



Intensive Development on *Hydropower*

Leverage the Advantages of
Diversified Resources



During the Year, Unit 2 at Nalan Hydropower Company commenced operation, which signifies a gradual implementation of the Company's hydropower strategy. Moreover, five 350 MW hydropower generating units of the Company, totalling 1,750 MW in capacity, obtained approval from the NDRC. Datang Power will continue to develop hydropower intensively, leveraging the complementary advantages of different forms of power generation so as to consolidate the Company's competitive strengths in the power market.

Management Discussion and Analysis



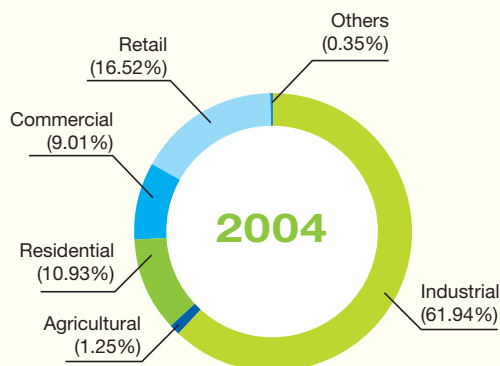
(I) Operating Environment

Gross domestic product (“GDP”) growth rate in the PRC was approximately 9.9% during the Year. Driven by domestic economic growth, power demand in the PRC grew steadily. The nationwide power generation and power consumption in the PRC during the Year increased by approximately 12.8% and 13.45%, respectively as compared to the Previous Year. The economy and the power generation market of the service areas in which

the Company and its Subsidiaries are located maintained rapid growth. During the Year, power generation of the Beijing-Tianjin-Tangshan (“BTT”) Power Grid increased by approximately 17.4% as compared to the Previous Year; power generation of the Shanxi Power Grid increased by 20.51% as compared to the Previous Year; power generation of the Gansu Power Grid increased by 11.28% as compared to the Previous Year.

During the Year, the power generated by the Company and its Subsidiaries was mainly transmitted to the BTT Power Grid, the Shanxi Power Grid and the Gansu Power Grid, of which the electricity transmitted to the BTT Power Grid represented 91.28% of the on-grid power generation for the Company and its Subsidiaries; the electricity transmitted to Shanxi Power Grid and Gansu Power Grid represented 4.05% and 4.67%, respectively, of the on-grid power generation for the Company and its Subsidiaries.

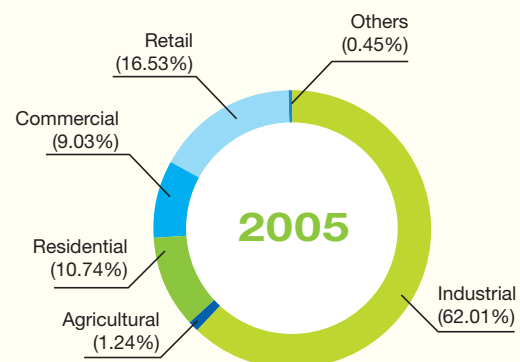
During the Year, the sales of electricity of the BTT Power Grid were as follows. Medium-to-large-scale industries remained the key driving force to the growth in power demand while consumption of the residential, commercial and retail sectors still maintained steady growth.



(II) Business Review

During the Year, the Company and its Subsidiaries achieved consolidated operating revenue of approximately RMB17,994 million, representing an increase of approximately 32.47% as compared to the Previous Year, and profit attributable to the shareholders of the Company (the “Shareholders”) of approximately RMB2,351 million for the Year, representing an increase of approximately 2.55% as compared to the Previous Year. Earnings per share was approximately RMB0.46, representing an increase of approximately RMB0.02 per share as compared to the Previous Year.

During the year, power generation of the Company and its Subsidiaries increased by 27.10% as compared to the Previous Year, while on-grid power generation increased by 27.13% as compared to the Previous Year.



Power generation units of the Company's subsidiaries with total capacity of 3,250 MW were put into operation, laying a solid foundation for the Company's continued development.

1. Production

As at 31st December 2005, the installed capacity (managed capacity) of operating units owned by the Company and its Subsidiaries totalled 13,810 MW. Total power generation of the Company and its Subsidiaries for the Year amounted to approximately 70.988 million MWh, representing an increase of approximately 27.10% as compared to the Previous Year. Total on-grid generation amounted to approximately 66.680 million MWh for the Year, representing an increase of approximately 27.13% over the Previous Year. The increases in power generation and on-grid generation were mainly attributable to:

- (1) Continued increase in power demand: the nationwide power consumption increased by approximately 13.45% for the Year;
- (2) Increase in power generation capacity: with seven power generation units of the Company's subsidiaries put into operation during the Year, the Company's managed installed capacity increased by 3,250 MW as compared to the Previous Year;

- (3) Generation units operated at a high reliability level: During the Year, the Company placed emphasis on strengthening equipment management and operation management, as well as on enhancing control over equipment utilisation, with a number of equipment deficiencies that had affected the safe and economic operation of generation units being eliminated. Reliability in the operation of generation units was improved, with the equivalent availability factor of generation units being at approximately 93.15% for the Year;

- (4) Secured fuel supply: Through optimising the allocation of coal resources and railway transportation capabilities, the Company deployed good organisation on coal planning and delivery so as to ensure fuel supply for the Company's operating power plants.

Certain operation statistics of the Company's four wholly-owned power plants and several subsidiaries for the five years ended 31st December 2005 are set out as follows:

**Dou He Power Plant**

	2001	2002	2003	2004	2005
Installed capacity (MW)	1,550	1,550	1,550	1,550	1,550
Gross generation (MWh)	9,487,437	9,206,075	10,021,239	10,418,230	10,369,045
On-grid generation (MWh)	8,826,988	8,569,001	9,345,326	9,720,821	9,675,990
Utilisation hours (hours)	6,121	5,939	6,465	6,721	6,690
Equivalent availability factor (%)	94.45	95.17	93.79	93.05	95.35
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	360	362	362	362	362

**Gao Jing Thermal Power Plant**

	2001	2002	2003	2004	2005
Installed capacity (MW)	600	600	600	600	600
Gross generation (MWh)	3,116,727	3,469,695	3,625,898	3,747,010	3,774,436
On-grid generation (MWh)	2,803,954	3,133,434	3,277,119	3,395,492	3,388,645
Utilisation hours (hours)	5,195	5,783	6,043	6,245	6,291
Equivalent availability factor (%)	90.94	95.68	94.13	93.67	90.36
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	405	404	401	399	394


Zhang Jia Kou Power Plant

	2001	2002	2003	2004	2005
Installed capacity (MW)	2,400	2,400	2,400	2,400	2,400
Gross generation (MWh)	10,809,051	12,323,686	13,904,780	15,323,571	15,124,132
On-grid generation (MWh)	10,132,866	11,623,376	13,155,686	14,517,811	14,318,757
Utilisation hours (hours)	4,855	5,135	5,794	6,385	6,302
Equivalent availability factor (%)	91.16	93.02	92.46	94.39	94.06
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	347	346	346	345	344


Xia Hua Yuan Power Plant

	2001	2002	2003	2004	2005
Installed capacity (MW)	400	400	400	400	400
Gross generation (MWh)	2,733,054	2,698,145	2,552,497	2,733,993	2,834,631
On-grid generation (MWh)	2,532,995	2,519,993	2,384,095	2,553,550	2,626,561
Utilisation hours (hours)	6,833	6,745	6,381	6,835	7,087
Equivalent availability factor (%)	92.91	96.75	89.93	95.45	95.49
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	382	382	382	381	381


Panshan Power Company

	2001	2002	2003	2004	2005
Installed capacity (MW)	–	1,200	1,200	1,200	1,200
Gross generation (MWh)	–	4,354,875	7,204,129	7,766,957	7,805,321
On-grid generation (MWh)	–	4,068,694	6,822,632	7,377,667	7,410,489
Utilisation hours (hours)	–	4,615	6,003	6,472	6,504
Equivalent availability factor (%)	–	93.08	93.94	95.21	96.00
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	349	343	333	326


Tuoketuo Power Company

	2001	2002	2003	2004	2005
			Units 1 & 2	Units 1-4	Units 1-6 (Note 1)
Installed capacity (MW)	–	–	1,200	2,400	3,600
Gross generation (MWh)	–	–	3,593,188	10,489,141	16,254,506
On-grid generation (MWh)	–	–	3,391,424	9,893,812	15,390,574
Utilisation hours (hours)	–	–	3,102	6,531	6,239
Equivalent availability factor (%)	–	–	95.70	92.43	91.18
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	349	341	344


Yungang Thermal Power Company

	2001	2002	2003	2004	2005
Installed capacity (MW)	–	–	440	440	440
Gross generation (MWh)	–	–	268,583	3,120,073	2,937,490
On-grid generation (MWh)	–	–	–	2,883,376	2,703,202
Utilisation hours (hours)	–	–	–	7,091	6,676
Equivalent availability factor (%)	–	–	–	94.03	95.66
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	–	384	363


Tangshan Thermal Power Company

	2001	2002	2003	2004	2005
Installed capacity (MW)	–	–	–	600	600+150 (Note 2)
Gross generation (MWh)	–	–	–	2,112,698	4,671,703
On-grid generation (MWh)	–	–	–	2,024,192	4,351,314
Utilisation hours (hours)	–	–	–	6,453	6,581
Equivalent availability factor (%)	–	–	–	99.67	91.84
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	–	332	344



Shentou Power Company

	2001	2002	2003	2004	2005
Installed capacity (MW)	–	–	–	500	1,000 (Note 3)
Gross generation (MWh)	–	–	–	–	3,910,860
On-grid generation (MWh)	–	–	–	–	3,680,713
Utilisation hours (hours)	–	–	–	–	5,520
Equivalent availability factor (%)	–	–	–	–	86.58
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	–	–	359



Liancheng Power Company

	2001	2002	2003	2004	2005
Installed capacity (MW)	–	–	–	300	600 (Note 4)
Gross generation (MWh)	–	–	–	119,052	3,284,286
On-grid generation (MWh)	–	–	–	–	3,111,938
Utilisation hours (hours)	–	–	–	–	5,774
Equivalent availability factor (%)	–	–	–	–	95.21
Coal consumption per unit of electricity delivered (gm standard coal/kWh)	–	–	–	–	349

Notes:

- (1) Unit 5 and Unit 6 of Tuoketuo Power Company commenced operation in October and December 2005, respectively.
- (2) Tangshan Thermal Power Company completed its acquisition of public facilities of former Tangshan Power Plant in 2005, which included three 50 MW coal-fired generating units.
- (3) Unit 2 of Shentou Power Company commenced operation in 2005.
- (4) Unit 2 of Liancheng Power Company commenced operation in February 2005.
- (5) Annual gross generation of two 20 MW hydropower generation units at Huaze Hydropower Company amounted to 21,500 MWh.



While endeavouring to increase power generation, the Company also put a strong emphasis on the implementation of environmental protection projects in accordance with the PRC State's environmental protection requirements. During the Year, the Company completed the desulphurisation upgrade projects for units totalling 1,650 MW, including units at Tangshan Thermal Power Company, Dou He Power Plant and Gao Jing Thermal Power Plant. The desulphurisation projects for Zhang Jia Kou

Power Plant, Yungang Thermal Power Company, Panshan Power Company and Shentou Power Company have also commenced. At the same time, renovation works also commenced at the Company and its Subsidiaries with respect to flue gas denitro-oxidisation facilities, of which the project at Gao Jing Thermal Power Plant was classified as a PRC State model project. Upon its completion, Gao Jing Thermal Power Plant will become the only power plant in Beijing that operates with boiler flue gas denitro-oxidisation facilities.

2. Operational Management

The Company and its Subsidiaries achieved consolidated operating revenue of approximately RMB17,994 million during the Year, representing an increase of approximately 32.47% as compared to the Previous Year. Consolidated profit attributable to the equity holders of the Company and its Subsidiaries amounted to approximately RMB2,351 million for the Year, an increase of 2.55% as compared to the Previous Year.

During the Year, the Company and its Subsidiaries faced a tight supply in coal, electricity, oil and transportation means. The imbalance in demand and supply of electricity and coal resulted in a continued substantial upsurge of coal prices. Together with the increases in charges for water supply and environmental protection, the Company's operation was under enormous pressure. As such, the Company and its Subsidiaries strengthened its budget control and implemented cost controls at all levels as well as carried out measures to increase revenue

and reduce expenses, so as to enhance profitability for all operating companies which have commenced operation.

- (1) The tariff adjustment work pursuant to the fuel-tariff pass-through mechanism and the commencement of operation of desulphurisation units was conscientiously carried out, so as to put the relevant adjusted tariffs in place on time.
- (2) Power generation structure was appropriately adjusted in accordance with the profit margins of units so as to enhance the overall profitability of the Company.
- (3) The unit fuel costs of the Company and its Subsidiaries were controlled at a level lower than its peers by strengthening fuel costs analysis and scrutinising the change of fuel prices with analysis. More sophisticated energy conservation measures were implemented to lower fuel consumption. The Company's fuel consumption for power generation was decreased by 1.81g/kWh and the consolidated consumption rate of the plants was 6.14%.
- (4) Cost controls over works under construction were strengthened so as to reduce construction expenses. During the Year, the Company proactively

implemented cost controls at all levels. Costs and construction expenses were under control as soon as the construction of power plants started. A lot of efforts were placed in implementing the legal person accountability system, and reinforcing the concept of the project legal person with respect to full responsibility on project construction, production and operation, as well as loan borrowing and repayment. Remarkable results were achieved, as construction costs on the units that commenced operation or were under construction during the Year were less than initial budgets by over 10%.

3. Business Expansion

During the Year, the Company has achieved considerable development of coal-fired generation and hydropower generation and a total of 3,250 MW of capacity commenced operation. Proposed coal-fired and hydropower generation units with capacity totalling 8,950 MW were approved by the NDRC.

During the Year, the Company implemented new development strategy. The transformation of the Company's power structure from the single mode of coal-fired power generation to the development of renewable energy such as hydropower, nuclear power and wind power is able to (1) diversify the risks of fuel supply and fuel prices, (2) protect the environment and to comply with the State's power assets policy by utilising renewable energy, (3) support the rapid growth of the Company and (4) to realise a better economic and scale effectiveness.



The transformation of the Company's business structure from purely power generation business to the development of integrated power related business chain is able to (1) lock the upstream and downstream resources, secure the sustainable development of power generation business, (2) reduce sector risks by integrating resources and forming business chain and (3) to support the Company's development by creating new profit base for the Company.

Based on such development strategy, during the Year, the Company also made remarkable breakthroughs in the development of nuclear power generation as well as upstream and downstream assets related to coal mining and railway.

(1) Thermal projects: During the Year, newly constructed generation units of the Company and its Subsidiaries, with a total capacity of approximately 3,200 MW, commenced operation. These included Units 5 and 6 (2 x 600 MW) at Tuoketuo Power Company, Unit 2 (500

MW) at Shentou Power Company, Unit 2 (300 MW) at Liancheng Power Company and Units 1 and 2 (2 x 600 MW) at Wangtan Power Company.

During the Year, 12 x 600 MW coal-fired generation units with capacity totalling 7,200 MW were approved by the NDRC.

(2) Hydropower projects: During the Year, hydropower projects proceeded smoothly, of which Unit 2 (50 MW) at Nalan Hydropower Company commenced operation.

During the Year, 5 x 350 MW hydropower generation units with capacity totalling 1,750 MW were approved by the NDRC.

(3) Nuclear power projects: During the Year, the Company entered into an investment agreement with Guangdong Nuclear Investment Company Limited, which proposed to participate in the construction of two nuclear power generation units of 1,000 MW each. At present, the project is included in the electric power development scheme of Fujian Province's "Eleventh Five-Year Plan", and was already submitted to the NDRC for including the same in the State's "Eleventh Five-Year Plan".

- (4) Other energy projects: During the Year, the Company established a project company with Kailuan Group on a joint venture basis, which proposed to jointly develop coal mine, railway and power plant operations in Weizhou. Unit 2 of Shengli Coal Mine in Inner Mongolia, an open-cut coal mine wholly owned and developed by the Company, obtained exploration rights during the Year. Qiancao Railway, invested in and operated by the Company, commenced normal operation during the Year.

In addition to ongoing developments in hydropower, coal-fired and nuclear power projects, the Company started during the Year to conduct research in the development and utilisation of environmental friendly and renewable energy such as wind power.

4. Performance of the Company's Shares and Investor Relations

During the Year, the Company's H Shares performed well in the secondary market. As at 31st December 2005, the Company's share price closed at HK\$5.70, representing a P/E ratio of 13.64. The highest price during the Year



was HK\$6.15, representing a P/E ratio of 14.54. The lowest price during the Year was HK\$5.35, representing a P/E ratio of 12.65. The average share price for the Year was HK\$5.805, representing an average P/E ratio of 14.71.

At the same time, the Company's management and development performance have won praises from the investment community. During the Year, the Company won two international awards, including "Best Corporate Governance in China" awarded by "The Asset" Magazine in the survey for the Best Corporate Governance Awards 2005. The Company was also named first in the "Best at Utilities in China" in the survey of Among Asia's Best Managed Companies 2005 conducted by "Euromoney", an international reputable finance magazine.

(III) Financial Analysis

1. Operating Results

During the Year, the Company and its Subsidiaries achieved consolidated profit attributable to the equity holders of the Company amounting to RMB2,351 million, representing an increase of approximately 2.55% as compared the Previous Year. The operating results of the Company and its Subsidiaries are set out in the Consolidated Income Statement on p.85.

During the Year, the major factors for the increase and decrease of profits are as follow:

- Power sale revenue increased by RMB4,337 million as compared to the Previous Year, representing a growth of 31.99%. Of this amount, the increase in power sale revenue as a result of rise of tariffs amounted to RMB660 million, while the increase in power sale revenue attributable to power generation growth amounted to RMB3,677 million.
- Fuel costs increased by RMB2,580 million or 52.11% as compared to the Previous Year, of which the increase in fuel costs as a result of a rise in on-grid electricity volume amounted to approximately RMB1,335 million. Substantial rise in fuel prices has pushed up the unit fuel cost, which has in turn led to an increase of fuel costs of RMB1,147 million. The increase in fuel costs due to increase in thermal supply amounted to RMB98 million.
- Fixed costs increased by RMB1,480 million as compared to the Previous Year, which was mainly attributable to the increases in depreciation costs, maintenance costs, water expenses and pollution discharge fees incurred by newly commenced generation units during the Year.
- Net expense of finance costs increased by RMB197 million as compared to the Previous Year, which was mainly attributable to the increase in interest expenses of short-term and long-term loans of newly commenced companies for the Year.

2. Financial Position

As at 31st December 2005, total consolidated assets of the Company and its Subsidiaries amounted to approximately RMB64,536 million, representing an increase of approximately RMB15,061 million as compared to the Previous Year. Total consolidated liabilities amounted to approximately RMB43,807 million, representing an increase of approximately RMB13,411 million as compared to the Previous Year. Minority interests amounted to approximately RMB2,403 million, representing an increase of approximately RMB435 million as compared to the Previous Year. Total equity amounted to approximately RMB20,729 million, representing an increase of approximately RMB1,650 million as compared to the Previous Year. The increase in total assets was mainly resulted from the implementation of the expansion strategy by the Company and its Subsidiaries and the corresponding increase in investments in construction-in-progress. The assets, liabilities and owner's equity of the Company and its Subsidiaries are set out in the Balance Sheets on page 86.

3. Liquidity

As at 31st December 2005, the asset-to-liability ratio (i.e. the ratio between total liabilities and total assets) for the Company and its Subsidiaries was approximately 67.88%.

The net debt-to-equity ratio (i.e. (loans + convertible bonds – cash and cash equivalents – bank deposits – marketable securities)/total equity excluding minority interests) was approximately 204.58%.

As at 31st December 2005, total cash and cash equivalents and bank deposits with a maturity of over 3 months of the Company and its Subsidiaries amounted to approximately RMB1,029 million, of which an amount equivalent to approximately RMB432 million was in foreign currency. The Company and its Subsidiaries had no entrusted deposits or overdue fixed deposit during the Year.

As at 31st December 2005, short-term loans of the Company and its Subsidiaries amounted to approximately RMB5,717 million and bore annual interest rates ranging from 4.52% to 5.84%. Long-term loans (excluding those due within 1 year) amounted to approximately RMB29,215 million and long-term loans due within 1 year amounted to approximately RMB2,489 million at annual interest rates ranging from 2.03% to 6.12%, of which an amount equivalent to approximately RMB3,851 million was denominated in US dollar. The Company and its Subsidiaries pay regular and active attention to foreign exchange market fluctuations and constantly assess foreign currency risks.

As at 31st December 2005, North China Grid Company Limited (“NCG”) and some minority shareholders of the Company’s subsidiaries provided guarantees for the loans of the Company and its Subsidiaries amounting to approximately RMB5,308 million. The Company had not provided any guarantee in whatever forms for any other company apart from its subsidiaries, jointly controlled entity and associates.



(IV) Outlook for 2006

According to forecasts, growth in PRC economy will remain steady in 2006 and it is expected that GDP will grow by about 8% while power consumption in the PRC is expected to grow around 11%. Tension in power supply has provided new business opportunities to the Company and its Subsidiaries. The service areas of the Company have been extended from the BTT Power Grid and the Shanxi Power Grid to the Gansu Power Grid, thereby enhancing the Company’s abilities in mitigating risks and sustaining development.

Implementation of the new tariff policy by the NDRC will steadily enhance the profitability of the Company and its Subsidiaries as there will be more generation units coming on stream in the coming year. A number of coal-fired and hydropower generation projects of the Company were approved by the NDRC which has created conditions for further development of the Company. However, operating conditions in 2006 also have their not-so-optimistic side. With the effect of China’s macroeconomic measures, the operating environment of the power market has been difficult. As more generation units are commencing operations, utilisation rates of generation units are expected to reduce, and the power market characterised by competition will add difficulty to operation. There will be enormous pressure on fuel supply, and rise in fuel costs and stricter requirements for environment protection may affect the earnings of the Company. As such, the Company will strive to strengthen its management and overcome the unfavourable factors, aiming at increasing production and revenue and achieving better economic performance. In 2006, the Company will focus on the following:

- (1) Actively pursue expansion in coal-fired power, renewable energy projects such as hydropower and wind power, nuclear power, coal mining, railway and power related projects in upstream and downstream projects in accordance with the development strategies of the Company;



- (2) Actively identify different financing channels so as to lower the Company's capital cost and to appropriately rationalise its capital structure; actively prepare for future financing requirements arising from the Company's rapid business expansion;
- (3) Focusing on and comprehensively enhance the operation safety; improve the safety assessment system for substantial risk sources so that the substantial risk sources will be controlled within an acceptable range; establish a safety management system to govern procedures on handling incidents; and improve the quality in inspection and maintenance;
- (4) Implement cost controls at all levels and devote efforts to establishing a cost saving enterprise; control construction expenses; whilst assuring coal supply for the power plants, strive to reduce fuel costs, financial costs and other expenses; enhance energy conservation and consumption reduction management; and maintain a steady growth in economic efficiency; and
- (5) Strengthen management over work quality and completion schedules; and strive for the power generating units totalling above 5,000 MW to commence operation with high quality in 2006.

Zhang Yi

President

27th March 2006