

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(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 company on 30th June, 1994. 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' operating 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:			
Wholly-owned power 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:			
Huaneng Rizhao Power Plant (the "Rizhao Company")	700	178	Shandong
Total	<u>11,750</u>	<u>10,813</u>	

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(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES (Cont'd)

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

Name	Place and date of incorporation	Percentage of equity interest held	Issued and fully paid capital	Total investment contributed by the Company	Principal activities
Subsidiaries:					
Weihai Power Plant	Weihai, Shandong 22nd November, 1993	60%	Rmb761,832,800	457,103,040	Power generation
Jining Power Plant	Jining, Shandong 19th February, 1990	75%	Rmb383,010,000	287,259,000	Power generation
Associate:					
Rizho Company	Rizhao, Shandong 20th March, 1996	25.5%	US\$150,000,000	317,497,785	Power generation

As at 1st January, 2001, the Company acquired Shandong Huaneng Power Development Co., Ltd. ("Shandong Huaneng") (the "Acquisition"). Before the Acquisition, Shandong Huaneng held 60%, 75% and 25.5% equity interests in Weihai Power Plant, Jining Power Plant and Rizhao Company, respectively (see Note 5). The Company took over the control of the net assets and operation of Shandong Huaneng after the acquisition.

The financial statements of the above subsidiaries (Weihai Power Plant and Jining Power Plant) were included in the consolidated financial statements for the year ended 31st December, 2001 starting from 1st January, 2001.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting standards

The Company and its subsidiaries adopt the "Accounting Regulations for Business Enterprises" and "Accounting Standards for Business Enterprises" of the PRC ("PRC GAAP").

(2) Accounting year

The financial year is from 1st January to 31st December of each calendar year.

(3) Reporting currency

The reporting currency is Rmb.

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(4) Basis of recording and measurement

The Company and its subsidiaries maintain their accounting records on accrual basis. Assets are recorded at actual cost.

(5) Consolidation of financial statements

The subsidiaries, in which the Company holds more than 50%, are included in the consolidated financial statements. The consolidated financial statements are prepared in accordance with the "Tentative Regulations for Consolidated Financial Statements" as follows:

- (i) Differences arising from the adoption of different accounting policies by the Company and its subsidiaries are adjusted;
- (ii) Major intercompany transactions between the Company and its subsidiaries or among subsidiaries are eliminated; and
- (iii) Equity investments, intercompany balances and unrealized profits are fully eliminated.

(6) Foreign currency translation

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. The resulting exchange differences, other than those capitalized as a component of borrowing cost, are recognized in the income statement in the year in which they arise.

(7) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(8) Short-term investments

Short-term investments include debt securities which are readily convertible into known amount of cash and are not intended to hold for more than one year, and cash invested in fixed-term deposits with maturities ranging from more than three months to one year. Short-term investments are stated at the cost of investments when acquired. The carrying amounts of the investments are stated at the lower of cost and market value at the balance sheet date and provisions are made and recognized as an expense in the income statement when the market value is below the carrying amounts. Cash dividends or interest on short-term investments, other than those recorded as receivable items, should be offset against the carrying amount of the investments upon receipt. The proceeds from sales of short-term investments less the carrying amount of the investments including the accrued dividend or interest are recognized in the income statement as investment income or loss. Interest income of fixed deposit with maturities ranging from more than three months to one year are recognized on the accrual basis.

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(9) Provision for doubtful debts

The Company and its subsidiaries make provision for doubtful debts. Specific provision is made according to prior years experience, the financial position, cash flows results and other relevant information of the debtors. The Company and its subsidiaries provide general provision of 3% on other receivables outstanding at the balance sheet date and recognize the provision as general and administrative expenses.

(10) Inventories

Inventories include fuel for power generation and materials and supplies for repair and maintenance. Inventories are recognized at actual cost and are charged to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate. Cost of inventories includes costs of purchase and other costs incurred in bringing the inventories to the working locations.

The Company and its subsidiaries maintain its inventories by perpetual system. Inventories at balance sheet date are stated at lower of cost and net realizable values. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A provision is made and recognized in the income statement when the net realizable value is lower than cost.

(11) Long-term investments

Long-term equity investments

Long-term equity investments are recorded at cost on acquisition and accounted for using the equity method or cost method as appropriate.

- (i) Equity method is used when the Company has control, joint control or significant influence over the investee. The Company will adjust the carrying amount of the investment according to its proportionate share of the investee's net profit or loss, which is recognized as investment income or loss for the current year. The Company will reduce the carrying amount of the investment when the investee distributes profits or declares cash dividends based on the Company's proportionate share such distribution. The Company recognizes its proportionate share of the net losses incurred by the investee until the carrying amount of the investment is reduced to zero. If the investee realizes net profits in subsequent periods, the Company will resume the original carrying amount of the investment by the excess of its proportionate share of profits over the unrecognized losses.
- (ii) Cost method is used when the Company does not have control, joint control or significant influence over the investee. When the cost method is adopted, the carrying amount of long-term equity investments generally remain unchanged, unless there are additional investments or repayment of investments. When profits are distributed or cash dividends are declared by the investee, the Company recognizes such distribution as investment income in the current year. The investment income recognized by the Company is limited to the amount of net profits accumulated by the investee since it obtained the investment injection from the Company. The amount of profits or cash dividends distributed by the investee in excess of the above is treated as a recovery of investment cost, and the carrying amount of the investments is reduced accordingly.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(11) Long-term investments *(Cont'd)*

Long-term debt investments

Debt investments are recorded at cost on acquisition. The difference between the cost, as reduced by incidental expenses and interest receivable, and the par value of the debt instrument, is treated as premium or discount. The premium or discount is amortized using the straight-line method over the period between the purchase date and the maturity date over which the relevant interest income is recognized. Interest receivable from debt investments is computed for each period. The interest income from debt investments, after adjustments for the amortization of premium or discount, is recognized as investment income in the current year.

Provision for impairment loss

Provision for impairment loss is made on an individual item basis if the recoverable amount of the investment is lower than the carrying amount of the investment as a result of a continuing decline in market value or changes in operating conditions of the investee. The difference between the recoverable amount and the carrying amount of the investment is charged to expenses in the current year.

(12) Entrusted loan

Entrusted loan is stated at the amount of entrusted loan lent out through the entrusted financial institution. Interest income is accrued at the interest rate applicable at the balance sheet date and recorded as current year income.

The Company and its subsidiaries review the recoverability of the principal of the entrusted loan at the balance sheet date. If the principal amount is higher than the recoverable amount of the loan, provision for impairment loss will be made.

(13) Fixed assets and depreciation

The criteria for fixed assets recognition of the Company and its subsidiaries is as follows:

- (i) building, machinery and equipment, motor vehicles and other equipment which are related to production and operation and have a useful life of more than one year;
- (ii) those which are not relating to major production and have a useful life of more than two years with unit cost of more than Rmb2,000.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(13) Fixed assets and depreciation (Cont'd)

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of fixed assets comprises its purchase price, including import duties and non-refundable 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 when 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 fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value (not higher than 11% of the original cost), of each asset over its estimated useful life. The estimated useful lives and depreciation rates are as follows:

Categories	Estimated useful lives	Annual depreciation rate
Buildings	10-50 years	1.78%-8.9%
Electric utility plant in service	4-32 years	2.78%-22.35%
Transportation facilities	10-30 years	2.97%-8.9%
Others	3-22 years	4.05%-29.67%

Gain or loss on disposal of individual fixed asset is recognized in the income statement in the year of disposal. When fixed assets are disposed, the differences between the carrying amount and the proceeds from disposal of fixed assets are recorded as income or expenses of the current year.

The Company and its subsidiaries review the carrying amount of each fixed asset at the balance sheet date. If the recoverable amount of an asset is less than the carrying amount of the asset due to continuing decrease in market value, technological obsolescence, damage or being idle, provision for impairment loss of the asset will be made. The impairment loss is provided on an individual item basis.

(14) Construction-in-progress

Construction-in-progress represents buildings, plants and transportation facilities under construction and machinery and equipment under installation, and is stated at cost. This includes the costs of construction, plants and machinery and borrowing cost for specific borrowings which are qualified for capitalization during the construction period. Construction-in-progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided for construction-in-progress.

At the balance sheet date, the Company and its subsidiaries review the construction-in-progress and provide for impairment loss for those construction-in-progress, which has been interrupted and will not be undertaken in the forthcoming three years, and with significant uncertainty in economic benefit because of technological obsolescence, or other evidence sufficiently indicates that the carrying amount of the asset exceeds its recoverable amount.

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(15) Borrowing costs

Borrowing costs include interest, amortization of discounts or premiums, costs incurred relating to the arrangement of borrowing and exchange differences arising from foreign currency borrowing. Borrowing costs generally are expensed as incurred.

Borrowing costs arising from borrowing obtained specifically for the acquisition or construction of fixed assets are capitalized when the activities to acquire and construct such assets are in progress and expenditures and borrowing costs are being incurred until the assets are substantially completed and ready for their intended use.

Borrowing costs are capitalized until the assets are substantially ready for their intended use by using the weighted average amount of borrowing incurred and the relevant capitalization rate.

(16) Intangible assets

Intangible assets represent land use rights and negative goodwill. Land use rights are recognized at cost when acquired and amortized on a straight-line basis over the land use rights period until the carrying amounts are transferred to construction-in-progress when the land is utilized. According to Cai Kuai (2001) No.43 published by the Ministry of Finance, companies which have recognized land use rights as intangible assets and have not transferred the land use rights to relevant buildings before the adoption of the PRC "Accounting Regulations of Business Enterprises" are not required to change their current accounting treatment. Negative goodwill, which arose from the acquisition of Shandong Huaneng, is amortized over ten years on a straight-line basis (see Note 5).

The Company and its subsidiaries periodically review the ability of the intangible assets to generate future economic benefits. Impairment loss is recognized if the carrying amount is less than the recoverable amount of the intangible assets.

(17) Long-term deferred expenses

Long-term deferred expenses represent other deferred expenses with amortization period over one year. They are stated at cost and amortized over the beneficial period.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(18) Convertible notes

Convertible notes are stated at the principal amount plus interest receivable.

As mentioned in Note 4(21), the convertible notes are issued at par value with redemption rights. The notes may be redeemed, at the option of the noteholders, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest. The Company accrued for the put premium together with the interest payable on the notes from the date of issuance to the date of redemption. The accounting treatment of accrued interest of the convertible notes is the same as that of borrowing cost.

As at 21st May, 2002, if the redemption right is not exercised, the accrued premium will be transferred to capital reserve.

(19) Revenue and income recognition

(i) Operating revenue

Operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial power companies (net of Value Added Tax ("VAT")). The Company and its subsidiaries bill the respective power companies based on the actual quantity of electricity transmitted or sold to the power grid controlled and owned by the respective power companies and recognize revenue at the end of each month.

(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.

(20) Enterprise Income Tax ("EIT")

EIT of the Company and its subsidiaries has been provided at the applicable rate, after considering the preferential tax holiday, on taxable income as reported in the income statement, which is adjusted for income and expenses which are not assessable or deductible for income tax purposes.

The Company and its subsidiaries record EIT using the tax payable method. Under this method, income tax recognized in the income statement equals to the tax payable for the year.

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(Amounts expressed in Rmb unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(21) Changes in major accounting policies and accounting estimates

The Company adopts retrospective method for accounting policy changes. If the effect on prior periods cannot be reasonably determined, prospective method is used.

For changes in accounting estimates, the Company adopts new estimates during the year of change and the future periods.

The Company follows "Accounting Standards for Joint Stock Companies" in prior years. Pursuant to the "Notice for Issuing Accounting Regulations of Business Enterprises" issued by the Ministry of Finance (Cai Kuai [2000] 25), the Company and its subsidiaries adopt "Accounting Regulations of Business Enterprises" starting from 1st January, 2001.

3. TAXATION

(1) Value Added Tax

The Company and its subsidiaries are ordinary VAT payers. Pursuant to the "Temporary Regulations of VAT to Enterprises in the PRC", the Company is subject to output VAT levied at 17% of the Company's 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.

(2) Income tax

According to the related income tax law, generally, sino-foreign enterprises are subject to income tax of 33% (30% of EIT and 3% of local income tax). If these enterprises are located in specified location or city, or approved by the State Tax Bureau, a lower tax rate can be enjoyed. 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. The Company applied the regulation since 1st January, 1999 in all operating power plants after the approval of the State Tax Bureau.

The Company acquired the net assets and operating control of Shandong Huaneng on 1st January, 2001. After the Acquisition, the Shandong branch (the former headquarter of Shandong Huaneng) and the Dezhou Power Plant became branches of the Company. Effective from 1st January, 2001, the EIT rate levied on the Shandong branch and the Dezhou Power Plant was reduced to 15% as approved by the State Tax Bureau, since both branches were sino-foreign enterprises investing in energy infrastructure business. Accordingly, the EIT rate levied on the Shandong branch and the Dezhou Power Plant has been reduced to 17% (including 15% of EIT and 2% of local income tax) since 1st January, 2001. The EIT rate levied on the Weihai Power Plant and the Jining Power Plant remains at 33%.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

All power plants (except for the Dezhou Power Plant, expansion projects other than Shangan Power Plant Phase II) 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").

In accordance with Guo Shui Han [1994] No.381, the head office, the Shandong branch and the individual power plants pay their income tax to local tax bureau individually.

The statutory income tax rates applicable to the head office, the Shandong branch and the individual power plants after the expiration of tax holiday are summarized below:

	EIT rate	Tax holiday
Head Office	15.0%	Nil
Dalian Power Plant (including Dalian Phase II)	15.0%	Till 31st December, 1994
Shangan Power Plant	16.5%	Till 31st December, 1996
Shangan Phase II	16.5%	Till 31st December, 2003
Nantong Power Plant (including Nantong Phase II)	15.0%	Till 31st December, 1996
Fuzhou Power Plant (including Fuzhou Phase II)	15.0%	Till 31st December, 1995
Shantou Oil-Fired Plant	15.0%	Till 31st December, 1994
Shantou Power Plant	15.0%	Till 31st December, 2002
Shanghai Power Plant	16.5%	Till 31st December, 1998
Dandong Power Plant	15.0%	Not commence yet
Nanjing Power Plant	15.0%	Till 31st December, 2001
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

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(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Approved file no.	2001	2000
Head Office	Guo Shui Han [1997] 368	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II)	Guo Shui Han [1994] 381	15.0%	15.0%
Shangan Power Plant	Guo Shui Han [1994] 381 & Guo Shui Han [1999] 604	16.5%	16.5%
Shangan Phase II	Guo Shui Han [1994] 381 & Guo Shui Han [2000] 194	9.0%	Exempted
Nantong Power Plant (including Nantong Phase II)	Guo Shui Han [1994] 381	15.0%	15.0%
Fuzhou Power Plant (including Fuzhou Phase II)	Guo Shui Han [1994] 381	15.0%	15.0%
Shantou Oil-Fired Plant	Guo Shui Han [1994] 381	15.0%	15.0%
Shantou Power Plant	Approved by Shantou State Tax Bureau	7.5%	7.5%
Shanghai Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant	Dan Guo Shui She Wai [1997] 7	—	—
Nanjing Power Plant	Ning Guo Shui She Wai Zi [1997] 039	7.5%	7.5%
Shandong Branch	Guo Shui Han [2001] 866	17.0%	Not applicable
Dezhou Power Plant	Guo Shui Han [2001] 866	17.0%	Not applicable
Weihai Power Plant	Not applicable	33.0%	Not applicable
Jining Power Plant	Not applicable	33.0%	Not applicable

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS

(1) Cash and cash equivalents

Breakdown of cash and cash equivalents was as follows:

	31st December, 2001			31st December, 2000		
	The Company and its subsidiaries			The Company		
	Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash - RMB			381,485			211,578
Bank deposit - RMB			2,123,392,586			1,973,976,398
- USD	5,964,044	8.2766	49,362,174	1,712,989	8.2781	14,180,299
- JPY			—	10,302	0.0724	746
- GBP			—	281	12.3167	3,461
- DM			—	33	3.9394	130
Sub-total			2,172,754,760			1,988,161,034
Total cash and cash equivalents			2,173,136,245			1,988,372,612

(2) Short-term investments

	31st December, 2001		31st December, 2000	
	The Company and its subsidiaries		The Company	
	Cost	Provision for impairment	Cost	Provision for impairment
Treasury bonds	1,101,700	—	60,000,000	—
Other investments	6,224,070,086	—	294,925,260	—
	6,225,171,786	—	354,925,260	—

According to the information of Shanghai Stock Exchange and Shenzhen Stock Exchange, as at 31st December, 2001 and 2000, there were no significant differences between the fair market value and book value of the treasury bonds.

Other investments represent fixed deposits with maturities ranging from more than three months to one year. Interest income of the fixed deposits is recognized in the income statement on the accrual basis.

As at 31st December, 2001, the Company and its subsidiaries had Rmb162 million placed as deposit in respect of letters of credit issued to a equipment supplier. Except for this, the short-term investments of the Company and its subsidiaries are not restricted from conversion into cash.

Notes to the Financial Statements

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4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(3) Notes receivable

As at 31st December, 2001 and 2000, notes receivable represented unsecured notes receivables to be redeemed by banks.

(4) Dividend receivable

As at 31st December, 2001, dividend receivable represented the dividend from the Weihai Power Plant for the year ended 31st December, 2000.

(5) Accounts receivable

Aging	31st December, 2001				31st December, 2000	
	The Company and its subsidiaries		The Company		The Company	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	1,254,941,073	100%	1,179,490,289	100%	1,126,072,353	100%
One to two years	—	—	—	—	—	—
Two to three years	—	—	—	—	—	—
Over three years	—	—	—	—	—	—
Total	<u>1,254,941,073</u>	<u>100%</u>	<u>1,179,490,289</u>	<u>100%</u>	<u>1,126,072,353</u>	<u>100%</u>

All accounts receivable represented receivable from the local power companies or provincial power companies for the sale of electric power. Since the aging of all accounts receivable were within one year, no bad debt was provided by the Company and its subsidiaries.

As at 31st December, 2001 and 2000, there were no accounts receivable from shareholders who were holding 5% or more of the equity interest in the Company.

As at 31st December, 2001, the five largest accounts receivable of the Company and its subsidiaries amounted to 1,080,467,303, representing 86.10% of the total accounts receivable. The five largest accounts receivable of the Company amounted to 1,005,016,519 (2000: 1,086,709,346), representing 85.21% of the total accounts receivable (2000: 96.50%).

See Note 6 for related party transactions.

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4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(6) Other receivables

Aging	31st December, 2001				31st December, 2000	
	The Company and its subsidiaries		The Company		The Company	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	94,228,647	68.52%	89,121,395	67.43%	5,834,110,120	99.27%
One to two years	29,520,207	21.47%	29,414,646	22.26%	18,889,664	0.32%
Two to three years	1,240,515	0.90%	1,108,115	0.84%	7,514,943	0.13%
Over three years	12,520,682	9.11%	12,520,682	9.47%	16,616,835	0.28%
Total	<u>137,510,051</u>	<u>100%</u>	<u>132,164,838</u>	<u>100%</u>	<u>5,877,131,562</u>	<u>100%</u>
Provision for bad debts	<u>(5,617,638)</u>		<u>(5,124,594)</u>		<u>(4,588,063)</u>	
Net	<u>131,892,413</u>		<u>127,040,244</u>		<u>5,872,543,499</u>	

Breakdown of other receivables was as follows:

	31st December, 2001		31st December, 2000
	The Company and its subsidiaries	The Company	The Company
Prepayments to contractors	16,899,839	16,899,839	32,016,285
Receivable from contractors for substandard construction materials returned	18,314,316	18,314,316	16,800,124
Interest receivable on deposits	16,354,768	13,642,318	420,000
Petty cash	7,584,681	7,510,097	2,493,498
Receivable from employees for sales of staff quarters	8,200,000	8,200,000	8,200,000
Prepayment for consideration of acquisition of Shandong Huaneng	—	—	5,767,897,867
Others	70,156,447	67,598,268	49,723,788
	<u>137,510,051</u>	<u>132,164,838</u>	<u>5,877,551,562</u>

As at 31st December, 2001 and 2000, there were no other receivables from shareholders who were holding 5% or more of the equity interest in the Company.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(6) Other receivables (Cont'd)

As at 31st December, 2001, the five largest other receivables of the Company and its subsidiaries amounted to 41,121,147, representing 29.90% of the total other receivables. The five largest other receivables of the Company amounted to 41,121,147, representing 31.11% of the total other receivables (2000: 4,242,474,844, 72.18%).

See Note 6 for related party transactions.

(7) Prepayments

Aging	31st December, 2001 The Company and its subsidiaries		31st December, 2000 The Company	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	92,893,537	97.83%	22,900,756	94.20%
One to two years	508,850	0.54%	—	—
Two to three years	23,184	0.02%	167,008	0.69%
Over three years	1,528,227	1.61%	1,242,719	5.11%
Total	94,953,798	100%	24,310,483	100%

As at 31st December, 2001 and 2000, there were no prepayment to shareholders who were holding 5% or more of the equity interest in the Company.

(8) Inventories

Breakdown of inventories was as follows:

	31st December, 2001		31st December, 2000
	The Company and its subsidiaries	The Company	The Company
Fuel (coal and oil) for power generation	224,131,185	206,189,929	176,627,857
Construction supplies and spare parts	528,511,277	463,848,593	420,363,026
Sub-total	752,642,462	670,038,522	596,990,883
Less: provision for inventory obsolescence	(13,184,250)	(11,468,699)	(10,608,332)
Inventory, net	739,458,212	658,569,823	586,382,551

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(8) Inventories (Cont'd)

Provision for inventory obsolescence is made at 3% of the spare parts value.

The movement of the provision of inventory obsolescence was as follows:

	31st December, 2000	Addition	Deduction	31st December, 2001
The Company and its subsidiaries	10,608,332	2,575,918	—	13,184,250
The Company	10,608,332	860,367	—	11,468,699

(9) Long-term investments

Long-term investments comprised:

		31st December, 2001	31st December, 2000
		The Company and its subsidiaries	The Company
Long-term equity investment	(i)	226,488,077	1,087,454,774
Long-term entrusted loan to a subsidiary	(ii)	—	728,698,046
Other long-term investments		21,340,177	10,924,228
Sub-total		247,828,254	10,924,228
Less: Entrusted loan, repayable within one year		—	(31,735,090)
Total		247,828,254	10,924,228

As at 31st December, 2001 and 2000, there was no indication of impairment of long-term investments of the Company and its subsidiaries and therefore no impairment loss of long-term investments was provided.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(9) Long-term investments (Cont'd)

(i) Long-term equity investment (Cont'd)

The Company

For the year ended 31st December, 2001, long-term equity investments comprised:

	As at 31st December, 2000	Addition	Deduction	As at 31st December, 2001
Investment in subsidiaries				
- Weihai Power Plant	—	566,244,568	(18,266,173)	547,978,395
- Jining Power Plant	—	312,988,302	—	312,988,302
Investment in an associate				
- Rizhao Company	—	231,868,800	(5,380,723)	226,488,077
Total	—	1,111,101,670	(23,646,896)	1,087,454,774

Name	Investment period	Investment cost		As at 31st December, 2000	Equity interest		As at 31st December, 2001	Total	
		As at 31st December, 2000	As at 31st December, 2001		As at 31st December, 2000	Income Profit appropriation		As at 31st December, 2000	As at 31st December, 2001
Weihai Power Plant	Infinite	—	474,038,793	—	92,205,775	(18,266,173)	73,939,602	—	547,978,395
Jining Power Plant	Infinite	—	283,706,227	—	29,282,075	—	29,282,075	—	312,988,302
Rizhao Power Plant	20 years	—	231,868,800	—	(5,380,723)	—	(5,380,723)	—	226,488,077
		—	989,613,820	—	116,107,127	(18,266,173)	97,840,954	—	1,087,454,774

There is no significant difference in accounting policies adopted by the investees and the Company and its subsidiaries. There is no significant restriction on the realisability of the investments or the remittance of investment income.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

(9) Long-term investments *(Cont'd)*

(ii) Entrusted loans to a subsidiary

The Company has granted entrusted loans to the Weihai Power Plant, through a financial institution, to finance the construction of the Weihai Power Plant Phase II. These loans have no guarantee and are unsecured. They bore interests at the prevailing lending rates at 6.21% per annum for the year ended 31st December, 2001 and were repayable in accordance with the following agreed schedules:

Financial year	Rmb
2002	31,735,090
2003	256,300,000
2004	440,662,956
Total	<u>728,698,046</u>

For the year ended 31st December, 2001, interest income from the Weihai Power Plant amounted to approximately Rmb43 million. As at 31st December, 2001, the outstanding entrusted loans, their related interest income and interest expense were eliminated in the consolidated financial statements.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(10) Fixed assets

The movement of fixed assets was as follows:

	The Company and its subsidiaries						As at 31st December, 2001
	As at 31st December, 2000	Reclassification	Transfer from CIP	Acquisition of Shandong Huaneng	Addition	Disposal	
Cost							
Buildings	1,654,227,726	(139,993,660)	36,106,649	185,902,784	27,997,526	(31,755,401)	1,732,485,624
Electric utility plant							
in service	37,868,421,986	285,055,250	101,008,968	6,180,292,018	28,820,400	(83,970,554)	44,379,628,068
Transportation facilities	522,314,028	(92,627,717)	—	249,496,232	1,880,401	(719,415)	680,343,529
Others	632,027,881	(52,433,873)	108,571,524	300,942,260	39,558,922	(24,963,894)	1,003,702,820
Total	40,676,991,621	—	245,687,141	6,916,633,294	98,257,249	(141,409,264)	47,796,160,041
Accumulated depreciation							
Buildings	(379,695,103)	52,489,917		(20,296,896)	(35,527,996)	448,668	(382,581,410)
Electric utility plant							
in service	(8,547,401,096)	(155,272,610)		(1,650,228,828)	(3,071,015,845)	57,025,848	(13,366,892,531)
Transportation facilities	(110,435,237)	33,696,637		(99,552,068)	(27,673,740)	498,045	(203,466,363)
Others	(231,114,286)	69,086,056		(144,832,384)	(126,783,694)	13,939,498	(419,704,810)
Total	(9,268,645,722)	—		(1,914,910,176)	(3,261,001,275)	71,912,059	(14,372,645,114)
Net book value	31,408,345,899						33,423,514,927

As at 31st December, 2001 and 2000, there was no indication of impairment of fixed assets of the Company and its subsidiaries and therefore no impairment loss of fixed assets was provided.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(10) Fixed assets (Cont'd)

	As at 31st December, 2000	Reclassification	The Company Acquisition of Transfer from CIP	Shandong Huaneng	Addition	Disposal	As at 31st December, 2001
Cost							
Buildings	1,654,227,726	(142,828,615)	24,313,556	92,457,997	27,501,046	(26,263,120)	1,629,408,590
Electric utility plant in service	37,868,421,986	189,624,877	5,630,350	1,858,705,875	28,820,400	(79,960,700)	39,871,242,788
Transportation facilities	522,314,028	(92,627,717)	—	43,805,505	1,880,401	(719,415)	474,652,802
Others	632,027,881	45,831,455	104,291,617	61,625,980	37,718,664	(24,254,121)	857,241,476
Total	<u>40,676,991,621</u>	<u>—</u>	<u>134,235,523</u>	<u>2,056,595,357</u>	<u>95,920,511</u>	<u>(131,197,356)</u>	<u>42,832,545,656</u>
Accumulated depreciation							
Buildings	(379,695,103)	53,992,966	—	(32,442,280)	—	—	(358,144,417)
Electric utility	(8,547,401,096)	(83,021,609)	—	(2,735,827,461)	53,141,848	—	(11,313,108,318)
Transportation facilities	(110,435,237)	33,696,637	—	(17,465,841)	498,045	—	(93,706,396)
Others	(231,114,286)	(4,667,994)	—	(110,563,410)	13,437,026	—	(332,908,664)
Total	<u>(9,268,645,722)</u>	<u>—</u>	<u>—</u>	<u>(2,896,298,992)</u>	<u>67,076,919</u>	<u>—</u>	<u>(12,097,867,795)</u>
Net book value	<u>31,408,345,899</u>						<u>30,734,677,861</u>

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(11) Construction-in-progress

The movement of construction-in-progress was as follows:

	The Company and its subsidiaries					Source of financing
	As at 31st December, 2000	Acquisition of Shandong Huaneng	Addition	Transfer to fixed asset	As at 31st December, 2001	
Dezhou Power Plant						
phase III construction	—	1,508,302,785	2,475,822,114	—	3,984,124,899	Bank loans
Other construction	268,179,538	24,858,452	217,205,146	(245,687,141)	264,555,995	Internal fund
Total	268,179,538	1,533,161,237	2,693,027,260	(245,687,141)	4,248,680,894	
Including: capitalized interest	—	36,089,214	87,204,372	—	123,293,586	

	The Company					Source of financing
	As at 31st December, 2000	Acquisition of Shandong Huaneng	Addition	Transfer to fixed asset	As at 31st December, 2001	
Dezhou Power Plant						
phase III construction	—	1,508,302,785	2,475,822,114	—	3,984,124,899	Bank loans
Other construction	268,179,538	11,505,385	119,106,595	(134,235,523)	264,555,995	Internal fund
Total	268,179,538	1,519,808,170	2,594,928,709	(134,235,523)	4,248,680,894	
Including: capitalized interest	—	36,089,214	87,204,372	—	123,293,586	

The budgeted total investment of the Dezhou Power Plant phase III is approximately Rmb6,385.71 million. The percentage of completion was about 62% as at 31st December, 2001.

For the year ended 31st December, 2001, the applicable capitalization rate of the Company and its subsidiaries was 5.75%. For the year ended 31st December, 2000, the Company had no borrowing costs which were qualified for capitalization.

As at 31st December, 2001 and 2000, there was no indication that the construction-in-progress of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was recognized.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(12) Intangible assets

The movement of intangible assets, which comprised land-use rights and negative goodwill, was as follows:

		The Company and its subsidiaries							
Method of acquisition	Original cost	As at 31st December, 2000	Acquired from Shandong Huaneng	Addition	Amortization for the year	Accumulated amortization	As at 31st December, 2001	Remaining amortization period	
Land use rights	Purchase	738,795,274	576,064,165	63,763,915	46,579,770	(14,358,693)	(66,746,117)	672,049,157	42-50 years
Negative goodwill	Acquisition	(2,472,783,635)	—	—	(2,472,783,635)	247,278,364	247,278,364	(2,225,505,271)	9 years
Total		<u>(1,733,988,361)</u>	<u>576,064,165</u>	<u>63,763,915</u>	<u>(2,426,203,865)</u>	<u>232,919,671</u>	<u>180,532,247</u>	<u>(1,553,456,114)</u>	

		The Company							
Method of acquisition	Original cost	As at 31st December, 2000	Addition	Amortization for the year	Accumulated amortization	As at 31st December, 2001	Remaining amortization period		
Land use rights	Purchase	658,332,874	576,064,165	33,592,440	(13,009,190)	(61,685,459)	596,647,415	42-50 years	
Negative goodwill	Acquisition	(2,472,783,635)	—	(2,472,783,635)	247,278,364	247,278,364	(2,225,505,271)	9 years	
Total		<u>(1,814,450,761)</u>	<u>576,064,165</u>	<u>(2,439,191,195)</u>	<u>234,209,174</u>	<u>185,592,905</u>	<u>(1,628,857,856)</u>		

Negative goodwill arose from the acquisition of Shandong Huaneng. It is amortized over the estimated useful life of 10 years on a straight-line basis (see note 5).

As at 31st December, 2001 and 2000, there was no indication that the intangible assets were impaired and therefore no provision for impairment loss was recognized.

(13) Other long-term assets

Other long-term assets represented receivables from Shantou Harbor Bureau for coal-port constructions without agreed repayment period or interest rate. Shantou Power Plant, as the major user of the coal-port, will benefit from the transportation of coal and lower cost of coal.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(14) Short-term loans

Short-term loans of the Company and its subsidiaries were denominated in Rmb and comprised the following:

	As at 31st December, 2001	As at 31st December, 2000	
	The Company and its subsidiaries	The Company	Remarks
Guaranteed loans	40,000,000	—	Guaranteed by the Company
Credit loans	—	1,300,000,000	Nil
Total	40,000,000	1,300,000,000	

The short-term loans bore interest at the rate of 5.301% per annum for the year ended 31st December, 2001 (2000: 5.022%).

(15) Accounts payable and notes payable

Accounts payable and notes payable mainly comprised payables to suppliers for coal purchased. As at 31st December, 2001 and 2000, there was no accounts payable to the shareholders who were holding 5% or more of the equity interest in the Company.

Notes payable represented notes payable for a bank acceptance, which would mature within one year.

See Note 6 for related party transactions.

(16) Dividend payable

On 12th March, 2002, the Board of Directors proposed a dividend of Rmb0.30 per share, totalling approximately Rmb1,800 million for the year ended 31st December, 2001 (2000: Rmb1,243 million)

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(17) Taxes payable

Taxes payable comprised:

	As at 31st December, 2001	As at 31st December, 2000
	The Company and its subsidiaries	The Company
Income tax payable	292,615,418	329,959,779
VAT payable	209,020,304	192,999,910
Others	19,556,945	6,700,863
Total	<u>521,192,667</u>	<u>529,660,552</u>

(18) Other payables

Other payables comprised:

	As at 31st December, 2001	As at 31st December, 2000
	The Company and its subsidiaries	The Company
Payable to contractors for construction	716,955,977	1,249,779,921
Payable to power companies	10,195,950	36,550,000
Deposits payable to contractors	120,559,122	24,831,778
Payable to HIPDC	36,584,373	130,158,102
Housing fund payable	31,030,111	22,007,488
Payable for acquisition of Nanjing Power Plant	—	141,640,843
Service fee payable to foreign construction experts	28,124,210	38,213,823
Payable to employees for saving achieved in construction projects	26,043,378	27,320,000
Others	398,628,349	200,110,658
Total	<u>1,368,121,470</u>	<u>1,870,612,613</u>

As at 31st December, 2001, there was no other payables to the shareholders who were holding 5% or more of the equity interest in the Company, except for the payable to HIPDC which amounted to Rmb36,584,373 as mentioned in note 6(2)(i) (2000: Rmb130,158,102). See Note 6 for related party transactions.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(19) Accrued expenses

Accrued expenses comprised:

	As at 31st December, 2001 The Company and its subsidiaries	As at 31st December, 2000 The Company
Accrued interest expenses	200,977,985	202,389,700
Other accrued expenses	13,309,372	6,336,637
Total	<u>214,287,357</u>	<u>208,726,337</u>

(20) Long-term loans

Long-term loans comprised (all are credit loans unless otherwise stated):

		As at 31st December, 2001 The Company and its subsidiaries	As at 31st December, 2000 The Company
Long-term loan from shareholders (1)	793,281,815	793,281,815	1,001,820,417
Long-term loan from Nanjing Investment (2)	174,368,039	174,368,039	232,490,719
Long-term loan from Weihai International Trust and Investment Corporation ("WITIC") (3)	215,703,990	—	—
Long-term bank loans (4)	11,321,254,221	10,711,041,247	10,317,346,540
	12,504,608,065	11,678,691,101	11,551,657,676
Less: current portion of long-term loans	(2,928,846,440)	(2,819,941,273)	(1,708,830,747)
Total	<u>9,575,761,625</u>	<u>8,858,749,828</u>	<u>9,842,826,929</u>

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(20) Long-term loans (Cont'd)

(1) Long-term loans from shareholders (including current portion) comprised:

	As at 31st December, 2001
Foreign currency bank loans on-lent by HIPDC	793,281,815
Less: current portion of long-term loans	<u>(15,564,873)</u>
Total	<u><u>777,716,942</u></u>

As at 31st December, 2001, long-term loans from shareholders comprised:

Lender	As at 31st December, 2001	Repayment period	Interest rate	Current portion
Bank loans on-lent by HIPDC				
Bank of China*	777,716,942	1997-2004	LIBOR+0.9%	—
Banque de Paribus	712,223	1988-2002	7.40%	712,223
Swiss Trust Bank	<u>14,852,650</u>	1988-2002	4.25%	<u>14,852,650</u>
Total	<u><u>793,281,815</u></u>			<u><u>15,564,873</u></u>

* As at 31st December, 2001, the loans were not repayable within one year and therefore there was no current portion for the loans.

Bank loans on-lent by HIPDC are all denominated in foreign currencies. The amounts outstanding comprised:

	Original currency	Exchange rate	Amounts in Rmb
Amounts denominated in United States Dollar ("US\$")	94,051,803	8.2766	778,429,165
Amounts denominated in Swiss Franc ("SFRC")	3,002,597	4.9466	<u>14,852,650</u>
Total			<u><u>793,281,815</u></u>

The foreign currency bank loans bear interest at the prevailing lending rates, which are either fixed or floating as prescribed by the loan contract and are repayable in accordance with the repayment schedules set by the banks.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(20) Long-term loans (Cont'd)

- (1) Long-term loan from shareholders (including current portion) comprised: (Cont'd)

The foreign-currency bank loans were previously borrowed by HIPDC for financing the construction of power plants. 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 shareholder loans. The existing terms of the loans including interest rates and repayment schedules remained intact after the restructuring.

- (2) Long-term loan from Nanjing investment

As at 31st December, 2001, long-term loan from Nanjing Investment amounted to Rmb174,368,039 and was repayable in 2002. The loan is unsecured, repayable in accordance with the repayment schedules and bear interest at 6.21% per annum. The Company assumed the loan upon the acquisition of Nanjing Power Plant.

- (3) Long-term loan from WITIC

As at 31st December, 2001, long-term loan from WITIC amounted to Rmb215,703,990 (current portion of the loan is Rmb108,905,167). The loan was borrowed by the Weihai Power Plant from WITIC to finance its construction with interest at 6.21% per annum for the year ended 31st December, 2001. The loan is unsecured and is payable in accordance with the repayment schedules (from 1994 to 2004) (See Note 6(2)(g)).

- (4) Long-term bank loans

Long-term bank loans (including current portion) comprised:

	As at 31st December, 2001	
	The Company and its subsidiaries	The Company
Renminbi bank loans (a)	1,430,212,984	820,000,010
United States dollar bank loans (b)	9,891,041,237	9,891,041,237
	11,321,254,221	10,711,041,247
Less: current portion of long-term bank loans	(2,630,008,361)	(2,630,008,361)
	8,691,245,860	8,081,032,886

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(20) Long-term loans (Cont'd)

(4) Long-term bank loans (Cont'd)

As at 31st December, 2001, long-term bank loans comprised:

Lenders	The Company and its subsidiaries				
	As at 31st December, 2001	Loan period	Interest rate	Current portion	Terms
Renminbi bank loans					
China Construction Bank - Shantou branch	120,000,010	1994-2002	6.21%	120,000,010	Guaranteed by HIPDC
China Construction Bank - Weihai branch	480,212,974	1998-2004	6.21%	—*	Guaranteed by the Company and WITIC
China Construction Bank - Weihai branch	30,000,000	1999-2005	6.21%	—*	Guaranteed by the Company
China Construction Bank - Weihai branch	100,000,000	1999-2007	6.21%	—*	Guaranteed by the WITIC
China Construction Bank - Jinan branch	300,000,000	1999-2002	6.21%	300,000,000	Guaranteed by Huaneng Group
China Construction Bank - Dezhou branch	400,000,000	2000-2002	6.21%	400,000,000	Guaranteed by Huaneng Group
Sub-total	1,430,212,984			820,000,010	
United States dollar bank loans					
Sakura bank	88,283,731	1996-2003	LIBOR+0.45%	44,141,867	Nil
Dai-ichikangyo Bank	88,283,728	1996-2003	LIBOR+0.4%	44,141,872	Nil
	176,567,459			88,283,739	

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(20) Long-term loans (Cont'd)

(4) Long-term bank loans (Cont'd)

As at 31st December, 2001, long-term bank loans comprised:

Lenders	The Company and its subsidiaries				
	As at 31st December, 2001	Loan period	Interest rate	Current portion	Terms
On-lent loan by Bank of China					
British Barclay Bank PRC***	661,978,223	1995-2004	5.95%	242,725,465	Guaranteed by HIPDC
British Barclay Bank PRC***	195,357,201	1996-2004	6.60%	71,731,182	Guaranteed by HIPDC
British Barclay Bank PRC***	664,378,159	1996-2004	6.60%	242,550,761	Guaranteed by HIPDC
American I&E Bank	2,757,799,177	1995-2011	5.95%	258,825,437	Guaranteed by HIPDC
American I&E Bank	361,656,474	1997-2012	6.60%	31,873,469	Guaranteed by HIPDC
American I&E Bank	1,486,962,559	1997-2012	6.54%	138,087,267	Guaranteed by HIPDC
Tokyo Bank	370,212,318	1995-2003	LIBOR+0.3%	185,106,159	Guaranteed by HIPDC
France Spcoete Generale Bank - London Branch	686,550,445	1995-2010	5.95%	251,735,041	Guaranteed by HIPDC
KFW Bank	946,004,973	1996-2011	6.60%	90,096,998	Guaranteed by HIPDC
Canadian Export Development Corporation***	108,359,538	1996-2004	6.60%	39,322,533	Guaranteed by HIPDC
Japan Fuji Bank	509,010,900	1996-2004	LIBOR+0.38%	169,670,300	Guaranteed by HIPDC
KFW Bank	414,244,128	1999-2014	6.36%	—*	Guaranteed by Huaneng Group
Citi Bank**	551,959,683	1999-2015	LIBOR	—*	Guaranteed by Huaneng Group
	9,714,473,778			1,721,724,612	
Sub-total	9,891,041,237			1,810,008,351	
Total	11,321,254,221			2,630,008,361	

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(20) Long-term loans (Cont'd)

(4) Long-term bank loans (Cont'd)

Lenders	The Company				
	As at 31st December, 2001	Loan period	Interest rate	Current portion	Terms
Renminbi bank loans					
China Construction Bank - Shantou branch	120,000,010	1994-2002	6.21%	120,000,010	Guaranteed by HIPDC
China Construction Bank - Jinan branch	300,000,000	1999-2002	6.21%	300,000,000	Guaranteed by Huaneng Group
China Construction Bank - Dezhou branch	400,000,000	2000-2002	6.21%	400,000,000	Guaranteed by Huaneng Group
Sub-total	820,000,010			820,000,010	
United States dollar bank loans					
Sakura bank	88,283,731	1996-2003	LIBOR+0.45%	44,141,867	Nil
Dai-ichikangyo Bank	88,283,728	1996-2003	LIBOR+0.4%	44,141,872	Nil
	176,567,459			88,283,739	
On-lent loan by Bank of China					
British Barclay Bank PRC***	661,978,223	1995-2004	5.95%	242,725,465	Guaranteed by HIPDC
British Barclay Bank PRC***	195,357,201	1996-2004	6.60%	71,731,182	Guaranteed by HIPDC
British Barclay Bank PRC***	664,378,159	1996-2004	6.60%	242,550,761	Guaranteed by HIPDC
American I&E Bank	2,757,799,177	1995-2011	5.95%	258,825,437	Guaranteed by HIPDC
American I&E Bank	361,656,474	1997-2012	6.60%	31,873,469	Guaranteed by HIPDC
American I&E Bank	1,486,962,559	1997-2012	6.54%	138,087,267	Guaranteed by HIPDC
Tokyo Bank	370,212,318	1995-2003	LIBOR+0.3%	185,106,159	Guaranteed by HIPDC
France Spcoete Generale Bank - London branch	686,550,445	1995-2010	5.95%	251,735,041	Guaranteed by HIPDC
KFW Bank	946,004,973	1996-2011	6.60%	90,096,998	Guaranteed by HIPDC
Canadian Export Development Corporation***	108,359,538	1996-2004	6.60%	39,322,533	Guaranteed by HIPDC
Japan Fuji Bank	509,010,900	1996-2004	LIBOR+0.38%	169,670,300	Guaranteed by HIPDC
KFW Bank	414,244,128	1999-2014	6.36%	—*	Guaranteed by Huaneng Group
Citi Bank**	551,959,683	1999-2015	LIBOR	—*	Guaranteed by Huaneng Group
	9,714,473,778			1,721,724,612	
Sub-total	9,891,041,237			1,810,008,351	
Total	10,711,041,247			2,630,008,361	

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(20) Long-term loans (Cont'd)

(4) Long-term bank loans (Cont'd)

- * As at 31st December, 2001 the loan was not repayable within one year and therefore there was no current portion for the loan.
 - ** The interest rate of the loan from Citi Bank is LIBOR prior to the last drawdown date or LIBOR plus 0.075% thereafter. The last drawdown date is 20th July, 2003 or the date of loan cancellation, if earlier.
 - *** On 22nd January, 2002, the Company and its subsidiaries and Bank of China ("BOC") entered into a Loan Restructuring Agreement to borrow a loan of US\$270 million. According to the agreement, such loan is borrowed specifically 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. The Company and its subsidiaries adjusted the current portion of the above loans in accordance with the new loan agreement (see note 9).
- (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 bear interest at the prevailing lending rates and are repayable in accordance with the agreed repayment schedules set by the banks.
- (b) As at 31st December, 2001, United States dollar bank loans amounted to US\$1,195,050,293 (US\$1=Rmb8.2766). 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 bear interest at prevailing lending rates and are repayable in accordance with the agreed repayment schedules set by the banks.

In 2001, the Company and its subsidiaries repaid loans obtained from National Development Bank, Bank of China-Nantong branch and China Construction Bank-Shandong branch prior to their expiration dates, which amounted to Rmb808,000,000.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(21) Convertible Notes

Details of the convertible notes comprised:

	Par value	Issued amount	Accrued Interest as at 31st December, 2000	Interest accrued in 2001	Interest payment in 2001	Accrued Interest as at 31st December, 2001
Convertible notes	1,903,618,000	1,903,618,000	380,395,316	155,143,076	(33,488,751)	502,049,641

In May 1997, the Company issued at par value convertible notes with an aggregate principal amount of US\$230 million (Rmb1.904 billion) 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 Company has accrued for the put premium liability together with the interest payable on the notes using the effective interest rate of 6.66%.

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.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(22) Share Capital

Movement of the Company's share capital during 2001 was as follows:

	As at 31st December, 2000 '000	Addition '000	As at 31st December, 2001 '000
1. Unlisted shares			
Promoters shares	4,150,000	100,000	4,250,000
Including: Domestic legal person shares	4,150,000	100,000	4,250,000
Sub-total of unlisted shares	<u>4,150,000</u>	<u>100,000</u>	<u>4,250,000</u>
2. Listed shares			
Domestic shares listed in the PRC	—	250,000	250,000
Overseas listed shares	1,500,000	—	1,500,000
Sub-total of listed shares	<u>1,500,000</u>	<u>250,000</u>	<u>1,750,000</u>
3. Total	<u>5,650,000</u>	<u>350,000</u>	<u>6,000,000</u>

Pursuant to the resolution at the special shareholders' meeting held on 25th February, 2001 and the approval by China Securities Regulation Committee (Zheng Jian Fa Xing Zi [2001] 67), on 15th and 16th November, 2001, 250,000,000 new ordinary shares with par value of Rmb1.00 each, in the form of A shares, were issued to the public in a public offering at Rmb7.95 per A share. At the same time, 100,000,000 new Domestic Shares with par value of Rmb1.00 each were issued to HIPDC at Rmb7.95 each. The 250,000,000 A shares were listed on the Shanghai Stock Exchange on 6th December, 2001.

On 26th November, 2001, Arthur Andersen • Hua Qiang Certified Public Accountants issued a capital verification report on the changes of the Company's capital during 2001.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(23) Capital surplus

Movement of capital surplus, which represented share premium, was as follows:

	As at 31st December, 2000	Addition	Deduction	As at 31st December, 2001
Share premium	7,839,390,966	2,420,058,329	—	10,259,449,295

The addition for capital surplus represented the share premium arising from the A shares issuance in 2001, after deduction of share issuing costs.

(24) Surplus reserves

Movement of surplus reserve was as follows:

	As at 31st December, 2000	Addition	Deduction	As at 31st December, 2001
Statutory surplus reserve fund	1,578,908,959	363,606,424	—	1,942,515,383
Statutory public welfare fund	490,036,688	272,704,818	—	762,741,506
Total	<u>2,068,945,647</u>	<u>636,311,242</u>	<u>—</u>	<u>2,705,256,889</u>

(25) Unappropriated profit

Movement of unappropriated profit was as follows:

Balance as at 31st December, 1999	6,022,617,588
Add: Net profit for 2000	2,644,226,947
Less: Transfer to statutory surplus reserve fund at 10% of net profit	(264,422,695)
Transfer to statutory public welfare fund at 7.5% of net profit	(198,317,021)
Dividends payable to ordinary shareholders	<u>(1,243,000,000)</u>
Balance as at 31st December, 2000	6,961,104,819
Add: Net profit for 2001	3,636,064,244
Less: Transfer to statutory surplus reserve fund at 10% of net profit	(363,606,424)
Transfer to statutory public welfare fund at 7.5% of net profit	(272,704,818)
Dividends payable to ordinary shareholders	<u>(1,800,000,000)</u>
Balance as at 31st December, 2001	<u>8,160,857,821</u>

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(25) Unappropriated profit (Cont'd)

According to "the Companies' Law in the PRC" and the Articles of Association of the Company, the Company and its subsidiaries decide on an annual basis the percentages of the profit after taxation determined under PRC GAAP 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 the registered capital. The statutory public welfare fund can only be utilized on capital items for the collective benefits of the Company's and its subsidiaries' employees. This fund is non-distributable other than in liquidation.

In accordance with the Articles of Association, the Company and its subsidiaries appropriate, on an annual basis, 10% and 7.5% of the profit after taxation as determined under PRC GAAP to the statutory surplus reserve fund and the statutory public welfare fund, respectively.

On 12th March, 2002, the Board of Directors resolved to appropriate 10% and 7.5% of the profit after taxation for the year ended 31st December, 2001, respectively, to the statutory surplus reserve fund (363,606,424) and the statutory public welfare fund (272,704,818). In addition, the Board of Directors proposed a dividend of Rmb0.30 per share, totalling Rmb1,800 million for the year ended 31st December, 2001, based on the total number of shares outstanding as at 31st December, 2001. The proposed dividend distribution is subject to shareholders' approval in their next general meeting.

On 14th March, 2001, the Board of Directors resolved to appropriate 10% and 7.5% of the profit after taxation for the year ended 31st December, 2000, respectively, to the statutory surplus reserve fund (264,422,695) and the statutory public welfare fund (198,317,021). In addition, the Board of Directors proposed a dividend of Rmb0.22 per share, totalling Rmb1,243 million for the year ended 31st December, 2000 based on the total number of shares outstanding as at 31st December, 2000. The proposed dividend distribution was approved in the shareholders' meeting on 23rd May, 2001.

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 (1) PRC GAAP (2) International Financial Reporting Standards ("IFRS") and (3) Generally Accepted Accounting Standards in the United States of America ("US GAAP").

(26) Operating revenue

Sales of electric power

The Company and its subsidiaries have contractual arrangements for the sale of electric power with the local power companies or provincial power companies.

For the year ended 31st December, 2001, the revenue from the five largest customers of the Company and its subsidiaries and that of the Company amounted to 12,643,398,080 and 10,874,413,218, respectively, representing 79.94% and 77.41% of the total revenue, respectively (2000: The Company: 10,994,738,934, 87.55%).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(27) Financial expenses

Financial expenses comprised:

	For the year ended 31st December, 2001	For the year ended 31st December, 2000
	The Company and its subsidiaries	The Company
Interest expenses	914,100,350	1,024,653,085
Less: Interest income	(113,081,032)	(79,722,906)
Exchange loss	392,289	1,927,454
Less: Exchange gain	(4,126,593)	(362,136)
Others	45,492,597	33,371,101
Total	842,777,611	979,866,598

(28) Investment income

	For the year ended 31st December, 2001	For the year ended 31st December, 2000
	The Company and its subsidiaries	The Company
Debt investment income:		
Income from bond investment	634,697	—
Income from entrusted loans	—	43,134,464
Other investment income	24,036,340	—
	24,671,037	67,170,804
Share of profit of subsidiaries	—	121,487,850
Share of loss of an associate	(5,380,723)	—
Total	19,290,314	183,277,931

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(29) Non-operating expense

Non-operating expense comprised:

	For the year ended 31st December, 2001 The Company and its subsidiaries	For the year ended 31st December, 2000 The Company
Loss on disposal of fixed assets	36,742,025	50,965,612
Housing loss*	15,518,512	86,950,581
Donation	2,822,300	3,818,577
Others	10,780,578	15,074,742
Total	<u>65,863,415</u>	<u>156,809,512</u>

* Pursuant to Cai Qi [2000] 295 and Cai Qi [2000] 878 announced by the Ministry of Finance, the Company ceased to provide housing welfare fund and housing turnover fund after the issuance date of Cai Qi [2000] 295. When staff quarters were sold to employees in November 2000, the Company and its subsidiaries recognized the difference between (i) the carrying amount of the staff quarters sold plus accrual for housing maintenance funds and actual cleaning expenses incurred and (ii) the net proceeds collected from the employees as non-operating expense.

(30) Other cash paid relating to operating activities

	For the year ended 31st December, 2001 The Company and its subsidiaries	For the year ended 31st December, 2000 The Company
Cash paid for repair and maintenance expenses	589,909,169	494,128,141
Service fee payable to HIPDC	307,322,496	310,741,601
Others	760,373,162	621,839,795
Total	<u>1,657,604,827</u>	<u>1,426,709,537</u>

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(31) Reconciliation of net profit to net cash flows from operating activities

	For the year ended 31st December, 2001		For the year ended 31st December, 2000
	The Company and its subsidiaries	The Company	The Company
Net profit	3,636,064,244	3,636,064,244	2,644,226,947
Add: Provision for bad debts	1,029,575	536,531	4,588,063
Provision for inventory obsolescence	2,575,918	860,367	10,608,332
Depreciation of fixed assets	3,261,001,275	2,896,298,992	2,654,412,995
Amortization of intangible assets	(232,919,671)	(234,269,174)	12,535,543
Amortization of long-term deferred expenses	24,872,661	24,872,661	6,961,879
Loss on disposal of fixed assets	36,742,025	34,695,163	50,965,612
Gain on disposal of fixed assets	(150,045)	(150,045)	(86,872)
Financial costs	912,671,490	840,246,617	1,021,943,689
Minority interests	71,231,207	—	—
Investment income	(19,290,314)	(183,277,931)	—
Increase in inventories	(59,882,767)	(47,055,191)	(27,481,393)
Decrease (increase) in operating receivables	247,102,887	(17,040,004)	203,302,668
(Decrease) increase in operating payables	(766,899,292)	(467,283,261)	255,864,192
Net cash flows provided by operating activities	<u>7,114,149,193</u>	<u>6,484,498,969</u>	<u>6,837,841,655</u>

(32) Net increase (decrease) in cash and cash equivalents

	For the year ended 31st December, 2001		For the year ended 31st December, 2000
	The Company and its subsidiaries	The Company	The Company
Cash and cash equivalents, end of year	2,173,136,245	2,129,332,398	1,988,372,612
Less: cash and cash equivalents, beginning of year	(1,988,372,612)	(1,988,372,612)	(2,493,198,231)
Net increase (decrease) in cash and cash equivalents	<u>184,763,633</u>	<u>140,959,786</u>	<u>(504,825,619)</u>

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

5. ACQUISITION OF SHANDONG HUANENG

Shandong Huaneng was incorporated in the PRC as a Sino-foreign joint stock limited company on 27th June, 1994. Before the Acquisition, Shandong Huaneng owned and operated the net assets of the Dezhou Power Plant and held 60% and 75% equity interests in the Weihai Power Plant and the Jining Power Plant, respectively. The Dezhou Power Plant, the Weihai Power Plant and the Jining Power Plant (hereinafter collectively referred to as the "Three Power Plants") own coal-fired power generating facilities in the Shandong province and sell all electricity generated to Shandong Electricity Power Group Corporation ("SEPCO"). SEPCO was entrusted with the right to manage the operations of the Weihai Power Plant and the Jining Power Plant. In addition, Shandong Huaneng held 25.5% equity interests in the Rizhao Company, which was incorporated in Rizhao City, Shandong Province, as a sino-foreign co-operative joint venture enterprise.

On 18th July, 2000, the Company and Shandong Huaneng entered into an agreement under which the Company acquired the net assets of Shandong Huaneng. After the acquisition, the combined operations are undertaken by the Company. The shareholders of Shandong Huaneng were entitled to Rmb1.34 per domestic share or USD0.1618 per ordinary N share (the "Acquisition"). The total consideration of the Acquisition was approximately Rmb5,768 million.

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. Pursuant to the Management Transfer Agreement entered into between the Company and SEPCO on 5th January, 2001, SEPCO was no longer responsible for the operations of the Weihai Power Plant and the Jining Power Plant. Effective from 1st January, 2001, the Company is fully responsible for the generation, operation and safety management of the Weihai Power Plant and the Jining Power Plant.

The purchase method is adopted to account for this acquisition. The acquired identifiable assets and liabilities were 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 to be approximately 8,272 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 2,473 million (see notes 4(12)), which is amortized over 10 years on the straight-line basis, starting from 1st January, 2001.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

5. ACQUISITION OF SHANDONG HUANENG (Cont'd)

Net cash inflow from acquisition of Shandong Huaneng was as follows:

	2001 '000
Cash and cash equivalents	2,635,695
Short-term investments	1,564,855
Accounts receivable	182,589
Inventories	95,769
Other receivables and prepayments	238,414
Total fixed assets	6,427,841
Intangible assets	170,807
Long-term investments	231,869
Other long-term assets	99,210
Current liabilities	(1,326,169)
Long-term loans	(1,808,458)
Minority interests	(240,083)
	<u>8,272,339</u>
Less: Negative goodwill	(2,472,784)
Less: Direct costs of acquisition	(31,657)
	<u>5,767,898</u>
Total consideration paid in 2000	<u>5,767,898</u>
Net cash inflow in 2001 from the acquisition of Shandong Huaneng	<u>2,635,695</u>

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

6. RELATED PARTY TRANSACTIONS

(1) Basic information and nature of relationship with the Company

Related party includes:

- (i) Enterprises that, directly or indirectly, control or are controlled by, the reporting enterprise; and two or more enterprises subject to control from the same enterprise;
- (ii) Joint ventures;
- (iii) Associated enterprises;
- (iv) Principal individual investors, key management personnel, or the close family members of such individuals;
- (v) Other enterprises directly controlled by principal individual investors or key management personnel, or the close family members of such individuals.

HIPDC is the parent of the Company, details are as follows:

Name	Type of business	Legal representative	Place of incorporation	Registered capital	Principal activities
HIPDC	Joint venture	Mr. Li Xiaopeng	No. 2 Fuxingmen South Street Xi Cheng District, Beijing	USD 450 million	Investment in Power Plants, develop and invest in other export-oriented enterprises

There was no change in the registered capital of HIPDC for the year ended 31st December, 2001.

The shares of the Company owned by HIPDC and the movement are as follows (expressed in thousands of shares):

As at 31st December, 2000	Addition	Deduction	As at 31st December, 2001
2,454,840	100,000	—	2,554,840

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

(1) Basic information and nature of relationship with the Company (Cont'd)

Other related parties, which have no direct control but have transactions with the Company and its subsidiaries, are as follows:

Name of related parties	Nature of relationship
China Huaneng Group Corporation ("China Huaneng Group")	Ultimate parent
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of China Huaneng Group
SEPCO	Minority shareholder of Jining Power Plant
WITIC	Minority shareholder of Weihai Power Plant
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of China Huaneng Group

(2) Related party transactions

- 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's for the year ended 31st December, 2001 was approximately Rmb307 million (2000: Rmb311 million).
- b. At the time of the formation of the Company, the Company should pay land use rights fee for the land use rights obtained, regardless whether the five original operating plants obtained the land use rights previously or not. Thus, HIPDC paid approximately Rmb148 million to obtain the land use rights pertaining to existing sites occupied by the five original operating plants and transferred such land use rights to the Company at the same amount. Payments to HIPDC for the land use rights are being made in 10 equal, non-interest bearing, annual installments starting from 1994. Such land use rights are recorded as intangible assets in the balance sheets and amortized in 50 years according to the land use rights terms.
- c. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use rights of the Shanghai Power Plant to the Company for a period of 50 years at an annual rental payment of Rmb6 million. In 2001, the Company paid rental amounting to Rmb6 million to HIPDC (2000: Rmb6 million).
- d. 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 Rmb1.334 million.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

(2) Related party transactions (Cont'd)

- e. 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 Huaneng Finance. There is no material difference between the interest rate of the current and fixed deposits placed with Huaneng Finance and prevailing market interest rate.
- f. 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.
- g. As described in Note 4(20)(1) and Note 4(20)(3), certain bank loans were on-lent from HIPDC and drawn from WITIC to the Company and its subsidiaries.
- h. As at 31st December, 2001, short-term loans amounting to Rmb40 million were borrowed by Weihai Power Plant from Huaneng Finance. The interest rates of such loans have no material difference with the prevailing market interest rate. (see Note 4(14)).
- i. The balance due from/to related parties are as follows:

	31st December, 2001		31st December, 2000	
	The Company and its subsidiaries		The Company	
	Amount (Rmb)	Percentage	Amount (Rmb)	Percentage
Accounts receivable				
Due from SEPCO	241,982,300	19.28%	—	—
Other receivables				
Deposit interest due from Huaneng Finance	3,523,282	2.56%	420,000	0.01%
Accounts payable				
Due to SEPCO	3,224,716	0.88%	—	—
Other payables				
Due to HIPDC	36,584,373	2.67%	130,158,102	6.96%

The balances with HIPDC and SEPCO are unsecured, non-interest bearing and repayable within one year.

- j. As at 31st December, 2001, long-term bank loans of approximately Rmb8,868 million, Rmb1,666 million and Rmb300 million were guaranteed by HIPDC, China Huaneng Group and WITIC, respectively.
- k. As at 31st December, 2001, current deposits of Rmb5.52 million was placed with the financing center of SEPCO. There is no material difference between the interest rate of the current deposits placed with the financing center of SEPCO and the prevailing market interest rate.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

(2) Related party transactions (Cont'd)

l. On 18th July, 2000, the Company and Shandong Huaneng entered into an agreement under which the Company acquired the net assets of Shandong Huaneng. The original shareholders of Shandong Huaneng (China Huaneng Group, Shandong International Trust and Investment Corporation, SEPCO and overseas public shareholders) were entitled to Rmb1.34 per ordinary A share or USD0.1618 per ordinary N share. The total consideration of the Acquisition was approximately Rmb5,768 million (see Note 5).

m. Sales of electricity power of the Company and its subsidiaries to a related party:

	2001	
	Amount (Rmb)	Percentage
Sales of electricity power to SEPCO	3,654,725,876	23.11%

No revenue was derived from related parties in 2000.

n. 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\$3.865 million (2000: nil) for equipment transportation and insurance service received.

7. CONTINGENT LIABILITY

	As at 31st December, 2001 The Company and its subsidiaries	As at 31st December, 2000 The Company
Guarantee for loan facilities granted to an associate and a subsidiary	399,250,000	—
Notes receivable discounted with recourse	110,000,000	—
Notes receivable endorsed to coal suppliers	30,628,106	—
Total	<u>539,878,106</u>	<u>—</u>

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

8. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of electric generation facilities, renovation projects for existing power plants and the purchase of coal. Capital commitment and coal purchase commitment amounting to 7,633,205,996 was not included in the consolidated balance sheet of the Company and its subsidiaries as at 31st December, 2001.

The Company has various operating lease arrangements with HIPDC for land and buildings. Total future minimum lease payments under non-cancelable operating leases were as follows:

	As at 31st December, 2001
Land and buildings	
— not later than one year	32,334,000
— later than one year and not later than two years	32,334,000
— later than two years and not later than three years	32,334,000
— later than three years	313,696,000
	410,698,000

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 in June 1994, annual rental is approximately Rmb29.874 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 was 29,874,453.

9. SUBSEQUENT EVENT

On 22nd January, 2002, the Company and BOC entered into a Loan Restructuring Agreement to borrow a loan 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 French Societe Generale - London Branch and on-lent by BOC, with a floating interest rate of LIBOR+0.6% per annum and is repayable in accordance with the agreed repayment schedules (from 2002 to 2004).

10. HEDGING OF INTEREST RATE RISK

The Company entered into interest rate swap agreements with BOC to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 31st December, 2001, the notional amount of the outstanding interest swap agreements were approximately US\$8.283 million.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

11. STAFF BENEFITS

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%) (personal contribution of 6% to 7%) 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 Rmb66.07 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 of the employees' contributions. Such contributions are recorded as deductions of welfare payable. The contributions paid by the Company and its subsidiaries for the year ended 31st December, 2001 was approximately Rmb59.86 million (2000: Rmb39 million).

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

12. PRIOR YEAR COMPARATIVES

Certain comparative figures of 2000 have been reclassified to conform to the presentation of financial statements for the year ended 31st December, 2001.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

13. NET INCOME RECONCILIATION BETWEEN PRC GAAP, IFRS AND US GAAP

The financial statements, which are prepared by the Company and its subsidiaries in conformity with PRC GAAP, differ in certain respects from IFRS and US GAAP. Major differences between PRC GAAP, IFRS and US GAAP which affect the net income and net assets of the Company and its subsidiaries are summarized below:

	Net income	
	2001	2000
Net income under US GAAP	3,337,414,726	2,489,677,613
Impact of US GAAP adjustments:		
Reversal of housing benefits provided by HIPDC (c)	26,152,570	26,152,570
Effect of the difference in negative goodwill between IFRS and US GAAP (e)	87,090,760	—
Net income under IFRS	3,450,658,056	2,515,830,183
Impact of IFRS adjustments:		
Reversal of the effect of recording repair and maintenance cost based on rate making process (a)	177,982,374	210,099,277
Difference in the basis of determining the amount of materials and supplies charged to operating expenses upon usage (b)	(2,180,035)	(3,446,990)
Difference in the recognition policy on housing benefits to the employees of the Company (c)	(5,271,603)	(78,255,523)
Difference in the recognition of financial liabilities (d)	14,875,452	—
Net income under PRC GAAP	3,636,064,244	2,644,226,947

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

13. NET PROFIT RECONCILIATION BETWEEN PRC GAAP, IFRS AND US GAAP (Cont'd)

	Net Assets	
	31st December, 2001	31st December, 2000
Net assets under US GAAP	29,022,777,421	23,269,229,402
Impact of US GAAP adjustments:		
Reversal of capital contribution arising from acquisition of Shandong Huaneng (e)	(862,922,394)	—
Effect of the difference in negative goodwill between IFRS and US GAAP (e)	87,090,760	—
Adjustment to opening retained earnings arising from adoption of IFRS 39 (f)	(463,920,605)	—
Recording of equity component of convertible notes (f)	510,506,379	510,506,379
Net assets under IFRS	28,293,531,561	23,779,735,781
Impact of IFRS adjustments:		
Reversal of the effect of recording repair and maintenance cost based on rate making process (a)	726,808,208	548,825,834
Difference in the basis of determining the amount of materials and supplies charged to operating expenses upon usage (b)	20,461,684	22,641,719
Difference in the recognition policy on housing benefits to the employees of the Company (c)	(83,527,126)	(78,255,523)
Difference in the recognition of financial liabilities (d)	14,875,452	—
Reversal of adjustment to opening retained earnings arising from adoption of IFRS 39 (f)	463,920,605	—
Reversal of equity component of convertible notes (f)	(510,506,379)	(510,506,379)
Dividend in respect of the year but declared after the end of the year (g)	(1,800,000,000)	(1,243,000,000)
Net assets under PRC GAAP	27,125,564,005	22,519,441,432

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

13. NET PROFIT RECONCILIATION BETWEEN PRC GAAP, IFRS AND US GAAP *(Cont'd)*

- (a) Under the rate making process applicable to the Company (except for Dezhou Power Plant), major repair and maintenance expenses 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 expenses actually incurred. In a particular year, to the extent that the actual repair and maintenance expenses incurred is 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 a liability under IFRS and US GAAP. For PRC statutory financial reporting purposes, in accordance with the requirement of PRC GAAP, no such amount is recorded and revenue is determined and recognized based on the actual amount of electricity transmitted to the grid and the prevailing approved power rates.
- (b) Under IFRS and US GAAP, materials and supplies are charged to operating expenses at cost based on actual utilization. Under PRC GAAP, materials and supplies have been restated to the appraised value determined by an independent valuer during the reorganization of the five original operating plants in 1994 and the appraised value has been used as the basis in determining the amount charged to operating expenses upon actual utilization.
- (c) The Company and HIPDC provided housing benefits to certain qualified employees of the Company whereby the living quarters owned by the Company and HIPDC were sold to these employees at preferential prices. The housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees, which are born by the Company and HIPDC, respectively.

For PRC statutory reporting purposes, in accordance with the relevant regulations issued by the Ministry of Finance, the total housing benefits provided by the Company are charged to non-operating expense. Under IFRS, the housing benefits provided by the Company are recognized on a straight-line basis over the estimated remaining average service life of the employees. Under US GAAP, in addition to the recognition of the housing benefits provided by the Company on the above basis, the amount of housing benefits provided by HIPDC to the employees of the Company are also reflected as the Company's operating expenses using the same amortization policy. The corresponding amount is recorded as an addition of capital contribution.

- (d) Under IFRS and US GAAP, derivative instruments are recorded as either assets or liabilities in the balance sheet at fair value, which is determined based on market conditions at each balance sheet date. Changes in the fair value of derivatives are recorded each period in current earnings or recognized directly in equity through the statement of changes in shareholders' equity, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. As at 31st December, 2001, there was a loss amounted to approximately Rmb14.88 million arising from changes in the fair value of interest rate swaps. Since the hedging relationship does not meet all of the conditions required for special hedge accounting as set out in IFRS 39 and SFAS 133, such loss was charged to earnings in current year. Under PRC GAAP, such interest swap contracts are considered as off balance sheet items.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

(Amounts expressed in Rmb unless otherwise stated)

13. NET PROFIT RECONCILIATION BETWEEN PRC GAAP, IFRS AND US GAAP *(Cont'd)*

- (e) China Huaneng Group is the controlling parent company of HIPDC, which in turn is the controlling parent of the Company. China Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng, holding 33.09% equity interest in it before the Acquisition. Under US GAAP, upon completion of the Acquisition, China Huaneng Group's proportionate share in the net assets of Shandong Huaneng being transferred to the Company is recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration is recorded as capital contribution to the Company. After the Acquisition, the book value of the power plants of Shandong Huaneng continue to be the recoverable rate base under the cost recovery formula of the tariff setting mechanism. Accordingly, in accordance with US regulatory accounting requirements, the book value of the remaining 66.91% of the net assets is effectively equal to fair value. The difference between these net asset values and the cash consideration is recorded as a negative goodwill and not taken into consideration when determining rate base in the tariff setting procedures. Under PRC GAAP and IFRS, upon the completion of the Acquisition, the entire net assets of Shandong Huaneng are recorded at fair value. The excess of the fair value of the entire net assets acquired over the total cost of the Acquisition is recorded as negative goodwill.
- (f) Under IFRS, 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. Under PRC GAAP and US GAAP, the entire proceeds of the issue of convertible notes are recorded as long-term liabilities.

In accordance with IFRS 39, which is effective on 1st January, 2001, the put option of the convertible notes, which meets certain conditions, is separated from the host contract and accounted for as an embedded derivative. This put option is recorded as a liability and measured at its fair value. When IFRS 39 is initially applied in 2001, the difference between the previous carrying amount and the fair value of the put option was recognized as an adjustment to the opening retained earnings as at 1st January, 2001. In addition, the liability component is measured at amortized cost and the resulting difference with the previous carrying amount was recognized as an adjustment to opening retained earnings as at 1st January, 2001. Under PRC GAAP and US GAAP, it is not required to measure the put option at its fair value, or measure the liability component at amortized cost.

- (g) Under PRC GAAP, dividends proposed or declared after the balance sheet date but before the date when the financial statements are authorized for issue are deducted from the unappropriated profit and recognize as a liability as at the balance sheet date. Under IFRS and US GAAP, the dividends are recorded in the year in which the dividends are declared.

The financial statements of the Company and its subsidiaries prepared in accordance with IFRS for the year ended 31st December, 2001 have been audited by Arthur Andersen & Co.