



Notes on the unaudited interim financial report

(Expressed in Renminbi)

(1) Basis of preparation

This interim financial report set out on pages 11 to 23 is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants. KPMG’s independent review report to the Board of Directors is included on page 24.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the company’s annual financial statements prepared under International Financial Reporting Standards (“IFRS”) for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2002 are available at the company’s legal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2002 annual financial statements.

(2) Turnover

Turnover represents the sale of electricity and heat, net of value added tax, as follows:

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Sale of electricity	4,020,492	3,732,352
Sale of heat	75,185	61,727
	<u>4,095,677</u>	<u>3,794,079</u>



(3) Other income

The company early repaid part of the state loan amounting to US\$208,508,000 (RMB1,725,882,000 equivalent) in January 2002. Based on the loan repayment notice issued by the state government of the People's Republic of China ("PRC"), the actual amount payable for the settlement of this loan principal was US\$194,308,000 (RMB1,609,845,000 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 six months end 30 June 2002.

(4) Net finance costs

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Interest on bank and other loans	258,446	280,743
Less: interest capitalised	<u>(15,690)</u>	<u>(22,467)</u>
Net interest expenses	242,756	258,276
Less: interest income	<u>(7,080)</u>	<u>(6,323)</u>
Net finance costs	<u><u>235,676</u></u>	<u><u>251,953</u></u>

The interest costs have been capitalised at a rate of 5.64% per annum (six months ended 30 June 2002: 5.95% per annum) for construction in progress.

(5) Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Cost of inventories consumed	1,519,459	1,388,998
Amortisation of intangible assets and lease prepayments	10,075	10,266
Depreciation	<u><u>608,597</u></u>	<u><u>559,033</u></u>

**(6) Taxation**

	Six months ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Charge for PRC enterprise income tax	330,611	318,943
Deferred tax expense	9,583	6,394
	<u>340,194</u>	<u>325,337</u>

The charge for PRC enterprise income tax is calculated at the rate of 33% (six months ended 30 June 2002: 33%) on the estimated assessable profit of the group for the six months ended 30 June 2003.

(7) Dividends

- (a) Dividends declared during the six months ended 30 June 2002 and 2003 are as follows:

	Six months ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend declared of RMB0.036 per share for the year ended 31 December 2002 (Year ended 31 December 2001: RMB0.17)	<u>189,219</u>	<u>893,534</u>

On 20 August 2003, the Board of Directors declared an interim dividend of RMB0.02 per share for the six months ended 30 June 2003, totalling RMB105,122,000 (six months ended 30 June 2002: RMB0.02, totalling RMB105,122,000). The total amount of the dividend payable of RMB105,122,000 is based on the total number of shares in issue of 5,256,084,200 as at 19 August 2003 being the latest practicable date prior to the board meeting. This dividend has not been recognised as a liability at 30 June 2003.



(7) Dividends (Continued)

- (b) Dividends paid during the six months ended 30 June 2002 and 2003 are as follows:

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Final dividend of RMB0.17 per share for the year ended 31 December 2001	—	893,534

(8) Earnings per share

- (i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the company for the six months ended 30 June 2003 of RMB670,576,000 (six months ended 30 June 2002: RMB 655,497,000) and the number of shares in issue during the six months ended 30 June 2003 of 5,256,084,200 (six months ended 30 June 2002: 5,256,084,200).

- (ii) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2002 and 2003.

(9) Construction in progress

	At 30 June 2003	At 31 December 2002
	RMB'000	RMB'000
Development of power plants	879,848	1,153,689
Improvement projects	228,846	209,968
	<u>1,108,694</u>	<u>1,363,657</u>



(9) Construction in progress (Continued)

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

	Installed capacity	Budgeted construction cost <i>RMB' million</i>	Anticipated year of completion
The second generating unit at Tengzhou Company	135MW	482	2003
The third and fourth generating units at Zibo Company	2 x 135MW	906	2003

(10) Interest in associates

At 30 June 2003, the group had the following associates, both of which are unlisted and incorporated in the PRC:

Name of associates	Registered capital <i>RMB'000</i>	Paid up capital <i>RMB'000</i>	Percentage of interest directly held by the company	Principal activities
Ningxia Yinglite Zhongning Power Company Limited ("Zhongning") (note i)	11,200	11,200	20%	Development of power plants
Ningxia Power Generation Company (Group) Limited ("Ningxia") (note ii)	900,000	270,000	31.11%	Development of power plants

Note:

- (i) In July 2003, the company acquired an additional 30% equity interest in Zhongning from the other independent investors for a total consideration of RMB5.36 million. After the acquisition, the company holds a 50% equity interest in Zhongning and has committed to further inject RMB222 million of capital in Zhongning.

Zhongning plans to develop and construct two 300MW 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.

- (ii) In June 2003, the company entered into an agreement with four independent investors to form Ningxia for the development and investment in power projects in Ningxia Autonomous Region. As at 30 June 2003, Ningxia has not commenced operation.

The company has injected capital of RMB84 million and committed to further inject RMB196 million of capital in Ningxia as at 30 June 2003.



(11) Trade receivables

	At 30 June 2003	At 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables due from Shandong Electric Power (Group) Corporation (“SEPCO”) for the sale of electricity	688,769	424,633
Trade receivables due from third parties for sale of heat	62,212	48,075
	<u>750,981</u>	<u>472,708</u>

Receivables from SEPCO are due within 30 days from the date of billing. Receivables for sale of heat are due within 90 days from the date of billing. The amount due from SEPCO was not yet due for payment as at 30 June 2003. The age of receivables for sale of heat is within six months.

(12) Cash and cash equivalents

	At 30 June 2003	At 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and in hand	964,129	747,493
Time deposits with banks maturing within three months	314,561	297,909
	<u>1,278,690</u>	<u>1,045,402</u>

(13) Trade payables

Trade payables are generally due within 30 days from the date of billing. The amounts were not yet due for payment as at 30 June 2003.

**(14) Share capital and reserves**

	Share capital	Capital reserve	Statutory common reserve	Statutory common welfare fund	Retained profits	Total shareholders' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January						
2003	5,256,084	778,040	656,766	289,979	1,401,761	8,382,630
Profit for the period	-	-	-	-	670,576	670,576
Dividends declared (Note 7)	-	-	-	-	(189,219)	(189,219)
Balance at 30 June 2003	<u>5,256,084</u>	<u>778,040</u>	<u>656,766</u>	<u>289,979</u>	<u>1,883,118</u>	<u>8,863,987</u>

(15) Material related party transactions

- (i) Following the recent reform of the power sector in the PRC, the company's controlling ownership was transferred from SEPCO to China Huadian Group Corporation ("China Huadian") on 1 April 2003, and SEPCO ceased to be the holding company of the company on that date.
- (ii) The group had the following material transactions with SEPCO, and entities controlled by SEPCO during the six months ended 30 June 2002 and 2003:

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
	<i>(note)</i>	
Sale of electricity	1,885,413	3,732,352
Interconnection and despatch management fees	19,140	38,422
Repairs and maintenance services	48,473	113,237
Construction costs and equipment costs paid and payable	<u>58,560</u>	<u>257,284</u>

Note: These represent the group's transactions with SEPCO, and entities controlled by SEPCO, for the three months ended 31 March 2003.



(15) Material related party transactions (Continued)

(iii) The balances due to/ (from) related parties are as follows:

	Nature of transactions	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
SEPCO	Sale of electricity	—	(424,633)
Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited	Repairs and maintenance services	—	(6,699)
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 Construction	Construction costs and equipment costs	—	70,104
		<u> </u>	<u> </u>

(iv) The company entered into an acquisition agreement on 9 May 2003 with China Huadian, the company's holding company, to acquire 80% equity interest in Sichuan Guangan Power Generation Company Limited ("Guangan") from China Huadian, for a consideration of RMB475.5 million, which is to be adjusted by 80% of the difference between the audited net asset value of Guangan as at 31 December 2002 and that as at the date of completion, both to be determined in accordance with the PRC Accounting Standards and Regulations. The anticipated completion date of this acquisition is 31 December 2003.

The principal activities of Guangan are the generation and sale of electricity in Sichuan Province, the PRC.

(16) Capital commitments

(i) Capital commitments

The group (excluding jointly controlled entities) had capital commitments outstanding as at 30 June 2003 and 31 December 2002 not provided for in the financial statements as follows:

**(16) Capital commitments (Continued)**

	At 30 June 2003	At 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for		
Development of power plants	940,357	1,105,868
Investments	760,220	88,720
Improvement projects	135,898	71,823
	<u>1,836,475</u>	<u>1,266,411</u>
Authorised but not contracted for		
Development of power plants	819,786	742,215
Investments	136,440	—
Improvement projects	204,826	93,385
	<u>1,161,052</u>	<u>835,600</u>
	<u><u>2,997,527</u></u>	<u><u>2,102,011</u></u>

- (ii) The group's share of the jointly controlled entities' capital expenditure commitments amounted to RMB247,837,000 at 30 June 2003 (At 31 December 2002 : RMB225,389,000).

(17) Contingent liabilities

The group and the jointly controlled entities did not have any material contingent liabilities as at 30 June 2003 and 31 December 2002.

(18) 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.

(19) Comparative figures

Certain staff costs have been reclassified from selling and administration expenses to personnel costs in the unaudited consolidated income statement for the six months ended 30 June 2002 in order to conform with the current presentation.