

11. Profit before taxation

Profit before taxation in the condensed consolidated income statement was determined after charging and (crediting) the following items:

	For the six months ended 30th June,	
	2001	2000
	Rmb'000	Rmb'000
Interest expenditures on borrowings	536,191	529,744
Less: Capitalized in property, plant and equipment	(34,789)	—
Total interest expenses	501,402	529,744
Interest income	(52,761)	(41,482)
Interest expenses, net	448,641	488,262
Depreciation of property, plant and equipment	1,656,818	1,362,885
Amortization of land use rights and other long-term assets	7,028	6,679

12. Provision for Income Tax

Certain of the power plants, being located in specially designated regions or cities, are subject to preferential income tax rates. In addition, all power plants (except for Dezhou power plant, expansion projects other than Shangan power plant Phase II and the two subsidiaries) are exempted from the PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% exemption of the applicable tax rate for the next three years ("tax holiday"). For the six months ended 30th June, 2001, the weighted average effective tax rate applicable to the Company is 17% (for the six months ended 30th June, 2000 the weighted average effective tax rate was 17%).

As at 30th June, 2001, the Company and its subsidiaries had not received any notification from the relevant tax authority in respect of any material change of the present tax rates applicable to the Company and its subsidiaries.

13. Dividends Declared

On 23rd May, 2001, the shareholders approved the declaration of dividends of Rmb0.22 per share, totaling Rmb1,243 million in respect of the year ended 31st December, 2000. As at 30th June, 2001, such dividends have been fully paid.

14. Earnings Per Share

The calculation of earnings per share is based on the net profit attributable to shareholders of approximately Rmb1,558 million (for the six months ended 30th June, 2000: Rmb1,129 million) and the weighted average number of 5,650 million (for the six months ended 30th June, 2000: 5,650 million) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders of Rmb1,623 million (for the six months ended 30th June, 2000: Rmb1,189 million) and the adjusted weighted average number of 5,965 million (for the six months ended 30th June, 2000: 5,965 million) ordinary shares in issue during the period. The calculation assumes that the 1.75% convertible notes had been fully converted at the beginning of the period.

15. Hedging of Interest Rate Risk

The Company's floating rate bank loans expose the Company to interest rate risk. The Company uses derivative instruments, to the extent available in the PRC, to manage exposures arising from changes in interest rates. When considered appropriate, the Company would enter into interest rate swap agreements with local banks to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 30th June, 2001, the notional amount of the outstanding interest rate swap agreements was approximately USD93 million. As at 30th June, 2001, there was a loss amounted to approximately Rmb8.5 million arising from changes in the fair value of the interest rate swaps subsequent to initial recognition. Since the hedging relationship does not meet all of the conditions required for special hedge accounting as set out in IAS 39, such loss was charged to earnings in current period.

16. Supplementary Information to Condensed Consolidated Statement of Cash Flow

Cash flow provided by/(used in) investing and financing activities included the followings:

	For the six months ended 30th June,	
	2001	2000
	Rmb'000	Rmb'000
Investing activities:		
Capital expenditures on power plant construction and improvement	(1,185,542)	(330,045)
Proceeds from disposal of fixed assets	5,814	13,225
Financing activities:		
Drawdown of:		
— Short-term bank loans	1,140,000	40,000
— Long-term bank loans	825,818	142,789
Repayment of:		
— Short-term bank loans	(2,400,000)	(50,000)
— Long-term loans from shareholders	(149,705)	(538,211)
— Long-term bank loans	(841,774)	(308,032)
— Other long-term loans	(35,036)	(29,062)
— Bond payable	(252,282)	—

17. Related Party Transactions

The related parties of the Company and its subsidiaries are as follows:

<u>Name of related parties</u>	<u>Nature of relationship</u>
Huaneng International Power Development Corporation ("HIPDC")	Parent
China Huaneng Group Corporation ("Huaneng Group")	Ultimate parent
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of Huaneng Group
Shandong Electric Power Group Corporation ("SEPCO")	Minority shareholder of Jining Power Plant
Weihai International Trust and Investment Corporation ("WITIC")	Minority shareholder of Weihai Power Plant

17. Related Party Transactions (Cont'd)

- (a) The significant transactions that the Company and its subsidiaries entered with HIPDC were as follows:

	For the six months ended 30th June,	
	2001	2000
	Rmb'000	Rmb'000
Service fees on transmission and transformer facilities	153,665	155,376
Rental charge on the land use right of Shanghai Power Plant	3,000	3,000
Rental charge on the land use right of Nanjing Power Plant	667	667
Rental charge on office space	12,500	12,500

	As at
	30th June, 2001
	Rmb'000
Long-term bank loans guaranteed by HIPDC	9,369,323
Bank loans on-lent from HIPDC to the Company	812,114
Due to HIPDC (unsecured and non-interest bearing)	74,147

- (b) The significant transactions that the Company and its subsidiaries entered with other related parties were as follows:

	As at
	30th June, 2001
	Rmb'000
Huaneng Group	
Long-term bank loans guaranteed by Huaneng Group	1,541,581
Huaneng Finance	
Current deposits in Huaneng Finance	982,772
Fixed deposits in Huaneng Finance (interest rate: 2.16% per annum)	500,000
WITIC	
Loans from WITIC (interest rate: 6.21% per annum; repayable from 1994 to 2004)	216,491
Bonds guaranteed by WITIC	244,175
Long-term bank loans guaranteed by WITIC	300,000
SEPCO	
Current deposits in SEPCO	24,000
Due to SEPCO (unsecured and non-interest bearing)	15,781

18. Commitment

Commitments mainly relate to the construction of Dezhou Phase III, supplementary facilities and renovation projects for existing power plants. Commitments outstanding as at 30th June, 2001 not provided for in the balance sheet were as follows:

	As at 30th June, 2001	
	The Company and its subsidiaries	The Company
	Rmb'000	Rmb'000
Authorized and contracted for	3,017,535	2,973,856
Authorized but not contracted for	108,194	104,487
	3,125,729	3,078,343

19. Prior Year Comparatives

Certain 2000 comparative figures have been reclassified to conform to the current period's presentation as a result of newly effective IAS 39. In accordance with IAS 39, the debt issuance cost of the convertible notes should be considered as the incremental costs that are directly attributable to the acquisition or disposal of a financial asset or liability. The financial liability should be recorded at original amount less the incremental costs. Accordingly, the debt issuance cost of the convertible notes had been offset against the proceeds in arriving at the liability component of the convertible notes.

20. US GAAP Reconciliation

The consolidated financial statements of the Company and its subsidiaries prepared under IAS differ in certain respects from those prepared under generally accepted accounting principles in the United States of America ("US GAAP"). Differences between IAS and US GAAP, which affect the shareholders' equity and net income of the Company and its subsidiaries, are summarized below:

Note	Shareholders' Equity		Net Profit	
	As at 30th June	As at 31st December	For the six months ended 30th June,	
	2001	2000	2001	2000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balances under IAS	24,095,050	23,779,735	1,558,315	1,128,939
Impact of US GAAP adjustments:				
Reversal of equity component of convertible notes	(510,506)	(510,506)	—	—
Recording housing benefits provided by HIPDC	—	—	(13,076)	—
Recording capital contribution arising from acquisition of Shandong Huaneng	862,922	—	—	—
Difference in amortization of negative goodwill	(43,545)	—	(43,545)	—
Balances under US GAAP	24,403,921	23,269,229	1,501,694	1,128,939

20. US GAAP Reconciliation (Cont'd)

- (a) Under US GAAP, the entire proceeds of the issue of convertible notes are recorded as long-term liabilities without distinguishing between the equity and liability components. In accordance with IAS, the proceeds received on the issue of the convertible notes are allocated into liability and equity components. The liability component represents the present value of the contractually determined stream of cash flows discounted at the market rate of interest for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issuance of the notes.
- (b) 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. The housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. 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 an addition of capital contribution. Under IAS, such housing benefits provided by HIPDC was not reflected in the condensed financial statements of the Company and its subsidiaries.
- (c) Huaneng Group is the controlling parent company of HIPDC, which in turn is the controlling parent company of the Company. Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng, holding 33.09% equity interest in it before the Acquisition. Under US GAAP, upon completion of the Acquisition, Huaneng Group's proportionate share in the net assets of Shandong Huaneng being transferred to the Company is recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration is recorded as capital contribution to the Company. Under IAS, upon the completion of the Acquisition, the entire net assets of Shandong Huaneng is recorded at fair values. The excess of the fair values of the entire net assets acquired over the total cost of the Acquisition is recorded as negative goodwill.
- (d) The amounts of negative goodwill under IAS and US GAAP are different, as discussed in (c) above. Accordingly, amortization of negative goodwill under IAS is different from that under US GAAP.