(Amounts expressed in Rmb unless otherwise stated)

34. SUBSEQUENT EVENT *(Cont'd)*

The fair market values on the identifiable assets and liabilities of Shandong Huaneng on 1st January, 2001 were as follows:

	Rmb'000
Cash and cash equivalents and short-term investments	4,116,910
Account receivables	167,324
Materials and supplies	68,460
Other current assets	202,154
Property, plant and equipment, net	5,420,623
Other long-term assets	324,457
Total assets	10,299,928
Current liabilities	703,696
Long-term loans	1,348,024
Total liabilities	2,051,720
Fair values of net assets	8,248,208
Less:Total consideration of the Transaction	(5,767,898)
Direct costs relating to the Transaction	(23,070)
Negative goodwill	2,457,240

As if the acquisition of Shandong Huaneng had been completed on 1st January, 2000, the unaudited pro forma combined net operating revenue and net profit of the Company and Shandong Huaneng for the year ended 31st December, 2000 are Rmb15.453 billion and Rmb3.225 billion, respectively. The unaudited pro forma information do not purport to represent what the results of operations would actually have been if the acquisition of Shandong Huaneng been completed as of the assumed date or to project the results of operations of any future date. Pro forma operating results are for information purpose only.

35. NEWLY ISSUED ACCOUNTING STANDARDS

IASC issued IAS 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property". IAS 39 stipulates accounting and reporting standards for derivative instruments and for hedging activities. IAS 39 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or recognized directly in equity through the statement of changes in equity, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. IAS 40 prescribes the accounting treatment for investment property. Both standards will become effective for fiscal years beginning on or after 1st January, 2001. Based on the current assessment of the Company, the impact of the adoption of these standards on the Company's operating results and financial position is not expected to be significant.

(Amounts expressed in Rmb unless otherwise stated)

36. SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

The accounting policies adopted by the Company conform to IAS which differ in certain respects from generally accepted accounting principles in the United States of America ("US GAAP"). The principal differences having a significant effect on its financial statements are set out below.

a. Housing benefits provided by HIPDC

HIPDC provided housing benefits to certain qualified employees of the Company whereby the living quarters owned by HIPDC were sold to these employees at preferential prices. Under IAS, such housing benefits provided by HIPDC are not reflected in the financial statements of the Company. Under US GAAP, the amount of housing benefits provided by HIPDC to the employees of the Company are recognized as the Company's operating expenses on a straight-line basis over the estimated remaining average service life of the employees. The corresponding amount is recorded as a capital contribution.

b. Convertible Notes

Under US GAAP the entire proceeds of the issue of convertible notes as described in Note 16 are recorded as long-term liabilities without distinguishing between the equity and liability components.

c. US Regulatory Accounting

Statement of Financial Accounting Standard Number 71 "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71") is applicable to utilities in the United States whose regulators have the power to approve and/or regulate rates that may be charged to customers. SFAS 71 recognizes that the regulatory process produces economic effects which should be reflected in the financial statements. Because revenues are based on costs, SFAS 71 governs the period in which various costs are included in the income statements with the objective of matching costs with revenues. Provided that, through the rate setting process, the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. The regulatory process may also impose a liability on a rate-regulated enterprise, usually representing obligations to the enterprise's customers, which should be recognized as regulatory liability.

(Amounts expressed in Rmb unless otherwise stated)

36. SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS *(Cont'd)*

c. US Regulatory Accounting *(Cont'd)*

In order to apply SFAS 71, three criteria must be met. These criteria require that a) the power rates for regulated services or products provided to customers be established by or are subject to approval by an independent, third-party regulator or by an entity's own governing board empowered by statute or contract to establish power rates that bind customers; b) the regulated power rates are designed to recover the costs of providing the regulated services or products; and c) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that power rates set at levels that will recover costs can be charged to and collected from customers; this criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. The Company believes these criteria have been met. Firstly, its power rates are established by an independent regulator, the provincial or local price bureau. Further, the pricing policy applicable to the Company provides for rate-setting based on the specific costs of the Company. This process has operated historically and will continue under the pricing policy. Finally, based on the significant demand for electricity in its service territory, it is reasonable to assume that the authorized power rates will be collected from customers.

Under IAS, as there is no equivalent regulatory accounting standard, the Company's policy is to recognize regulatory assets established under SFAS 71 only where they comprise rights or other access to future economic benefits as a result of past events; or to recognize regulatory liabilities only where they comprise a present obligation the settlement of which is expected to result in an outflow of resources embodying economic benefits.

For the years ended 31st December, 2000 and 1999, there was no difference in the recognition of regulatory assets and liabilities between IAS and US GAAP.

d. Impairment of Long-lived Assets

The carrying amounts of fixed assets under IAS is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the asset discounted to their present value or the asset's net selling price. A subsequent increase in the recoverable amount is written back to the income statement when circumstances and events that led to the write-down cease to exist.

(Amounts expressed in Rmb unless otherwise stated)

36. SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS *(Cont'd)*

d. Impairment of Long-lived Assets *(Cont'd)*

Under US GAAP, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an assets to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount of fair value less cost to sell.

For the years ended 31st December, 2000 and 1999, no differences arose in respect of the timing and the amount of impairment in long-lived assets recognized.

Differences between IAS and US GAAP which affect the shareholders' equity and net income of the Company are summarized below:

		Net Income For the year ended 31st December	
	Note	**2000**	1999
		Rmb'000	Rmb'000
Balances under IAS		**2,515,830**	1,868,175
Impact of US GAAP adjustments:			
Recording of housing benefits provided by HIPDC	*(a)*	**(26,152)**	—
Balances under US GAAP		**2,489,678**	1,868,175
Basic earnings per ordinary share under US GAAP (Rmb) (i)		**0.44**	0.33
Basic earnings per equivalent ADS under US GAAP (Rmb) (i)		**17.63**	13.23
Diluted earnings per ordinary share under US GAAP (Rmb) (i)		**0.44**	N/A
Diluted earnings per equivalent ADS under US GAAP (Rmb) (i)		**17.52**	N/A

(i) Earnings per ordinary shares and per equivalent ADS were calculated by dividing the net income for the financial year under US GAAP by the weighted average number of ordinary shares and ADS in issue during the financial year. On a diluted basis, both net income for the financial year and the weighted average number of ordinary shares and ADS outstanding for the financial year were adjusted on the assumption that the convertible notes had been fully converted at the beginning of the year.

(Amounts expressed in Rmb unless otherwise stated)

36. SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS *(Cont'd)*

		Shareholders' Equity	
		As at 31st December	
	Note	**2000**	1999
		Rmb'000	Rmb'000
Balances under IAS as previously reported		**23,779,735**	21,263,905
Effect of change in accounting policy with respect to dividend (Note 32)		**—**	508,500
Balances under IAS as restated		**23,779,735**	21,772,405
Impact of US GAAP adjustments:			
Reversal of equity component of convertible notes	*(b)*	**(510,506)**	(510,506)
Balances under US GAAP		**23,269,229**	21,261,899

In preparing the summary of differences between IAS and US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates have been employed in these financial statements to determine reported amounts, including realizability, useful lives of fixed assets and other areas. Actual results could differ from those estimates.

Reclassifications

The reconciliation of net income and shareholders' equity from IAS to US GAAP as presented above include those items which have a net effect on net income or shareholders' equity. There are no other major GAAP differences not included in the reconciliation which would affect the classification of assets and liabilities or income and expenses.

Cash Flow Statement

The Company adopts IAS 7 "Cash Flow Statements". Its objectives and principles are similar to those set out in the Statement of Financial Accounting Standard Number 95 "Statement of Cash Flows". There is no material difference in the cash flow statements of the Company between these two standards for the years ended 31st December, 2000 and 1999.

(Amounts expressed in Rmb unless otherwise stated)

36. SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS *(Cont'd)*

Statement of Comprehensive Income

Under US GAAP, certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. However, for the years ended 31st December, 2000 and 1999, apart from the net income, there was no other comprehensive income which should be included in the statement of comprehensive income.