(Expressed in Renminbi)

1 BACKGROUND OF THE COMPANY

Shandong International Power Development Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 28 June 1994 as a joint stock limited company.

The Company owns and operates three power plants, namely Zouxian Power Plant, Shiliquan Power Plant and Laicheng Power Plant. The Company and its subsidiaries (the "Group") and jointly controlled entities are principally engaged in the generation of electricity and heat. All electricity generated is fed into the Shandong Provincial Grid operated by Shandong Electric Power (Group) Corporation ("SEPCO"), which determines to whom the electricity is sold.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Statement of compliance and basis of preparation

(i) Statement of compliance

The financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(ii) Basis of preparation

The financial statements are prepared on the historical cost basis. The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

The preparation of financial statements in accordance with IFRS requires management to make 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 year. Actual results could differ from those estimates.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses (see note 2(f)).

(ii) Associate

Associate is an enterprise in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of the associate on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Investment in an associate is stated in the Company's balance sheet at cost less impairment losses (see note 2(f)).

(iii) Jointly controlled entities

Jointly controlled entities are enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the enterprises' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control effectively commences until the date that joint control effectively ceases.

Investments in jointly controlled entities are stated in the Company's balance sheet at cost less impairment losses (see note 2(f)).

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Any unrealised gains arising from transactions with jointly controlled entities and associate are eliminated to the extent of the Group's interest in the entity. Any unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and any impairment losses (see note 2(f)). Amortisation is charged to the income statement from the date of initial recognition on a straight-line basis over the time during which the benefits are expected to be consumed, subject to a maximum of 20 years.

(ii) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

The carrying amount of negative goodwill is deducted from the carrying amount of intangible assets.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (see note 2(f)).

Depreciation is provided to write off the cost of property, plant and equipment on a straight-line basis over their anticipated useful lives or over their remaining useful lives, being their anticipated useful lives less the period they have been in use prior to their acquisition by the Group, after taking into account their estimated residual values. The anticipated or remaining useful lives used are as follows:

Buildings	15 - 25 years
Generators and related machinery and equipment	10 - 20 years
Motor vehicles, furniture, fixtures, equipment and others	4 - 10 years

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Construction in progress

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment, less any impairment losses (see note 2(f)).

Upon completion and commissioning for operation, the costs are transferred to property, plant and equipment and depreciation will be provided at the appropriate rates specified in note 2(d) above. A generator is considered to be completed and commissioned when the trial run period ends.

(f) Impairment

The carrying amounts of assets, other than inventories (see note 2(h)), financial assets (see note 2(j)) and deferred tax assets (see note 2(n)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's Land Bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights which range from 15 years to 70 years.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by the power plants, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of coal and fuel oil is calculated on the weighted average basis. The cost of materials, components and spare parts is calculated on the first-in-first-out basis.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with banks and other financial institutions with an initial term of less than three months.

(j) Financial assets and liabilities

(i) Financial assets

Investments

Investments, representing unlisted equity securities, are classified as being available-for-sale and are stated at cost less provision for any impairment losses. A provision is made where, in the opinion of management, there is an impairment in the value of an investment.

Other financial assets

Adjustments are made for other financial assets if their carrying amount exceeds the value realisable in the foreseeable future.

(ii) Financial liabilities

Financial liabilities are stated at their carrying amounts.

(k) Revenue recognition

(i) Electricity income

Electricity income is recognised when electricity is supplied to the power grid operated by SEPCO.

(ii) Heat income

Heat income is recognised when heat is supplied to customers.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Major overhauls, repairs and maintenance

Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(m) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the rates of exchange ruling at the balance sheet date.

Foreign currency translation differences relating to funds borrowed to finance construction in progress, to the extent that they are regarded as an adjustment to interest costs, are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

(n) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(q) Operating leases

Payments made under operating leases are charged to the income statement on a straight-line basis over the terms of the lease.

(r) Retirement plan

The contributions payable under the Group's retirement plans are charged to the income statement as incurred.

(s) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

(u) Dividends

Dividends are recognised as a liability in the period in which they are declared.

3 SEGMENT REPORTING

The Group and its jointly controlled entities' profits are almost entirely attributable to the generation and sale of electricity in Shandong Province, the PRC. Accordingly, no segmental analysis is provided.

(Expressed in Renminbi)

4 TURNOVER

Turnover represents the sale of electricity and heat, net of value added tax ("VAT"). Major components of the Group's turnover is as follows:

	2002	2001
	RMB'000	*RMB'000*
Sale of electricity to SEPCO	**7,688,975**	7,142,341
Sale of heat	**119,263**	—
	7,808,238	7,142,341

An Offtake Contract in respect of sale of electricity to SEPCO was entered into between the Company and SEPCO on 12 January 1999 for a term of 20 years. The Offtake Contract is automatically extended for successive terms of 10 years unless either of the parties gives notice to terminate on the occurrence of certain events specified in the Offtake Contract.

Pursuant to the terms of the Offtake Contract, SEPCO is required to purchase from the Group and its jointly controlled entities a minimum net generation of electricity annually ("Annual Minimum Net Generation"). Such minimum offtake obligations apply pro-rata in respect of periods of less than one calendar year.

A tariff formula for calculating the on-grid electricity price based on the Annual Minimum Net Generation for electricity generated by the power plants is set out in the Offtake Contract. However, any adjustment to the on-grid electricity price is subject to the approval of the relevant government authorities.

5 PERSONNEL COSTS

	2002	2001
	RMB'000	*RMB'000*
Wages and staff welfare	**271,670**	221,591
Retirement costs (see note 32)	**63,751**	41,135
Other staff costs	**55,426**	61,332
Loss on disposal of staff quarters	**—**	9,759
	390,847	333,817

(Expressed in Renminbi)

6 SALES RELATED TAXES

Sales related taxes represent city maintenance and construction tax and education surcharge, which are calculated at 7% and 3%, respectively, of net VAT payable.

7 OPERATING PROFIT

Operating profit is arrived at after charging:

	2002	2001
	RMB'000	*RMB'000*
Auditors' remuneration	**3,143**	3,143
Amortisation of intangible assets and lease prepayments	**19,363**	13,257
Cost of inventories	**2,909,354**	2,197,967
Depreciation	**1,204,894**	1,036,562
Loss on disposal of property, plant and equipment	**83,538**	-
Operating lease charges in respect of land and buildings	**31,382**	31,408
Research and development costs	**17,056**	41,888

8 OTHER INCOME

Other income for the year ended 31 December 2002 includes a net gain of RMB116,037,000 arising from the early repayment of a part of the state loan (see note 27(c)).

9 NET FINANCE COSTS

	2002	2001
	RMB'000	*RMB'000*
Interest on bank advances and other loans repayable within five years	**541,089**	492,120
Interest on other loans repayable after five years	**11,004**	148,650
Less: Interest capitalised	**(50,020)**	(9,366)
	502,073	631,404
Less: Interest income	**(11,807)**	(119,692)
	490,266	511,712

The interest costs have been capitalised at a rate of 5.68% per annum (2001: 5.76%) for construction in progress.

(Expressed in Renminbi)

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2002	2001
	RMB'000	*RMB'000*
Directors' and supervisors' fees	**—**	—
Salaries, allowances and benefits in kind	**277**	338
Retirement benefits	**63**	52
Bonuses	**341**	235
	681	625

Salaries and other benefits paid to non-executive Directors and independent non-executive Directors amounted to RMBNil and RMB105,000 respectively (2001: RMBNil and RMB160,000 respectively).

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2001: four) are Directors whose emoluments are disclosed in note 10. The aggregate of the emoluments of the remaining three highest paid individuals (2001: one) is as follows:

	2002	2001
	RMB'000	*RMB'000*
Salaries and other emoluments	**132**	39
Retirement benefits	**50**	12
Bonuses	**256**	53
	438	104

(Expressed in Renminbi)

12 TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 *RMB'000*	2001 *RMB'000*
Current tax expense		
Charge for PRC enterprise income tax for the year	**551,717**	660,534
Under-provision in respect of prior year	**10,360**	2,192
	562,077	662,726
Deferred tax expense		
Origination and reversal of temporary differences (note 29)	**(20,222)**	11,922
Total income tax expense in the consolidated income statement	**541,855**	674,648

Reconciliation of effective tax rate:

	2002 *RMB'000*	2001 *RMB'000*
Profit before taxation	**1,719,412**	2,054,204
Applicable tax rate (note (i))	**33%**	33%
Computed tax using the applicable tax rate	**567,406**	677,887
Add: Tax credit for capital expenditure (note (ii))	**(29,781)**	—
Non-deductible sundry items	**6,315**	3,679
Under-provision in respect of previous years	**10,360**	2,192
Less: Non-taxable sundry items	**(12,445)**	(9,110)
	541,855	674,648

(Expressed in Renminbi)

12 TAXATION *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

Notes:

(i) The charge for PRC enterprise income tax is calculated at the rate of 33% (2001: 33%) on the estimated assessable profits of the year determined in accordance with relevant enterprise income tax rules and regulations. The Group did not carry on business overseas and therefore no provision has been made for overseas profits tax.

(ii) Pursuant to the document "Cai Shui Zi (1999) No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company was entitled to an income tax credit of RMB29,781,000 during the year which is determined based on a percentage of the purchased amount of equipment produced in the PRC for technological improvements.

(b) Taxation in the balance sheets represents:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Charge for PRC enterprise income tax for the year	**551,717**	660,534	**506,332**	625,336
Balance of PRC enterprise income tax provision relating to prior years	**10,000**	—	**10,000**	—
Payments made relating to the current year	**(392,688)**	(466,178)	**(377,397)**	(434,612)
PRC enterprise income tax payable (net)	**169,029**	194,356	**138,935**	190,724
Representing:				
Tax payable	**169,029**	195,794	**138,935**	190,724
Tax recoverable	**—**	(1,438)	**—**	—
	169,029	194,356	**138,935**	190,724

(Expressed in Renminbi)

13 DIVIDENDS

(a) These dividends have not been provided for in the financial statements:

	2002	2001
	RMB'000	*RMB'000*
Final dividend proposed of RMB0.036 per share (2001: RMB0.17)	**189,219**	893,534

Pursuant to a resolution passed at the Directors' meeting held on 15 April 2003, a final dividend of RMB0.036 per share totalling RMB189,219,000 will be payable to shareholders, subject to the approval of the shareholders at the coming Annual General Meeting.

(b) Dividends paid during the year are as follows:

	2002	2001
	RMB'000	*RMB'000*
Interim dividend of RMB0.02 per share for the year ended 31 December 2002 (2001: RMB0.02)	105,122	105,122
Special interim dividend of RMB0.228 per share in respect of the year ended 31 December 2000, declared during 2001	—	1,198,387
Final dividend of RMB0.17 per share for the year ended 31 December 2001 (2000: RMB0.058)	893,534	304,853
	998,656	1,608,362

14 EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2002 of RMB1,181,697,000 (2001: RMB1,379,497,000) and the weighted average number of shares in issue during the year ended 31 December 2002 of 5,256,084,200 (2001: 5,256,084,200).

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2002 and 2001.

(Expressed in Renminbi)

Shandong International Power Development Company Limited

15 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings	Generators and related machinery and equipment	Motor vehicles, furniture, fixtures, and equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2002	4,003,838	13,997,533	399,775	18,401,146
Through acquisition of subsidiaries	285,827	401,210	22,634	709,671
Additions	47,809	16,112	11,456	75,377
Transferred from construction in progress (note 16)	645,814	1,410,270	46,934	2,103,018
Disposals	(21,969)	(190,181)	(4,931)	(217,081)
At 31 December 2002	4,961,319	15,634,944	475,868	21,072,131
Accumulated depreciation:				
At 1 January 2002	997,972	3,586,471	93,962	4,678,405
Charge for the year	230,905	900,156	73,833	1,204,894
Written back on disposal	(12,234)	(115,741)	(2,496)	(130,471)
At 31 December 2002	1,216,643	4,370,886	165,299	5,752,828
Net book value:				
At 31 December 2002	3,744,676	11,264,058	310,569	15,319,303
At 31 December 2001	3,005,866	10,411,062	305,813	13,722,741

(Expressed in Renminbi)

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Buildings	Generators and related machinery equipment	Motor vehicles, furniture, fixtures, and equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2002	3,291,732	12,504,551	357,727	16,154,010
Additions	42,652	6,369	6,380	55,401
Transferred from construction in progress (note 16)	469,508	907,250	30,082	1,406,840
Disposals	(20,209)	(163,778)	—	(183,987)
At 31 December 2002	3,783,683	13,254,392	394,189	17,432,264
Accumulated depreciation:				
At 1 January 2002	884,044	3,342,375	74,374	4,300,793
Charge for the year	162,507	746,233	59,549	968,289
Written back on disposal	(10,378)	(96,949)	—	(107,327)
At 31 December 2002	1,036,173	3,991,659	133,923	5,161,755
Net book value:				
At 31 December 2002	2,747,510	9,262,733	260,266	12,270,509
At 31 December 2001	2,407,688	9,162,176	283,353	11,853,217

(c) All of the Group's buildings are located in the PRC.

(d) In 2002, the Group carried out technological upgrade projects to increase the installed capacity of certain generators. As a result, certain equipment was replaced and disposed of during the year. The loss on disposal in this connection amounting to RMB84 million was included in "other operating expenses".

(Expressed in Renminbi)

16 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at 1 January	**986,831**	386,427	**979,550**	382,491
Through acquisition of subsidiaries	**107,978**	—	**—**	—
Additions	**2,371,866**	1,109,834	**941,532**	1,077,866
Transferred to property, plant and equipment (note 15)	**(2,103,018)**	(509,430)	**(1,406,840)**	(480,807)
Balance at 31 December	**1,363,657**	986,831	**514,242**	979,550

Construction in progress comprises:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Development of power plants	**1,153,689**	887,069	**321,693**	887,069
Improvement project	**209,968**	99,762	**192,549**	92,481
	1,363,657	986,831	**514,242**	979,550

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

	Installed capacity	**Budgeted construction cost** *RMB million*	**Anticipated year of completion**
The fourth generating unit at Laicheng Power Plant	1 x 300MW	1,154	2003
The first and second generating units at Tengzhou Power Plant	2 x 135MW	993	2003
The third and fourth generating units at Zibo Power Plant	2 x 135MW	906	2003

(Expressed in Renminbi)

17 LEASE PREPAYMENTS

Lease prepayments represent land use rights paid to the PRC's land bureau.

At 31 December 2002, land use right certificates in respect of certain property of the Group with an aggregate net book value of RMB170,984,000 (2001: RMB120,433,000) had not yet been obtained, however management of the Group believe that such certificates will ultimately be obtained.

18 INTANGIBLE ASSETS

(a) The Group

	Goodwill *RMB'000*	Negative goodwill *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2002	58,667	(10,998)	47,669
Arising from acquisition of a subsidiary	6,506	—	6,506
At 31 December 2002	65,173	(10,998)	54,175
Accumulated amortisation:			
At 1 January 2002	7,937	(1,833)	6,104
Amortisation charge for the year	4,268	(733)	3,535
At 31 December 2002	12,205	(2,566)	9,639
Carrying amount:			
At 31 December 2002	52,968	(8,432)	44,536
At 31 December 2001	50,730	(9,165)	41,565

(Expressed in Renminbi)

18 INTANGIBLE ASSETS *(Continued)*

(b) The Company

	Goodwill *RMB'000*
Cost:	
At 1 January 2002 and 31 December 2002	60,330
Accumulated amortisation:	
At 1 January 2002	4,816
Amortisation charge for the year	3,353
At 31 December 2002	8,169
Carrying amount:	
At 31 December 2002	52,161
At 31 December 2001	55,514

Goodwill in the Company's balance sheet was transferred from a subsidiary, which transferred all of the business, including assets and liabilities to the Company and was dissolved at the same time in 2000.

19 INTEREST IN SUBSIDIARIES

	The Company	
	2002 *RMB'000*	2001 *RMB'000*
Unlisted equities, at cost	**553,541**	114,121
Amounts due from subsidiaries	**2,561**	3,650
Loans to subsidiaries	**670,000**	—
	1,226,102	117,771

The particulars of subsidiaries, all of which are limited liability companies established and operating in the PRC, at 31 December 2002 are as follows:

(Expressed in Renminbi)

19 INTEREST IN SUBSIDIARIES *(Continued)*

Company	Registered and paid up capital	Percentage of interest directly held by the Company 2002	2001	Principal activities
	RMB'000	*%*	*%*	
Zibo SIPD Cogeneration Power Company Limited ("Zibo SIPD")	254,800	100	100	Generation and sale of electricity and heat
Shandong Zhangqiu Power Company Limited ("Zhangqiu")	180,000	70	—	Generation and sale of electricity
Shandong Tengzhou Xinyuan Power Company Limited ("Tengzhou")	245,000	54.49	—	Generation and sale of electricity
Zoucheng Lunan Electric Power Technology Development Company Limited	26,047	90	90	Provision of services to Zouxian Power Plant
Zaozhuang Shiliquan Electric Power Industry Company Limited	19,989	90	90	Provision of services to Shiliquan Power Plant

(Expressed in Renminbi)

20 INTEREST IN AN ASSOCIATE

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**2,240**	—
Share of net assets	**2,240**	—	**—**	—
	2,240	—	**2,240**	—

The particulars of the associate, which is a limited liability company established and operating in the PRC, at 31 December 2002 are as follows:

Company	**Registered and paid up capital**	**Percentage of interest directly held by the Company 2002**	**2001**	**Principal activities**
	RMB'000	*%*	*%*	
Ningxia Yinglite Zhongning Power Company Limited ("Zhongning")	11,200	20	—	Development of power plant

On 16 August 2002, the Company entered into an agreement with Ningxia Yinglite Power (Group) Corporation, Ningxia Power Development & Investment Company Limited and Ningxia Power Construction General Corporation to invest and establish Zhongning.

According to the agreement, the Company agreed to invest RMB91 million in Zhongning. At 31 December 2002, the Company had invested RMB2,240,000 in Zhongning.

Zhongning plans to develop and construct two 330 MW generating units. The total budgeted cost of this project amounts to RMB2.3 billion and the two generating units are expected to commence commercial operation in 2005 and 2006 respectively.

(Expressed in Renminbi)

21 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company 2002 RMB'000	2001 RMB'000
Unlisted interests, at cost	**233,301**	233,301

The particulars of jointly controlled entities, both of which are established in the form of contractual arrangements and operating in the PRC, at 31 December 2002 are as follows:

Company	Percentage of interest directly held by the Company 2002 %	2001 %	Principal activities
Weifang Power Plant Phase I ("Weifang Plant")	30	30	Generation and sale of electricity
Qingdao Power Plant Phase I ("Qingdao Plant")	55	55	Generation and sale of electricity and heat

The two power plants did not have a registered capital at 31 December 2002.

Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the jointly controlled entities:

	2002 RMB'000	2001 RMB'000
Non-current assets	**1,942,803**	1,947,466
Current assets	**229,870**	262,719
Non-current liabilities	**(974,150)**	(874,819)
Current liabilities	**(634,636)**	(851,092)
Net assets	**563,887**	484,274
Revenue	**993,421**	923,754
Expenses	**(870,414)**	(762,212)
	123,007	161,542

(Expressed in Renminbi)

22 INVESTMENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity securities, at cost	**133,039**	133,039	**130,339**	130,339

Investments of the Group and the Company mainly include investment in Shandong Luneng Heze Minerals Development Company Limited ("Heze Minerals") amounting to RMB91,339,000. The principal activities of Heze Minerals are the development and exploration of coalmine and coal-electricity base in Juye coalfield. The Group and Company own 18.4% equity interest in Heze Minerals as at 31 December 2002.

23 DEPOSITS AND PREPAYMENTS

The amount in 2001 represented the deposits and prepayments for the investments and acquisitions of interest in certain subsidiaries. The completion dates in respect of these investments and acquisitions were in January 2002.

24 INVENTORIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Coal	**117,351**	21,314	**87,035**	19,398
Fuel oil	**7,121**	4,781	**2,875**	2,232
Materials, components and spare parts	**143,901**	124,489	**107,499**	99,845
	268,373	150,584	**197,409**	121,475

All the materials, components and spare parts are stated net of a general provision for obsolescence.

(Expressed in Renminbi)

25 TRADE RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables due from SEPCO for the sale of electricity	**424,633**	429,760	**326,087**	372,323
Trade receivables due from third parties for the sale of heat	**48,075**	—	**—**	—
	472,708	429,760	**326,087**	372,323

Receivables from SEPCO are due within 30 days from the date of billing. Receivables from third parties are due within 90 days from the date of billing. The amount due from SEPCO was not yet due for payment as at 31 December 2002. The age of trade receivables in respect of the sale of heat is within six months.

26 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**747,493**	2,265,480	**501,032**	2,127,596
Deposits with banks and other financial institutions	**297,909**	245,544	**297,909**	245,544
	1,045,402	2,511,024	**798,941**	2,373,140

(Expressed in Renminbi)

27 LOANS

(a) Bank loans

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year				
- short term bank loans	**252,815**	1,181,675	**—**	710,000
- current portion of long term bank loans	**224,306**	355,278	**—**	160,000
	477,121	1,536,953	**—**	870,000
Between one and two years	**1,356,551**	185,950	**1,164,873**	60,000
Between two to five years	**4,161,954**	2,756,450	**3,548,720**	2,645,850
After five years	**1,838,090**	1,565,560	**1,812,000**	1,565,560
	7,356,595	4,507,960	**6,525,593**	4,271,410
	7,833,716	6,044,913	**6,525,593**	5,141,410

The Group's and the Company's bank loans represent:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Renminbi loans				
Floating interest rates mainly ranging from 5.04% to 6.34% per annum as at 31 December 2002 (2001: 5.58% to 6.83%), with maturities up to 2010	**7,140,052**	6,044,913	**5,863,409**	5,144,410
US dollars loans				
Floating interest rate mainly of 3.17% per annum as at 31 December 2002 with maturities up to 2017	**693,664**	—	**662,184**	—
	7,833,716	6,044,913	**6,525,593**	5,144,410

At 31 December 2002, the Group had bank loans totalling RMB312 million (2001: RMB489 million) guaranteed by SEPCO.

(Expressed in Renminbi)

27 LOANS *(Continued)*

(a) Bank loans *(Continued)*

Certain bank loans of a joint venture amounting to RMB16 million (the Group's proportionate share) are secured by mortgages over its certain machinery and equipment with an aggregate carrying value of RMB28 million (the Group's proportionate share) at 31 December 2002.

(b) Loans from shareholder

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year	**87,794**	262,207	**—**	180,470
Between one and two years	**—**	197,667	**—**	191,610
Between two to five years	**610,000**	402,920	**610,000**	402,920
	610,000	600,587	**610,000**	594,530
	697,794	862,794	**610,000**	775,000

The loans are borrowed from Shandong International Trust and Investment Corporation (“SITIC”) and are unsecured.

The loans are denominated in RMB and bear floating interest rate of 5.76% per annum (2001: 6.21%) with maturities up to 2006.

(Expressed in Renminbi)

27 LOANS *(Continued)*

(c) State loan

	The Group and the Company	
	2002	2001
	RMB'000	*RMB'000*
Due:		
Within one year	**14,594**	125,996
Between one and two years	**8,444**	130,126
Between two to five years	**29,543**	454,734
After five years	**59,076**	1,129,695
	97,063	1,714,555
	111,657	1,840,551

The State loan is denominated in US dollars and bears floating interest rate of 2.22% per annum (2001: 7.29%), with maturities up to 2012.

The loan is originated from a loan facility of US$310 million granted by the International Bank for Reconstruction and Development (the "World Bank") to the PRC state government pursuant to a loan agreement entered into in 1992, to finance the Zouxian Phase III project. According to the terms of the aforesaid loan agreement, the PRC state government on-lent the loan facility to the Shandong Provincial Government which in turn on-lent it to SEPCO. Pursuant to a notice from the Finance Office of Shandong Province dated 5 August 1997 and as formally agreed by the World Bank, part of the loan facility in the principal amount of US$278.25 million was made available by the Shandong Provincial Government to the Company. The repayment of this loan is guaranteed by SEPCO.

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

(Expressed in Renminbi)

27 LOANS *(Continued)*

(d) Other loans

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Due:		
Within one year	**10,534**	27,765
Between one and two years	**10,534**	454,282
Between two to five years	**639,798**	31,514
After five years	**26,198**	36,762
	676,530	522,558
	687,064	550,323

All of the other loans are denominated in RMB, except for an amount of RMB78,868,000 (2001: RMB94,546,000) which is denominated in US dollars. Details of the interest rates and maturity dates of other loans are as follows:

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Loans from Qingdao Guo Xin Enterprises Company Limited ("Qingdao Guo Xin"), a joint venture partner of Qingdao Plant Floating interest rate of 4.17% per annum (2001: 4.64%) with maturities up to 2010	**78,868**	94,546
Loans from Jinan Yingda International Trust Investment Company Floating interest rates ranging from 5.76 % to 6.21% per annum (2001: 5.91% to 9.12%) with maturities up to 2008	**608,196**	455,777
	687,064	550,323

At 31 December 2002, other loans totalling RMB443,777,000 (2001: RMB443,777,000) were secured by deposits placed with the lender by SEPCO.

(Expressed in Renminbi)

28 TRADE CREDITORS

Debts are generally due within 30 days from the date of billing. The amounts were not yet due for payment as of 31 December 2002.

29 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

The Group:

	Assets		Liabilities		Net	
	2002	2001	**2002**	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Pre-operating expenses	**17,477**	—	**—**	—	**17,477**	—
Provision for inventories and debtors	**20,201**	18,154	**—**	—	**20,201**	18,154
Depreciation of property, plant and equipment	**—**	—	**(134,863)**	(132,118)	**(134,863)**	(132,118)
Fair value adjustment on property, plant and equipment acquired	**—**	—	**(51,757)**	(58,424)	**(51,757)**	(58,424)
Others	**81**	3,305	**—**	—	**81**	3,305
	37,759	21,459	**(186,620)**	(190,542)	**(148,861)**	(169,083)
Set-off within legal tax units and jurisdictions	**(5,511)**	(21,459)	**5,511**	21,459	**—**	—
Net deferred tax liabilities	**32,248**	-	**(181,109)**	(169,083)	**(148,861)**	(169,083)

(Expressed in Renminbi)

29 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

The Company:

	Assets		Liabilities		Net	
	2002	2001	**2002**	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Pre-operating expenses	**3,093**	—	**—**	—	**3,093**	—
Provision for inventories and debtors	**14,771**	14,160	**—**	—	**14,771**	14,160
Depreciation of property, plant and equipment	**—**	—	**—**	(18,573)	**—**	(18,573)
Others	**—**	2,010	**—**	—	**—**	2,010
	17,864	16,170	**—**	(18,573)	**17,864**	(2,403)
Set-off within legal tax units and jurisdictions	**—**	(16,170)	**—**	16,170	**—**	—
Net deferred tax assets/ (liabilities)	**17,864**	—	**—**	(2,403)	**17,864**	(2,403)

There is no significant deferred tax asset or liability not recognised in the financial statements.

(Expressed in Renminbi)

29 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

Movements in temporary differences between calculations of certain items for accounting and for taxation purposes are as follows:

The Group:

	Balance at 1 January 2001 *RMB'000*	Recognised in the 2001 income statement *RMB'000*	Balance at 1 January 2002 *RMB'000*	Recognised in the 2002 income statement *RMB'000*	Balance at 31 December 2002 *RMB'000*
Training costs	1,227	(1,227)	—	—	—
Pre-operating expenses	758	(758)	—	17,477	17,477
Provision for inventories and debtors	10,030	8,124	18,154	2,047	20,201
Depreciation of property, plant and equipment	(108,976)	(23,142)	(132,118)	(2,745)	(134,863)
Fair value adjustment on property, plant and equipment acquired	(63,613)	5,189	(58,424)	6,667	(51,757)
Others	3,413	(108)	3,305	(3,224)	81
	(157,161)	(11,922)	(169,083)	20,222	(148,861)
				(note 12(a))	

The Company:

	Balance at 1 January 2001 *RMB'000*	Recognised in the 2001 income statement *RMB'000*	Balance at 1 January 2002 *RMB'000*	Recognised in the 2002 income statement *RMB'000*	Balance at 31 December 2002 *RMB'000*
Pre-operating expenses	—	—	—	3,093	3,093
Provision for inventories and debtors	10,030	4,130	14,160	611	14,771
Depreciation of property, plant and equipment	(19,396)	823	(18,573)	18,573	—
Others	2,010	—	2,010	(2,010)	—
	(7,356)	4,953	(2,403)	20,267	17,864

(Expressed in Renminbi)

30 SHARE CAPITAL AND RESERVES

(a) The Group

	Share capital RMB'000 (note 30(i))	Capital reserve RMB'000 (note 30(ii))	Statutory common reserve RMB'000 (note 30(iii))	Statutory common welfare fund RMB'000 (note 30(iv))	Retained profits RMB'000	Total Shareholders' equity RMB'000
Balance at 1 January 2001	5,256,084	778,040	398,576	160,883	1,834,871	8,428,454
Profit for the year	—	—	—	—	1,379,497	1,379,497
Transfer to statutory reserves	—	—	138,881	69,441	(208,322)	—
Dividends paid	—	—	—	—	(1,608,362)	(1,608,362)
Balance at 31 December 2001	5,256,084	778,040	537,457	230,324	1,397,684	8,199,589
Balance at 1 January 2002	5,256,084	778,040	537,457	230,324	1,397,684	8,199,589
Profit for the year	—	—	—	—	1,181,697	1,181,697
Transfer to statutory reserves	—	—	119,309	59,655	(178,964)	—
Dividends paid	—	—	—	—	(998,656)	(998,656)
Balance at 31 December 2002	5,256,084	778,040	656,766	289,979	1,401,761	8,382,630

(Expressed in Renminbi)

30 SHARE CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital RMB'000 (note 30(i))	Capital reserve RMB'000 (note 30(ii))	Statutory common reserve RMB'000 (note 30(iii))	Statutory common welfare fund RMB'000 (note 30(iv))	Retained profits RMB'000	Total Shareholders' equity RMB'000
Balance at 1 January 2001	5,256,084	778,040	398,576	160,883	1,773,332	8,366,915
Profit for the year	—	—	—	—	1,277,850	1,277,850
Transfer to statutory reserves	—	—	138,881	69,441	(208,322)	—
Dividends paid	—	—	—	—	(1,608,362)	(1,608,362)
Balance at 31 December 2001	5,256,084	778,040	537,457	230,324	1,234,498	8,036,403
Balance at 1 January 2002	5,256,084	778,040	537,457	230,324	1,234,498	8,036,403
Profit for the year	—	—	—	—	1,094,120	1,094,120
Transfer to statutory reserves	—	—	119,309	59,655	(178,964)	—
Dividends paid	—	—	—	—	(998,656)	(998,656)
Balance at 31 December 2002	5,256,084	778,040	656,766	289,979	1,150,998	8,131,867

(Expressed in Renminbi)

30 SHARE CAPITAL AND RESERVES *(Continued)*

Notes:

(i) The registered capital of the Company comprises 3,825,056,200 domestic shares of RMB1 each (2001: 3,825,056,200) and 1,431,028,000 H shares of Rmb1 each (2001: 1,431,028,000). All shares rank pari passu in all material respects.

(ii) This reserve represents mainly premium received from issuance of shares, less expenses, which are required to be included in this reserve by PRC regulations.

(iii) According to the Company's Articles of Association, the Company is required to transfer at least 10% (at the discretion of the Board of Directors) of its profit after taxation, as determined under PRC accounting rules and regulations, to a statutory common reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

The statutory common reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. The Directors resolved to transfer 10% (2001: 10%) of the profit for the year ended 31 December 2002 to this reserve on 15 April 2003.

(iv) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% (at the discretion of the Board of Directors) of its profit after taxation, as determined under PRC accounting rules and regulations, to the statutory common welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. This fund is non-distributable other than on the Company's liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders. The Directors resolved to transfer 5% (2001: 5%) of the profit for the year ended 31 December 2002 to the fund on 15 April 2003.

(v) The transfer to the statutory common reserve and statutory common welfare fund from the income statement is subject to approval by shareholders at the coming Annual General Meeting.

(vi) According to the Company's Articles of Association, the retained profits available for distribution are the lower of the amount determined under PRC accounting rules and regulations and the amount determined under IFRS. As of 31 December 2002, the retained profits available for distribution were RMB961,779,000 (2001: 340,964,000), after taking into account the current year's proposed final dividend (see note 13) and the transfer to the statutory common reserve and the statutory common welfare fund according to the Company's Articles of Association.

(vii) The profit attributable to shareholders for 2002 includes a profit of RMB1,094,120,000 (2001: RMB1,277,850,000) which has been dealt with in the financial statements of the Company.

(Expressed in Renminbi)

31 MATERIAL RELATED PARTY TRANSACTIONS

Most of the transactions undertaken by the Group (including its jointly controlled entities) during the year ended 31 December 2002 have been effected with such counterparties and on such terms as have been agreed with SEPCO or entities under its control.

A summary of the recurrent material related party transactions undertaken by the Group during the year is as follows:

	Note	**2002** **RMB'000**	2001 RMB'000
Sale of electricity	i	**7,688,975**	7,142,341
Interconnection and despatch management fees	ii	**79,788**	76,185
Repairs and maintenance services	iii	**216,372**	240,681
Purchase of coal, including handling fees	iv	**—**	2,102,879
Coal field management fee	v	**—**	90,408
Design fee, construction costs and equipment cost paid and payable	vi	**554,000**	313,395

The balances due to/(from) related parties, other than balances with SEPCO which have been separately disclosed in note 25, as at 31 December 2002 are as follows:

	Note	**2002** **RMB'000**	2001 RMB'000
Shandong Luneng Hengyuan Trading (Group) Company Limited (formerly known as Shandong Luneng Fuel (Group) Company Limited)	iii & iv	**—**	171,117
Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited	v	**(6,699)**	(15,079)
Shandong Electric Power No. 1 Construction Engineering Company, Shandong Electric Power No. 2 Construction Engineering Company and Shandong Electric Power No. 3 Construction Engineering Company	vi	**70,104**	57,530

(Expressed in Renminbi)

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(i) All sales of electricity were made to SEPCO.

The principal businesses of SEPCO Group are the investment in, and the design, development, construction, operation and maintenance of electric power plants and the Shandong provincial electric power transmission and distribution grid (the "Grid"). SEPCO, as the sole manager and operator of the Grid, is the sole purchaser from power plants connected to the Grid of all electric power transmitted and distributed on the Grid.

As noted in Note 4 on the financial statements, an Offtake Contract was entered into between SEPCO and the Company dated 12 January 1999 in respect of the sales of electricity.

(ii) As SEPCO is the sole manager and operator of the Grid, the power plants in Shandong Province are subject to the unified despatch of SEPCO. Under the Despatch Agreement between SEPCO and the Company dated 31 December 1997, SEPCO and the Company are required to use their respective best efforts to procure that such arrangements apply to the power plants which are or will be indirectly or partially owned by the Company, and/or the entities directly owning such plants. The Company has agreed to pay SEPCO an interconnection fee and a despatch management fee. The interconnection fee is charged at RMB2 per MWh of electricity supplied. The despatch management fee is charged at RMB1 per MWh of electricity generated, except for Shiliquan Power Plant which is charged at RMB1 per MWh of electricity supplied.

(iii) Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited, which is controlled by SEPCO, is responsible for the repair and maintenance works, including major overhauls, of the Group. The amount payable is determined on a cost reimbursement basis.

(iv) Shandong Luneng Hengyuan Trading (Group) Company Limited (the "Fuel Supply Company"), a company previously controlled by SEPCO, supplies coal to the Group for power generation. The cost of coal is charged based on the actual purchase price plus a handling fee of 5% of the actual purchase price.

After completion of a reorganisation of the Fuel Supply Company in December 2001, the Fuel Supply Company is no longer a related party of the Group in accordance with International Accounting Standards.

(v) The Fuel Supply Company is also responsible for the daily management of the Group's coal fields. The management fee payable is determined annually in advance with the aim of reimbursing the costs incurred by the Fuel Supply Company in carrying out its duties.

(Expressed in Renminbi)

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(vi) Shandong Electric Power No. 1 Construction Engineering Company, a subsidiary of SEPCO, is responsible for the construction of ancillary facilities of Zouxian Power Plant and Shiliquan Power Plant.

The majority of the work on the construction of generating units of the Group, was carried out by Shandong Electric Power No. 1 Construction Engineering Company, Shandong Electric Power No. 2 Construction Engineering Company and Shandong Electric Power No. 3 Construction Engineering Company, all of which are controlled by SEPCO.

The majority of the exploration and design services for the construction of generating units of the Group, was provided by Shandong Electric Power Engineering Consultancy Council, a company controlled by SEPCO.

Details are as follows:

Project	**Contracted design and construction cost** *RMB'000*	**Accumulated design and construction costs paid and payable as at 31 December 2002** *RMB'000*
The third and the fourth generating units in Laicheng	592,510	511,915
The third and the fourth generating units in Zibo	210,000	114,330
The first and the second generating units in Zhangqiu	55,580	56,287
The first and the second generating units in Tengzhou	203,370	136,027

(vii) Details of the loans secured or guaranteed by SEPCO are set out in note 27(a) to (d).

(Expressed in Renminbi)

32 RETIREMENT PLANS

The Group is required to make contributions to a retirement plan operated by the State at a rate of 20% (2001: 20%) of the total staff salaries. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, the Group established a defined contribution retirement plan, also operated by the State, to supplement the above-mentioned plan. The Group has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

The Group's contribution to these plans amounted to RMB63,751,000 during the year (2001: RMB41,135,000) which was charged to the consolidated income statement.

33 ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired certain subsidiaries. The fair value of assets acquired and liabilities assumed were as follows:

	RMB'000
Property, plant and equipment	709,671
Construction in progress	107,978
Lease prepayments	40,983
Inventories	14,986
Trade debtors	33,258
Deposits, other debtors and prepayments	171,282
Cash and cash equivalents	416,733
Trade creditors	(30,559)
Other creditors and accruals	(280,069)
Loans	(691,781)
Minority interests	(165,167)
Net identifiable assets and liabilities acquired	327,315
Goodwill on acquisition	6,506
Total consideration paid	333,821
Less: Cash and cash equivalents acquired	416,733
Deposits and prepayments paid in 2001	213,820
Net cash inflow during the year	296,732

(Expressed in Renminbi)

34 COMMITMENTS

(i) Capital commitments

The Group (excluding jointly controlled entities) and the Company had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for				
- Development of power plants	**1,105,868**	982,183	**500,840**	982,183
- Investments	**88,720**	—	**88,720**	—
- Improvement projects	**71,823**	22,498	**68,710**	22,498
Authorised but not contracted for				
- Development of power plants	**742,215**	480,638	**326,313**	480,638
- Investments	**—**	120,000	**—**	208,000
- Improvement projects	**93,385**	135,670	**93,075**	135,670
	2,102,011	1,740,989	**1,077,658**	1,828,989

In addition to the above, the Group's proportionate share of the jointly controlled entities' capital expenditure commitments amounted to RMB225,389,000 at 31 December 2002 (2001: RMB239,204,000).

(ii) Operating lease commitments

Pursuant to an agreement entered into with the State, the Company is leasing certain land from the State for a term of 30 years with effect from 1 September 1997. The current annual rental effective from 1 January 2001 to 31 December 2005 is RMB30,178,000. The annual rental will be adjusted every five years thereafter with an upward adjustment of not more than 30% of the previous year's rental.

35 CONTINGENT LIABILITIES

At 31 December 2002, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to RMB390,000,000 (2001: Nil).

(Expressed in Renminbi)

36 FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

Financial assets of the Group include cash and cash equivalents, fixed deposits maturing over three months, deposits and other debtors, trade debtors and investments. Financial liabilities of the Group include bank loans, loans from shareholder, state loan, other loans, trade creditors and other creditors and accruals. Accounting policies for financial assets and liabilities are set out in note 2(j). The Group does not hold or issue financial instruments for trading purposes.

(a) Interest rate risks

The interest rates and terms of repayment of the outstanding loans of the Group are disclosed in note 27.

(b) Credit risks

Substantially all of the Group's cash and cash equivalents and fixed deposits maturing over three months are deposited with the four largest state-owned banks of the PRC.

SEPCO is the sole purchaser of electricity supplied by the Group.

No other financial assets carry a significant exposure to credit risk.

(c) Foreign currency risk

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated in US dollars. Depreciation or appreciation of US dollars against the Renminbi will affect the Group's financial position and results of operations.

(d) Fair value

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarise the major methods and assumptions used in estimating the fair values of the Group's financial instruments.

(Expressed in Renminbi)

36 FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS *(Continued)*

(d) Fair value *(Continued)*

The carrying values of the Group's current financial assets and liabilities are estimated to approximate to their fair values based on the nature or short-term maturity of these instruments.

Investments are unlisted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The carrying value of the Group's non-current financial liabilities are estimated to approximate their fair values based on a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

37 COMPARATIVE FIGURES

The following comparative figures have been reclassified in order to conform with the presentation in the current financial statements:

(i) land use rights have been reclassified from intangible assets to lease prepayments;

(ii) certain staff costs have been reclassified from selling and administration expenses to personnel costs; and

(iii) interest income has been reclassified from other income to net finance costs.

38 ULTIMATE HOLDING COMPANY

As at 15 April 2003, the Directors of the Company consider its ultimate holding company to be China Huadian Group Corporation ("Huadian"), which is a state-owned enterprise in the PRC.

On 1 April 2003, the entire shareholding interest in the issued shares of the Company held by SEPCO was transferred to Huadian.