

Notes on the unaudited interim financial report (Expressed in Renminbi)

(1) Basis of preparation

This interim financial report set out on pages 9 to 21 is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants. KPMG’s independent review report to the Board of Directors is included on page 22.

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

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the company’s annual financial statements prepared under International Accounting Standards for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2001 are available at the company’s legal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 February 2002.

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2001 annual financial statements.

(2) Turnover

Turnover represents the sale of electricity and heat, net of value added tax, as follows:

	Six months ended 30 June	
	2002	2001
	RMB’000	RMB’000
Sale of electricity	3,732,352	3,607,122
Sale of heat	61,727	—
	<u>3,794,079</u>	<u>3,607,122</u>



(3) Other income

Other income for the six months ended 30 June 2002 includes a net gain of RMB116,037,000 arising from the early repayment of a part of the state loan (see note 13).

(4) Net finance costs

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Interest on bank and other loans	280,743	325,082
Less interest capitalized	(22,467)	—
Net interest expenses	258,276	325,082
Less interest income	(6,323)	(61,191)
Net finance costs	251,953	263,891

(5) Profit from ordinary activities before taxation

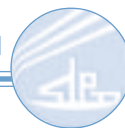
Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Cost of inventories	1,388,998	1,097,733
Amortisation of intangible assets	10,266	8,208
Depreciation	559,033	524,884

(6) Taxation

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Charge for PRC enterprise income tax	318,943	372,335
Deferred tax expense	6,394	10,450
	325,337	382,785

The charge for PRC enterprise income tax is calculated at the rate of 33% (six months ended 30 June 2001:33%) on the estimated assessable profit of the group for the six months ended 30 June 2002.



(7) Dividends

Dividends paid during the six months ended 30 June 2001 and 2002 are as follows:

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Special interim dividend of RMB0.228 per share for the year ended 31 December 2000	—	1,198,387
Final dividend of RMB0.17 per share for the year ended 31 December 2001 (Year ended 31 December 2000: RMB0.058)	893,534	304,853
	893,534	1,503,240

On 15 August 2002, the Board of Directors declared an interim dividend of RMB0.02 per share for the six months ended 30 June 2002, totalling RMB105,122,000 (six months ended 30 June 2001: RMB0.02, totalling RMB105,122,000). The total amount of the dividend payable of RMB105,122,000 is based on the total number of shares in issue of 5,256,084,200 as at 14 August 2002 being the latest practicable date prior to the board meeting. This dividend has not been recognised as a liability at 30 June 2002.

(8) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the company for the six months ended 30 June 2002 of RMB655,497,000 (six months ended 30 June 2001: RMB748,472,000) and the number of shares in issue during the six months ended 30 June 2002 of 5,256,084,200 (six months ended 30 June 2001: 5,256,084,200).

(ii) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2001 and 2002.



(9) Construction in progress

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Development of power plants	2,055,860	887,069
Improvement projects	224,373	99,762
	<u>2,280,233</u>	<u>986,831</u>

Details of the group's power plants development projects are as follows:

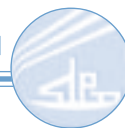
	Installed capacity	Budgeted construction cost RMB' million	Anticipated years of completion
The third and fourth generating units at Laicheng Power Plant	2 x 300MW	2,350	2002 and 2003
The first and second generating units at Zhangqiu Power Plant	2 x 135MW	912	2002 and 2003
The second and third generating units at Tengzhou Power Plant	2 x 135MW	993	2003
The third and fourth generating units at Zibo Power Plant	2 x 135MW	906	2003

(10) Deposits and prepayments

The amount in 2001 represented the deposits and prepayments for the following investments and acquisitions:

- (i) acquisition of 70% equity interest in Shandong Zhangqiu Power Company Limited, which is mainly engaged in the construction and development of two 135MW generating units;
- (ii) acquisition of 54.49% equity interest in Shandong Tengzhou Xinyuan Power Company Limited, which is mainly engaged in the construction and development of two 135MW generating units; and
- (iii) acquisition of the net assets and liabilities of Shandong Luneng Development (Group) Company Limited - Zibo Branch, which is mainly engaged in the construction and development of two 135MW generating units.

The above investments and acquisitions were completed in January 2002.



(11) Trade debtors

The amount represents receivables from Shandong Electric Power (Group) Corporation (“SEPCO”), the immediate holding company of the company, for the sale of electricity amounting to RMB 447,919,000 (31 December 2001: RMB 429,760,000) and receivables from third parties for sale of heat amounting to RMB 49,502,000 (31 December 2001: Nil).

Debts are due within 30 days from the date of billing. The amount due from SEPCO was not yet due for payment as at 30 June 2002. The age of trade debtors in respect of the sale of heat is within six months.

(12) Cash and cash equivalents

	At 30 June 2002 <i>RMB'000</i>	At 31 December 2001 <i>RMB'000</i>
Cash at bank and in hand	893,315	2,265,480
Time deposits with banks maturing within three months	<u>270,086</u>	<u>245,544</u>
	<u>1,163,401</u>	<u>2,511,024</u>

(13) State loan

The company early repaid part of the state loan amounting to US\$208,508,000 (RMB1,725,882,000 equivalent) in January 2002. Based on the loan repayment notice issued by the PRC State government, the actual amount payable for the settlement of this loan principal was US\$194,308,000 (RMB1,609,845,000 equivalent) after adjustments made by the lender as advised by the PRC State government. A net gain of RMB116,037,000 arising in this connection was included in other income for the six months end 30 June 2002.

(14) Trade creditors

Debts are generally due within 30 days from the date of billing. The amount was not yet due for payment as of 30 June 2002.



(15) Share capital and reserves

	Share capital	Capital reserve	Statutory common reserve	Statutory common welfare fund	Retained profits	Total shareholders' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2002	5,256,084	778,040	537,457	230,324	1,397,684	8,199,589
Total recognised gains for the period	—	—	—	—	655,497	655,497
Dividends paid (Note 7)	—	—	—	—	(893,534)	(893,534)
Balance at 30 June 2002	<u>5,256,084</u>	<u>778,040</u>	<u>537,457</u>	<u>230,324</u>	<u>1,159,647</u>	<u>7,961,552</u>

(16) Material related party transactions

- (i) The group had the following material transactions with SEPCO, and entities controlled by SEPCO during the six months ended 30 June 2001 and 2002:

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Sale of electricity	3,732,352	3,607,122
Interconnection and despatch management fees	38,422	37,749
Purchase of coal, including handling fees	1,424,426	1,042,647
Coal field management fee	75,668	44,853
Repairs and maintenance services	113,237	94,417
Construction costs and equipment cost costs paid	257,284	261,336

- (ii) The balances due to/ (from) related parties are as follows:

	Nature of transactions	At 30 June 2002	At 31 December 2001
		RMB'000	RMB'000
SEPCO	Sale of electricity	(447,919)	(429,760)
Shandong Luneng Hengyuan Trading (Group) Company Limited (Formerly Shandong Luneng Fuel (Group) Company Limited)	Purchase of coal and coal field management	241,175	171,117
Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited	Repairs and maintenance services	219	(15,079)
Shandong Electric Power No.1, No.2 & No. 3 Construction Engineering Companies	Construction costs and equipment costs	56,343	57,530



(17) Capital commitments

(i) Capital commitments

The group (excluding jointly controlled entities) had capital commitments outstanding as at 30 June 2002 and 31 December 2001 not provided for in the financial statements as follows:

	At 30 June 2002 <i>RMB'000</i>	At 31 December 2001 <i>RMB'000</i>
Contracted for		
Development of power plants	1,742,087	982,183
Improvement projects	96,961	22,498
	<u>1,839,048</u>	<u>1,004,681</u>
Authorised but not contracted for		
Development of power plants	1,325,789	480,638
Investments	—	120,000
Improvement projects	77,008	135,670
	<u>1,402,797</u>	<u>736,308</u>
	<u>3,241,845</u>	<u>1,740,989</u>

- (ii) The group's share of the jointly controlled entities' capital expenditure commitments amounted to RMB252,168,000 at 30 June 2002 (At 31 December 2001 : RMB239,204,000).

(18) Contingent liabilities

The group and the jointly controlled entities did not have any material contingent liabilities as at 30 June 2002 and 31 December 2001.

(19) Segment reporting

The Group and its jointly controlled entities' profits are entirely attributable to the generation and sale of electricity and heat in Shandong Province, the People's Republic of China, accordingly, no segmental analysis is provided.



(20) Comparative figures

The following comparative figures in the consolidated income statement have been reclassified in order to conform with the presentation in the current interim financial report :

- (i) the amortization of goodwill has been reclassified from selling and administration expenses to depreciation and amortization; and
- (ii) the interest income has been reclassified from other income to net finance costs.