction of power sale by competitive pooling and the concurrent implementation of West-to-East power transmission strategy.

The separation of power plants and power grids refers to the separation from power grids and the transfer of management of the current power generation assets with a total capacity of 150 million KW in the system of the State Power Group held and managed by on-grid companies to cross-regional power groups engaging exclusively in power generation. It is expected that certain large-scale independent cross-regional power groups will be formed and they will compete in the nationwide electricity market.

Power sale by competitive pooling will be implemented after the completion of the separation of power plants from power grids with the objective of creating a nationwide competitive electricity market. Such a competitive pricing mechanism, however, will be introduced on a gradual basis in accordance with market developments, as the supporting technologies and the legal and regulatory frameworks required have yet to be put in place, coupled with the fact that the demand for power supply has been growing



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strongly on a nationwide basis in recent years and the power market is partially under-supplied in terms of total volume.

The transmission of power from the West to East represents a strategy that underpins the reform of the power industry. This strategy has been determined by the fact that China's natural resources are mainly located in the West while high-growth regions for power demand mostly concentrate in the East. In a move to encourage West-to-East power transmission, the State has not only budgeted capital expenditure required by the construction of West-to-East power transmission networks in its 10th Five-Year-Plan, but has also formulated a series of policies offering preferential treatments to encourage investments for the development of power projects in the West. Coupled with the policy of developing cross-regional power markets in the country, China's West-to-East power transmission is expected to form three major transmission channels in the northern, central and southern regions.

The pace of restructuring in the power industry is expected to accelerate in the next one or two years as driven by China's ongoing economy development. Given the complexity of the restructuring involved and the significant impact that any changes might have on the livelihood of the people, the process of reforms will be a gradual one.

4) What development strategies does Beijing Datang Power plan to adopt in the light of the structural reforms of the power industry? What comparative advantages is the Company relying on and what are its ultimate goals?

The structural reforms of the power industry with respect of introducing price competition represents opportunities as well as challenges for all power companies. For Beijing Datang Power, there would be more opportunities than challenges due to its proper management and sufficient preparation. The Company's strategies, advantages and goals in light of the reforms can be summed up as follows: correct positioning in the market, comprehensive competitive strategies and well-defined development objectives.



The Company's development strategies are based on a correct positioning in the future competitive market. The Company positions itself as a leading and strongly competitive independent power supplier in China with an international reputation, focusing on power generation while owning and managing power generation assets throughout the nation.

The Company is also fully geared up to further its development in line with reforms and has built a sound foundation, as evidenced by: the track record of its profit growth and effective cost controls reflects the standard of its corporate management and the quality of its management team. To keep the management ready for rapid business expansion: the Company's well-defined development strategies and planning have been a major factor in promoting business growth and enabling the Company to seize opportunities ahead of others in the reform process. The current prudent financial strategies and sound balance sheets have provided strong cashflows for the Company to accelerate development. As a listed company, the Company enjoys effective financing sources and a variety of financing means to support the Company's business development.

The key word underlining the Company's objective for business development is "growth": growth across regions, growth by economies of scale, growth that is sustainable, growth in competitiveness and growth in shareholders' value.

5) How will the Company be affected by Beijing's hosting of the 2008 Olympic Games?

As the largest power supplier in Beijing and the BTT Area, Beijing Datang Power is set to become a direct beneficiary of Beijing's hosting of the 2008 Olympics Games. Following Beijing's successful bid for hosting the Games, China will be making substantial investments in relevant infrastructure construction, such as major sports facilities, upgrades in communication facilities, airport expansion, highway construction, etc, in order to improve the environment for the Games. In Beijing alone, no less than Rmb180 billion will be invested in the construction of Olympic-related facilities. Based on the estimates of Beijing Statistics Bureau, increased investments and consumer's demand

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brought about by the Olympic Games might drive up Beijing's annual GDP growth by 2.5 percentage points, assuming correlation between Beijing's local GDP growth and growth in investment and demand. Given the strong correlation between Beijing's local GDP growth and growth in power demand shown in the past 20 years, growth in power demand in Beijing and its peripheral areas in the coming five to seven years is estimated to have an extra increase of 1 to 1.5 percentage points annually, as stimulated by investments related to the Olympic Games. As the power supplier who enjoys the largest market share in the BTT power grid, the Company has started strategic preparations by increasing its market share in the area and speeding up power transmission to Beijing from the West. Given the fact that almost all new additions to the installed capacity of power generation in the BTT Area in the next five years will be owned by the Company, there are sufficient reasons to believe that the Company will benefit from the continuous and stable growth in power demand in the BTT Area stimulated by investments related to the Olympic Games in the next seven years.

6) What are the Company's views on the relationship between environmental protection and development? Is there a corresponding strategy?



Environmental protection has become an increasingly important issue for maintaining sustainable social and economic development following China's rapid economic development and continuous improvements in the living standard of its people in recent years. Environmental protection has always been a task integral to the Company's strategy for sustainable development. The Company puts emphasis on environmental protection on every step of the entire protection process including project planning, construction, production and



technological upgrades. It has also moved ahead to formulate appropriate strategies in anticipation of future upgrades in environmental protection standards. First of all, all the existing units are now in full compliance with corresponding emission standards stipulated by the State after undergoing relevant technological upgrade programmes. Secondly, the environmental protection factor has been incorporated into the Company's overall planning for new constructions and technological upgrades. Specific strategies include: 1) actively introduce and use advanced environmental technologies, such as clean-coal combustion, gas-fired combustion, combined steam recycling, etc to achieve further reductions in toxic emissions to the extent permitted by the cost structure; 2) actively carry out integrated technological upgrade programmes for the current operating units through technological upgrades to increase their environmental protection standards and to reduce toxic emissions; and 3) re-align the fuel structure taking into account characteristics of the existing units in the course of fuel purchases, and reduce the purchase of coal that contains a high level of sulphur and phosphorous to improve emission standard of the existing units.

The Company has always viewed environmental protection as an important factor contributing to sustainable development, as well as a social obligation and contribution to be performed by the Company as a responsible member of the utilities sector. That's why the Company has included environmental protection as a key item for consideration and implementation in its long-term development plan and its current specific development projects.

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7) What are the specific goals, details and strategic significance of the cost control strategies that the Company has been actively adopting?

The Company's competitiveness is largely determined by its cost competitiveness at the end of the day. According to the cost structure characteristics of the power industry, construction costs, fuel costs and financing costs together account for approximately 80% of the total expenditure of a power generation operator, where construction costs are usually accounted for as depreciation, fuel costs are mainly recognised under variable costs and financing costs are shown as capital costs that would in turn affect construction costs and financial expenditures. Therefore, successful management of these three items is the core to effective cost controls and the Company has implemented corresponding cost control measures for each of these areas.

To strictly control construction costs, first of all, the Company gives priority to domestically made power generation units that are priced with obvious competitive edge in its equipment purchase, where reliability and efficiency are comparable. Secondly, rigid tender system for equipment purchase and contracting of construction projects has been developed to ensure minimum equipment and construction costs with guaranteed quality. Finally, professional engineering designers and consultants are appointed to help deliver optimal engineering designs for power plants.

To strictly control fuel costs, the Company gives priority to building new power stations near coal mines to ensure reliable supply of coal and to reduce transportation costs, resulting in cost advantages in the long run. For new construction projects and acquisitions, priority is given to medium to large-scale power generation units with a view to lowering the general coal consumption level and structurally enhancing the overall operating efficiency of the Company's units.

To effectively control financing costs, the Company will explore the diversity of financing sources by leveraging its advantage as a listed company and identify financing opportunities with the lowest possible cost. Meanwhile, the Company will seek to



reduce its overall weighted average capital costs and improve the return on shareholders' investment by further optimising its capital structure to match with its business development.

In sum of the above, the management's successful cost control strategies as well as its ability to implement such strategies have been reflected in the Company's track record. There are reasons to believe that with further enhancements in its cost control efforts on the basis of the existing management system, the Company will have its competitive edge enhanced in the future competitive electricity market and will be geared up with such strengths to take its operating results and the return on shareholders' investment to new heights.