

# Notes to the Financial Statements

31st December, 2000

(All amounts expressed in Rmb unless otherwise stated)

## 1. ORGANISATION AND OPERATIONS

Beijing Datang Power Generation Company Limited (the “Company”) was incorporated in Beijing, the People’s Republic of China (the “PRC”), on 13th December, 1994 as a joint stock limited company. Subsequent to the listing of its H shares on the Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21st March, 1997, the Company was registered as a Sino-foreign joint venture on 13th May, 1998. The Company currently owns and operates four power plants in Hebei Province and Beijing City of the PRC. Particulars of the Company’s power plants are as follows:

Power plants	Total installed capacity	Commencement of operations	Principal activities
	(MW)		
Dou He Power Plant	1,550	1975–1987	Power generation
Gao Jing Power Plant	600	1960–1974	Power generation
Xia Hua Yuan Power Plant	400	1982–1988	Power generation
Zhang Jia Kou Power Plant	2,100	1991–2000	Power generation

As at 31st December, 2000, the Company had 9,945 employees.

On 18th May, 2000, the Company and North China Power Commerce & Industry Corp. (“NCPCIC”) entered into an agreement, under which the Company agreed to acquire the 90% equity interest in Hebei Huaze Hydropower Development Company Limited (“Hebei Huaze”) from NCPCIC for a cash consideration of approximately Rmb53.5 million (see Note 26(b) below). Upon the completion of the acquisition, Hebei Huaze has become a subsidiary of the Company.

On 10th August, 2000, the Company and China Huaneng Group Company (“China Huaneng”) entered into an agreement and a supplemental agreement, under which the Company agreed to acquire the net assets of Unit 2 of Zhang Jia Kou Power Plant (“ZJK Unit 2”) from China Huaneng effective on 1st October, 2000, for a cash consideration of approximately Rmb530 million (see Note 7 below). Immediately following the completion of the acquisition, ZJK Unit 2 became one of the Company’s power generators and was subject to the terms and conditions of the Power Purchase Agreement entered into by the Company and North China Power Group Company (“NCPGC”), the Company’s substantial shareholder, on 5th August, 1996.

## 1. ORGANISATION AND OPERATIONS (Cont'd)

Particulars of the Company's subsidiaries and associated company, all of which are limited companies established and operated in the PRC, are as follows:

Company name	Date of establishment	Registered capital	Paid-up capital	Attributable interest	Principal activities
		'000	'000		
<b>Subsidiaries</b>					
Tianjin Datang Panshan Power Generation Co. Ltd. ("Datang Panshan")	6th August, 1997	930,790	930,790	75%	Power generation (construction-in-progress)
Inner Mongolia Datang Tuoketuo Power Generation Co. Ltd. ("Datang Tuoketuo")	17th November, 1995	200,194	200,194	60%	Power generation (construction-in-progress)
Hebei Huaze Hydropower Development Company Limited	29th July, 1998	59,161	54,591	90%	Power generation (construction-in-progress)
<b>Associated company</b>					
North China Electric Power Research Institute Company Limited	7th December, 2000	100,000	100,000	30%	Power related technology services

The principal activity of the Company and its subsidiaries is power generation.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are as follows:

### (a) Basis of presentation

The accompanying financial statements are prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC").

### (b) Principles of consolidation

The consolidated financial statements include those of the Company and its subsidiaries and also incorporate the Company's interest in an associated company on the basis as set out in Notes 2(e) below.

The purchase method of accounting is used for acquired businesses. Results of subsidiaries and businesses acquired during the year are included in the consolidated financial statements from the date of acquisition. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

All significant intercompany balances and transactions are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of additions to, and replacements or betterment of, units of property, plant and equipment is capitalised. The cost of overhauls, routine maintenance, repairs and replacements of minor items of property, plant and equipment is charged to repair and maintenance expenses.

Amortisation of land use rights is calculated on a straight-line basis over the duration of the land use rights. Depreciation of other property, plant and equipment is provided using the straight-line method over the estimated useful lives of various classes of depreciable assets approved by the Ministry of Finance, after taking into consideration a residual value of up to 3% of the cost. The following table shows the estimated useful lives of property, plant and equipment used by the Company and its subsidiaries:

Land use rights	50 years
Buildings	20 to 30 years
Electric utility plants in service	12 to 18 years
Transportation facilities, computers and others	4 to 10 years

When assets are sold or retired, their costs and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

Construction-in-progress represents buildings, transportation facilities and electric utility plants under construction and is stated at cost. This includes costs of construction, costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the construction and installation period.

Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

### (d) Subsidiaries

A subsidiary is a company in which the Company controls. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method. An assessment of investments in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

### (e) Associate

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investment in an associate is accounted for using the equity method. An assessment of investment in an associate is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

### (f) Long-term investment

Long-term investment represents an equity investment which is less than 20% of the equity interest in an investee enterprise. Long-term investment is stated at cost less any impairment in value and is included in non-current assets. An assessment of long-term investment is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (g) Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the balance sheet. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life of 10 years. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

### (h) Inventories

Inventories comprise fuel, spare parts and consumable supplies and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises direct material cost and transportation expenses incurred in bringing the inventories to the working locations. The costs of inventories are capitalised to property, plant and equipment when used for replacements or betterment of electric utility plant or charged to the income statement when used for daily operations.

### (i) Marketable securities

Marketable securities held for short-term purposes are stated at the lower of cost and market value on an individual investment basis. Changes in the carrying amount of short-term investments are included in the income statement. Income from investments is accounted for to the extent of interest received and receivable. Upon disposal of an investment, the difference between the net disposal proceeds and the carrying amount is included in the income statement.

### (j) Short-term bank deposits for over three months

Temporary cash investments represent fixed-term deposits denominated in Rmb and Hong Kong dollars with original maturities ranging from over three months to one year.

### (k) Cash and cash equivalents

Cash represents cash in hand and demand deposits placed with banks or other financial institutions.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### (l) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### (m) Revenue and income recognition

Revenue and income are recognised when it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and on the following bases:

#### (i) *Operating revenue*

Operating revenue comprises the amount of tariffs billed, net of sales discounts, for electricity generated and transmitted to NCPGC. Operating revenue is billed and recognised upon transmission of electricity to the power grid controlled and owned by NCPGC.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (m) Revenue and income recognition (Cont'd)

#### (i) *Operating revenue (Cont'd)*

Pursuant to the Power Purchase Agreement, for the years up to and inclusive of 1999, the amount of NCPGC's minimum purchase commitment for electricity generated by the Company is equal to the average generation capacity of the Company's power plants during the year multiplied by 5,500 hours less the amount of electricity consumed by the Company's power plants in generating electricity. A certain percentage of the marginal profit earned by the Company for electricity purchased by NCPGC in excess of the minimum purchase commitment is shared with NCPGC in accordance with a pre-determined rate and recorded as sales discounts.

#### (ii) *Interest income*

Interest income from deposits placed with banks and other financial institutions is recognised on a time proportion basis that takes into account the effective yield on the assets.

#### (iii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

### (n) Fuel cost

The cost of fuel is charged to fuel cost based on actual consumption.

### (o) Taxation

#### *Enterprise income tax*

Enterprise income tax is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable PRC enterprise income tax rate for the Company and its subsidiaries is 33%.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

As at 31st December, 2000, there were no significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheets of the Company and its subsidiaries which would result in deferred taxation.

#### *Value-added tax ("VAT")*

Under the "Provisional Regulations of the People's Republic of China on Value-added Tax", the Company and its subsidiaries are subject to output VAT levied at the rate of 17% of their operating revenues. The input VAT paid on purchases of coal, water, materials and other direct inputs can be used to offset the output VAT levied on operating revenue to determine the net VAT payable.

### (p) Related companies

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (q) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

### (r) Foreign currency translation

The Company and its subsidiaries maintain their books and records in Rmb. Transactions in other currencies are translated into Rmb at exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated into Rmb at exchange rates quoted by the PBOC prevailing at the balance sheet date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognised in the income statement in the period in which they arise.

### (s) Retirement benefits

Costs of retirement benefits are charged to the income statement as incurred.

### (t) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arranging borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the construction of buildings, transportation facilities and electric utility plants that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs arising from funds specifically for the construction of the asset are capitalised until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

### (u) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalent, short-term bank deposits for over three months, marketable securities, trade and other receivable and payable and loans. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies above.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

### (v) Impairment of Assets

Property, plant and equipment, investments and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment, investments and goodwill carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (v) Impairment of Assets (Cont'd)

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income or as a revaluation increase.

Based on its most recent analysis, the Company believe that there was no impairment of its assets as at 31st December, 2000.

### (w) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### (x) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (i.e. adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## 3. PROPERTY, PLANTS AND EQUIPMENT, NET

	Company and its subsidiaries						
	2000					1999	
	Land use rights	Buildings	Electric utility plants in service	Transportation facilities, computers and others	Construction-in-Progress	Total	Total
'000	'000	'000	'000	'000	'000	'000	
<b>Cost</b>							
Beginning of year	271,628	932,604	11,156,427	292,919	1,931,121	14,584,699	12,604,681
Addition/Transfer in	10,874	287,312	1,227,228	41,335	4,673,763	6,240,512	5,293,139
Acquisitions (Note 1)	—	19,506	846,410	8,387	91,818	966,121	—
Donation	—	—	—	—	—	—	892
Disposals/Transfer out	—	(403,097)	(108,769)	(11,141)	(2,809,403)	(3,332,410)	(3,314,013)
End of year	282,502	836,325	13,121,296	331,500	3,887,299	18,458,922	14,584,699
<b>Accumulated Depreciation</b>							
Beginning of year	27,164	113,882	2,645,693	108,660	—	2,895,399	2,160,659
Charge for the year	5,433	22,601	846,931	34,824	—	909,789	734,715
Donation	—	—	—	—	—	—	177
Written back on disposals	—	(8,330)	(53,173)	(4,613)	—	(66,116)	(152)
End of year	32,597	128,153	3,439,451	138,871	—	3,739,072	2,895,399
<b>Net book value</b>							
End of year	249,905	708,172	9,681,845	192,629	3,887,299	14,719,850	11,689,300
Beginning of year	244,464	818,722	8,510,734	184,259	1,931,121	11,689,300	10,444,022

### 3. PROPERTY, PLANTS AND EQUIPMENT, NET (Cont'd)

	Company						Total
	2000					1999	
	Land use rights	Buildings	Electric utility plants in service	Transportation facilities, computers and others	Construction-in-Progress	Total	
	'000	'000	'000	'000	'000	'000	'000
<b>Cost</b>							
Beginning of year	271,628	907,786	11,153,335	286,117	716,664	13,335,530	12,166,066
Addition /Transfer in	10,311	285,667	1,225,694	36,322	1,344,156	2,902,150	4,482,585
Acquisitions (Note 1)	—	13,209	846,410	7,828	—	867,447	—
Donation	—	—	—	—	—	—	892
Disposals/Transfer out	—	(403,097)	(108,769)	(10,838)	(1,477,775)	(2,000,479)	(3,314,013)
End of year	281,939	803,565	13,116,670	319,429	583,045	15,104,648	13,335,530
<b>Accumulated Depreciation</b>							
Beginning of year	27,164	113,882	2,645,693	108,660	—	2,895,399	2,160,659
Charge for the year	5,433	22,601	846,931	34,824	—	909,789	734,715
Donation	—	—	—	—	—	—	177
Disposals	—	(8,330)	(53,173)	(4,613)	—	(66,116)	(152)
End of year	32,597	128,153	3,439,451	138,871	—	3,739,072	2,895,399
<b>Net book value</b>							
End of year	249,342	675,412	9,677,219	180,558	583,045	11,365,576	10,440,131
Beginning of year	244,464	793,904	8,507,642	177,457	716,664	10,440,131	10,005,407

All land and buildings of the Company and its subsidiaries are located in the PRC. Land in the PRC is owned by the State and no individual land ownership right exists. The land use rights above are for a period of fifty years starting from 1995.

As at 31st December, 2000, construction-in-progress includes:

	Company and its subsidiaries		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Cost of construction, plant and equipment and other direct costs	3,761,327	1,853,009	557,144	641,975
Interest costs capitalised	125,972	78,112	25,901	74,689
	3,887,299	1,931,121	583,045	716,664

### 4. INVESTMENT IN SUBSIDIARIES

	Company	
	2000	1999
	'000	'000
Unlisted shares, at cost	864,775	594,061
Amounts due from subsidiaries	202,360	67,214
	1,067,135	661,275

Balances with subsidiaries were unsecured, non-interest bearing and had no fixed repayment date. The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the Company's carrying value of the subsidiaries as at year end.



#### 5. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents a 30% equity investment (unlisted) in North China Electric Power Research Institute Company Limited, and is accounted for under equity method. The company was established on 7th December, 2000 and had no profit or loss for the Company's equity pick-up for the year ended 31st December, 2000.

#### 6. LONG-TERM INVESTMENT

Long-term investment represents a 16% equity investment (unlisted) in NCPG Finance Company Ltd., and is stated at cost.

#### 7. GOODWILL

The acquisition of ZJK Unit 2 (see Note 1 above) is accounted for by using the purchase method of accounting. The fair value of the identifiable assets and liabilities acquired on the acquisition date and the related goodwill are calculated as follows:

	'000
Cash and cash equivalents	105,955
Prepayments and other receivables	3,341
Property, plant and equipment	867,447
Accounts payable and accrued liabilities	(19,412)
Long-term bank loans	(484,694)
Fair value of net assets	472,637
Cost of acquisitions	530,000
Goodwill	57,363
Amortisation for the year	(1,434)
Net book value	55,929

#### 8. INVENTORIES

	Company and its subsidiaries		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Fuel	85,804	85,362	85,804	85,362
Spare parts and consumable supplies	171,896	152,799	171,755	152,795
	257,700	238,161	257,559	238,157

#### 9. DUE FROM RELATED PARTIES

Due from related parties mainly represents the receivable from NCPGC for tariff revenue. This receivable is unsecured and non-interest bearing. The tariff revenue is settled monthly according to the payment provisions in the Power Purchase Agreement. As at 31st December, 2000, all tariff receivable from NCPGC was aged within one month.

#### 10. MARKETABLE SECURITIES

The marketable securities represent the investment in government bonds. The quoted market value of the marketable securities as at 31st December, 2000 approximated the cost.

## 11. SHARE CAPITAL

As at 31st December, 2000 and 1999, the authorised share capital of the Company was Rmb5,162,849,000, divided into 5,162,849,000 shares of Rmb1 each. In addition, the issued and fully paid share capital of the Company as at 31st December, 2000 and 1999 was as follows:

	Number of shares	Nominal value	Share interest percentage
	'000	Rmb'000	%
Domestic shares	3,732,180	3,732,180	72.29
Overseas public shares ("H shares")	1,430,669	1,430,669	27.71
	5,162,849	5,162,849	100.00

## 12. RESERVES

### (a) Capital reserve

Capital reserve mainly represents the difference between the nominal amount of the domestic shares issued and the value of the net assets injected during the Company's reorganisation as at 31st December, 1994, and proceeds from the issuance of H shares in excess of their par value, net of expenses relating to the issuance of the shares in 1997.

### (b) Statutory surplus reserve

In accordance with the relevant laws and regulations of the PRC and the Company's articles of association, the Company is required to appropriate 10% of its profit after taxation, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional.

The statutory surplus reserve can be used to offset prior year's losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of share capital.

### (c) Statutory public welfare fund

In accordance with the Company's articles of association, 10% of its profit after taxation is to be appropriated to a statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company's employees such as construction of dormitories, canteen and other staff welfare facilities. Title of these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Pursuant to document Cai Kuai Zi [1995] 14 issued by the Ministry of Finance, when the Company purchases staff quarters, a transfer of the amount used to purchase such quarters should be made from the statutory public welfare fund to the statutory surplus reserve. For the year ended 31st December, 2000, approximately Rmb130,532,000 (1999 — Rmb155,703,000) were transferred from statutory public welfare fund to the statutory surplus reserve. In accordance with document Cai Kuai [2001] 5, the document will be abolished starting from 2001.

### (d) Discretionary surplus reserve

The appropriation of profit to the discretionary surplus reserve and its utilisation are made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to shareholders' approval at a general meeting. The current policy is to transfer all unappropriated retained earnings to the discretionary surplus reserve. For the year ended 31st December, 2000, appropriation of profit of approximately Rmb583,955,000 (1999 — Rmb690,344,000) to the discretionary surplus reserve was made in accordance with the recommendation of the Board of Directors and is subject to shareholders' approval at the next general meeting.

## 12. RESERVES (Cont'd)

### (e) Basis for profit appropriations

In accordance with a document Cai Kuai Zi [1995] 31 issued by the Ministry of Finance of the PRC appropriations to statutory reserves are to be determined based on the financial statements prepared in accordance with the PRC accounting standards and regulations.

In addition, in accordance with the articles of association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting standards and regulations and those reported in accordance with IAS after deduction of the current year's appropriations to the reserves. The difference between the two amounts as at 31st December, 2000 was not material.

## 13. LONG-TERM BANK LOANS

As at 31st December, 2000, long-term bank loans of approximately Rmb10 million (1999 — Rmb7,658,000) were denominated in United States dollars and approximately Rmb4,545 million (1999 — Rmb2,683 million) were denominated in Rmb. All long-term bank loans were unsecured and bore interest at rates ranging from 3% to 6.57% (1999 — 1% to 6.57%) per annum. Approximately Rmb2,650 million (1999 — Rmb2,110 million) and Rmb387 million (1999 — Rmb112 million) of the loans were guaranteed by NCPGC and Tianjin Jinneng Investment Company ("Tianjing Jinneng"), respectively.

The bank loans were drawn to finance the construction of electric utility plants and were as follows:

	Company and its subsidiaries		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Amounts repayable				
Within one year	204,000	100,370	204,000	100,000
Between one to two years	341,000	224,371	221,000	224,000
Between two to five years	1,674,082	932,000	729,000	717,000
Over five years	2,335,742	1,433,917	2,144,742	1,418,000
	4,554,824	2,690,658	3,298,742	2,459,000
Less: Amounts due within one year included under current liabilities	(204,000)	(100,370)	(204,000)	(100,000)
	4,350,824	2,590,288	3,094,742	2,359,000

## 14. LONG-TERM LOANS PAYABLE TO SHAREHOLDERS

As at 31st December, 2000, long-term loans payable to NCPGC (NCPGC and Beijing International Power Development and Investment Company (BIPDIC) in 1999) were denominated in Rmb and were drawn to finance the construction of electric utility plants and were as follows:

	Company and its subsidiaries		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Amounts repayable				
Within one year	5,660	40,660	5,660	40,660
Between one to two years	5,660	20,660	5,660	20,660
Between two to five years	—	50,660	—	50,660
Over five years	—	45,778	—	45,778
	11,320	157,758	11,320	157,758
Less: Amounts due within one year included under current liabilities	(5,660)	(40,660)	(5,660)	(40,660)
	5,660	117,098	5,660	117,098

All these loans were unsecured and non-interest bearing (1999 — 0% to 8.01% per annum).

#### 15. OTHER LONG-TERM LOANS

As at 31st December, 2000, other long-term loans were borrowed by the Ministry of the PRC Finance from International Bank for Reconstruction and Development and relented to the Company for the construction of Datang Tuoketuo and were as follows:

	Company and its subsidiaries
	2000
	'000
Amounts repayable	
Within one year	51,987
Between two to five years	270,612
	322,599
Less: Amounts due within one year included under current liabilities	(51,987)
	270,612

All these loans were dominated in United States dollar, unsecured and bore interest at the rate of LIBOR Base Rate plus LIBOR Total Spread as defined in the loan agreement between Ministry of Finance of the PRC and International Bank for Reconstruction and Development, which approximated 6.39% to 7.08% during the year ended 31st December, 2000. In accordance with a guarantee agreement between NCPGC and Ministry of Finance of the PRC, NCPGC agreed to guarantee 60% of the loan balances. As at 31st December, 2000, approximately Rmb193,559,000 of the loans were guaranteed by NCPGC.

#### 16. SHORT-TERM LOANS PAYABLE TO NCPG FINANCE COMPANY LTD.

As at 31st December, 2000, short-term loans payable to NCPG Finance Company Ltd. denominated in Rmb were unsecured and bore interest at the rate of 5.58% per annum. All the loans were drawn for the construction of Datang Tuoketuo and Hebei Huaze. Approximately Rmb120 million of the loans were guaranteed by the shareholders of Datang Tuoketuo based on their respective shareholding in Datang Tuoketuo. Accordingly, Inner Mongolia Power (Group) Company Limited (IMPC) and BIPDIC guaranteed approximately Rmb18 million and Rmb30 million of the loans, respectively.

#### 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	Company and its subsidiaries		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Construction costs and deposits payable to contractors	489,404	244,116	301,600	221,280
Fuel and material costs payables	318,675	402,674	318,630	402,674
Salary and welfare payable	147,163	132,268	147,013	132,377
Others	204,044	157,006	194,166	144,683
	1,159,286	936,064	961,409	901,014

As at 31st December, 2000, substantially all the accounts payable were aged within six months.

## 18. HOUSING SCHEME

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the State-sponsored housing fund at 8%–10% of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company and its subsidiaries' contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Company and its subsidiaries have no further obligation for housing benefits beyond the above contributions made. For the year ended 31st December, 2000, the Company contributed approximately Rmb12,141,000 (1999 — Rmb10,056,000) to the fund.

In addition, the Company and its subsidiaries provide housing benefits, which represented the difference between the net book value of the staff quarters sold and the proceeds collected from the employees, to its staff for them to buy staff quarters from the Company and its subsidiaries at preferential prices calculated based on their length of service and position pursuant to the prevailing local regulations. The estimated housing benefits of approximately Rmb365 million is expected to benefit the Company and its subsidiaries over 10 years which is the estimated remaining average service life of the relevant employees. Upon completion of the sales of staff quarters to the employees, the housing benefits incurred are recorded by offsetting against the accruals previously made and the remaining balance is recorded as a deferred asset to be amortised over the remaining average service life of the relevant employees. The deferred asset so recorded as at 31st December, 2000 amounted to approximately Rmb229,518,000.

## 19. RETIREMENT BENEFITS

The Company and its subsidiaries are required to make specific contributions to the state-sponsored retirement plan at a rate of 18% of the total salaries of the PRC employees. The PRC government is responsible for the pension liability to the retired employees. The employees of the Company and its subsidiaries are entitled to a monthly pension at their retirement dates.

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees of the Company and its subsidiaries have to make a specified contribution based on the number of working years of the employees and the Company and its subsidiaries are required to make a contribution equal to twice the staff's contributions. Moreover, the Company and its subsidiaries may, at their discretion, provide additional contributions to the retirement fund depending on the operating results of the year. The employees will receive the total contributions upon retirement.

The Company and its subsidiaries have no further obligation for post-retirement benefits beyond the above annual contributions made. The total retirement plan contributions paid by the Company and its subsidiaries during the year ended 31st December, 2000 pursuant to these arrangements amounted to approximately Rmb109,913,000 (1999 — Rmb71,336,000).

## 20. OPERATING PROFIT

Operating profit was determined after charging (crediting) the following:

	2000	1999
	'000	'000
Loss on disposals of property, plant and equipment	58,699	52
Charges for staff housing benefits	42,500	30,498
Auditors' remuneration	4,000	3,700
Cost of materials and supplies	38,912	39,151
Operating lease rentals	15,103	13,670
Dividend income	(6,646)	(10,620)
Gain on disposals of marketable securities	(2,675)	—

## 21. FINANCIAL INCOME, NET

	2000	1999
	'000	'000
Interest expenses on:		
Short-term loans payable to NCPG Finance Company Ltd.	(1,096)	—
Short-term bank loans	(13,683)	(4,804)
Long-term bank loans		
— wholly repayable within five years	(17,085)	(31,830)
— repayable beyond five years	(189,531)	(126,875)
Loans payable to shareholders		
— wholly repayable within five years	(4,460)	(13,420)
— repayable beyond five years	—	(4,423)
Other long-term loans		
— wholly repayable within five years	(51,987)	—
— repayable beyond five years	—	—
	(277,842)	(181,352)
Less: amount capitalised in property, plant and equipment	138,145	80,675
	(139,697)	(100,677)
Total interest expenses	(139,697)	(100,677)
Interest income	171,698	151,598
Exchange loss	(4,946)	(2,529)
Financial income, net	27,055	48,392

For the year ended 31st December, 2000, the interest rates on the loans for which interest has been capitalised varies from 1% – 8.01% (1999 — 1% – 8.01%) per annum.

## 22. RELATED PARTY TRANSACTIONS

(a) The following is a summary of the major related party transactions undertaken by the Company and its subsidiaries during the year:

	2000	1999
	'000	'000
Tariffs from NCPGC (i)	5,694,195	5,219,621
Management fee to NCPGC (ii)	20,751	18,998
Fuel service fee to divisions and affiliates of NCPGC (ii)	22,873	32,238
Ash disposal fee to divisions and affiliates of NCPGC (ii)	82,209	92,081
Interest income from a related company (b)	2,324	5,454
Interest expenses to shareholders and NCPGC Finance Company Ltd (c)	5,556	17,843
Dividend income from NCPG Finance Company Ltd	6,646	10,620
Rental fee to NCPGC (ii)	9,700	9,700
Management fee from NCPGC for the management of ZJK Unit 2 (ii)	—	2,230

(i) All of the Company's sales of on-grid electricity for the year were made to NCPGC. Pursuant to the Power Purchase Agreement, the Company is required to sell its entire net generation of electricity to NCPGC at an approved tariff rate as determined based on a regulatory process, under the cost recovery framework. The tariff rates allow the Company to recover all operating and debt service costs, and taxes, and to earn a reasonable return on its rate base comprising the average net book value of fixed assets (including construction-in-progress), after deducting the relevant interest expenses of the fixed asset construction loans. Subject to the approval of the relevant government authorities, the tariff rates are to be adjusted annually.

## 22. RELATED PARTY TRANSACTIONS (Cont'd)

- (ii) In addition to the Power Purchase Agreement, the Company has also entered into a number of agreements with NCPGC and its affiliates. Details of the major agreements are as follows:

Name of agreement	Services to be provided by NCPGC	Pricing policy
Production and Construction Management Services Agreement	Management services in relation to the production and construction of electric utility plants	Management fee at Rmb0.001/KWh of on-grid electricity
Fuel Supply Agreement	Fuel purchase, delivery and technical assistance services	Fuel service fee at 1% to 3% of the cost of coal purchased
Ash Disposal Agreement	Disposal of all ash generated by the Company's power plants	Ash disposal fee computed based on ash disposal operating costs, taxes, depreciation of ash yards and a profit margin at 5% to 10% of the total costs
Building Lease Agreement	Lease of buildings located at the sites of the Company's power plants totalling 214,756 square metres	Annual rental fee of approximately Rmb9.7 million
Management Agreement of ZJK Unit 2	Management of the operations of ZJK Unit 2	Management fee at Rmb0.001/KWh of on-grid electricity

- (iii) In addition to the transactions identified above, companies established by ex-employees of the Company provided property management, cleaning, transportation, medical and other services amounted to approximately Rmb88 million (1999 — Rmb41 million) to the Company and its subsidiaries.
- (b) As at 31st December, 2000, cash and cash equivalents of approximately Rmb62,790,000 (1999 — Rmb77,054,000) were deposited with NCPG Finance Company Ltd. at the prevailing market interest rate.
- (c) As discussed in Note 13 and note 16 above, NCPGC, Tianjin Jinneng, IMPC and BIPDIC had provided guarantees of the Company and its subsidiaries' loans totalling approximately Rmb3,279 million as at 31st December, 2000 (1999 — Rmb2,222 million). Also, as discussed in Note 14 above, the Company had loans payable to shareholders and NCPG Finance Company Ltd. totalling approximately Rmb201,320,000 as at 31st December, 2000 (1999 — Rmb157,758,000).
- (d) As discussed in Note 1 above, the Company has acquired the net assets of ZJK Unit 2 from China Huaneng for a cash consideration of approximately Rmb530 million effective on 1st October, 2000. In addition, the Company has also acquired the 90% equity interest in Hebei Huaze from NCPCIC for a cash consideration of Rmb53.5 million effective on 18th May, 2000.

## 23. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

### (a) Details of directors' and supervisors' emoluments were:

	2000	1999
	'000	'000
Fees for executive directors, non-executive directors and supervisors	—	—
Other emoluments for executive directors		
— basic salaries and allowances	482	750
— bonus	292	300
— retirement benefits	194	235
Other emoluments for non-executive directors	729	476
Other emoluments for supervisors	324	285

Pursuant to the recommendation of the Board of Directors made on 6th March, 2001, subject to shareholders' approval at the next general meeting, a directors' and senior executives' special bonus of approximately Rmb1,375,300 (1999 — Rmb1,568,000) was provided for the year ended 31st December, 2000.

No director had waived or agreed to waive any emoluments during the year.

### (b) Details of emoluments paid to the five highest paid individuals including directors and senior management were:

	2000	1999
	'000	'000
Basic salaries and allowances	367	395
Bonus	223	175
Retirement benefits	148	125

For the year ended 31st December, 2000, no emolument was paid to the directors, supervisors and five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

For the year ended 31st December, 2000, the annual emoluments paid to each of the directors, supervisors and the five highest paid individuals did not exceed Rmb1,000,000.

## 24. DIVIDENDS

On 6th March, 2000, the Board of Directors proposed a dividend of Rmb0.06 per share, totalling approximately Rmb309,771,000, for the year ended 31st December, 1999. The proposed dividend distribution was approved by the shareholders in the general meeting dated 28th April, 2000.

On 6th March, 2001, the Board of Directors proposed a dividend of Rmb0.10 per share, totalling approximately Rmb516,285,000, for the year ended 31st December, 2000. The proposed dividend distribution is subject to the shareholders' approval in their general meeting.

## 25. EARNINGS PER SHARE AND DIVIDEND PER SHARE

The calculation of earnings per share for the year ended 31st December, 2000 was based on the profit after taxation of approximately Rmb1,375,300,000 (1999 — Rmb1,250,143,000) and on the weighted average number of 5,162,849,000 shares (1999 — 5,162,849,000 shares) in issue during the year.

Dividend per share for the year ended 31st December, 2000 was calculated based on the proposed dividends of approximately Rmb516,285,000 (1999 — Rmb309,771,000) divided by the number of 5,162,849,000 shares (1999 — 5,162,849,000 shares) in issue as at 31st December, 2000.

No diluted earnings per share was presented as there were no dilutive potential ordinary shares outstanding for the years ended 31st December, 2000 and 1999.



## 26. NOTES TO STATEMENT OF CASH FLOWS

### (a) Reconciliation from profit before taxation to cash generated from operations:

	2000	1999
	'000	'000
Profit before taxation	2,070,557	1,873,728
Adjustments for:		
Depreciation and amortisation	911,223	734,715
Loss on disposals of property, plant and equipment	58,699	52
Charges for staff housing benefits	42,500	30,498
Interest income	(171,698)	(151,598)
Interest expenses	139,697	100,677
Dividend income	(6,646)	(10,620)
Operating profit before working capital changes	3,044,332	2,577,452
(Increase) decrease in current assets:		
Inventories	(18,945)	(29,090)
Other receivables and current assets	7,213	55,027
Due from related parties	(111,598)	190,631
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	206,257	360,606
Taxes payable	19,356	20,901
Cash generated from operations	3,146,615	3,175,527

### (b) Acquisition of Hebei Huaze

	'000
Cash and cash equivalents	1,954
Inventories and other current assets	8,247
Property, plant and equipment	103,359
Accounts payable and accrued liabilities	(58,968)
Minority interest	(1,092)
Purchase price	53,500
Less: cash and cash equivalents	(1,954)
Net cash flow	51,546

### (c) Acquisition of ZJK Unit 2

	'000
Purchase price (Note 7)	530,000
Less: cash and cash equivalents	(105,955)
Net cash flow	424,045

## 26. NOTES TO STATEMENT OF CASH FLOWS (Cont'd)

### (d) Undrawn borrowing facilities

As at 31st December, 2000, the undrawn borrowing facilities in Rmb and United States dollar available to settle the Company and its subsidiaries' capital commitment of Zhang Jia Kou Power Plant Phase II, Panshan Power Plant and Tuoketuo Power Plant amounted to approximately Rmb6,538 million (1999 — Rmb6,988 million).

The above borrowing facilities are made available in accordance with the estimated financial requirements of the projects as follows:

	2000	
	Company and its subsidiaries	Company
	'000	'000
Amount to be drawn down:		
Within one year	1,509,588	183,000
Between one to two years	2,538,771	25,610
Between two to five years	2,490,031	1,349,840
	<b>6,538,390</b>	<b>1,558,450</b>

## 27. FINANCIAL INSTRUMENTS

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, short-term bank deposits over three months, due from related parties and accounts payable approximate their fair values because of the short maturity of these instruments. As at 31st December, 2000, the estimated fair values of long-term loans including current portions were approximately Rmb4,886 million, (1999 — Rmb2,837 million) based on current market interest rates for comparable instruments. As at the same date, the book value of these liabilities was approximately Rmb4,889 million (1999 — 2,848 million).

## 28. CONCENTRATION OF RISK

### (a) Business risk

The Company conducts its operations in the PRC and accordingly is subject to special considerations and risks. These include risks associated with, among others, the political, economic and legal environment, restructuring of the PRC electric power industry and regulatory reform, new regulation pertaining to setting of power tariff and availability of fuel supply at stable price.

All of the Company's sales of on-grid electricity for the year was made to NCPGC (see Note 22(a) above). In addition, ten largest suppliers represented approximately 72% (1999 — 82%) of the purchase of the Company for the year ended 31st December, 2000.

### (b) Interest rate risk

The interest rates and terms of repayment of the bank loans, shareholders loans and other loans of the Company are disclosed in Notes 13 to 16.

### (c) Foreign currency risk

All of the Company's businesses are conducted in Rmb. Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars. As at 31st December, 2000, all of the Company's assets and liabilities were denominated in Rmb except that cash and bank deposits of approximately Rmb2,448 million (1999 — Rmb2,277 million) and bank loans of approximately Rmb333 million (1999 — Rmb7,658,000) were denominated in foreign currencies.

## 29. COMMITMENTS

### (a) Capital commitments

On 15th November, 2000, the Company, NCPGC and Shanxi Electric Power Co. ("Shanxi Power") entered into a shareholding transfer agreement, under which the Company agreed to acquire 50% and 10% equity interests in Shanxi Shentou Huajin Electric Co. Ltd. ("Huajin Electric Company") from NCPGC and Shanxi Power, respectively, for a total consideration of Rmb12 million. The agreement will be effective upon approval from government authorities to be obtained before 15th May, 2001. Huanjin Electric Company is a limited liability company established in the PRC to construct and operate the second phase of Shanxi Shentou No. 2 Power Plant Project.

As at 31st December, 2000, the Company had other capital commitment related to investment in subsidiaries amounted to approximately Rmb695 million. In addition, capital commitments in relation to the construction and renovation of the Company's electric utility plants as at 31st December, 2000 not provided for in the balance sheets were as follows:

	Company and its subsidiaries	Company
	'000	'000
Authorised and contracted for	4,562,631	620,750
Authorised but not contracted for	3,088,721	177,590
	<b>7,651,352</b>	<b>798,340</b>

### (b) Operating lease commitment

As at 31st December, 2000, operating lease commitment extending to November 2016 in relation to building was as follows:

	Company and its subsidiaries	Company
	'000	'000
Amounts repayable		
Within one year	13,350	13,350
Between one to five years	41,655	41,655
Over five years	79,386	79,386
	<b>134,391</b>	<b>134,391</b>

## 30. PRIOR YEAR ADJUSTMENTS

In prior years, dividends proposed or declared after the balance sheet date were recognised as a liability as at the balance sheet date. Because of the adoption of the revised IAS 10 "Events After the Balance Sheet Date", dividends proposed or declared after the balance sheet date are no longer permitted to be recognised as a liability as at the balance sheet date. As a result, the dividend of approximately Rmb309,771,000 for the year ended 31st December, 1999 declared by the Board of Directors in March 2000 should be recorded in the Company's financial statements for the year ended 31st December, 2000.

This change in accounting policy has been applied retrospectively with the result that the Company's reserves as at 31st December, 1999 and 1998 were increased by approximately Rmb309,771,000 and Rmb247,817,000, respectively, being the amount of final dividends declared by the Company after the balance sheet date. Comparative figures as at 31st December, 1999 and for the year then ended have been restated to reflect this change in accounting policy.

**31. SUBSEQUENT EVENT**

On 7th January, 2001, the Company has entered into an investment agreement with Honghe Tobacco Factory, Yunan Power Group Company Limited (“Yunnan Power”), Xiaolongtan Mining Bureau and Yunnan Development and Investment Company Limited, under which the Company agreed to invest in 15% equity interest in Yunnan Kaiyuan Power Generation Company Limited (“Kaiyuan Power”). The total investment of Kaiyuan Power will be approximately Rmb2,690 million. The agreement will be effective upon approval from the respective authorised management of the above five parties. Kaiyuan Power is a limited liability company to be established in the PRC to construct and operate Yunnan Kaiyuan Power Plant.

**32. ADDITIONAL FINANCIAL INFORMATION**

As at 31st December, 2000, net current assets and total assets less current liabilities amounted to approximately Rmb2,880 million (1999 — Rmb3,077 million) and Rmb17,961 million (1999 — Rmb14,812 million), respectively.

**33. NEW ACCOUNTING STANDARDS**

The IASC issued IAS 39, “Financial Instruments — Recognition and Measurement” and IAS 40, “Investment Property”, in 1998 and 2000, respectively. Both standards will become effective for the fiscal year beginning on or after 1st January, 2001. IAS 39 establishes standards for recognising, measuring and disclosing information about an enterprise’s financial assets and financial liabilities, including accounting for hedging transactions. IAS 40 prescribes the accounting treatment for investment property. Management believes the effect of adopting IAS 39 and IAS 40 will not have a material impact on the Company’s consolidated financial statements.