

Management Discussion and Analysis

The People's Republic of China (the "PRC") recorded a GDP growth of 7.8% during the Period. Driven by domestic economic growth, power demand increased substantially, with the aggregate power consumption having grown by 8.91% as compared to the corresponding period last year. Power generation by the Company and its subsidiaries during the Period increased by 12.84% as compared to the corresponding period last year, while operating revenue grew by 11.39% as compared to the corresponding period last year. Operating profit of the Company decreased by 7.0%, due to the increase of power generation costs caused by coal price increase and depreciation of new generation units of the Company and its subsidiaries. Coupled with the factors of additional interest expenses for newly commissioned generation units and the fair value loss relating to interest spreads in US Dollar swap contract, consolidated net profit of the Company and its subsidiaries decreased by Rmb126,962,000 during the Period.

1. Operating conditions

During the Period, the Company and its subsidiaries' operating installed capacity was 6,170MW and total power generation amounted to 14,045,672MWh, representing a 12.84% growth as compared to the corresponding period last year. On-grid power generation during the Period amounted to 13,067,932MWh, representing a 13.01% growth as compared to the corresponding period last year. The increase in power generation and on-grid power generation was mainly attributable to: (1) the increase in power generating capacity with the commercial operation of Unit 8 (300MW) at Zhang Jia Kou Power Plant ("Zhang Jia Kou") and Unit 1 (600MW) at Datang Panshan Power Plant ("Datang Panshan"); (2) rising power demand in the Beijing-Tianjin-Tangshan ("BTT") area marked by a 6.89% increase during the Period; and (3) safe and stable operation of existing units with high operating levels reflected by an equivalent availability factor of 93.89% for the Period.

2. Business expansion

The Company continued to implement a pro-active expansion strategy during the Period, while enhancing management of construction in progress (“CIP”) and preparatory works. The current status of CIP and preparatory works in which the Company owns controlling stakes is as follows:

- Units 1 and 2 of Datang Panshan (2X600MW) commenced commercial operation in January and July 2002, respectively.
- The two units of Datang Tuoketuo Power Plant (“Datang Tuoketuo”) Phase I (2X600MW) in Inner Mongolia are currently undergoing installation, with the first unit expected to integrate into the power grid in 2003. The feasibility study report and project commencement report of Phase II (2X600MW) have been approved by the State Planning and Development Commission (“SPDC”) and construction is expected to begin on 20th August 2002.
- The feasibility study report and project commencement report for Datang Shentou Power Plant (2X500MW) have been approved by SPDC and construction is expected to begin on 20th August 2002.
- The feasibility study report for Datang Pingwang Thermal Power Plant (2X200MW) has been approved by the State Economic and Trade Commission (“SETC”) and construction is expected to begin within the year.
- Phase I of the technological upgrade works of one 300MW unit at Datang Tangshan Thermal Power Plant has been approved by SETC and construction is expected to begin within the year.
- The feasibility study report for Datang Liancheng Power Plant (2X300MW) has been submitted to SPDC for approval.
- The project proposal for Datang Honghe Power Generation (2X300MW) was approved last year and the project is currently undergoing feasibility study.

3. Financial analysis

(1) *Operating Results*

During the Period, the Company and its subsidiaries recorded consolidated operating revenue of approximately Rmb3,491,543,000, net profit of approximately Rmb601,318,000 and earnings per share of approximately Rmb0.12.

The four wholly-owned power plants (with a total operating capacity of 4,950MW) maintained a relatively high profit level as a result of increased power generation as well as tariff adjustments for Units 6-8 of Zhang Jia Kou and other profit-enhancing factors such as reduction in water consumption. However, the increased depreciation of fixed assets during the Period after Unit 8 of Zhang Jia Kou and Unit 1 of Datang Panshan had been commissioned and the increase in coal price have offset the continuous profit growth of the Company. As a result, operating profit of the Company showed a 7.0% decrease as compared to the corresponding period last year. In addition, taking into account the additional interest expenses for newly commissioned generation units and the fair value loss relating to interest spreads in US Dollar swap contract of Datang Tuoketuo, the combined net profit of the Company and its subsidiaries for the Period decreased by approximately Rmb126,962,000.

(2) *Financial Conditions*

As at 30th June 2002, total assets of the Company and its subsidiaries amounted to approximately Rmb24,921,772,000, representing an increase of approximately Rmb1,731,729,000 as compared to that as at 31st December 2001. Total liabilities amounted to approximately Rmb10,660,969,000, representing an increase of Rmb1,853,167,000 as compared to that as at 31st December 2001. Minority interests amounted to Rmb684,818,000, representing an increase of Rmb154,928,000 as compared to that as at 31st December 2001. Shareholders' equity amounted to approximately Rmb13,575,985,000, representing a decrease of Rmb276,366,000 as compared to that as at 31st December 2001. The growth in the Company's total assets mainly reflected the implementation of the Company's development strategy and the increase in investments in CIP by the Company.

(3) *Liquidity*

As at 30th June 2002, the Company's asset-to-liability ratio (i.e. the ratio between total assets and total liabilities, excluding minority interests) was 42.78%. The net debt-to-equity ratio (i.e. (total debt - cash and cash equivalents - short term bank deposits for over 3 months - investments held for trading)/shareholders' equity) was 27.77%.

(4) *Cash*

As at 30th June 2002, the Company had total cash and cash equivalents and short-term bank deposits for over 3 months amounted to approximately Rmb3,974,831,000, among which the equivalent of approximately Rmb2,136,842,000 of deposits was held in foreign currencies. The Company had no trust deposits or overdue fixed deposit during the Period.

(5) *Borrowings*

As at 30th June 2002, the Company had short-term loans of approximately Rmb547,500,000 at an annual interest rate of 5.04% to 5.85%. Long-term loans repayable within 1 year amounted to approximately Rmb368,974,000 and long-term loans (excluding those repayable within 1 year) amounted to approximately Rmb7,035,268,000 (including long-term loans repayable beyond 1 year while within 2 years amounted to approximately Rmb587,883,000; long-term loans repayable beyond 2 years while within 5 years amounted to approximately Rmb2,855,439,000; long-term loans repayable beyond 5 years amounted to approximately Rmb3,591,946,000) at annual interest rates of 2.87% to 6.21%, including US Dollars loans equivalent to approximately Rmb1,688,932,000.

As at 30th June 2002, the Company provided guarantee of approximately Rmb3 billion for loan facilities granted to its subsidiaries. The Company did not provide any form of guarantee for any company other than its subsidiaries.

4. Future prospects

The current economic growth is supported by the PRC's pro-active financial policy, a prudent monetary policy and flexible economic leverages and adjustments, and the upturn of the global economy. These positive factors have also laid solid foundations for long-term growth in the future. The positive effects of the PRC's entry into the World Trade Organisation and the hosting of the 2008 Olympic Games have begun to emerge. The implementation of strategies for "West China development" and "West-to-East power transmission" will be conducive to the sustained economic growth in the PRC. The Company's business expansion shall also benefit from the continued growth of the domestic economy, although its result might be affected by the increase in fuel cost and the increase of fixed costs caused by the commission of new generation units. In view of this, the Company shall proceed with its projects in a pro-active manner in accordance with the operating targets set by the Board at the beginning of the year. We will also leverage our strengths by fully capitalising on the conducive market environment, and procure ongoing expansion both in the domestic and international market by taking advantage of the opportunities presented by the power industry's reforms. Meanwhile, we will continue to consolidate corporate fundamentals in a pragmatic manner by controlling costs, enforcing production safety, and ensuring fulfillment of annual power generation plans, with a view to seeking better profitability.