



Invest in Related

Upstream, Downstream Businesses

Consummate Strengths of
Vertical Integration

During 2006, Datang Power achieved breakthroughs in power-related upstream and downstream projects, such as coal-mining and railway. The Ta Shan Coal Mine in Shanxi, a project in which the Company invested and holds an interest, has formed its production capacity. 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. Qiancao Railway, invested and operated by the Company, has completed and opened to traffic. Such projects offer strategic protection to the coal supply chain of the Company.



Questions Frequently Asked by Investors



1. What are the Company's estimates of the supply and demand situation of the coal market for 2007 and what are its corresponding measures for securing fuel supply?

As regards the nation's coal demand, in 2007 energy demand will continue to grow in line with economic development as China further implements its Eleventh Five-Year Plan. However, the growth in coal demand will tend to stabilise as the macro-economic control measures begin to take further effect, the economic structure and economic growth patterns change gradually and social energy conservation and consumption reduction measures are further enforced. The country's coal demand is expected to reach around 2.5 billion tonnes in 2007.

In terms of production capacity of coal mines throughout the country, China's current nationwide capacity is 2.35 billion tonnes/year. Considering the capacity of 800 million tonnes/year from mines currently under construction that will commence operation successively in the next few years throughout the country, production capacity growth in the nation's coal market is anticipated to be equal to or even slightly higher than demand growth, even if the anticipated closures of some small coal mines in 2007 and 2008 are taken into account.

Coal transport capacity will maintain stable growth in 2007. Upon completion of Daqin Railway's transformation programme, coal transport capacity will increase by 50 million tonnes to 300 million tonnes in 2007, while coal throughput capacity at the seven ports in the northern part of China, such as Qinhuangdao, will exceed 500 million tonnes upon completion of the transformation programme. Despite regional differences in transport capacity assurance, the nation's coal transport capacity, as a whole, is basically capable of coping with a stable increase in demand.

In terms of coal supply sources, the proportion of overseas-imported coal will increase slightly which will gradually create a comparative pricing effect in the domestic coal market, thereby playing an active role in stabilising domestic coal prices.

Considering all the above factors as a whole, prices in the domestic coal market are expected to remain relatively stable in 2007, while market spot prices will fluctuate within a narrow range as a result of seasonal effects.

The Company signed its annual coal purchase contracts in early 2007. Total coal consumption this year is anticipated to reach around 60 million tonnes. Coal supply under the contracts accounts for 80%

of the Company's annual coal demand. Coal prices increased by approximately 8%-10% year-on-year, largely reflecting the slightly strained coal supply and transport capacity at the beginning of the year, as well as the result of the alignment of planned thermal coal prices under major contracts and under non-major contracts. China's ongoing implementation of the fuel-tariff pass-through mechanism will substantially mitigate the pressure from surging coal prices upon the Company's operations.

In 2007, the Company will adopt a variety of measures and strategies to guarantee coal fuel supply and price stability for the whole year. Apart from the assurance of the annual coal purchase contracts, Ta Shan Coal Mine in Shanxi invested in by the Company has also obtained some production capacity. Its coal output, an exclusive supply to the Company, will effectively meet the fuel demand from the Company's power plants in the eastern coastal areas. Besides, as such power plants commenced operation in the second half of last year, the Company began to import at the same time some coal from overseas at competitive purchase prices so as to secure fuel supply for such power plants, effectively diversifying the risks associated with the domestic coal market.

2. Please state the Company's analysis and views on the electricity supply and demand situation for 2007, both nationwide and in the Company's major service areas.

In 2006, the nation's electricity demand grew by 14% over the Previous Year, while installed capacity increased by approximately 100,000 MW to reach 622,000 MW, up 20.3% over the Previous Year. Looking ahead into the next few years, the growth in power demand will remain relatively robust. Taking into account the structure and the stage-wise characteristics of China's current economic development as well as the further implementation of social energy conservation and consumption reduction programmes as a whole, we estimate conservatively that power demand growth will

remain at around 10% per annum for the next few years, with the electricity elasticity being slightly higher than 1. As regards power supply, it is a challenge to maintain substantial growth on the expanded base of nationwide installed capacity. In addition, given China's concerns about energy conservation and consumption reduction as well as sustainable development, the scale of construction commencements of the country's new power projects is expected to be appropriately contained in the later years of the Eleventh Five-Year Plan. Moreover, the policy promulgated recently calling for the closure of 50,000 MW of small generation units during the Eleventh Five-Year Plan will effectively check the rapid growth in gross installed capacity. It is anticipated that the 2006 peak growth in nationwide generation unit commencements will be fully digested in 2007, and that the utilisation hours of generation units will stabilise with a moderate increase starting from 2007.

With the rapid development of its power generation business in the national market since this year, the Company's major service areas now cover the BTT area, the eastern coastal provinces, as well as other provinces and regions such as Yunnan, Chongqing and Shanxi. The BTT Power Grid, a service area in which the Company's current operating power plants are concentrated, remains one of the regions in China with the strongest economic growth, with its historical GDP and electricity demand growths both above the national averages. Looking into the future, the Company believes that the growth in electricity demand will be driven substantially by major economic growth engines such as the 2008 Beijing Olympic Games, major developments in the Tianjin Binhai New Area and the construction of the Bohai Rim heavy chemical industry zone in Tangshan region with Caofeidian as the centre. Electricity demand from this area is expected to grow reasonably above 12% per annum in the next few years. The growth of planned new installed capacity in the BTT Power Grid is expected to be slightly lower than demand growth in the next few years, with the utilisation hours of regional power generation showing a continued rebound.



3. How do China's recently published economic dispatch policy and the policy opting for large generation units over small ones affect the Company?

It has been specifically proposed in the outline of China's Eleventh Five-Year Plan that energy consumption per national GDP unit and the aggregate amount of major pollutant emissions will be reduced by around 20% and 10% respectively by 2010 as compared to 2005. To overall enhance energy efficiency and reduce emissions of the power industry, the National Development and Reform Commission has recently published the policy of opting for large generation units over small ones, aiming at shutting down small generation units of total capacity of 50,000 MW throughout the country in the following three years of the Eleventh Five-Year Plan, thereby encouraging all regions and enterprises to shut down small generation units and to focus on building large generation units. The generation units to be shut down are mainly conventional coal-fired power generation units with single-unit capacity of under 50 MW; conventional coal-fired power generation units in operation for 20 years and with single-unit capacity of under 100MW; and various types of generation units having serviced the full designed life and with single-unit capacity of under 200 MW, and so forth. Power projects proposed by enterprises in accordance with the new policy can be incorporated directly into the national electricity development plan, and priority will be given to the construction of large-unit projects.

The economic dispatch policy aims to improve the dispatch method for power generation based on the composition of existing operating generation units. In line with the principles of energy conservation, environmental protection and economic efficiency, priority will be given to schedule renewal energy projects and high efficiency and pollution-free generation units for power generation; the use of generation units with high energy consumption and serious pollution from power generation will be restricted; and small generation units will be replaced with certain energy-conserving and environment-friendly generation units for power generation by offering economic compensation and a combination of dispatch and economic measures.

The Company is always committed to sustainable development strategies for its business development. In its strategic development, the Company enhances gradually its market competitiveness in the areas of state-of-the-art technology, reduction of energy consumption costs and environmental protection by constructing large, economical and environment-friendly generation units with state-of-the-art technology. The State's promulgation of the new policy opting for large generation units over small ones has exactly created a favourable policy environment for the Company's strategic development. Large generation units with a capacity of 600 MW currently account for more than 60% of the Company's total installed capacity, while small generation units to be replaced or retired in the next few years of the Company's plan only account for around 3%. The Company will fully capitalise on the said policy by accelerating the development of large generation units and speeding up its strategic development and business transformation. Meanwhile, the Company will take an active role in the implementation of the economic dispatch policy by further optimising its internal power generation structure, fully capitalising on the economies of scale of large generation units in service areas like the BTT where both new and conventional generation units are located, thereby raising its power generation standards through reducing energy consumption. The Company will also further increase power generation output and expand market shares in the service areas along the eastern coast where large generation units are located.

4. How is the progress made by the Company in environmental protection over the past few years and what are the Company's 2007 environmental protection measures and plans?

The Company emphasizes the integration of development objectives and social responsibilities by actively employing environmental protection and energy conservation as the core indicators of its strategic development. Firstly, with respect to optimising the composition of generation units, 20 generation units with a capacity of 600 MW each have been built since 2002, increasing the percentage of the Company's large energy-conserving and environment-friendly generation units from the then 0% to the current over 61.8%. Secondly, the percentage of the Company's hydropower will increase following the successive completions and commencements of a Yunnan hydropower project in 2006 and a hydropower plant in Pengshui, Chongqing, in 2007. Thirdly, a zero breakthrough was made in wind power plant construction with the commencement of the first set of 40 MW wind power generation unit in Inner Mongolia in 2006. Fourthly, two generation units each with a single-unit capacity of 300 MW using clean-coal combustion burners – China's largest domestically-made circulating fluid bed burners among single units in active service – are being constructed at the Honghe Project in Yunnan. Fifthly, new generation units will be installed with desulphurisation facilities and desulphurisation facilities for aged generation units will be upgraded. The installed capacity of generation units already equipped with desulphurisation facilities currently amounts to 12,040 MW, representing 67.3% of the capacity of the Company's coal-fired generation units.

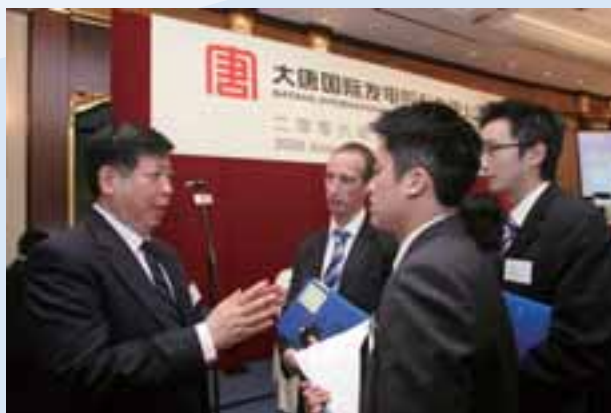
Following the Company's strengthened equipment upgrades and investments on environmental protection facilities in 2006, the emission of smoke ash, sulphur dioxide, nitrogen oxides and waste water per unit of power generation decreased by

51%, 23.6%, 15.7% and 30% respectively as compared to the Previous Year.

2007 has been designated as the Company's "Environmental Protection Year", during which the Company will further enforce its established environmental protection strategies. During the Year, the Company will have 2,550 MW of generation units upgraded for desulphurisation. 5,800 MW of generation units installed with desulphurisation facilities in operation are expected to commence operation. Desulphurisation facilities will be installed in all new generation units under construction as well. The Company also seeks to launch denitration trials by taking the initiative in the industry to launch a pilot scheme to supply clean and environment-friendly energy in the industry, such as Beijing's Gaojin Power Plant which is planning to launch a denitration upgrade pilot scheme, helping to ensure and facilitate clean air in the capital and an environment-friendly atmosphere for the Olympic Games.

5. Please describe the outlook for the Company's future strategic development and installed capacity growth.

Since its listing in Hong Kong and London ten years ago in 1997, the Company has been committed to quality management and progressive development, so much so that the growth of installed capacity under management is seven times that of ten years ago, with an annual average compound growth





of 21.5%. In 2006, the Company had the largest number of new generation units commencing operation in its history, with 5,620 MW of new generation units commencing operation during the Year, up 40.7% as compared to the Previous Year.

The Company will remain committed to its established development strategies in future by further consolidating its market share in major service areas across the country, to achieve synergies and complementary advantages among different service areas while diversifying market risks. It will also further optimise the energy source structure of power generation to achieve comprehensive structural development in coal-fired power, hydropower, nuclear power and wind power, with a goal of having a composition of approximately 65% coal-fired power, 25% hydropower, 8% nuclear power and 2% wind power. The Company will focus on the development of energy-conserving and environment-friendly generation units with high technical efficiency to structurally enhance the Company's efficiency and effectiveness; and further seek to secure upstream and downstream supply and value chains as well as high added-value development, so as to ensure stable and sustainable development and growth.

The Company currently has a group of approved projects under construction, which are scheduled for commencement in 2007 and 2008, which will generate a steady growth of new installed capacity

of over 3,000 MW each year. Apart from coal-fired power, the large-scale commencement of hydropower generation units between 2007 and 2010 will benefit the Company's growth. Besides, the Company has been actively committed to preliminary project development and project reserves. A group of preliminary projects have been submitted to the National Development and Reform Commission for approval or are eligible for submission to seek approval. Once these projects are approved, they will further enhance the Company's growth in the next few years.

6. Please outline the Company's major developments and management achievements in 2006.

2006 was the ninth year since the Company's listing in 1997, and also a year of outstanding achievements in the Company's development history. During the Year, the Company made seven major strategic developments and operational management achievements as follows:

- (1) Back to China with honour, the Company succeeded in its objective of returning to the domestic market for A share listing during the Year.

During the Year, the Company completed its domestic A share IPO with great success. 500 million new shares were issued at an offer price of RMB6.68 each, raising net proceeds of approximately RMB3.279 billion. Domestic investors reacted positively after the Company's A share issue, with the share price on the A share secondary market constantly staying over RMB10.

- (2) The Wushashan Project in Zhejiang established a new milestone in Datang Power's management standards.

The Wushashan Project in Zhejiang was the first project for which the development right was acquired through participating in domestic tender invitations. The project sets

a record in the domestic power industry for commencing four sets of supercritical generation units within a year. Besides, the actual construction period was one year ahead of the construction schedule undertaken in the tender, substantially reducing project costs and setting a new low in construction costs for domestic generation units.

(3) Success in hydropower operation

During 2006, the first batch of hydropower projects located in Yunnan invested in by the Company – the Lixianjiang River Hydropower Project and the Nalan Hydropower Project – commenced operation. Total installed capacity in operation is 270 MW.

Apart from the Yunnan hydropower projects, a 5 x 350 MW hydropower project in Pengshui, Chongqing, will commence operation in 2007 and 2008 as well. The installed capacity of hydropower plants is anticipated to account for around 20% – 25% of the Company's total installed capacity by 2015.

(4) Moving into nuclear power development

The Company entered into an agreement with Guangdong Nuclear Power Investment Co. Ltd. in March 2006 for the joint investment and construction of the Ningde Nuclear Power Project. The project plans to build two 1,000 MW nuclear power generation units, involving a total estimated investment of approximately RMB24 billion. An approval reply was given by the National Development and Reform Commission in 2006 regarding the commencement of the project's preliminary preparations.

(5) Coal supply chain by railway transport further reinforced

Ta Shan Coal Mine in Datong in which the Company invested and owned minority interests officially commenced operation

in June 2006. The raw coal produced from the coal mine is directly supplied to the Company's power plants in the southeastern coastal areas. In December of the same year, Qiancao Railway, in which the Company invested and owned minority interests was completed and opened to traffic. The completion of the project will considerably relieve the pressure upon the Company when it comes to transporting coal to its power plants in the southeastern coastal areas and some power plants with direct access.

(6) A record high in single-year installed capacity commencement

The Company's new generation units that commenced operation in 2006 amounted to 5,620 MW, up 40.7% over 2005. Year 2006 was, therefore, a year with the largest number of new generation units coming into operation since the Company's incorporation in 1994.

(7) Opening up a coal import channel

The first batch of raw coal imported by the Company from Vietnam arrived at the power plants in the southeastern coastal areas at the end of 2006. The Company will utilise both the domestic and overseas markets in future to meet its coal demand, so as to reduce unit fuel costs.

