Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting 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 limited company on 30th June, 1994. As at 31st December, 2002, the Company and its subsidiaries had 15,222 employees (2001: 9,350 employees).

The Company and its subsidiaries are principally engaged in the generation and sale of electric power to the respective regional or provincial power companies.

Particulars of the Company's, its subsidiaries' and its associate's 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**
Wholly owned power plants			
Five original operating plants:			
Huaneng Dalian Power Plant (the "Dalian Power Plant")	700	700	Liaoning
Huaneng Shangan Power Plant (the "Shangan Power Plant")	700	700	Hebei
Huaneng Nantong Power Plant (the "Nantong Power Plant")	700	700	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	700	Fujian
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	100	100	Guangdong
New operating plants:			
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")	600	600	Guangdong
Huaneng Shangan Power Plant Phase II (the "Shangan Phase II")	600	600	Hebei
Huaneng Shanghai Shidongkou Second Power Plant (the "Shanghai Power Plant")	1,200	1,200	Shanghai
Huaneng Dalian Power Plant Phase II (the "Dalian Phase II")	700	700	Liaoning
Huaneng Dandong Power Plant (the "Dandong Power Plant")	700	700	Liaoning
Huaneng Nantong Power Plant Phase II (the "Nantong Phase II")	700	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II")	700	700	Fujian
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	600	600	Jiangsu
Huaneng Dezhou Power Plant (the "Dezhou Power Plant")	2,520	2,520	Shandong
Huaneng Jining Power Plant (the "Jining Power Plant") (Note 3(c))	300	300	Shandong
Huaneng Changxing Power Plant (the "Changxing Power Plant) (Note 3(b))	250	250	Zhejiang

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

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
Shanghai Shidongkou Power Limited Company (the "Shidongkou First Power Plant") (Note 3(b)(d))	1,200	1,200	Shanghai
Subsidiaries:			
Huaneng Weihai Power Plant (the "Weihai Power Plant")	850	510	Shandong
Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company") (Note 3(b)(d))	600	450	Jiangsu
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company") (Note 3(b)(d))	400	255	Jiangsu
Associate:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	700	178	Shandong
Total	15,520	14,363	

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

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") effective as at 31st December 2002. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Company and its subsidiaries adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001 (see Note 2(u) and Note 22). The financial effects of adopting these standards were reported in the 2001 year's consolidated financial statements.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note 2(f) for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(b) Principles of Consolidation *(Cont'd)*

(ii) Associates

Associates are entities over which the Company generally has between 20% and 50% of the voting rights, or over which the Company has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method, the company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Company's share of losses in an associates equals or exceeds its interest in the associates, the Company does not recognise further losses, unless the Company has incurred obligations or made payments on behalf of the associates.

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Company and its subsidiaries are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the measurement currency of the Company and its subsidiaries.

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

2. ACCOUNTING POLICIES *(Cont'd)*

(d) Property, plant and equipment

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

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

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

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

Buildings	22 years
Electric utility plant in service	8-27 years
Transportation facilities	13-27 years
Others	6-13 years

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(e) Investments

The Company and its subsidiaries adopted IAS 39, Financial instruments: Recognition and Measement on 1st January, 2001. Accordingly, investments in debt and equity securities are classified into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company and its subsidiaries commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost, which is the amount at which the investment was measured at initial recognition less principal repayments, plus or minus the amortisation of any difference between that initial amount and maturity amount by using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

2. ACCOUNTING POLICIES *(Cont'd)*

(f) Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets of the acquired subsidiary/associate at the date of acquisition, and negative goodwill represents the excess of the fair value of the Company's share of the net assets of the acquired subsidiary/associate over the cost of an acquisition at the date of acquisition.

Goodwill and negative goodwill are amortised using the straight-line method over its estimated useful life and recognized in the income statement as other operating expenses. Management determines the estimated useful life of goodwill and negative goodwill based on the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets of the respective power plant at the time of the acquisition.

At each balance sheet date the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(g) Impairment of long-lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal while value in use is the present value of estimated future cash flow expected arise from the continuing use of an asset and from its disposal at the end of its useful life. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(h) Inventories

Inventories consist of fuel, materials and supplies. They are stated at the lower of weighted average costs or net realisable values after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalised to fixed assets when installed, as appropriate. Cost of inventories includes direct material cost and transportation expenses incurred in bringing the inventories to the working locations.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(i) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(j) Temporary cash investments

Temporary cash investments are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to one year. Temporary cash investments are classified as held-to-maturity investments and are carried at amortised cost (see Note 2(e)).

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less.

(l) Borrowings and convertible notes

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

The proceeds received on the issue of the convertible notes were allocated into liability and equity components. Upon initial recognition, the liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issue of the notes. After the initial recognition, the liability component is measured at amortised cost.

As further discussed in Note 22, the convertible notes were issued at par with a put option allowing the investors to redeem the notes at a premium for cash at 128.575% of the par value on 21st May, 2002. The put option is accounted for as an embedded derivative and separated from the host contract. This embedded derivative is carried at fair value, with changes in fair value included in the income statement (see Note 2(u)).

The accounting treatments of the convertible notes prior to the adoption of IAS 39 on 1st January, 2001 is set out in Note 22.

2. ACCOUNTING POLICIES *(Cont'd)*

(m) Provisions

Provisions are recognised when the Company and its subsidiaries have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company and its subsidiaries expect a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Equity transaction costs

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred, if any, directly in connection with a business combination are included in the cost of acquisition.

(o) Revenue and income recognition

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

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial power companies (net of value added tax ("VAT") and deferred revenue). Revenues are earned and recognised upon transmission of electricity to the power grid controlled and owned by the respective power companies.

Under the tariff setting mechanism applicable to the Company and its subsidiaries (except for the power plants acquired in 2001 and 2002 (Note3)), major repairs and maintenance determined on the basis of 1% of the fixed asset cost is recovered through the current power rates. The Company estimates that, over the useful life of its power plants, this basis would approximate the total expenses for major repair and maintenance actually incurred. In a particular year, to the extent that the actual repair and maintenance expenses incurred are less than the amount determined on the above basis, the difference represents revenue collected in excess of actual expenses incurred. Such difference is recorded as deferred revenue (Note 26). For the power plants acquired in 2001 and 2002, as there is no similar provision in their tariff setting formula, no deferred revenue is recorded.

(ii) Interest income

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(p) Borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised as part of the cost of property, plant and equipment, if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

(q) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(r) Taxation

(i) VAT

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

(ii) Income tax

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

Except for power plants acquired in 2001 and 2002 and Shangan Phase II project, all the other power plants of the Company are exempted from PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

(Amounts expressed in Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(r) Taxation *(Cont'd)*

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

The tax holiday of the five original operating plants, the Shantou Coal-Fired Plant, the Shanghai Power Plant and the Nanjing Power Plant had already expired prior to 2002. The tax holiday of the remaining operating plants will expire in 2003.

The statutory income tax is assessed on an individual power plant basis, based on each of their results of operations. The commencement dates of tax holiday of each power plant are individually determined. The statutory income tax rates applicable to the head office and the individual power plants, after taking the effect of tax holidays into consideration, are summarized below:

	2002	2001
Head Office	**15.0%**	15.0%
Dalian Power Plant (including Dalian Phase II)	**18.0%**	15.0%
Shangan Power Plant	**18.0%**	16.5%
Shangan Phase II*	**9.0%**	9.0%
Nantong Power Plant (including Nantong Phase II)	**15.0%**	15.0%
Fuzhou Power Plant (including Fuzhou Phase II)	**15.0%**	15.0%
Shantou Oil-Fired Plant	**15.0%**	15.0%
Shantou Power Plant	**7.5%**	7.5%
Shanghai Power Plant	**16.5%**	16.5%
Nanjing Power Plant	**15.0%**	7.5%
Dandong Power Plant	**—**	—
Shandong Branch	**17.0%**	17.0%
Dezhou Power Plant	**17.0%**	17.0%
Jining Power Plant	**15.0%**	33.0%
Changxing Power Plant**	**16.5%**	Not applicable
Shidongkou First Power Plant**	**33.0%**	Not applicable
Weihai Power Plant	**33.0%**	33.0%
Taicang Power Company**	**33.0%**	Not applicable
HuaiyinHuaiyin Power Company**	**33.0%**	Not applicable

* In accordance with Guo Shui Han [2000] No. 194, the tax holiday of the Shangan Phase II is determined separately from the Shangan Power Plant. The Shangan Phase II is entitled to a tax holiday starting from the first profit making year (after covering any accumulated deficits).

** Not applicable as they were not subsidiaries or branches of the Company in 2001.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(r) Taxation *(Cont'd)*

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

The income tax charge is based on profit for the year and after considering deferred taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(s) Employee benefits

Pension obligations

The Company and its subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Company and its subsidiaries pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company and its subsidiaries pay contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company and subsidiaries have no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(t) Related parties

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

2. ACCOUNTING POLICIES *(Cont'd)*

(u) Financial instruments

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

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

(v) Contingencies

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

(w) Dividends

Dividends are recorded in the financial statements of the Company and its subsidiaries in the period in which they are approved by the shareholders of the Company.

(x) Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation in the current year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

3. ACQUISITIONS

(a) Acquisition of Shandong Huaneng

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

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

The purchase method of accounting is used for the Acquisition of Shandong Huaneng. The acquired identifiable assets and liabilities are recorded based on their respective fair values on 1st January, 2001. The Company estimated that the fair value of the net identifiable assets and liabilities of Shandong Huaneng on that date was approximately Rmb8,272 million. Such estimation was made by the Company based on the recoverability and realizability of each asset and liability. On the above basis, the resulting negative goodwill amounted to approximately Rmb2,473 million (Note 14), which is amortised over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets (ie.10 years) on the straight-line basis, starting from 1st January, 2001.

3. ACQUISITIONS *(Cont'd)*

(a) Acquisition of Shandong Huaneng *(Cont'd)*

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

(b) Acquisition of the Four Power Plants

On 9th May, 2002, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 70% equity interest in Shidongkou First Power Plant, 70% equity interest in Taicang Power Company, 44.16% equity interest in Huaiyin Power Company and all of the assets and liabilities of Changxing Power Plant (the "Acquisition of the Four Power Plants"). The total consideration for the Acquisition of the Four Power Plants was Rmb2,050 million paid in cash. Direct costs relating to the acquisition amounted to approximately Rmb18 million.

The Acquisition of the Four Power Plants became effective on 1st July, 2002 when the Company obtained the ownership and control over the relevant assets, after obtaining the necessary government approvals on the acquisition and making payment of the purchase consideration on that date.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

3. ACQUISITIONS *(Cont'd)*

(b) Acquisition of the Four Power Plants *(Cont'd)*

The purchase method of accounting is used for the Acquisition of the Four Power Plants. The acquired identifiable assets and liabilities are recorded based on their respective fair values on 1st July, 2002. The proportionate share of the fair value of the net identifiable assets and liabilities of the Four Power Plants on that date, before the subsequent acquisition of additional interests of some of the power plants as described in Note 3(d), was approximately Rmb2,047 million. The resulting goodwill on acquisition amounts to approximately Rmb21 million, which is amortised over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets on the straight-line basis, starting from 1st July, 2002.

	Rmb'000
Property, plant and equipment, net	4,295,712
Investment in an associate	271,598
Other long-term assets	109,504
Inventories	115,944
Other current assets	22,166
Accounts receivable	386,721
Cash and cash equivalents	431,257
Minority Interest	(582,731)
Long-term loans	(2,009,735)
Deferred tax liabilities	(81,107)
Current liabilities	(911,835)
	2,047,494
Add: Goodwill	20,916
Less: Direct costs of acquisition	(18,410)
Total Consideration paid in 2002	2,050,000
Add: Direct costs of acquisition paid in 2002	17,042
Less: Cash inflow from the acquired power plants	(431,257)
Net cash outflow in 2002 from the acquisition of Four Power Plants	1,635,785

3. ACQUISITIONS *(Cont'd)*

(c) Acquisition of minority interest of the Jining Power Plant

After obtaining all necessary approvals from relevant authorities, on 18th June, 2002, the Company acquired 25% equity interest from the third-party minority shareholder in Jining Power Plant for a consideration of approximately Rmb109 million in cash. Purchase method of accounting is used for this acquisition. As at the acquisition date, the proportionate share of the fair value of the net identifiable assets and liabilities of Jining Power Plant acquired was approximately Rmb106 million. The resulting goodwill amounted to approximately Rmb3 million.

(d) Acquisition of additional interests of the Three Power Plants

On 15th November, 2002, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group the remaining 30% equity interest in Shidongkou First Power Plant and additional 5% equity interest in Taicang Power Company. Purchase method of accounting is used for this acquisition. The total consideration and direct cost of the acquisition was Rmb419 million paid in cash. The proportionate share of the fair value of the net identifiable assets and liabilities of Shidongkou First Power Plant and Taicang Power Company as at acquisition date was approximately Rmb376 million. The resulting goodwill amounted to approximately Rmb43 million.

On 26th December, 2002, the Company entered into an agreement with a third party, Jiangsu Huaiyin Investment Company ("JHIC"), under which the Company agreed to acquire 19.48% equity interest in Huaiyin Power Company from JHIC. Purchase method of accounting is used for this acquisition. The total consideration was Rmb185 million paid in cash. The proportionate share of the fair value of the net identifiable assets and liabilities of Huaiyin Power Company as at acquisition date was approximately Rmb124 million. The resulting goodwill amounted to approximately Rmb61 million. Together with the goodwill arising from the previous acquisition of 44.16% equity interests of Huaiyin Power Company, the total goodwill arising from the acquisitions of Huaiyin Power Company amounted to Rmb82 million.

The acquisitions became effective on 31st December, 2002 when the Company obtained all necessary government approvals on the transaction and paid the purchase consideration on that date.

After the completion of the Acquisition of the Four Power Plants and the acquisition of additional interests of the three power plants, the Company fully owns and operates the assets of Changxing Power Plant and Shidongkou First Power Plant, and holds 75% equity interests in Taicang Power Company and 63.64% equity interests in Huaiyin Power Company.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

(1) Financial risk factors

The Company and its subsidiaries' activities expose them to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company and its subsidiaries' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company and its subsidiaries. The Company and its subsidiaries use derivative financial instruments such as interest rate swaps to hedge certain exposures.

(a) Interest rate risk

The Company's floating rate bank loans expose the Company to interest rate risk. The Company uses derivative instruments when considered appropriate, to manage exposures arising from changes in interest rates by entering into interest rate swap agreements with local banks to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against cash flow interest rate risk.

The interest rates and terms of repayment of the convertible notes, shareholders loans, bank loans and other loans of the Company and its subsidiaries are disclosed in Notes 22, 23, 24, 25 and 28.

(b) Foreign currency risk

The Company and its subsidiaries have foreign currency risk as the convertible notes and a significant portion of its long-term bank loans and shareholder loans are denominated in foreign currencies, principally US dollars, as described in Note 23 and 24(b). Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Company and its subsidiaries' results of operation.

(c) Credit risks

Significant portion of the Company and its subsidiaries' cash and cash equivalents and temporary cash investments maturing over 3 months are deposited with the four largest state-owned banks of the PRC and a non-bank financial institution in the PRC, which is a related party of the Company.

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

4. FINANCIAL RISK MANAGEMENT *(Cont'd)*

(2) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company and its subsidiaries use a variety of methods and make assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company and its subsidiaries for similar financial instruments.

5. SALES OF ELECTRIC POWER

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

For the years ended 31st December, 2002 and 2001, all operating revenues were billed at the on-grid wholesale rates to the local power companies, except for the Shantou Oil-Fired Power Plant, the operating revenues of which were billed at the retail rate and charged to the ultimate consumers before 1st June, 2001.

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

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

6. PROFIT BEFORE TAXATION

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

	2002 **'000**	2001 '000
Interest expenses on convertible notes	**47,904**	108,581
Interest expenses on:		
— bank loans repayable within 5 years	**155,987**	236,832
— bank loans repayable beyond 5 years	**415,181**	492,079
Interest expenses on:		
— shareholders loans wholly repayable within 5 years	**29,622**	73,524
Interest expenses on other long-term loans wholly repayable within 5 years	**29,619**	43,726
	678,313	954,742
Less: Amount capitalised in property, plant and equipment	**(116,438)**	(87,204)
Total interest expenses	**561,875**	867,538
Interest income	**(83,015)**	(113,081)
Bank charges and exchange losses, net	**31,405**	41,758
Change in fair value on financial instruments:		
— (Gain)/loss of interest rate swaps	**(2,179)**	14,875
— Fair value change of put option	**—**	46,562
Auditors' remuneration	**10,750**	12,747
Loss on disposals of fixed assets	**31,980**	36,592
Operating leases		
— Buildings	**27,566**	25,000
— Land use rights	**59,140**	51,567
Depreciation of property, plant and equipment	**3,533,609**	3,261,001
Amortization of prepaid land use rights	**16,847**	14,359
Amortisation of goodwill	**1,150**	—
Amortization of other long-term assets	**24,112**	19,600
Amortization of negative goodwill	**(247,278)**	(247,279)
Cost of inventories	**7,100,336**	5,337,630
Provision for doubtful accounts	**15,826**	1,030
Provision for inventory obsolescence	**—**	2,576
Gain from disposal of available for-sale investments	**(1,288)**	(24,671)
Staff cost		
— Wages and staff welfare	**698,862**	588,552
— Retirement benefits	**142,734**	107,301
— Staff housing benefits	**78,612**	56,406
— Other staff costs	**115,532**	54,877

(Amounts expressed in Rmb unless otherwise stated)

7. RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of relationship
HIPDC	Parent
Huaneng Group	Ultimate parent
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of Huaneng Group
Weihai Power Development Bureau ("WPDB")	Minority shareholder of Weihai Power Plant
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group

a. Pursuant to the relevant service agreements, HIPDC provides transmission and transformer facilities to some of the power plants of the Company and receives service fees. Such service fees represent recoverable costs for rate setting purposes. The total service fees paid to HIPDC for the year ended 31st December, 2002 was approximately Rmb264 million (2001: Rmb307 million).

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

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

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

e. As at 31st December, 2002, current deposits of approximately Rmb2,376 million (2001: Rmb64 million) and fixed deposits of approximately Rmb570 million (2001: Rmb3,689 million) were placed with a non-bank PRC financial institution, Huaneng Finance, which is a subsidiary of Huaneng Group (see Note 18).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

f. Pursuant to the leasing agreement between the Company and HIPDC signed on 13th February, 2000, HIPDC agreed to lease 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 23 and Note 25, certain loans of the Company and its subsidiaries were on-lent from HIPDC or borrowed from WPDB and Huaneng Finance.

h. As at 31st December, 2002, short-term loans amounting to Rmb200 million were borrowed from Huaneng Finance (2001: Rmb40 million) (see Note 28).

i. As of 31st December, 2002, the balances with HIPDC amounted to Rmb100 million (2001: Rmb37 million) are unsecured, non-interest bearing and repayable within one year.

j. As at 31st December, 2002, long-term bank loans of approximately Rmb5,544 million, Rmb1,140 million and Rmb280 million (2001: Rmb8,868 million, 1,666 million and Rmb300 million) were guaranteed by HIPDC, Huaneng Group and WPDB, respectively.

k. On 18th July, 2000, the Company and Shandong Huaneng entered into an agreement under which the Company acquired the net assets of Shandong Huaneng in which Huaneng Group held 33.09% equity interest. The shareholders of Shandong Huaneng were entitled to Rmb1.34 per ordinary A share or US$0.1618 per ordinary N share. The total consideration of the acquisition is approximately Rmb5,768 million, among which, approximately Rmb1,909 million was paid to Huaneng Group (see Note 3(a)).

l. On 9th May, 2002, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 70% equity interest in Shidongkou First Power Plant, 70% equity interest in Taicang Power Company, 44.16% equity interest in Huaiyin Power Company and all of the assets and liabilities of Changxing Power Plant . The total consideration for the Acquisition of the Four Power Plants was Rmb2,050 million paid in cash (see Note 3(b)).

m. On 15th November, 2002, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group the remaining 30% equity interest in Shidongkou First Power Plant and an additional 5% equity interest in Taicang Power Company. The total consideration for the acquisition of additional interest of two power plants was Rmb415 million paid in cash (see Note 3(d)).

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

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. For the year ended 31st December, 2002, the Company paid an agency fee to CHITEC amounted to Rmb3 million (2001: Rmb32 million) for equipment transportation and insurance service received.

o. On 6th November, 2002, the Company has entered into a management service agreement with Huaneng Group and HIPDC. Under the management service agreement, the Company will assist in managing certain power plants owned by Huaneng Group and HIPDC for a service fee. As at 31st December, 2002, the Company had not yet commenced its management service and therefore no management service income was recognised for the year.

8. 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 18% to 20%, of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31st December, 2002 was approximately Rmb89 million (2001: Rmb66 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 two to three times the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31st December, 2002 was approximately Rmb80 million (2001: Rmb60 million).

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

	2002 **'000**	2001 '000
Fees for executive directors	**—**	—
Fees for non-executive directors	**—**	—
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— basic salaries and allowances	**445**	522
— bonus	**1,027**	1,128
— retirement benefits	**263**	148
Other emoluments for non-executive directors	**1,118**	—
Other emoluments for supervisors	**576**	589

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

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

Details of emoluments paid to the five highest paid employees were:

	2002 **'000**	2001 '000
Basic salaries and allowances	**477**	404
Bonus	**1,034**	815
Retirement benefits	**282**	112

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

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised:

	The Company and its subsidiaries						
	2002						2001
	Buildings '000	Electric Utility Plant in Service '000	Transportation Facilities '000	Others '000	Construction-in-progress '000	Total '000	Total '000
Cost							
Beginning of year	1,712,190	42,729,399	580,791	858,872	4,133,597	50,014,849	40,912,177
Acquisition (Note 3)	265,873	4,441,536	8,079	91,608	116,394	4,923,490	6,427,841
Addition	86,943	8,831	113	43,931	2,117,565	2,257,383	2,816,240
Transfer from CIP	71,288	5,455,581	48,237	106,692	(5,681,798)	—	—
Disposals	(39,063)	(67,689)	(2,350)	(33,886)	—	(142,988)	(141,409)
End of year	2,097,231	52,567,658	634,870	1,067,217	685,758	57,052,734	50,014,849
Accumulated Depreciation							
Beginning of year	362,284	11,716,664	103,914	274,873	—	12,457,735	9,268,647
Charge for the year	58,564	3,218,755	23,218	233,072	—	3,533,609	3,261,001
Written back on disposals	(1,800)	(22,023)	—	(18,255)	—	(42,078)	(71,913)
End of year	419,048	14,913,396	127,132	489,690	—	15,949,266	12,457,735
Net Book Value							
End of year	1,678,183	37,654,262	507,738	577,527	685,758	41,103,468	37,557,114
Beginning of year	1,349,906	31,012,735	476,877	583,999	4,133,597	37,557,114	31,643,530

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

	The Company						
	2002						2001
	Buildings '000	Electric Utility Plant in Service '000	Transportation Facilities '000	Others '000	Construction-in-progress '000	Total '000	Total '000
Cost							
Beginning of year	1,629,409	39,871,243	474,653	857,241	4,133,599	46,966,145	40,912,177
Acquisition (Note 3)	121,486	1,831,221	5,425	46,345	54,249	2,058,726	3,469,361
Addition	57,440	8,192	113	36,246	2,095,108	2,197,099	2,715,804
Transfer from CIP	70,043	5,434,156	48,237	104,294	(5,656,730)	—	—
Disposals	(24,632)	(45,735)	—	(33,092)	—	(103,459)	(131,197)
End of year	1,853,746	47,099,077	528,428	1,011,034	626,226	51,118,511	46,966,145
Accumulated Depreciation							
Beginning of year	358,144	11,313,108	93,707	332,909	—	12,097,868	9,268,647
Charge for the year	33,290	2,918,133	21,984	132,406	—	3,105,813	2,896,298
Written back on disposals	(1,081)	(19,583)	—	(16,931)	—	(37,595)	(67,077)
End of year	390,353	14,211,658	115,691	448,384	—	15,166,086	12,097,868
Net Book Value							
End of year	1,463,393	32,887,419	412,737	562,650	626,226	35,952,425	34,868,277
Beginning of year	1,271,265	28,558,135	380,946	524,332	4,133,599	34,868,277	31,643,530

The generator units number 5 and 6 of the expansion project of Dezhou Phase III were put into commercial operation on 29th June, 2002 and 13th October, 2002, respectively.

Borrowing costs capitalised to construction-in-progress for the year ended 31st December, 2002 was approximately Rmb116 million (2001: Rmb87 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.25% per annum for the year ended 31st December, 2002 (2001: 5.75%).

There was no write-down of any property, plant and equipment during the year.

11. INVESTMENT IN AN ASSOCIATE

	2002 '000	2001 '000
Beginning of year	**226,488**	—
Acquisition of 25.5% equity interest of Rizhao Power Company	**—**	231,869
Acquisition of 44.16% equity interest of Huaiyin Power Company (Note 3(b))	**271,598**	—
Share of results before tax	**(11,145)**	(5,381)
Share of tax (Note 32)	**(5,059)**	—
Transfer to investment in subsidiary as a result of acquisition of additional interest (Note 3(d))	**(280,922)**	—
End of year	**200,960**	226,488

As at 31st December, 2002, the following are details of the Company's investment in an associate:

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

12. INVESTMENT IN SUBSIDIARIES

As at 31st December, 2002, the Company had equity interests in the following subsidiaries:

Name of subsidiaries	Country and date of incorporation	Percentage of equity interest held	Issued and fully paid capital	Principal activities
Weihai Power Plant	PRC 22nd November, 1993	60%	Rmb761,832,800	Power generation
Taicang Power Company	PRC 19th June, 1997	75%	Rmb632,840,000	Power generation
Huaiyin Power Company	PRC 26th January, 1995	63.64%	Rmb265,000,000	Power generation

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

Summarized financial information of the two subsidiaries acquired in 2002, including Taicang Power Company and Huaiyin Power Company, was as follows:

	As at 31st December, 2002 '000
Balance sheet	
Current assets	576,600
Long-term assets	2,993,917
Total assets	3,570,517
Current liabilities	462,326
Long-term liabilities	1,497,529
Total liabilities	1,959,855

	For the year ended 31st December, 2002 '000
Income statement	
Revenue	1,559,287
Expenses	(1,334,383)
Net profit	224,904

13. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents a 3% equity interest (unlisted) in a newly established power generation company in the PRC.

The investment does not have a quoted market price in an active market. There is no appropriate method to reliably measure its fair values. Accordingly, the investment is stated at cost and subject to review for impairment loss.

14. GOODWILL AND NEGATIVE GOODWILL

Goodwill and negative goodwill arose from acquisitions. Goodwill and negative goodwill are recognised in the income statement as other operating expenses and other operating income respectively on a systematic basis over the remaining weighted average useful lives of the identifiable acquired depreciable/ amortisable assets (see Note 3). The movement of the carrying amount of goodwill and negative goodwill during the year was as follows:

	Goodwill '000	Negative goodwill '000	Total '000
Year ended 31st December, 2001:			
Beginning of year	—	—	—
Addition from acquisitions (Note 3)	—	(2,472,784)	(2,472,784)
Amortisation for the year	—	247,279	247,279
End of year	—	(2,225,505)	(2,225,505)
As at 31st December, 2001			
Cost	—	(2,472,784)	(2,472,784)
Accumulated amortisation	—	247,279	247,279
Net book value	—	(2,225,505)	(2,225,505)
Year ended 31st December, 2002:			
Beginning of year	—	(2,225,505)	(2,225,505)
Addition from acquisitions (Note 3)	127,710	—	127,710
Amortisation for the year	(1,150)	247,278	246,128
End of year	126,560	(1,978,227)	(1,851,667)
As at 31st December, 2002			
Cost	127,710	(2,472,784)	(2,345,074)
Accumulated amortisation	(1,150)	494,557	493,407
Net book value	126,560	(1,978,227)	(1,851,667)

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

15. INVENTORIES, NET

Inventories comprised:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Fuel (coal and oil) for power generation	**434,726**	224,131	**341,446**	206,190
Material and other supplies	**500,854**	508,050	**417,221**	443,387
	935,580	732,181	**758,667**	649,577
Less: Provision for inventory obsolescence	**(12,239)**	(13,184)	**(10,400)**	(11,469)
	923,341	718,997	**748,267**	638,108

As at 31st December 2002, approximately Rmb396 million of the total carrying amount of inventories are carried at net realisable value (2001: Rmb439 million)

16. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Prepayments for inventories	**6,113**	94,954	**4,813**	94,072
Prepayments for contractors	**20,356**	16,900	**19,721**	16,900
Interest receivable on temporary cash investments	**3,792**	16,355	**3,792**	13,642
Current portion of long-term entrusted loan to Weihai Power Plant	**—**	—	**256,300**	—
Receivable from Shantou Coal Port Group Company	**70,000**	—	**70,000**	—
Others	**164,088**	117,954	**126,515**	111,218
	264,349	246,163	**481,141**	235,832
Less: Provision for doubtful accounts	**(21,444)**	(5,618)	**(21,104)**	(5,125)
	242,905	240,545	**460,037**	230,707

17. ACCOUNTS RECEIVABLE

Accounts receivable comprised:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Accounts receivable (i)	**1,889,083**	1,254,941	**1,545,294**	1,179,490
Notes receivable (ii)	**472,750**	152,230	**440,080**	152,230
	2,361,833	1,407,171	**1,985,374**	1,331,720

(i) The Company and its subsidiaries usually grant one month credit period to all the local power companies from the end of the month in which the sales are made.

As at 31st December, 2002 the aging analysis of accounts receivable was as follows:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Within one year	**2,357,213**	1,407,171	**1,980,754**	1,331,720
Between one to two years	**4,620**	—	**4,620**	—
	2,361,833	1,407,171	**1,985,374**	1,331,720

(ii) As at 31st December, 2002, the maturity period of the notes receivable ranged from one month to six months.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

18. TEMPORARY CASH INVESTMENTS

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

As at 31st December, 2002, temporary cash investment included deposits of approximately Rmb570 million (2001: Rmb3,689 million) placed with a non-bank financial institution, Huaneng Finance, which is a subsidiary of Huaneng Group (see Note 7(e)). The annual interest rate and interest earned from Huaneng Finance were as follows:

	2002	2001
Interest rate	**1.71%**	1.43%-2.44%
Interest earned	**52 million**	20 million

19. CAPITALISATION

Authorized share capital

As at 31st December, 2002, the authorized share capital of the Company was Rmb6,000,273,960, divided into 6,000,273,960 shares of Rmb1.00 each. In addition, the issued and fully paid share capital of the Company as at 31st December, 2002 was Rmb6,000,273,960 (2001: Rmb6,000,000,000) comprising of 4,500,000,000 Domestic Shares and 1,500,273,960 Overseas Listed Foreign Shares. The holders of Overseas Listed Foreign Shares and Domestic Shares, with minor exceptions, are entitled to the same economic and voting rights.

Public offering in the PRC

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

Conversion of Convertible Notes to Share Capital

The noteholders converted the convertible notes with principal of US$200,000 to 6,849 American Depositary Shares ("ADS") (273,960 H shares equivalent) during the year ended 31st Decmber, 2002 (see Note 22).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

20. APPROPRIATION AND DISTRIBUTION OF PROFIT

The Board of Directors decides on an annual basis the percentages of the profit after tax, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory surplus reserve fund, the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be optional. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of registered capital. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company's employees. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the shareholders.

For the year ended 31st December, 2002, the Board of Directors resolved the following on 12th March, 2003:

(i) to appropriate 10% and 7.5% (2001: 10% and 7.5%), respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund, amounting to approximately Rmb714 million (2001: Rmb636 million) in total;

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

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lowest of the amounts determined in accordance with (a) the PRC accounting standards and regulations, (b) IFRS and (c) US GAAP. The amounts of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31st December, 2002 was approximately Rmb3.18 billion (2001: Rmb2.70 billion). The cumulative balance of distributable profit as at 31st December, 2002 was approximately Rmb9.13 (billion (2001: Rmb9.31 billion).

21. DIVIDENDS

On 12th March, 2003, the Board of Directors proposed a dividend of Rmb0.34 (2001: Rmb0.30) per share, totaling approximately Rmb2,040 million (2001: Rmb1,800 million) for the year ended 31st December, 2002. The proposed dividend distribution is subject to shareholders' approval in their next general meeting. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31st December, 2003.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

22. CONVERTIBLE NOTES

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

The notes are convertible, at the option of the noteholders, at any time from and including 21st August, 1997 up to and including the date of maturity, unless previously redeemed, at an initial conversion price of US$29.20 per ADS, each of which represents 40 Overseas Listed Foreign Shares, subject to adjustment in certain circumstances.

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

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

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

Before 21st May, 2002, the put option for the noteholders to redeem the notes at 128.575% of the principal amount of the notes was accounted for as an embedded derivative. It is separated from the host contract of the convertible notes and measured at its fair value with changes in fair value included in net profit or loss. The liability component is measured at amortised cost.

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

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

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

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

22. CONVERTIBLE NOTES *(Cont'd)*

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

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

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

On 21st May, 2002, the noteholders, by exercising their put option rights, redeemed a substantial portion of the convertible notes with an aggregate principal amount of US$209,685,000,at 128.575% of the principal amount together with accrued interest. Upon the redemption, the equity component attributable to the redeemed portion of the convertible notes amounting to approximately Rmb465 million was transferred to additional paid-in capital as at 21st May, 2002. The net shortfall of approximately Rmb42 million between (a) the sum of the relevant principal amount plus accrued interest and the 28.575% put premium settled upon redemption and (b) the sum of the amortised cost of the liability component attributable to the redeemed portion of the convertible notes and the total carrying amount of the put option value as at 21st May, 2002, was charged to the income statement as interest expense.

The noteholders converted the convertible notes with principal of US$200,000 to 6,849 ADS (273,960 H shares equivalent) during the year ended 31st Decmber, 2002 (2001: nil). Upon the conversion, the equity component attributable to the converted portion of the convertible notes amounting to Rmb0.44 million was transferred to additional paid-in capital.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

23. LONG-TERM LOANS FROM SHAREHOLDERS

Long-term loans from shareholders comprised:

	2002 **'000**	2001 '000
Foreign currency bank loans on-lent by HIPDC	**777,782**	793,282

The foreign currency bank loans on lent by HIPDC bear interest at the prevailing lending rates (both fixed and floating) prescribed by the contracts, which ranged from 4.01% to 7.40% per annum for the year ended 31st December, 2002 (2001: 4.25% to 7.40%), and are repayable in accordance with the repayment schedules set by the banks. The amounts outstanding comprised:

	2002		2001
	Original Currency '000	**Rmb'000**	Rmb'000
Amounts denominated in United States Dollar ("US$")	**93,966**	**777,782**	778,429
Amounts denominated in Swiss Francs ("SFRC")	**—**	**—**	14,853
		777,782	793,282

The shareholders' loans are repayable as follows:

	2002 **'000**	2001 '000
Within one year	**388,891**	15,565
Between one to two years	**388,891**	388,835
Between two to five years	**—**	388,882
	777,782	793,282
Less: Amount due within one year included under current liabilities	**(388,891)**	(15,565)
	388,891	777,717

24. LONG-TERM BANK LOANS

Long-term bank loans comprised:

	The Company andits subsidiaries			The Company		
	2002		2001	**2002**		2001
	US$'000	**Rmb'000**	Rmb'000	**US$'000**	**Rmb'000**	Rmb'000
Renminbi bank loans (a)	**—**	**2,053,000**	1,430,213	**—**	**—**	820,000
United States dollar bank loans (b)	**1,007,606**	**8,340,253**	9,891,041	**996,402**	**8,247,547**	9,891,041
		10,393,253	11,321,254		**8,247,547**	10,711,041

a. Renminbi bank loans were borrowed from local banks to finance the construction of the power plants of the Company and its subsidiaries. These loans bore fixed interest rates from 5.76% to 6.21% per annum for the year ended 31st December, 2002 (2001: 6.21%) and are repayable in accordance with the agreed repayment schedules set by the banks.

b. United States dollar bank loans were borrowed to finance the construction of the power plants of the Company and its subsidiaries. These loans bore interest at lending rates (both fixed and floating) ranging from 2.00% to 6.60% per annum for the year ended 31st December, 2002 (2001: 5.89% to 6.60%), and are repayable in accordance with the agreed repayment schedules set by the banks. The Company had entered into interest rate swap agreements with local banks to convert certain floating rate bank loans into fixed rate debts to hedge against the interest rate risk (see Note 38).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

The long-term bank loans are repayable as follows:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Within one year	**1,928,732**	2,630,008	**1,783,732**	2,630,008
Between one to two years	**2,179,281**	1,777,844	**1,532,726**	1,777,844
Between two to five years	**2,490,335**	3,215,678	**1,924,184**	2,705,465
Over five years	**3,794,905**	3,697,724	**3,006,905**	3,597,724
	10,393,253	11,321,254	**8,247,547**	10,711,041
Less: Amount due within one year included under current liabilities	**(1,928,732)**	(2,630,008)	**(1,783,732)**	(2,630,008)
	8,464,521	8,691,246	**6,463,815**	8,081,033

25. OTHER LONG-TERM LOANS

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Long-term loan from Nanjing Investment	**—**	174,368	**—**	174,368
Long-term loan from WPDB (Note 7(g))	**106,389**	215,704	**—**	—
Long-term loan from Huaneng Finance (Note 7(g))	**225,000**	—	**225,000**	—
Long-term loan from Jiangsu International Trust and Investment Corporation	**43,245**	—	**—**	—
Long-term loan from Jiangsu Huaiyin Investment Company	**25,050**	—	**—**	—
Long-term loan from Jiangsu Electric Power Development Co., Ltd.	**27,718**	—	**—**	—
	427,402	390,072	**225,000**	174,368

The other long-term loans bear fixed interest rates prescribed by the contracts, which ranged from 5.64% to 6.21% per annum for the year ended 31st December, 2002 (2001: 6.21%), and are repayable in accordance with the repayment schedules set by the contracts.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

Other long-term loans are repayable as follows:

	The Company and its subsidiaries		The Company	
	2002 **'000**	2001 '000	**2002** **'000**	2001 '000
Within one year	**96,013**	283,273	**—**	174,368
Between one to two years	**106,389**	—	**—**	—
Between two to five years	**225,000**	106,799	**225,000**	—
	427,402	390,072	**225,000**	174,368
Less: Amounts due within one year included under current liabilities	**(96,013)**	(283,273)	**—**	(174,368)
	331,389	106,799	**225,000**	—

26. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	The Company and its subsidiaries		The Company	
	2002 **'000**	2001 '000	**2002** **'000**	2001 '000
Accounts payable	**471,609**	387,814	**409,500**	342,011
Deferred revenue (see Note 2(o))	**939,564**	726,808	**939,564**	726,808
Payable to contractors for construction	**1,333,448**	716,956	**1,319,830**	699,719
Other payable to contractors	**140,328**	120,559	**131,129**	103,133
Accrued interest	**115,861**	200,978	**113,371**	200,978
Others	**733,540**	504,108	**670,094**	423,730
	3,734,350	2,657,223	**3,583,488**	2,496,379

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

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

As at 31st December, 2002, the aging analysis of accounts payable was as follows:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Within one year	**465,624**	373,270	**406,265**	327,467
Between one to two year	**3,395**	9,494	**856**	9,494
Over two years	**2,590**	5,050	**2,379**	5,050
	471,609	387,814	**409,500**	342,011

27. TAXES PAYABLE

Taxes payable comprised:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
VAT payable	**291,456**	209,020	**184,992**	172,010
Income tax payable	**311,436**	292,615	**198,256**	255,405
Others	**17,297**	19,558	**12,413**	13,775
	620,189	521,193	**395,661**	441,190

28. SHORT-TERM LOANS

Short-term loans are denominated in Renminbi and bear interest at the prevailing interest rates in the PRC, which ranged from 4.7790% to 5.5575% per annum for the year ended 31st December, 2002 (2001: 5.30%), and are repayable within one year.

As at 31st December, 2002, short-term loans amounting to Rmb200 million were drawn from Huaneng Finance, which bore interest at 5.5575% per annum for the year ended 31st December, 2002 (2001: 5.30%) (see Note 7(h)).

29. DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the applicable tax rates for the respective operating units.

The movement in deferred tax liabilities, which arose mainly from the temporary differences of property, plant and equipment, during the year ended 31st December, 2002 is as follows:

	The Company and its subsidiaries '000	**The Company '000**
As at 1st January, 2002	—	—
Acquisitions (Note 3)	109,568	—
Income statement charge (Note 32)	12,285	15,030
As at 31st December, 2002	**121,853**	**15,030**

The Company and its subsidiary recognized deferred tax liabilities arising from the acquisitions of the Shidongkou First Power Plant, Changxing Power Plant, Taicang Power Company and Huaiyin Power Company in 2002. The initial recognition of the identifiable assets and liabilities acquired was based on valuations performed by valuers. The result of the valuation surplus is not a tax deductible credit. Deferred tax liability of approximately Rmb107 million relating to this temporary difference was recorded in 2002.

30. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 31st December, 2002, the net current assets of the Company and its subsidiaries amounted to approximately Rmb33 million (2001: Rmb1,842 million). On the same date, the total assets less current liabilities was approximately Rmb40,809 million (2001: Rmb38,370 million).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

31. HOUSING SCHEME

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the State-sponsored housing fund at 7%-11% of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company's and its subsidiaries' contribution out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31st December, 2002, the Company and its subsidiaries contributed approximately Rmb71 million (2001: Rmb31 million) to the fund.

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

For the year ended 31st December, 2002, the housing benefits provided by the Company and its subsidiaries to the employees amounted to approximately Rmb18 million (2001: Rmb16 million) which is recorded as a long-term deferred asset and amortised over the remaining average service life of the relevant employees which is estimated to be 10 years.

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

32. INCOME TAX EXPENSE

Income tax expense comprised:

	2002 '000	2001 '000
Current tax expense	**963,510**	715,220
Deferred tax	**12,285**	—
Share of tax of associates (Note 11)	**5,059**	—
	980,854	715,220

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

	2002	2001
Average statutory tax rate	**18%**	17%
Effect of tax holiday	**(1%)**	(2%)
Others	**2%**	2%
Effective tax rate	**19%**	17%

The aggregate effect of the tax holiday was approximately Rmb58 million for the year ended 31st December, 2002 (2001: Rmb79 million).

The average statutory tax rate for the year ended 31st December, 2002 represented the weighted average tax rate of the head office and the individual power plants calculated on the basis of the relative amounts of net profit before tax and the applicable statutory tax rates.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

33. MINORITY INTERESTS

	2002 '000	2001 '000
As at 1st January	**486,261**	—
Acquisitions (Note 3)	**330,993**	415,030
Minority shares of net profit of subsidiaries	**156,034**	71,231
Dividend paid	**(62,584)**	—
As at 31st December	**910,704**	486,261

34. EARNINGS PER SHARE

	2002			2001		
	Net Profit '000	**Weighted Average Shares '000**	**Per Share Amount**	Net Profit '000	Weighted Average Shares '000	Per Share Amount
Earnings per Share						
Net profit attributable to shareholders	**3,921,004**	**6,000,099**	**0.65**	3,450,658	5,693,750	0.61
Finance costs in relation to convertible notes and the relevant put option (net off tax effect)	**41,368**	**—**		128,955	—	
Effect of assumed conversion	**—**	**139,754**		—	315,068	
Diluted Earnings per Share						
Net profit attributable to shareholders plus effect of assumed conversion	**3,962,372**	**6,139,853**	**0.65**	3,579,613	6,008,818	0.60

Basic earnings per share was computed by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. On a diluted basis, both net profit and the weighted average number of ordinary shares outstanding were adjusted on the assumption that the convertible notes (see Note 22) had been fully converted at the beginning of the year.

35. NOTES TO CASH FLOW STATEMENT

a. Analysis of cash and cash equivalents

As at 31st December, 2002, cash and cash equivalents consisted of:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Cash in Rmb	**266**	381	**253**	362
Current deposits				
Rmb	**2,815,473**	2,123,393	**2,516,803**	2,079,608
US$ denominated	**186,862**	49,362	**186,862**	49,362
Total cash and cash equivalents	**3,002,601**	2,173,136	**2,703,918**	2,129,332

b. Undrawn borrowing facilities

As at 31st December, 2002, the undrawn borrowing facilities authorized by Bank of China and Citibank available to finance the Company's and its subsidiaries' capital commitments for its various power plant construction projects amounted to approximately Rmb211 million (2001: Rmb483 million). Such borrowing facilities would be drawn down in accordance with the financial requirements of the projects. Based on current plans, such borrowing facilities will be utilized as follows:

	2002	2001
	'000	'000
Amount to be drawn down:		
Within one year	**107,496**	197,347
Between two to five years	**103,466**	285,802
	210,962	483,149

In addition, the Company has also obtained other unsecured borrowing facilities from banks amounted to Rmb12 billion (2001: nil) to finance its funding requirements for a period of three years. As at 31st December, 2002, the unutilized borrowing facilities amounted to Rmb11,993 million. Such borrowing facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

36. OBLIGATIONS AND COMMITMENTS

a. Capital Commitments

Commitments mainly relate to the construction of the Dezhou Phase III, Jining Phase III, some complementary facilities and renovation projects for existing power plants and the purchase of coal. Commitments outstanding as at 31st December, 2002 not provided for in the balance sheets were as follows:

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Authorized and contracted for	**2,655,514**	7,633,206	**2,654,514**	6,690,261

b. Operating lease commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 7). Some of the leases contain renewal options. Most of the leases contain escalation clauses. Lease terms do not contain restriction on the Company's activities concerning dividends, additional debts or further leasing.

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

	2002	2001
	'000	'000
Land and buildings		
— not later than one year	**32,334**	32,334
— later than one year and not later than two years	**32,334**	32,334
— later than two years and not later than five years	**7,334**	47,002
— later than five years	**306,362**	299,028
	378,364	410,698

In accordance with the land use operating lease agreement signed by the Dezhou Power Plant and the relevant land management authorities for the land occupied by Dezhou Phase I and Phase II, annual rental is approximately Rmb30 million effective June 1994 and is subject to revision five years after the said date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended 31st December, 2002, the annual rental is approximately Rmb30 million.

37. CONTINGENT LIABILITIES

	The Company and its subsidiaries		The Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Guarantee for loan facilities granted to an associate and subsidiaries	**399,250**	399,250	**2,244,956**	749,463
Notes receivable discounted with recourse	**—**	110,000	**—**	110,000
Notes receivable endorsed to coal suppliers	**—**	30,628	**—**	30,628
	399,250	539,878	**2,244,956**	890,091

38. INTEREST RATE SWAPS

As at 31st December, 2002, the notional amount of the outstanding interest rate swap agreements was approximately US$52 million (2001: US$83 million). Such agreements will mature between 20th May, 2003 and 18th September 2004. For the year ended 31st December, 2002, there was a gain amounting to approximately Rmb2.2 million arising from changes in the fair value of the interest rate swaps subsequent to initial recognition. Since the hedging relationship does not meet all of the conditions required for special hedge accounting as set out in IAS 39, the gain was credited to earnings in current year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in Rmb unless otherwise stated)

39. FAIR VALUE OF FINANCIAL INSTRUMENT

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

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

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

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

The estimated fair value of long-term debt including current maturities was Rmb11.93 billion as at 31st December, 2002 (2001: Rmb12.67 billion). The fair value of long-term debt is determined by discounting the stream of future payments of interest and principal at the prevailing market interest rates for comparable instruments. The book value of these liabilities was Rmb11.75 billion as at 31st December, 2002 (2001: Rmb12.50 billion).

40. BUSINESS RISK

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

Six largest customers represented approximately 90% (2001: 90%) of the operating revenue of the Company and its subsidiaries for the year ended 31st December, 2002.

41. SUBSEQUENT EVENT

On 28th January 2003, the Company entered into an Investment Agreement with Shenzhen Investment Holding Corporation ("SIH") and Shenzhen Energy Group Co., Ltd. ("SEG") pursuant to which the Company agreed to acquire 25% equity interest of SEG's enlarged share capital at a total consideration of RMB2,390 million.