

Questions Frequently Asked by Investors



1. Please analyse the changing situations in China's power market.

At present, the shortage in electricity is still severe. If we look at the increase in electricity demand and the increase in installed capacity in the past few years, the later could not match the former, thereby creating a shortage in electricity which is becoming more and more severe. In 2003 and 2004, there were more than 24 provinces (including autonomous regions) in China encountering severe shortage in electricity. Even in 2004 when the construction of power plants accelerated, the increase in installed capacity across the country still slightly lagged behind the increase in electricity demand.

While it is reasonable to expect that the problem of the shortage in electricity could be gradually relieved in the next two to three

years, a situation of over-supply is unlikely to happen in that span of time. Assuming the increase in electricity demand in each of the next three years is still above 10%, approximately 50,000 to 60,000MW of installed capacity would be needed each year to meet the annual increase in demand alone, let alone the current shortage in electricity, the surplus capacity required for a safe operation of the grids and additional capacity required for replacing obsolete units each year due to various reasons. Therefore, it would be unlikely to reach an equilibrium in the near future, not to mention an over-supply. At present, the capability of China in building electric power facilities is limited to approximately 60,000MW per year. Such limitation also restricted a required capacity to commence operation all at the same time. On the other hand, there has been a structural change in the growth of demand electricity in recent years. In 2004, the

The growth in power demand and installed capacity in China and the utilisation rate of coal-fired units from 1999 to 2004



Source: State Power Information Network



electricity load of the BTT area in winter exceeded that in summer for the first time. A balance at the regional peak load was warranted by a maximum output by the units in the region, a management of the demand, a planned restriction on peak-level demand and, in the most extreme cases, a shut down of units. There is still room for electricity demand to be fully released.

After a certain period of time, when supply basically meets demand, China's power industry will introduce power pooling. Datang Power has long been actively preparing itself for the future market competition through strategic deployment of its power plants, vigorous cost controls and asset structure adjustments.

2. Please analyse the situations of the fuel market and the corresponding measures taken by the Company.



Our strategic advantage in the purchase of fuel: At present our operating power plants are principally situated in northern China with major coal mines located nearby. We therefore enjoy lower transportation costs and are subject to less pressure in transportation. In

the past, we have maintained good relationships with our coal suppliers and our fuel supply is therefore more secured.

During the past few years we have persistently employed strategic measures to alleviate the risks in the fuel market and such efforts have paid off: In recent years, when market coal prices increased significantly, our unit cost of fuel for 2003 was 3% lower than 2002, and 1.6% lower in the first half of 2004 than the first half of 2003. Although a 14.54% increase in unit fuel cost was recorded for the Year, it is still significantly lower than the level of increase in market coal prices as well as the industries average level of increase in fuel costs.

We are facing a number of challenges with regard to fuel prices due to market price fluctuations: In the last two years, due to rampant demand, stricter safety requirements and restrictions due to transportation bottlenecks, there has been a growing tension in the coal market. Our unit cost of fuel in the last two years also increased by a certain extent. During the Year, the unit cost of fuel that we achieved was RMB93.8/MWh, an increase of 14.54% over 2003. Up till now, the outlook of the coal market is still uncertain while the prices for thermal coal have seen fluctuations, thereby making our fuel cost control more difficult.

Our fuel supply in 2005 will be more secured: We will continue to implement our proven measures in controlling fuel costs and at the same time safeguard the quality and quantity of our coal supply. At the conference for the ordering of coal this year, we had principally secured the supply of coal for six of our power plants in eastern China which require railway transport; the supply of coal so contracted



represents approximately 95% of our anticipated total demand. We have also secured the supply of coal for Tuoketuo, Shentou, Yungang and Liancheng power plants situated in western China with coal mines nearby. As to transportation, with the completion of the enhancement of Daqin Railway, transportation capacity is greatly increased and the railway transportation bottlenecks for the Company's service area have been significantly relieved.

The “Coal-Electricity Price Linkage Mechanism” shall ease the pressure of rising coal prices: The relevant authorities of China have been actively considering the possibility of introducing the “Coal-Electricity Price Linkage Mechanism” in response to changes in coal prices. The purpose of this is to make it possible to adjust on-grid tariffs in a timely manner in response to changes in coal prices. The mechanism, if introduced, will definitely ease the pressure on our costs due to rising coal prices.

We seek to alleviate the risks of the fuel market by adopting pro-active and rational development strategies: We have stepped up our development plan of new energy, primarily featuring hydropower which is targeted to account for more than 25% of our total installed capacity in the next few years. We shall also seek to enhance the vertical integration of our operation. The Ta Shan Coal Mine in Shanxi in which we have acquired an equity interest will commence operation to a certain scale in 2005 and supply coal to the Company. We have also acquired an equity interest in Daqin Railway with a view to securing our railway transportation capacity.

We shall also consider the possibility of seeking alternative coal sources to further secure coal supply for our electricity generation.

3. Please explain the progress on implementing the Company's development strategies and the opportunities and challenges ahead.

During the Year, our developing strategies were well executed: First of all, new units commenced operation successfully. In 2004, Datang Power commenced operation on newly installed capacity of 2,600MW, including two power generation units of 600MW each at Tuoketuo Power Company Phase II, two units of 300MW each at Tangshan Thermal Power Company, one unit of 500MW at Shentou Power Company and one unit of 300MW at Liancheng Power Company. With the newly installed capacity, our total installed capacity exceeded 10,000MW for the first time reaching 10,410MW. The majority of these newly constructed units commenced operation ahead of schedule. On the other hand, our strategic deployment started to take shape.





The progress made in the development of hydro power in western China was satisfactory, and the preparation works for major thermal power projects in the coastal area of eastern China made solid progress.

We expect our business to maintain steady but rapid growth in 2005: Two units of 600MW each at Tuoketuo Power Company Phase III, one unit of 300MW at Liancheng Power Company in Gansu, one unit of 500MW at Shentou Power Company, the first unit of 50MW at Nalan Hydropower Company and the first hydropower unit of 60MW at Lixianjiang Power Company will take turn to commence operation this year. We shall ensure the projects to be completed this year to provide an additional capacity of 2,110MW. Besides, we shall actively carry out the other projects which have been approved and are under construction. We aim to complete our new installation plan this year ahead of our target. At the same time, in order to consolidate the steady progress of our principal power generation business, in 2005 we will aim to enhance the vertical integration of our operation, with a view to lowering the market risks of our principal business, raising profitability, strengthening our cost advantages and better preparing ourselves for the future market competition.

Good opportunities for us to pursue: Due to the rapid development of the national economy, the power industry has an urgent need to expand substantially in order to resolve the problem of power shortage. There exists a huge room for an increase in capacity due to market demand. Gradual reforms in the power market have enhanced transparency of the

tariff mechanisms. On-grid tariffs of new installation will be determined according to average purchase prices of electricity of the regional grid, which will enable power generation companies to ascertain, at the beginning of the decision making of their investments, the on-grid tariffs after the commencement of operation. Our investment risks will therefore be lowered. Datang Power will strive to make full use of our advantages, and make rationalised arrangements on the preparation works of new construction projects, the purchase of equipment and the sourcing of coal supply. We shall leverage our extensive development experience in new projects to seek, on the basis of quality construction, shorter construction periods and lower construction costs. With new units in the pipeline, we will be able to sustain our growth in profitability.

Challenges and corresponding measures in the course of development: At present, the coal market of China is relatively volatile, posing challenges to us in terms of fuel supply and cost controls. We will tackle these challenges through measures such as locating our plants at mine-mouth, and investing in railway and coal mines. The increase in raw material prices has caused a rise in construction costs for our new projects. We will seek to lower the costs by placing early orders, making rationalised arrangements of construction schedules and improving construction designs. The construction costs of the new projects that we have completed in recent years were generally lower than the industry's average level. When there is an equilibrium between supply and demand of electricity in China, power pooling will be



introduced. We have already prepared ourselves for it, and we will seek to consolidate our competitive advantages through our sustained efforts in cost controls.

4. Please explain the Company's financial conditions and illustrate its relevant financing strategies.

The Company maintains a sound and healthy financial status: The Company, backed up by strong cash inflows, maintains a satisfactory record in collection of electricity charges and accounts receivable settlements. The Company actively capitalises on its financial leverage and seeks to raise more capital to grasp every opportunity for development and to enhance the returns for shareholders. There has been a rise in the gearing ratio at a certain stage and this was only caused by an increase in the number of projects in-progress over the last two years. In about two years' time, with the completion and operation of the new projects, the Company's cash flow will increase significantly.

The Coal-Electricity Price Linkage Mechanism will effectively improve the Company's financial conditions: During the Year, the relevant state authorities implemented a series of policies which are conducive to the launch of "Coal-Electricity Price Linkage Mechanism". It is believed that such measures will effectively and reasonably help the Company ease the pressure on costs as caused by the increase in coal prices.

The new power plants will boost the Company's financial returns: From what we

can see on the new power plants that have commenced operations during the last two years, the investment returns on the new power plants are higher than the existing ones as a result of effective cost control measures. With the commencement of operations of more new power plants, the Company's assets will improve the Company's overall profitability. Such development will further improve the Company's financial conditions.

The A share financing plan will help improve our financial strengths: The project of issuing A shares is in the pipeline. The successful issue of A shares will definitely provide a strong support to the Company's capital base and will help to adjust the Company's capital structure, thereby improving the Company's financial conditions and providing support to the Company's rapid business growth.



5. Please describe the development strategies of the Company.

Strategy of Resource Securing: Datang Power is mainly a coal-fired power generation company. Stable supply of fuel and guarantee of transportation capacity are of great importance to the Company. The Company has



made constant efforts in securing a certain amount of coal sources and corresponding transportation capacity. The Company invested and acquired an equity interest in the development project of the Tashan Coal Mine in Shanxi. The coal mine will be able to provide 10,000,000 tonnes of thermal coal to the Company once the production capacity has been established completely. At present, the preliminary work of the project progresses smoothly. The coal mine is expected to achieve initial production status at the end of 2005. The Company will also actively seek new development of coal sources, in order to secure its own coal sources to satisfy over 50% of its demand. During the Year, the Company invested in the Daqin Railway Corporation to secure significant transportation capacity assurance with a relatively small investment. The Company will also actively seek other opportunities to expand its transportation capacity resources to guarantee the transportation for the Company's coal sources and other thermal coal for electricity generation.

Strategy of Active Hydropower Development:

In November 2002, the Company announced the development of hydropower projects in Yunnan Province, and became the first among its peers to invest in the hydropower sector. In 2004, the Chongqing Pengshui Hydropower project of the Company was approved by the State. The project comprises five 350 MW hydropower units (a total of 1,750 MW). After the completion of the project, hydropower assets will form a significant portion of the Company's total assets. On the basis of its existing hydropower projects, the Company

will continue to seek appropriate hydropower resources with an aim to increase the share of hydropower in Datang Power's asset structure to 25% to 30% in the future.

Strategy of expanding into regions with market advantages:

The Company will, on the basis of maintaining its market share in northern China and the western region and, through its rational distribution of newly-developed projects, further develop the eastern coastal markets. It will distribute its power generation assets strategically in the economically-developed but electricity-lacking region. In this region, the Company will deploy high-capacity, highly efficient generating units. These units will also need to meet the state's environmental protection requirements at the initial stage of design and construction, so as achieve superior standards in power generation technology. The economy of the eastern coastal region has been developing rapidly with a commensurate strong demand for electricity, and so the market advantage is very obvious. At the same time, having experienced several years' rapid development, the business sector and common residents in the eastern region are able to bear higher power tariffs, which will greatly enhance the future profitability of the Company.



Effectiveness •

Optimising Our Asset Structure.



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