Notes on the accounts

(Expressed in Renminbi)

1 BACKGROUND OF THE COMPANY

Shandong International Power Development Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 28 June 1994 as a joint stock limited company. On the same date, all the assets (other than land) and liabilities relating to two power plants, located at Zouxian and Shiliquan in Shandong Province, the PRC, together with certain related construction in progress at such power plants, were taken over by the Company in exchange for the allotment of its entire share capital to Shandong Electric Power (Group) Corporation ("SEPCO"), the immediate holding company of the Company, and other previous owners of the relevant power plants.

In June 1999, the Company successfully listed its H shares on the Stock Exchange of Hong Kong Limited.

On 1 December 1999, the Company entered into acquisition agreements with Shandong International Trust and Investment Corporation, a substantial shareholder of the Company, and SEPCO to acquire the remaining 55% interest in Laicheng Power Generation Company Limited ("Laicheng"), a 30% interest in Weifang Power Plant phase 1 and a 55% interest in Qingdao Power Plant phase 1. Laicheng then became a wholly owned subsidiary of the Company.

In April 2000, all the businesses, including all assets and liabilities, of Laicheng were transferred to the Company and Laicheng was dissolved at the same time.

The Company and its subsidiaries (the "Group") and jointly controlled entities are principally engaged in the generation of electricity which is all fed into the Shandong Provincial Grid operated by SEPCO, which determines to whom the electricity is sold.

The number of employees as at 31 December 2000 was 4,695 (1999: 5,116).

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the accounts are set out below:

(a) Statement of compliance and basis of preparation

(i) Statement of compliance

The accounts of the Company and the Group have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC"), interpretations issued by the Standing Interpretations Committee of the IASC and the disclosure requirements of the Hong Kong Companies Ordinance.

(ii) Basis of preparation

The accounts are prepared on the historical cost basis. The accounting policies have been consistently applied by the Group and, except for the change in accounting policy as described in note 12, are consistent with those used in the previous year.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The accounts of subsidiaries are included in the consolidated accounts from the date that control effectively commences until the date that control effectively ceases. Investments in subsidiaries are stated in the Company's balance sheet at cost less any provision for diminution in value which is other than temporary as determined by the Directors for each subsidiary individually.

(ii) Jointly controlled entities

Jointly controlled entities are enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated accounts include the Group's proportionate share of the enterprises' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control effectively commences until the date that joint control effectively ceases. Investments in jointly controlled entities are stated in the Company's balance sheet at cost less any provision for diminution in value which is other than temporary as determined by the Directors for each entity individually.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated accounts. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Intangible assets

(i) Goodwill

At the time of an acquisition, goodwill is calculated as the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to the profit and loss account from the date of initial recognition on a straight-line basis over the time during which the benefits are expected to be consumed, subject to a maximum of 20 years.

The carrying amount of goodwill is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognized in the profit and loss account. In assessing the recoverable amount, the relevant cash flows are discounted to their present value.

(ii) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is recognised as income on a straight-line basis over the time during which the future expenses are expected to be recognised, subject to a maximum of 20 years.

The carrying amount of negative goodwill is deducted from the carrying amount of intangible assets.

(d) Fixed assets and depreciation

Fixed assets are stated at cost (see note 13(d)) less accumulated depreciation and any impairment losses.

Depreciation is provided to write off the cost of fixed assets on a straight-line basis over their anticipated useful lives or over their remaining useful lives, being their anticipated useful lives less the period they have been in use prior to their acquisition by the Group, after taking into account their estimated residual values. The principal or remaining useful lives used are as follows:

Land	Over the period of grant
Buildings	15 - 18 years
Generators and related machinery and equipment	15 - 18 years
Motor vehicles, furniture, fixtures, equipment and others	5 - 23 years

The carrying amounts of fixed assets are reviewed at each balance sheet date to determine whether they are in excess of their recoverable amounts. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower amount. In assessing the recoverable amount, the relevant cash flows are discounted to their present value.

(e) Construction in progress

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment.

Upon completion and commissioning for operation, the costs will be transferred to fixed assets and depreciation will be provided at the appropriate rates specified in (d) above. A generator is considered to be completed and commissioned when the trial run period ends.

(f) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by the power plants, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of coal and fuel oil is calculated on the weighted average basis. The cost of materials, components and spare parts is calculated on the first-in-first-out basis.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with banks and other financial institutions.

(h) Financial assets and liabilities

Adjustments are made for financial assets if their carrying amount exceeds the value realisable in the foreseeable future. Financial liabilities are stated at their carrying amounts.

(i) Revenue recognition

Revenue is recognised when electricity is supplied to the power grid operated by SEPCO.

(j) Major overhauls, repairs and maintenance

Expenditure on major overhauls, repairs and maintenance is charged to the profit and loss account as it is incurred.

(k) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the rates of exchange ruling at the balance sheet date.

Foreign currency translation differences relating to funds borrowed to finance construction in progress, to the extent that they are regarded as an adjustment to interest costs, are capitalised during the construction period. All other exchange differences are dealt with in the profit and loss account.

(l) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(n) Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the periods of the respective leases.

(o) Retirement plan

The contributions payable under the Group's retirement plans are charged to the profit and loss account as incurred.

(p) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

(q) Dividends

Dividends are recognised as a liability in the period in which they are declared.

3 REVENUE

Revenue represents the sale of electricity to SEPCO, net of value added tax ("VAT").

An Offtake Contract was entered into between the Company and SEPCO on 12 January

1999, which took effect from 1 January 1998, for a term of 20 years. The Offtake Contract is automatically extendable for successive terms of 10 years unless either of the parties gives notice to terminate on the occurrence of certain events specified in the Offtake Contract.

Pursuant to the terms of the Offtake Contract, SEPCO is required to purchase from the Group a minimum net generation of electricity annually ("Annual Minimum Net Generation"). Such minimum offtake obligations apply pro-rata in respect of periods of less than one calendar year.

A tariff formula for calculating the on-grid electricity price based on the Annual Minimum Net Generation for electricity generated by the power plants is set out in the Offtake Contract. The Offtake Contract provides for a five-year phase-in period for the Company with respect to the specified return on average net book value of fixed assets (including construction in progress), being 12% for 1998 and 1999, 13% for 2000, 14% for 2001 and 15% for subsequent years. This specified return is reduced in the case of fixed assets (including construction in progress) financed by debt by an amount equal to the estimated weighted average interest rate payable on such average debt up to an interest rate of 8% per annum.

4 SALES RELATED TAXES

Sales related taxes represent city maintenance and construction tax and education surcharge, which are calculated at 7% and 3%, respectively, of net VAT payable.

5 OPERATING PROFIT

Operating profit is arrived at after charging:

	2000	1999
	RMB'000	*RMB'000*
Cost of inventories	2,098,867	1,733,789
Personnel costs		
Wages and staff welfare	172,398	118,755
Retirement costs (see note 28)	35,482	21,481
Other staff costs	41,268	21,417
Loss on disposal of staff quarters (see note 28)	93,472	7,635

Total personnel costs	342,620	169,288
Auditors' remuneration	2,812	3,000
Amortisation of goodwill (see note 17)	2,885	334
Operating lease charges in respect of land and buildings	30,471	29,020

6 OTHER INCOME AND FINANCE COSTS

(a) Other income

Other income includes interest income of RMB132,001,000 (1999: RMB67,979,000) derived from deposits with financial institutions.

(b) Finance costs

	2000	1999
	RMB'000	*RMB'000*
Interest on bank advances and other loans repayable within five years	469,354	349,629
Interest on other loans repayable after five years	285,395	401,863
Less: Interest capitalised	(25,273)	(94,381)
	729,476	657,111

The interest costs have been capitalised at a rate of 6.5% per annum (1999: 7.0%) for construction in progress.

7 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2000	1999
	RMB'000	*RMB'000*
Directors' and Supervisors' fees	-	-
Salaries, allowances and benefits in kind	125	116
Retirement benefits	98	93
Bonuses	224	223
	447	432

Salaries and other benefits paid to non-executive Directors and independent non-executive Directors amounted to RMBNil and RMB9,000 respectively (1999: RMBNil and RMB9,000 respectively).

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (1999: five) are Directors whose emoluments are disclosed in note 7. The aggregate of the emoluments of the remaining highest paid individual (1999: Nil) is as follows:

	2000	1999
	RMB'000	*RMB'000*
Salaries and other emoluments	23	-
Retirement benefits	18	-
Bonuses	47	-
	88	-

9 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2000	1999
	RMB'000	*RMB'000*
Current tax expense		
Charge for PRC enterprise income tax for the year	644,495	578,161
Deferred tax expense		
Origination and reversal of temporary differences (note 24)	75,320	7,498
Income tax expense	719,815	585,659

Reconciliation of effective tax rate:

	2000	1999
	RMB'000	*RMB'000*
Profit before taxation	2,059,168	1,740,452
Applicable tax rate	33%	33%
Computed tax using the applicable tax rate	679,525	574,349
Add: Non-deductible sundry items	10,811	11,310
Write-off of deferred tax assets relating to loss on disposal of staff quarters no longer deductible	29,479	-
	719,815	585,659

The charge for PRC enterprise income tax is calculated at the rate of 33% (1999: 33%) on the estimated assessable profits of the year determined in accordance with relevant enterprise income tax rules and regulations. The Group did not carry on business overseas and therefore no provision has been made for overseas profits tax.

(b) Taxation in the balance sheets represents:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Charge for PRC enterprise income tax for the year	644,495	578,161	628,006	569,418
Through acquisition of subsidiary/jointly controlled entities	-	2,849	-	-
Balance of enterprise income tax payable relating to prior years	-	32,987	-	32,207
Payments made relating to the current year	(323,526)	-	(304,048)	-
PRC enterprise income tax payable (net)	320,969	613,997	323,958	601,625

Representing:				
Tax payable	325,361	613,997	323,958	601,625
Tax recoverable	(4,392)	-	-	-
	320,969	613,997	323,958	601,625

10 DIVIDEND

Pursuant to a resolution passed at the shareholders' meeting held on 26 February 2001, a special interim dividend of RMB0.228 per share totalling RMB1,198,387,000 was approved and will be payable to the shareholders.

Pursuant to a resolution passed at the Directors' meeting held on 6 March 2001, a final dividend of RMB 0.058 per share totalling RMB 304,853,000 will be payable to shareholders, subject to the approval of the shareholders at the Annual General Meeting to be held on 26 April 2001.

These dividends have not been provided for in the accounts.

	2000	1999
	RMB'000	*RMB'000*
Special interim dividend of RMB0.228 per share (1999: RMBNil)	1,198,387	-
Final dividend of RMB0.058 per share (1999: RMB0.0365)	304,853	192,014
	1,503,240	192,014

The final dividend for 1999 of RMB0.0365 per share totalling RMB192,014,000 and the interim dividend for 2000 of RMB0.02 per share totalling RMB105,122,000 were paid during the year.

11 EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2000 of RMB1,339,234,000 (1999: RMB1,154,670,000) and the weighted average number of shares in issue during the year ended 31 December 2000 of 5,256,084,000 (1999: 4,544,805,000).

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 1999 and 2000.

12 CHANGE IN ACCOUNTING POLICY

In the current year, the Group adopted IAS 10 (revised) "Events After the Balance Sheet Date" retrospectively, and this has resulted in the Group and the Company recognizing dividends in the period in which they are declared. In previous years, dividends were recognized in the period to which they related. This change has been accounted for by adjusting the opening balances of retained profits and proposed dividends, and the comparatives have been restated. The change in accounting policy, when applied consistently to 2000 and 1999, had the following impact:

	The Group			
	Proposed dividend		**Retained profits**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening balance as previously reported	192,014	773,448	796,950	3,718
Impact of adopting IAS 10 (revised)	(192,014)	(773,448)	192,014	773,448
Restated balance	-	-	988,964	777,166

	The Company			
	Proposed dividend		**Retained profits**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening balance as previously reported	192,014	773,448	809,410	11,504
Impact of adopting IAS 10 (revised)	(192,014)	(773,448)	192,014	773,448
Restated balance	-	-	1,001,424	784,952

13 FIXED ASSETS

(a) The Group

	Land and buildings *RMB'000*	Generators and related machinery and equipment *RMB'000*	Motor vehicles, furniture, fixtures, equipment and others *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2000	4,020,528	12,625,839	282,386	16,928,753
Additions	22,330	2,334	1,809	26,473
Transferred from construction in progress (note 14)	352,076	975,917	92,091	1,420,084
Disposals	(166,783)	(152)	(1,663)	(168,598)
At 31 December 2000	4,228,151	13,603,938	374,623	18,206,712
Accumulated depreciation:				
At 1 January 2000	599,849	2,019,569	33,838	2,653,256
Charge for the year	221,831	763,253	20,206	1,005,290
Written back on disposal	(2,132)	(57)	(1,541)	(3,730)
At 31 December 2000	819,548	2,782,765	52,503	3,654,816
Net book value:				
At 31 December 2000	3,408,603	10,821,173	322,120	14,551,896
At 31 December 1999	3,420,679	10,606,270	248,548	14,275,497

(b) The Company

	Land and buildings *RMB'000*	Generators and related machinery and equipment *RMB'000*	Motor vehicles, furniture, fixtures, equipment and others *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2000	2,548,402	10,314,434	228,023	13,090,859
Through transfer from subsidiary	712,599	866,091	21,962	1,600,652
Additions	11,505	-	1,219	12,724
Transferred from construction in progress (note 14)	285,497	954,303	84,870	1,324,670
Disposals	(120,310)	-	-	(120,310)
At 31 December 2000	3,437,693	12,134,828	336,074	15,908,595
Accumulated depreciation:				
At 1 January 2000	581,329	1,972,894	27,973	2,582,196
Charge for the year	170,442	665,122	14,375	849,939
Written back on disposal	(2,082)	-	-	(2,082)
At 31 December 2000	749,689	2,638,016	42,348	3,430,053
Net book value:				
At 31 December 2000	2,688,004	9,496,812	293,726	12,478,542
At 31 December 1999	1,967,073	8,341,540	200,050	10,508,663

(c) All of the Group's buildings are located in the PRC.

(d) On establishment, the Company took over all the assets (other than land) and liabilities together with certain related construction in progress relating to Zouxian

Power Plant and Shiliquan Power Plant. As required by the relevant PRC rules and regulations, the fixed assets were acquired on the basis of values appraised by a firm of independent valuers registered in the PRC.

(e) Pursuant to an agreement entered into with the State, the Company is leasing the land from the State for a term of 30 years with effect from 1 September 1997 at an annual rental of RMB29,020,000 for the first three years of the lease. The annual rental will be adjusted every three years thereafter with an upward adjustment of not more than 30% of the previous year's rental.

(f) The analysis of the net book value of land is as follows:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Short term leases, located in the PRC	167,427	-	167,427	-
Medium term leases, located in the PRC	86,921	230,661	11,046	-
	254,348	230,661	178,473	-

As at 31 December 2000, certain land use rights certificates with a net book value of RMB221,330,000 (1999: RMB199,257,000) had not been obtained.

14 CONSTRUCTION IN PROGRESS

	The Group		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at 1 January	761,551	811,040	130,182	254,003
Through acquisition of subsidiary/ jointly controlled entities/transfer from subsidiaries	-	361,576	621,854	-
Additions	1,044,960	640,841	955,125	179,973
Transferred to fixed assets (note 13)	(1,420,084)	(1,051,906)	(1,324,670)	(303,794)
Balance at 31 December	386,427	761,551	382,491	130,182

15 INTEREST IN SUBSIDIARIES

	The Company	
	2000	1999
	RMB'000	*RMB'000*
Unlisted equities, at cost	39,121	665,193
Amounts due from subsidiaries	6,121	71,053
	45,242	736,246

The particulars of subsidiaries, both of which are limited companies established and operating in the PRC, at 31 December 2000 are as follows:

Company	**Registered and paid up capital**	**Percentage of equity held by the Company**		**Principal activity**
		2000	**1999**	
	RMB'000	%	%	
Zoucheng Lunan Electric Power Technology Development Company Limited	26,047	90	90	Provision of services to Zouxian Power Plant
Zaozhuang Hongda Electric Power Industry Company Limited	19,989	90	90	Provision of services to Shiliquan Power Plant

In April 2000, all the businesses, including all assets and liabilities, of Laicheng were transferred to the Company and Laicheng was dissolved at the same time.

16 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2000	1999
	RMB'000	*RMB'000*
Unlisted interests, at cost	233,301	233,301

The particulars of jointly controlled entities, both of which are established in the form of contractual arrangements operating in the PRC, at 31 December 2000 are as follows:

Company	Percentage of interest held by the Company		Principal activities
	2000	1999	
Weifang Power Plant Phase I ("Weifang Plant")	30%	30%	Generation and sale of electricity
Qingdao Power Plant Phase I ("Qingdao Plant")	55%	55%	Generation and sale of electricity

The two power plants did not have a registered capital at 31 December 2000.

17 INTANGIBLE ASSETS

(a) The Group

	Goodwill	Negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2000 and 31 December 2000	58,667	(10,998)	47,669
Accumulated amortisation:			
At 1 January 2000	701	(367)	334
Amortisation charge for the year	3,618	(733)	2,885

At 31 December 2000	4,319	(1,100)	3,219
Carrying amount:			
At 31 December 2000	54,348	(9,898)	44,450
At 31 December 1999	57,966	(10,631)	47,335

(b) The Company

	Goodwill
	RMB'000
Through transfer from subsidiary	60,330
Amortisation charge for the year	(1,463)
Balance at 31 December 2000	58,867

18 INVENTORIES

	The Group		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Coal	31,658	66,522	25,509	52,159
Fuel oil	3,433	4,465	402	2,162
Materials, components and spare parts	140,454	124,541	116,149	110,436
	175,545	195,528	142,060	164,757

At 31 December 2000, the Group and the Company had inventories carried at cost less provision for obsolescence, amounting to RMB116,149,000 (1999: RMB110,436,000).

19 AMOUNT DUE FROM SEPCO - TRADE ACCOUNT

Debts are due within 30 days from the date of billing. The amount was not yet due for payment as at 31 December 2000.

20 CASH aND CASH EQUIVALENTS

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	1,202,133	1,529,766	1,129,924	1,345,038
Deposits with banks and other financial institutions	371,473	1,582,217	371,473	1,582,217
	1,573,606	3,111,983	1,501,397	2,927,255

21 LOANS

(a) Bank loans

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year	837,691	1,144,328	321,000	560,800
Between one and two years	246,000	254,539	160,000	60,000
Between two to five years	2,000,850	1,607,850	1,819,000	1,340,000
After five years	2,002,410	2,421,410	2,002,410	1,120,000
	4,249,260	4,283,799	3,981,410	2,520,000
	5,086,951	5,428,127	4,302,410	3,080,800

Details of the interest rates and maturity dates of the bank loans, all of which are denominated in RMB, are as follows:

Interest rates and final maturities	The Group 2000 *RMB'000*	The Group 1999 *RMB'000*	The Company 2000 *RMB'000*	The Company 1999 *RMB'000*
Floating interest rates ranging from 5.58% to 6.83% per annum as at 31 December 2000 (1999: 5.85% to 7.56%), with maturities up to 2008	5,086,951	5,428,127	4,302,410	3,080,800

As at 31 December 2000, the Group had bank loans totalling RMB552 million (1999: RMB601 million) guaranteed by SEPCO.

As at 31 December 2000, the Group and the Company did not have any fixed deposits pledged to banks. As at 31 December 1999, the Group and the Company had fixed deposits with banks totalling RMB400 million pledged to banks for obtaining certain bank loans amounting to RMB400 million, which were repaid during 2000.

(b) Loans from shareholders

	The Group 2000 *RMB'000*	The Group 1999 *RMB'000*	The Company 2000 *RMB'000*	The Company 1999 *RMB'000*
Due:				
Within one year	399,591	399,109	329,010	317,830
Between one and two years	186,516	370,402	160,360	351,100
Between two to five years	603,707	721,053	597,650	688,840
After five years	26,880	231,830	26,880	231,830
	817,103	1,323,285	784,890	1,271,770
	1,216,694	1,722,394	1,113,900	1,589,600

All the loans from shareholders are unsecured. Included in the loans of the Group and the Company is a loan of RMB200 million from SEPCO (1999: RMB200 million) which originated from a debenture of RMB2,907 million issued by the ultimate holding company in June 1998 and which was on-lent to the Company through SEPCO. The debenture bears interest at a rate of 8% per annum on the full principal amount thereof starting on 10 June 1998. The principal amount and the total interest due are repayable on 10 June 2001. The loan bears the same terms as the debenture.

Details of the interest rates and maturity dates of the loans from shareholders, all of which are denominated in RMB, are as follows:

	The Group		The Company	
Interest rates and final maturities	**2000**	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loans from Shandong International Trust and Investment Corporation ("SITIC"):				
Floating interest rate of 6.21% per annum as at 31 December 2000 (1999: 7.56%) with maturities up to 2006	986,694	1,392,394	883,900	1,259,600

	The Group		The Company	
Interest rates and final maturities	**2000**	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loans from Zaozhuang City Infrastructure Investment Corporation:				
Floating interest rate of 6.21% per annum as at 31 December 2000 (1999: 6.21%), with maturities up to 2006	30,000	30,000	30,000	30,000
Loans from SEPCO:				

Fixed interest rate of 11% per annum as at 31 December 1999, with maturity in 2000	-	100,000	-	100,000
Fixed interest rate of 8% per annum as at 31 December 2000 (1999: 8%), with maturity in 2001	200,000	200,000	200,000	200,000
	1,216,694	1,722,394	1,113,900	1,589,600

(c) State loan

	The Group and the Company	
	2000	1999
	RMB'000	*RMB'000*
Due:		
Within one year	116,960	108,859
Between one and two years	120,490	111,648
Between two to five years	421,437	390,673
After five years	1,292,820	1,444,704
	1,834,747	1,947,025
	1,951,707	2,055,884

Details of the interest rate and maturity date of the State loan, which is denominated in US dollars, are as follows:

	2000	1999
Interest rate and final maturity	***RMB'000***	*RMB'000*
Floating interest rate of 7.60% per annum as at 31 December 2000 (1999: 8.17%), with maturities up to 2012	1,951,707	2,055,884

The loan originated from a loan facility of US$310 million granted by the International Bank for Reconstruction and Development (the "World Bank") to the PRC state government pursuant to a loan agreement entered into in 1992, to finance the Zouxian Phase III project. According to the terms of the aforesaid loan agreement, the PRC state government on-lent the loan facility to the Shandong Provincial Government which in turn on-lent it to SEPCO. Pursuant to a notice from the Finance Office of Shandong Province dated 5 August 1997 and as formally agreed by the World Bank, part of the loan facility in the principal amount of US$278.25 million has been made available by the Shandong Provincial Government to the Company at cost and its repayment is guaranteed by SEPCO.

(d) Other loans

	The Group	
	2000	1999
	RMB'000	*RMB'000*
Due:		
Within one year	168,908	538,468
Between one and two years	10,508	46,835
Between two to five years	475,302	475,456
After five years	47,275	52,675
	533,085	574,966
	701,993	1,113,434

All of the other loans are denominated in RMB, except for an amount of RMB99,816,200 (1999: RMB193,045,000) which is denominated in US dollars. Details of the interest rates and maturity dates of other loans are as follows:

	The Group	
	2000	1999
	RMB'000	*RMB'000*
Floating interest rates ranging from 6.44% to 12% per annum (1999: 6.44% to 12%) as at 31 December 2000 with maturities		

from 2001 to 2010	701,993	1,113,434

At 31 December 2000, other loans totalling RMB554,000,000 (1999: RMB754,000,000) were secured by deposits placed with the lender by SEPCO.

22 DEBENTURES

	The Group and the Company	
	2000	1999
	RMB'000	*RMB'000*
Due:		
Within one year	-	130,000

23 TRADE CREDITORS

Debts are generally due within 30 days from the date of billing. The amount was not yet due for payment as of 31 December 2000.

24 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

The Group:

	Assets		**Liabilities**		**Net**	
	2000	1999	**2000**	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Training costs	1,227	15,260	-	-	1,227	15,260
Preliminary expenses	758	1,012	-	-	758	1,012
Provision for inventories and debtors	10,030	10,030	-	-	10,030	10,030
Depreciation of fixed assets	-	-	(108,976)	(83,634)	(108,976)	(83,634)
Loss on disposal of staff quarters	-	29,479	-	-	-	29,479

Tax losses	-	11,156	-	-	-	11,156
Fair value adjustment on fixed assets acquired	-	-	(63,613)	(68,806)	(63,613)	(68,806)
Others	3,413	3,662	-	-	3,413	3,662
	15,428	70,599	(172,589)	(152,440)	(157,161)	(81,841)
Set-off within legal tax units and jurisdictions	(15,428)	(57,100)	15,428	57,100	-	-
Net deferred tax assets/(liablities)	-	13,499	(157,161)	(95,340)	(157,161)	(81,841)

The Company:

	Assets		**Liabilities**		**Net**	
	2000	1999	**2000**	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Provision for inventories and debtors	10,030	10,030	-	-	10,030	10,030
Depreciation of fixed assets	-	-	(19,396)	(19,396)	(19,396)	(19,396)
Others	2,010	2,010	-	-	2,010	2,010
	12,040	12,040	(19,396)	(19,396)	(7,356)	(7,356)
Set-off within legal tax units and jurisdictions	(12,040)	(12,040)	12,040	12,040	-	-
Net deferred tax liablities	-	-	(7,356)	(7,356)	(7,356)	(7,356)

There is no significant deferred tax asset or liability not recognised in the accounts.

Movements in temporary differences between calculations of certain items for accounting and for taxation purposes are as follows:

The Group:

	Balance at 1 January 1999	Through acquisition of subsidiary/ jointly controlled entities	Recognised in the 1999 profit and loss account	Balance at 1 January 2000	Recognised in the 2000 profit and loss account	Balance at 31 December 2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Training costs	10,682	9,186	(4,608)	15,260	(14,033)	1,227
Preliminary expenses	-	1,010	2	1,012	(254)	758
Provision for inventories and debtors	6,446	-	3,584	10,030	-	10,030
Depreciation of fixed assets	(19,396)	(50,584)	(13,654)	(83,634)	(25,342)	(108,976)
Loss on disposal of staff quarters	-	28,267	1,212	29,479	(29,479)	-
Tax losses	-	12,334	(1,178)	11,156	(11,156)	-
Fair value adjustment on fixed assets acquired	-	(68,806)	-	(68,806)	5,193	(63,613)
Others	2,010	(5,492)	7,144	3,662	(249)	3,413
	(258)	(74,085)	(7,498)	(81,841)	(75,320)	(157,161)

The Company:

	Balance at 1 January 1999	Recognised in the 1999 profit and loss account	Balance at 1 January 2000	Recognised in the 2000 profit and loss account	Balance at 31 December 2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Training costs	10,682	(10,682)	-	-	-
Provision for inventories and debtors	6,446	3,584	10,030	-	10,030
Depreciation of fixed assets	(19,396)	-	(19,396)	-	(19,396)
Others	2,010	-	2,010	-	2,010

(258)	(7,098)	(7,356)	-	(7,356)	

25 SHARE CAPITAL AND RESERVES

(a) The Group

	Share capital RMB'000 (note 25(i))	Statutory common reserve RMB'000 (note 25(ii) and (iv))	Statutory common welfare fund RMB'000 (note 25(iii) and (iv))	Capital reserve RMB'000 (note 25(v))	Retained profits RMB'000	Total Shareholders' equity RMB'000
Balance at 1 January 1999	3,825,057	128,433	65,411	(14,436)	3,718	4,008,183
Change in accounting policy (note 12)	-	-	-	-	773,448	773,448
Restated balance at 1 January 1999	3,825,057	128,433	65,411	(14,436)	777,166	4,781,631
Issuance of H shares, net of issuance cost	1,431,027	-	-	792,476	-	2,223,503
Total recognised gains and losses	-	-	-	-	1,154,670	1,154,670
Transfer to reserves	-	112,949	56,475	-	(169,424)	-
Dividends paid	-	-	-	-	(773,448)	(773,448)
	5,256,084	241,382	121,886	778,040	988,964	7,386,356
Balance at 1 January 2000	5,256,084	241,382	121,886	778,040	796,950	7,194,342
Charges in accounting policies (note 12)	-	-	-	-	192,014	192,014
Restated balance at 1 January 2000	5,256,084	241,382	121,886	778,040	988,964	7,386,356
Total recognised gains and losses	-	-	-	-	1,339,234	1,339,234

Transfer to reserves	-	130,794	65,397	-	(196,191)	-
Transfer to/(from) reserve	-	26,400	(26,400)	-	-	-
Dividends paid	-	-	-	-	(297,136)	(297,136)
Balance at 31 December 2000	5,256,084	398,576	160,883	778,040	1,834,871	8,428,454

25 SHARE CAPITAL AND RESERVES

(b) The Company

	Share capital	Statutory common reserve	Statutory common welfare fund	Capital reserve	Retained profits	Total Shareholders' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 25(i))	(note 25(ii) and (iv))	(note 25(iii) and (iv))	(note 25(v))		
Balance at 1 January 1999	3,825,057	128,433	65,411	(14,436)	11,504	4,015,969
Change in accounting policy (note 12)	-	-	-	-	773,448	773,448
Restated balance at 1 January 1999	3,825,057	128,433	65,411	(14,436)	784,952	4,789,417
Issuance of H shares, net of issuance cost	1,431,027	-	-	792,476	-	2,223,503
Total recognised gains and losses	-	-	-	-	1,159,344	1,159,344
Transfer to reserves	-	112,949	56,475	-	(169,424)	-
Dividends paid	-	-	-	-	(773,448)	(773,448)
	5,256,084	241,382	121,886	778,040	1,001,424	7,398,816
Balance at 1 January 2000	5,256,084	241,382	121,886	778,040	809,410	7,206,802
Change in accounting policy (note 12)	-	-	-	-	192,014	192,014

Restated balance at 1 January 2000	5,256,084	241,382	121,886	778,040	1,001,424	7,398,816
Total recognised gains and losses	-	-	-	-	1,265,235	1,265,235
Transfer to reserves	-	130,794	65,397	-	(196,191)	-
Transfer to/(from) reserve	-	26,400	(26,400)	-	-	-
Dividends paid	-	-	-	-	(297,136)	(297,136)
Balance at 31 December 2000	5,256,084	398,576	160,883	778,040	1,773,332	8,366,915

Notes:

(i) The registered capital of the Company comprises 3,825,056,200 domestic shares of RMB1 each (1999: 3,825,056,200) and 1,431,028,000 H shares of Rmb1 each (1999: 1,431,028,000). All shares rank pari passu in all material respects.

(ii) According to the Company's Articles of Association, the Company is required to transfer at least 10% (at the discretion of the Board of Directors) of its profit after taxation, as determined under PRC accounting rules and regulations, to a statutory common reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

The statutory common reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. The Directors resolved to transfer 10% (1999: 10%) of the profit for the year ended 31 December 2000 to this reserve on 6 March 2001.

(iii) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% (at the discretion of the Board of Directors) of its profit after taxation, as determined under PRC accounting rules and regulations, to the statutory common welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. This fund is non-distributable other than on the Company's liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders. The Directors resolved to transfer

5% (1999: 5%) of the profit for the year ended 31 December 2000 to the fund on 6 March 2001.

(iv) During the year, the Company has utilised part of the statutory common welfare fund on capital items for the collective benefits of the Company's employees. Accordingly, the Company has released and transferred the same amount from the statutory common welfare fund to the statutory common reserve.

(v) This reserve represents mainly premium received from issuance of shares, less expenses, which are required to be included in this reserve by PRC regulations.

(vi) The transfer to the statutory common reserve and statutory common welfare fund from the profit and loss account is subject to approval by shareholders at the Annual General Meeting to be held on 26 April 2001.

(vii) According to the Company's Articles of Association, the retained profits available for distribution are the lower of the amount determined under PRC accounting rules and regulations and the amount determined under International Accounting Standards or, if the accounts of the Group are not prepared in accordance with IAS, the accounting standards of one of the countries in which the Company's shares are listed. As of 31 December 2000, the retained profits available for distribution were RMB270,092,000 (1999: RMB777,531,000), after taking into account the current year's declared special interim dividend and proposed final dividend (see note 10) and the transfer to the statutory common reserve and the statutory common welfare fund according to the Company's Articles of Association.

(viii) The profit attributable to shareholders for 2000 includes a profit of RMB1,265,235,000(1999: RMB1,159,344,000) which has been dealt with in the accounts of the Company.

26 INTEREST IN JOINTLY CONTROLLED ENTITIES

Included in the consolidated accounts are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the jointly controlled entities:

	2000	1999
	RMB'000	*RMB'000*
Non-current assets	2,055,540	2,134,014
Current assets	129,111	189,096

Non-current liabilities	(919,338)	(1,088,870)
Current liabilities	(886,870)	(925,570)
Net assets	378,443	308,670
Income	949,548	374,811
Expenses	(793,919)	(346,553)
	155,629	28,258

27 CONNECTED AND RELATED PARTY TRANSACTIONS

Most of the transactions undertaken by the Group and its jointly controlled entities during the year ended 31 December 2000 have been effected with such counterparties and on such terms as have been agreed with SEPCO or entities under its control. The parties aforesaid are, by definition, "connected persons" of the Company for the purposes of the Listing Rules and the relevant transactions constitute "connected transactions".

A summary of the connected and related party transactions undertaken by the Group during the year is as follows:

	Note	**2000** ***RMB'000***	1999 *RMB'000*
Sale of electricity	i	6,862,545	5,761,213
Interconnection and despatch management fees	ii	72,104	58,698
Purchase of coal, including handling fees	iii	1,916,916	1,651,005
Coal field management fee	iv	75,240	41,739
Repairs and maintenance services	v	235,623	208,862
Purchase of materials and equipment, including handling fees	vi	176,505	134,235
Technical supervision, assistance and testing services	vii	13,928	12,035
Staff training	viii	1,796	2,180
Electricity consumed	ix	14,046	11,626
Operating lease charges on office premises	x	1,117	1,106
Construction costs and equipment costs paid	xi	331,000	777,000

The balances due to connected and related parties, other than balances with SEPCO which have been separately disclosed in the balance sheet, as at 31 December 2000 are as follows:

	Note	2000 RMB'000	1999 RMB'000
Shandong Electric Power Fuel Company	iii & iv	201,580	182,830
Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited	v	3,639	4,033
Shandong Electric Power Materials Company	vi	135,612	3,995
Shandong Electric Power No.1, No.2 & No. 3 Construction Engineering Companies	xi	72,541	514

(i) All sales of electricity were made to SEPCO.

The principal businesses of the SEPCO Group are the investment in, and the design, development, construction, operation and maintenance of electric power plants and the Shandong provincial electric power transmission and distribution grid (the "Grid"). SEPCO, as the sole manager and operator of the Grid, is the sole purchaser from power plants connected to the Grid of all electric power transmitted and distributed on the Grid.

The Offtake Contract between SEPCO and the Company dated 12 January 1999, with retrospective effect from 1 January 1998, provided for the basis on which electricity generated by all generating units and power plants wholly-owned by the Company (the "Power Plants") and the Company's ratable portion of the electricity generated by the power plants partially or indirectly owned by the Company (the "Joint Venture Power Plants"), is sold to SEPCO. The Offtake Contract requires SEPCO to purchase an annual minimum amount of on-grid electricity from the Group.

The term of the Offtake Contract is 20 years and shall be automatically extendable for successive terms of 10 years each unless sooner terminated in accordance with its terms.

(ii) As SEPCO is the sole manager and operator of the Grid, the power plants in Shandong Province are subject to the unified despatch of SEPCO. Under the

Despatch Agreement between SEPCO and the Company dated 31 December 1997 (effective from 1 January 1998), SEPCO and the Company are required to use their respective best efforts to procure that such arrangements apply to the power plants which are or will be indirectly or partially owned by the Company, and/or the entities directly owning such plants. The Company has agreed to pay SEPCO an interconnection fee and a despatch management fee. The interconnection fee is charged at RMB2 per MWh of electricity generated. The despatch management fee is charged at RMB1 per MWh of electricity generated, except for Shiliquan Power Plant which is charged at RMB1 per MWh of electricity supplied.

(iii) Shandong Electric Power Fuel Company (the "Fuel Supply Company"), a company controlled by SEPCO, supplies coal to the Company and Qingdao Plant for power generation pursuant to the Coal Supply Contract between the Fuel Supply Company and the Company dated 31 December 1997 and the fuel supply contract between the Fuel Supply Company and the Qingdao Plant dated 30 October 1998, respectively. The cost of coal is charged based on the actual purchase price plus a handling fee of 5% of the actual purchase price.

(iv) The Fuel Supply Company is also responsible for the daily management of the Group's coal fields. The management fee payable is determined annually in advance with the aim of reimbursing the costs incurred by the Fuel Supply Company in carrying out its duties.

(v) Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited (the "Overhaul Company"), which is controlled by SEPCO, is responsible for the repair and maintenance works, including major overhauls, of the Group. The amount payable is determined on a cost reimbursement basis.

(vi) All the materials and equipment for fixed assets improvement works and major overhauls are supplied by Shandong Electric Power Materials Company (the "Materials Company"), which is controlled by SEPCO. The costs of materials and equipment are charged based on the actual purchase price plus handling fees. The handling fees for materials and equipment purchases are charged at the rates of 8% and 2.5% to 5% of the actual purchase price respectively.

(vii) The Shandong Electric Power Scientific Research Institute ("the Research Institute"), which is controlled by SEPCO, is responsible for the provision of technical supervision, assistance and testing services to the Group and its jointly controlled entities in relation to the power generation equipment and facilities pursuant to the Technical Supervisory Services Contract between the Research Institute and each of the Power Plants and Joint Venture Power Plants. Such services are charged at a rate of RMB3.66 per KW (including value-added tax) of installed capacity per year.

(viii) From time to time, the Group and its jointly controlled entities send certain of their employees to the Research Institute and the Staff Education and Training Centre, which is an institution owned and operated by SEPCO, for technical training.

(ix) The Group purchases electricity from SEPCO at the published tariff rates for use in certain of its operations and for its head office and staff quarters where they are located in areas under the cover of the grid operated by SEPCO.

(x) Under a lease agreement dated 1 January 2000, Shandong Luneng Property Company, a wholly-owned subsidiary of SEPCO, leased to the Company for a term of one year office premises on the 7th and 15th floors of the SEPCO Despatch Buildings at 14 Jingson Road, Jinan, Shandong Province, the PRC as the headquarters of the Company.

(xi) Shandong Electric Power No.1 Construction Engineering Company, a subsidiary of SEPCO is responsible for the construction of ancilliary facilities (including the railway system, ash fields and dust removing systems) of Zouxian Power Plant and Shiliquan Power Plant.

The majority of the work on the construction of the four generating units of Laicheng was carried out by Shandong Electric Power No. 2 Construction Engineering Company and Shandong Electric Power No. 3 Construction Engineering Company, both of which are controlled by SEPCO. The contracted construction cost for phase 1 is RMB953,787,400.

The majority of the equipment required by Laicheng was supplied by Shandong Electric Power Materials Company, a company controlled by SEPCO. The contracted amount for phase 1 is RMB 1,021,390,000.

(xii) Details of the loans from or secured or guaranteed by SEPCO and loans from SITIC and ZCIIC, are set out in note 21(a) to (d). The trade balance and other balances with SEPCO at 31 December 2000 are disclosed in the balance sheets.

(xiii) On 21 December 2000, the Company entered into an agreement with several subsidiaries of SEPCO and Shandong Heze Huamao Minerals Sources Development Company Limited, an independent third party, pursuant to which the Company has agreed to contribute RMB 91,338,493 to Shandong Luneng Heze Minerals

Development Company Limited ("Heze Minerals"), which represents 45% of the enlarged registered capital of Heze Minerals.

The transaction was completed on 5 February 2001.

28 RETIREMENT PLANS AND STAFF HOUSING

The Group is required to make contributions to a retirement plan operated by the State at a rate of 19.2% (1999: 18.35%) of total staff salaries. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, the Group established a defined contribution retirement plan, also operated by the State, to supplement the above-mentioned plan. The Group has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

The Group's contribution to these plans amounted to RMB35,482,000 during the year (1999: RMB21,481,000) which was charged to the profit and loss account.

Additional staff were recruited for the newly constructed and acquired power plants. The Group provided quarters to its staff to satisfy their housing demand pursuant to the regulations of the PRC. The Group sold certain staff quarters to its staff at prices calculated in accordance with the current regulations of Shangdong Province and incurred a loss amounting to RMB93,472,000 (1999:RMB7,635,000) in this regard.

29 COMMITMENTS

(i) Capital commitments

The Group (excluding jointly controlled entities) and the Company had capital commitments outstanding at 31 December not provided for in the accounts as follows:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for	105,168	494,001	105,168	90,516
Authorised but not contracted for				
- Laicheng Phase II	2,191,345	-	2,191,345	-
- others	101,017	353,792	101,017	77,391

	2,397,530	847,793	2,397,530	167,907

The application for developing the Laicheng Phase II project, the third and the fourth generating units, with an installed capacity of 300MW each, has been approved by the State Development and Planning Commission during the year. The anticipated date of completion for these two generating units is 2002 and 2003, respectively.

The Group's share of the jointly controlled entities' capital expenditure commitments amounted to RMB11,375,000 at 31 December 2000 (1999: RMB6,529,000).

(ii) Operating lease commitments

As at 31 December 2000, the Group and the Company had commitments to pay operating lease charges in respect of land as disclosed in note 13(e).

30 CONTINGENT LIABILITIES

At 31 December, the Group (excluding jointly controlled entities) and the Company had the following contingent liabilities:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Guarantees issued to banks in favour of subsidiary/jointly controlled entities	**-**	**-**	**-**	1,333,910

The jointly controlled entities did not have any material contingent liabilities as at 31 December 2000 and 1999.

31 FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

Financial assets of the Group include cash and cash equivalents, fixed deposits maturing over three months, debtors and deposits, and the amount due from SEPCO. Financial liabilities of the Group include bank loans, loans from shareholders, a State loan, other loans, trade creditors, taxation payable, and other creditors and accruals. Accounting policies for financial assets and liabilities are set out in note 2(h). The Group does not hold or issue financial instruments for trading purposes.

(a) Interest rate risks

The interest rates and terms of repayment of the outstanding loans of the Group are disclosed in note 21.

(b) Credit risks

Substantially all of the Group's cash and cash equivalents and fixed deposits maturing over three months are deposited with the four largest state-owned banks of the PRC.

SEPCO is the sole purchaser of electricity supplied by the Group.

(c) Foreign currency risk

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated in foreign currencies, principally in US dollars. Depreciation or appreciation of US dollars against the Renminbi will affect the Group's financial position and results of operations.

As the amounts of the Group's loans and bank deposits denominated in US dollars are substantially matched, the foreign currency risk is not significant to the Group.

(d) Fair value

The following table presents the carrying amounts and estimated fair values of the Group's significant financial instruments at 31 December.

	2000		1999	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Cash and cash equivalents	1,573,606	1,573,606	3,111,983	3,111,983
Fixed deposits maturing over three months	1,875,367	1,875,367	400,000	400,000
Long-term bank loans	(4,249,260)	(4,249,260)	(4,283,799)	(4,283,799)
Current portion of long-term bank loans	(837,691)	(837,691)	(1,144,328)	(1,144,328)

Long-term loans from shareholders	(817,103)	(817,103)	(1,323,285)	(1,328,817)
Current portion of long-term loans from shareholders	(399,591)	(399,591)	(399,109)	(399,109)
Long-term State loan	(1,834,747)	(1,834,747)	(1,947,025)	(1,947,025)
Current portion of long-term State loan	(116,960)	(116,960)	(108,859)	(108,859)
Long-term other loans	(533,085)	(533,085)	(574,966)	(574,966)
Current portion of long-term other loans	(168,908)	(168,908)	(538,468)	(538,468)
Debentures	-	-	(130,000)	(132,552)
	(5,508,372)	(5,508,372)	(6,937,856)	(6,945,940)
Unrecognised loss		-		(8,084)

The following methods and assumptions have been used to estimate the fair value for each class of financial instruments.

(i) Cash and cash equivalents, fixed deposits maturing over three months, short-term bank loans, loans from shareholders, State loan and other loans

The carrying values approximate fair values because of the short maturities of these instruments.

(ii) Long-term bank loans, loans from shareholders, State loan, debentures and other loans

The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

32 ULTIMATE HOLDING COMPANY

The Directors of the Company consider its ultimate holding company to be State Power Corporation, which is a State-owned enterprise in the PRC. The Company's immediate holding company is SEPCO.