NOTES ON THE FINANCIAL STATEMENTS

(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.

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 Shandong Electric Power (Group) Corporation ("SEPCO"), which determines to whom the electricity is sold.

The number of employees as at 31 December 2001 was 5,041 (2000: 4,695).

2 SIGNIFICANT ACCOUNTING POLICIES

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

(A) STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(i) Statement of compliance

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

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(ii) Basis of preparation

The financial statements are prepared on the historical cost basis. The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(B) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are those 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 financial statements of subsidiaries are included in the consolidated financial statements 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 impairment losses (see note 2(f)).

(ii) Jointly controlled entities

Jointly controlled entities are enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements 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 impairment losses (see note 2(f)).

(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 financial statements. Any unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Any 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) Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses (see note 2(f)). Amortisation is charged to the income statement on a straight-line basis over the period of the right.

(ii) Goodwill

Goodwill arising on an acquisition represents 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 (see note 2(f)). Amortisation is charged to the income statement 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.

(iii) 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, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

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

(D) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (see note 2(f)).

Depreciation is provided to write off the cost of property, plant and equipment 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 anticipated or remaining useful lives used are as follows:

Buildings	15 - 18 years
Generators and related machinery and equipment	15 - 18 years
Motor vehicles, furniture, fixtures, equipment and others	4 - 23 years

(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, less any impairment losses (see note 2(f)).

Upon completion and commissioning for operation, the costs will be transferred to property, plant and equipment 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) IMPAIRMENT

The carrying amounts of assets, other than inventories (see note 2(g)) and financial assets (see note 2(i)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(G) 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.

(H) CASH AND CASH EQUIVALENTS

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

(I) FINANCIAL ASSETS AND LIABILITIES

(i) Financial assets

Investments

Investments, representing unlisted equity securities, are classified as being available-for-sale and are stated at cost less provision for any impairment losses. A provision is made where, in the opinion of management, there is an impairment in the value of an investment.

Other financial assets

Adjustments are made for other financial assets if their carrying amount exceeds the value realisable in the foreseeable future.

(ii) Financial liabilities

Financial liabilities are stated at their carrying amounts.

(J) REVENUE RECOGNITION

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

(K) MAJOR OVERHAULS, REPAIRS AND MAINTENANCE

Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(L) 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 income statement.

(M) TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement 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.

(N) PROVISIONS

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(O) 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.

(P) OPERATING LEASES

Payments made under operating leases are charged to the income statement on a straight-line basis over the terms of the lease.

(Q) RETIREMENT PLAN

The contributions payable under the Group's retirement plans are charged to the income statement as incurred.

(R) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are recognised as expenses in the period in which they are incurred.

(S) RELATED PARTIES

For the purposes of these financial statements, 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.

(T) DIVIDENDS

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

3 SEGMENT REPORTING

The Group and its jointly controlled entities' profits are almost entirely attributable to the generation and sale of electricity in Shandong Province, the PRC. Accordingly, no segmental analysis is provided.

4 TURNOVER

Turnover represents the sale of electricity to SEPCO, the immediate holding company, net of value added tax ("VAT").

An Offtake Contract was entered into between the Company and SEPCO on 12 January 1999 for a term of 20 years. The Offtake Contract is automatically extended 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 and its jointly controlled entities 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. Adjustment in the on-grid electricity price is subject to the approval of the State Development Planning Commission.

5 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.

6 OPERATING PROFIT

Operating profit is arrived at after charging:

	2001	2000
	RMB'000	*RMB'000*
Cost of inventories	**2,197,967**	2,098,867
Personnel costs		
Wages and staff welfare	**221,591**	172,398
Retirement costs (see note 29)	**41,135**	35,482
Other staff costs	**61,332**	41,268
Loss on disposal of staff quarters (see note 29)	**9,759**	93,472
Total personnel costs	**333,817**	342,620
Auditors' remuneration	**3,143**	2,812
Amortisation of intangible assets (see note 15)	**13,257**	13,257
Depreciation	**1,036,562**	994,918
Operating lease charges in respect of land and buildings	**31,408**	30,471
Research and development costs	**41,888**	19,302

7 OTHER INCOME AND FINANCE COSTS

(A) OTHER INCOME

Other income includes interest income of RMB119,692,000 (2000: RMB132,001,000) derived from deposits with banks and other financial institutions.

(B) FINANCE COSTS

	2001	2000
	RMB'000	*RMB'000*
Interest on bank advances and other loans repayable within five years	**492,120**	469,354
Interest on other loans repayable after five years	**148,650**	285,395
Less: Interest capitalised	**(9,366)**	(25,273)
	631,404	729,476

The interest costs have been capitalised at a rate of 5.76% per annum (2000: 6.5%) for construction in progress.

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2001	2000
	RMB'000	*RMB'000*
Directors' and Supervisors' fees	**-**	-
Salaries, allowances and benefits in kind	**300**	182
Retirement benefits	**90**	41
Bonuses	**235**	224
	625	447

Salaries and other benefits paid to non-executive Directors and independent non-executive Directors amounted to RMBNil and RMB160,000 respectively (2000: RMBNil and RMB9,000 respectively).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2000: four) are Directors whose emoluments are disclosed in note 8. The aggregate of the emoluments of the remaining highest paid individual (2000: 1) is as follows:

	2001	2000
	RMB'000	*RMB'000*
Salaries and other emoluments	**39**	30
Retirement benefits	**12**	11
Bonuses	**53**	47
	104	88

10 TAXATION

(A) TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	2001	2000
	RMB'000	*RMB'000*
Current tax expense		
Charge for PRC enterprise income tax for the year	**660,534**	644,495
Under-provision in respect of prior year	**2,192**	-
	662,726	644,495
Deferred tax expense		
Origination and reversal of temporary differences (note 25)	**11,922**	75,320
Total income tax expense in consolidated income statement	**674,648**	719,815

Reconciliation of effective tax rate:

	2001	2000
	RMB'000	*RMB'000*

Profit before taxation		**2,054,204**	2,059,168
Applicable tax rate		**33%**	33%
Computed tax using the applicable tax rate		**677,887**	679,525
Add:	Non-deductible sundry items	**3,679**	10,811
	Under-provision in respect of prior year	**2,192**	-
	Write-off of deferred tax assets relating to loss on disposal of staff quarters no longer deductible	**-**	29,479
Less:	Non-taxable sundry items and others	**(9,110)**	-
		674,648	719,815

The charge for PRC enterprise income tax is calculated at the rate of 33% (2000: 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	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Charge for PRC enterprise income tax for the year	**660,534**	644,495	**625,336**	628,006
Payments made relating to the current year	**(466,178)**	(323,526)	**(434,612)**	(304,048)
PRC enterprise income tax payable (net)	**194,356**	320,969	**190,724**	323,958
Representing:				
Tax payable	**195,794**	325,361	**190,724**	323,958
Tax recoverable	**(1,438)**	(4,392)	**-**	-
	194,356	320,969	**190,724**	323,958

11 DIVIDENDS

(A) THESE DIVIDENDS HAVE NOT BEEN PROVIDED FOR IN THE FINANCIAL STATEMENTS:

	2001	2000
	RMB'000	RMB'000
Final dividend proposed of RMB0.17 per share (2000: RMB0.058)	**893,534**	304,853
Special interim dividend for 2000 of RMB0.228 per share	**-**	1,198,387
	893,534	1,503,240

Pursuant to a resolution passed at the Directors' meeting held on 25 February 2002, a final dividend of RMB0.17 per share totalling RMB893,534,000 will be payable to shareholders, subject to the approval of the shareholders at the Annual General Meeting to be held on 16 April 2002.

(B) DIVIDENDS PAID DURING THE YEAR ARE AS FOLLOWS:

	2001	2000
	RMB'000	*RMB'000*
Interim dividend of RMB0.02 per share for the year ended 31 December 2001 (2000: RMB0.02)	**105,122**	105,122
Special interim dividend of RMB0.228 per share for the year ended 31 December 2000 (1999: RMB Nil)	**1,198,387**	-
Final dividend of RMB0.058 per share for the year ended 31 December 2000 (1999: RMB0.0365)	**304,853**	192,014
	1,608,362	297,136

12 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 2001 of RMB1,379,497,000 (2000: RMB1,339,234,000) and the number of shares in issue during the year ended 31 December 2001 of 5,256,084,200 (2000: 5,256,084,200).

(B) DILUTED

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2000 and 2001.

13 PROPERTY, PLANT AND EQUIPMENT

(A) THE GROUP

	Buildings	Generators and related machinery and equipment	Motor vehicles, furniture, fixtures, equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2001	3,963,431	13,603,938	374,623	17,941,992
Additions	417	25	1,699	2,141
Transferred from construction in progress (note 14)	92,096	393,624	23,710	509,430
Disposals	(52,106)	(54)	(257)	(52,417)
At 31 December 2001	4,003,838	13,997,533	399,775	18,401,146
Accumulated depreciation:				
At 1 January 2001	809,176	2,782,765	52,503	3,644,444
Charge for the year	191,113	803,757	41,692	1,036,562
Written back on disposal	(2,317)	(51)	(233)	(2,601)

At 31 December 2001	997,972	3,586,471	93,962	4,678,405
Net book value:				
At 31 December 2001	3,005,866	10,411,062	305,813	13,722,741
At 31 December 2000	3,154,255	10,821,173	322,120	14,297,548

(B) THE COMPANY

	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 2001	3,253,590	12,134,828	336,074	15,724,492
Additions	-	-	552	552
Transferred from construction in progress (note 14)	89,983	369,723	21,101	480,807
Disposals	(51,841)	-	-	(51,841)
At 31 December 2001	3,291,732	12,504,551	357,727	16,154,010
Accumulated depreciation:				
At 1 January 2001	744,059	2,638,016	42,348	3,424,423
Charge for the year	141,992	704,359	32,026	878,377
Written back on disposal	(2,007)	-	-	(2,007)
At 31 December 2001	884,044	3,342,375	74,374	4,300,793

Net book value:

At 31 December 2001	2,407,688	9,162,176	283,353	11,853,217
At 31 December 2000	2,509,531	9,496,812	293,726	12,300,069

(C) ALL OF THE GROUP'S BUILDINGS ARE LOCATED IN THE PRC.

14 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at 1 January	386,427	761,551	382,491	130,182
Through acquisition of business	-	-	-	621,854
Additions	1,109,834	1,044,960	1,077,866	955,125
Transferred to property, plant and equipment (note 13)	(509,430)	(1,420,084)	(480,807)	(1,324,670)
Balance at 31 December	986,831	386,427	979,550	382,491

Construction in progress comprises:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development of the third and the fourth generating units at Laicheng Power Plant ("Laicheng Phase II")	887,069	143,288	887,069	143,288
Improvement projects	99,762	243,139	92,481	239,203
	986,831	386,427	979,550	382,491

The construction of two 300 MW generating units at Laicheng Power Plant, known as Laicheng Phase II, is anticipated to be completed in 2002 and 2003 respectively. The total budgeted construction cost of Laicheng Phase II is RMB2,349,890,000.

15 INTANGIBLE ASSETS

(A) THE GROUP

	Land use rights *RMB'000*	Goodwill *RMB'000*	Negative goodwill *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2001	264,720	58,667	(10,998)	312,389
Additions	1,574	-	-	
	1,574			
At 31 December 2001	266,294	58,667	(10,998)	313,963
Accumulated amortisation:				
At 1 January 2001	10,372	4,319	(1,100)	13,591
Amortisation charge for the year	10,372	3,618	(733)	13,257
At 31 December 2001	20,744	7,937	(1,833)	26,848
Carrying amount:				
At 31 December 2001	245,550	50,730	(9,165)	287,115
At 31 December 2000	254,348	54,348	(9,898)	298,798

(B) THE COMPANY

	Land use rights *RMB'000*	Goodwill *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2001 and 31 December 2001	184,103	60,330	244,433

Accumulated amortisation:

At 1 January 2001	5,630	1,463	7,093
Amortisation charge for the year	5,630	3,353	8,983
At 31 December 2001	11,260	4,816	16,076

Carrying amount:

At 31 December 2001	172,843	55,514	228,357
At 31 December 2000	178,473	58,867	237,340

(C) THE ABOVE LAND USE RIGHTS OF THE GROUP AND THE COMPANY ARE IN RESPECT OF LAND LOCATED IN THE PRC WITH UNEXPIRED TERMS OF 23 YEARS TO 47 YEARS.

At 31 December 2001, certain land use rights certificates of the Group with a net book value of RMB120,433,000 (2000: RMB221,330,000) had not been obtained.

16 INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
	RMB'000	*RMB'000*
Unlisted equities, at cost	**114,121**	39,121
Amounts due from subsidiaries	**3,650**	6,121
	117,771	45,242

The particulars of subsidiaries, all of which are limited companies established and operating in the PRC, at 31 December 2001 are as follows:

Company	**Registered and paid up capital**	**Percentage of equity held by the Company**		**Principal activity**
		2001	**2000**	
	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
Zibo SIPD Cogeneration Power Company Limited ("Zibo SIPD")	75,000	100	-	Dormant (note)

Note: In January 2002, the assets and liabilities of Shandong Luneng Development (Group) Company Limited - Zibo Branch acquired, as disclosed in note 19(iii) on the financial statements, were injected into Zibo SIPD. Zibo SIPD is now engaged in the generation and sale of heat and electricity.

17 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2001	2000
	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 2001 are as follows:

	Percentage of interest held by the Company		
Company	**2001**	**2000**	**Principal activities**
	%	%	
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 2001.

18 INVESTMENTS

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity securities, at cost	133,039	-	130,339	-

Investments of the Group and the Company mainly include investment in Shandong Luneng Heze Minerals Development Company Limited ("Heze Minerals") amounting to RMB91,339,000. The principal activities of Heze Minerals are the development and exploration of coalmine and coal-electricity base in Juye coalfield. The Group and Company own 18.4% equity interest in Heze Minerals as at 31 December 2001.

19 DEPOSITS AND PREPAYMENTS

In 2001, the Group and the Company have paid deposits and prepayments for the following investments and acquisitions:

(i) In December 2001, the Company entered into an agreement with Zhangqiu Power Industry Bureau for the acquisition of its 70% equity interest in Shandong Zhangqiu Power Company Limited ("Zhangqiu") for a consideration of RMB24,281,000, which was fully paid in December 2001. Afterwards, Zhangqiu increased its registered capital and the Company made a further payment of RMB101,719,000, being proportional share of the 70% interest in Zhangqiu, in December 2001.

The Company started to exercise effective control of Zhangqiu as from January 2002 when it obtained the power to govern the financial and operating policies of Zhangqiu.

(ii) In December 2001, the Company entered into an agreement with Shandong Luneng Development (Group) Company Limited ("Luneng Development"), a promoter of the Company, for the acquisition of its 30% equity interest in Shandong Tengzhou Xinyuan Power Company Limited ("Xinyuan") for a consideration of RMB13,620,000, which was fully paid in December 2001.

In January 2002, Xinyuan increased its registered capital and the Company made an additional capital contribution of RMB120,000,000 in Xinyuan and the Company's equity interest in Xinyuan increased from 30% to 54.49%.

The Company started to exercise effective control of Xinyuan as from January 2002 when it obtained the power to govern the financial and operating policies of Xinyuan.

(iii) In December 2001, the Company entered into an agreement with Luneng Development for the acquisition of the assets and liabilities of Zibo Branch, owned by Luneng Development, for a consideration of RMB74,200,000.

These assets and liabilities were transferred to Zibo SIPD in January 2002.

20 INVENTORIES

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Coal	**21,314**	31,658	**19,398**	25,509
Fuel oil	**4,781**	3,433	**2,232**	402
Materials, components and spare parts	**124,489**	140,454	**99,845**	116,149
	150,584	175,545	**121,475**	142,060
Materials, components and spare parts carried at cost less provision for obsolescence	**124,489**	116,149	**99,845**	116,149

21 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 2001.

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*

Cash and bank balances	**2,265,480**	1,202,133	**2,127,596**	1,129,924
Deposits with banks and other financial institutions	**245,544**	371,473	**245,544**	371,473
	2,511,024	1,573,606	**2,373,140**	1,501,397

23 LOANS

(A) BANK LOANS

	The Group		**The Company**	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year				
- short term bank loans	**1,181,675**	442,675	**710,000**	261,000
- current portion of long term bank loans	**355,278**	395,016	**160,000**	60,000
	1,536,953	837,691	**870,000**	321,000
Between one and two years	**185,950**	246,000	**60,000**	160,000
Between two to five years	**2,756,450**	2,000,850	**2,645,850**	1,819,000
After five years	**1,565,560**	2,002,410	**1,565,560**	2,002,410
	4,507,960	4,249,260	**4,271,410**	3,981,410
	6,044,913	5,086,951	**5,141,410**	4,302,410

At 31 December 2001, the Group had bank loans totalling RMB489 million (2000: RMB552 million) guaranteed by SEPCO. All the bank loans are unsecured.

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

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Floating interest rates mainly ranging from 5.58% to 6.83% per annum (2000: 5.58% to 6.83%), with maturities up to 2009	**6,044,913**	5,086,951	**5,141,410**	4,302,410

(B) LOANS FROM SHAREHOLDERS

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year	**262,207**	399,591	**180,470**	329,010
Between one and two years	**197,667**	186,516	**191,610**	160,360
Between two to five years	**402,920**	603,707	**402,920**	597,650
After five years	**-**		**26,880**	-
	26,880			
	600,587	817,103	**594,530**	784,890
	862,794	1,216,694	**775,000**	1,113,900

All the loans from shareholders are unsecured.

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	
	2001	2000	**2001**	2000
	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 (2000: 6.21%) with maturities up to 2006	**862,794**	986,694	**775,000**	883,900
Loans from Zaozhuang City Infrastructure Investment Corporation ("ZCIIC"):				
Floating interest rate of 6.21% per annum with maturities up to 2006 (Note 1)	**-**	30,000	**-**	30,000
Loans from SEPCO:				
Fixed interest rate of 8% per annum (Note 2)	**-**	200,000	**-**	200,000
	862,794	1,216,694	**775,000**	1,113,900

Notes:

(1) This loan was early repaid by the Company during the year.

(2) This loan 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 bore interest at a rate of 8% per annum on the full principal amount thereof starting on 10 June 1998. The loan bore the same terms as the debenture. The principal amount and the total interest due were repaid during the year.

(C) STATE LOAN

	The Group and The Company	
	2001	2000

	RMB'000	*RMB'000*
Due:		
Within one year	**125,996**	116,960
Between one and two years	**130,126**	120,490
Between two to five years	**454,734**	421,437
After five years	**1,129,695**	1,292,820
	1,714,555	1,834,747
	1,840,551	1,951,707

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

	2001	2000
	RMB'000	*RMB'000*
Floating interest rate of 7.29 % per annum (2000: 7.60%), with maturities up to 2012	**1,840,551**	1,951,707

The loan is 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. The repayment of this loan is guaranteed by SEPCO.

The Group and the Company early repaid part of the state loan including principal and interest amounting to US$208,508,000 (RMB1,725,882,000 equivalent) in January 2002. Based on the loan repayment notice issued by the PRC state government, the actual amount payable for the settlement of this loan principal was US$194,308,000 (RMB1,609,845,000 in equivalent).

(D) OTHER LOANS

	The Group	
	2001	2000
	RMB'000	*RMB'000*
Due:		
Within one year	**27,765**	168,908
Between one and two years	**454,282**	10,508
Between two to five years	**31,514**	475,302
After five years	**36,762**	47,275
	522,558	533,085
	550,323	701,993

All of the other loans are denominated in Renminbi, except for an amount of RMB94,546,000 (2000: RMB99,816,200) which is denominated in US dollars. Details of the interest rates and maturity dates of other loans are as follows:

	The Group	
	2001	2000
	RMB'000	*RMB'000*
Loans from Qingdao International Trust and Investment Corporation ("QITIC"), a joint venture partner of Qingdao Plant		
Floating interest rate of 4.64% per annum (2000: ranging from 8.76% to 12%) with maturities up to 2010	**94,546**	148,216
Loans from Jinan Yingda International Trust Investment Company		
Floating interest rates ranging from 5.91% to 9.12% per annum (2000: 6.44% to 11.16%)		

with maturities up to 2003	**455,777**	553,777
	550,323	701,993

At 31 December 2001, other loans totalling RMB443,777,000 (2000: RMB554,000,000) were secured by deposits placed with the lender by SEPCO.

24 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 2001.

25 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**	
	2001	2000	**2001**	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Training costs	-	1,227	-	-	**-**	1,227
Preliminary expenses	-	758	-	-	**-**	758
Provision for inventories and debtors	**18,154**	10,030	-	-	**18,154**	10,030
Depreciation of property, plant and equipment	-	-	**(132,118)**	(108,976)	**(132,118)**	(108,976)
Fair value adjustment on property, plant and equipment acquired	-	-	**(58,424)**	(63,613)	**(58,424)**	(63,613)
Others	**3,305**	3,413	**-**	-	**3,305**	3,413
	21,459	15,428	**(190,542)**	(172,589)	**(169,083)**	(157,161)
Set-off within legal tax units and						

jurisdictions	**(21,459)**	(15,428)	**21,459**	15,428	**-**	-
Net deferred tax liabilities	-	-	**(169,083)**	(157,161)	**(169,083)**	(157,161)

The Company:

	Assets		Liabilities		Net	
	2001	2000	**2001**	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Provision for inventories and debtors	**14,160**	10,030	**-**	-	**14,160**	10,030
Depreciation of property, plant and equipment	-	-	**(18,573)**	(19,396)	**(18,573)**	(19,396)
Others	**2,010**	2,010	**-**	-	**2,010**	2,010
	16,170	12,040	**(18,573)**	(19,396)	**(2,403)**	(7,356)
Set-off within legal tax units and jurisdictions	**(16,170)**	(12,040)	**16,170**	12,040	**-**	-
Net deferred tax liabilities	-	-	**(2,403)**	(7,356)	**(2,403)**	(7,356)

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

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

The Group:

	Balance at 1 January 2000	Recognised in the 2000 income statement	Balance at 1 January 2001	Recognised in the 2001 income statement	Balance at 31 December 2001
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***

Training costs	15,260	(14,033)	1,227	(1,227)	-
Preliminary expenses	1,012	(254)	758	(758)	-
Provision for inventories and debtors	10,030	-	10,030	8,124	18,154
Depreciation of property, plant and equipment	(83,634)	(25,342)	(108,976)	(23,142)	(132,118)
Loss on disposal of staff quarters	29,479	(29,479)	-	-	-
Tax losses	11,156	(11,156)	-	-	-
Fair value adjustment on property, plant and equipment acquired	(68,806)	5,193	(63,613)	5,189	(58,424)
Others	3,662	(249)	3,413	(108)	3,305
	(81,841)	(75,320)	(157,161)	(11,922)	(169,083)

The Company:

	Balance at 1 January 2000	Recognised in the 2000 income statement	Balance at 1 January 2001	Recognised in the 2001 income statement	Balance at 31 December 2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Provision for inventories and debtors	10,030	-	10,030	4,130	14,160
Depreciation of property, plant and equipment	(19,396)	-	(19,396)	823	(18,573)
Others	2,010	-	2,010	-	2,010
	(7,356)	-	(7,356)	4,953	(2,403)

26 SHARE CAPITAL AND RESERVES

(A) THE GROUP

	Share capital *RMB'000* *(note 26(i))*	Capital reserve *RMB'000* *(note 26(ii))*	Statutory common reserve *RMB'000* *(note 26(iii))*	Statutory common welfare fund *RMB'000* *(note 26(iv))*	Retained profits *RMB'000*	Total Shareholders' equity *RMB'000*
Balance at 1 January 2000	5,256,084	778,040	241,382	121,886	988,964	7,386,356
Total recognised gains	-	-	-	-	1,339,234	1,339,234
Transfer to statutory reserves	-	-	130,794	65,397	(196,191)	-
Transfer to/(from) reserves	-	-	26,400	(26,400)	-	-
Dividends paid	-	-	-	-	(297,136)	(297,136)
	5,256,084	778,040	398,576	160,883	1,834,871	8,428,454
Balance at 1 January 2001	5,256,084	778,040	398,576	160,883	1,834,871	8,428,454
Total recognised gains	-	-	-	-	1,379,497	1,379,497
Transfer to statutory reserves	-	-	138,881	69,441	(208,322)	-
Dividends paid	-	-	-	-	(1,608,362)	(1,608,362)
Balance at 31 December 2001	5,256,084	778,040	537,457	230,324	1,397,684	8,199,589

(b) The Company

	Share capital *RMB'000* *(note 26(i))*	Capital reserve *RMB'000* *(note 26(ii))*	Statutory common reserve *RMB'000* *(note 26(iii))*	Statutory common welfare fund *RMB'000* *(note 26(iv))*	Retained profits *RMB'000*	Total Shareholders' equity *RMB'000*
Balance at 1 January 2000	5,256,084	778,040	241,382	121,886	1,001,424	7,398,816
Total recognised gains	-	-	-	-	1,265,235	1,265,235
Transfer to statutory reserves	-	-	130,794	65,397	(196,191)	-
Transfer to/(from) reserves	-	-	26,400	(26,400)	-	-
Dividends paid	-	-	-	-	(297,136)	(297,136)
	5,256,084	778,040	398,576	160,883	1,773,332	8,366,915
Balance at 1 January 2001	5,256,084	778,040	398,576	160,883	1,773,332	8,366,915
Total recognised gains	-	-	-	-	1,277,850	1,277,850
Transfer to/(from)						

statutory reserves	-	-	138,881	69,441	(208,322)	-
Dividends paid	-	-	-	-	(1,608,362)	(1,608,362)
Balance at 31 December 2001	5,256,084	778,040	537,457	230,324	1,234,498	8,036,403

Notes:

(i) The registered capital of the Company comprises 3,825,056,200 domestic shares of RMB1 each (2000: 3,825,056,200) and 1,431,028,000 H shares of RMB1 each (2000: 1,431,028,000). All shares rank pari passu in all material respects.

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

(iii) 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% (2000: 10%) of the profit for the year ended 31 December 2001 to this reserve on 25 February 2002.

(iv) 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% (2000: 5%) of the profit for the year ended 31 December 2001 to the fund on 25 February 2002.

(v) The transfer to the statutory common reserve and statutory common welfare fund from the income statement is subject to approval by shareholders at the Annual General Meeting to be held on 16 April 2002.

(vi) 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. As of 31 December 2001, the retained profits available for distribution were RMB340,964,000 (2000: RMB270,092,000), after taking into account the current year's proposed final dividend (see note 11) and the transfer to the statutory common reserve and the statutory common welfare fund according to the Company's Articles of Association.

(vii) The profit attributable to shareholders for 2001 includes a profit of RMB1,277,850,000 (2000: RMB1,265,235,000) which has been dealt with in the financial statements of the Company.

27 INTEREST IN JOINTLY CONTROLLED ENTITIES

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

	2001	2000
	RMB'000	*RMB'000*
Non-current assets	**1,947,466**	2,055,540
Current assets	**262,719**	129,111
Non-current liabilities	**(874,819)**	(919,338)
Current liabilities	**(851,092)**	(886,870)
Net assets	**484,274**	378,443
Revenue	**923,754**	949,548
Expenses	**(762,212)**	(793,919)
	161,542	155,629

28 MATERIAL RELATED PARTY TRANSACTIONS

Most of the transactions undertaken by the Group (including its jointly controlled entities) during the year ended 31 December 2001 have been effected with such counterparties and on such terms as have been agreed with SEPCO or entities under its control.

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

	Note	**2001** *RMB'000*	2000 *RMB'000*
Sale of electricity	i	**7,142,341**	6,862,545
Interconnection and despatch management fees	ii	**76,185**	72,104
Purchase of coal, including handling fees	iii	**2,102,879**	1,916,916
Coal field management fee	iv	**90,408**	75,240
Repairs and maintenance services	v	**240,681**	235,623
Construction costs and equipment cost paid	vi	**313,395**	331,000

The balances due to/(from) related parties, other than balances with SEPCO which have been separately disclosed in the consolidated balance sheet, as at 31 December 2001 are as follows:

	Note	**2001** *RMB'000*	2000 *RMB'000*
Shandong Luneng Fuel (Group) Company Limited	iii & iv	171,117	201,580
Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited	v	(15,079)	3,639
Shandong Electric Power No.1, No.2 & No.3 Construction Engineering Companies	vi	57,530	72,541

(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.

As noted in Note 4 on the financial statements, an Offtake Contract was entered into between SEPCO and the Company dated 12 January 1999 in respect of the sales of electricity.

(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, 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 Luneng Fuel (Group) Company Limited (the "Fuel Supply Company"), a company controlled by SEPCO, supplies coal to the Group for power generation. 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) Shandong Electric Power No.1 Construction Engineering Company, a subsidiary of SEPCO is responsible for the construction of ancillary 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 Laicheng Phase II project, the third and the fourth generating units, 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 Laicheng Phase II with these two companies is RMB592,510,000. Total amount of construction cost paid for the year ended 31 December 2001 was RMB226,800,000.

(vii) Details of the loans from or secured or guaranteed by SEPCO and loans from SITIC, ZCIIC and QITIC, are set out in note 23(a) to (d).

(viii) In December 2001, the Company injected capital of RMB39,000,000 into the Fuel Supply Company, which was included in the balance sheet caption "Investments" in note 18, and owned 13% of the enlarged registered capital of the Fuel Supply Company.

(ix) In October 2001, the Company entered into an agreement with Shandong Luneng Property Corporation (the "Property Company"), an associate of SEPCO, pursuant to which the Company has agreed to purchase one level of Luneng Centre as the Company's new office premises. The Company has paid a deposit of RMB30,000,000 to the Property Company during the year. The total purchase costs of the property acquired may be adjusted according to the actual construction costs of the Luneng Centre.

(x) In December 2001, the Company entered into acquisition agreements with Luneng Development, as disclosed in note 19(ii) and (iii) of the financial statements.

(xi) All materials and equipment for fixed assets improvement works and major overhauls undertaken by the Group are supplied by Shandong Luneng Materials Group Corporation Limited (the "Materials Company") (previously known as Shandong Electric Power Materials Company), which was previously controlled by SEPCO. After completion of a reorganisation of the Materials Company in December 2000, the directors of the Company consider that the Materials Company is no longer a related party of the Group.

29 RETIREMENT PLANS AND STAFF HOUSING

The Group is required to make contributions to a retirement plan operated by the State at a rate of 20% (2000: 19.2%) of the 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 RMB41,135,000 during the year (2000: RMB35,482,000) which was charged to the consolidated income statement.

The Group sold certain staff quarters to its staff at prices calculated in accordance with the current regulations of Shandong Province and incurred a loss amounting to RMB9,759,000 (2000: RMB93,472,000) in this regard.

The net book value of staff quarters, included in property, plant and equipment, of the Group amounted to RMB3,957,000 as at 31 December 2001.

30 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 financial statements as follows:

	The Group		**The Company**	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for				
- Laicheng Phase II	**982,183**	-	**982,183**	-
- Improvement projects	**22,498**	105,168	**22,498**	105,168
Authorised but not contracted for				
- Laicheng Phase II	**480,638**	2,191,345	**480,638**	2,191,345
- Investments	**120,000**	-	**208,000**	-
- Improvement projects	**135,670**	101,017	**135,670**	101,017
	1,740,989	2,397,530	**1,828,989**	2,397,530

The Group's share of the jointly controlled entities' capital expenditure commitments amounted to RMB239,204,000 at 31 December 2001 (2000: RMB11,375,000).

(ii) Operating lease commitments

Pursuant to an agreement entered into with the State, the Company is leasing certain 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 five years thereafter with an upward adjustment of not more than 30% of the previous year's rental. The revised annual rental effective from 1 January 2001 is RMB30,178,000.

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, the amount due from SEPCO and investments. Financial liabilities of the Group include bank loans, loans from shareholders, a state loan, other loans, trade creditors and other creditors and accruals. Accounting policies for financial assets and liabilities are set out in note 2(i). 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 23.

(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.

No other financial assets carry a significant exposure to credit risk.

(C) FOREIGN CURRENCY RISK

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated 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 cash and cash equivalents denominated in US dollars are substantially matched, the foreign currency risk is not significant to the Group.

(D) FAIR VALUE

The carrying values of the Group's current financial assets and liabilities are estimated to approximate to their fair values based on the nature or short-term maturity of these instruments.

Investments are unlisted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The carrying value of the Group's non-current financial liabilities are estimated to approximate to their fair values based on 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 COMPARATIVE FIGURES

The following comparative figures have been reclassified in order to conform with the presentation in the current financial statements:

(i) the balance of time deposits maturing over three months have been reclassified from net cash flows from financing activities to net cash flows from investing activities.

(ii) the amortisation of goodwill has been reclassified from selling and administration expenses to depreciation and amortisation.

(iii) the land use rights have been reclassified from property, plant and equipment to intangible assets.

33 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.