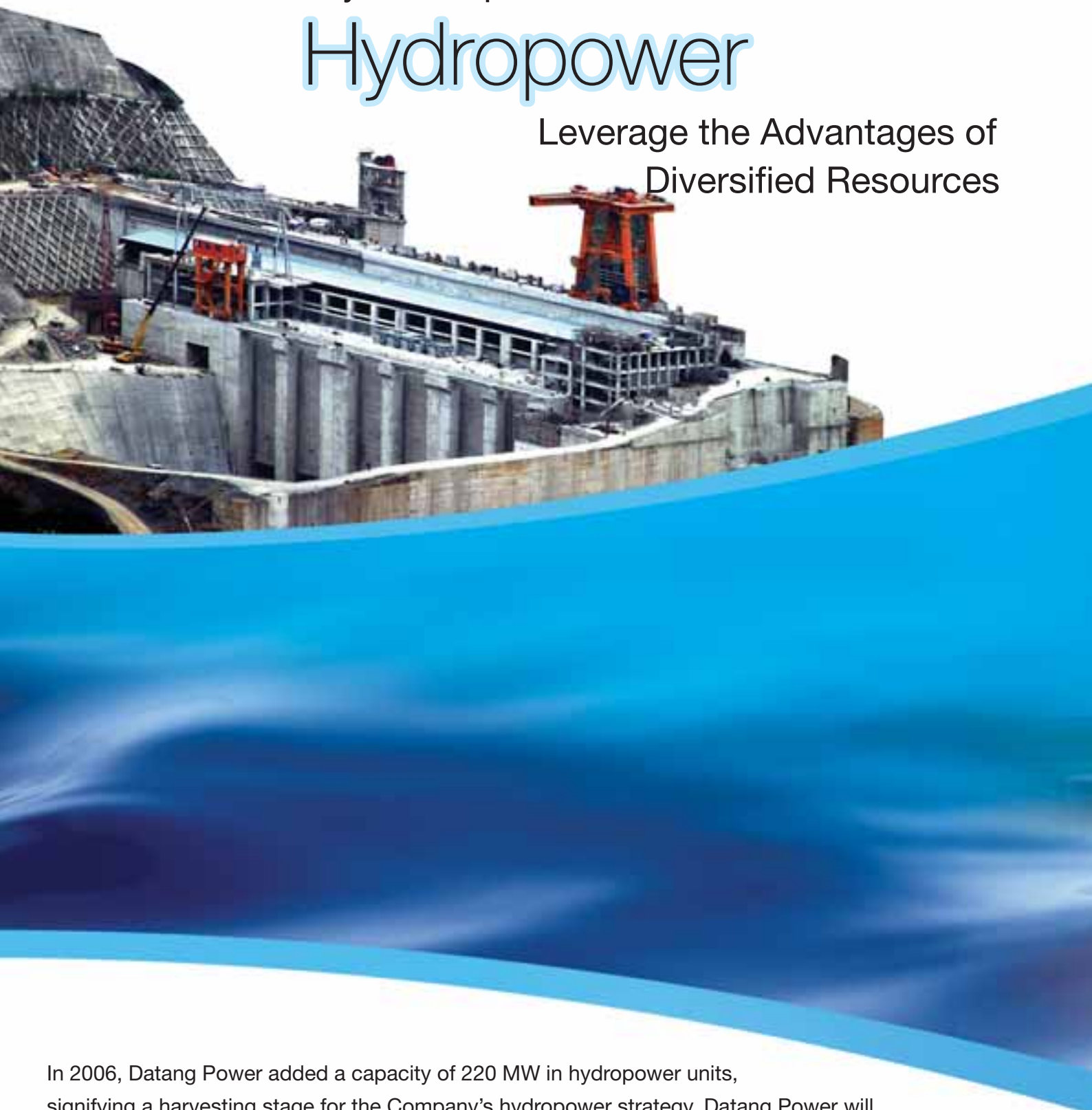


Intensively Develop

Hydropower

Leverage the Advantages of
Diversified Resources



In 2006, Datang Power added a capacity of 220 MW in hydropower units, signifying a harvesting stage for the Company's hydropower strategy. Datang Power will continue its intensive development on hydropower and leverage the complementary advantages of hydropower generation and thermal power generation so as to consolidate the Company's competitive strengths in the power market.



Management Discussion and Analysis



Zhang Yi
President

OPERATING ENVIRONMENT

During the Year, the PRC economy maintained a relatively fast growth under a favourable domestic macroeconomic environment, recording an impressive gross domestic product (“GDP”) growth rate of 10.7%. The continued upswing in the domestic macroeconomic environment laid the development base for the power generation industry. During the Year, the country added generation units of approximately 100,000 MW, while the social power consumption increased by 14% over the Previous Year. Nationwide power generation increased by approximately 13.5% over the Previous Year.

With new generation units gradually commencing commercial operation, it is expected that the domestic power demand and supply of the PRC is moderating, with the average utilisation rate of operating power generation facilities expected to decrease further. The 2007 national average utilisation rate of coal-fired generation units is expected to decrease by approximately 300 hours as compared to the Previous Year, with further decrease expected in 2008.

In 2006, the power generated by the Company and its Subsidiaries was mainly transmitted to the BTT Power Grid, the Shanxi Power Grid, the Gansu Power Grid, the Zhejiang Power Grid, the Fujian Power Grid, as well as the Yunnan Power Grid and the Guangdong Power Grid. Power generation in these regions maintained rapid growth during the Year, with the respective power generation in the BTT Power Grid, the Shanxi Power Grid and the Zhejiang Power Grid having increased by approximately 14.36%, 16.96% and 30.74%, respectively, over the Previous Year.

BUSINESS REVIEW

During the Year, the nationwide shortage in supply of electricity was further alleviated due to the commencement of a substantial volume of operations of new generation units. Utilisation rates of operating generation units also reported a significant decrease as compared to the Previous Year. Facing the operating pressure in the power market, the Company and its Subsidiaries actively capitalised on market opportunities, diligently carried out effective production operations and overcame difficulties, striving to complete the production objectives of the Year. During the Year, total power generation of the Company and its Subsidiaries amounted to 93.459 billion kWh, an increase of 31.65% as compared to the Previous Year. While power generation increased, the Company and its Subsidiaries further refined their operating strategies to strive for higher production level and revenue. Accordingly, the overall economic efficiency of the Company and its Subsidiaries reported a relatively significant increase over the Previous Year. During the Year, the Company and its Subsidiaries realised a consolidated operating revenue of approximately RMB24,835 million, representing an increase of approximately 38.02% as compared to the Previous Year. Consolidated net profit was approximately RMB2,778 million, representing an increase of approximately 18.16% as compared to the Previous Year.



1. Production

As at 31 December 2006, total power generation of the Company and its Subsidiaries for the Year amounted to 93.459 billion kWh, an increase of 31.65% when compared to the Previous Year. Total on-grid power generation of the Company and its Subsidiaries amounted to 87.902 billion kWh, an increase of approximately 31.83% when compared to the Previous Year. The increases in total power generation and on-grid power generation were mainly attributable to the following reasons:

- (1) Increased capacity of operating generation units: Compared to the corresponding period of the Previous Year, the Company and its Subsidiaries have increased its installed capacity by 5,620 MW during the Year, thereby substantially increasing the overall power generation capacity of the Company and its Subsidiaries.
- (2) Increased demand in service areas: During the Year, the power demand within the service areas of the Company and its Subsidiaries—the BTT Power Grid, the Shanxi Power Grid, the Gansu Power Grid, the Yunnan Power Grid, the Fujian Power Grid, the Zhejiang Power Grid and the Guangdong Power Grid—maintained rapid growth.
- (3) Improvement in operating reliability of generation units: During the Year, the operating generation units of the Company

Management Discussion and Analysis

and its Subsidiaries achieved an equivalent availability factor of 94.71%, representing an increase of 1.56 percentage points when compared to the Previous Year.



Power generation details of the Company and its Subsidiaries for the Year (Unit: billion kWh):

Power Plant/ Company Name	Power Generation for Year 2006	Growth (%)
Gao Jing Thermal Power Plant	3.463	-8.24
Dou He Power Plant	10.546	1.71
Xia Hua Yuan Power Plant	2.443	-13.83
Zhang Jia Kou Power Plant	14.202	-6.10
Wushashan Power Project	5.449	—*
Panshan Power Company	7.011	-10.17
Tuoketuo Power Company	21.407	31.69
Yungang Thermal Power Company	2.997	2.04
Tangshan Thermal Power Company	4.776	2.23
Shentou Power Company	5.703	45.82
Liancheng Power Company	3.483	6.06
Wangtan Power Company	4.738	—*
Chaozhou Power Company	2.201	—*
Ningde Power Company	2.461	—*
Honghe Power Company	1.775	—*
Huaze Hydropower Company	0.0309	43.72
Nalan Hydropower Company	0.529	—*
Lixianjiang Hydropower Company	<u>0.234</u>	<u>—*</u>
Total	<u>93.459</u>	<u>31.65</u>

* As such power plants/projects commenced commercial operation in 2006, there are no year-on-year comparison data.

2. Environmental Protection

While endeavouring to increase power generation, the Company also put strong emphasis on the implementation of environmental protection projects in accordance with the State's environmental protection requirements. As at the end of 2006, the installed capacity of the Company and its Subsidiaries with desulphurisation facilities in use accounted for 67.30% of the coal-fired units of the Company and its Subsidiaries. Meanwhile, desulphurisation upgrade projects for units totalling 1,600 MW are currently in progress.

As desulphurisation upgrade projects are under way, renovation works with respect to flue-gas denitro-oxidisation facilities of the Company and its Subsidiaries also commenced, of which the relevant project at Gao Jing Thermal Power Plant was classified as a State model project. During the Year, the Company also invested in treatment programmes on pollution sources, such as the ash yards, the coal yards and noises from water towers, of relevant power plants. During the Year, the Company and its Subsidiaries invested a total of approximately RMB780 million in relevant environmental protection projects.

3. Operational Management

During the Year, the Company and its Subsidiaries achieved a consolidated operating revenue of approximately RMB24,835 million, representing an increase of approximately 38.02% as compared to the Previous Year. Consolidated net profit amounted to approximately RMB2,778 million for the Year, an increase of approximately 18.16% as compared to the Previous Year.

During the Year, the Company and its Subsidiaries faced operating pressures brought by a decline in utilisation hours in the power market, persistent high fuel prices, and continuous rises in charges for environmental protection and water supply. However, the Company and its Subsidiaries achieved a continued and stable profit growth through efforts to increase revenues and reduce expenses and the implementation of various corresponding measures.

- (1) Through various efforts to implement the tariff policies, the on-grid power tariff (tax included) increased by RMB13.49 per MWh as compared to the Previous Year, leading to an increase of approximately RMB1,100 million in sales revenue over the Previous Year.
- (2) The power generation structure was appropriately adjusted to fully utilise the efficient and energy-conserving units so as to generate more electricity and maximise revenues.
- (3) More sophisticated energy conservation measures were implemented to increase revenues and lower costs. Accordingly, coal consumption for power generation decreased by approximately 7.3g per kWh over the Previous Year, while the consolidated electricity consumption rate of the plants decreased by approximately 0.14 percentage point as compared to the Previous Year.
- (4) Financing channels were expanded to reduce financing costs. In December 2006, the Company issued 500 million A Shares to raise net proceeds of approximately RMB3,279 million. During the Year, the Company also issued “short-term commercial papers” in the inter-bank bond market for RMB1,000 million with a composite financing cost of approximately 3.59%, resulting in savings in financing costs when compared to the bank loan rate (6.12%) for an equivalent term.



4. Business Expansion

During the Year, the Company continued to implement its development strategies, which include the transformation from a single mode of coal-fired power generation to the development of renewable energy including hydropower, nuclear power, wind power, and the expansion of the business structure from simply a power generator into an integrated industry chain of power-related businesses. As a result of the implementation of the above-mentioned development strategies, the Company and its Subsidiaries had an aggregate of 5,620 MW of new generation capacity commencing commercial operation successively during the Year. Remarkable breakthroughs were also made in the development of nuclear power generation as well as power-related upstream and downstream projects such as coal mine-power plant-railway integration and railway construction.

- (1) Thermal projects: During the Year, coal-fired generation units of the Company and its Subsidiaries, with a total capacity of approximately 5,400 MW, commenced commercial operation. These included four 600 MW power generation units of Wushashan Power Project, two 600 MW power generation units of Chaozhou Power Company, two 600 MW power generation units of Ningde Power Company and two 300 MW power generation units of Honghe Power Company.
- (2) Hydropower projects: During the Year, the Company and its Subsidiaries added a capacity of 220 MW in hydropower units, including two 50 MW hydropower generation units at Nalan Hydropower Company and two 60 MW hydropower generation units at Lixianjiang Hydropower's Yayangshan Project.
- (3) Nuclear power project: In 2005, the Company entered into an investment agreement with Guangdong Nuclear Investment Company Limited 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". During the Year, the State has given consent for the commencement of relevant preliminary works of the project.

- (4) Wind power project: The construction work of Bayin Wind Power Plant Phase I (40 MW) in Zhuozi, developed and constructed by the Company's wholly-owned subsidiary "Inner Mongolia Datang International Zhouzi Wind Power Co., Ltd." ("Zhuozi Wind Power Company"), has officially commenced. The project includes 32 wind power generation units of 1.25 MW each, and it is expected that all units of the project will commence operation in 2007.
- (5) Other energy-related projects: As at the end of 2006, the Company had 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, under which "Tanggang Railway Limited Liabilities Company"

(唐港鐵路有限責任公司) and "Hebei Yuzhou Energy Multiple Development Company Limited" (河北蔚州能源綜合開發有限公司) were established to promote the consolidated development of coal mining, railway and power plants. The Ta Shan Coal Mine in Shanxi. The project, of which the Company invested and owned the development rights, has formed its production capacity in 2006. Meanwhile, Unit 2 of the open-cut coal mine located east of Shengli Coal Mine in Xilinhaote City, Inner Mongolia, has completed the mining site border adjustment. In March 2007, the Company entered into an equity transfer agreement with Inner Mongolia Huineng Group to participate in the development of Changtan Coal Mine in Ordos City of Inner Mongolia, which will further secure the coal supply for the power plants of the Company and its Subsidiaries.

FINANCIAL REVIEW

In 2006, the Company realised RMB24,835 million in revenue from principal operations, representing a 38.02% increase over the Previous Year. A net profit of RMB2,778 million was realised, representing an 18.16% increase over the Previous Year. Basic earnings per share was approximately RMB0.54, representing an increase of approximately RMB0.08 per share over the Previous Year.

1. Operating Revenue

The Company is principally engaged in power generation businesses. The Company's revenue from principal operations comprises revenue from electricity sales and revenue from heat sales.





In 2006, the Company realised an operating revenue of RMB24,835 million, representing an increase of RMB6,841 million or 38.02% over the Previous Year, owing to the following reasons:

Increase in installed capacity and on-grid power generation. During the Year, the Company's installed capacity under management increased by 5,620 MW as compared to the Previous Year while on-grid power generation increased by 21.6 billion kWh, as a result of commencement of new generation units. As such, revenue increased by approximately RMB5,700 million accordingly.

Increase in average power tariff. As a result of the continued implementation of the fuel-tariff pass-through mechanism and the increase in on-grid power generation for desulphurised units with upward-adjusted tariffs, the Company's average on-grid tariff increased. Compared to the Previous Year, the average on-grid tariff (tax included) increased by approximately RMB13.49 per MWh.

2. Operating Costs

In 2006, the total operating costs of the Company and its Subsidiaries amounted to RMB18,847 million, representing an increase of 39.66% over the Previous Year's RMB13,495 million. The major reasons were increases in fuel costs and depreciation.

During the Year, fuel costs accounted for 56.58% of operating costs. Following the increases of the Company's newly commenced operating generation units and power generation, as well as the continued rise in nationwide fuel prices, fuel costs increased by RMB3,132 million or approximately 41.58% over the Previous Year, an increase in magnitude exceeding that of power sales revenue. Of such increased amount, the increase in fuel costs as a result of a rise in on-grid electricity volume amounted to approximately RMB1,887 million. The rise in fuel prices has pushed up the unit fuel cost, which has in turn led to an increase in fuel costs of approximately RMB1,225 million. The increase in fuel costs due to increase in heat supply amounted to RMB30 million.

During the Year, fixed costs increased by RMB2,146 million as compared to the Previous Year, which was mainly attributable to the increases in depreciation charges for generation units, maintenance costs, water expenses and pollution discharge fees incurred by newly commenced generation units of the Company during the Year. Among these, the depreciation charges increased by approximately 48.41% over the Previous Year.



3. Financing Costs

In 2006, the financing costs of the Company amounted to RMB1,359 million, representing an increase of approximately RMB684 million as compared to the Previous Year. The relatively rapid increase was attributable to the increase in interest expenses on short-term and long-term loans for the Company's newly commenced operating companies during the Year.

4. Profit

During the Year, the Company and its Subsidiaries reported a consolidated profit before tax amounting to RMB4,664 million in total, up 20.74% as compared to the Previous Year. Consolidated net profit amounted to approximately RMB2,778 million, up 18.16% as compared to the Previous Year. The increase in the Company's profit was mainly attributable to the Company's further expansion in its operating scale, tariff adjustments and stringent and effective cost controls by the Company.

5. Financial Position

As at 31 December 2006, total consolidated assets of the Company and its Subsidiaries amounted to approximately RMB90,711 million, representing an increase of approximately RMB26,175 million as compared to the Previous Year. Total consolidated liabilities amounted to approximately RMB63,510 million, representing an increase of approximately RMB19,703 million as compared to the Previous Year. Minority interests amounted to approximately RMB3,305 million, representing an increase of approximately RMB902 million as compared to the Previous Year. Total equity amounted to approximately RMB27,201 million, representing an increase of approximately RMB6,472 million as compared to the Previous Year. The increase in total assets mainly resulted from the implementation of the expansion strategy by the Company and its Subsidiaries which led to a corresponding increase in investments in construction-in-progress and new power generation units, as well as the Company's issue of 500 million A shares by the end of the Year, raising approximately RMB3,279 million in net proceeds.

6. Liquidity

As at 31 December 2006, the asset-to-liability ratio for the Company and its Subsidiaries was approximately 70.01%. The net debt-to-equity ratio (i.e. (loans + convertible bonds—cash and cash equivalents—bank deposits—marketable securities)/total equity) was approximately 180.79%.

As at 31 December 2006, total cash and cash equivalents and bank deposits with a maturity of over 3 months of the Company and its Subsidiaries amounted to approximately RMB4,451 million, of which the deposit with an amount equivalent to approximately RMB54 million was in foreign currencies. The Company and its Subsidiaries had no entrusted deposits or overdue fixed deposits during the Year.

As at 31 December 2006, the short-term loans of the Company and its Subsidiaries amounted to approximately RMB9,300 million carrying annual interest rates ranging from 4.70% to 5.67%. The long-term loans (excluding those due within 1 year) amounted to approximately RMB40,274 million and long-term loans due within 1 year amounted to approximately RMB2,943 million, at annual interest rates ranging from 3.60% to 6.39%, of which an amount equivalent to approximately RMB2,860 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 31 December 2006, North China Grid Company Limited ("NCG", originally North China Power (Group) Corp. and its subsidiaries) and some minority shareholders of the Company's Subsidiaries provided guarantees for the loans of the Company and its Subsidiaries amounting to a total of approximately RMB3,930 million. The Company had not provided any guarantee in whatever forms for any other company apart from its Subsidiaries, jointly controlled entity and associates.

OUTLOOK FOR 2007

In 2007, the Company is faced with a daunting task of achieving solid results and maintaining a stable and healthy development in view of both opportunities and challenges lying ahead. According to forecasts, growth in the PRC economy would remain steady in 2007. GDP is expected to grow by about 8% while power consumption in the PRC is expected to grow at around 12.5%. Such a scenario will provide new development opportunities to the Company and its Subsidiaries. The further expansion of the Company's service areas has strengthened the Company's ability to weather risks and the ability to carry out sustainable development. With electricity demand-supply going from a tight condition to a basically steady condition, utilisation rates of power generation units are expected to decrease slightly with market competition intensifying. In addition, the uncertainties regarding coal prices and coal quality will increase the difficulty for cost control and operation management.



In 2007, the Company will focus on the following tasks:

1. Continuing the implementation of the Company's diversified development strategy, by actively pursuing the expansion of the Company in coal-fired power, renewable energy projects such as hydropower and wind power, nuclear power, coal mining, railway and development of power-related upstream and downstream projects.
2. Strengthening production safety management to ensure safety, stability and power generation increase.
3. Strengthening the management of construction quality and schedule, so as to ensure 2,300 MW of coal-fired units, 1,150 MW of hydropower units and 40 MW of wind power units will commence operation in good order within 2007.
4. Reinforcing the management of energy conservation and consumption reduction and appropriately optimising the power generation structure, so as to maintain and enhance the overall efficiency level of the Company.
5. Enhancing the efficiency of capital utilisation by expanding financing channels and reducing financing costs.
6. Exercising stringent cost controls and dedicating efforts to raise revenue and reduce costs.

Zhang Yi

President

30 March 2007