

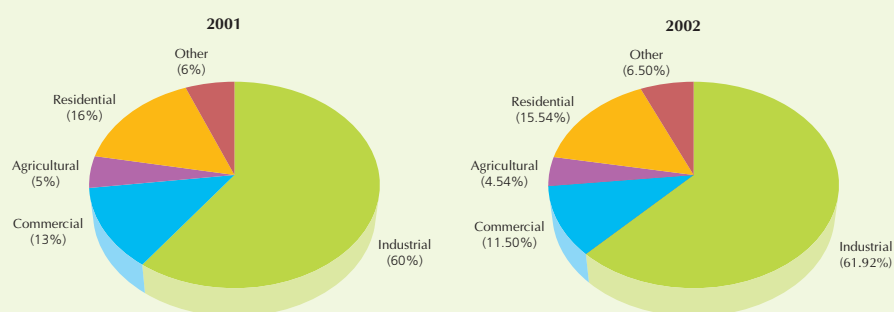
Management Discussion and Analysis

(1) Operating Conditions

China's economy continued to grow steadily during the financial year 2002 (the "Year"), with its national GDP growth rate reaching 8%. The BTT Area, the major area served by the Company, continued to outgrow the national average with a 10.28% GDP growth.

During the Year, the nation's demand for electricity was driven by the booming domestic economy. Power consumption nationwide increased by 11.70% over the Previous Year. Power consumption of the BTT Area increased by 11.80% over the Previous Year. Medium- to-large-scale industries remained to be the major propelling force behind the surge of power demand. Despite a slight dip in their respective shares of the total power demand, the commercial and residential sectors still experienced a relatively high level of absolute growth in power demand.

Sales of electricity in the BTT Area are analysed as follows:



(2) Review of Operations

Consolidated operating revenue of the Company and its subsidiaries for the Year was approximately Rmb8,017,912,000, an increase of 22.40% compared to the Previous Year. Consolidated net profit (excluding the impact of interest rate swap) rose 4.39%. If added the booked provision due to the interest rate swap, consolidated net profit was approximately Rmb1,404,612,000, representing a decrease of 2.33% from the Previous Year. Earnings per share was Rmb0.272, representing a decrease of Rmb0.006 per share compared to the Previous Year.

During the Year, construction of projects with an aggregate capacity of 3,050MW of the Company and its subsidiaries was commenced, laying down a solid foundation for the sustained growth of the Company.

1. Production

As at 31st December 2002, the Company and its subsidiaries owned units in commercial operation of an installed capacity (managed capacity) of 6,170MW. Total power generation of the Company and its subsidiaries for the Year amounted to 32,277,932MWh, representing a 21.90% growth over the Previous Year. A total of 30,119,062MWh of on-grid power was generated, representing a growth of 22.48% over the Previous Year. The increase in power generation and on-grid power generation was mainly attributable to: (1) the continuous upsurge of power consumption in the BTT Area, which grew by 11.80% for the Year; (2) the expansion of the Company's power generation capacity. During the Year, two 600MW units at Datang Panshan Power and two 10MW hydropower units of Hebei Huaze Hydropower commenced commercial operation, increasing the installed capacity managed by the Company and its subsidiaries by 1,220MW over the Previous Year; and (3) safe and stable operation of existing units at high operating levels, reflected by an equivalent availability factor of 94.12% during the Year.

The following tables set out certain operation statistics of the Company's four power plants and Datang Panshan Power for the five years ended 31st December 2002:





Dou He Power Plant

	1998	1999	2000	2001	2002
Installed capacity (MW)	1,550	1,550	1,550	1,550	1,550
Gross generation (MWh)	9,258,190	8,811,552	9,242,351	9,487,437	9,206,075
On-grid generation (MWh)	8,576,958	8,192,947	8,601,896	8,826,988	8,569,001
Available hours	8,043	8,053	8,395	8,274	8,338
Operating hours	7,187	6,769	7,414	7,211	7,354
Utilisation hours	5,973	5,685	5,963	6,121	5,939
Capacity factor (%)	68.19	64.90	67.88	69.87	67.80
Load factor (%)	83.11	83.99	80.43	84.88	80.76
Equivalent availability factor (%)	91.80	91.90	95.97	94.45	95.17
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	364	360	360	360	362

Gao Jing Power Plant

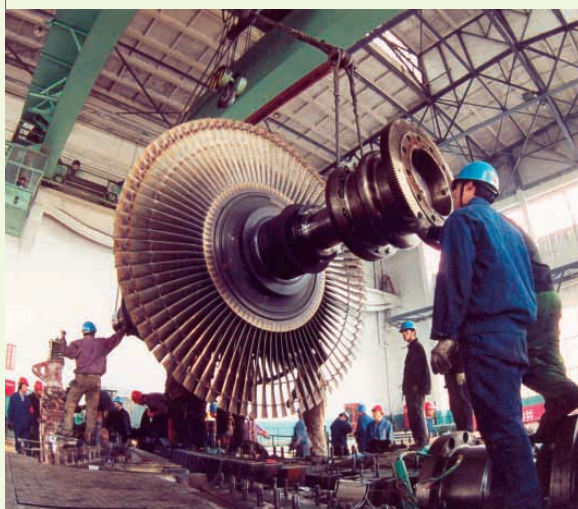
	1998	1999	2000	2001	2002
Installed capacity (MW)	600	600	600	600	600
Gross generation (MWh)	3,235,600	2,954,094	3,104,832	3,116,727	3,469,695
On-grid generation (MWh)	2,918,442	2,650,945	2,795,874	2,803,954	3,133,434
Available hours	7,833	8,340	8,341	7,966	8,384
Operating hours	6,974	6,878	7,291	7,211	7,751
Utilisation hours	5,393	4,923	5,175	5,195	5,783
Capacity factor (%)	61.56	56.20	58.91	59.30	66.02
Load factor (%)	77.32	71.58	70.97	72.04	74.61
Equivalent availability factor (%)	89.28	95.10	94.95	90.94	95.68
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	404	404	406	405	404

Zhang Jia Kou Power Plant

	1998	1999	2000	2001	2002
Installed capacity (MW)	900	1,500	2,100	2,400	2,400
Gross generation (MWh)	4,902,699	6,044,930	7,319,127	10,809,051	12,323,686
On-grid generation (MWh)	4,655,158	5,715,376	6,885,949	10,132,866	11,623,367
Available hours	8,057	6,619	7,937	7,910	8,155
Operating hours	7,849	5,638	6,658	7,107	7,313
Utilisation hours	5,447	5,343	4,550	4,855	5,135
Capacity factor (%)	62.24	60.99	51.80	55.42	58.62
Load factor (%)	69.46	70.13	68.34	68.31	70.22
Equivalent availability factor (%)	91.58	95.20	90.60	91.16	93.02
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	359	351	349	347	346

Xia Hua Yuan Power Plant

	1998	1999	2000	2001	2002
Installed capacity (MW)	400	400	400	400	400
Gross generation (MWh)	2,269,070	2,628,738	2,662,483	2,733,054	2,698,145
On-grid generation (MWh)	2,072,465	2,438,835	2,466,796	2,532,995	2,519,993
Available hours	7,548	8,075	8,518	8,139	8,476
Operating hours	6,669	7,469	7,764	7,757	7,742
Utilisation hours	5,673	6,572	6,656	6,833	6,745
Capacity factor (%)	64.76	75.02	75.77	78.00	77.00
Load factor (%)	85.06	88.00	85.73	88.09	87.12
Equivalent availability factor (%)	86.12	92.20	96.97	92.91	96.75
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	388	383	382	382	382





Datang Panshan Power

	1998	1999	2000	2001	2002
Installed capacity (MW)	—	—	—	—	1,200
Gross generation (MWh)	—	—	—	—	4,354,857
On-grid generation (MWh)	—	—	—	—	4,068,694
Available hours	—	—	—	—	6,469
Operating hours	—	—	—	—	5,432
Utilisation hours	—	—	—	—	4,615
Capacity factor (%)	—	—	—	—	52.68
Load factor (%)	—	—	—	—	84.96
Equivalent availability factor (%)	—	—	—	—	93.08
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	—	—	—	—	349

Notes:

- (1) Units 1 and 2 of Datang Panshan Power commenced commercial operation on 1st January 2002 and 1st July 2002, respectively.
- (2) Two units at Hebei Huaze Hydropower commenced commercial operation on 12th January 2002. Its power generation during the Year amounted to 22,081MWh.

During the Year, 261 technological upgrade projects with a total investment of approximately Rmb330,000,000 were undertaken by the Company. These projects were carried out in line with the Company's overhaul programmes and production targets set at the beginning of the Year, with a view to achieving production safety and enhancing economic efficiency.

Major projects include:

Modification of the steam circulation system at Units 3 and 4 of Gao Jing Power Plant; DCS modification at Units 3 and 5, modification of the steam circulation system in the medium to high-pressure tank at Unit 5 and modification of the furnace ash disposal systems at Units 5 to 8 of Dou He Power Plant; DEH modification at Unit 3 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 and its subsidiaries achieved consolidated operating revenue of approximately Rmb8,017,912,000 during the Year. Consolidated net profit amounted to approximately Rmb1,404,612,000.

During the Year, the Company and its subsidiaries continued to exercise stringent cost-control measures. The system of accountability for financial targets was implemented conscientiously. Budgets were checked and decided upon conscientiously. Expenses in various areas were effectively controlled. Measures to reduce energy consumption were upheld despite adverse conditions resulting from the continuous rise in fuel prices. Coal consumption

rate for power generation was reduced by 2.03g/kWh when compared with that of the Previous Year. Auxiliary power consumption rate dropped 0.41 percentage point as compared to the Previous Year. As a result, the rise in unit fuel cost was effectively controlled and was only increased by Rmb4.79/MWh when compared to the Previous Year.

Moreover, the Company and its subsidiaries' stringent, effective engineering quality management programme resulted in excellent operating conditions of Units 1–2 of Datang Panshan Power since they have commenced operation and ensured safe and stable power generation. In addition, the rigorous implementation of tender systems and construction cost management resulted in substantial reductions in construction costs, enabling the units to achieve profits in the first year of operation.

3. Business Expansion

The construction projects of the Company and its subsidiaries progressed smoothly during the Year. Two 600MW units at Datang Panshan Power and two 10MW hydropower units of Hebei Huaze Hydropower commenced commercial operation and construction of five other projects started during the Year. Breakthroughs were achieved in preliminary project works, ensuring continued growth in the production capacity of the Company and its subsidiaries:

- (1) Two 600MW units at Datang Panshan Power and two 10MW hydropower units of Hebei Huaze Hydropower commenced commercial operation, increasing the installed capacity under the Company and its subsidiaries' management by 1,220MW and bringing a total installed capacity of 6,170MW. The commercial operation of these two 600MW units played an important role in ensuring sufficient power supply to the BTT Power Grid (which covered Beijing, the nation's capital) in the peak summer season, while securing continued growth in the power generation of the Company and its subsidiaries.
- (2) The construction of two 600MW units at Datang Tuoketuo Power Phase I project progressed smoothly. Unit 1 has completed stand-alone trial operation in stages, while Unit 2 has completed the supply of power to in-house systems. The two units are expected to commence on-grid power generation in 2003.
- (3) The following projects developed and constructed by entities controlled by the Company have commenced work during the Year, with a total capacity of 3,050MW to be put in place:
 - The two 600MW units at Datang Tuoketuo Power Phase II project, with the first unit expected to commence on-grid power generation in 2004.
 - The two 500MW units at Datang Shentou Power, with the first unit expected to commence on-grid power generation in 2004.
 - Datang Tangshan Thermal Power, currently undergoing Phase I technological upgrade works (1X300MW) which is expected to commence on-grid power generation in 2004.

- The two 200MW units at Datang Pingwang Thermal Power, expected to commence on-grid power generation in 2003.
 - The development, construction and operation of the Yunnan Nalan Power project (3X50MW hydropower units) by Datang Nalan Hydropower with the first unit expected to commence on-grid power generation in 2005.
- (4) Preliminary project works for the following progressed smoothly:
- The feasibility study report for the installation of two 300MW units at Datang Liancheng Power has been approved by the State Planning and Development Commission (“SPDC”).
 - Project proposal for the Yayangshan Hydropower Project (3X33MW) under the Lixianjiang Hydropower Development Project, a project developed, constructed and operated by an entity controlled by the Company, has been approved by Yunnan Provincial Planning and Development Commission.
 - The feasibility study report for the installation of two 300MW units at Datang Honghe Power has been submitted to SPDC for approval.

4. Financial Analysis

(1) *Operating Results*

Consolidated operating revenue of the Company and its subsidiaries amounted to approximately Rmb8,017,912,000 during the Year. Consolidated net profit amounted to approximately Rmb1,404,612,000. Earnings per share amounted to Rmb0.272.

During the Year, the four wholly-owned power plants of the Company (with a total operating capacity of 4,950MW) maintained high profit levels as a result of increased power generation and the implementation of tariff adjustments of Units 5–8 at Zhang Jia Kou Power Plant. Units 1 and 2 of Datang Panshan Power, which commenced operation during the Year, maintained satisfactory operating conditions and succeeded in attaining profit in their first year of operation. Because of rising coal prices and the increase in depreciation and related interest expenses of the new units of the Company and its subsidiaries, the Company and its subsidiaries’ unit cost for power generation recorded a year-on-year increase of Rmb5.58/MWh. But as a result of effective cost control measures, consolidated net profit (before the impact of interest rate swap) of the Company and its subsidiaries rose 4.39% compared to the Previous Year. If added the impact on interest rate difference and change in fair value of interest rate swap contract of Datang Tuoketuo Power, a subsidiary of the Company, there was a 2.33% slight drop in consolidated net profit of the Company and its subsidiaries compared to the Previous Year.

(2) *Financial Position*

As at 31st December 2002, total assets of the Company and its subsidiaries amounted to approximately Rmb26,819,688,000,

representing an increase of approximately Rmb3,629,645,000 over the Previous Year. Total liabilities amounted to approximately Rmb11,533,175,000, representing an increase of approximately Rmb2,725,373,000 over the Previous Year. Minority interests amounted to approximately Rmb907,234,000, representing an increase of approximately Rmb377,344,000 over the Previous Year. Shareholders' equity amounted to approximately Rmb14,379,279,000, representing an increase of approximately Rmb526,928,000 over the Previous Year. The increase in total assets mainly reflected the implementation of the Company and its subsidiaries' expansion strategy and their increased investments in projects under construction.

(3) *Liquidity*

As at 31st December 2002, the asset-to-liability ratio (i.e. the ratio between total liabilities and total assets, excluding minority interests) was 43.00%. The net debt-to-equity ratio ((total borrowings — cash and cash equivalents — bank deposits — quoted securities)/shareholders' equity) was 33.07%.

(i) Cash and bank deposits

As at 31st December 2002, the Company and its subsidiaries had total cash and cash equivalents and bank deposits with a term of over 3 months amounting to approximately Rmb4,226,614,000, among which the equivalent of approximately Rmb2,089,296,000 was held as deposits in foreign currencies. The Company and its subsidiaries had no trust deposits or overdue fixed deposits during the Year.

(ii) Borrowings

As at 31st December 2002, the Company and its subsidiaries had short-term loans of approximately Rmb316,000,000 at annual interest rates ranging from 3.99% to 5.85%. Long-term loans (excluding those repayable within 1 year) amounted to approximately Rmb8,125,089,000 and long-term loans repayable within 1 year amounted to approximately Rmb540,953,000 at annual interest rates ranging from 2.88% to 6.21%, including USD loans equivalent to approximately Rmb2,211,982,000. The Company and its subsidiaries will closely monitor the fluctuation in the foreign exchange market and continuously assess the exchange rate risk.

As at 31st December 2002, the Company provided guarantee for loans facilities of approximately Rmb3,389,000,000 granted to its subsidiaries.

5. Stock Performance in Secondary Market and Investor Relations

The international capital markets were rather volatile in 2002, with Dow Jones Index having dropped 17% and Hong Kong Heng Seng Index having dropped 18% during the Year. Against tough overseas market conditions, the

shares of Beijing Datang Power performed strongly in the secondary market on the back of active capital market operation and strengthened communication with investors. As a result, the Company's share price hit the intra year high of HK\$3.65, with a P/E ratio of 13.95 times. The average share price of Beijing Datang Power for the Year was HK\$2.90, with a P/E ratio of 11.17 times. Meanwhile, the Company's achievement in management and development continued to gain market recognition. The Company was conferred numerous awards by various international renowned organisations, including the "Best Managed Companies", the "Best Corporate Governance" and the "Best Investor Relations" in China, etc.

6. Outlook for 2003

It is estimated that China will continue to achieve steady economic growth in 2003, which is favourable to the development of the power industry. Meanwhile, the restructuring of China's power industry has also entered the stage of effective implementation, signaling a new era for industry players as well as providing a positive backdrop for the Company's expansion. In view of these developments, the Company shall continue to leverage its strengths, capitalising on opportunities that present themselves to constantly explore and expand its operations at home and abroad. However, the Company's operations are also facing quite a number of challenges, including pressure of surging costs as fuel prices, water charges and raw material costs are generally on the rise. After all, the formation of five power generation groups, now the basic framework underlying the market-oriented transformation of the power industry, has laid the foundation for the Company's nationwide development. The Company is confident that with its strengths it will capitalise on every opportunity and meet every challenge to fulfill the following targets for 2003, so as to achieve improved economic efficiency and to enhance shareholder value:

- (1) Actively pursue business expansion and implement preliminary project works to identify as well as create development opportunities;
- (2) Actively investigate different financing channels that would help lower the Company's capital costs and improve its capital structure, to prepare ahead for fund requirements arising from the Company's expected rapid expansion;
- (3) Endeavour on project construction work to ensure Units 1–2 of Datang Tuoketuo Power Phase I (2X600MW) and Units 1–2 of Datang Pingwang Thermal Power (2X200MW) to commence operation in 2003;
- (4) Improve the safety standards of all of the generating units by facilitating maintenance programmes, improving quality of repairs, enhancing operation of equipment and eliminating defects and hazards that might affect the safe and stable operation of the units; and
- (5) Explore new sources for revenues and opportunities for cost savings, and achieve revenue growth by increasing power generation, obtaining higher tariffs and optimising on-grid power structures.