(All amounts expressed in Rmb unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Beijing Datang Power Generation Company Limited (the "Company") was incorporated in Beijing, the People's Republic of China (the "PRC"), on 13 December 1994 as a joint stock limited company. The Company listed its H Shares on the Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21 March 1997. The Company and its subsidiaries currently own and operate five coal-fired power plants and one hydropower plant in Hebei Province, Beijing City and Tianjin City of the PRC. As at 31 December 2002, the Company and its subsidiaries had 7,332 employees (2001 — 6,834 employees).

The principal activities of the Company and its subsidiaries are power generation in the PRC. The Company and its subsidiaries conduct their business within one industry segment. As at 31 December 2002, the installed capacity of the Company and its subsidiaries in operation is summarised as follows:

Operating plants	Total installed capacity	Total installed capacity attributable to the Company	Province/ Municipality located
	(MW)	(MW)	
Four original operating plants:			
Dou He Power Plant	1,550	1,550	Hebei
Gao Jing Power Plant	600	600	Beijing
Xia Hua Yuan Power Plant	400	400	Hebei
Zhang Jia Kou Power Plant	2,400	2,400	Hebei
Subsidiaries			
Tianjin Datang Panshan Power Generation Company Limited	1,200	900	Tianjin
Hebei Huaze Hydropower Development Company Limited	20	18	Hebei
	6,170	5,868	

1. ORGANISATION AND OPERATIONS (CONT'D)

As at 31 December 2002, the Company holds equity interests in the following subsidiaries and associates, all of which are limited liability companies established and operated in the PRC:

Company name	Date of establishment	Registered capital	Paid-up capital	Attributable interest	Principal activities
		'000	'000		
Subsidiaries					
Inner Mongolia Datang Tuoketuo Power Generation Company Limited ("Datang Tuoketuo")	17 November 1995	698,090	698,090	60%	Power generation (under construction)
Tianjin Datang Panshan Power Generation Company Limited ("Datang Panshan")	6 August 1997	1,050,791	1,050,791	75%	Power generation
Hebei Huaze Hydropower Development Company Limited ("Huaze Hydropower")	29 July 1998	59,161	59,161	90%	Hydropower generation
Shanxi Datang Shentou Power Generation Company Limited ("Datang Shentou")	8 December 1998	46,000	46,000	60%	Power generation (under construction)
Shanxi Datang Pingwang Thermal Power Company Limited ("Datang Pingwang")	14 July 2000	10,000	10,000	80%	Power generation (under construction)
Yunnan Datang Honghe Power Generation Company Limited ("Datang Honghe")	27 April 2001	10,000	10,000	70%	Power generation (pre-construction)
Hebei Datang Tangshan Thermal Power Company Limited ("Datang Tangshan")	21 February 2002	10,000	10,000	80%	Power generation (under construction)

1. ORGANISATION AND OPERATIONS (CONT'D)

Company name	Date of establishment	Registered capital	Paid-up capital	Attributable interest	Principal activities
		'000	'000		
Yunnan Datang Lixianjiang Hydropower Development Company Limited ("Datang Lixianjiang")	8 November 2002	10,000	10,000	70%	Hydropower generation (pre-construction)
Associates					
North China Electric Power Research Institute Company Limited ("NCEPR")	7 December 2000	100,000	100,000	30%	Power related technology services
Gansu Datang Liancheng Power Generation Company Limited ("Datang Liancheng ")*	18 August 2001	10,000	10,000	55%	Power generation (under construction)
Wenshan Malutang Power Generation Company Limited ("Wenshan Malutang")	19 September 2001	130,600	122,600	23%	Hydropower generation (pre-construction)
Tianjin Dagang Huashi Power Generation Company Limited ("Tianjin Dagang")	5 April 2002	10,000	10,000	30%	Power generation (under construction)
Beijing Datang Texin Heat Company Limited ("Datang Texin")	27 April 2002	87,800	87,800	49%	Heat transportation (pre-construction)
Yunnan Datang Nalan Hydropower Development Company Limited ("Datang Nalan")*	30 October 2002	25,000	16,250	51%	Hydropower generation (pre-construction)

* Though the Company holds majority equity interests of Datang Liancheng and Datang Nalan, it has not obtained majority voting rights of these companies. Therefore, the Company classifies these investees as associates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investments held for trading and available-for-sale investments.

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 event and actions, actual results ultimately may differ from those estimates.

(b) Principles of consolidation

(i) *Subsidiaries*

Subsidiaries, which are those entities in which the Company has the power to govern the financial and operating policies, 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 at 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Principles of consolidation (Cont'd)

(ii) *Associates*

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 investments. Associates are entities over which the Company generally has between 20% and 50% of the voting rights, and over which the Company has significant influence, but which it does not control. 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 associate equals or exceeds its interest in the associate, the Company does not recognise further losses, unless the Company has incurred obligations or made payments on behalf of the associate.

(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 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. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss.

(d) Property, plant and equipment

Property, plant and equipment of the original four power plants during the formation of the Company are recorded at appraised value as at that time. The asset appraisal was conducted by an independent valuer. Additions subsequent to the formation of the Company are recorded at costs. The initial cost 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. Property, plant and equipment, apart from construction-in-progress, are stated at historical cost or original appraised value less accumulated depreciation and accumulated impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (Cont'd)

Expenditure incurred after the property, plant and equipment have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has 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 expenditure is capitalised as an additional cost of property, plant and equipment.

Depreciation is calculated on a straight-line basis to write off fixed assets, after taking into account the estimated residual value, over their estimated useful lives as follows:

Buildings	20–50 years
Electric utility plant in service	12–45 years
Transportation facilities, computer and others	4–10 years

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 plants 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 assets are completed and ready for its intended use when they are transferred to the relevant asset category.

Gains and losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included in operating profit.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed.

Management considers that the amount of property, plant and equipment as at 31 December 2002 is not materially different from fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Investments

The Company and its subsidiaries classified its investments in debt and equity into the following categories: held for 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 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 held for trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months except for short term bank deposits (See note 11). 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. During the year ended 31 December 2002, the Company and its subsidiaries did not hold any investments in this category. 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. Such investments 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 commit 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 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. In circumstances where fair values can be reliably calculated, fair values of 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.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets acquired at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life and recognised in the income statement as other operating expenses. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(h) Inventories

Inventories are stated at the lower of weighted average cost or net realisable value, and are expensed to fuel costs or other relevant operating expenses 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 materials and supplies to the working locations. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(i) Receivables

Receivables are carried at the original invoiced amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company and its subsidiaries will not be able to collect all amounts due. 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) 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 and other short-term highly liquid investments with original maturities of 3 months or less.

(k) Borrowings

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.

(l) Deferred income tax

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 differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Government grants are deferred and recognised in the consolidated income statement over the period necessary to match them with the related costs that they are intended to compensate on a systematic basis. Grants related to the acquisition of property, plant and equipment are accounted for as deferred income in the financial statements and are recognised as income over the useful life of the asset.

(n) 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.

(o) Revenue and income recognition

Revenue and income are recognised when it is probable that the economic benefits associated with a transaction will flow to the Company and its subsidiaries and the revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and on the following bases:

(i) *Operating revenue*

Operating revenue represents amount of tariffs billed for electricity generated and transmitted to North China Power Group Company ("NCPGC"), the substantial shareholder. Operating revenue is billed and recognised upon transmission of electricity to the power grid controlled and owned by NCPGC.

(ii) *Interest income*

Interest income from deposits placed with banks and other financial institutions is recognised on a time proportion basis that takes into account the effective yield on the assets.

(iii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(p) Retirement and staff housing benefits

Pension obligations

The Company and its subsidiaries have various defined contribution pension 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.

Costs of retirement benefits are charged to income statement as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Retirement and staff housing benefits (Cont'd)

Staff housing benefits

The Company and its subsidiaries provide housing to their employees at a discount price. The price difference between the selling price and the cost of housing is considered housing benefit and is amortised on a straight line basis over the estimated average service lives of relevant employees and included in other operating costs.

Apart from housing benefit, the Company and its subsidiaries also contribute to the state-prescribed housing fund scheme. Such costs are charged to the income statement as incurred.

(q) 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.

(r) Minority interests

Minority interests include the minorities' proportion of the fair value of identifiable assets and liabilities of subsidiaries.

Changes in minority interests represents new capital injection from minority shareholders and share of profit which should belong to minority shareholders.

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

As of 31 December 2002, all losses of subsidiaries attributed to minorities were less than the minorities' investment in the subsidiaries and therefore the Company did not absorb any such loss.

(s) Financial instruments

Liability and equity

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 an expense or as 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Financial instruments (Cont'd)

Derivative financial instruments

On inception, the Company and its subsidiaries identify certain derivatives as either i) a hedge of the fair value of an asset or a liability (fair value hedge), ii) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge) or iii) a hedge of a net investment in a foreign entity.

The Company and its subsidiaries' criteria for classifying a derivative instrument as a hedge include: i) the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, ii) the effectiveness of the hedge can be reliably measured, iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and iv) for cash flow hedges, the forecasted transaction that is subject of the hedges must be highly probable.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in the income statement.

An embedded derivative is separated from the host contract and accounted for as a derivative if i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

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 recognised in the income statement. A 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 the amortised cost which would have been recorded had the impairment not been recognised.

(t) Contingencies

Contingent liabilities are recognised in the financial statements when it is probable that a liability will crystallise. Where no provision is recorded, 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 unless virtually certain but disclosed when an inflow of economic benefits is probable.

(u) 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 and its subsidiaries.

(v) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Company and its subsidiaries conduct their operations in the PRC and are exposed to market risks from changes in interest and foreign exchange rates. In addition, they are also subject to special considerations and risks including risks associated with, among others, the 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 a stable price.

Risk management policies are approved by senior management of the Company and carried out by a central planning department in close co-operation with the operating units of the Company and its subsidiaries.

(i) *Interest rate risk*

The floating rate loans expose the Company and its subsidiaries to interest rate risk. The Company and its subsidiaries use derivative instruments, to the extent available in the PRC, to manage exposure to fluctuations in interest rates. When considered appropriate, the Company uses interest rate swap to manage the relative level of its exposure to cash flow risk associated with borrowings with floating interest rates.

Interest rates applicable to the Company and its subsidiaries' borrowings and the schedule of long-term loan repayments are disclosed in note 15.

(ii) *Foreign currency risk*

The Company and its subsidiaries' businesses are principally conducted in Rmb, except that purchases of certain electric utility plant equipment are denominated in United States dollars ("USD"). Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars. As at 31 December 2002, all of the Company and its subsidiaries' assets and liabilities were denominated in Rmb except for cash and bank deposits of approximately Rmb2,089 million (2001 — Rmb2,522 million) and long-term loans of approximately Rmb2,212 million (2001 — Rmb590 million) which were denominated in foreign currencies, principally in United States and Hong Kong dollars. Fluctuation of exchange rate of Renminbi against foreign currencies could affect the Company and its subsidiaries' results of operation.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Financial risk factors (Cont'd)

(iii) *Credit risk*

All of the Company and its subsidiaries' sales of on-grid electricity for the year were made to NCPGC (see note 22). In addition, the ten largest coal suppliers accounted for approximately 64% (2001 — 77%) of the coal purchases of the Company and its subsidiaries for the year ended 31 December 2002.

A significant portion of the Company and its subsidiaries' cash and cash equivalents and bank deposits over three months is deposited with the four largest state-owned banks of the PRC.

The Company and its subsidiaries do not guarantee obligations of other parties except for the Company's proportionate share of the loans of its subsidiaries.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Company considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of provisions for impairment recognised at the balance sheet date.

(iv) *Liquidity risk*

The Company and its subsidiaries' policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments regarding construction of power plants. The amount of undrawn credit facilities at the balance sheet date is disclosed in note 26(c).

(b) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value.

While derivative transactions provide effective economic hedges under the Company and its subsidiaries' risk management policies, the derivatives that do not qualify for hedge accounting under the specific rules in IAS 39 are carried at fair value with changes in fair value included in the income statement.

(c) Fair values

The fair value of investments held for trading is estimated by reference to their quoted market price at the balance sheet date. The fair value of interest rate swap is calculated as the present value of the estimated future cash flows.

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, short-term bank deposits over three months, due from a shareholder, accounts payable and short-term loans approximates their fair values because of the short maturity of these instruments.

Available-for-sale investments are measured at cost as there is no quoted market price in an active market and their fair value cannot be reliably measured (see note 7(i)).

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(All amounts expressed in Rmb unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Fair values

The fair values of long-term loans, including current portions of approximately Rmb8,648 million (2001 — Rmb6,587 million), as at 31 December 2002, have been estimated by applying a discounted cash flow approach using interest rates available to the Company and its subsidiaries for comparable instruments. As at the same date, the book value of these liabilities was approximately Rmb8,666 million (2001 — Rmb6,589 million).

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. PROPERTY, PLANT AND EQUIPMENT

	Company and its subsidiaries					
	2002					2001
	Buildings	Electric utility plants in service	Transportation facilities, computers and others	Construction-in-progress	Total	Total
	'000	'000	'000	'000	'000	'000
Cost (note i)						
Beginning of year	1,763,253	15,932,325	441,534	3,758,307	**21,895,419**	18,458,922
Addition	26,864	11,307	32,266	5,154,730	**5,225,167**	3,619,060
Acquisitions	—	—	—	—	**—**	16,925
Disposals	(26,435)	(132,440)	(16,745)	—	**(175,620)**	(199,488)
Transfer in/(out)	112,483	2,055,389	46,909	(2,214,781)	**—**	—
End of year	1,876,165	17,866,581	503,964	6,698,256	**26,944,966**	21,895,419
Accumulated depreciation						
Beginning of year	175,942	4,437,632	172,450	—	**4,786,024**	3,739,072
Charge for the year	15,835	1,335,828	42,036	—	**1,393,699**	1,087,741
Written back on disposals	(83)	(77,849)	(13,477)	—	**(91,409)**	(40,789)
End of year	191,694	5,695,611	201,009	—	**6,088,314**	4,786,024
Net book value						
End of year	1,684,471	12,170,970	302,955	6,698,256	**20,856,652**	17,109,395
Beginning of year	1,587,311	11,494,693	269,084	3,758,307	**17,109,395**	14,719,850

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(All amounts expressed in Rmb unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Company					
	2002					2001
	Buildings	Electric utility plants in service	Transportation facilities, computers and others	Construction-in-progress	Total	Total
	'000	'000	'000	'000	'000	'000
Cost (note i)						
Beginning of year	1,155,579	14,228,569	348,610	74,320	**15,807,078**	15,104,648
Addition	5,460	9,455	11,109	454,232	**480,256**	901,918
Acquisitions	—	—	—	—	**—**	—
Disposals	(361)	(132,440)	(16,162)	—	**(148,963)**	(199,488)
Transfer in/(out)	35,378	158,886	28,488	(222,752)	**—**	—
End of year	1,196,056	14,264,470	372,045	305,800	**16,138,371**	15,807,078
Accumulated depreciation						
Beginning of year	172,691	4,434,980	166,639	—	**4,774,310**	3,739,072
Charge for the year	13,350	1,081,610	36,495	—	**1,131,455**	1,076,027
Written back on disposals	(83)	(79,074)	(12,943)	—	**(92,100)**	(40,789)
End of year	185,958	5,437,516	190,191	—	**5,813,665**	4,774,310
Net book value						
End of year	1,010,098	8,826,954	181,854	305,800	**10,324,706**	11,032,768
Beginning of year	982,888	9,793,589	181,971	74,320	**11,032,768**	11,365,576

(note i): Property, plant and equipment of approximately Rmb5,734 million represents fixed assets of the original four power plants during the formation of the Company, which are recorded at appraised value as at the date of formation of the Company conducted by an independent valuer.

For the year end 31 December 2002 the interest rates on the loans for which interest has been capitalised varies from 2.88% to 6.21% (2001 — 3.00% to 7.08%) per annum.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	'000	'000
At beginning of year	1,327,554	1,067,135
Additions	958,073	275,610
Share of results after tax	(99,135)	(15,191)
Dividends	(2,032)	—
At end of year	2,184,460	1,327,554

6. INVESTMENTS IN ASSOCIATES

	2002	2001
	'000	'000
At beginning of year	33,913	30,000
Additions	102,939	—
Share of results after tax	5,499	3,913
At end of year	142,351	33,913

The additions in 2002 mainly represent the Company's investments in various projects in Yunnan Province, Beijing City and Tianjin City.

7. INVESTMENTS

(i) Available-for-sale investments

Available-for-sale investments mainly represent a 16% equity investment (unlisted) in NCPG Finance Company Ltd. NCPG Finance Company Ltd. is a non-bank financial institution providing financing services to entities controlled by NCPGC.

These investments do not have a quoted market price in an active market. In addition, the principal activities of these investees are to provide services exclusively to their shareholders and their affiliates. Based upon the limited forecast financial information regarding these investments available to the Company, the directors are of the opinion that there are no appropriate methods to reliably measure their fair values. Accordingly, these investments are stated at cost and are subject to review for impairment loss.

There were neither disposals nor provisions for impairment on available-for-sale investments for the year ended in 31 December 2002.

(ii) Investments held for trading

Government bonds that are acquired for the purpose of generating a profit from short-term fluctuations in price are classified as investments held for trading and are stated at fair value. The fair value is determined based on quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair value subsequent to initial recognition are included as income or expenses for the period.

8. GOODWILL

Goodwill arose from the Company's acquisition of Zhang Jia Kou Power Plant Unit 2 ("ZJK Unit 2") in 2000 and is amortised over 10 years.

	2002	2001
	'000	'000
Cost		
Beginning and end of year	**57,363**	57,363
Accumulated amortisation		
Beginning of year	**(7,026)**	(1,434)
Charge for the year	**(5,592)**	(5,592)
End of year	**(12,618)**	(7,026)
Net book value		
End of year	**44,745**	50,337
Beginning of year	**50,337**	55,929

The amortisation cost is included in other operating costs in the financial statements.

9. DEFERRED HOUSING BENEFITS

Pursuant to the "Proposal on Further Reform of Housing Policy in Urban Areas" of the State and the implementation schemes for staff quarters issued by the relevant provincial and municipal governments, the Company and its subsidiaries have finalised a scheme for selling staff quarters in 1999.

9. DEFERRED HOUSING BENEFITS (CONT'D)

Under the scheme, the Company and its subsidiaries provide benefits to its staff to buy staff quarters from the Company and its subsidiaries at preferential prices. The offer price is calculated based on their length of service and position pursuant to the prevailing local regulations. The deferred housing benefits represent the difference between the net book value of the staff quarters sold and the proceeds collected from the employees. The housing benefits are amortised over the remaining average service life of the relevant employees. The estimated housing benefits are expected to benefit the Company and its subsidiaries over ten years, which is the estimated remaining average service life of the relevant employees.

	2002	2001
	'000	'000
Cost		
Beginning of year	342,837	272,018
Addition	—	70,819
End of year	342,837	342,837
Accumulated amortisation		
Beginning of year	(81,542)	(42,500)
Charge for the year	(37,216)	(39,042)
End of year	(118,758)	(81,542)
Net book value		
End of year	224,079	261,295
Beginning of year	261,295	229,518

10. INVENTORIES

	Company and its subsidiaries		Company	
	2002	2001	2002	2001
	'000	'000	'000	'000
Fuel	108,985	90,705	90,165	62,678
Spare parts and consumable supplies	193,123	168,309	165,548	167,524
	302,108	259,014	255,713	230,202

As of 31 December 2002 and 2001, all inventories were carried at cost.

11. SHORT-TERM BANK DEPOSITS OVER THREE MONTHS

Short-term bank deposits over three months consist of fixed-term deposits denominated in Rmb, Hong Kong dollars or United States dollars with original maturities ranging from over three months to one year.

The effective interest rates on short-term bank deposits over three months ranged from 1.98% to 2.24% (2001 — 2.16% to 5.07%), and these deposits have an average maturity of 82 days (2001 — 117 days).

12. CASH AND CASH EQUIVALENTS

	Company and its subsidiaries		Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Cash at bank and in hand	**1,324,416**	673,122	**1,274,011**	634,571
Short-term bank deposits	**1,025,588**	600,000	**1,025,588**	600,000
	2,350,004	1,273,122	**2,299,599**	1,234,571

The effective interest rates on short-term bank deposits were ranging from 0.44% to 0.72% (2001 — 0.44% to 0.99%) and these deposits have an average maturity of 25 days (2001 — 4 days).

13. SHARE CAPITAL

As at 31 December 2002 and 2001, the authorised share capital of the Company was Rmb5,162,849,000, divided into 5,162,849,000 shares of Rmb1 each. The issued and fully paid up share capital of the Company as at 31 December 2002 and 2001 was as follows:

	Number of shares	Share capital	Share interest percentage
	'000	'000	%
Domestic Shares	3,732,180	3,732,180	72.29
H Shares	1,430,669	1,430,669	27.71
	5,162,849	5,162,849	100.00

Domestic Shares are non-listed promoter shares subscribed by promoters in RMB.

H Shares were listed on the Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21 March 1997.

Domestic Shares and H Shares rank pari passu with each other and in particular will rank in full for all dividends or distributions declared and paid.

14. RESERVES

(a) Capital reserve

Capital reserve comprises the difference between the nominal amount of the domestic shares issued and the fair value of the net assets injected to the Company during its formation and also the proceeds from the issuance of H Shares in excess of their par value, net of expenses related to the issuance of the shares in 1997.

14. RESERVES (CONT'D)

(b) Statutory surplus reserve

In accordance with the relevant laws and regulations of the PRC and the Company's articles of association, the Company is required to appropriate 10% of its net profit, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional.

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing 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 remaining balance of the reserve after such issue is not less than 25% of share capital. The statutory surplus reserve is non-distributable.

(c) Statutory public welfare fund

In accordance with the Company's articles of association, 10% of its net profit is to be appropriated to a statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company's employees such as construction of canteen and other staff welfare facilities. Title of these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Pursuant to the Accounting System for Business Enterprises of the PRC effective in 2001, statutory public welfare fund is transferred out to discretionary surplus reserve upon utilisation for the collective benefits of the employees. For the year ended 31 December 2002, approximately Rmb49,103,000 (2001 — Rmb114,758,000) of the statutory public welfare fund was transferred to discretionary surplus reserve.

(d) Discretionary surplus reserve

In accordance with the Company's articles of association, the appropriation of profit to the discretionary surplus reserve and its utilisation are made in accordance with the recommendation of the Board of Directors and is subject to shareholders' approval at their general meeting.

For the year ended 31 December 2002, no appropriation of profit (2001 — Rmb258,331,000) to the discretionary surplus reserve was made in accordance with the recommendation of the Board of Directors and is subject to shareholders' approval at the next general meeting.

The discretionary surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them. The discretionary surplus reserve is distributable.

14. RESERVES (CONT'D)

(e) Restricted reserve

Pursuant to documents Cai Qi [2000] 295, Cai Qi [2000] 878 and Cai Kuai [2001] 5 issued by MOF, deferred housing benefits for staff quarters sold that were approved by the government before the effective date of Cai Qi [2000] 295, i.e. 6 September 2000, should be directly deducted from shareholders' equity starting from 2001. Accordingly, approximately Rmb258,881,000 which represented the remaining deferred housing benefits balance in relation to staff quarters sold approved by the government before 6 September 2000 has been directly deducted from the statutory public welfare fund under PRC accounting standards and regulations ("PRC GAAP"). For financial statements prepared in accordance with IFRS, the deferred housing benefits are amortised over the estimated average service lives of the relevant employees (see note 9 above). To reflect the reduction of the statutory public welfare fund, an amount equivalent to the corresponding deferred housing benefits balance was transferred from statutory public welfare fund to a restricted reserve specifically set up for this purpose. Upon amortisation of the deferred housing benefits, an amount equivalent to the amortisation for the period is transferred from the restricted reserve to retained earnings. For the year ended 31 December 2002, approximately Rmb32,360,000 (2001 — Rmb32,360,000) had been transferred out from this restricted reserve.

(f) Basis for profit appropriations

In accordance with document Cai Kuai Zi [1995] 31 issued by MOF, appropriations to statutory reserves are to be determined based on the financial statements prepared in accordance with the PRC GAAP.

In addition, in accordance with the Company's articles of association, the Company declares dividends based on the lower of retained earnings as reported in accordance with PRC GAAP and those reported in accordance with IFRS after deducting current year's appropriations to other reserves. As at 31 December 2002, the amount of retained earnings as determined under IFRS was less than that determined under PRC GAAP by approximately Rmb146 million (2001 — Rmb39 million).

The profit attributable to shareholders for the year ended 31 December 2002 includes a profit of approximately Rmb1,406,802,000 (2001 — Rmb1,389,345,000) that has been dealt with in the accounts of the Company.

15. LONG-TERM LOANS

Long-term loans include long-term bank loans, long-term loan payable to NCPGC and other long-term loans as follows:

	Company and its subsidiaries		Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Long-term bank loans (a)	**6,892,252**	5,993,310	**2,304,000**	2,966,000
Long-term loan payable to NCPGC (b)	**—**	5,660	**—**	5,660
Other long-term loans (c)	**1,773,790**	590,450	**—**	—
	8,666,042	6,589,420	**2,304,000**	2,971,660
Less: Amounts due within one year included under current liabilities	**(540,953)**	(360,356)	**(182,000)**	(196,660)
	8,125,089	6,229,064	**2,122,000**	2,775,000

(a) Long-term bank loans

As at 31 December 2002, approximately Rmb438million of long-term bank loans were denominated in United States dollars and the other long-term bank loans were denominated in Rmb. All the long-term bank loans were unsecured and bear interest at rates ranging from 2.88% to 6.21% (2001 — 6.21%) per annum. Approximately Rmb2,195 million (2001 — Rmb2,656 million) of the Company's loans were guaranteed by NCPGC. Approximately Rmb1,470 million (2001 — Rmb877 million) of the loans of the subsidiaries were guaranteed by the minority shareholders according to their shareholding percentage in the subsidiaries.

The long-term bank loans, as summarised below, were drawn to finance the construction of electric utility plants:

	Company and its subsidiaries		Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Amount repayable				
Within one year	**422,000**	311,000	**182,000**	191,000
Between one to two years	**662,830**	482,000	**254,000**	242,000
Between two to five years	**3,081,142**	2,402,501	**785,000**	747,000
Over five years	**2,726,280**	2,797,809	**1,083,000**	1,786,000
	6,892,252	5,993,310	**2,304,000**	2,966,000

(b) Long-term loan payable to NCPGC

The long-term loan payable to NCPGC was denominated in Rmb, unsecured and non-interest bearing. The loan was drawn to finance the construction of electricity plants and had been fully repaid in 2002.

15. LONG-TERM LOANS (CONT'D)

(c) Other long-term loans

Other long-term loans were borrowed by MOF from International Bank for Reconstruction and Development ("World Bank") and on lent to the Company's subsidiary, Datang Tuoketuo, for the construction of electricity plants. The maturity of these loans were as follows:

	2002	2001
	'000	'000
Amounts repayable		
Within one year	118,953	43,696
Between one to two years	94,960	152,746
Between two to five years	320,303	394,008
Over five years	1,239,574	—
	1,773,790	590,450

All these loans were denominated in United States dollars and unsecured. Approximately Rmb10 million of these loans bear interest at a rate of 3.00%, and the other long-term loans bear interest at the rate of LIBOR Base Rate plus LIBOR Total Spread as defined in the loan agreement between MOF and World Bank, which approximated 2.12% to 2.13% per annum during the year ended 31 December 2002 (2001 — 4.01% to 7.08%). In accordance with a guarantee agreement between NCPGC and MOF, NCPGC agreed to guarantee 60% of the loan balances. As at 31 December 2002, approximately Rmb1,058 million (2001 — Rmb348 million) of the loans were guaranteed by NCPGC, while the Company provided counter-guarantee to NCPGC.

16. SHORT-TERM LOANS

Short-term loans, as summarised below, were drawn by the Company's subsidiaries for the construction of electricity plants:

	2002	2001
	'000	'000
Short-term bank loans	—	188,000
Short-term loan payable to NCPG Finance Company Ltd.	316,000	53,120
	316,000	241,120

As at 31 December 2002, all short-term loans were denominated in Rmb, unsecured and bear interest at rates ranging from 3.99% to 5.85% (2001 — 5.85%) per annum. Short-term loans payable to NCPG Finance Company Ltd. of approximately Rmb12,300,000 (2001 — Rmb53,120,000), Rmb11,400,000 (2001 — Nil) and Rmb20,500,000 (2001 — Nil) were guaranteed by Inner Mongolia Mengdian Huaneng Power Generation Company Limited ("IMPC"), Tianjin Jinneng Investment Company and Beijing International Power Development and Investment Company respectively, representing the share of loans attributable to these minority shareholders.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	Company and its subsidiaries		Company	
	2002	2001	**2002**	2001
	'000	'000	**'000**	'000
Construction costs and deposits payable to contractors	**983,337**	835,982	**187,986**	429,378
Fuel and material costs payable	**335,281**	283,145	**288,785**	280,703
Salary and welfare payable	**111,883**	127,236	**101,900**	126,699
Government grants	**118,928**	94,588	**118,928**	94,588
Interest rate swap liability	**215,286**	—	**—**	—
Others	**121,673**	157,237	**99,585**	124,009
	1,886,388	1,498,188	**797,184**	1,055,377

The Company received government grants from local environmental protection authorities for undertaking approved environmental protection projects. As at 31 December 2002, the Company has not recognised any income from government grants as no cost has been incurred in connection with projects related to the government grants.

As at 31 December 2002, other than certain deposits for construction, which was due between one and two years, substantially all accounts payable were due within one year.

As at 31 December 2002, the notional principal amount of the outstanding interest rate swap contract of Datang Tuoketuo was USD214,195,000, and the fixed rate and floating rate were 5.15% and 1.92% (LIBOR offered by British Bankers' Association at 11 July 2002), respectively.

18. RETIREMENT AND STAFF HOUSING BENEFITS

Retirement benefits

The Company and its subsidiaries are required to make specific contributions to the state-sponsored retirement plan at a rate of 19% to 20% (2001 — 19%) of the total salaries of the PRC employees. The PRC government is responsible for the pension liability to the retired employees. The employees of the Company and its subsidiaries are entitled to a monthly pension at their retirement dates.

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees of the Company and its subsidiaries have to make a specified contribution based on the number of working years of the employees, and the Company and its subsidiaries are required to make a contribution equal to twice the staff's contributions. Moreover, the Company and its subsidiaries may, at their discretion, provide additional contributions to the retirement fund depending on the operating results of the year. The employees will receive the total contributions, and any returns thereon, upon retirement.

The total retirement cost incurred by the Company and its subsidiaries during the year ended 31 December 2002 pursuant to these arrangements amounted to approximately Rmb126,890,000 (2001 — Rmb114,084,000).

18. RETIREMENT AND STAFF HOUSING BENEFITS (CONT'D)

Housing benefits

As discussed in note 9 above, the Company and its subsidiaries sell staff quarters to their employees at preferential prices. The deferred housing benefits represent the difference between the net book value of the staff quarters sold and the proceeds collected from the employees. Amortisation of the deferred housing benefits for the year ended 31 December 2002 amounted to approximately Rmb37,216,000 (2001 — Rmb39,042,000).

In addition, in accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-prescribed housing fund scheme at rates ranging from 8% to 10% 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 and its subsidiaries' contributions out of their salary. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Company and its subsidiaries have no further obligations for housing benefits beyond the above contributions made. For the year ended 31 December 2002, the Company and its subsidiaries provided approximately Rmb15,996,000 (2001 — Rmb12,853,000) to the fund.

19. OPERATING PROFIT

Operating profit was determined after charging (crediting) the following:

	2002	2001
	'000	'000
Loss on disposals of property, plant and equipment	**74,606**	41,899
Amortisation of goodwill	**5,592**	5,592
Personnel expenses		
— Wages	**235,868**	204,611
— Retirement benefits	**121,797**	113,187
— Staff housing benefits	**52,418**	51,775
— Other staff costs	**134,431**	94,225
Depreciation		
— Capitalised as construction-in-progress	**4,715**	9,504
— Included as operating expenses	**1,382,613**	1,071,866
— Included as other operating expenses	**6,371**	6,371
	1,393,699	1,087,741
Auditors' remuneration	**5,976**	5,300
Cost of inventories		
— Fuel	**2,556,173**	1,954,115
— Spare parts and consumable supplies	**48,929**	46,233
Operating lease		
— Buildings	**14,622**	15,340
Dividend income	**(7,494)**	(5,479)
Profit on sales of investments held for trading	**(15,300)**	(5,232)
Receivable		
— Impairment charge for bad and doubtful debt	**4,407**	8,669

20. FINANCE COSTS

	2002	2001
	'000	'000
Interest expenses on:		
Short-term bank loans	7,133	17,523
Short-term loans payable to NCPG Finance Company Ltd.	14,503	12,806
Long-term bank loans		
— wholly repayable within five years	20,536	12,731
— repayable beyond five years	351,611	276,217
Other long-term loans		
— wholly repayable within five years	—	32,027
— repayable beyond five years	33,079	—
	426,862	351,304
Less: amount capitalised in property, plant and equipment	(144,384)	(251,884)
	282,478	99,420
Exchange (gain)/loss, net	(557)	554
Fair value loss on an interest rate swap (note a)	240,224	—
	522,145	99,974

(a) To economic hedge against its interest rate risk on long-term loans, Datang Tuoketuo has entered into an interest rate swap, which is carried at fair value. However, since the swap does not meet the definitions of an effective hedge under IAS 39, the change in its fair value is charged or credited to the income statement.

21. TAXATION

	2002	2001
	'000	'000
Current tax	764,130	691,552
Deferred tax	(91,974)	22,940
	672,156	714,492

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

(a) The taxation of the Company and its subsidiaries differs from the theoretical amount that would arise by the statutory tax rate of 33% in the PRC. The reconciliation is shown as follows:

	2002	2001
	'000	'000
Profit before taxation	2,010,226	2,146,161
Tax computed at the statutory tax rate of 33%	663,375	708,233
Add: Tax effect of non-tax deductible items	8,781	6,259
Tax charge	672,156	714,492

21. TAXATION (CONT'D)

(b) The movement in deferred tax assets and liabilities during the year is as follows:

	Preliminary expenses and others	Depreciation difference	Fair value loss on interest rate swap	Total
	'000	'000	'000	'000
Deferred tax assets				
At 1 January 2001	—	—	—	—
Current Addition	10,630	—	—	10,630
At 31 December 2001	10,630	—	—	10,630
Current Addition	7,006	2,579	79,274	88,859
At 31 December 2002	17,636	2,579	79,274	99,489

	Deferred housing benefits	Capitalisation of borrowing costs	Total
	'000	'000	'000
Deferred tax liabilities			
At 1 January 2001	—	—	—
Current Addition	9,576	23,994	33,570
At 31 December 2001	9,576	23,994	33,570
Current Addition	(1,368)	(1,079)	(2,447)
At 31 December 2002	8,208	22,915	31,123

As of 31 December 2002 and 2001, most of the deferred tax assets and deferred tax liabilities will be reversed and settled after more than 12 months.

22. RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of relationship
NCPGC	Substantial shareholder
NCEPR	Associate
NCPG Finance Company Ltd.	Affiliate of NCPGC
Tianjin Jinneng Investment Company	Shareholder
Beijing International Power Development and Investment Company	Shareholder
IMPC	Minority shareholder of Datang Tuoketuo
Shanxi Electric Construction Company	Affiliate of NCPGC
Beijing Electric Construction Company	Affiliate of NCPGC
Tianjin Electric Construction Company	Affiliate of NCPGC
Beijing Electric Equipment Plant	Affiliate of NCPGC

22. RELATED PARTY TRANSACTIONS (CONT'D)

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

	Notes	2002	2001
		'000	'000
Tariff revenue from NCPGC	(i)	**8,017,912**	6,550,620
Management fee to NCPGC	(ii)	**30,165**	24,297
Fuel service fee to divisions and affiliates of NCPGC	(ii)	**34,800**	23,909
Ash disposal fee to divisions and affiliates of NCPGC	(ii)	**86,392**	75,861
Rental fee to NCPGC	(ii)	**7,229**	8,494
Technical supervision, assistance and testing service fee to an associate	b	**32,569**	22,104
Interest income from NCPG Finance Company Ltd.	c	**3,177**	2,462
Interest expenses to NCPG Finance Company Ltd.	d	**14,503**	12,806
Dividend income from NCPG Finance Company Ltd.		**7,107**	5,479
Construction and equipment costs charged by affiliates of NCPGC	e	**1,024,526**	763,171

(i) All of the Company and its subsidiaries' sales of on-grid electricity for the year were made to NCPGC.

Pursuant to the power purchase agreement dated 5 August 1996, the Company is required to sell its entire net generation of electricity to NCPGC at an approved tariff rate as determined based on a regulatory process.

(All amounts expressed in Rmb unless otherwise stated)

22. RELATED PARTY TRANSACTIONS (CONT'D)

(ii) The Company has entered into a number of agreements with NCPGC and its affiliates. Details of the major agreements are as follows:

Name of agreement	Services to be provided by NCPGC	Pricing policy
Production and Construction Management Services Agreement	Management services in relation to the production and construction of electric utility plants	Management fee at Rmb0.001/KWh of on-grid electricity
Fuel Supply Agreement	Fuel purchase, delivery and technical assistance services	Fuel service fee at 1% to 3% of the cost of coal purchased
Ash Disposal Agreement	Disposal of ash generated by the Company's power plants	Ash disposal fee computed based on ash disposal operating costs, taxes, depreciation of ash yards and a profit margin at 5% to 10% of the total costs
Building Lease Agreement	Lease of buildings located at the sites of the Company's power plants totalling 141,671 (2001 — 141,671) square metres	Annual rental fee of approximately Rmb7 million (2001 — Rmb7 million)

(b) NCEPR provides technical supervision, assistance and testing services to the Company and its subsidiaries in relation to the power generation equipment and facilities. Pursuant to the Technical Supervision Services Contract, such services are charged at a pre-determined rate based on the installed capacity of the Company and its subsidiaries.

(c) As at 31 December 2002, cash and cash equivalents of approximately Rmb49,090,000 (2001 — Rmb48,875,000) were deposited with NCPG Finance Company Ltd. at the prevailing market interest rate of 0.72% (2001 — 0.99%).

(d) As discussed in notes 15 and 16 above, NCPGC and the minority shareholders had provided guarantees for the Company and its subsidiaries' loans totalling approximately Rmb4,767 million as at 31 December 2002 (2001 — Rmb3,934 million). In addition, as discussed in notes 15 and 16 above, the Company and its subsidiaries had loans payable to NCPGC and NCPG Finance Company Ltd. totalling approximately Rmb316,000,000 as at 31 December 2002 (2001 — Rmb58,780,000).

22. RELATED PARTY TRANSACTIONS (CONT'D)

(e) The majority of the construction works of Datang Tuoketuo, Datang Panshan, Datang Tangshan, Datang Pingwang and Datang Shentou were carried out respectively by Shanxi Electric Construction Company, Beijing Electric Construction Company and Tianjin Electric Construction Company. In addition, Beijing Electric Equipment Plant supplied certain electric equipment for the construction works of Datang Tuoketuo and Datang Tangshan. The total contracted amount related to these construction works was approximately Rmb2.4 billion (2001 — Rmb2 billion).

As at 31 December 2002, balances due to these related contractors amounted to approximately Rmb160,004,000 (2001 — Rmb74,540,000) and were included in accounts payable.

(f) In addition to the transactions identified above, there are related companies owned/managed by certain management personnel of the Company and its subsidiaries, which provided property management, cleaning, transportation and other services of approximately Rmb56,015,000 (2001 — Rmb39,289,000) to the Company and its subsidiaries. As at 31 December 2002, the balance due from and due to these companies amounted to approximately Rmb1,210,000 (2001 — Rmb2,177,000) and Rmb1,733,000 (2001 — Rmb262,000) respectively, and were included in other receivables and accounts payable.

(g) The balance due from a shareholder mainly represents the receivable from NCPGC for tariff revenue. This receivable is unsecured and non-interest bearing. The tariff revenue is settled on a monthly basis according to the payment provisions in the power purchase agreement. As at 31 December 2002, all tariff revenues receivable from NCPGC were due within one month.

(h) Apart from the related party transaction, the Company has also entered into numerous transactions with other state-owned enterprises to which the exception in IAS 24, Related Party Disclosures, applies.

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

(a) Details of directors' and supervisors' emoluments were:

	2002	2001
	'000	'000
Fees for executive directors, non-executive directors and supervisors	**—**	—
Other emoluments for executive directors		
— basic salaries and allowances	**304**	216
— bonus	**292**	202
— retirement benefits	**208**	113
Other emoluments for non-executive directors	**1,014**	780
Other emoluments for supervisors	**390**	291

In addition, directors' and senior executives' special bonuses of approximately Rmb1,375,300 were provided for during the year ended 31 December 2001. No special bonus of this kind was provided for in 2002.

No director had waived or agreed to waive any emoluments during the year ended 31 December 2002.

23. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS (CONT'D)

(b) Details of emoluments paid to the five highest paid individuals including directors and senior management were:

	2002	2001
	'000	'000
Basic salaries and allowances	490	426
Bonus	305	254
Retirement benefits	210	163

For the year ended 31 December 2002, no emoluments were paid to directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

For the year ended 31 December 2002, the annual emoluments paid to each of the directors, supervisors and the five highest paid individuals did not exceed Rmb1,000,000.

24. DIVIDENDS

On 3 March 2003, the Board of Directors proposed a dividend of Rmb0.12 per share, totalling approximately Rmb619,542,000 for the year ended 31 December 2002. The proposed dividends distribution is subject to the shareholders' approval in their general meeting.

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

25. EARNINGS PER SHARE AND DIVIDEND PER SHARE

The calculation of earnings per share for the year ended 31 December 2002 was based on the net profit of approximately Rmb1,404,612,000 (2001 — Rmb1,438,060,000) and on the weighted average number of 5,162,849,000 shares (2001 — 5,162,849,000 shares) in issue during the year.

Proposed dividends per share for the year ended 31 December 2002 were calculated based on the proposed dividends of approximately Rmb619,542,000 (2001 — Rmb877,684,000) divided by the number of 5,162,849,000 shares (2001 — 5,162,849,000 shares) in issue as at 31 December 2002.

No diluted earnings per share have been presented as there were no dilutive potential ordinary shares outstanding for the years ended 31 December 2002 and 2001.

31 December 2002
(All amounts expressed in Rmb unless otherwise stated)

26. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operations:

	2002	2001
	'000	'000
Profit before taxation	**2,010,226**	2,146,161
Adjustments for:		
Depreciation of property, plant and equipment	**1,388,984**	1,078,237
Fair value loss on financial instrument	**240,224**	—
Amortisation of goodwill	**5,592**	5,592
Amortisation of staff housing benefits	**37,216**	39,042
Loss on disposals of property, plant and equipment	**74,606**	41,899
Gain on disposals of investments held for trading	**(15,300)**	(5,232)
Interest income	**(89,314)**	(144,507)
Interest expenses	**282,478**	99,420
Dividend income	**(7,494)**	(5,479)
Share of profit from an associate	**(5,499)**	(3,913)
Operating profit before working capital changes	**3,921,719**	3,251,220
(Increase) decrease in current assets:		
Inventories	**(43,094)**	12,898
Other receivables and current assets	**20,061**	(10,331)
Due from a shareholder	**(318,527)**	(127,250)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**56,022**	1,969
Taxes payable	**40,168**	(7,299)
Cash provided by operations	**3,676,349**	3,121,207

(b) Significant non-cash transactions

The Company and its subsidiaries incurred additional payable of approximately Rmb147 million to contractors and equipment suppliers for construction-in-progress during the year ended 31 December 2002 (2001 — Rmb347 million).

26. NOTES TO STATEMENT OF CASH FLOWS (CONT'D)

(c) Undrawn borrowing facilities

The undrawn borrowing facilities in Rmb and USD available to settle the Company and its subsidiaries' capital commitment for construction of electric utility plants amounted to approximately Rmb55,880 million (2001 — Rmb10,930 million).

The above borrowing facilities as at 31 December 2002 were made available in accordance with the estimated financial requirements of the projects as follows:

	Company and its subsidiaries	Company
	'000	'000
Amount to be drawn down:		
Within one year	12,839,498	9,942,400
Between one to two years	1,965,667	—
Between two to five years	41,074,419	40,000,000
	55,879,584	49,942,400

27. COMMITMENTS

(a) Capital commitments

Capital commitments of the Company and its subsidiaries in relation to the construction and renovation of the electric utility plants not provided for in the balance sheets were as follows:

	Company and its subsidiaries	Company
	'000	'000
Authorised and contracted for	6,070,345	139,877
Authorised but not contracted for	4,869,639	228,149
	10,939,984	368,026

(b) Operating lease commitments

Operating lease commitments extending to November 2016 in relation to buildings were as follows:

	2002
	'000
Amount repayable	
Within one year	12,127
Between one to five years	36,161
Over five years	64,953
	113,241

28. ADDITIONAL FINANCIAL INFORMATION

As at 31 December 2002, net current assets and total assets less current liabilities of the Company and its subsidiaries amounted to approximately Rmb2,028 million (2001 — Rmb3,132 million) and Rmb23,443 million (2001 — Rmb20,645 million) respectively.

29. PRIOR YEAR COMPARATIVES

Certain comparative figures of 2001 have been reclassified to conform to the presentation of financial statements for the year ended 31 December 2002.