

Notes to the Condensed Financial Statements (Unaudited)

30th June 2002

(Amounts expressed in Rmb)

1. Company organisation and principal activities

The Company was incorporated in Beijing, the PRC, on 13th December 1994 as a joint stock limited company. Subsequent to the listing of its shares on The Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21st March 1997, the Company was registered as a Sino-foreign joint venture on 13th May 1998. The Company and its subsidiaries currently own and operate five coal-fired power plants and one hydropower plant in Hebei Province, Beijing City and Tianjin City of the PRC. The Company and its subsidiaries' power plants are principally engaged in the generation and sale of electric power to its substantial shareholder, North China Power Group Company ("NCPGC").

The Company holds equity interests in the following subsidiaries and associates, all of which are limited liability companies established and operated in the PRC:

Company name	Date of establishment	Registered capital	Paid-up capital	Attributable interest	Principal activities
		'000	'000		
Subsidiaries					
Tianjin Datang Panshan Power Generation Company Limited. ("Datang Panshan")	6th August 1997	1,050,791	1,050,791	75%	Power generation
Inner Mongolia Datang Tuoketuo Power Generation Company Limited ("Datang Tuoketuo")	17th November 1995	698,094	698,094	60%	Power generation (construction-in-progress)
Hebei Huaze Hydropower Development Company Limited	29th July 1998	59,161	59,161	90%	Hydropower generation
Shanxi Datang Shentou Power Generation Company Limited	8th December 1998	46,000	46,000	60%	Power generation (pre-construction)

1. Company organisation and principal activities (cont'd)

Company name	Date of establishment	Registered capital	Paid-up capital	Attributable interest	Principal activities
		'000	'000		
Shanxi Datang Pingwang Heat and Power Company Limited	14th July 2000	15,000	15,000	80%	Power generation (pre-construction)
Yunnan Datang Honghe Power Generation Company Limited ("Datang Honghe")	27th April 2001	10,000	10,000	70%	Power generation (pre-construction)
Gansu Datang Liancheng Power Generation Company Limited ("Datang Liancheng")	18th August 2001	10,000	10,000	55%	Power generation (pre-construction)
Hebei Datang Tangshan Thermal Power Company Limited ("Datang Tangshan")*	21st February 2002	10,000	10,000	80%	Power generation (pre-construction)
Associates					
North China Electric Power Research Institute Company Limited ("NCEPR")	7th December 2000	100,000	100,000	30%	Power related technology services
Tianjin Daganghuashi Power Generation Company Limited ("Tianjin Dagang")**	5th April 2002	10,000	10,000	30%	Power generation (pre-construction)
Beijing Datang Texin Heat Company Limited ("Datang Texin")***	27th April 2002	87,800	87,800	49%	Heat transportation (pre-construction)

1. Company organisation and principal activities *(cont'd)*

- * Datang Tangshan was established to carry out the technological renovation project of replacing small units with larger units of Phase I & II of Hebei Datang Tangshan Thermal Plant. The estimated total investment of Datang Tangshan is approximately Rmb2.7 billion. The Company is committed to inject approximately Rmb434 million as the capital contribution.
- ** Two new associated companies, Tianjin Dagang and Datang Texin were established to carry out the technological renovation project of the unit 1 & 2 of Tianjin Dagang Power Generation Factory, and to construct and operate the heat transportation facilities from the Company's Gaojing plant to Beijing city, respectively.

2. Principal accounting policies

The accompanying condensed consolidated financial statements are prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting" and Appendix 16 of the Listing Rules.

The principal accounting policies adopted for the preparation of the condensed consolidated financial statements as at and for the six months ended 30th June 2002 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31st December 2001.

3. Payables and accrued liabilities

	30th June 2002	31st December 2001
	'000	'000
Construction costs and deposits payable to contractors	1,376,861	835,982
Fuel and material costs payable	479,247	283,145
Salary and welfare payable	132,682	127,236
Interest rate swap liability	122,162	—
Governments grants	99,258	94,588
Others	215,487	157,237
	2,425,697	1,498,188

As at 30th June 2002, accounts payable amounted to approximately Rmb495,874,000 (31st December 2001 - Rmb306,327,000), and its aging analysis is as follows:

	30th June 2002	31st December 2001
	'000	'000
Within one year	99%	96%
Over one year	1%	4%
	100%	100%

As at 30th June 2002, the notional principal amounts of the outstanding interest rate swap contract of Datang Tuoketuo was USD185,892,000, and the fixed rate and floating rate were 5.15% and 1.93% (LIBOR offered by British Bankers' Association at 11th January 2002), respectively.

4. Operating revenue

Operating revenue represents amount of tariffs billed for electricity generated and transmitted to NCPGC. Tariff revenues are recognised upon billing and transmission of electricity to the power grid controlled and owned by NCPGC.

5. Taxation

	Six months ended 30th June	
	2002	2001
	'000	'000
PRC enterprise income tax		
- Current tax	339,918	363,854
- Deferred tax	(62,353)	—
	277,565	363,854

Enterprise income tax is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable PRC enterprise income tax rate for the Company and its subsidiaries is 33%.

6. Earnings per share

The calculation of basic earnings per share for the six months ended 30th June 2002 was based on net profit of approximately Rmb601,318,000 (2001 - Rmb728,280,000) and on the weighted average number of 5,162,849,000 shares which is calculated on the basis of 3,732,180,000 domestic shares and 1,430,669,000 H Shares.

No diluted earnings per share was presented, as there were no dilutive potential ordinary shares outstanding for the six months ended 30th June 2002 and 2001.

7. Profit appropriations

Dividends

On 5th March 2002, the Board of Directors proposed a dividend of Rmb0.17 per share, totalling approximately Rmb877,684,000 for the year ended 31st December 2001. The proposed dividends distribution was approved by the shareholders in the general meeting dated 23rd April 2002.

Reserves

The following reserve transfers have been made for the six months ended 30th June 2002:

- a) Approximately Rmb65,693,000, which represented 10% of the profit after taxation, determined based on the financial statements prepared in accordance with the PRC accounting standards and regulations ("PRC GAAP"), have been appropriated to each of the statutory surplus reserve and statutory public welfare fund;
- b) Approximately Rmb16,180,000 has been transferred from the restricted reserve which is specifically set up to reflect the reduction of the statutory public welfare fund under PRC GAAP, to retained earnings. This amount represented amortisation of deferred housing benefits for the period; and
- c) Approximately Rmb480,685,000 has been appropriated from the retained earnings to the discretionary surplus reserve as it is the Company's current policy to transfer all unappropriated retained earnings to the discretionary surplus reserve.

8. Related-party transactions

- (a) The following is a summary of the major related party transactions undertaken by the Company and its subsidiaries during the period:

	Note	Six months ended 30th June	
		2002 '000	2001 '000
Tariff revenue from NCPGC	(i)	3,491,543	3,134,598
Management fee to NCPGC	(ii)	11,794	11,577
Fuel service fee to divisions and affiliates of NCPGC	(ii)	14,827	12,023
Ash disposal fee to divisions and affiliates of NCPGC	(ii)	36,599	42,507
Rental fee to NCPGC	(ii)	3,614	4,850
Technical supervision, assistance and testing service fee to NCEPR	(ii)	10,350	—
Interest income from NCPG Finance Company Ltd.	(b)	728	1,182
Interest expenses to NCPG Finance Company Ltd.	(c)	5,005	7,538
Dividend income from NCPG Finance Company Ltd.		7,107	5,479
Construction and equipment costs to affiliates of NCPGC	(e)	296,014	345,977

8. Related-party transactions (cont'd)

- (i) During the six months ended 30th June 2002, the Company and its subsidiaries sold on-grid electricity to NCPGC pursuant to the Power Purchase Agreement dated 5th August 1996. The tariff revenue is settled monthly according to the payment provisions in the Power Purchase Agreement. As at 30th June 2002, the balance due from a shareholder mainly represented the receivable from NCPGC for tariff revenue, and was unsecured and non-interest bearing. All tariff receivable from NCPGC was aged within one month.
- (ii) In addition to the above-mentioned Power Purchase Agreement, the Company has also entered into a number of agreements with NCPGC and its affiliates. Details of the major agreements are as follows:

Name of agreement	Services to be provided by	Pricing policy
Production and Construction Management Services Agreement	Management services in relation to the production and construction of electric utility plants	Management fee at Rmb 0.001/KWh of on-grid electricity
Fuel Supply Agreement	Fuel purchase, delivery and technical assistance services	Fuel service fee at 1% to 3% of the cost of coal purchased
Ash Disposal Agreement	Disposal of all ash generated by the Company's power plants	Ash disposal fee computed based on ash disposal operating costs, taxes, depreciation of ash yards and a profit margin at 5% to 10% of the total costs
Building Lease Agreement	Lease of buildings located at the sites of the Company's power plants totalling 141,671 square metres	Annual rental fee of approximately Rmb7 million
Technical Supervision Services Agreement	Provision of technical supervision, assistance and testing services to the power plants	Technical service fee at Rmb3,500 to Rmb4,000/MW

8. Related-party transactions (cont'd)

- (b) As at 30th June 2002, the Company and its subsidiaries had placed cash deposit of approximately Rmb104,296,000 (31st December 2001 - Rmb48,875,000) with NCPG Finance Company Limited, an affiliate of the Company, with interest rate at 0.72% (2001 - 0.99%).
- (c) As at 30th June 2002, the Company's subsidiaries had loans payable to NCPG Finance Company Ltd., amounted to approximately Rmb448 million (31st December 2001 - Rmb53 million). These loans were unsecured, except for approximately Rmb30 million which was being secured by Datang Panshan's right of proceed from its power sales. These loans bore interest at rates ranging from 5.04% to 5.85% (31st December 2001 - 5.85%).
- (d) As at 30th June 2002, NCPGC and certain minority shareholders of its subsidiaries, including Tianjin Jinneng Investment Company, Inner Mongolia Mengdian Huaneng Power Generation Company Limited and Beijing International Power Development and Investment Company, had provided guarantees to the loans of the Company and its subsidiaries amounted to approximately Rmb4,161 million (31st December 2001 - Rmb3,934 million).
- (e) Some of the on-going construction works of the Company and its subsidiaries were carried out by Beijing Electric Construction Company, Tianjin Electric Construction Company, Shanxi Power Electric Construction No. 1 and No. 2 Company after bidding process. In addition, the provision of certain auxiliary equipment for the construction of power plant is provided by Beijing Electric Equipment Plant after bidding process. All of these companies are subsidiaries of NCPGC. The total contracted amount related to these construction works amounted to approximately Rmb2.6 billion.

As at 30th June 2002, balances due to the above related contractors amounted to approximately Rmb277,020,000 (31st December 2001 - Rmb74,540,000) and were included in payables and accrued liabilities.

8. Related-party transactions *(cont'd)*

- (f) In addition to the transactions identified above, the Company and its subsidiaries also contracted with companies established by ex-employees which provided property management, cleaning, transportation, medical and other services. For the six months ended 30th June 2002, the total cost for the service received by the Company and its subsidiaries amounted to approximately Rmb53 million (2001 - Rmb33 million). As at 30th June 2002, balance due from and to these companies amounted to approximately Rmb9,111,000 (31st December 2001 - Rmb12,166,000) and Rmb7,261,000 (31st December 2001 - Rmb6,639,000) were included in other receivables and accounts payable respectively.
- (g) Pursuant to the resolutions of the Board of Directors of Datang Honghe and Datang Liancheng in 2002, the two companies agreed to reimburse pre-construction costs of approximately Rmb24,978,000 incurred by the minority shareholders of the subsidiaries before the establishment of the companies. As at 30th June 2002, approximately Rmb14 million has been paid in cash and another Rmb3.5 million was taken as the capital contribution.

9. Supplemental financial information

(a) Balance sheet

	30th June 2002	31st December 2001
	'000	'000
Net current assets	1,451,949	3,132,385
Total assets less current liabilities	21,339,003	20,644,875
Net assets	13,575,985	13,852,351

	Six months ended 30th June	
	2002	2001
	'000	'000
Additions to property, plant and equipment	2,903,062	1,515,117

9. Supplemental financial information (cont'd)

(b) Income statement

	Six months ended 30th June	
	2002	2001
	'000	'000
Interest expenses	243,108	218,032
Less: amount capitalised in property, plant and equipment	(103,756)	(133,464)
	139,352	84,568
Fair value loss on financial instrument	97,232	—
Financial costs	236,584	84,568
Cost of inventories		
- Fuel costs	1,094,233	932,600
- Materials and supplies	22,723	15,380
Depreciation and amortisation	666,358	524,685
Dividend income	(7,107)	(5,479)

9. Supplemental financial information (cont'd)

(c) Cashflow statement

	Six months ended 30th June	
	2002	2001
	'000	'000
Investing activities		
Additions to property, plant and equipment	(2,296,834)	(1,388,744)
Financing activities		
Drawdown of short-term loans	886,456	541,080
Repayment of short-term loans	(580,076)	(241,480)
Drawdown of long-term loans	1,429,111	212,674
Repayment of long-term loans	(631,413)	(566,414)

10. Commitments

(a) Capital commitments

As at 30th June 2002, capital commitments of the Company and its subsidiaries in relation to the construction and renovation of the electric utility plants not provided for in the balance sheet were as follows:

	'000
Authorised and contracted for	6,224,265
Authorised but not contracted for	11,286,930
	<u>17,511,195</u>

10. Commitments (cont'd)

(b) Operating lease commitment

As at 30th June 2002, operating lease commitment extending to November 2016 in relation to building was as follows:

	'000
Amounts repayable	
Within one year	13,369
Between one to five years	38,616
Over five years	68,561
	<hr/>
	120,546
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11. Prior year comparatives

Certain 2001 comparative figures have been reclassified to conform to the current period's presentation.