(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on 30th June, 1994. As at 31st December, 2001, the Company and its subsidiaries had 9,350 employees (2000: 5,602 employees). The Company and its subsidiaries are principally engaged in the generation and sale of electric power to the respective regional or provincial power companies.

Particulars of the Company's and its subsidiaries' power plants are as follows:

Operating Plants	Total installed capacity of the Company, its subsidiaries and associate (MW)	Equity portion of total capacity of the Company (MW)	Province/ Municipality located
Five original operating plants:			
Huaneng Dalian Power Plant (the "Dalian Power Plant")	700	700	Liaoning
Huaneng Shangan Power Plant (the "Shangan Power Plant")	700	700	Hebei
Huaneng Nantong Power Plant (the "Nantong Power Plant")	700	700	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	700	Fujian
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	100	100	Guangdong
New operating plants:			
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")	600	600	Guangdong
Huaneng Shangan Power Plant Phase II (the "Shangan Phase II")	600	600	Hebei
Huaneng Shanghai Shidongkou Second Power Plant (the "Shanghai Power Plant")	1,200	1,200	Shanghai
Huaneng Dalian Power Plant Phase II (the "Dalian Phase II")	700	700	Liaoning
Huaneng Dandong Power Plant (the "Dandong Power Plant")	700	700	Liaoning
Huaneng Nantong Power Plant Phase II (the "Nantong Phase II")	700	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II")	700	700	Fujian
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	600	600	Jiangsu
Huaneng Dezhou Power Plant (the "Dezhou Power Plant")	1,200	1,200	Shandong
Subsidiaries:			
Huaneng Weihai Power Plant (the "Weihai Power Plant")	850	510	Shandong
Huaneng Jining Power Plant (the "Jining Power Plant")	300	225	Shandong
Associate:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Plant")	700	178	Shandong
Total	11,750	10,813	

The parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group Corporation ("China Huaneng Group") respectively. Both companies are incorporated in the PRC.

2. ACQUISITION OF SHANDONG HUANENG

On 18th July, 2000, the Company and Shandong Huaneng Power Development Co., Ltd ("Shandong Huaneng") entered into an agreement under which the Company acquired the net assets of Shandong Huaneng. The shareholders of Shandong Huaneng were entitled to Rmb1.34 per ordinary A share or US$0.1618 per ordinary N share (the "Acquisition"). The total consideration of the Acquisition is approximately Rmb5,768 million paid in cash. Direct costs relating to the Acquisition amounted to approximately Rmb32 million.

Before the Acquisition, Shandong Huaneng owned and operated the net assets of Dezhou Power Plant and held 60%, 75% and 25.5% equity interests in Weihai Power Plant, Jining Power Plant and Rizhao Power Plant, respectively. These power plants own coal-fired power generating facilities in the Shandong province and sell all the power generated to Shandong Electricity Power Group Corporation ("SEPCO"). After obtaining all the necessary government approvals on the Acquisition, the Company took over the control of the net assets and operation of Shandong Huaneng from 1st January, 2001.

The purchase method of accounting is used for this Acquisition. The acquired identifiable assets and liabilities are recorded based on their respective fair values on 1st January, 2001. The Company estimated that the fair value of the net identifiable assets and liabilities of Shandong Huaneng on that date was approximately Rmb8,272 million. Such estimation was made by the Company based on the current information available, taking into consideration the recoverability and realizability of each asset and liability. On the above basis, the resulting negative goodwill amounted to approximately Rmb2,473 million (Note 13), which is amortized over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets (i.e.10 years) on the straight-line basis, starting from 1st January, 2001.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are as follows:

(a) General

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") effective as at 31st December, 2001 and Appendix 16 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted for the preparation of the consolidated financial statements as at and for the year ended 31st December, 2001 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31st December, 2000, except that financial instruments are recognized and measured in accordance with IFRS 39, which is effective from 1st January, 2001 (See Note 3(w) and Note 21).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(b) Basis of Presentation

The accompanying financial statements are prepared under the historical cost convention, except that investments held for trading and available for sale are stated at their fair value (see Note 3(f)).

(c) Principles of Consolidation

The consolidated financial statements of the Company and its subsidiaries include Huaneng Power International, Inc. and the companies that it controls. This control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

The purchase method of accounting is used for acquired businesses. Companies acquired during the year are included in the consolidated financial statements from the effective date of acquisition.

Investments in an associate (generally investments of between 20% to 50% in a company's equity) where a significant influence is exercised by the Company are accounted for by using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the associate incurs losses, the Company recognizes its share of losses until the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued, unless the Company has incurred obligations to the associate or to satisfy obligations of the associate that the Company has guaranteed or otherwise committed. To the extent that the Company has incurred such obligations, it continues to recognize its share of losses of the investee.

All other investments are accounted for in accordance with IFRS 39, Financial Instruments: Recognition and Measurement as further disclosed in Note 3(w).

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated upon consolidation.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries and an associate are accounted for using the equity method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation is computed on a straight-line basis to write off the cost, after taking into account the estimated residual value, of each asset over its estimated useful life. The estimated useful lives are as follows:

Buildings	10-50 years
Electric utility plant in service	4-32 years
Transportation facilities	10-30 years
Others	3-22 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and ready for its intended use.

(e) Land Use Rights

Costs of land use rights are recognized as an expense on a straight-line basis over the duration of the land use rights of 50 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(f) Investments

The Company adopted IFRS 39, Financial Instruments: Recognition and Measurement on 1st January, 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investment. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Investments held for trading are included in current assets. Available-for-sale in investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

All the purchase and sales of investments are recognized on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale and trading investments without quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less accumulated impairment loss. Gains or losses on measurement to fair value of available-for-sale investments are recognized directly in the fair value reserve in shareholders' equity until the investment is sold or otherwise disposed of ,or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

Changes in fair value of trading investments are included in financial expense or income.

Investments held-to-maturity are included in non-current assets unless they mature within 12 months of the balance sheet date. Held-to-maturity investments are carried at amortized cost.

(g) Negative Goodwill

The excess of the Company's interest in the fair value of the net identifiable assets acquired as at the date of the exchange transaction over the cost of an acquisition is recorded as negative goodwill. The identifiable assets and liabilities recognized upon acquisition are measured at the fair values as at that date.

In addition to the purchase consideration, direct costs relating to the acquisition incurred by the Company is included in the cost of acquisition. These include the costs of registering and professional fees paid to accountants, legal advisers, valuers and other consultants to effect the acquisition. General administrative costs, which cannot be directly attributed to the particular acquisition being accounted for, are not included in the cost of the acquisition but are recognized as an expense as incurred.

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Negative Goodwill *(Cont'd)*

The amount of negative goodwill not exceeding the fair values of the acquired identifiable non-monetary assets is recognized in the income statement as other income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets, which is estimated to be 10 years.

(h) Cash and Cash Equivalents

Cash includes cash on hand and deposits with banks or other financial institutions.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(i) Temporary Cash Investments

Temporary cash investments are cash invested in fixed-term deposits with original maturities ranging from more than three months to one year. Temporary cash investments are classified as held-to-maturity investments and are carried at amortized cost (see Note 3(f)).

(j) Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortized cost, after provision for impairment.

(k) Materials and Supplies

Materials and Supplies are stated at the lower of weighted average costs or net realizable values after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate. Cost of materials and supplies includes direct material cost and transportation expenses incurred in bringing the materials and supplies to the working locations. Unrealizable inventory has been fully written off.

(l) Convertible Notes

The proceeds received on the issue of the convertible notes were allocated into liability and equity components. Upon initial recognition, the liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate 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 issue of the notes. After the initial recognition, the liability component is measured at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(l) Convertible Notes *(Cont'd)*

As further discussed in Note 21, the convertible notes were issued at par with a put option allowing the investors to redeem the notes at a premium for cash at 128.575% of the par value on 21st May, 2002. The put option is accounted for as an embedded derivative and separated from the host contract. This embedded derivative is carried at fair value, with changes in fair value included in net profit or loss (See Note 3(w)).

The accounting treatments of the convertible notes prior to the adoption of IFRS39 on 1st January, 2001 were set out in Note 21.

(m) Provisions

A provision is recognized when, and only when, the Company and its subsidiaries have a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Gains from the expected disposal of assets are not taken into account in measuring the provision. Property, plant and equipment that is retired from active use is carried at the lower of the carrying amount or estimated net selling price less costs of disposal.

(n) Equity Transaction Costs

The transaction costs of an equity transaction, other than in the context of a business combination, are accounted for as a deduction from equity, net of any related income tax benefit. Equity transaction costs are comprised of only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(o) Foreign Currency Translation

The Company and its subsidiaries maintain their books and records in Renminbi ("Rmb"). Transactions in other currencies are translated into Rmb at the applicable exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into Rmb using the applicable PBOC exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods, other than those capitalized as a component of borrowing cost, are recognized in the income statement in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(p) Revenue and Income Recognition

Revenue and income are recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries and the amount of the revenue and income can be measured reliably.

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial power companies (net of Value Added Tax ("VAT")). Revenues are earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective power companies.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis that reflects the effective yield on the assets.

(q) Fuel Expenses

Fossil fuel inventories are stated at the lower of moving weighted average costs (net of VAT) and net realizable value and are charged to fuel expenses based on actual inventory usage.

(r) Repair and Maintenance Expenses

Except for the power plants acquired from Shandong Huaneng, major repairs and maintenance determined on the basis of 1% of the fixed asset cost is allowed as an expense recoverable through power rates. The Company estimates that, over the useful life of its power plants, this basis would approximate the total expenses for major repair and maintenance actually incurred. In a particular year, to the extent that the actual repair and maintenance expenses incurred are less than the amount determined on the above basis, the difference represents revenue collected in excess of actual expenses incurred. Such difference is recorded as revenue received in advance.

(s) Operating Leases

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessors are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(t) Borrowing Costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

(u) Taxation

(i) VAT

Under the relevant tax laws implemented on 1st January, 1994, the Company and its subsidiaries are subject to VAT. The Company and its subsidiaries are subject to output VAT levied at 17% of the Company's and its subsidiaries' operating revenue. The input VAT paid on purchases of coal, water and materials can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because the VAT is a tax on the customer and the Company and its subsidiaries collect such tax from the customers and pay such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenues or operating expenses.

(ii) Income tax

Effective from 1st January 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, the reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country.

All power plants (except for Dezhou Power Plant, expansion projects other than Shangan Power Plant Phase II and the subsidiaries of the Company) are exempted from PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

The tax holiday of the five original operating plants and the Shanghai Power Plant had already expired prior to 2000. The tax holiday of the remaining operating plants will expire in 2002 to 2003.

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(u) Taxation *(Cont'd)*

(ii) Income tax *(Cont'd)*

The statutory income tax rates applicable to the head office and the individual power plants, after taking the effect of tax holiday into consideration, are summarized below:

	2001	2000
Head Office	**15.0%**	15.0%
Dalian Power Plant (including Dalian Phase II)	**15.0%**	15.0%
Shangan Power Plant	**16.5%**	16.5%
Shangan Phase II	**9.0%**	Exempted *
Nantong Power Plant (including Nantong Phase II)	**15.0%**	15.0%
Fuzhou Power Plant (including Fuzhou Phase II)	**15.0%**	15.0%
Shantou Oil-Fired Plant	**15.0%**	15.0%
Shantou Power Plant	**7.5%**	7.5%
Shanghai Power Plant	**16.5%**	16.5%
Nanjing Power Plant	**7.5%**	7.5%
Dandong Power Plant	**—**	—
Shandong Branch	**17.0%**	Not applicable**
Dezhou Power Plant	**17.0%**	Not applicable**
Weihai Power Plant	**33.0%**	Not applicable**
Jining Power Plant	**33.0%**	Not applicable**

* In accordance with Guo Shui Han [2000] No. 194, the tax holiday of the Shangan Phase II is determined separately from the Shangan Power Plant. The Shangan Phase II is entitled to a tax holiday starting from the first profit making year (after covering any accumulated deficits). The excess income tax paid by the Shangan Phase II for the year ended 31st December, 1999 was refunded to the Company in 2000.

** Not applicable because they were not subsidiaries or branches of the Company in 2000.

The income tax charge is based on profit for the year and after considering deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company and its subsidiaries expect, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(u) Taxation *(Cont'd)*

(ii) Income tax *(Cont'd)*

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company and its subsidiaries re-assess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company and its subsidiaries recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company and its subsidiaries conversely reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

(v) Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(w) Financial Instruments

Liabilities and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

Derivative financial instruments

On inception, the Company identifies certain derivatives as either a) a hedge of the fair value of an asset or a liability (fair value hedge), b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction or c) a hedge of a net investment in a foreign entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(w) Financial Instruments *(Cont'd)*

Derivative financial instruments *(Cont'd)*

The Company's criteria for classifying a derivative instrument as a hedge include: i) the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, ii) the effectiveness of the hedge can be reliably measured, iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and iv) for cash flow hedges, the forecasted transaction that is subject of the hedges must be highly probable.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in the income statement.

An embedded derivative is separated from the host contract and accounted for as a derivative if i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

(x) Impairment of Assets

Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortised cost, whenever it is probable that the Company and its subsidiaries will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognized in the income statement. Reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

For available-for-sale financial assets, the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period when there is objective evidence that the asset is impaired. The recoverable amount of a debt instrument remeasured to fair value is the present value of expected future cash flows discounted at the current market interest rates for a similar financial asset. A reversal of an impairment loss is recorded when the decrease in the impairment loss can be objectively related to an event occurring after the write down. Such reversal is recorded in income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(x) Impairment of Assets *(Cont'd)*

Other assets

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income statement for items of property, plant and equipment carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

As an exception, an impairment loss recognized for goodwill is not reversed in a subsequent period unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

(y) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(z) Subsequent Events

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. SALES OF ELECTRIC POWER

The Company and its subsidiaries have contractual arrangements for the sale of electric power with the local power companies. All power output is sold at rates designed to cover all operating and debt service costs, taxes and any exchange losses incurred, plus a reasonable return on the Company's and its subsidiaries' rate base.

For the years ended 31st December, 2001 and 2000, all operating revenues were billed at the on-grid wholesale rates to the local power companies, except for the Shantou Oil-Fired Power Plant, the operating revenues of which were billed at the retail rate and charged to the ultimate consumers before 1st June, 2001.

Upon the approval from local authorities, operating revenues of Shantou Oil-Fired Power Plant have been billed at the on-grid wholesale rates to the local power companies since 1st June, 2001.

Before 1st June, 2001, under the retail rate arrangement, the local power company collected revenue from the ultimate consumers and remitted it to the Shantou Oil-Fired Power Plant after deducting the cost of transmission and an agreed amount of handling fees. The Shantou Oil-Fired Power Plant recognized the gross amount received as revenue with the reimbursement of transmission costs and payment of handling fees to the local power company being separately recorded as transmission fees under operating expense. For Shantou Oil-Fired Power Plant after 1st June, 2001 and other power plants subject to on-grid wholesale rates, since such rates excluded the transmission costs incurred by the local power companies, no transmission fees were recorded.

5. PROFIT BEFORE TAXATION

Profit before taxation was determined after charging and (crediting) the following:

	2001 '000	2000 '000
Interest expenses on convertible notes	**108,581**	146,762
Interest expenses on:		
- bank loans repayable within 5 years	**236,832**	135,835
- bank loans repayable beyond 5 years	**492,079**	572,040
Interest expenses on:		
- shareholders loans wholly repayable within 5 years	**73,524**	153,044
Interest expenses on other long-term loans wholly repayable within 5 years	**43,726**	16,972
	954,742	1,024,653
Less: amount capitalized in property, plant and equipment	**(87,204)**	—
Total interest expenses	**867,538**	1,024,653
Interest income	**(113,081)**	(79,723)
Interest expense, net	**754,457**	944,930
Exchange losses, net	**41,758**	34,936
Loss of interest rate swaps	**14,875**	—
Fair value change of put option	**46,562**	—
Auditors' remuneration	**12,747**	7,119
Loss on disposals of fixed assets	**36,592**	50,879
Operating lease		
- Buildings	**25,000**	25,000
- Land use rights	**51,567**	19,870
Depreciation of property, plant and equipment	**3,261,001**	2,654,413
Amortization of negative goodwill	**(247,279)**	—
Cost of materials and supplies	**5,337,630**	4,001,614
Provision for doubtful accounts	**1,030**	4,588
Provision for inventory obsolescence	**2,576**	10,608
Personnel expenses		
- Wages and staff welfare	**588,552**	503,573
- Retirement benefits	**107,301**	80,608
- Staff housing benefits	**56,406**	36,473
- Other staff costs	**54,877**	49,262

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

6. RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of relationship
HIPDC	Parent
China Huaneng Group	Ultimate parent
China Huaneng Finance Company (“Huaneng Finance”)	A subsidiary of China Huaneng Group
SEPCO	Minority shareholder of Jining Power Plant
Weihai International Trust and Investment Corporation (“WITIC”)	Minority shareholder of Weihai Power Plant
China Huaneng International Trade Economics Corporation (“CHITEC”)	A subsidiary of China Huaneng Group

a. Pursuant to the relevant service agreements, HIPDC provides transmission and transformer facilities to some of the power plants of the Company and receives service fees. Such service fees represent recoverable costs for rate setting purposes. For the Shangan Power Plant, the Fuzhou Power Plant and the Shantou Oil-Fired Power Plant, such service fees include various costs of transmission incurred by HIPDC plus a profit margin of 10% of the average net book value of HIPDC’s transmission facilities. For the Shantou Power Plant, the Shangan Power Plant Phase II and the Shanghai Power Plant, the annual service fees were fixed and equal to 12% of the original book value of HIPDC’s transmission and transformer facilities. The total service fees paid to HIPDC for the year ended 31st December, 2001 was approximately Rmb307 million (2000: Rmb311 million).

b. At the time of the formation of the Company, HIPDC transferred the land use rights pertaining to existing sites occupied by the five original operating plants for a period of 50 years in return for an amount of approximately Rmb148 million. Payments to HIPDC for the land use rights are being made in 10 equal, non-interest bearing, annual installments starting in 1994.

c. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use rights of the Shanghai Power Plant is leased to the Company for a period of 50 years at an annual rental payment of Rmb6 million.

d. Pursuant to an acquisition agreement entered into amongst the Company, HIPDC and Nanjing Investment in 1999 (the “Nanjing Acquisition Agreement”), the Company acquired from HIPDC and Nanjing Investment Company (“Nanjing Investment”) the existing power generation facilities and related assets and liabilities of the Nanjing Power Plant. The total purchase price was approximately Rmb2,702 million which was based on the appraised value of the assets acquired as determined by an independent appraiser. As at 31st December, 2001, the total purchase price has been fully settled according to Nanjing Acquisition agreement. The Company paid Rmb142 million in 2001 to Nanjing Investment (2000: Rmb100 million).

6. RELATED PARTY TRANSACTIONS *(Cont'd)*

e. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment, the land use right of the Nanjing Power Plant is leased to the Company for 50 years with an annual rental payment of approximately Rmb1.3 million, starting from the year ended 31st December, 1999.

f. As at 31st December, 2001, current deposits of approximately Rmb64 million (2000: Rmb166 million) and fixed deposits of approximately Rmb3,689 million (2000: Rmb100 million) were placed with a non-bank PRC financial institution, Huaneng Finance, which is a subsidiary of China Huaneng Group (See Note 14).

g. Pursuant to the leasing agreement between the Company and HIPDC signed on 13th February, 2000, HIPDC agreed to rent out its building to the Company as office for 5 years at an annual rental of Rmb25 million effective from 1st January, 2000.

h. As described in Note 22 and Note 24(b), certain bank loans were on-lent from HIPDC and drawn from WITIC to the Company and its subsidiaries.

i. As at 31st December, 2001, short-term loans amounting to Rmb40 million were borrowed from Huaneng Finance (See Note 25).

j. The balances with HIPDC and SEPCO are listed as follows:

	The Company and its subsidiaries	**The Company**	
	2001	**2001**	2000
	'000	**'000**	'000
Due to HIPDC	**36,584**	**36,584**	130,158
Due from SEPCO	**241,982**	**166,532**	—
Due to SEPCO	**3,225**	**3,225**	—

The balances with HIPDC and SEPCO are unsecured, non-interest bearing and repayable within one year. As the amount due from SEPCO represented the uncollected sales of electricity, it was included in accounts receivable.

k. As at 31st December, 2001, long-term bank loans of approximately Rmb8,868 million, Rmb1,666 million and Rmb300 million (2000: Rmb9,962 million, 5 million and nil) were guaranteed by HIPDC, China Huaneng Group and WITIC, respectively.

l. As at 31st December, 2001, current deposit of Rmb5.5 million was placed with the financing center of SEPCO.

m. On 18th July, 2000, the Company and Shandong Huaneng Power Development Co., Ltd ("Shandong Huaneng") entered into an agreement under which the Company acquired the net assets of Shandong Huaneng in which China Huaneng Group held 33.09% equity interest. The shareholders of Shandong Huaneng were entitled to Rmb1.34 per ordinary A share or US$0.1618 per ordinary N share (the "Acquisition"). The total consideration of the Acquisition paid in 2000 is approximately Rmb5,768 million, among which, approximately Rmb1,909 million was paid to China Huaneng Group.

6. RELATED PARTY TRANSACTIONS *(Cont'd)*

n. Sales to a related party:

	2001	
	The Company and its subsidiaries '000	**The Company '000**
Sales of electricity power to SEPCO	**3,654,726**	**1,885,741**

o. In accordance with an equipment import agency service agreement entered into between Shandong Huaneng and CHITEC, the Company is required to pay an agency fee at 0.5% of the value of imported equipment in return for the agency service provided by CHITEC. No such agency fee is paid in 2001. In addition, in 2001, the Company paid an agency fee to CHITEC amounted to US$3.856 million for equipment transportation and insurance service received (2000: nil).

7. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Company and its subsidiaries are required to make contributions to the state-sponsored retirement plan at a specified rate, currently set at 17% to 20%, of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31st December, 2001 was approximately Rmb66 million (2000: Rmb42 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to twice the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31st December, 2001 was approximately Rmb60 million (2000: Rmb39 million).

The Company and its subsidiaries have no further obligation for post-retirement benefits beyond the above annual contributions made.

8. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

	2001	2000
	'000	'000
Fees for executive directors	**—**	—
Fees for non-executive directors	**—**	—
Fees for supervisors	**—**	—
Other emoluments for executive directors		
- basic salaries and allowances	**522**	396
- bonus	**1,128**	544
- retirement benefits	**148**	134
Other emoluments for non-executive directors	**—**	—
Other emoluments for supervisors	**589**	237

No director had waived or agreed to waive any emoluments during the year.

The annual emoluments paid during the year to each of the directors and supervisors (including the five highest paid employees) fell within the band from Rmb nil to Rmb1 million.

Details of emoluments paid to the five highest paid employees (all being directors) were:

	2001	2000
	'000	'000
Basic salaries and allowances	**404**	223
Bonus	**815**	369
Retirement benefits	**112**	86

During the year, no emolument was paid to the five highest paid individuals (all being directors) as an inducement to join or upon joining the Company or as compensation for loss of office.

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised:

	The Company and its subsidiaries 2001					
	Buildings '000	Electric Utility Plant in Service '000	Transportation Facilities '000	Others '000	Construction-in-progress '000	Total '000
Cost						
Beginning of year	1,654,228	37,868,422	522,314	632,028	235,185	40,912,177
Reclassification	(139,994)	285,055	(92,628)	(52,433)	—	—
Acquisition of Shandong Huaneng (Note 2)	165,606	4,530,063	149,944	156,110	1,426,118	6,427,841
Addition	27,998	28,821	1,880	39,559	2,717,982	2,816,240
Transfer from CIP	36,107	101,009	—	108,572	(245,688)	—
Disposals	(31,755)	(83,971)	(719)	(24,964)	—	(141,409)
End of year	1,712,190	42,729,399	580,791	858,872	4,133,597	50,014,849
Accumulated Depreciation						
Beginning of year	379,695	8,547,401	110,436	231,115	—	9,268,647
Reclassification	(52,490)	155,273	(33,697)	(69,086)	—	—
Charge for the year	35,528	3,071,016	27,673	126,784	—	3,261,001
Written back on disposals	(449)	(57,026)	(498)	(13,940)	—	(71,913)
End of year	362,284	11,716,664	103,914	274,873	—	12,457,735
Net Book Value						
End of year	1,349,906	31,012,735	476,877	583,999	4,133,597	37,557,114
Beginning of year	1,274,533	29,321,021	411,878	400,913	235,185	31,643,530

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

9. PROPERTY, PLANT AND EQUIPMENT, NET *(Cont'd)*

	The Company 2001						2000
	Buildings '000	Electric Utility Plant in Service '000	Transportation Facilities '000	Others '000	Construction -in-progress '000	Total '000	Total '000
Cost							
Beginning of year	1,654,228	37,868,422	522,314	632,028	235,185	40,912,177	40,634,921
Reclassification	(142,829)	189,625	(92,628)	45,832	—	—	—
Acquisition of Shandong Huaneng (Note 2)	92,458	1,858,706	43,806	61,626	1,412,765	3,469,361	—
Addition	27,501	28,821	1,880	37,718	2,619,884	2,715,804	351,966
Transfer from CIP	24,314	5,630	—	104,291	(134,235)	—	—
Disposals	(26,263)	(79,961)	(719)	(24,254)	—	(131,197)	(74,710)
End of year	1,629,409	39,871,243	474,653	857,241	4,133,599	46,966,145	40,912,177
Accumulated Depreciation							
Beginning of year	379,695	8,547,401	110,436	231,115	—	9,268,647	6,620,193
Reclassification	(53,993)	83,022	(33,697)	4,668	—	—	—
Charge for the year	32,442	2,735,827	17,466	110,563	—	2,896,298	2,654,413
Written back on disposals	—	(53,142)	(498)	(13,437)	—	(67,077)	(5,959)
End of year	358,144	11,313,108	93,707	332,909	—	12,097,868	9,268,647
Net Book Value							
End of year	1,271,265	28,558,135	380,946	524,332	4,133,599	34,868,277	31,643,530
Beginning of year	1,274,533	29,321,021	411,878	400,913	235,185	31,643,530	34,073,768

Borrowing costs capitalized to construction-in-progress for the year ended 31st December, 2001 was approximately Rmb87 million (2000: nil). The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 5.75% per annum for the year ended 31st December, 2001. There was no write-down of any property, plant and equipment during the year.

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

10. LAND-USE RIGHTS

Land in the PRC is owned by the state and no individual land ownership right exists. However, the Company and its subsidiaries acquired the rights to use certain land for their operation. In prior years, land use rights were recorded as property, plant and equipment in the balance sheet. Following the introduction of IFRS 40, Investment Property, it is concluded that all interests in property held under an operating lease should be dealt with in accordance with IFRS 17, Leases. As a result, land use rights were excluded from the classification of property, plant and equipment. Costs of the land use rights are recognized as an expense on a straight line basis over the lease term and included in other operating expenses. Comparative figures have been reclassified to conform with current year presentation.

11. INVESTMENT IN AN ASSOCIATE

The following are details of the Company's investment in an associate:

Name	Country and date of incorporation	Percentage of equity interest held	Issued and fully paid capital	Principal activities
Rizhao Power Plant	PRC 20th March, 1996	25.5%	USD 150,000,000	Power generation

For the year ended 31st December, 2001, Rizhao Power Plant was in a loss position. The Company uses equity method to recognize its share of losses of the Rizhao Power Plant amounting to approximately Rmb5 million.

12. INVESTMENT IN SUBSIDIARIES

As at 31st December, 2001, the Company had equity interests in the following subsidiaries:

Name of subsidiaries	Country and date of incorporation	Percentage of equity interest held	Issued and fully paid capital	Principal activities
Weihai Power Plant	PRC 22nd November, 1993	60%	Rmb761,832,800	Power generation
Jining Power Plant	PRC 19th February, 1990	75%	Rmb383,010,000	Power generation

12. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Summarized financial information of the above subsidiaries is as follows:

	As at 31st December, 2001 '000
Balance sheet	
Current assets	449,985
Long-term assets	2,776,538
Total assets	3,226,523
Current liabilities	1,173,081
Long-term liabilities	718,392
Total liabilities	1,891,473

	For the year ended 31st December, 2001 '000
Income statement	
Revenue	1,748,309
Expenses	(1,555,590)
Net profit	192,719

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

13. NEGATIVE GOODWILL

Negative goodwill arose from the acquisition of Shandong Huaneng. It was recognized in the income statement as other operating income on a systematic basis over the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets, which is estimated to be 10 years (See Note 2). The movement of the carrying amount of negative goodwill during the year was as follows:

	2001 '000
Beginning of year	—
Addition	2,472,784
Amortization during the year	(247,279)
End of year	2,225,505

14. TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of fixed-term deposits denominated in Renminbi and US dollars with original maturities ranging from more than three months to one year.

As at 31st December, 2001, temporary cash investment included deposits of approximately Rmb3,689 million (2000: Rmb100 million) placed with a non-bank financial institution, Huaneng Finance, which is a subsidiary of China Huaneng Group (see Note 6(f)). The annual interest rate and interest earned from Huaneng Finance were as follows:

	2001	2000
Interest rate	1.43%-2.44%	1.89%-2.25%
Interest earned	20 million	25 million

As at 31st December, 2001, the Company and its subsidiaries had Rmb162 million placed with a bank as deposit to secure letters of credit issued to equipment suppliers.

15. ACCOUNTS RECEIVABLE

Accounts receivable comprised:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
Accounts receivable	**1,254,941**	**1,179,490**	1,126,072
Notes receivable	**152,230**	**152,230**	70,000
	1,407,171	**1,331,720**	1,196,072

The Company and its subsidiaries usually grants one month credit period to all the local power companies from the end of the month in which the sales are made. As at 31st December, 2001 and 2000, all accounts receivable were aged within one year.

As at 31st December, 2001, accounts receivable amounted to approximately Rmb242 million was due from SEPCO (2000: nil, see Note 6(j)).

16. MATERIALS AND SUPPLIES, NET

Materials and supplies comprised:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
Fuel (coal and oil) for power generation	**224,131**	**206,190**	176,628
Construction and other supplies	**508,050**	**443,387**	397,721
	732,181	**649,577**	574,349
Less: provision for obsolescence	**(13,184)**	**(11,469)**	(10,608)
	718,997	**638,108**	563,741

Approximately Rmb439,467,000 of the total carrying amount of materials and supplies are carried at net realizable value.

17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
Prepayments for materials and supplies	**94,954**	**94,072**	24,224
Prepayments for contractors	**16,900**	**16,900**	65,010
Prepayment for consideration of the acquisition of Shandong Huaneng	**—**	**—**	5,767,898
Prepaid expenditure relating to the acquisition of Shandong Huaneng	**—**	**—**	23,070
Interest receivable on temporary cash investments	**16,355**	**13,642**	420
Others	**116,852**	**111,218**	82,544
	245,061	**235,832**	5,963,166
Less: Provision for doubtful accounts	**(5,618)**	**(5,125)**	(4,588)
	239,443	**230,707**	5,958,578

18. CAPITALIZATION

Authorized Share Capital

As at 31st December, 2001, the authorized share capital of the Company was Rmb6,000,000,000, divided into 6,000,000,000 shares of Rmb1.00 each. In addition, the issued and fully paid share capital of the Company as at 31st December, 2001 was Rmb6,000,000,000 (2000: Rmb5,650,000,000) comprising of 4,500,000,000 Domestic Shares and 1,500,000,000 Overseas Listed Foreign Shares. The holders of Overseas Listed Foreign Shares and Domestic Shares, with minor exceptions, are entitled to the same economic and voting rights.

Public Offering in the PRC

On 15th and 16th November, 2001, 250,000,000 new ordinary shares par value Rmb1.00 each, in the form of A shares, were issued to the public in a public offering on the Shanghai Stock Exchange at Rmb7.95 per A share. The 250,000,000 A shares were listed on the Shanghai Stock Exchange on 6th December, 2001. Net issuing cost of Rmb12.4 million were incurred to sell the A shares and reduced the net proceeds. In addition, on 15th November, 2001, 100,000,000 new Domestic Shares of Rmb1.00 each were issued to HIPDC at Rmb7.95 each.

19. APPROPRIATION AND DISTRIBUTION OF PROFIT

The Board of Directors decides on an annual basis the percentages of the profit after taxation, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory surplus reserve fund, the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be optional. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding 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 registered capital. The statutory public welfare fund can only be utilized on capital items for the collective benefits of the Company's employees. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the shareholders.

For the year ended 31st December, 2001, the Board of Directors resolved the following on 12th March, 2002:

(i) to appropriate 10% and 7.5% (2000: 10% and 7.5%), respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund, amounting to approximately Rmb636 million (2000: Rmb463 million) in total;

(ii) to make no appropriation to the discretionary surplus reserve fund.

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lower of the amounts determined in accordance with (a) the PRC accounting standards and regulations, (b) IFRS and (c) US GAAP. The amounts of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31st December, 2001 was approximately Rmb2.70 billion (2000: Rmb2.03 billion). The cumulative balance of distributable profit as at 31st December, 2001 was approximately Rmb9.31 billion (2000: Rmb7.85 billion).

20. DIVIDENDS

On 12th March, 2002, the Board of Directors proposed a dividend of Rmb0.30 (2000: Rmb0.22) per share, totaling approximately Rmb1,800 million (2000: Rmb1,243 million) for the year ended 31st December, 2001. The proposed dividend distribution is subject to shareholders' approval in their next general meeting. In accordance with the revised IAS 10 "Events After the Balance Sheet Date", the dividend will be recorded in the Company's financial statements for the year ending 31st December, 2002.

Before 2000, dividends proposed or declared after the balance sheet date were recognized as a liability as at the balance sheet date. Because of the adoption of the revised IFRS 10 "Events After the Balance Sheet Date", dividends proposed or declared after the balance sheet date are no longer permitted to be recognized as a liability as at the balance sheet date.

This change in accounting policy has been applied retrospectively with the result that the Company's retained earnings as at 31st December, 1999 were increased by Rmb508.5 million, being the amount of dividends declared by the Company after the balance sheet date. Comparative figures as at 31st December, 1999 have been restated to reflect this change in accounting policy.

21. CONVERTIBLE NOTES

In May 1997, the Company issued at par value convertible notes with an aggregate principal amount of US$230 million at 1.75% due 2004. These notes are listed on the New York Stock Exchange and the Luxemburg Stock Exchange. The notes mature on 21st May, 2004, unless previously redeemed or converted.

The notes are convertible, at the option of the noteholders, at any time from and including 21st August, 1997 up to and including the date of maturity, unless previously redeemed, at an initial conversion price of US$29.20 per ADS, each of which represents 40 Overseas Listed Foreign Shares, subject to adjustment in certain circumstances. No noteholder had converted the convertible notes to ADS during the year ended 31st December, 2001.

The notes may be redeemed, at the option of the noteholders, in whole or in part, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest, if any.

The notes may be redeemed, at the option of the Company, at any time on or after 21st May, 2000, but prior to maturity, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes, together with accrued interest, if any, if the closing price of the ADSs for a period of 30 consecutive trading days is at least 130% of the conversion price in effect on each such trading day.

The proceeds received were allocated for accounting purposes into a liability component of approximately US$168 million (equivalent to Rmb1,393 million) and an equity component of approximately US$62 million (equivalent to Rmb511 million) at the issuance date.

Prior to 2001, the Company carried the liability component at cost, and accrued for the put option liability together with the interest payable on the notes using the effective interest rate of 6.66%. In 2001, the Company adopted IFRS 39. The put option for the noteholders to redeem the notes at 128.575% of the principal amount of the notes is accounted for as an embedded derivative. It is separated from the host contract of the convertible notes and measured at its fair value with changes in fair value included in net profit or loss. The liability component is measured at amortized cost.

The fair value of the put option is determined on the following basis:

(i) No fair value is attributed to the share conversion option. Management believes that the probability of exercising the conversion option by the noteholders is very low because the prevailing share price of the Company is significantly below 128.575% of the principal amount of the notes.

(ii) The fair value of the liability component is determined by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability (instrument of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option).

(iii) Given (i) and (ii) above, the fair value of the put option is then determined by deducting the fair value of the liability component from the prevailing market price of the convertible notes.

21. CONVERTIBLE NOTES *(Cont'd)*

At the beginning of 2001 in which IFRS 39 was initially applied, the Company recognized the put option of the convertible notes, which allows the noteholders to redeem the convertible notes at a premium, as an embedded derivative and measured it at fair value. The difference between the previous carrying amount and the current fair value amounted to approximately Rmb229 million, which was recognized as an adjustment to the opening retained earnings as at 1st January, 2001.

In addition, in accordance with IFRS 39, the liability component is measured at amortized cost. The difference of approximately Rmb235 million compared with the previous carrying amount is recognized as an adjustment to the opening retained earnings as at 1st January, 2001.

During the year ended 31st December, 2001, the Company recorded a loss amounting to approximately Rmb47 million arising from the changes in the fair value of the put option during the year.

22. LONG-TERM LOANS FROM SHAREHOLDERS

Long-term loans from shareholders comprised:

	2001 **'000**	2000 '000
Loans from local investment companies (a)	—	120,000
Foreign currency bank loans on-lent by HIPDC (b)	**793,282**	881,820
	793,282	1,001,820

a. Interest-bearing Renminbi loans were borrowed from the local investment companies by the five original operating plants to finance construction. These loans bore interest at 6.21% per annum for the year ended 31st December, 2001 (2000: 6.21%) and had been repaid in 2001 in accordance with the agreed repayment schedules.

b. The foreign currency bank loans bear interest at the prevailing lending rates (both fixed and floating) prescribed by the contracts, which ranged from 4.25% to 7.40% per annum for the year ended 31st December, 2001 (2000: 4.25% to 7.40%), and are repayable in accordance with the repayment schedules set by the banks. The amounts outstanding comprised:

	2001		2000
	Original Currency **'000**	**Rmb'000**	Rmb'000
Amounts denominated in United States Dollar ("US$")	**94,052**	**778,429**	810,721
Amounts denominated in Swiss Francs ("SFRC")	**3,003**	**14,853**	71,099
		793,282	881,820

22. LONG-TERM LOANS FROM SHAREHOLDERS *(Cont'd)*

The foreign-currency bank loans were previously borrowed by HIPDC for financing construction. All these outstanding long-term bank loans were restructured. HIPDC continued to borrow the loans from the banks and then on-lent the proceeds to the Company as shareholders' loans. The existing terms of the loans including interest rates and repayment schedules remained intact after the restructuring (see Note 6(h)).

c. The shareholders' loans are repayable as follows:

	2001	2000
	'000	'000
Within one year	**15,565**	218,995
Between one to two years	**388,835**	4,967
Between two to five years	**388,882**	777,858
	793,282	1,001,820
Less: Amount due within one year included under current liabilities	**(15,565)**	(218,995)
	777,717	782,825

23. LONG-TERM BANK LOANS

Long-term bank loans comprised:

	The Company and its subsidiaries		**The Company**		
	2001		**2001**		2000
	US$'000	**Rmb'000**	**US$'000**	**Rmb'000**	Rmb'000
Renminbi bank loans (a)	**—**	**1,430,213**	**—**	**820,000**	828,000
United States dollar bank loans (b)	**1,195,050**	**9,891,041**	**1,195,050**	**9,891,041**	9,489,347
		11,321,254		**10,711,041**	10,317,347

a. Renminbi bank loans were borrowed from local banks to finance the construction of the Shangan Phase II, the Shantou Power Plant, the Dezhou Phase III and the Weihai Phase II. These loans bore interest at the prevailing lending rates at 6.21% per annum for the year ended 31st December, 2001 (2000: 6.21%) and are repayable in accordance with the agreed repayment schedules set by the banks.

b. United States dollar bank loans were borrowed mainly to finance the construction of the Dandong Power Plant, the Fuzhou Phase II, the Nantong Phase II, the Dalian Phase II and the Dezhou Phase III. These loans bore interest at lending rates (both fixed and floating) ranging from 5.89% to 6.60% per annum for the year ended 31st December, 2001 (2000: 5.95% to 6.60%), and are repayable in accordance with the agreed repayment schedules set by the banks.

23. LONG-TERM BANK LOANS *(Cont'd)*

c. The long-term bank loans are repayable as follows:

	The Company and its subsidiaries 2001 '000	The Company 2001 '000	2000 '000
Within one year	**2,630,008**	**2,630,008**	1,431,713
Between one to two years	**1,777,844**	**1,777,844**	1,429,713
Between two to five years	**3,215,678**	**2,705,465**	3,098,607
Over five year	**3,697,724**	**3,597,724**	4,357,314
	11,321,254	**10,711,041**	10,317,347
Less: Amount due within one year included under current liabilities	**(2,630,008)**	**(2,630,008)**	(1,431,713)
	8,691,246	**8,081,033**	8,885,634

24. OTHER LONG-TERM LOANS

	The Company and its subsidiaries 2001 '000	The Company 2001 '000	2000 '000
Long-term loan from Nanjing Investment (a)	**174,368**	**174,368**	232,491
Long-term loan from Weihai Investment (b)	**215,704**	**—**	—
	390,072	**174,368**	232,491

a. An interest bearing Renminbi loan was previously borrowed by the Nanjing Power Plant from Nanjing Investment to finance its construction. Upon the acquisition of the Nanjing Power Plant, the Company assumed the loan, which bore interest at the prevailing lending rate in the PRC at 6.21% per annum for the year ended 31st December, 2001 (2000: 6.21%).

b. An unsecured interest bearing Renminbi loan was borrowed by the Weihai Power Plant from WITIC to finance its construction with interest at the prevailing lending rate in the PRC at 6.21% per annum for the year ended 31st December, 2001 (see Note 6(h)).

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

24. OTHER LONG-TERM LOANS *(Cont'd)*

Other long-term loan is repayable as follows:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
Within one year	**283,273**	**174,368**	58,123
Between one to two years	**—**	**—**	58,123
Between two to five years	**106,799**	**—**	116,245
	390,072	**174,368**	232,491
Less: Amount due within one year included under current liabilities	**(283,273)**	**(174,368)**	(58,123)
	106,799	**—**	174,368

25. SHORT-TERM LOANS

Short-term loans are denominated in Renminbi and drawn from Huaneng Finance by the Weihai Power Plant (see Note 6(i)). It bears interest at the prevailing interest rates in the PRC, which was 5.30% per annum for the year ended 31st December, 2001 (2000: 5.02%), and repayable within one year.

26. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
Accounts payable	**387,814**	**342,011**	361,591
Revenue received in advance (see Note 3(r))	**726,808**	**726,808**	535,588
Payable to contractors for construction	**716,956**	**699,719**	1,249,780
Deposits payable to contractors	**120,559**	**103,133**	24,832
Accrued interest	**200,978**	**200,978**	202,390
Payable to power companies	**10,196**	**10,196**	36,550
Housing fund payable	**31,030**	**31,030**	22,007
Others	**462,882**	**382,504**	285,219
	2,657,223	**2,496,379**	2,717,957

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

26. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(Cont'd)*

As at 31st December, 2001, the aging analysis of accounts payable was as follows:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
Within one year	**373,270**	**327,467**	356,527
Between one to two year	**9,494**	**9,494**	3,527
Over two years	**5,050**	**5,050**	1,537
	387,814	**342,011**	361,591

27. TAXES PAYABLE

Taxes payable comprised:

	The Company and its subsidiaries	The Company	
	2001	**2001**	2000
	'000	**'000**	'000
VAT payable	**209,020**	**172,010**	193,000
Income tax payable	**292,615**	**255,405**	329,960
Others	**19,558**	**13,775**	6,701
	521,193	**441,190**	529,661

28. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 31st December, 2001, the net current assets of the Company and its subsidiaries amounted to approximately Rmb1,842 million (2000: Rmb2,991 million). On the same date, the total assets less current liabilities was approximately Rmb38,370 million (2000: Rmb35,396 million).

29. HOUSING SCHEME

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the State-sponsored housing fund at 7%-11% of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company's and its subsidiaries' contribution out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31st December, 2001, the Company and its subsidiaries contributed approximately Rmb31 million (2000: Rmb27 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The housing benefits are expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees.

For the year ended 31st December, 2001, the housing benefits provided by the Company and its subsidiaries to the employees amounted to approximately Rmb16 million (2000: Rmb87 million) which is recorded as a long-term deferred asset and amortized over the remaining average service life of the relevant employees which is estimated to be 10 years.

The Company and its subsidiaries have no further obligation for housing benefits.

30. PROVISION FOR INCOME TAX

Provision for income tax comprised:

	2001 **'000**	2000 '000
Current tax expense	**715,220**	445,244
Adjustment for current tax of prior year of Shangan Phase II (See Note 3(u)(ii))	**—**	(31,824)
Others	**—**	(2,218)
	715,220	411,202

The reconciliation of the effective income tax rate to the statutory income tax rate in the PRC is as follows:

	2001	2000
Average statutory tax rate	**17%**	16%
Effect of tax holiday	**(2%)**	(4%)
Others	**2%**	2%
Effective tax rate	**17%**	14%

30. PROVISION FOR INCOME TAX *(Cont'd)*

The aggregate effect of the tax holiday was approximately Rmb79 million for the year ended 31st December, 2001 (2000: Rmb112 million).

The average statutory tax rate for the year ended 31st December, 2001 represented the weighted average tax rate of the head office and the individual power plants calculated on the basis of the relative amounts of net profit before tax and the applicable statutory tax rates.

For the year ended 31st December, 2001, there were no material deferred tax assets or liabilities recognized or reversed.

31. EARNINGS PER SHARE

	2001 Net Profit '000	**2001 Weighted Average Shares '000**	**2001 Per Share Amount**	2000 Net Profit '000	2000 Weighted Average Shares '000	2000 Per Share Amount
Earnings per Share						
Net profit attributable to shareholders	**3,450,658**	**5,693,750**	**0.61**	2,515,830	5,650,000	0.45
Interest on convertible notes (net off tax effect)	**90,253**	**—**		122,546	—	
Changes of fair value of the put option in relation to convertible notes (net off tax effect)	**38,702**	**—**		—	—	
Effect of assumed conversion	**—**	**315,068**		—	315,068	
Diluted Earnings per Share						
Net profit attributable to shareholders plus effect of assumed conversion	**3,579,613**	**6,008,818**	**0.60**	2,638,376	5,965,068	0.44

Basic earnings per share was computed by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. On a diluted basis, both net profit and the weighted average number of ordinary shares outstanding were adjusted on the assumption that the convertible notes (see Note 21) had been fully converted at the beginning of the year.

32. NOTES TO CASH FLOW STATEMENT

a. Analysis of Cash and Cash Equivalents

As at 31st December, 2001, cash and cash equivalents consisted of:

	The Company and its subsidiaries 2001 '000	The Company 2001 '000	The Company 2000 '000
Cash in Rmb	**381**	**362**	212
Current deposits			
Rmb	**2,123,393**	**2,079,608**	1,973,977
US$ denominated	**49,362**	**49,362**	14,180
Others	**—**	**—**	4
Total cash and cash equivalents	**2,173,136**	**2,129,332**	1,988,373

b. Acquisition of Shandong Huaneng

	2001 '000
Cash and cash equivalents	**2,635,695**
Temporary cash investment	**1,263,855**
Short-term investments	**301,000**
Accounts receivable	**182,589**
Materials and supplies	**95,769**
Other current assets	**238,414**
Property, plant and equipment, net	**6,427,841**
Land use rights	**170,807**
Investment in an associate	**231,869**
Other long-term assets	**99,210**
Current liabilities	**(1,326,169)**
Long-term loans	**(1,808,458)**
Minority Interest	**(240,083)**
	8,272,339
Less: Negative goodwill	**(2,472,784)**
Less: Direct costs of acquisition	**(31,657)**
Total Consideration paid in 2000	**5,767,898**
Net cash inflow in 2001 from the acquisition of Shandong Huaneng	**2,635,695**

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

32. NOTES TO CASH FLOW STATEMENT *(Cont'd)*

c. Undrawn Borrowing Facilities

As at 31st December, 2001, the undrawn borrowing facilities available to finance the Company's and its subsidiaries' capital commitments for its various power plant construction projects amounted to approximately Rmb483 million (2000: Rmb1.5 billion). Such borrowing facilities would be drawn down in accordance with the financial requirements of the projects. Based on current plans, such borrowing facilities will be utilized as follows:

	2001	2000
	'000	'000
Amount to be drawn down:		
Within one year	**197,347**	587,738
Between two to five years	**285,802**	919,358
	483,149	1,507,096

33. OBLIGATIONS AND COMMITMENTS

a. Capital Commitments

Commitments mainly relate to the construction of the Dezhou Phase III, some complementary facilities and renovation projects for existing power plants and the purchase of coal. Commitments outstanding as at 31st December, 2001 not provided for in the balance sheet were as follows:

	The Company and its subsidiaries	**The Company**	
	2001	**2001**	2000
	'000	**'000**	'000
Authorized and contracted for	**7,633,206**	**6,690,261**	1,585,005
Authorized but not contracted for	**93,044**	**93,044**	112,729
	7,726,250	**6,783,305**	1,697,734

(AMOUNTS EXPRESSED IN RMB UNLESS OTHERWISE STATED)

33. OBLIGATIONS AND COMMITMENTS *(Cont'd)*

b. Operating Lease Commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 6). Some of the leases contain renewal options. Most of the leases contain escalation clauses. Lease terms do not contain restriction on the Company's activities concerning dividends, additional debts or further leasing.

Total future minimum lease payments under non-cancelable operating leases in respect of land and buildings of the Head Office, the Nanjing Power Plant and the Shanghai Power Plant are as follows:

	2001 '000	2000 '000
Land and buildings		
- not later than one year	**32,334**	32,334
- later than one year and not later than two years	**32,334**	32,334
- later than two years and not later than five years	**47,002**	72,002
- later than five years	**299,028**	306,362
	410,698	443,032

In accordance with the land use operating lease agreement signed by the Dezhou Power Plant and the relevant land management authorities for the land occupied by Dezhou Phase I and Phase II, annual rental is approximately Rmb30 million effective June 1994 and is subject to revision five years after the said date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended 31st December, 2001, the annual rental is approximately Rmb30 million.

34. CONTINGENT LIABILITIES

	The Company and its subsidiaries	**The Company**	
	2001 '000	**2001 '000**	2000 '000
Guarantee for loan facilities granted to the associated company and a subsidiary	**399,250**	**749,463**	—
Notes receivable discounted with recourse	**110,000**	**110,000**	—
Notes receivable endorsed to coal suppliers	**30,628**	**30,628**	—
	539,878	**890,091**	—

35. INTEREST RATE SWAP

As at 31st December, 2001, the notional amount of the outstanding interest rate swap agreements was approximately US$83 million (2000: US$114 million). Such agreements will mature between 20th May, 2003 and 18th September, 2004. As at 31st December, 2001, there was a loss amounted to approximately Rmb15 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 IFRS 39, such loss was charged to earnings in current year.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company and its subsidiaries' financial instruments not carried at fair value are cash and cash equivalents, temporary cash investments, accounts receivables, other current assets, other non-current assets, accounts and other payables, short-term borrowings, long-term borrowings and held-to-maturity investments.

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, temporary cash investments, short-term investments, short-term borrowings and other current financial assets and liabilities approximated their fair value due to the short-term maturity of these instruments.

Similarly, the historical cost carrying amounts of receivables and payables which are all subject to normal trade credit terms approximate their fair values.

The fair value of investments held for trading is estimated by reference to their quoted market price at the balance sheet date.

Available-for-sale investments are measured at cost as there is no quoted market price in an active market and whose fair value cannot be reliably measured.

The fair value of held-to-maturity investments is determined using market valuation.

The estimated fair value of long-term debt including current maturities was Rmb12.67 billion as at 31st December, 2001 (2000: Rmb11.22 billion). The fair value of long-term debt is determined by discounting the stream of future payments of interest and principal at the prevailing market interest rates for comparable instruments. The book value of these liabilities was Rmb12.50 billion as at 31st December, 2001 (2000: Rmb11.55 billion).

The quoted market rate of the convertible notes was 128% and 117% as at 31st December, 2001 and 31st December, 2000 respectively (100% as at the issue date with total proceeds of US$230 million or Rmb1,908 million equivalent).

As at 31st December, 2001, the fair value of the put option embedded in the convertible notes was estimated to be approximately Rmb656 million.

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 judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

37. CONCENTRATION OF RISK

a. Business Risk

The Company and its subsidiaries conduct their operations in the PRC and accordingly investing in the shares of the Company and its subsidiaries are subject to the risks of, among others, the PRC's political, economic and legal environment, restructuring of the PRC electric power industry and regulatory reform, new regulation pertaining to setting of power tariff and availability of fuel supply at stable price.

Six largest customers represented approximately 90% (2000: 99%) of the operating revenue of the Company and its subsidiaries for the year ended 31st December, 2001.

b. 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 cash flow interest rate risk.

The interest rates and terms of repayment of the convertible notes, shareholders loans, bank loans and other loans of the Company and its subsidiaries are disclosed in Notes 21, 22, 23 and 24.

c. Foreign Currency Risk

The Company and its subsidiaries have foreign currency risk as the convertible notes and a significant portion of its long-term bank loans and shareholders loans are denominated in foreign currencies, principally US dollars, as described in Note 22 and 23(b). Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Company and its subsidiaries' results of operation.

d. Credit Risks

Significant portion of the Company and its subsidiaries' cash and cash equivalents and temporary cash investments maturing over three months are deposited with the four largest state-owned banks of the PRC and a non-bank financial institution in the PRC, which is a related party of the Company.

Each power plant of the Company and its subsidiaries sells the electricity generated to its sole customer (i.e. provincial or regional power company) in the province or region where the power plant is situated.

38. SUBSEQUENT EVENT

On 22nd January, 2002, the Company and its subsidiaries and BOC entered into a Loan Restructuring Agreement of US$270 million. According to the agreement, such loan is borrowed specially to repay loans borrowed from British Barclays Bank PRC, Canadian Export Development Corporation and France Societe Generale Bank-London Branch and on-lent by BOC. Such loan bears a floating interest rate of LIBOR+0.6% per annum and is repayable in accordance with the agreed repayment schedules (from 2002 to 2004).