

Notes on the unaudited interim financial report

(Expressed in Renminbi)

(1) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants. KPMG's independent review report to the Board of Directors is included on page 20.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the company's annual accounts prepared under International Accounting Standards for that financial year but is derived from those accounts. The annual accounts for the year ended 31 December 2000 are available at the company's legal office. The auditors have expressed an unqualified opinion on those accounts in their report dated 6 March 2001.

The accounting policies have been consistently applied by the group and, except for the adoption of IAS 39 "Financial Instruments: Recognition and Measurement" which is effective for accounts covering periods beginning on or after 1 January 2001, are consistent with those adopted in the 2000 annual accounts.

IAS 39 establishes principles for recognizing, measuring and disclosing information about financial assets and liabilities. It defines several categories of financial assets and liabilities. It also requires an entity to measure at fair value assets and liabilities qualified as trading or available-for-sale, and to recognize changes in fair value in profit and loss account for trading assets and liabilities and equity for available-for-sale assets.

In addition, IAS 39 requires an entity to recognize all derivative instruments on the balance sheet at fair value. The group considers the adoption of IAS 39 did not have a material impact on its financial position or results of operations.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2000 annual accounts.

(2) Revenue

Revenue represents the sale of electricity to Shandong Electric Power (Group) Corporation ("SEPCO"), net of value added tax.

(3) Other income

Other income includes interest income of RMB61,191,000 (six months ended 30 June 2000:RMB63,644,000) derived from deposits with banks.

(4) Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2001	2000
	RMB'000	RMB'000
Cost of inventories	1,097,733	999,238
Interest on bank and other loans	325,082	367,612
Amortisation of goodwill	1,442	1,442

(5) Taxation

	Six months ended 30 June	
	2001	2000
	RMB'000	RMB'000
Charge for enterprise income tax	372,335	333,851
Deferred tax expense	10,450	26,290
	382,785	360,141

The charge for enterprise income tax levied by the People's Republic of China is calculated at 33% (six months ended 30 June 2000:33%) of the estimated assessable profit of the group for the six months ended 30 June 2001.

(6) Dividends

Dividends paid during the six months ended 30 June 2000 and 2001 are as follows:

	Six months ended 30 June	
	2001	2000
	RMB'000	RMB'000
Special interim dividend of RMB0.228 per share for the year ended 31 December 2000 (Year ended 31 December 1999: RMBNil)	1,198,387	-
Final dividend of RMB0.058 per share for the year ended 31 December 2000		

(Year ended 31 December 1999: RMB0.0365)	304,853	192,014
	1,503,240	192,014

On 7 August 2001, the Board of Directors declared an interim dividend of RMB 0.02 per share for the six months ended 30 June 2001, totalling RMB105,122,000 (six months ended 30 June 2000:RMB0.02, totalling RMB105,122,000). The total amount of the dividend payable of RMB105,122,000 is based on the total number of shares in issue of 5,256,084,000 as at 6 August 2001 being the latest practicable date prior to the board meeting. This dividend has not been recognised as a liability at 30 June 2001.

(7) Earnings per share

(i) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of the company for the six months ended 30 June 2001 of RMB748,472,000 (six months ended 30 June 2000: RMB698,223,000) and the weighted average number of shares in issue during the six months ended 30 June 2001 of 5,256,084,000 (six months ended 30 June 2000: 5,256,084,000).

(ii) Diluted

There were no dilutive potential shares in existence during the six months ended 30 June 2000 and 2001.

(8) Construction in progress

	At 30 June 2001 RMB'000	At 31 December 2000 RMB'000
The third and fourth generating units in Laicheng	415,600	143,288
Improvement projects	229,745	243,139
	645,345	386,427

The construction of the third and fourth generating units in Laicheng, with an installed capacity of 300MW each, is currently in progress. The budgeted construction cost is RMB2,349,890,000 and the anticipated years of completion of these two generating units

are 2002 and 2003, respectively.

(9) Investment in an associate

The amount represents the cost of investment in Shandong Luneng Heze Minerals Development Company Limited ("Heze Minerals"), representing a 45% equity interest in Heze Minerals. The principal activities of Heze Minerals are the development and exploration of a coalmine base in Juye coalfield. Heze Minerals is still at the development stage.

(10) 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 of 30 June 2001.

(11) Cash and cash equivalents

	At 30 June 2001 <i>RMB'000</i>	At 31 December 2000 <i>RMB'000</i>
Cash at bank and in hand	785,837	1,202,133
Time deposits with banks maturing within three months	2,290,159	371,473
	3,075,996	1,573,606

As at 30 June 2001, the group had time deposits with banks totalling RMB450 million (At 31 December 2001: RMBNil) pledged to banks for obtaining certain bank loans amounting to RMB450 million (At 31 December 2001: RMBNil).

(12) Trade creditors

Debts are generally due within 30 days from the date of billing. The amount was not yet due for payment as of 30 June 2001.

(13) Share capital and reserves

	Share capital <i>RMB'000</i>	Statutory common reserve <i>RMB'000</i>	Statutory common welfare fund <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total shareholders' equity <i>RMB'000</i>
Balance at 1 January 2001	5,256,084	398,576	160,883	778,040	1,834,871	8,428,454
Total recognised gains						

And losses for the period	-	-	-	-	748,472	748,472
Dividends paid	-	-	-	-	(1,503,240)	(1,503,240)
Balance at 30 June 2001	5,256,084	398,576	160,883	778,040	1,080,103	7,673,686

(14) Material related party transactions

- (i) The group had the following material transactions with SEPCO, the immediate holding company of the company, and entities controlled by SEPCO during the six months ended 30 June 2000 and 2001.

	Six months ended 30 June	
	2001	2000
	RMB'000	RMB'000
Sale of electricity	3,607,122	3,389,631
Interconnection and despatch management fees	37,749	34,845
Purchase of coal, including handling fees	1,042,647	931,893
Coal field management fee	44,853	37,686
Repairs and maintenance services	94,417	84,198
Purchase of materials and equipment, including handling fees	110,093	54,893
Construction costs and equipment costs paid	261,336	108,230

- (ii) The balances due to/ (from) related parties, other than balances with SEPCO which have been separately disclosed in the balance sheet, are as follows:

	Nature of transactions	At 30	At 31
		June 2001	December 2000
		RMB'000	RMB'000
Shandong Electric Power Fuel Company	Purchase of coal and coal field management	300,693	201,580
Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited	Repairs and maintenance services	(5,554)	3,639
Shandong Electric Power Materials Company	Purchase of materials and equipment	49,701	135,612
Shandong Electric Power No.1, No.2 & No. 3 Construction Engineering Companies	Construction costs and equipment costs	65,266	72,541

(15) Capital commitments

(i) Capital commitments

The group (excluding jointly controlled entities) had capital commitments outstanding as at 30 June 2001 and 31 December 2000 not provided for in the accounts as follows:

	At 30 June 2001 <i>RMB'000</i>	At 31 December 2000 <i>RMB'000</i>
Contracted for	36,249	105,168
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Authorised but not contracted for		
- The third and fourth generation units in Laicheng	1,919,561	2,191,345
- Others	256,994	101,017
	2,176,555	2,292,362
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	2,212,804	2,397,530

- (ii) The group's share of the jointly controlled entities' capital expenditure commitments amounted to RMB15,351,000 at 30 June 2001 (At 31 December 2000 : RMB11,375,000).

(16) Contingent liabilities

The group and the jointly controlled entities did not have any material contingent liabilities as at 30 June 2001 and 31 December 2000.

(17) Comparative figures

Certain comparative figures in respect of the change in the balance of pledged time deposits maturing over three months have been reclassified from net cash outflows from financing activities to net cash inflow from investing activities in order to conform with the presentation in the current interim financial report.