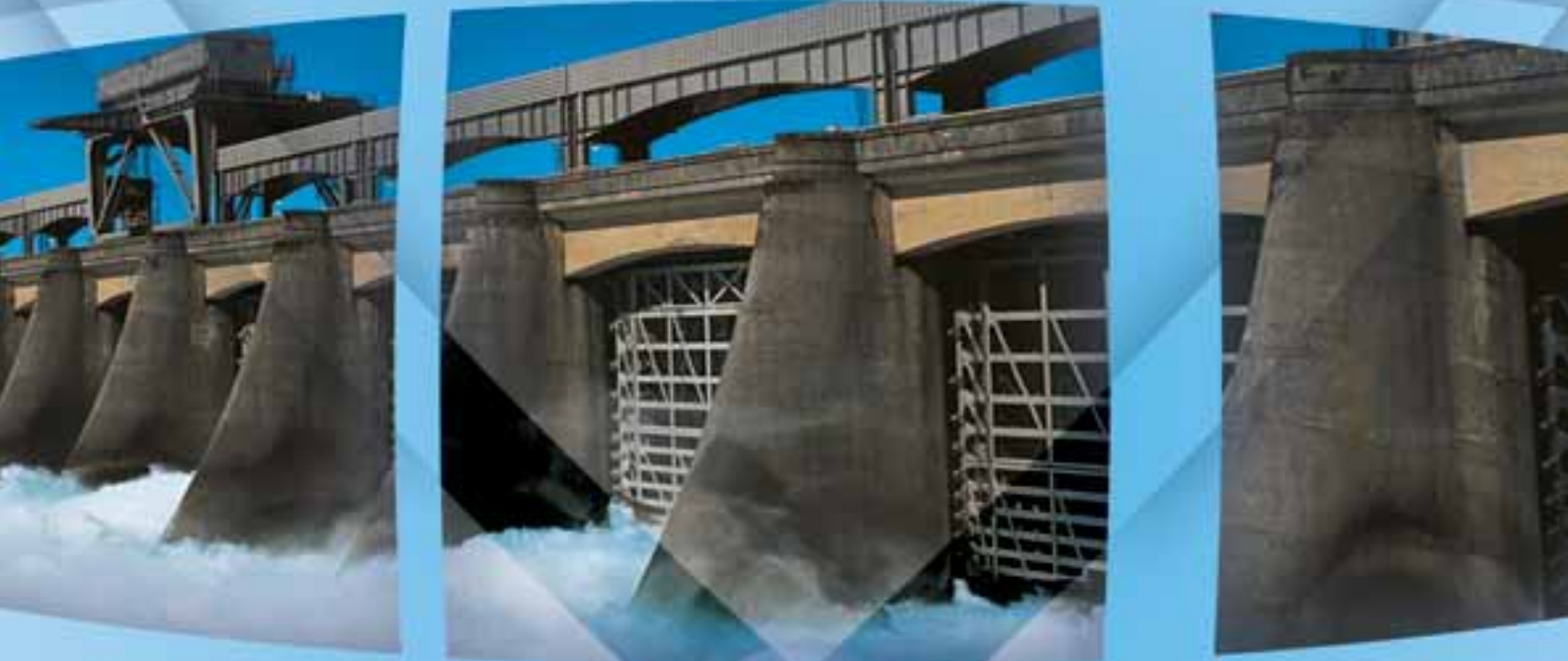


Push Forward **Hydropower** *Build Complementary Resources*

In 2007, the Company continued to actively develop hydropower projects. Besides 450MW of installed capacity added by Lixianjiang Hydropower Company, the two-level hydropower projects at Yunnan Luoze River have also commenced construction. In the future, the Company will continue to push forward the development in hydropower to leverage the complementary advantages of varied resources, strengthening the Company's competitiveness in the power generation industry.





Management Discussion and Analysis



Zhang Yi
President

OPERATING ENVIRONMENT

During 2007, the national economy maintained a steady and rapid growth, with an impressive 11.4% gross domestic product (GDP) growth reported. Robustly driven by economic development, the power industry also witnessed rapid growth. During the Year, approximately 100,000 MW of installed capacity was added nationwide. The social power consumption increased by 14.42% over the Previous Year while nationwide power generation increased by approximately 14.44% over the Previous Year.



The major service areas of the Company and its Subsidiaries also maintained rapid growth in power generation, with the power generation of the BTT Power Grid, the Shanxi Power Grid, the Zhejiang Power Grid, the Fujian Power Grid, the Guangdong Power Grid, the Gansu Power Grid and the Yunnan Power Grid reporting increases of approximately 18.92%, 22.80%, 26.96%, 15.30%, 11.20%, 16.59% and 20.78% over the Previous Year, respectively.

BUSINESS REVIEW

During the Year, the nationwide shortage in supply of electricity was further alleviated due to the commencement of operation of a substantial number of new generation units. Utilisation hours of operating generation units also reported a decrease as compared to the Previous Year, while coal prices hovered at a high level. 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 2007, total power generation of the Company and its Subsidiaries amounted to 118.271 billion kWh, representing an increase of 26.56% 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 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 RMB32,829 million, representing an increase of approximately 31.85% as compared to the Previous Year. Consolidated net profit attributable to equity holders of the Company was approximately RMB3,406 million, representing an increase of approximately 22.62% as compared to the Previous Year.



1. Production

As at 31 December 2007, the total power generation of the Company and its Subsidiaries for the Year amounted to 118.271 billion kWh, representing an increase of 26.56% as compared to the Previous Year. The total on-grid power generation of the Company and its Subsidiaries amounted to 111.411 billion kWh, representing an increase of approximately 26.74% as compared to the Previous Year. The increases in the 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 Previous Year, the Company and its Subsidiaries have increased its installed capacity by 850 MW and the new generation units commencing operation in the second half of 2006 were in satisfactory condition 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



Management Discussion and Analysis

Grid, the Zhejiang Power Grid, the Fujian Power Grid and the Guangdong Power Grid maintained rapid growth.

- (3) The power generation obstruction problem at Wangtan Power Company, a subsidiary of the Company, was completely resolved and its generation units are now operating in full capacity, with the power generation increased by approximately 60% as compared to the same period of the Previous Year.
- (4) High operating reliability of generation units: During the Year, the operating generation units of the Company and its Subsidiaries achieved an equivalent availability factor of 94.62%.

Power generation details of the Company and its Subsidiaries for 2007 (Unit: billion kWh)

Power Plant/Company Name	Power Generation for 2007	Growth (%)
Gao Jing Thermal Power Plant	3.4642	0.03
Dou He Power Plant	11.2043	6.24
Xia Hua Yuan Power Plant	2.5566	4.63
Zhang Jia Kou Power Plant	15.1455	6.64
Tianjin Datang International Panshan Power Generation Company Limited ("Panshan Power Company")	7.1369	1.79
Inner Mongolia Datang International Tuoketuo Power Generation Company Limited ("Tuoketuo Power Company")	21.6869	1.31
Shanxi Datang International Yungang Thermal Power Company Limited ("Yungang Thermal Power Company")	2.8655	-4.39
Hebei Datang International Tangshan Thermal Power Company Limited ("Tangshan Thermal Power Company")	3.7969	-2.05
Shanxi Datang International Shentou Power Company Limited ("Shentou Power Company")	5.7444	0.72

Power Plant/Company Name	Power Generation for 2007	Growth (%)
Gansu Datang International Liancheng Power Generation Company Limited ("Liancheng Power Company")	4.1100	18.00
Hebei Datang International Wangtan Power Generation Company Limited ("Wangtan Power Company")	7.5769	58.00
Zhejiang Datang Wushashan Power Generation Company Limited ("Wushashan Power Company")	14.1641	159.96
Guangdong Datang International Chaozhou Power Generation Company Limited ("Chaozhou Power Company")	6.0035	172.81
Fujian Datang International Ningde Power Generation Company Limited ("Ningde Power Company")	7.1078	159.24
Yunnan Datang International Honghe Power Generation Company Limited ("Honghe Power Company")	3.9209	120.84
Jiangxi Datang International Xinyu Power Generation Company Limited ("Xinyu Power Company")	0.4615	-
Hebei Datang International Huaze Hydropower Development Company Limited ("Huaze Hydropower Company")	0.0228	-26.09
Yunnan Datang International Nalan Hydropower Development Company Limited ("Nalan Hydropower Company")	0.6051	14.39
Yunnan Datang International Lixianjiang Hydropower Development Company Limited ("Lixianjiang Hydropower Company")	0.6895	194.66
Inner Mongolia Datang International Duolun Hydropower Multiple Development Company Limited ("Duolun Hydropower Company")	0.0078	-
Total	118.2711	26.56





2. Environmental Protection and Energy Conservation and Emission Reduction

While endeavouring to increase power generation, the Company also actively responds to the State's calls for environmental protection and energy conservation and emission reduction, implementing environmental protection projects and enforcing energy conservation and emission reduction measures. As at the end of 2007, the Company and its Subsidiaries closed three 50 MW obsolete units of Tangshan Thermal Power Company in accordance with the State policy opting for "large generation units over small ones". The installed capacity of the Company and its Subsidiaries with desulphurisation facilities in use accounted for 83.4% of the coal-fired units of the Company and its Subsidiaries. Meanwhile, desulphurisation upgrade projects for the remaining units are currently in progress and are expected to be completed within 2008.

As desulphurisation upgrade projects are underway, treatment for the flue-gas denitro-oxidisation of the Company and its Subsidiaries were successfully completed, of which at Gao Jing Thermal Power Plant achieved a denitro-oxidisation percentage of 80%.

During the Year, the Company actively pushed ahead new technologies, new methods and new

ideas for energy conservation and emission reduction. Focusing on the major and difficult issues on energy conservation faced by its power plants, the Company devised its energy conservation and environmental protection work plans and compiled energy conservation training materials and maintenance management guidelines for relevant facilities. Relevant training sessions were organised, while energy conservation technologies were promoted and energy conservation measures were enforced. During the Year, the Company's accomplished impressive results on energy conservation and emission reduction and environmental protection, among which, the emissions of sulphur dioxide, smoke ash and industrial waste water per electricity unit were better than the national average. Meanwhile, coal consumption for power generation is reduced by 6.22g per kWh as compared to the Previous Year; oil consumption for power generation is reduced by 5.76 tonnes per 100 million kWh as compared to the Previous Year; overall water consumption for power generation is reduced by 20% as compared to the Previous Year. Although more desulphurisation facilities had been put into operation, the consolidated electricity consumption rate of the plants decreased by 0.16 percentage point as compared to the Previous Year.

3. Operational Management

During the Year, the Company and its Subsidiaries achieved a consolidated operating revenue of approximately RMB32,829 million, representing an increase of approximately 31.85% as compared to the same period of the Previous Year. Consolidated net profit attributable to equity holders of the Company amounted to approximately RMB3,406 million, representing an increase of approximately 22.62% as compared to the same period of the Previous Year. The steady growth in the profit



Management Discussion and Analysis

of the Company and its Subsidiaries was mainly attributable to the following factors:

- (1) Achieving higher power generation through active marketing and sales efforts and initiating communication and coordination with all relevant parties: On-grid power generation increased by approximately 23.5 billion kWh over the Previous Year, thereby increasing the sales revenue of electricity by approximately RMB6,620 million accordingly.
- (2) Raising the average on-grid power tariff and increasing sales revenue through various efforts to implement the tariff policies: During the Year, the Company's on-grid tariff (tax included) increased by approximately RMB12.56 per MWh over the Previous Year, leading to an increase in sales revenue of approximately RMB1,196 million.
- (3) Maintaining comprehensive budget control to enhance capital utilisation efficiency, as well as refining cost management and exercising stringent cost control: During the Year, apart from the sales revenue increase, the Company also managed to keep its controllable costs and financing costs below the Company's annual budget, thereby laying a foundation for the profit growth for the Year.

4. Business Expansion

During the Year, the Company continued to implement its development strategies, which included the transformation from a single mode of coal-fired power generation to the development of renewable energy including hydropower and wind power, and the change of the business structure from simply a power generator into an integrated industry chain of power-related businesses. As a result of the gradual implementation of the above-mentioned development strategies, the Company

and its Subsidiaries had added an operating capacity of 850 MW 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, the Company and its Subsidiaries added 400



MW of coal-fired generation units, primarily a result of acquiring two 200 MW units of Xinyu Power Generation Company.

Two 600 MW generation units of Yuncheng Power Company, which is controlled and constructed by the Company, commenced commercial operation in January 2008.

The Phase 1 project (installed capacity: two 600 MW units) of Daba Power Company, of which the Company holds 45% interests, was approved by the relevant State authorities and construction has commenced.

- (2) Hydropower projects: During the Year, the Company and its Subsidiaries added a capacity of 450 MW in hydropower units,



including 285 MW at Longma Hydropower Station and 165 MW at Tukehe Hydropower Station of Lixianjiang Hydropower Company.

The two-level hydropower projects at Yunnan Luoze River (total installed capacity: 63 MW), controlled and constructed by the Company, were respectively approved by the relevant State authorities and construction has commenced during the Year.



(3) Wind power project: The Zhuozi Bayin Wind Power Plant Phase I (installed capacity: 40 MW) and Phase II (installed capacity: 48 MW) developed and constructed by the Company's wholly-owned subsidiary, Inner Mongolia Datang International Zhuozi Wind Power Company Limited ("Zhuozi Windpower Company"), and the Shanxi Datong Zuoyun Wind Power Plant Phase I (installed capacity: 49.5 MW), planned to be solely developed by the Company, were respectively approved by the relevant State authorities.

(4) Nuclear power project: Upon the approval by the relevant State departments, the Company made an investment to participate in the construction of four nuclear power generation units of 1,000 MW each at the Ningde region

of Fujian Province, and construction of these units commenced in February 2008.

(5) Other energy-related projects: As at the end of 2007, development of upstream/downstream power-related businesses including coal mining, coal chemical projects and railway construction have achieved substantial progress. (1) Railway project: approval has been obtained for the Inner Mongolia section and the Hebei section of Duofeng Railway project, with an approved mileage of 134 km. (2) coal mine project: exploration rights of Unit 2 of the open-cut coal mine located east of Shengli Coal Mine, Changtan Coal Mine and Kongduigou Coal Mine have been obtained; and the development right of Wujianfang Coal Mine in Inner Mongolia has been obtained to date, (3) Duolun coal chemical project at Inner Mongolia, controlled and developed by the Company, has progressed smoothly. Upon project completion and commencement of production, the project is expected to produce annually 460,000 tonnes of polypropylene and other by-products.



Management Discussion and Analysis

FINANCIAL REVIEW

In 2007, the Company realised RMB32,829 million in revenue, representing a 31.85% increase over the Previous Year. A net profit attributable to equity holders of the Company of RMB3,406 million was realised, representing a 22.62% increase over the Previous Year. Basic earnings per share was approximately RMB0.29, representing an increase of approximately RMB0.02 per share over the Previous Year.

1. Operating Revenue

The Company is principally engaged in power generation businesses which involve mainly coal-fired power generation. Heat supply also forms a minor part of the operation. The Company's operating revenue mainly comprises revenue from electricity sales and heat sales.

During 2007, the Company and its Subsidiaries realised an operating revenue of RMB32,829 million, representing an increase of approximately RMB7,931 million or 31.85% over the Previous Year, among which, the increase of installed capacity and on-grid power generation led to revenue increase of approximately RMB6,620 million, while the increase of average tariff level led to the Company's revenue increase of approximately RMB1,196 million.

2. Operating Costs

During the Year, the operating costs of the Company and its Subsidiaries totalled RMB25,089 million, representing an increase of approximately RMB6,179 million or 32.67% over the Previous Year. The major reasons were increases in fuel costs.

During the Year, the fuel costs accounted for 60.84% of operating costs. With more generation units putting into operation and increase in power generation, as well as the continued rise in nationwide fuel prices, fuel costs increased by RMB4,599 million or approximately 43.13% over the Previous Year, such increase exceeding that of power sales revenue.

3. Net Financing Costs

During 2007, the financing costs of the Company amounted to RMB2,080 million, representing an increase of approximately RMB721 million or 53.09% over the Previous Year. The relatively rapid increase was attributable to the increase in interest expense caused by the cease of interest capitalisation of the new generation put into operation in the Previous Year and the lending interest-rate increases during the Year. However, as the Company and its Subsidiaries adopted various measures, the overall financing costs were therefore below the Year's budget.

4. Profits

During the Year, the Company and its Subsidiaries reported the consolidated profit before taxation amounting to RMB5,837 million, representing an increase of 25.15% as compared to the Previous Year. The consolidated net profit attributable to equity holders of the Company amounted to approximately RMB3,406 million, representing an increase of 22.62% as compared to the Previous Year. The increase in the profit of the Company and its Subsidiaries was mainly attributable to the Company and its Subsidiaries' further expansion in its operating scale, increase in power generation and average power tariff, as well as stringent and effective cost controls by the Company and its Subsidiaries.



5. Financial Position

As at 31 December 2007, the consolidated total assets of the Company and its Subsidiaries amounted to approximately RMB121.773 billion, representing an increase of approximately RMB31,062 million as compared to the Previous Year. The consolidated total liabilities amounted to approximately RMB87,533 million, representing an increase of approximately RMB24,022 million as compared to the Previous Year. Minority interests amounted to approximately RMB4,643 million, representing an increase of approximately RMB1,339 million as compared to the Previous Year. Shareholders' equity amounted to approximately RMB34,241 million, representing an increase of approximately RMB7,040 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.



6. Liquidity

As at 31 December 2007, the asset-to-liability ratio for the Company and its Subsidiaries was approximately 71.88%. The net debt-to-equity ratio (i.e. (loans + convertible bonds + short-term bonds – cash and cash equivalents – short-term bank deposits over 3 months)/total equity) was approximately 205.83%.

As at 31 December 2007, the cash and cash equivalents and bank deposits with a maturity of 3 months above of the Company and its Subsidiaries amounted to approximately RMB3,698 million, of which an amount equivalent to approximately RMB98 million was foreign currency deposit. The Company and its Subsidiaries had no entrusted deposits or overdue fixed deposits during the Year.

As at 31 December 2007, the short-term loans of the Company and its Subsidiaries amounted to approximately RMB 22,609 million which bore annual interest rates ranging from 4.96% to 7.29%. Long-term loans (excluding those due within 1 year) amounted to approximately RMB44,273 million and long-term loans due within 1 year amounted to approximately RMB4,188 million, at annual interest rates ranging from 3.60% to 7.41%, of which an amount equivalent to approximately RMB2,229 million was denominated in US dollar. The Company and its Subsidiaries have constantly paid close attention to foreign exchange market fluctuations and prudently assess foreign currency risks.

The Company had not provided any guarantee in whatever forms for any other company apart from its subsidiaries, jointly controlled entities and associates.



Management Discussion and Analysis

OUTLOOK FOR 2008

In 2008, 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, the growth of the PRC economy will remain steady in 2008. GDP is expected to grow by about 9% while power consumption in the PRC is expected to grow at around 13%. Such a scenario will provide new development opportunities to the Company and its Subsidiaries. In view of electricity demand-supply going from a tight condition to a basically steady condition in 2008, utilisation rates of power generation units are expected to decrease slightly with generation capacity increasing. In addition, high coal prices and the uncertainties of coal quality, as well as the mismatch between fuel supply and transportation, will have a more significant impact on the Company's coal cost control in 2008. Meanwhile, the power dispatch approach based on the principles of energy conservation, environmental protection and economic efficiency will further intensify competition in the power generation sector. In addition, a string of interest rate hikes announced in 2007 will further increase the Company's financing costs, thereby increasing the difficulty for operation management.

Facing keen competition and a difficult operation environment, the Company will actively expand its

room for development, strengthen the marketing and sales effort to enhance its profitability, by fully utilising its own advantages in resources, scale, location and costs. In 2008, the Company plans that total power generation of the Company amounted to approximately 140 billion kWh, while the growth rate of unit fuel cost will be strived to control at approximately 10%.

In 2008, the Company will focus on the following tasks:

1. Strengthening the production safety management and the establishment of an emergency system to enhance the ability to prevent and handle emergencies, so as to safeguard a stable power usage during the Olympic Games.
2. Strengthening the environmental protection and facilitating clean production: In 2008, the Company will further push ahead environmental protection projects and will implement the capital and construction progress plans for environmental protection projects. The Company will fully accomplish all the environmental protection tasks to achieve a 100% desulphurisation facility installation rate for all coal-fired units, with a 95% desulphurisation facility operation rate and a 95% desulphurisation efficiency.
3. Strengthening operation management and maintaining steady growth in economic efficiency: The Company will make every effort to control project costs, fuel costs, finance costs and other costs and expenses, so as to achieve the objective of increasing revenue whilst saving cost. The Company will also enhance its coordination of power generation to ensure the accomplishment of the year's power generation plan, so as to maintain the Company's momentum of steadily growing economic gains.



- 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 and nuclear power, coal mining, railway and development of power-related upstream and downstream projects, so as to ensure the Company's sustainable development.

- Striving to ensure the construction quality and that electricity projects will commence operation safely and in good quality and making further progress in the development of non-electricity projects.
- Actively expanding financing channels to secure fundings for the Company's scale development.

Zhang Yi
President

26 March 2008

