

Beyond

Traditional Financing





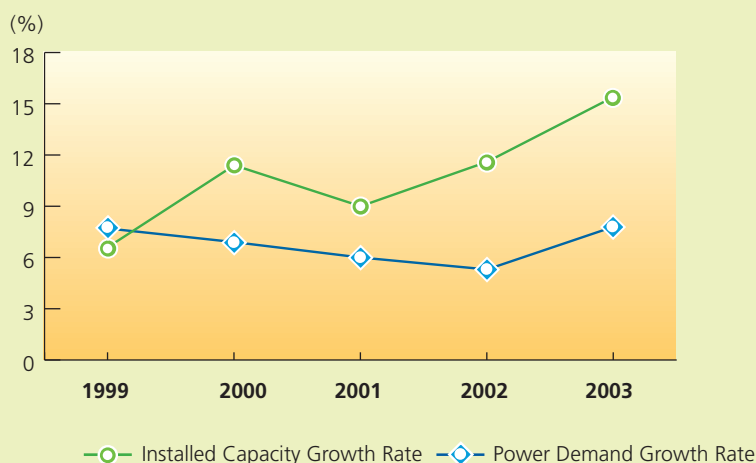
Optimal Capital Structure, Flexible Financing Channels

The Company completed the issue of US\$153.8 million five-year convertible bonds in 2003, featuring the lowest coupon rate ever achieved by a China registered issuer. The Company was also granted banking facilities of RMB85 billion in aggregate, providing strong financial cover for the Company's further expansion moves. The Company will actively explore various financing channels in the domestic and international markets, so as to enjoy the full advantage of financial leverage while maintaining an optimal capital structure.

Questions Frequently Asked by Investors

1. Following acute power shortage in 2003, what are the trends of power supply and demand in China expected for 2004 and the two years ahead? What opportunities are the Company facing as a result?

China experienced extensive power shortage in 2003, with 21 provinces being obliged to implement rationing of power supply. Meanwhile, China's economy is entering another high-growth period as rapid economic expansion continued in 2003 with a GDP growth rate of 9.10%, the fastest since 1996. The fact that demand for power grew by 15.40% while supply increased by only 7.8% in 2003 only partially demonstrated the overall lack of balance in power supply and demand. In fact, shortage in power supply capitulated in 2002 when demand had outgrown installed capacity for some years in a row since 1998, but the situation deteriorated in 2003.



Estimates of the State Power Resources Dispatching Centre indicate that the tension in power supply in China will be aggravated in 2004. Substantial undersupply remains as demand is expected to grow by 11% and installed capacity by approximately 9.10% for the year. The 10th and 11th Five Year Plans of the State have set a target for China's power industry to double the nation's installed capacity to over 600,000MW. In tandem with this stated target, China's installed capacity of power generation for the seven years from 2003 to 2010 should grow by 6.56% each year on a weighted average basis. The planned annual increase of installed capacity during this period will be approximately 23,000-25,000MW, whereas demand will increase by approximately 30,000MW, implying a shortfall of approximately 5,000-7,000MW. Therefore, China's power market is expected to remain in undersupply in the two years ahead, a period in which China's independent power generation companies would enjoy a rare, golden opportunity to maintain high growth. Beijing Datang Power will capitalise on this historic opportunity to actively expand its power generation business, enlarge its market shares and make preemptive moves for business growth, striving to achieve the development goal of expanding its installed capacity to 12,899MW by 2006.

2. What does the Company think of the present tension in coal supply? What are the Company's strategies in response to this situation?

The present tension in the domestic coal market is not an indication of long-term depletion of resources. Statistics show that China produced 1,440 million tons of coal ore during the first 11 months of 2003, which was 21.7% more compared to the corresponding period of the previous year. During the same period, 690 million tons of coal were consumed in nationwide power generation, 17.3% more compared to the corresponding period of the previous year. These figures show that supply and demand in the coal market is generally balanced at present. Only certain types of coal are subject to tight supply. Tension in domestic coal supply in 2003 was mainly attributable to: 1) the impact of government policies, such as tariff regulation and the liberalisation of the coal market; 2) robust growth of power demand beyond market expectations; 3) substantial increase in the demand for coal as a result of certain southern regions previously dependent on hydropower switching to coal-fired power because of extraordinary drought in 2003; 4) aggravated bottlenecking of rail transport as most coal transport schedules were postponed to the second half of the year due to the outbreak of SARS; 5) frequent production hazards at certain small coal kilns resulting in prolonged lead time for rectification and affecting coal production.

The Company endeavoured to fulfil its general objective of controlling costs through the implementation of a series of measures to lower fuel costs: 1) Long-term relationships with major coal suppliers were developed in the course of procurement and communications were enhanced based on mutual trust and understanding. In the past two years, Beijing Datang Power was able to purchase about 80% to 85% of its coal requirements through procurement contracts at reasonable prices amid tight supply. The Company also sought to optimise its coal procurement structure and minimise the impact of coal market risks on production by streamlining the consolidated cost of procurement, which comprised coal prices and transportation costs. 2) Technological upgrades relating to energy conservation were implemented and cost management was strengthened, resulting in a decrease of 3.75 gm/kWh in unit coal consumption for electricity delivered in 2003 over the Previous Year against substantial increase in power generation. 3) Management over safe production was enhanced; overhaul schedules were prudently arranged; and optimisation of the power generation structure was achieved by increasing power generation from units with lower unit fuel costs, with a view to bucking the rise of unit fuel costs.



Through effective implementation of the aforesaid measures, the Company overcame the adverse impact of coal price hikes by Rmb5 per ton at the end of 2002 and by Rmb8 per ton throughout 2003. Unit fuel cost was Rmb81.89/MWh, Rmb3.33/MWh lower as compared to the Previous Year.

Coal costs continue to account for a significant portion of the Company's overall costs for power generation, as most of the Company's operating units are still coal-fired. The Company has adopted the following long-term strategies to control coal costs and mitigate market risks: 1) to reduce unit coal consumption by utilising large-capacity units with high technologies and low energy consumption; 2) to streamline the flow of coal transport by developing power plants near coal mines; 3) to strategically strengthen the protection of fuel resources by entering into strategic alliances with large-scale coal suppliers and participating in the investment and development of coal resources in an appropriate and prudent manner; 4) to divert the fuel market risks by enhancing hydropower development.

3. Please discuss the impact of the reform of the power tariff regime on Beijing Datang Power.



The past, present and future development of China's power tariff regime can be analysed into three phases: 1) The approval system, whereby tariffs were determined on the basis of individual costing and there was no motivation for power suppliers to seek cost reductions. 2) Document No. 701 on power tariffs promulgated by the State, which provided for the determination of tariffs on the basis of average social cost plus a reasonable return of profit. This policy change signalled transition to a market-oriented mechanism and prepared the industry for market competition on a level field, providing opportunities for cost reductions. 3) Power pooling based on price competition will be introduced as the market-oriented pricing system matures.

Power tariffs are to be determined on the basis of supply and demand in the market by way of a "two-tier" tariff regime.

New policies on power tariffs were promulgated by the State in 2003 in a bid to ensure smooth transition to the new tariff regime: 1) The linking of coal prices and power tariffs: The NDRC announced a power tariff policy that allowed on-grid tariffs for coal-fired units to go up by Rmb7/MWh for every increase of Rmb12/ton in coal prices, in an attempt to end the controversy on coal prices and power tariffs. This policy helped to mitigate the structural conflict arising from the fact that coal prices had been liberalised while power tariffs were still under regulation. It also helped to protect the profitability of power investments by indicating the government's firm commitment to resolve the problem of power shortage and encourage investment in the industry. Moreover, this tariff adjustment provided a paradigm of fuel risk control for power companies prior to the introduction of full price competition. 2) Abolition of tariff approval for new units: For units commissioned after 1st January 2004, the average purchase price of the relevant power grid in the previous year shall apply. In this way, power generation companies can avoid any negative impact on their profitability as a result of implementing provisional settlement rates while awaiting tariff approval.

The two new tariff policies mentioned above will benefit a power generation company that owns a host of new projects, such as the Company, in the following ways: 1) It helps to reduce the risk of tariff-related uncertainties for new projects after they commence operation and improve the predictability of the Company's future profit; in this way the Company will be able to devote substantial resources to developing new projects and expanding its market share. 2) It will have a profound impact for the Company as it makes investment decisions easier. The implementation of the peak/low period tariffs will be enhanced, which will help adjusting and optimising the structure of power consumption and improving the operating efficiency and utilisation of generator units. It will also be profoundly significant in providing guidance to power suppliers in determining different types of units in future investment.

Any reform of the power tariff regime has to take effect in a power market, and no reform would be possible without a suitable market. Under the present situation of extreme tension in the supply and demand of power, it is evident that a market that will work in tandem with tariff reforms has yet to come of age. While anticipating the advent of a market of fair competition, the Company, as a member of China's power industry, will continue to make diligent efforts to prepare for the realisation of such a market.

4. Please discuss how Beijing Datang Power would make the best use of various financing options to ensure support for the Company's sustainable and high-quality growth.

According to our current development plans, the Company's total installed capacity will reach 12,889MW by 2006 through a weighted annual average growth rate of 17.44%. The total amount of the Company's planned capital expenditure for the next three years would be approximately Rmb18 billion. Raising low-cost capital through various financing options to meet the funding needs arising in the course of the Company's rapid growth will help to optimise the Company's capital structure as it would generally result in lower weighted average capital cost. Moreover, it would forge competitive strengths for the Company to cope with imminent market competition by containing financial risks in the Company's development and operation.

The Company launched a series of financing initiatives in 2003: 1) The issue of US\$153.8 million five-year convertible bond was completed successfully, featuring the highest conversion premium (30%) and lowest coupon rate (0.75%) ever achieved by a China registered issuer. The issue has been recognised as a landmark in overseas financing by Chinese companies. 2) Leading international rating agency Standard & Poor's re-affirmed the Company's BBB foreign debt rating with stable outlook in 2003, which was at par with China's sovereignty rating. 3) The Company concluded strategic partnerships with major domestic banks such as China Development Bank, Agricultural Bank of China, Bank of China and Industrial and Commercial Bank of China, which had granted banking facilities of Rmb85 billion in aggregate, providing strong financial cover for the Company's further expansion moves. 4) The Company refinanced certain long-term loans with high interest rates by entering into short-term borrowings, capitalising on the current low interest for short-term bank loans.

Looking ahead, based on its current capital expenditure plans, the Company has secured all funding requirements for its existing new projects. Meanwhile, the Company will actively explore various financing options to provide strong support in low-cost financing for the Company's future development while maximising shareholders' value, capitalising on its strengths and opportunities in the domestic and international markets to enjoy the full advantage of financial leverage while maintaining an optimal capital structure.

5. Please explain the impact of China's new environmental policies on Beijing Datang Power and the Company's corresponding strategies.

The Company will be affected by the new environmental policies in the following ways: 1) The new policies are underpinned by a stronger emphasis on equality in application. The previous definitions of the two "Restricted Zones" are abolished, whereby all qualifying power generation companies will be subject to payment of discharge fees. Gao Jing Power Plant owned by Beijing Datang Power will no longer be treated as a special case required to pay a pollutant discharge fee. Since the fee is equally applicable to all power generation companies, they will be affected to the same extent. This policy will apply to the industry as a whole, so there should not be any additional burden for any individual entity. 2) While levying the pollutant discharge fees, the government also encourages environmental treatment works by offering refund of the environmental fees. Whilst lawfully enlarging the scope of such fees, the Regulations Governing the Levy and Application of Pollutant Discharge Fees have strictly limited the use of such fees, that is, including such fees in the State's fiscal budget serving as grants and loan interest subsidies for pollution treatment projects. In other words, revenues generated from such fees will be entirely used for the prevention of pollution. Moreover, the emphasis of the regulations on the universal levy on all sources of pollution and the focused application of limited funds to enhance pollution prevention by major polluting sources will be conducive for power suppliers requesting subsidies for the treatment of sulphur dioxide. 3) The implementation of varied pollutant discharge fees for different stages will help avoid any sudden increase in power generation costs. The levy on the discharge of sulphur dioxide will be implemented according to the following schedule: Rmb0.20 per unit equivalent for the period from 1 July 2003 to 30 June 2004; Rmb0.40 for the period from 1 July 2004 to 30 June 2005; and Rmb0.60 beginning from 1 July 2005. This arrangement has taken into consideration the lack of flexibility to cost variations under the current power tariff regime, while a more reasonable reflection of the impact of environmental costs on profitability is expected following the implementation of the new tariff regime in 2006 and beyond when the supply and demand for power will have achieved a better balance.

Beijing Datang Power is taking pro-active measures to cope with the environmental issue: 1) To implement environmental upgrade programmes for existing power generating units, such as desulphurisation, leveraging fully the State's policy regarding discharge fee refund; 2) To reduce discharge of pollutants through technical measures, such as increased use of large-capacity, high-efficiency and low-discharge units as well as low-sulphur coal in new projects; 3) To increase the weighting of hydropower in power generation assets for new projects and to actively explore the feasibility of using clean energy such as gas-fired generation.

6. How is Beijing Datang Power going to maintain its competitive edge and enhance returns for investors as China's power market anticipates full competition in the near future?

The reform of China's power tariff regime will ultimately lead to effective competition through power pooling in a regulated regional market with relative balance in supply and demand. In future competition,

which will be underpinned by market-oriented tariffs, whoever is capable of exercising better control over construction, production and financial costs will be rewarded with higher returns and larger market shares. While as one of China's independent power generation companies the Company anticipates fair competition in an orderly market, it is also making active preparations to cope with challenges with a view to enhancing shareholders' value while forging full competitive strengths.

1) The Company will pursue active business expansion by maximising strategic planning in regions where there are cost, market or policy advantages, with a view to identifying as well as creating development opportunities. 2) To provide fundamental assurances for growth in power generation and utilisation hours by enhancing equipment management and improving the safety and reliability levels of generating units on the back of the Company's strengths in professional management of production operations. 3) To seek reductions in construction project costs and fuel costs, leveraging the Company's strengths in professional construction cost management and fuel cost management. In this connection, the Datang Panshan Power Project has achieved cost savings of approximately 20% and the fuel cost for Datang Tuoketuo Power, as a plant situated adjacent to the coal mine, is lower than the average market level by about 50%. 4) To enhance the Company's competitiveness by increasing the construction and operation of large-capacity and high-efficiency units of 600MW or above, on the back of the Company's strengths in professional technology management. 5) To secure financial cover for the Company's development capitalising on the availability of various low-cost financing options.

