

Integrate Upstream, Downstream Businesses Extend Competitive Advantages

Datang Power has been actively carrying out strategic extension of its competitive advantages through developing relevant upstream and downstream businesses related to power generation. To date, the Company has obtained the exploration rights of the “Unit 2 of the open-cut coal mine located east of Shengli Coal Mine”, the “Changtan Coal Mine” and the “Kongduigou Coal Mine”, as well as the development right of “Wujianfang Coal Mine” in Inner Mongolia, thereby laying a solid foundation for the Company’s coal resource reserves. Meanwhile, approvals have been obtained for the Company’s other railway construction projects such as the Inner Mongolia Section and the Hebei Section of Duofeng Railway, and such railways will ensure the outbound transportation of the Company’s coal resources and chemical products. In addition, the construction of the Inner Mongolia Duolun Chemical Project, which is controlled and constructed by the Company, has progressed smoothly. The project is expected to effectively enhance the Company’s overall profitability.





Questions Frequently Asked by Investors



1. What is the Company's view on the supply and demand situation nationwide and in the Company's major service areas for 2008?

Yu Hai – Shanghai Shenyin Wanguo Research & Consulting Co., Ltd.

The nationwide power demand grew by 14.42% in 2007 as compared to the previous year as a result of the ongoing rapid development of the national economy and the rapid growth momentum sustained by industrial output. At the end of 2007, the nationwide generating installed capacity reached 713,000 MW, an increase of 14.36% as compared to the previous year. Considering both China's current economic policy and the adjustments to be made to the industrial structure in future, the nationwide power and supply situation will be able to maintain a basic balance in general in 2008, with a partial short supply, in terms of generating capacity, for the power grids in the southern region. It is anticipated that in 2008 the increase in social power consumption will be around 12.5%;

nationwide investments and production scale of electric power resources will fall slightly from the high level of the previous year; additional installed capacity for infrastructures will be around 90,000 MW, and small-sized coal-fired units with a total capacity of 13,000 MW will be planned for shut down for the whole year. Given the big picture where there is sufficient power supply capacity nationwide, the supply of thermal coal and water as well as the climate factor will all be the most crucial determinants for power supply and demand in various regions in 2008.

The Company's existing service areas are largely located in the Beijing-Tianjin-Tangshan region, the southeastern coastal area and the western region where power demand was rapidly increasing in 2007, with demand from some provinces in these service areas continuing to stay higher than the national average level. For the Beijing-Tianjin-Tangshan region, the birthplace of the Company's business, the ongoing and substantial increase in the production capacity of major heavy industries in the recent two years has led to a rapid growth



in power demand from this region. Moreover, owing to the nation's support of the development of large-sized and efficient enterprises for heavy industries in this region, power demand from the development of these industries will remain high for a long period of time in future.

The southeastern coastal area, in which the Company has established a strong presence since 2006, has been assuming a leading position in the Chinese economy and has been maintaining a rapid growth in power demand. As the area features a relatively stable economic structure, the Company does not expect a substantial fall in power demand from this area.

In the recent two years, the Company has extended its business to another key service area in the western region of China, namely Yunnan, Gansu, Ningxia and other provinces and autonomous regions where power demand has been relatively low because of a less developed economy in the past. However, as a result of the ongoing implementation and intensification of the nation's policy for the "Go-West Development Project", rich nonferrous metal resources and preferential taxation policies in this region have attracted an enormous number of nonferrous metal deep-processing enterprises qualified under the national industrial policy to settle down and set up factories in this region. These high-energy consuming enterprises have become a major driving force for power demand in this region. The power demand growth driven by the production capacity of such heavy industries is not expected to slow within a short period of time.

2. What is the Company's business development strategy for the years before 2010?

Daisy Zhang - BNP Paribas Securities (Asia) Ltd.

The Company will continue to execute in future its development strategy for fuel structure diversification, assets structure diversification and service area diversification. Currently, structure Company's generating units are transforming from the conventional single mode of coal-fired power generation to the development of new energy such as hydropower generation, wind power generation and nuclear power generation. Coal-fired units are gradually transitioning to 1,000 MW ultra-supercritical units. The Company's current preliminary projects are composed of 54.36% 1,000 MW units and 25% 600 MW units. By 2012, 1,000 MW units will become the core coal-fired units of the Company. Moreover, 1,000 MW units are largely located in coastal areas while 600 MW and 300 MW units are largely located in the northern region. The change in the model of power generation units can both effectively mitigate the pressure due to increasing coal cost as well as reduce pollution emissions and save expenses on charges for waste disposal.



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The Company's management was aware several years ago of the need to extend its assets chain for effectively spreading risks by means of asset structure diversification to enhance its capability of participating in market competition in future. Over the past two years, the Company has been successively involved in the development of upstream and downstream-related industries such as coal mining, railway construction, ocean transport as well as the design, construction and future operation of coal chemical projects. In 2007, further progress was made in the Company's non-power businesses, of which approval has been obtained successively for the Inner Mongolia section and the Hebei section of Duofeng Railway project, covering an approved mileage of 134 km.; tenders have been won for the investment and exploration rights of Wujianfang Coal Mine; the annual objective has been achieved for the construction of Duolun coal chemical project on schedule, laying a foundation for commencing production on schedule next year; and the first cargo ship invested in by the Company has commenced transportation of coal for the Company's power plants in the coastal areas. The Company will continue to carry out further development in the above sectors in future to consolidate and improve its strategy for assets structure diversification so that these sectors can form a new driving force for enhancing the Company's profitability while working to serve its principal business.

The Company's existing service areas have expanded from the conventional Beijing-Tianjin-Tangshan region to the southeastern coastal area and a number of provinces in the western region. This geographical diversification strategy can minimise geographical risks due to over-concentration of assets while exposing the Company to different favourable geographical locations. In future, the Company will further increase market shares in its existing service areas and open up new markets with aggressive efforts, making itself a power company having assets distributed across the country.



3. What is the Company's long-term development strategy for coal? What will the Company plan to maximise the benefits of coal resources other than power generation?

Simon Lee – Morgan Stanley Asia Ltd.

The retention of coal resources is the Company's long-term development strategy. The Company's demand for coal is growing due to an increasing number of coal-fired units. The Company will face tremendous pressure from fuel cost control as a result of rising coal prices. Under such market environment, the acquisition of coal resources will, to a large extent, assure the supply of fuels and stabilise coal procurement prices, thereby minimising the risks associated with squeezed profitability due to increased fuel costs. Apart from Unit 2 coal mine located east of Shengli Coal Mine in Inner Mongolia which is wholly-owned by the Company, as well as Tashan Coal Mine, Weizhou Coal Mine and Changtan Coal Mine in which the Company made equity investments, the Company will also continue to seek opportunities in provinces with abundant coal reserves, so as to obtain more and better quality coal resources to secure the supply of coal used as fuel for the Company's principal power generation operations.



Of the coal resources obtainable by the Company, a portion will be used as fuel for power generation, with the remaining to be used for coal chemical projects. Since certain types of these coal resources are not suitable for long haulage because of their low-heat output and high-water content, our power plants are not able to fully take up these coal resources due to their application limitations. To maximise the economic value of these coal resources, after a lot of research, the Company has decided to carry out deep processing of these coal resources to convert them into chemical products. As a result of a substantial rise in global oil price, coal chemical products will become more competitive gradually, given the substantial surge in the costs of the chemical industry using oil and natural gas as conventional raw materials. Hence, the Company's development of coal chemical projects can both enhance the utilisation of these coal resources and provide a profit growth engine for the Company.

4. What is the outlook for the Company's Duolun coal chemical project?

Michael Tong – Deutsche Bank

The statistics on China's consumption of polypropylene since 1995 suggest that so far the growth curve of China's consumption of polypropylene has been primarily consistent with the linear law. According to forecasts based on this law, the apparent consumption of polypropylene was 9.357 million tonnes in 2007 and will reach 11.6 million tonnes by 2010, and will be even higher if enhanced performance of products and expanded areas of application are taken into account.

The supply and demand figures suggest that the current degree of self-sufficiency of China's polypropylene sector is around 60%, leaving 40% needed to be imported. Based on production capacity statistics to date, polypropylene units

with a capacity of approximately 2.2 million tonnes in China are small-sized units with obsolete technology. Following the construction of a large amount of new, large-sized units after 2005, China's production capacity of polypropylene is estimated at around 11 million tonnes by 2010 without taking into account the units being replaced and suspended from production, suggesting that there is still a shortage.

According to forecasts, global total production capacity of polypropylene will reach 60 million tonnes, while consumption will reach 52 million tonnes by 2010. The rate of production will reach the lowest in 2009 and 2010 and will pick up gradually later to more than 90% increasing on a year-on-year basis. These figures suggest that supply and demand in the global polypropylene market will fluctuate slightly in the next several years but will recover very soon. There will not be dramatic changes in the overall global supply and demand situation.

Global polypropylene capacity is distributed largely in Asia, Western Europe and North America, with Asia recording the fastest growth in polypropylene output. As the major consumer of polypropylene around the globe, Asia is having the most serious shortage, increasing gradually to 2.43 million tonnes in 2007. In terms of the overall supply and demand situation in Asia, 2012 will be a point of inflexion for capacity growth. Capacity will not increase substantially thereafter but consumption will grow rapidly. Import volume in Asia has been increasing since 2005, with total shortage of polypropylene expected to reach 1.3 million tonnes by 2010, and approximately 4 million tonnes by 2015.

The overall rate of production of polypropylene units in Asia will be higher than 90% in the next several years, except 2009 which will see a low rate of nearly 85%. Hence, whether in terms of the global polypropylene market or the neighbouring markets in Asia, the market as a whole will hit a low in 2009 and 2010 but will



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quickly pick up subsequently, with the rate of production and shortage increasing rapidly.

For the pricing of propylene products under different crude oil price conditions, a set of measurement modules and pricing policies has been designed for the Sinopec system which has generally taken into account various factors such as historical prices over the past ten years, GDP growth, supply and demand balance, net import, rate of production, international prices, tariffs, foreign exchange rates, commodity prices index, price of raw materials, technical progress, quality and trademark. The modules and data generated from the system have been used as economic measurement indicators for petrochemical enterprises and projects. Based on the guiding ex-factory prices for propylene according to Sinopec's 2004 economic estimates and assuming a crude oil price of US\$100/barrel (linear estimation), the ex-factory price of propylene is RMB10,800/tonne. The respective production costs of propylene under different coal price conditions for the Company's Duolun coal chemical project are as follows:

Prices of propylene under different coal price conditions for the Duolun coal chemical project:

Coal price (Yuan/tonne)	Production cost of propylene (Yuan/tonne)
50	3,430
100	4,079
150	4,728
200	5,377
250	6,025
300	6,674
350	7,323
400	7,972

Fundamentally, the supply and demand relationship remains as the major factor affecting the prices of polypropylene. Global and Asian polypropylene supply does not have a substantial impact on China's polypropylene sector. There is fundamentally supply-demand

balance in the global market but supply fails to meet demand in Asia as a whole, creating a shortage. Moreover, based on the statistics and estimates of the prices of polypropylene, the prices will fluctuate between 2006 and 2010 and will pick up rapid thereafter. Considering the impact of oil prices in particular, polypropylene produced at the Duolun project will be very competitive in the market .

5. What is the Company's forecast for the supply and demand situation in the coal market in 2008? What is the fuel supply situation of the Company in 2008?

Dou Zeyun – Ping An Securities Company Limited

In terms of the major fundamentals which affect coal demand in 2008, on the one hand the ongoing implementation of the country's region development strategies such as the "Go-West Development Project" and the development of Bohai Rim Economic Zone will drive the rapid growth of investments and heavy industries. On the other hand, China will step up macro-economic control measures to prevent a rebound of investments in fixed assets, particularly the heavy industries such as iron and steel, building materials and nonferrous metals. The growth of power consumption by heavy industries rate will fall in line with the gradual fall in the growth of heavy industrial investments. Social power consumption and generation are expected to maintain a high growth but the growth rate will slow. In terms of the power industry, the rate commencement of production by large-sized advanced generating units will have a major positive impact on the power generation structure. In 2008, small-sized generating units with a total capacity of 10,000 MW will be shut down and the "energy-saving adjustment" policy is being launched aggressively throughout the



country, with priority given to hydropower, nuclear power and large-sized advanced generating units for power generation. All these factors will significantly optimise the power generation structure. Considering the above factors as a whole, coal demand will remain robust in general but the growth rate will slow.

In terms of the overall coal production capacity, the production capacity of mines with normal production throughout the country was 2.03 billion tonnes/year at the end of 2006. Together with the basic capacity of mines under construction and a minority of unapproved yet operating production capacity, the nationwide production capacity is 2.5 billion tonnes/year. Based on the construction cycle for coal mines, a production capacity of more than 250 million tonnes/year is expected in 2008. Without taking into account the production capacity of small coal mines which may be phased out due to their obsolete technology, the growth in coal production capacity will remain at the present level.

Growth in coal transport capacity by railway will fall, with a slight increase in bottleneck restrictions on transport in some areas. The nation's railways will add coal transport capacity by around 60 million tonnes/year in 2008, while the Shenshuohuang Line is expected to increase coal transport capacity by around 10 million tonnes/year, representing a remarkable fall in total growth as compared to 2007. Moreover, the additional capacity is still located in the northern passage so that the degree of railway transport restrictions on coal production in some provinces and regions such as the central and southern parts of Shanxi, Shaanxi and Ningxia

will increase.

In terms of coal supply, growth in effective domestic supply of coal will be small in 2008 due to the small increase in transport capacity. Moreover, due to various factors such as the high revaluation of Renminbi, increased costs of coal export, decrease in the number of signed-up long-term contracts and the ongoing effect of China's policy on export restrictions, there is very limited room for coal export to continue to pick up. Net imports of coal are expected for most of the time in 2008.

Considering the above factors as a whole, the basic balance of supply and demand of coal is expected to remain unchanged in 2008 and prices will be relatively stable, with fluctuations seen in the spot market prices due to seasonal effects.

The Company's demand for coal will amount to approximately 72 million tonnes for the whole year of 2008. Coal supply under contracts already signed up accounts for 67% of the Company's consumption for the whole year, representing approximately 48 million tonnes. Coal prices will increase by approximately 15% for the year as compared to the previous year.

In 2008, the Company will continue to adopt a variety of measures to assure fuel supply and price stability. Apart from the coal resources locked up by annual contracts, the increasing production capacity at Tashan Coal Mine and Weizhou Coal Mine invested in by the Company will be a positive assurance for satisfying the the coal demand from the Company's power plants in the southeastern coastal area. Moreover, the Company is also aggressively looking for coal resources in overseas market, with a view to partially minimising the risks associated with the Chinese domestic coal market through purchasing coal resources at reasonable prices. Meanwhile, additional large-sized and high-efficiency generating units will be able to effectively lower the Company's coal consumption per average unit, playing a key role in helping withstand the risks associated with coal prices.

