

# Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)  
FOR THE YEAR ENDED 31ST DECEMBER, 2002  
(All amounts are stated in Rmb Yuan unless otherwise stated)

## 1. COMPANY BACKGROUND

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock company on 30th June, 1994.

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

Five of the power plants were already in commercial operations at time of incorporation of the Company in 1994 (hereinafter collectively referred to as the "five original operating plants"). The five original operating plants were previously divisions of Huaneng International Power Development Corporation ("HIPDC"), which is a Sino-foreign equity joint venture established in the PRC. In accordance with the Reorganization Agreement dated 30th June, 1994, the Company acquired the assets, liabilities and businesses of the five original operating plants from HIPDC which in return received an equity interest in the Company (the "Reorganization"). The new operating plants were either constructed or acquired by the Company after the Reorganization.

The Company's Overseas Listed Foreign Shares were listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 6th October, 1994 and 4th March, 1998, respectively.

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

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## 1. COMPANY BACKGROUND (Cont'd)

Particulars of operating power plants of the Company, its subsidiaries and associate 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:			
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
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")*	300	300	Shandong
Huaneng Changxing Power Plant (the "Changxing Power Plant")**	250	250	Zhejiang
Shanghai Shidongkou Power Limited Company (the "Shanghai Shidongkou First Power Plant")**	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")**	600	450	Jiangsu
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company")**	400	255	Jiangsu
Associate:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	700	178	Shandong
	15,520	14,363	

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## 1. COMPANY BACKGROUND *(Cont'd)*

\* Jining Power Plant was incorporated in the PRC on 19th February, 1990. It was formerly a 75%-owned subsidiary of the Company. Shandong Electricity Power Group Corporation ("SEPCO") owned the remaining 25% equity interest of the Jining Power Plant.

The Company entered into an agreement with SEPCO to acquire the remaining 25% equity interest of the Jining Power Plant owned by SEPCO. After obtaining the necessary government approvals on the acquisition, the Company paid a cash consideration of Rmb109.43 million on 18th June, 2002, and acquired 25% equity interest originally owned by SEPCO. After the completion of the acquisition, Jining Power Plant was deregistered and became a branch of the Company.

\*\* On 9th May, 2002, the Company entered into an agreement with China Huaneng Group Corporation ("Huaneng Group"), under which the Company agreed to acquire from Huaneng Group, 70% equity interest in Shanghai 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 was Rmb2,050 million paid in cash using internal surplus cash resources. The acquisition became effective on 1 July, 2002 after obtaining all the necessary government approvals on the acquisition and the payment of the purchase consideration on that date. The Company obtained the legal title and control over the relevant assets on that date.

On 15th November, 2002, the Company entered into an agreement with Huaneng Group, under which the Company agreed to acquire the 30% equity interest in Shanghai Shidongkou First Power Plant and 5% equity interest in Taicang Power Company for a total consideration of Rmb415 million. This acquisition became effective on 31st December, 2002 after obtaining all the necessary government approvals on the acquisition and the payment of the purchase consideration on that date..

On 26th December, 2002, the Company entered into an agreement with Jiangsu Huaiyin Investment Company to acquire an additional equity interest of 19.48% in Huaiyin Power Company, for a total consideration of Rmb185 million. This acquisition became effective on 31st December, 2002 after the payment of the purchase consideration on that date.

After the completion of above acquisitions, Changxing Power Plant and Shanghai Shidongkou First Power Plant became branches of the Company and the Company owns 75% and 63.64% equity interests in Taicang Power Company and Huaiyin Power Company, respectively.

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## **2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

### **(1) Basis of preparation**

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises and the relevant regulations as promulgated by the Ministry of Finance of the PRC.

### **(2) Accounting year**

The financial year starts on 1 January and ends on 31st December.

### **(3) Reporting currency**

The Company and its subsidiaries use the Renminbi (Rmb) as reporting currency. All amounts in the financial statements are stated in Rmb Yuan.

### **(4) Basis of accounting and measurement bases**

Accrual method is used as the basis of accounting. Assets are initially recorded at their acquired costs. Subsequently, if they are impaired, then impairment provisions are taken accordingly.

### **(5) Foreign currency translation**

Transactions denominated in foreign currencies are translated into Rmb at the exchange rates stipulated by the People's Bank of China (the "PBOC") prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the exchange rates stipulated by the PBOC at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account, except for when they are attributable to foreign currency borrowings that have been taken out specifically for construction of fixed assets, which are capitalized as part of the fixed asset costs accordingly.

### **(6) Cash and cash equivalents**

For the purpose of the cash flow statement, cash refers to all cash on hand and deposits held at call with banks. Cash equivalents refers to short-term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statement, cash with restricted usage and time deposits with maturity in excess of three months are not considered as cash and cash equivalents. Their movements are considered as cash flow from investing activities.

# Notes to the Financial Statements

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

### (7) Short-term investments

Short-term investments, comprising securities, bonds and fund investments, are those investments that the Company does not have the intention to hold for more than 1 year and can be readily convertible into known amounts of cash. Short-term investments are stated at the cost of investment when acquired, after deducting the cash dividends which have been declared but unpaid at the time of acquisition or unpaid interest on bonds which has been accrued. Interest on short-term investments, other than those recorded as receivable items, should be offset against the carrying amount of the investments upon receipt. Short-term investments are carried at the lower of cost or market value as at the end of the year. Where market value is lower than cost, an impairment provision is provided against diminution in short-term investment values.

### (8) Receivables and provision for bad debts

Receivables include accounts receivable and other receivables.

The Company and its subsidiaries make provision for bad debts using the "allowance method".

Provisions for bad debts are made based on the assessment of the collectibility of the receivables. Based on the actual circumstances and experiences, the Company and its subsidiaries made specific provisions against balances that have been assessed to be uncollectible. A general provision of 3% of other receivables outstanding at the balance sheet date is then set against the remaining balance of other receivables.

For balances where there is evidence that they cannot be recovered (e.g. debtor has been deregistered, declared bankruptcy, unable to meet its liabilities as they fall due or having significant cash shortage), then bad debt is recognized and the balances are written off against the provision.

### (9) Inventories

Inventories include fuel for power generation, materials and supplies for repairs and maintenance. Inventories are recorded at actual cost and are charged to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate, using weighted average cost basis. Cost of inventories includes costs of purchase and transportation costs.

Inventories at balance sheet date are stated at lower of cost and net realizable values. When their costs exceed their net realizable value, the excess of their original cost over their net realizable value is taken as a "provision for loss on realization of inventories". Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to conclude the sale.

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

### **(10) Long-term investments**

Long-term investments comprise equity investments in companies that the Company does not intend to dispose of within one year, bonds and other debt investments that are not readily convertible into cash or the Company does not intend to dispose.

Long-term equity investments are recorded at the initial cost of acquisition. When the Company owns an interest of 20% or more of the voting rights or otherwise has the ability to exercise significant influence over the financial and operational decisions, then these investments are accounted for using the equity method of accounting. When the Company owns an interest of less than 20% of the voting rights or otherwise does not have the ability to exercise significant influence over the financial and operational decisions although the Company owns an interest of 20% or more, then these investments are accounted for using the cost method of accounting.

When long-term equity investments are accounted for using the equity method, the difference between the initial costs on acquisition and the proportionate share of the net assets of the invested is accounted for as an "equity investment difference" and are amortized on a straight-line basis over 10 years.

Long-term debt investments are recorded at cost of acquisition, less unpaid interest which has been accrued. The premium or discount is amortized using the straight-line method over the period between the purchase date and the maturity date over which the relevant interest income is recognized. Interest receivable from investments is computed for each period.

Investments in subsidiaries and associates are accounted for using the equity method. Subsidiaries are those companies in which the Company has an interest of more than 50% of the voting rights or an interest less than 50% of the voting rights but has the power to govern the financial and operating policies, and so as to obtain benefit from their operating activities. Associates are companies over which the Company has the ability to exercise significant influence.

Entrusted loans refers to loans that the Company provides to other companies via intermediary financial institutions with maturities over one year. Interest income is accrued and recorded as income in each period. Interest receivable that has been accrued, but cannot be collected when due, should be written off. At the balance sheet date, when events indicate that the principal amount is higher than the recoverable amount of the entrusted loans, provision for impairment loss will be made.

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

### (11) Fixed assets and depreciation

Fixed assets refer to buildings, plant and other equipment related to the production and operation of the Company and its subsidiaries with useful lives of over one year and unit cost of more than Rmb2,000.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets obtained upon Reorganization were initially recorded at their appraised value approved by relevant government authorities.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost of each asset, net of estimated residual values, over their estimated useful lives. When a provision for impairment loss has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life.

Major modification, expansion or improvement of fixed assets are capitalized as costs of the asset. Expenditure on repairs or maintenance of fixed assets is recognized as an expense when incurred.

The estimated useful lives, estimated residual value and depreciation rates of the fixed assets of the Company and its subsidiaries are as follows:

Categories	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	22 years	0%-11%	4.05%-4.55%
Electric utility plant in service	8-27 years	0%-11%	3.3%-12.5%
Transportation and transmission facilities	13-27 years	5%-11%	3.52%-6.85%
Others	6-13 years	0%-11%	6.85%-16.67%

### (12) Construction-in-progress

Construction-in-progress represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which includes interest costs incurred on specific borrowings used to finance the capital assets, prior to the date at which the asset reaches the expected usable condition. Construction-in-progress is transferred to the fixed assets account when the assets has been substantially completed and reaches the expected usable condition.

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

### **(13) Borrowing costs**

Interest, ancillary costs incurred, and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the assets beginning when the capital expenditures and borrowing costs have been incurred and the activities to enable the assets to reach their expected usable condition have commenced. The capitalization of borrowing costs ceases when the construction-in-progress has reached the asset's expected usable condition. Borrowing costs incurred thereafter are recognized as expenses in the period in which they are incurred.

The capitalization amount of interest for each accounting period is determined by using the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period and the relevant capitalization rate of the relevant borrowings. The amount of interest for each capitalization period shall not exceed the actual amount of interest incurred of the specific borrowings during that period. Exchange difference for specific borrowings denominated in foreign currency and ancillary costs incurred in connection with the arrangement of specific borrowings are capitalized in the period in which they are incurred.

Interests incurred in connection with other borrowings are recognized as expenses in the period in which they are incurred.

### **(14) Intangible assets**

Intangible assets include land use rights, goodwill and negative goodwill.

The land use rights acquired directly from the land bureau, through payment of land use fees, are initially recorded at cost. They are amortized using the straight-line method over the land use rights period. Effective 1st January, 2001, when construction is taking place on land for which will eventually be utilized by the Company, then the carrying value of the land use right is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January, 2001 that have already been constructed and utilized by the Company are not reclassified.

Goodwill and negative goodwill arose from acquisitions are amortized over 10 years on a straight-line basis.

### **(15) Long-term deferred expenses**

Long-term deferred expenses represent other deferred expenses with amortization period over one year. They are stated at cost and amortized using the straight-line method over the expected beneficial period of the asset.

If the long-term deferred expenses cannot provide future benefit to the Company, the remaining balance is charged to expense in the current period.



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

### (16) Asset impairment

The recognition of impairment provisions against short-term investments, entrusted loans, receivables and loss on realization of inventories are described in the respective accounting policies. When events or changes in circumstances indicate that the carrying value of other individual assets are higher than their recoverable amounts, then tests for impairment are undertaken. If the carrying amount is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss.

The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.

If there are indications that the impairment loss recognized for an asset in prior years no longer exist or have decreased, then the recoverable amount of the asset will be assessed. If the carrying value of the asset is lower than the reassessed recoverable amount, then the provision for asset impairment is reversed to the extent of impairment loss being recognized in the previous years.

### (17) Convertible notes

Convertible notes are stated at principal plus interest receivable.

As mentioned in Note 5(15), the convertible notes are issued at par value with redemption rights. The notes might be redeemed, at the option of the noteholders, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest. Such premium is accrued together with the interest payable on the notes from date of issuance to date of redemption. The accounting treatment of accrued interest of the convertible notes is the same as that of borrowing costs.

### (18) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised by the local government authorities in accordance with relevant regulations. Except for the above social security benefits, the Company and its subsidiaries have no additional material commitment to other employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on percentages (27% to 43%) of the total salary of employees, subject to certain ceilings. Contributions to the plans are charged to the profit and loss as incurred.

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

### **(19) Revenue recognition**

Revenue is recognized under the following methods:

(i) Operating revenue

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

(ii) Interest income

Interest income is recognized on a time proportion basis on the amounts deposited/entrusted lending and the effective yield.

### **(20) Accounting for income tax**

The Company and its subsidiaries account for enterprise and local income taxes using the tax payable method.

### **(21) Consolidation of financial statements**

The consolidated financial statements, including the financial statements of the Company and its subsidiaries, are prepared in accordance with the CaiKuaiZi(1995)11 "Tentative Regulations for Consolidated Financial Statements" and relevant regulations issued by the Ministry of Finance of the PRC.

Subsidiaries are consolidated from the date on which control is obtained by the Company. Major intercompany balances, transactions and unrealized gains between the Company and its subsidiaries are eliminated upon consolidation. Minority interests in the consolidated financial statements represent the portion of the shareholders equity of the subsidiaries that are not owned by the Company.

When the accounting policies adopted by subsidiaries are not consistent with those adopted by the Company and such inconsistency created a material impact to the consolidated financial statements, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Company.

# Notes to the Financial Statements

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## 3. TAXATION

### (1) Value added tax ("VAT")

The electricity sales of the Company and its subsidiaries is subjected to Value Added Tax("VAT"). The applicable tax rate is 17%. Input VAT from purchase of raw materials and other production materials can be netted off against output VAT from sales.

### (2) Income tax

According to the relevant income tax law, Sino-foreign enterprises are, in general, subject to statutory income tax of 33% (30% of Enterprise Income Tax ("EIT") and 3% of local income tax). If these enterprises are located in specified location or city, or specifically approved by the State Tax Bureau, a lower tax rate can be enjoyed. Effective from 1st January, 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, a reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country. The Company applied this rule in all operating power plants after the approval of State Tax Bureau since 1st January, 1999.

Pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", all power plants (except for the Dezhou Power Plant, Jining Power Plant, Shanghai Shidongkou First Power Plant and all expansion projects other than Shangan Power Plant Phase II) are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

In accordance with Guo Shui Han [1994] No.381, the head office, the Shandong branch (the former headquarter of Shandong Huaneng) and all the individual power plants make their income tax payment to local tax bureau individually.

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### 3. TAXATION *(Cont'd)*

#### (2) Income tax *(Cont'd)*

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

	EIT rate	Tax holiday period
Head Office	15.0%	None
Dalian Power Plant (including Dalian Phase II)	18.0%	Till 31st December, 1994
Shangan Power Plant	18.0%	Till 31st December, 1996
Shangan Phase II	16.5%	Till 31st December, 2003
Nantong Power Plant (including Nantong Phase II)	15.0%	Till 31st December, 1996
Fuzhou Power Plant (including Fuzhou Phase II)	15.0%	Till 31st December, 1995
Shantou Oil-Fired Plant	15.0%	Till 31st December, 1994
Shantou Power Plant	15.0%	Till 31st December, 2002
Shanghai Power Plant	16.5%	Till 31st December, 1998
Dandong Power Plant	15.0%	Not commence yet
Nanjing Power Plant	15.0%	Till 31st December, 2001
Shandong Branch	17.0%	None
Dezhou Power Plant	17.0%	None
Jining Power Plant *	15.0%	None
		(Effective from 1st September, 2002)
Changxing Power Plant*	16.5%	None
		(Effective from 1st July, 2002)
Shanghai Shidongkou First Power Plant**	33.0%	None
Weihai Power Plant	33.0%	None
Taicang Power Company	33.0%	None
Huaiyin Power Company	33.0%	None

\* As stated in Note 1, the Company acquired the remaining 25% equity interest in the Jining Power Plant on 18th June, 2002 and the net assets of Changxing Power Plant on 1st July, 2002. As such, Jining Power Plant and Changxing Power Plant are entitled to preferential tax treatment applicable to Sino-foreign enterprises and have been granted such preferential tax treatment by the relevant tax bureaus.

\*\* As stated in Note 1, the Company acquired all the assets and liabilities of Shanghai Shidongkou First Power Plant in 2002. As such, Shanghai Shidongkou First Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises and it is in the process of applying to the relevant tax bureau for such preferential tax treatment.

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## 3. TAXATION (Cont'd)

### (2) Income tax (Cont'd)

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

	Approved File No.	2002	2001
Head Office	Guo Shui Han [1997]368	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II)	Guo Shui Han [1994]381	18.0%	15.0%
Shangan Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	16.5%
Shangan Phase II	Guo Shui Han [1994]381 & Guo Shui Han [2000]194	9.0%	9.0%
Nantong Power Plant (including Nantong Phase II)	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Power Plant (including Fuzhou Phase II)	Guo Shui Han [1994]381	15.0%	15.0%
Shantou Oil-Fired Plant	Guo Shui Han [1994]381	15.0%	15.0%
Shantou Power Plant	Approved by Shantou State Tax Bureau	7.5%	7.5%
Shanghai Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant	Dan Guo Shui She Wai [1999]7	Not applicable	Not applicable
Nanjing Power Plant	Ning Guo Shui Wai Zi[1997]039	15.0%	7.5%
Shandong Branch	Guo Shui Han [2001]866	17.0%	17.0%
Dezhou Power Plant	Guo Shui Han [2001]866	17.0%	17.0%
Jining Power Plant*	Guo Shui Han [2002]1063 and Ji Guo Shui Han[2003]1	15.0%	33.0%
Changxing Power Plant**	Guo Shui Han[2002]1030	16.5%	Not applicable
Shanghai Shidongkou First Power Plant	Not applicable	33.0%	Not applicable
Wei Hai Power Plant	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	Not applicable
Huaiying Power Company	Not applicable	33.0%	Not applicable

\* Effective from 1st September, 2002, Jining Power Plant enjoyed income tax rate of 15%.

\*\* Effective from 1st July, 2002, Changxing Power Plant enjoyed income tax rate of 16.5%.

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#### 4. SUBSIDIARIES

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

Name	Country and date of incorporation	Issued and fully paid capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Weihai Power Plant	Weihai, Shandong 22nd November, 1993	Rmb761,832,800	Power generation	Rmb457,103,040	60%
Taicang Power Company**	Suzhou Industrial Park, Jiangsu 19th June, 1997	Rmb632,840,000	Power generation	Rmb474,630,000	75%
Huaiyin Power Company**	Huaiyin, Jiangsu 26th January, 1995	Rmb265,000,000	Power generation	Rmb168,646,000	63.64%

\*\* Please refer to Note 1.

#### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

##### (1) Cash and cash equivalents

	31st December, 2002			31st December, 2001		
	Original currency amount	Exchange rate	Rmb equivalent	Original currency amount	Exchange rate	Rmb equivalent
Cash - RMB			266,342			381,485
Bank deposit - RMB			3,610,632,507			7,301,710,215
- USD	66,019,558	8.2773	546,463,686	132,314,533	8.2766	1,095,114,631
Sub-total			4,157,096,193			8,396,824,846
Total cash and cash equivalents			4,157,362,535			8,397,206,331

# Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)  
FOR THE YEAR ENDED 31ST DECEMBER, 2002  
(All amounts are stated in Rmb Yuan unless otherwise stated)

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (1) Cash and cash equivalents *(Cont'd)*

The cash and cash equivalents as stated in the cash flow statement comprised the following:

	<b>31st December, 2002</b>	31st December, 2001
Cash	<b>4,157,362,535</b>	8,397,206,331
Less: Time deposit with maturity of more than 3 months	<b>(1,141,502,257)</b>	(6,224,070,086)
Restricted cash	<b>(13,258,808)</b>	—
	<b>3,002,601,470</b>	2,173,136,245

### (2) Notes receivable

	<b>31st December, 2002</b>	31st December, 2001
Commercial notes receivable	<b>472,750,000</b>	152,230,000

As at 31st December, 2002 and 2001, notes receivable represented unsecured commercial notes receivable.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (3) Accounts receivable and other receivables

(i) Accounts receivable

	<b>31st December, 2002</b>	31st December, 2001
Accounts receivable	<b>1,889,082,774</b>	1,254,941,073

Aging of the accounts receivable was as follows:

<b>Aging</b>	<b>31st December, 2002</b>		31st December, 2001	
	<b>Amount</b>	<b>Percentage (%)</b>	Amount	Percentage (%)
Within 1 year	<b>1,884,462,774</b>	<b>100</b>	1,254,941,073	100
1 - 2 years	<b>4,620,000</b>	—	—	—
	<b>1,889,082,774</b>	<b>100</b>	1,254,941,073	100

All accounts receivable represented receivable from the local power companies or provincial power companies for the sale of electric power. Since these accounts receivable are collectible, no bad debt was provided by the Company and its subsidiaries.

As at 31st December, 2002, the five largest accounts receivable of the Company and its subsidiaries amounted to Rmb1,607,995,057 (31st December, 2001: Rmb1,080,467,303), representing 85.12% of total accounts receivable (31st December, 2001: 86.10%).

(ii) Other receivables

	<b>31st December, 2002</b>	31st December, 2001
Other receivables	<b>124,038,553</b>	121,155,283
Less: bad debt provision	<b>(21,443,406)</b>	(5,617,638)
	<b>102,595,147</b>	115,537,645



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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (3) Accounts receivable and other receivables *(Cont'd)*

#### (ii) Other receivables *(Cont'd)*

Aging and bad debt provision for other receivables were as follows:

Aging	31st December, 2002			31st December, 2001		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	51,988,624	41	(1,559,659)	77,873,879	64	(2,336,216)
1 - 2 years	28,088,594	23	(842,658)	29,520,207	25	(885,606)
2 - 3 years	22,129,117	18	(663,874)	1,240,515	1	(37,215)
More than 3 years	21,832,218	18	(18,377,215)	12,520,682	10	(2,358,601)
	<b>124,038,553</b>	<b>100</b>	<b>(21,443,406)</b>	121,155,283	100	(5,617,638)

Breakdown of other receivables was as follows:

	31st December, 2002	31st December, 2001
Prepayments for materials	26,468,978	35,214,155
Receivable from employees for sales of staff quarters	10,086,707	8,200,000
Others	87,482,868	77,741,128
	<b>124,038,553</b>	121,155,283

As at 31st December, 2002, the five largest other receivables of the Company and its subsidiaries amounted to Rmb54,172,387 (31st December, 2001: Rmb41,121,147), representing 44% of total other receivables (31st December, 2001: 34%).

See Note 7 for related party transactions.

As at 31st December, 2002 and 2001, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (4) Inventories

	<b>31st December, 2002</b>	31st December, 2001
Fuel (coal and oil) for power generation	<b>434,725,588</b>	224,131,185
Material and spare parts	<b>518,237,161</b>	528,511,277
	<b>952,962,749</b>	752,642,462
Less: provision for inventory obsolescence - spare parts	<b>(12,238,901)</b>	(13,184,250)
	<b>940,723,848</b>	739,458,212

### (5) Long-term investments

	31st December, 2001	Current year additions	Current year disposals	<b>31st December, 2002</b>
Long-term equity investments -				
Equity investment difference (i)	—	843,555,690	(529,692,804)	<b>313,862,886</b>
Associates (ii)	226,488,077	—	(25,528,034)	<b>200,960,043</b>
Other long-term equity investments (iii)	—	254,989,551	—	<b>254,989,551</b>
Others	11,605,567	—	(5,241,291)	<b>6,364,276</b>
	238,093,644	1,098,545,241	(560,462,129)	<b>776,176,756</b>
Less: current portion of other long-term investments	—	(25,160)	—	<b>(25,160)</b>
Long-term equity investment	238,093,644	1,098,520,081	(560,462,129)	<b>776,151,596</b>
Long-term bond investment	9,734,610	574,360	(171,200)	<b>10,137,770</b>
Total long-term investment	247,828,254	1,099,094,441	(560,633,329)	<b>786,289,366</b>

As at 31st December, 2002 and 2001, there was no indication of impairment of long-term investments of the Company and its subsidiaries and therefore no provision of impairment of long-term investments was made.

The long-term investments of the Company and its subsidiaries are not subject to restriction on conversion into cash or restriction on remittance of investment income.

# Notes to the Financial Statements

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (5) Long-term investments (Cont'd)

#### (i) Equity investment difference

Equity investment difference represents the difference between the considerations paid for the acquisitions of Taicang Power Company and Huaiyin Power Company and the proportionate share of the net assets of these two power companies. Details are summarized as follows:

Name	Amortization period	Original cost	Current year amortization	Accumulated amortization	Transfer to goodwill	Remaining carrying value
Shanghai Shidongkou First Power Plant	10 years	517,834,475	(25,891,724)	(25,891,724)	(491,942,751)	—
Taicang Power Company	10 years	189,383,490	(8,834,242)	(8,834,242)	—	180,549,248
Huaiyin Power Company	10 years	136,337,725	(3,024,087)	(3,024,087)	—	133,313,638
		843,555,690	(37,750,053)	(37,750,053)	(491,942,751)	313,862,886

#### (ii) Investment in an associate

Name	Country and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
<b>Associate:</b>					
Rizhao Power Company	Rizhao, Shandong 20th March, 1996	US\$150 million	Power generation	Rmb317,497,785	25.5%

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (5) Long-term investments *(Cont'd)*

- (ii) Investment in an associate *(Cont'd)*

Name	Investment period	Investment cost		Accumulated equity pick-up Current year			Net carrying value	
		1st January, 2002	31st December, 2002	1st January, 2002	Additions/ (deductions)	31st December, 2002	1st January, 2002	31st December, 2002
Rizhao Power Company	20 years	231,868,800	231,868,800	(5,380,723)	(25,528,034)	(30,908,757)	226,488,077	200,960,043

Rizhao Power Company was in a loss position in 2002. The Company adopted the equity method to recognize its share of losses of Rizhao Power Company amounting to Rmb25,528,034.

- (iii) Other long-term equity investment

Other long-term equity investment represents investment in China Changjiang Power Company Limited (the "Changjiang Power Company"), details is as follows:

Name	Investment period	Total investment contributed by the Company	Percentage of equity interest held
Changjiang Power Company	Starting from 22nd August, 2002, with indefinite period	Rmb254,989,551	3%

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (6) Fixed assets

The movement of cost of fixed assets and related accumulated depreciation were as follows:

	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
<b>Cost</b>					
1st January, 2002	1,732,485,624	44,379,628,068	680,343,529	1,003,702,820	47,796,160,041
Additions from acquisition	270,965,456	4,965,405,960	16,789,415	146,965,585	5,400,126,416
Transfer from construction in progress	189,029,983	5,372,367,820	46,389,169	106,665,812	5,714,452,784
Current year additions	119,614,084	8,830,756	113,000	43,930,810	172,488,650
Current year disposals	(39,062,765)	(67,689,079)	(2,350,000)	(33,886,402)	(142,988,246)
31st December, 2002	2,273,032,382	54,658,543,525	741,285,113	1,267,378,625	58,940,239,645
<b>Accumulated depreciation</b>					
1st January, 2002	382,581,410	13,366,892,531	203,466,363	419,704,810	14,372,645,114
Additions from acquisition	11,695,267	837,734,805	5,427,773	49,045,238	903,903,083
Current year depreciation	43,296,327	3,327,328,683	26,467,676	93,515,152	3,490,607,838
Current year disposals	(1,800,278)	(22,022,878)	—	(18,254,153)	(42,077,309)
31st December, 2002	435,772,726	17,509,933,141	235,361,812	544,011,047	18,725,078,726
<b>Net book value</b>					
31st December, 2002	1,837,259,656	37,148,610,384	505,923,301	723,367,578	40,215,160,919
1st January, 2002	1,349,904,214	31,012,735,537	476,877,166	583,998,010	33,423,514,927

As at 31st December, 2002 and 2001, there was no indication of impairment of fixed assets of the Company and its subsidiaries and therefore no impairment loss of fixed assets was made.

As at 31st December, 2002, the original costs of fully depreciated fixed assets that still in use was amounted to Rmb83.77 million.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (7) Construction-in-progress

Name of the project	1st January, 2002	Additions from acquisition	Current year additions	Transfer to fixed assets	31st December, 2002	Source of financing
Dezhou Power Plant Phase III expansion project	3,984,124,899	—	1,408,047,301	(5,392,172,200)	—	Bank loans
Jining Power Plant Phase III expansion project	10,306,450	—	306,634,105	—	316,940,555	Internal fund
Other projects	254,249,545	116,393,776	320,458,265	(322,280,584)	368,821,002	Internal fund
	4,248,680,894	116,393,776	2,035,139,671	(5,714,452,784)	685,761,557	
Including: capitalized interest	123,293,586	—	28,026,381	(151,319,967)	—	

The construction of No.5 generator and No. 6 generator of Dezhou Power Plant Phase III have been completed and put into commercial operation on 29th June, 2002 and 13th October, 2002, respectively.

The total budgeted investment of Jining Power Plant Phase III is approximately Rmb850.9 million. The percentage of completion of this project was about 37% as at 31st December, 2002.

For the year ended 31st December, 2002, the applicable capitalization rate of the Company and its subsidiaries was 4.24% (for the year ended 31st December, 2001: 5.75%).

As at 31st December, 2002 and 2001, there was no indication that the construction-in-progress of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was made.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (8) Intangible assets

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

	Original cost	Accumulated amortization	1st January, 2002	Additions from acquisition	Current year addition	Current year amortization	31st December, 2002	Remaining amortization period	Obtained through
Land use rights	745,113,218	(82,350,760)	672,049,157	3,072,634	2,974,440	(15,333,773)	662,762,458	41 - 66 years	Purchase
Negative goodwill	(2,472,783,635)	494,556,728	(2,225,505,271)	—	—	247,278,364	(1,978,226,907)	8 - 9.5 years	Acquisition
Goodwill	2,778,712	(103,736)	—	2,778,712	—	(103,736)	2,674,976	9.5 years	Acquisition
Others	9,232,538	(2,610,561)	—	3,165,254	4,628,530	(1,171,807)	6,621,977	3 - 5 years	Purchase
	(1,715,659,167)	409,491,671	(1,553,456,114)	9,016,600	7,602,970	230,669,048	(1,306,167,496)		

As at 31st December, 2002 and 2001, there was no indication that the intangible assets were impaired and therefore no provision for impairment loss was made.

### (9) Other current assets

Other current assets represented receivable from Shantou Harbor Group Company Limited for coal-port construction. Such amount was recorded as other long-term assets as at 31st December, 2001. On 28th January, 2003, Shantou Harbor Group Company Limited has repaid the amount to the Company.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (10) Short-term loans

	<b>31st December, 2002</b>	31st December, 2001	<b>Remarks</b>
Guaranteed loans	—	40,000,000	Borrowed by Weihai Power Plant and guaranteed by the Company
Credit loans	<b>550,000,000</b>	—	
	<b>550,000,000</b>	40,000,000	

The short-term loans bore interest at the rate of 4.7790% to 5.5575% per annum (2001: 5.301%).

As at 31st December, 2002, short-term loans amounted to Rmb200 million was borrowed from China Huaneng Finance Company ("Huaneng Finance"). Such loan bore interest at the rate of 5.5575% per annum and is due on 8th February, 2003 (31st December, 2001: 5.301%).

### (11) Dividend payable

On 12th March, 2002, the Board of Directors proposed and declared a dividend of Rmb0.30 per share, totaling Rmb1,800 million for the year ended 31st December, 2001. As at 31st December, 2002, all of the relevant dividends had been paid by cash.

On 12th March, 2003, the Board of Directors proposed a dividend of Rmb 0.34 per share, totaling Rmb 2,040 million for the year ended 31st December, 2002.



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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (12) Taxes payable

Taxes payable comprised:

	<b>31st December, 2002</b>	31st December, 2001
Income tax payable	<b>311,436,416</b>	292,615,418
VAT payable	<b>291,456,338</b>	209,020,304
Others	<b>17,296,146</b>	19,556,945
Total	<b>620,188,900</b>	521,192,667

### (13) Other payables

Other payables comprised:

	<b>31st December, 2002</b>	31st December, 2001
Payable to contractors	<b>1,333,447,550</b>	716,955,977
Other payable to contractors	<b>140,328,419</b>	120,559,122
Payable to HIPDC	<b>100,475,344</b>	36,584,373
Technical service fee payable	<b>28,124,210</b>	28,124,210
Project saving bonus	<b>62,110,406</b>	26,043,378
Payable of housing maintenance fund	<b>47,488,793</b>	6,043,992
Others	<b>568,439,463</b>	402,780,307
	<b>2,280,414,185</b>	1,337,091,359

As at 31st December, 2002 and 2001, there was no other payables to the shareholders who were holding 5% or more of the equity interest in the Company, except for the payable to HIPDC which amounted to Rmb100,475,344 as mentioned in Note 7(7) (31st December, 2001: Rmb36,584,373), and there was no other payable aged over three years.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (14) Long-term loans

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

		<b>31st December, 2002</b>	31st December, 2001
Long-term loan from shareholders	(i)	<b>777,782,754</b>	793,281,815
Long-term bank loans	(ii)	<b>10,393,252,361</b>	11,321,254,221
Other long-term loans	(iii)	<b>427,402,311</b>	390,072,029
		<b>11,598,437,426</b>	12,504,608,065
Less: current portion of long-term loans		<b>(2,413,636,557)</b>	(2,928,846,440)
		<b>9,184,800,869</b>	9,575,761,625

(i) Long-term loans from shareholders

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

		<b>31st December, 2002</b>		
	<b>Currency</b>	<b>Original</b>	<b>Exchange rate</b>	<b>Amounts in Rmb</b>
Foreign currency bank loans on-lent by HIPDC	USD	<b>93,965,756</b>	<b>8.2773</b>	<b>777,782,754</b>
Less: current portion of long-term loans	USD	<b>(46,982,876)</b>	<b>8.2773</b>	<b>(388,891,359)</b>
		<b>46,982,880</b>		<b>388,891,395</b>

# Notes to the Financial Statements

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (14) Long-term loans *(Cont'd)*

As at 31st December, 2002, detailed information of the long-term loans from shareholders was as follows:

<b>Lender</b>	<b>31st December, 2002</b>	<b>Repayment period</b>	<b>Annual interest rate</b>	<b>Current portion</b>
Bank loans on-lent by HIPDC				
Bank of China	777,782,754	1997 - 2004	LIBOR+0.9%	388,891,359

The foreign currency bank loans bore interest at the prevailing lending rates (both fixed and floating), prescribed by the loan contracts, which range 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 foreign-currency bank loans were previously borrowed by HIPDC for financing the construction of power plants. Upon the restructuring of the Company in 1994 or on the acquisition of the relevant power plants from HIPDC, all these outstanding long-term bank loans were restructured. HIPDC continued to borrow the loans from the banks and then on-lent the proceeds to the Company as shareholders loans. The existing terms of the loans including interest rates and repayment schedules remained intact after the restructuring.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (14) Long-term loans *(Cont'd)*

- (ii) Long-term bank loans

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

	<b>31st December, 2002</b>
Renminbi bank loans (a)	<b>2,053,000,000</b>
United States dollar bank loans (b)	<b>8,340,252,361</b>
	<b>10,393,252,361</b>
Less: current portion of long-term bank loans	<b>(1,928,731,710)</b>
	<b>8,464,520,651</b>

# Notes to the Financial Statements

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (14) Long-term loans *(Cont'd)*

#### (ii) Long-term bank loans *(Cont'd)*

As at 31st December, 2002, detailed information of the long-term bank loans was as follows:

Lenders	31st December, 2002	Loan period	Annual Interest rate	Current portion	Terms
<b>Renminbi bank loans</b>					
China Construction Bank-Weihai branch*	<b>480,000,000</b>	1998-2004	6.21%	—	Guaranteed by the Company and Weihai Power Development Bureau ("WPDB")
China Construction Bank-Weihai branch*	<b>30,000,000</b>	1999-2005	6.21%	—	Guaranteed by the Company
China Construction Bank-Weihai branch*	<b>100,000,000</b>	1999-2007	6.21%	—	Guaranteed by the WPDB
Bank of China	<b>610,000,000</b>	1999-2009	5.76%	104,000,000	Guaranteed by the Company
Bank of China-Taicang branch*	<b>664,000,000</b>	1999-2014	5.76%	—	Guaranteed by the Company
Bank of China-Suzhou branch	<b>114,000,000</b>	1999-2009	5.76%	16,000,000	Guaranteed by the Company
China Construction Bank-Huaian City Yangzhuang sub branch	<b>35,000,000</b>	1994-2004	6.21%	25,000,000	Guaranteed by the Company
China Construction Bank-Huaian City Yangzhuang-sub branch*	<b>10,000,000</b>	1994-2004	6.21%	—	Guaranteed by Jiangsu International Trust Investment Company
China Construction Bank-Huaian City Yangzhuang sub branch*	<b>10,000,000</b>	1994-2004	6.21%	—	Guaranteed by Jiangsu Huaiyin Investment Company
Sub-total	<b>2,053,000,000</b>			145,000,000	

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (14) Long-term loans *(Cont'd)*

#### (ii) Long-term bank loans *(Cont'd)*

As at 31st December, 2002, detailed information of the long-term bank loans was as follows:

Lenders	31st December, 2002	Loan period	Annual Interest rate	Current portion	Terms
United States dollar bank loans					
Mizuko Corporate Bank, Ltd., Hong Kong	44,145,589	1996-2003	LIBOR+0.45%	44,145,589	Nil
Sumi Tomo Mitsu Banking Corporation, Shanghai Branch	44,145,599	1996-2003	LIBOR+0.4%	44,145,599	Nil
Bank of China	1,464,038,871	2002-2004	LIBOR+0.6%	744,957,000	Nil
Bank of Communication	11,349,769	2000-2005	LIBOR+1.1%	3,808,800	Nil
Bank of China - Taicang Branch*	92,705,760	1999-2006	Interest rate of foreign loan prescribed by Bank of China -0.5%	—	Guaranteed by the Company
	<b>1,656,385,588</b>			837,056,988	
On-lent loans by					
Bank of China					
American I&E Bank	1,345,417,693	1997-2011	6.54%	145,242,308	Guaranteed by HIPDC
American I&E Bank	1,155,090,512	1995-2011	5.95%	128,343,388	Guaranteed by HIPDC
American I&E Bank	1,334,536,910	1997-2011	5.95%	148,281,879	Guaranteed by HIPDC
American I&E Bank	328,806,383	1997-2012	6.60%	32,880,639	Guaranteed by HIPDC
JapanTokyo Bank	185,121,814	1995-2003	LIBOR+0.3%	185,121,814	Guaranteed by HIPDC
KFW Bank	855,981,034	1996-2011	6.60%	90,104,618	Guaranteed by HIPDC
Japan Fuji Bank	339,369,299	1996-2004	LIBOR+0.38%	169,684,650	Guaranteed by HIPDC
KFW Bank	514,498,351	1999-2014	6.36%	20,803,976	Guaranteed by Huaneng Group
Citibank**	625,044,777	1999-2015	LIBOR	26,211,450	Guaranteed by Huaneng Group
	<b>6,683,866,773</b>			946,674,722	
Sub-total	<b>8,340,252,361</b>			1,783,731,710	
Total	<b>10,393,252,361</b>			1,928,731,710	

# Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)  
FOR THE YEAR ENDED 31ST DECEMBER, 2002  
(All amounts are stated in Rmb Yuan unless otherwise stated)

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (14) Long-term loans (Cont'd)

#### (ii) Long-term bank loans (Cont'd)

\* As at 31st December, 2002, the loan was not repayable within one year and therefore there was no current portion for the loan.

\*\* The interest rate of the loan from Citibank is LIBOR prior to the last drawdown date and LIBOR plus 0.075% thereafter. The last drawdown date will be 20th July, 2003 or the date of loan cancellation, whichever earlier.

#### (iii) Other long-term loans

	<b>31st December, 2002</b>
Other long-term loans	<b>427,402,311</b>
Less: current portion	<b>(96,013,488)</b>
	<b>331,388,823</b>

As at 31st December, 2002, other long-term loans consisted of:

Lender	31st December, 2002	Loan period	Annual interest rate	Current portion	Terms
WPDB	<b>106,388,823</b>	1994 - 2004	6.21%	—	Nil
Huaneng Finance	<b>225,000,000</b>	2002 - 2005	5.64%	—	Nil
Jiangsu International Trust and Investment Company	<b>43,245,374</b>	1997 - 2003	6.21%	43,245,374	Nil
Jiangsu Huaiyin Investment Company	<b>25,050,252</b>	1997 - 2003	6.21%	25,050,252	Nil
Jiangsu Power Development Company Limited	<b>27,717,862</b>	1999 - 2003	6.21%	27,717,862	Nil
	<b>427,402,311</b>			96,013,488	

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (15) Convertible notes

Details of convertible notes comprised:

	1st January, 2002	Redemption	Conversion	Interest accrual	Interest payment	Interest reversal of unredeemed portion	31st December, 2002
Principal	1,903,618,000	(1,735,464,690)	(1,655,420)	—	—	—	166,497,890
Interest	502,049,641	(495,910,092)	—	56,358,679	(18,086,639)	(44,411,589)	—
Total	2,405,667,641	(2,231,374,782)	(1,655,420)	56,358,679	(18,086,639)	(44,411,589)	166,497,890

In May, 1997, the Company issued at par value convertible notes with an aggregate principal amount of US\$230 million (Rmb1.904 billion) at 1.75% due 2004. These notes are listed on the New York Stock Exchange and the Luxemburg Stock Exchange. The notes will 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 21 August, 1997 up to and including the date of maturity (including the first and last day), 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. As at 31st December, 2002, noteholders converted notes with principal amount of US\$200,000 into 6,849 ADSs (equivalent to 273,960 Overseas Listed Foreign Shares).

According to the agreement, the notes might be redeemed, at the option of the noteholders, in whole or in part, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest, if any. The Company had accrued for the put premium liability together with the interest payable on the notes using the effective interest rate of 6.66%. On 21 May, 2002, notes amounting to US\$209,685,000 were redeemed by the noteholders. The accrued put premium and interests in connection of the unredeemed portion were charged to the profit and loss in 2002.

The notes may be redeemed, at the option of the Company, at any time on or after 21 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.



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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (16) Share capital

	1st January, 2002	Current year addition	31st December, 2002
Unlisted shares			
Promoters shares	4,250,000,000	—	4,250,000,000
Including: Domestic legal person shares	4,250,000,000	—	4,250,000,000
Sub-total of unlisted shares	4,250,000,000	—	4,250,000,000
Listed shares			
Domestic shares listed in the PRC	250,000,000	—	250,000,000
Overseas listed shares	1,500,000,000	273,960	1,500,273,960
Sub-total of listed shares	1,750,000,000	273,960	1,750,273,960
Total	6,000,000,000	273,960	6,000,273,960

As mentioned in Note 5(15), the increase of share capital in 2002 is due to exercise of conversion rights by noteholders with principal amount of US\$200,000 into 6,849 ADSs (equivalent to 273,960 Overseas Listed Foreign shares).

### (17) Capital surplus

Movement of capital surplus was as follows:

	1st January, 2002	Current year addition	Current year deduction	31st December, 2002
Share premium	10,259,449,295	1,381,460	—	10,260,830,755

As mentioned in Note 5(15), the increase of capital surplus in 2002 is due to exercise of conversion rights by noteholders with principal amount of US\$200,000 into 6,849 ADSs at a premium.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (18) Surplus reserves

Movement of surplus reserve was as follows:

	1st January, 2002	Current year addition	Current year deduction	31st December, 2002
Statutory surplus reserve fund	<b>1,942,515,383</b>	408,235,059	—	<b>2,350,750,442</b>
Statutory public welfare fund	<b>762,741,506</b>	306,176,294	(15,398,194)	<b>1,053,519,606</b>
Discretionary surplus reserve fund	—	15,398,194	—	<b>15,398,194</b>
Total	<b>2,705,256,889</b>	729,809,547	(15,398,194)	<b>3,419,668,242</b>

According to the Company Law of the PRC, the Company's articles of association and resolutions of the Board of Directors, the Company appropriates 10% of each year's net profit to the statutory surplus reserve fund until the fund balance reaches 50% of the registered share capital. After obtaining the approval from the relevant authorities, this reserve can be used to make up any losses incurred or to increase share capital. Except for setting off against losses incurred, any other usage may not result in this reserve balance falling below 25% of the registered share capital.

Each year, the Company appropriates 5% to 10% of net profits to the statutory public welfare fund. The use of this reserve is restricted to the provision of employees' collective welfare benefits. The statutory public welfare fund is not available for distribution to shareholders. When utilizing the statutory public welfare fund, the amount is transferred from this account to the discretionary surplus reserve funds account. Any amounts utilized are capitalized in the Company's balance sheet or expensed in the Company's profit and loss. For the year ended 31st December, 2002, 7.5% of net profit was provided for as statutory public welfare funds (2001: 7.5%).

The Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for discretionary surplus reserve fund. This reserve can be used to make up any losses incurred or to increase the share capital after approval is obtained from the Board of Directors. For the year ended 31st December, 2002, no discretionary surplus reserve fund is provided (2001: nil).

# Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)  
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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (19) Unappropriated profit

Balance as at 31st December, 2001	8,160,857,821
Add: Net profit for the year ended 31st December, 2002	4,082,350,589
Less: Appropriation of statutory surplus reserve fund	(408,235,059)
Appropriation of statutory public welfare fund	(306,176,294)
Dividends payable to ordinary shareholders	(2,040,093,146)
Balance as at 31st December, 2002	9,488,703,911

The maximum amount available for distribution to the shareholders is the lowest of the amount (i.e. net profit in current year plus undistributed profit brought forward from the beginning of the year, deducting the appropriations to the statutory surplus reserve fund and the statutory public welfare fund) determined under the PRC accounting standards, the amount determined under the International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States of America ("US GAAP").

### (20) Revenues from principal operations and costs of principal operations

	For the year ended 31st December, 2002		For the year ended 31st December, 2001	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Power sales	18,725,340,857	12,528,622,594	15,816,656,338	10,333,929,258

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

For the year ended 31st December, 2002 and 2001, the revenue from the five largest customers of the Company and its subsidiaries amounted to Rmb14,948,671,962 and Rmb12,643,398,080, representing 79.83% and 79.94% of the total revenue, respectively.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (21) Financial expenses

Financial expenses comprised:

	<b>For the year ended 31st December, 2002</b>	For the year ended 31st December, 2001
Interest expenses	<b>614,329,847</b>	914,100,350
Less: Interest income	<b>(83,014,926)</b>	(113,081,032)
Exchange losses	<b>2,893,186</b>	392,289
Less: Exchange gain	<b>(66,116)</b>	(4,126,593)
Others	<b>28,577,824</b>	45,492,597
	<b>562,719,815</b>	842,777,611

### (22) Investment (loss) income

	<b>For the year ended 31st December, 2002</b>	For the year ended 31st December, 2001
Investment income on bonds	<b>1,327,073</b>	634,697
Investment income on other debt investments	<b>421,285</b>	24,036,340
Equity pick-up of associate	<b>(10,137,288)</b>	(5,380,723)
Amortization of equity investment differences	<b>(37,750,053)</b>	—
	<b>(46,138,983)</b>	19,290,314

There was no material restriction on the Company and its subsidiaries to obtain the remittance of investment income.

# Notes to the Financial Statements

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (23) Non-operating expense

	<b>For the year ended 31st December, 2002</b>	For the year ended 31st December, 2001
Loss on disposal of fixed assets	<b>31,000,935</b>	36,742,025
Housing benefits to the employees*	<b>17,856,026</b>	15,518,512
Donations	<b>4,469,616</b>	2,822,300
Others	<b>24,687,946</b>	10,780,578
	<b>78,014,523</b>	65,863,415

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

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (24) Net cash outflow on the acquisition of subsidiaries

As disclosed in Note 1, on 1st July, 2002, the Company acquired from Huaneng Group, 70% equity interest in Shanghai 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. At the acquisition date, the assets, liabilities and acquisition costs comprised:

	Shanghai Shidongkou First Power Plant	Taicang Power Company	Huaiyin Power Company	Changxing Power Plant	Total
Current assets	399,824,412	291,905,470	362,609,475	80,240,162	1,134,579,519
Long-term investments	573,360	—	—	—	573,360
Total fixed assets	778,334,776	2,096,913,040	547,902,493	450,779,210	3,873,929,519
Intangible assets	—	3,165,254	2,984,657	—	6,149,911
Other long-term assets	—	—	—	2,172,375	2,172,375
Current liabilities	(608,864,994)	(172,629,389)	(235,547,859)	(130,345,177)	(1,147,387,419)
Long-term loans	(238,256,308)	(1,600,697,920)	(152,513,487)	(170,781,058)	(2,162,248,773)
Net assets	331,611,246	618,656,455	525,435,279	232,065,512	1,707,768,492
Equity interest acquired	70%	70%	44.16%	100%	
Net assets acquired	232,127,872	433,059,517	232,032,219	232,065,512	1,129,285,120
Add: Equity investment difference					755,001,041
Add: Dividend declared by the subsidiaries before the acquisition					184,123,839
Less: Direct cost of acquisition					(18,410,000)
Total consideration					2,050,000,000
Add: Direct cost of acquisition paid in 2002					17,042,492
Less: Cash inflow from the acquired power plants					(431,258,315)
Net cash outflow in 2002 on the acquisition					1,635,784,177

# Notes to the Financial Statements

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (24) Net cash outflow on the acquisition of subsidiaries (Cont'd)

As disclosed in Note 1, on 15th November, 2002, the Company entered into an agreement with Huaneng Group, pursuant to which the Company agreed to pay Rmb415 million to acquire the 30% equity interest in Shanghai Shidongkou First Power Plant and 5% equity interest in Taicang Power Company. The acquisition took effect on 31st December, 2002. At the acquisition date, the assets, liabilities and acquisition costs comprised:

	Shanghai Shidongkou First Power Plant	Taicang Power Company	Total
Total assets	2,052,742,969	2,311,273,470	4,364,016,439
Total liabilities	(819,486,125)	(1,578,332,610)	(2,397,818,735)
Total net assets	1,233,256,844	732,940,860	1,966,197,704
Equity interest acquired	30%	5%	
Net assets acquired	369,977,053	36,647,043	406,624,096
Add: Equity investment difference			12,698,656
Less: Direct costs of acquisition			(4,322,752)
Total consideration			415,000,000
Net cash outflow in 2002 on the acquisition			415,000,000

### (25) Other cash paid relating to operating activities

	For the year ended 31st December, 2002
Cash paid for repair and maintenance expenses	608,390,504
Service fee paid to HIPDC	263,715,816
Others	826,262,551
	1,698,368,871

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## 6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

### (1) Accounts receivable and other receivables

- (i) Accounts receivable

	<b>31st December, 2002</b>	31st December, 2001
Accounts receivable	<b>1,545,294,232</b>	1,179,490,289

Aging of the accounts receivable was as follows:

<b>Aging</b>	<b>31st December, 2002</b>		31st December, 2001	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	<b>1,540,674,232</b>	<b>100</b>	1,179,490,289	100
1-2 years	<b>4,620,000</b>	<b>—</b>	—	—
	<b>1,545,294,232</b>	<b>100</b>	1,179,490,289	100

All accounts receivable represented receivable from the local power companies or provincial power companies for the sale of electric power. Since these accounts receivable are collectible, no bad debt was provided by the Company.

As at 31st December, 2002, the five largest accounts receivable of the Company amounted to Rmb1,264,206,514 (31st December, 2001: Rmb1,005,016,519), representing 81.81% of total accounts receivable (31st December, 2001: 85.21%).



# Notes to the Financial Statements

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## 6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

### (1) Accounts receivable and other receivables *(Cont'd)*

#### (ii) Other receivables

	<b>31st December, 2002</b>	31st December, 2001
Other receivables	<b>102,299,280</b>	118,522,520
Less: bad debt provision	<b>(21,104,202)</b>	(5,124,594)
	<b>81,195,078</b>	113,397,926

Aging and bad debt provision for other receivables were as follows:

Aging	31st December, 2002			31st December, 2001		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	43,906,321	43	(1,317,190)	75,479,077	63	(2,264,372)
1-2 years	27,725,976	27	(831,779)	29,414,646	25	(882,439)
2-3 years	9,122,225	9	(273,667)	1,108,115	1	(33,243)
More than 3 years	21,544,758	21	(18,681,566)	12,520,682	11	(1,944,540)
	<b>102,299,280</b>	<b>100</b>	<b>(21,104,202)</b>	118,522,520	100	(5,124,594)

Breakdown of other receivables was as follows:

	<b>31st December, 2002</b>	31st December, 2001
Prepayments for materials	<b>24,534,432</b>	35,214,155
Receivables from employees for sales of staff quarters	<b>9,744,849</b>	8,200,000
Others	<b>68,019,999</b>	75,108,365
	<b>102,299,280</b>	118,522,520

As at 31st December, 2002, the five largest other receivables of the Company amounted to Rmb45,783,552 (31st December, 2001: Rmb41,121,147), representing 45% of total other receivables (31st December, 2001: 35%).

See Note 7 for related party transactions.

As at 31st December, 2002 and 2001, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company.

(Prepared in accordance with PRC Accounting Standards)  
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## 6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

### (2) Long-term investments

	1st January, 2002	Current year additions	Current year deductions	31st December, 2002
Long-term equity investments –				
Equity investment difference*	—	843,555,690	(529,692,804)	<b>313,862,886</b>
Subsidiaries and associates (i)	<b>1,087,454,774</b>	1,462,395,823	(800,592,882)	<b>1,749,257,715</b>
Other long-term equity investment	—	254,989,551	—	<b>254,989,551</b>
Others	<b>8,813,417</b>	—	(2,449,139)	<b>6,364,278</b>
	<b>1,096,268,191</b>	2,560,941,064	(1,332,734,825)	<b>2,324,474,430</b>
Less: Current portion of other long-term equity investments	—	(25,160)	—	<b>(25,160)</b>
	<b>1,096,268,191</b>	2,560,915,904	(1,332,734,825)	<b>2,324,449,270</b>

\* Please refer to Note 5(5) for details.

(i) Long-term equity investments in subsidiaries and an associate

Name	Investment period	Investment cost			31st December, 2002
		1st January, 2002	Current year additions	Current year deductions	
Weihai Power Plant	Indefinite	<b>474,038,793</b>	—	—	<b>474,038,793</b>
Jining Power Plant*	Indefinite	<b>283,706,227</b>	109,435,753	(393,141,980)	—
Shanghai Shidongkou First Power Plant**	Indefinite	—	232,127,872	(232,127,872)	—
Taicang Power Company**	Indefinite	—	469,706,560	—	<b>469,706,560</b>
Rizhao Power Company	20 years	<b>231,868,800</b>	—	—	<b>231,868,800</b>
Huaiyin Power Company**	Indefinite	—	341,176,226	—	<b>341,176,226</b>
		<b>989,613,820</b>	1,152,446,411	(625,269,852)	<b>1,516,790,379</b>

# Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)  
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## 6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

### (2) Long-term investments *(Cont'd)*

(i) Long-term equity investments in subsidiaries and an associate *(Cont'd)*

Name	1st January, 2002	Accumulated equity pick-up			31st December, 2002
		Current year profit/(loss)	Income appropriation	Current year transfer out	
Weihai Power Plant	<b>73,939,602</b>	169,655,397	(75,608,736)	—	<b>167,986,263</b>
Jining Power Plant*	<b>29,282,075</b>	4,357,821	—	(33,639,896)	—
Shanghai Shidongkou First Power Plant**	—	40,546,364	—	(40,546,364)	—
Taicang Power Company**	—	79,999,084	—	—	<b>79,999,084</b>
Rizhao Power Company	<b>(5,380,723)</b>	(25,528,034)	—	—	<b>(30,908,757)</b>
Huaiyin Power Company**	—	15,390,746	—	—	<b>15,390,746</b>
	<b>97,840,954</b>	284,421,378	(75,608,736)	(74,186,260)	<b>232,467,336</b>

Name	1st January, 2002	Net carrying amount		31st December, 2002
Weihai Power Plant	<b>547,978,395</b>			<b>642,025,056</b>
Jining Power Plant*	<b>312,988,302</b>			—
Shanghai Shidongkou First Power Plant**	—			—
Taicang Power Company**	—			<b>549,705,644</b>
Rizhao Power Company	<b>226,488,077</b>			<b>200,960,043</b>
Huaiyin Power Company**	—			<b>356,566,972</b>
	<b>1,087,454,774</b>			<b>1,749,257,715</b>

There was no significant difference in accounting policies used by the investees and the Company. There was no significant restriction on the realisability of the investments or the remittance of investment income.

\* As disclosed in Note 1, the Company acquired 25% interest of Jining Power Plant on 18th June, 2002. Upon completion of the acquisition, Jining Power Plant became a branch of the Company.

\*\* As disclosed in Note 1, the Company acquired 100% interest of Shanghai Shidongkou First Power Plant, 75% equity interest of Taicang Power Company and 63.64% equity interest of Huaiyin Power Company in 2002.

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## 6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

### (3) Long-term debt investments

	1st January, 2002	Current year additions	Current year deductions	31st December, 2002
Long-term entrusted loans to a subsidiary*	728,698,046	—	(31,735,090)	696,962,956
Others	227,110	10,081,860	(171,200)	10,137,770
	728,925,156	10,081,860	(31,906,290)	707,100,726
Less: Current portion of entrusted loan	(31,735,090)	(256,300,000)	31,735,090	(256,300,000)
	697,190,066	(246,218,140)	(171,200)	450,800,726

\* Long-term entrusted loan to a subsidiary

In order to finance the construction of Weihai Power Plant Phase II, the Company had granted entrusted loans to Weihai Power Plant through financial institutions on September, 1995. These loans were not secured nor guaranteed and bore interests at 6.21% per annum. As at 31st December, 2002, these loans were repayable in accordance with the following agreed schedules:

Financial year	Rmb
2003	256,300,000
2004	440,662,956
Total	696,962,956

For the year ended 31st December, 2002, the Company received interest income of approximately Rmb41.10 million (for the year ended 31st December, 2001: Rmb43.13 million) from Weihai Power Plant. As at 31st December, 2002, the outstanding entrusted loans, the related interest income and interest expense were eliminated in the consolidated financial statements.

# Notes to the Financial Statements

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## 6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

### (4) Revenues from principal operations and costs of principal operations

	For the year ended 31st December, 2002		For the year ended 31st December, 2001	
	Revenues from principal operations	Costs of principal operations	Revenues from principal operations	Costs of principal operations
Power sales	15,720,550,997	10,480,868,719	14,047,671,476	9,032,497,748

The Company has contractual arrangements for the sale of electric power with the local power companies or provincial power companies.

For the year ended 31st December, 2002 and 2001, the revenue from the five largest customers of the Company amounted to Rmb11,939,005,458 and Rmb10,874,413,218, representing 75.95% and 77.41% of the total revenue, respectively.

### (5) Investment income

	For the year ended 31st December, 2002	For the year ended 31st December, 2001
Investment income on bonds	482,857	—
Investment income on entrusted loans	41,097,920	43,134,464
Investment income on other debt investments	421,286	24,036,340
Equity pick-up of subsidiaries and associate	284,421,378	116,107,127
Amortization of equity investment differences	(37,750,053)	—
	<b>288,673,388</b>	183,277,931

There was no material restriction for the Company to obtain the remittance of investment income.

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## 7. RELATED PARTY TRANSACTIONS

### (1) Related parties that can control/are controlled by the Company

Name	Type of enterprise	Legal representative	Registered address	Relationship with the Company	Principal activities
HIPDC	Sino-foreign equity limited liability company	Li Xiaopeng	No.2 Fuxingmen South Street, Xi Cheng District, Beijing	Parent company	Investment in power plants, development and investment in other export-oriented enterprises
Huaneng Group	State-owned enterprise	Li Xiaopeng	A23 Fuxin Road, Haidian District, Beijing	Ultimate parent company	Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber, cement and related industries and others
Weihai Power Plant	Limited liability company	Wu Dawei	No. 58 Haifu road, Economic Development Zone, Weihai	Subsidiary	Power generation
Taicang Power Company	Limited liability company	Yu Xinyang	Jinjihupan, Sanxing Road, Suzhou	Subsidiary	Power generation
Huaiyin Power Company	Limited liability company	Liu Guoyue	No. 291 Huaihai West Road, Huaian	Subsidiary	Power generation

### (2) Registered capital and changes in registered capital of related parties that can control/are controlled by the Company

Name	31st December, 2002 and 2001
HIPDC	US\$450,000,000
Huaneng Group	Rmb1,900,000,000
Weihai Power Plant	Rmb761,832,800
Taicang Power Company	Rmb632,840,000
Huaiyin Power Company	Rmb265,000,000

# Notes to the Financial Statements

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

### (3) Equity shares and changes in equity shares held by parties that can control/are controlled by the Company

Name	1st January, 2002		Current year addition		Current year deduction		31st December, 2002	
	Amount	%	Amount	%	Amount	%	Amount	%
HIPDC*	2,554,840,000	42.58	—	—	—	—	2,554,840,000	42.58
Huaneng Group**	1,675,660,547	51.98	—	—	—	—	1,675,660,547	51.98
Weihai Power Plant	457,103,040	60	—	—	—	—	457,103,040	60
Taicang Power Company	—	—	632,840,000	75	—	—	632,840,000	75
Huaiyin Power Company	—	—	168,646,000	63.64	—	—	168,646,000	63.64

\* In accordance with a shareholders' agreement entered into by certain shareholders, during the operating period of the Company, the voting rights of seven shareholders are given to HIPDC. Thus, HIPDC holds 70.4% voting rights in shareholders' meetings.

\*\* Huaneng Group holds 51.98% equity interest in HIPDC.

### (4) Nature of related parties that does not control/are not controlled by the Company

Name of related parties	Relationship with the Company
Huaneng Finance	A subsidiary of Huaneng Group
WPDB	Minority shareholder of Weihai Power Plant
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Rizhao Power Company	An associate of the Company

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

### (5) Related party transactions

- a. Pursuant to the relevant service agreements, HIPDC provides transmission and transformer facilities to some of the power plants of the Company and receives service fees. Such service fees represent recoverable costs for rate setting purposes. The total service fee 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 paid approximately Rmb148 million to obtain land use rights pertaining to existing sites occupied by the five original operating plants and transferred such land use rights to the Company at the same amount. Payments to HIPDC for the land use rights are being made in 10 equal, non-interest bearing, annual installments starting from 1994. Such land use rights are recorded as intangible assets in the balance sheets and amortised over 50 years according to the land use rights terms.
- c. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use rights of Shanghai Power Plant is leased to the Company for a period of 50 years at an annual rental payment of Rmb6 million. During the year ended 31st December, 2002, the Company paid rental amounting to Rmb6 million to HIPDC (2001: RMB6 million).
- d. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment, the land use right of Nanjing Power Plant is leased to the Company for 50 years with an annual rental payment of Rmb1.334 million.
- e. Pursuant to a leasing agreement between the Company and HIPDC, 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.
- f. As described in Note 5(14)(i) and Note 5(14)(iii), certain bank loans were on-lent from HIPDC and drawn from WPDB and Huaneng Finance to the company and its subsidiaries.
- g. As at 31st December, 2002, Huaneng Finance had granted short-term loans amounting to Rmb200 million (2001: Rmb40 million) to the Company and its subsidiaries. The interest rates of such loans are not materially different from the prevailing market interest rate (see Note 5(10)).
- h. As at 31st December, 2002, long-term bank loans of approximately Rmb5,544 million, Rmb1,140 million and Rmb280 million were guaranteed by HIPDC, Huaneng Group and WPDB, respectively (2001: Rmb8,868 million, Rmb1,666 million and Rmb300 million respectively) (see Note 5(14)).



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

### (5) Related party transactions *(Cont'd)*

- i. As described in Note 8, certain long-term bank loans of Rizhao Power Company, Weihai Power Plant, Taicang Power Company and Huaiyin Power Company were guaranteed by the Company.
- j. In accordance with an equipment import agency service agreement entered into between Shandong Huaneng Power Development Co., Ltd ("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 for equipment transportation and insurance service received (2001: Rmb32 million)
- k. As at 21st June, 2002, Weihai Power Plant, the subsidiary of the Company, proposed dividend for the year ended 31st December, 2001 after the approval of the shareholders at the general meeting. The dividend to be distributed to WPDB, the minority interest of the Weihai Power Plant, amounted to Rmb50,405,824.
- l. On 18th July, 2000, the Company and Shandong Huaneng entered into an agreement under which the Company acquired the net assets of Shandong Huaneng 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 paid was approximately Rmb5,768 million, among which, approximately Rmb1,909 million was paid to Huaneng Group.
- m. 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. The Company used internal fund to pay for the acquisition.
- n. 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. The total consideration for the acquisition of additional interest of two power plants was Rmb415 million. The company used cash to pay for the acquisition.

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

### (5) Related party transactions *(Cont'd)*

- 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.

### (6) Cash deposited in the related parties

	<b>31st December, 2002</b>	31st December, 2001
Deposited in Huaneng Finance:		
- Current deposit	<b>2,376,197,356</b>	64,155,874
- Fixed deposit	<b>570,000,000</b>	3,689,384,421
	<b>2,946,197,356</b>	3,753,540,295

The interest of the current deposit and fixed deposits placed with Huaneng Finance were from 0.72% to 1.44% and 1.71%, respectively.

### (7) Account receivable from/account payable to related parties

	<b>31st December, 2002</b>		31st December, 2001	
	<b>Amount</b>	<b>Percentage</b>	Amount	Percentage
Interest receivable:				
Deposit interest receivable from Huaneng Finance	<b>1,630,137</b>	<b>42.98%</b>	3,523,282	21.54%
Other payable:				
Due to HIPDC	<b>100,475,344</b>	<b>4.41%</b>	36,584,373	2.67%

The balance with HIPDC was unsecured, non-interest bearing and repayable within one year.

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## 8. CONTINGENT LIABILITY

Item	31st December, 2002	
	The Company and its subsidiaries	The Company
Guarantee for loan facilities granted to Rizhao Power Company	399,250,000	399,250,000
Guarantee for loan facilities granted to Weihai Power Plant	—	330,000,000
Guarantee for loan facilities granted to Taicang Power Company	—	1,480,705,760
Guarantee for loan facilities granted to Huaiyin Power Company	—	35,000,000
	<b>399,250,000</b>	<b>2,244,955,760</b>

Guarantee for loan facilities granted to Rizhao Power Company, Weihai Power Plant, Taicang Power Company and Huaiyin Power Company by the Company had no significant financial impact on the Company's operation.

## 9. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of electric generation facilities, renovation projects for existing power plants and the purchase of coal. Capital commitment and coal purchase commitment amounting to Rmb2.66 billion was not included in the consolidated balance sheet of the Company and its subsidiaries as at 31st December, 2002.

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

	31st December, 2002	31st December, 2001
Land and buildings		
- within one year	32,334,000	32,334,000
- between one year and two years	32,334,000	32,334,000
- between two years and three years	7,334,000	32,334,000
- after three years	306,362,000	313,696,000
	<b>378,364,000</b>	<b>410,698,000</b>

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## **9. OBLIGATION AND COMMITMENTS** *(Cont'd)*

In accordance with a 30-year operating lease agreement signed by the Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Phase I and Phase II in June, 1994, annual rental is approximately Rmb29.874 million effective from June, 1994 and is subject to revision at the fifth year since the contract 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 rental was Rmb29,884,933.

## **10. INTEREST RATE SWAP CONTRACT**

The Company entered into interest rate swap agreements with Bank of China to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 31st December, 2002, the notional amount of the outstanding interest swap agreements were approximately US\$51.66 million.

## **11. SUBSEQUENT EVENT**

On 28th January, 2003, the Company entered into an investment agreement with Shenzhen Investment Holding Corporation and Shenzhen Energy Group Co., Ltd. ("SEG"), pursuant to which the Company agreed to subscribe equity interest representing 25% of SEG's share capital for a total consideration of Rmb2,390 million.

## **12. RECLASSIFICATION OF COMPARATIVE FIGURES**

Certain prior year comparative figures have been reclassified to conform to the current year presentation.