





Investment in Related  
*Upstream,*  
*Downstream Businesses*

Consummate Strengths of  
Vertical Integration

Apart from making concrete progress in various areas of power generation, Datang Power achieved breakthroughs in power-related upstream and downstream projects, such as coal-mining and railway. The Company established a project company with Kailuan Group, 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. Qiancao Railway, invested in and operated by the Company, commenced normal operation. Datang Power will continue to consummate strengths of vertical integration, with a view to building the Company as a large enterprise with diversified developments.



# Questions Frequently Asked by Investors



## 1. How would the Company view the recent China's power market and the supply and demand conditions of the BTT Power Grid?

*Ms. Alice Hui  
Analyst*

*UBS Securities Asia Ltd.*

- (1) National power demand and supply are expected to balance each other in 2006 with reasonable utilisation rates.

As at the end of 2005, national installed capacity reached 510 GW. As commencement of new generation units will peak in 2005 and 2006, it is expected that the weighted average new capacity will reach 70 GW and power supply growth will increase by 13% in 2006. National GDP growth rate in 2006 is expected to be 8% and assuming power demand elasticity remains at 1.1, the

power demand growth for 2006 is expected to be around 9%. The growth of power supply will exceed that of demand, which will further relieve and balance the tight situation of the national supply and demand of electric power experienced in 2005.

- (2) Although the utilisation rate of the BTT Power Grid will be lowered in 2006 due to high growth of new capacity, it remains at a relatively high level.

As at the end of 2005, the installed capacity of the BTT Power Grid was 26 GW. The weighted average new capacity in 2006 is expected to be 6 GW which means an increase in capacity by 23%. The GDP growth of the BTT Power Grid is expected to be 11% in 2006 and assuming power demand elasticity remains at 1.1, the power demand growth for 2006 is expected to be at 12%. The average utilisation hours of the BTT

Power Grid are estimated to decrease from 6,400 hours in 2005 to 5,800-6,000 hours in 2006.

- (3) With new capacity growth slowing down in 2007, the utilisation rate of the BTT Power Grid will stabilise at a relatively high level.

The weighted average new capacity of the BTT Power Grid in 2007 is expected to be 3 GW, implying a capacity growth of 10%. Assuming that the power demand elasticity remains at 1.1, the power demand growth in 2007 is expected to be at 11%. The average utilisation hours of the BTT Power Grid in 2007 is estimated to stabilise at a relatively high level of 6,000 hours.

**2. Please explain the Company's view towards the national supply and demand of coal and the policy of the fuel-tariff pass-through mechanism.**

*Mr. Larry Ioffredo  
Fund Manager  
Arnhold & S. Bleichorder*

- (1) The national supply and demand of coal will basically reach an equilibrium in 2006.

As investments in the coal industry have been increasing rapidly and significantly in recent years, the growth of coal production capacity has remained at a high level. Under the impact of the State's macroeconomic policy and energy policy, the growth of coal demand has dropped. Total national coal demand is expected to reach 2.25 billion tons in 2006 (including 1.21 billion tons for thermal

coal and 0.08 billion tons for export) and total coal production will reach 2.26 billion tons. The production and demand of coal are basically balanced.

- (2) Transportation de-bottlenecked

Following the expansion in the Daqin and Houyue Railways, national coal transport capacity is expected to increase by 80 million tons in 2006. On the other hand, national port loading capacity will also increase by 65 million tons. The transportation bottleneck that affected the supply and demand and the coal price in the past two years will be significantly relieved in 2006.

- (3) According to plans, there will be marginal increase in coal prices.

The Company expects that its coal demand in 2006 will be 50 million tons, combining 85% contract coal and 15% market coal, which has been basically determined. According to the coal purchase contracts that the Company has signed, our coal prices will increase by RMB10 - 12 per ton representing an increase of around 5% to 6%.

- (4) Analysis on a potential new round of fuel-tariff pass-through mechanism

In accordance with the policy of the fuel-tariff pass-through mechanism promulgated by the State, the increase in coal prices in 2005 and 2006 has exceeded 5% and the fuel-tariff pass-through mechanism needs to be reactivated. It is reported that the relevant state authorities have been studying the price adjustment proposal. Once the mechanism is re-activated, the pressure due to rising coal prices in 2006 should be relieved effectively.

**3. Will there be any adjustments to the corporate development strategy in the next few years? If yes, what will be those adjustments?**

*Mr. Alan Wang  
Associate Fund Manager  
Value Partners Ltd.*

2005 was the first year during which the Company went through its strategic transformation. The Company implements this strategic transformation mainly in three areas:

(1) Optimisation of coal-fired projects structure:

New coal-fired power generation units of the Company will transform from small capacity, low efficiency to large capacity and high efficiency units. Emphasis will be put on supercritical and ultra-supercritical units with single-unit capacity of 600 MW or above, thermal generation units with single-unit capacity of 300 MW or above and Integrated Gastification Combined Cycle units. The units at Wushashan in Zhejiang, Ningde in Fujian and Chaozhou in Guangdong which will commence operation in 2006 will all be supercritical coal-fired generation units with single-unit capacity of 600 MW.

(2) Diversification of power generation structure:

The Company's power generation structure will transform from pure coal-fired power to hydropower, nuclear power, wind power and other renewable energy. The hydropower projects along the Lixianjiang river in Yunnan, the Nalan Hydropower Project in Yunnan and the Pengshui Hydropower Project in Chongqing are presently undergoing construction work and all of them are expected to commence operation during

the Eleventh Five-Year Plan period. Preliminary works for other hydropower projects have also been stepped up. On 6th February 2006, the Company entered into the "Ningde Nuclear Power Project Investment Agreement" with China Guangdong Nuclear Power Investment Company Limited which signifies the Company has taken the first concrete step towards the development of nuclear power in China. In planning its wind power investment, the Company has identified certain regions with abundant wind power resources, such as Inner Mongolia, Shanxi and northern Hebei Province. The Company aims to ensure that wind power will partake an appropriate portion of its total generation capacity in the future.

(3) Vertical integration of business assets:

The Company has embarked a transformation of its business involvements from pure power generation to upstream and downstream non-generation industries, particularly those related industries that are complementary and supportive to our core power generation business, such as coal mining, railway, port and shipping operations. In 2005, the Company made initial progress in upstream and downstream business development. On 6th April, the Company signed the "Qiancao Railway Construction Project Investment Agreement" (遷曹鐵路建設項目投資協議書) with six companies including the Beijing Railway Bureau. On 1st August, the "Tanggang Railway Limited Liabilities Company" (唐港鐵路有限責任公司) was founded. On 29th September, the Company formed the "Hebei Yuzhou Energy Consolidated Development Company Limited" (河北蔚州能源綜合開發

有限公司) to jointly develop coal mining, railway and power plants in Yuzhou, Hebei Province. The Ta Shan Coal Mine, a project of which the Company got the development right, will form its production capacity in 2006, and Unit 2 of open-cut coal mine, located east of Shengli Coal Mine in Xilinghaote City, Inner Mongolia, is closely carrying out preliminary work.

As the strategic transformation of the Company is progressing steadily, the Company will move beyond the existing mode of relying on a single profit growth platform and transform into a company that is principally engaged in power generation but vertically integrated with upstream and downstream business assets as resources and project reserves, thereby forming new bases for its profit growth.

**4. Please explain the Company's financial condition, capital expenditure and financing plans.**

*Mr. Jeff Coggshall  
Investment Manager  
Martin Currie Investment Management Ltd.*

As at the end of 2005, the Company's debt-to-asset ratio is 67.88%.

The Company's planned capital expenditure for 2006 and 2007 amount to RMB8.34 billion and RMB4.05 billion respectively (the actual amounts of capital expenditure are subject to adjustments depending on the approvals and progress of various projects). Most of the Company's new units were and will be put into operation in 2005 and 2006, which will contribute a capacity totalling 10 GW in these two years. Accordingly, the capital expenditure required is rather high. However, as the scale of units-under-construction will be relatively

smaller afterwards, the size of capital expenditure will remain stable with a downward trend.

The Company is currently planning the initial public offering (IPO) of its A shares in the domestic market. The actual schedule will depend on the re-opening time of the A shares IPO market, which is subject to the determination of the China Securities Regulatory Commission. Meanwhile, the Company will also consider other forms of financing to satisfy the funding requirements of the Company and to reduce financing costs and optimise the Company's capital structure at the same time.

**5. What has the Company achieved in, and what is its plan for, environmental protection?**

*Mr. Edmond Lee  
Analyst  
JP Morgan Securities (Asia Pacific) Ltd.*

The Company always views environmental protection as an important element in its development strategy. Particularly during the past few years, the Company has committed to putting its environmental protection strategy into practice and implementing its environmental upgrade plans. In 2005, the Company made a breakthrough in environmental protection with initial achievements. Installations of desulphurisation facilities were completed for a total of eight units at Gaojin, Douhe and Tangshan, with a total capacity of 1,650 MW. Every newly constructed coal-fired power project is simultaneously installed with desulphurisation facilities. The already operating coal-fired power plants, including Gaojin, Douhe, Xiahuayuan, Tuoketuo, Panshan and Yungang, will also complete desulphurisation facilities successively in the next few years.

Pursuant to the relevant policy, the State grants a desulphurisation tariff increase of RMB15 / MWh for coal-fired power plants equipped with desulphurisation facilities. Based on the operating conditions of the Company's units with desulphurisation facilities, the tariff granted can basically cover a portion of desulphurisation related costs.

**6. What is the outlook of the Company towards the progress of the implementation of the “power pooling” system in China?**

*Mr. Jonathan Bell  
Investment Manager  
PICTET, Asset Management Ltd.*

In accordance with the overall thinking of the State Electricity Regulatory Commission (SERC) on the reforms of the power market and the implementation of the “power pooling” system, the Northeast and East China Power Grids, being the first group of grids to experiment the new tariff system, have started the preparation for “power pooling”. Simulation work commenced in the northeastern regional power market in January 2004 and trial operation of monthly and annual tariff bidding started in early 2005. The East China power market has enhanced the relevant rules through combined simulation and trial operation of tariff bidding and will commence on 1 April 2006. The South China Power Grid and the Central China Power Grid have been designated as the second batch for trial operation of the new tariff system. The South China power market has been operating in simulation in preparation for the next stage of work. The Central China power market will

commence simulated operation at an appropriate time. The SERC is actively promoting the development of the North China and Northwest China power markets, and the two power grids are designated as the last trial group of grids to implement the “power pooling” system.

With regard to the model to be adopted for “power pooling”, different regional power markets may vary. The Northeast China power market and the East China power market, where the “power pooling” is at work, employ different models from others. The former adopts a two-tier tariff system where all the electricity generated is subject to tariff bidding, while in the East China power market (comprising four provinces namely Jiangsu, Zhejiang, Fujian, Anhui and Shanghai Municipality), only 10% of the annual generation from generation units with capacity of 100 MW or above will be priced through power pooling in the market during the trial operation.

In view of the forthcoming “power pooling” initiative and the reform of the power market, the Company will continue to rely on quality management, effective cost control and pragmatic development strategies to build and enhance its overall market competitiveness, as a means to tackle competition in the market. Whether it is the North China Power Grid where the Company has a larger market share, or the East China, South China and Northwest China power grids where the Company deploys its presence lately, the Company is confident that its power generation projects are highly competitive in the local power grids through our pragmatic and effective cost control measures.



**7. What are the major strategic considerations for the Company's investment in the Ningde Nuclear Power Project?**

*Ms. Margaret Kalvar  
Fund Manager  
Harding Loevner*

On 6th February 2006, the Company entered into the "Ningde Nuclear Power Project Investment Agreement" with China Guangdong Nuclear Power Holding Co. Ltd., by which the Company essentially took the first step towards nuclear power in China. The initiative has far-reaching significance and is based on long-term strategic thinking:

- (1) The initiative is a strategic move to capture the opportunity of nuclear power development and to align with the direction guided by the State's policy that optimises the energy structure. In accordance with the State's recent planning on energy development, nuclear power has been classified as a major type of energy being encouraged for development. Total domestic installed capacity of nuclear power in 2020 is estimated to reach 40 GW or above. It is reported that the State has been drafting a series of policies and rules that are favourable to the construction and operation of nuclear power. Positioning as a most competitive independent power generation company in China, the Company sees such situation as a good opportunity for strategic development.
- (2) The initiative aims to facilitate a sustainable development of the Company. Given the rapid expansion of the Company in recent years and in the next few years, the capacity of the Company will quickly exceed 20 GW. Since nuclear power generation units can effectively optimise the fuel structure, diversify the market risks and enhance the level of environmental friendliness, thereby developing and constructing of nuclear power will become the new frontiers for the Company to accomplish sustainable growth.
- (3) The initiative aims to capitalise on promising market prospects and profit growth opportunities, enhancing the Company's overall competitiveness and profitability. Compared with coal-fired power, while nuclear power carries higher fixed cost, its operating cost is much lower, and it is supported by the State's policy at the later stage. With the benefits of high utilisation rate and long operating life, along with the longer operating period, the composite cost advantage of nuclear power is becoming more obvious.
- (4) With no emission of sulphur dioxide, nitrogen oxides and carbon dioxide, nuclear power can help to improve the quality of the local environment and facilitate the Company to achieve shared economic, social and environmental benefits.