(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 was registered as a Sino-foreign joint venture on 13 May 1998. The Company and its subsidiaries currently own and operate seven coal-fired power plants and one hydropower plant. As at 31 December 2003, the Company and its subsidiaries had 7,632 employees (2002 – 7,332 employees).

The principal activity of the Company and its subsidiaries is power generation in the PRC. Substantially all of the business of the Company and its subsidiaries are conducted within one industry segment. As at 31 December 2003, 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:			
Douhe Power Plant	1,550	1,550	Hebei
Gaojing 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 ("Datang Panshan")	1,200	900	Tianjin
Hebei Huaze Hydropower Development Company Limited ("Datang Fengning Hydropower")	20	18	Hebei
Inner Mongolia Datang Tuoketuo Power Generation Company Limited ("Datang Tuoketuo")	1,200	720	Inner Mongolia
Shanxi Datang Yungang Thermal Power Company Limited ("Datang Yungang")	440	352	Shanxi
	7,810	6,940	

1. ORGANISATION AND OPERATIONS (CONT'D)

As at 31 December 2003, 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					
Datang Tuoketuo	17 November 1995	1,414,020	1,414,020	60%	Power generation
Datang Panshan	6 August 1997	1,050,791	831,253 (Note a)	75%	Power generation
Datang Fengning Hydropower	29 July 1998	59,161	59,161	90%	Hydropower generation
Shanxi Datang Shentou Power Generation Company Limited ("Datang Shentou")	8 December 1998	261,200	261,200	60%	Power generation (under construction)
Datang Yungang	14 July 2000	207,000	207,000	80%	Power generation
Yunnan Datang Honghe Power Generation Company Limited ("Datang Honghe")	27 April 2001	10,000	10,000	70%	Power generation (under construction)
Gansu Datang Liancheng Power Generation Company Limited ("Datang Liancheng ")	18 August 2001	10,000	10,000	55%	Power generation (under construction)
Hebei Datang Tangshan Thermal Power Company Limited ("Datang Tangshan")	21 February 2002	215,000	215,000	80%	Power generation (under construction)
Yunnan Datang Nalan Hydropower Development Company Limited ("Datang Nalan")	30 October 2002	25,000	25,000	51%	Hydropower 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		
Subsidiaries					
Yunnan Datang Lixianjiang Hydropower Development Company Limited ("Datang Lixianjiang")	8 November 2002	10,000	10,000	70%	Hydropower generation (under construction)
Shanxi Datang Yuncheng Power Generation Company Limited ("Datang Yuncheng")	28 March 2003	10,000	8,000	51%	Power generation (pre-construction)
Jiangsu Datang Lvsigang Power Generation Company Limited ("Datang Lvsigang")	18 September 2003	50,000	50,000	90%	Power generation (pre-construction)
Guangdong Datang Chaozhou Power Generation Company Limited ("Datang Chaozhou")	15 November 2003	30,000	30,000	75%	Power generation (pre-construction)
Fujian Datang Ningde Power Generation Company Limited ("Datang Ningde")	2 December 2003	50,000	50,000	55%	Power 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
Wenshan Malutang Power Generation Company Limited ("Wenshan Malutang")	19 September 2001	91,300	91,300	20%	Hydropower 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		
Associates					
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	172,800	172,800	49%	Provision of heat transfer service
Shanxi Datang Niangziguan Power Generation Company Limited ("Datang Niangziguan") (Note b)	9 January 2003	2,000	2,000	54%	Power generation (pre-construction)
Chongqing Datang Pengshui Hydropower Development Company Limited	28 August 2003	50,000	50,000	40%	Hydropower generation (pre-construction)
Ningxia Datang Daba Power Generation Company Limited ("Datang Daba")	31 October 2003	20,000	20,000	45%	Power generation (pre-construction)

Note (a) In accordance with the resolution of shareholders' meeting dated 18 November 2003, the capital of Datang Panshan was reduced to Rmb831,253,000 in 2003. As at 31 December 2003, the legal procedure for revising the registered capital was in progress.

Note (b) Though the Company holds majority equity interest of Datang Niangziguan, the Company has not obtained power to govern its financial and operating decision. Therefore, the Company classifies it as associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the balance sheet of the Company and the consolidated financial statements of the Company and its subsidiaries are set out below:

(a) Basis of preparation

The accompanying financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, 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.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method.

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

(b) Principles of consolidation (cont'd)

(ii) Associates

Associates are entities over which the Company generally has between 20% and 50% of the voting rights, and over which the Company has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statements 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. 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.

In the Company's financial statements, investments in associates are accounted for using the equity method.

(c) Foreign currency translation

(i) Measurement currency

Items included in each of the financial statements of 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 measurement currency of the Company and its subsidiaries is Rmb.

(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 statements.

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.

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

(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. Revaluations of property, plant and equipment are to be performed periodically, normally by professionally qualified valuers.

Additions subsequent to the formation of the Company are recorded at cost. 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 cost or original appraised value less accumulated depreciation and accumulated impairment loss.

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
Electricity utility plant in service:	
Coal-fired electricity utility plant	12-30 years
Hydro electricity utility plant	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 properties, plant and equipment 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.

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

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

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 2003 is not materially different from fair value.

(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. 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 2003, 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 expressed 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 statements as gains and losses from investment securities.

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

(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.

(g) Operating lease

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

(h) 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.

(i) 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 selling expenses.

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

(j) 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.

(k) Cash and cash equivalents

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

(l) 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.

When a convertible bond is issued, the fair value of the liability portion is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as non-current liability on the amortised cost basis until extinguishment on conversion or maturity of the bond. The remainder of the proceeds are allocated to the equity conversion option, which is recognised and included in shareholders' equity. The value of the equity conversion option is not changed in subsequent periods.

(m) Deferred income taxes

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 difference will not reverse in the foreseeable future.

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

(n) 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 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.

(o) 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.

(p) 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

Substantially all operating revenue represents amount of tariffs billed for electricity generated and transmitted to the respective regional or provincial power companies. Operating revenue is billed and recognised upon transmission of electricity and heat to the customers.

(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.

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

(q) Retirement and staff housing benefits

(i) Pension obligations

The Company and its subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the municipalities and 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.

(ii) 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 as 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. Such costs are charged to the income statement as incurred.

(r) 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.

(s) Minority interests

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

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

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

(s) Minority interests (cont'd)

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 at 31 December 2003, 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.

(t) Financial instruments

(i) 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 issue, in which case the instrument is classified as equity.

(ii) 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 forecast 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.

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

(t) Financial instruments (cont'd)

(ii) Derivative financial instruments (cont'd)

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 is 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.

(u) 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.

(v) 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.

(w) 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 activities of Company and its subsidiaries expose them to a variety of financial risks including changes in debt and equity market prices, interest rates and foreign exchange rates.

(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 Notes 16 and 17.

(ii) Foreign currency risk

The businesses of the Company and its subsidiaries are principally conducted in Rmb, except that purchases and financing of certain electricity 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 2003, all of the Company and its subsidiaries' assets and liabilities were denominated in Rmb except for cash and bank deposits of approximately Rmb2,035 million (2002 – Rmb2,089 million), long-term loans of approximately Rmb2,776 million (2002 – Rmb2,212 million) and convertible bond of approximately Rmb1,032 million (2002 – Nil) which were denominated in foreign currencies, principally in USD and Hong Kong dollars. Fluctuation of exchange rate of Rmb against foreign currencies could affect the Company and its subsidiaries' results of operation.

(iii) Credit risk

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

Substantially all of the Company and its subsidiaries' sales for the year were made to North China Grid Company Limited ("NCG", previously known as North China Power Group Company) and its subsidiary (see Note 21). In addition, the ten largest suppliers accounted for approximately 73% (2002 – 64%) of the coal purchases of the Company and its subsidiaries for the year ended 31 December 2003.

As at 31 December 2003 approximately Rmb3,273,493,000 (2002 – Rmb49,090,000) and Rmb2,153,704,000 (2002 – Rmb4,177,250,000) of the Company and its subsidiaries' cash and bank deposits were deposited with NCPG Finance Company Ltd. ("NCPG Finance"), a non-bank financial institution (Note 25(d)), and the four largest state-owned banks of the PRC, respectively.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Financial risk factors (cont'd)

(iii) Credit risk (cont'd)

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 29(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, accounts receivable, accounts payable and short-term loans approximate 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).

The fair values of long-term loans, including current portions, of approximately Rmb11,133 million (2002 – Rmb8,648 million) as at 31 December 2003, have been estimated by applying a discounted cash flow approach using interest rates available for comparable instruments. As at the same date, the book value of these liabilities was approximately Rmb11,136 million (2002 – Rmb8,666 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 judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. PROPERTY, PLANT AND EQUIPMENT

	Company and its subsidiaries				
	Buildings	Electricity utility plants in service	Transportation facilities, computers and others	Construction-in–progress	Total
	'000	'000	'000	'000	'000
Cost or valuation (Note a)					
Beginning of year	1,876,165	17,866,581	503,964	6,698,256	26,944,966
Addition	22,319	39,400	55,514	8,563,558	8,680,791
Disposals	(1,792)	(126,706)	(12,538)	–	(141,036)
Transfer in/(out)	58,152	6,793,443	35,355	(6,886,950)	–
Reclassification	(46,190)	46,190	–	–	–
End of year	1,908,654	24,618,908	582,295	8,374,864	35,484,721
Accumulated depreciation					
Beginning of year	191,694	5,695,611	201,009	–	6,088,314
Charge for the year	16,635	1,583,686	53,386	–	1,653,707
Written back on disposals	(219)	(93,762)	(10,024)	–	(104,005)
Reclassification	(3,374)	3,374	–	–	–
End of year	204,736	7,188,909	244,371	–	7,638,016
Net book value					
End of year	1,703,918	17,429,999	337,924	8,374,864	27,846,705
Beginning of year	1,684,471	12,170,970	302,955	6,698,256	20,856,652

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

	Company				
	Buildings	**Electricity utility plants in service**	**Transportation facilities, computers and others**	**Construction-in–progress**	**Total**
	'000	'000	'000	'000	'000
Cost or valuation (Note a)					
Beginning of year	1,196,056	14,264,470	372,045	305,800	16,138,371
Addition	–	996	19,705	1,456,346	1,477,047
Disposals	(1,792)	(126,706)	(12,386)	–	(140,884)
Transfer in/(out)	44,220	427,114	16,930	(488,264)	–
End of year	1,238,484	14,565,874	396,294	1,273,882	17,474,534
Accumulated depreciation					
Beginning of year	185,958	5,437,516	190,191	–	5,813,665
Charge for the year	14,696	1,090,950	38,445	–	1,144,091
Written back on disposals	(219)	(93,762)	(9,877)	–	(103,858)
End of year	200,435	6,434,704	218,759	–	6,853,898
Net book value					
End of year	1,038,049	8,131,170	177,535	1,273,882	10,620,636
Beginning of year	1,010,098	8,826,954	181,854	305,800	10,324,706

(Note a) Property, plant and equipment of approximately Rmb5,444 million (2002 – Rmb5,585 million) represents fixed assets of the original four power plants during the formation of the Company, which are recorded at appraised value as the date of formation of the Company conducted by an independent valuer.

For the year ended 31 December 2003, the interest rates on the loans for which interest has been capitalised varies from 1.30% to 5.76% (2002 – 2.88% to 6.21%) per annum.

A valuation of the Company's property, plant and equipment was carried out during 1997 by independent valuers. The revaluation was done based on depreciated replacement costs.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	'000	'000
Beginning of year	**2,184,460**	1,327,554
Addition	**550,499**	958,073
Share of results after tax	**151,575**	(99,135)
Reduction	**(172,072)**	–
Dividends	**(175,089)**	(2,032)
End of year	**2,539,373**	2,184,460

The reduction in 2003 represented the reduction of Company's investment in Datang Panshan (Note 1(a)).

Details of the Company's subsidiaries are set out in Note 1.

6. INVESTMENTS IN ASSOCIATES

	Company and its subsidiaries	
	2003	2002
	'000	'000
Beginning of year	**142,351**	33,913
Additions	**77,422**	102,939
Share of results after tax	**16,979**	5,499
Reduction	**(12,317)**	–
End of year	**224,435**	142,351

The additions in 2003 mainly represented the Company's investments in various power plant projects in several different provinces of PRC.

The reduction in 2003 mainly represented the reduction of the Company's equity investment in Wenshan Malutang from 23% to 20%.

As at 31 December 2003, the Company's subsidiaries had no investments in associates.

Details of the Company's associates are set out in Note 1.

7. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments of the Company and its subsidiaries mainly comprised a 16% equity investment (unlisted) in NCPG Finance and a 10% equity investment (unlisted) in China Continent Property & Casualty Insurance Company Ltd. ("CCPC"). NCPG Finance is a non-bank financial institution providing financing services. CCPC is a financial institution providing property insurance services.

These investments do not have a quoted market price in an active market. The principal activity of NCPG Finance is to provide financial services exclusively to its shareholders and their affiliates. CCPC was only incorporated at the end of 2003 with minimal activities as at 31 December 2003. 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 no disposals or provisions for impairment on available-for-sale investments for the year ended 31 December 2003.

8. 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.

Under the scheme, the Company and its subsidiaries provide housing 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.

	Company and its subsidiaries	
	2003	2002
	'000	'000
Cost		
Beginning and end of year	**342,837**	342,837
Accumulated amortisation		
Beginning of year	**(118,758)**	(81,542)
Charge for the year	**(37,347)**	(37,216)
End of year	**(156,105)**	(118,758)
Net book value		
End of year	**186,732**	224,079
Beginning of year	**224,079**	261,295

As at 31 December 2003, there was no deferred housing benefit in subsidiaries' accounts.

9. GOODWILL

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

	Company and its subsidiaries	
	2003	2002
	'000	'000
Cost		
Beginning and end of year	57,363	57,363
Accumulated amortisation		
Beginning of year	(12,618)	(7,026)
Charge for the year	(5,592)	(5,592)
End of year	(18,210)	(12,618)
Net book value		
End of year	39,153	44,745
Beginning of year	44,745	50,337

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

As at 31 December 2003, there was no goodwill in the subsidiaries' accounts.

10. INVENTORIES

	Company and its subsidiaries		Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Fuel	82,432	108,985	42,778	90,165
Spare parts and consumable supplies	260,402	193,123	180,482	165,548
	342,834	302,108	223,260	255,713

As at 31 December 2003, all inventories were carried at cost.

11. ACCOUNTS RECEIVABLE

Accounts receivable of the Company and its subsidiaries mainly represents the receivable from the respective regional or provincial power companies 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 agreements. As at 31 December 2003, all tariff revenues receivable from the respective power companies were due within three months.

12. 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 USD 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 0.90% to 1.11% per annum (2002 – 1.98% to 2.24% per annum), and these deposits have an average maturity of 142 days (2002 – 82 days).

13. CASH AND CASH EQUIVALENTS

	Company and its subsidiaries		Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Deposits with NCPG Finance	**3,273,493**	49,090	**3,247,989**	49,090
Bank deposits	**881,630**	2,300,640	**781,963**	2,250,269
Cash in hand	**361**	274	**150**	240
	4,155,484	2,350,004	**4,030,102**	2,299,599

The effective interest rates on the above deposits were ranging from 0.90% to 1.76% per annum (2002 – 1.43% to 1.71% per annum) and these deposits have an average maturity of 34 days (2002 – 25 days).

14. SHARE CAPITAL

As at 31 December 2003, 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 2003 and 2002 was as follows:

	Number of shares	Share capital	Share interest percentage
	'000	Rmb '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 upon the Company's incorporation.

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.

15. RESERVES

(a) Capital reserve

Capital reserve comprises the revaluation surplus, the difference between the nominal amount of the domestic shares issued and the fair value of the net assets injected into the Company during its formation and also 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.

(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.

15. RESERVES (CONT'D)

(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 PRC Accounting System for Business Enterprises, 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 2003, approximately Rmb56,466,000 (2002 – Rmb49,103,000) of the statutory public welfare fund was transferred out to discretionary surplus reserve accordingly.

(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.

On 17 March 2004, the Board of Directors proposed an appropriation of profit of approximately Rmb509,077,000 to the discretionary surplus reserve for the year ended 31 December 2003 (2002 – Nil). The proposed profit appropriation is subject to the shareholders' approval in their 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.

(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 8 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 2003, approximately Rmb32,360,000 (2002 – Rmb32,360,000) had been transferred out from this restricted reserve.

15. RESERVES (CONT'D)

(f) Other reserve

Other reserve comprised of the value of equity conversion component of convertible bond issued on 9 September 2003 (Note 18), net of deferred income tax. The value of equity component is determined on the issue of bond and is not changed in subsequent periods.

(g) 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 2003, the amount of retained earnings as determined under IFRS was less than that determined under PRC GAAP by approximately Rmb142 million (2002 – Rmb120million).

The profit attributable to shareholders for the year ended 31 December 2003 includes a profit of approximately Rmb1,782,427,000 (2002 – Rmb1,406,801,000) that has been dealt with in the accounts of the Company.

16. LONG-TERM LOANS

Long-term loans include the long-term bank loans and other long-term loans as follows:

	Company and its subsidiaries		Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Long-term bank loans (a)	9,424,317	6,892,252	1,874,000	2,304,000
Other long-term loans (b)	1,711,379	1,773,790	–	–
	11,135,696	8,666,042	1,874,000	2,304,000
Less: Amounts due within one year included under current liabilities	(829,209)	(540,953)	(249,000)	(182,000)
	10,306,487	8,125,089	1,625,000	2,122,000

16. LONG-TERM LOANS (CONT'D)

(a) Long-term bank loans

As at 31 December 2003, approximately Rmb1,065 million (2002 – Rmb438 million) and Rmb8,359 million (2002 – Rmb6,454 million) of the long-term bank loans were denominated in USD and Rmb, respectively. All the long-term bank loans were unsecured and bear interest at rates ranging from 2.19% to 5.76% (2002 – 2.88% to 6.21%) per annum. Approximately Rmb1,825 million (2002 – Rmb2,195 million) of the Company's bank loans were guaranteed by NCG (Note 25(e)). Approximately Rmb2,284 million (2002 – Rmb1,470 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 electricity utility plants:

	Company and its subsidiaries		Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Amount repayable				
Within one year	722,830	422,000	249,000	182,000
Between one to two years	1,040,830	662,830	200,000	254,000
Between two to five years	5,235,569	3,081,142	1,380,000	785,000
Over five years	2,425,088	2,726,280	45,000	1,083,000
	9,424,317	6,892,252	1,874,000	2,304,000

(b) 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 utility plants. The maturity of these loans were as follows:

	Company and its subsidiaries	
	2003	2002
	'000	'000
Amount repayable		
Within one year	106,379	118,953
Between one to two years	100,697	94,960
Between two to five years	339,533	320,303
Over five years	1,164,770	1,239,574
	1,711,379	1,773,790

16. LONG-TERM LOANS (CONT'D)

(b) Other long-term loans (cont'd)

All these loans were denominated in USD and unsecured. 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 1.30% to 1.60% per annum during the year ended 31 December 2003 (2002 – 2.12% to 2.13%). In accordance with a guarantee agreement between NCG and MOF, NCG agreed to guarantee 60% of the loan balances (Note 25(e)). As at 31 December 2003, approximately Rmb1,027 million (2002 – Rmb1,058 million) of the loans were guaranteed by NCG, while the Company provided a counter-guarantee to NCG in respect of this amount.

17. SHORT-TERM LOANS

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

	Company and its subsidiaries		Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Short-term bank loans	**670,020**	–	**2,000**	–
Short-term loans payable to NCPG Finance	**2,190,814**	316,000	**–**	–
	2,860,834	316,000	**2,000**	–

As at 31 December 2003, all short-term loans were denominated in Rmb, unsecured and bear interest at rates ranging from 2.88% to 4.78% (2002 – 3.99% to 5.85%) per annum. Approximately Rmb960 million (2002 – Rmb44 million) of short-term loans were guaranteed by the minority shareholders according to their shareholding percentage in the subsidiaries.

18. CONVERTIBLE BOND

On 9 September 2003, the Company issued USD153,800,000, 0.75% convertible bond at a nominal value of USD153,800,000. The bond will be matured in 5 years from the issue date at their nominal value unless converted into the Company's ordinary shares at the holder's option at the rate of HK$5.558 per share, subject to adjustment in certain circumstances and with a fixed rate of exchange applicable on conversion of the convertible bond of HK$7.799 per USD1.

The fair value of the liability component and the equity conversion component were determined on the issue of the bond. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserve, net of deferred income tax.

In subsequent periods the liability component continues to be presented on the amortised cost basis, until extinguished on conversion or maturity of the bond. The equity component is determined on the issue of bond and is not changed in subsequent periods.

The convertible bond recognised in the balance sheet as at 31 December 2003 was as follows:

	2003
	'000
Face value of convertible bond issued on 9 September 2003	1,272,956
Issuance cost	(34,953)
Net proceeds	1,238,003
Equity conversion component, net of deferred tax liability	(149,796)
Deferred tax liability	(73,780)
Liability component on initial recognition on 9 September 2003	1,014,427
Interest expense	17,295
Liability component at 31 December 2003	1,031,722

The carrying amount of the liability component at 31 December 2003 of the convertible bond approximated its fair value.

Interest expense on the bond is calculated on the effective yield basis of 5.51% by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bond after considering the effect of issuance cost.

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	Company and its subsidiaries		Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Construction costs and deposits payable to contractors	**1,498,454**	983,337	**155,088**	187,986
Fuel and material costs payable	**500,356**	335,281	**347,569**	288,785
Salary and welfare payable	**125,257**	111,883	**112,157**	101,900
Government grants	**138,928**	118,928	**138,928**	118,928
Interest rate swap liability	**206,024**	215,286	**–**	–
Other	**214,816**	121,673	**162,684**	99,585
	2,683,835	1,886,388	**916,426**	797,184

The Company received government grants from local environmental protection authorities for undertaking approved environmental protection projects. The Company has not recognised any income from government grants during the year, as all projects related to the government grants have not been completed as at 31 December 2003.

As at 31 December 2003, other than certain deposits for construction, which were due between one and two years, substantially all accounts payable were due within one year.

As at 31 December 2003, the notional principal amount of the outstanding interest rate swap contract of Datang Tuoketuo was USD213,627,000 (2002 – USD214,195,000), and the fixed rate and floating rate were 5.15% (2002 – 5.15%) and 1.11% (2002 – 1.92%) (LIBOR offered by British Bankers' Association at 14 July 2003), respectively.

20. 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% (2002 – 19% to 20%) 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 total retirement cost incurred by the Company and its subsidiaries during the year ended 31 December 2003 pursuant to these arrangements amounted to approximately Rmb76,939,000 (2002 – Rmb126,890,000).

Housing benefits

As discussed in Note 8 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 2003 amounted to approximately Rmb37,347,000 (2002 – Rmb37,216,000).

In addition, in accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at rate ranging from 8% to 10% (2002 – 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 2003, the Company and its subsidiaries provided approximately Rmb19,120,000 (2002 – Rmb15,996,000) to the fund.

21. OPERATING REVENUE

	2003	2002
	'000	'000
Electricity	9,947,733	8,017,912
Heat	2,831	–
	9,950,564	8,017,912

Pursuant to the power purchase agreements entered into between the Company and its subsidiaries and the regional or provincial power companies, the Company and its subsidiaries are required to sell their entire net generation of electricity to these power companies at an approved tariff rate as determined based on a regulatory process. For the year ended 31 December 2003, all of the electricity generated by the Company and its subsidiaries were sold to NCG and its subsidiaries.

22. OPERATING PROFIT

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

	2003	2002
	'000	'000
Loss on disposals of property, plant and equipment	36,360	74,606
Amortisation of goodwill	5,592	5,592
Personnel expenses		
– Wages	327,852	235,868
– Retirement benefits	74,922	121,797
– Staff housing benefits	55,717	52,418
– Other staff costs	172,524	134,431
Depreciation	1,653,707	1,393,699
– Capitalised as construction-in-progress	5,851	4,715
– Included as operating expenses	1,643,530	1,382,613
– Included as other operating expenses	4,326	6,371
Auditors' remuneration	4,730	5,976
Cost of inventories		
– Fuel	3,165,103	2,556,173
– Spare parts and consumable supplies	62,431	48,929
Operating lease		
– Buildings	14,622	14,622
Dividend income	(10,423)	(7,494)
Loss/(Gain) on disposals of investments held for trading	2,073	(15,300)
Receivable		
– Impairment charge for bad and doubtful debt	–	4,407

23. FINANCE COSTS

	2003	2002
	'000	'000
Interest expense on:		
Short-term bank loans	17,295	7,133
Short-term loans payable to NCPG Finance	80,790	14,503
Long-term bank loans		
– wholly repayable within five years	33,075	20,536
– repayable beyond five years	350,570	351,611
Other long-term loans		
– repayable beyond five years	28,478	33,079
Convertible bond	17,295	–
	527,503	426,862
Less: amount capitalised in property, plant and equipment	(218,625)	(144,384)
	308,878	282,478
Exchange gain, net	(5,973)	(557)
Fair value loss on an interest rate swap (Note a)	53,636	240,224
	356,541	522,145

(a) To 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 included in the income statement.

24. TAXATION

	2003	2002
	'000	'000
Current tax	919,398	764,130
Deferred tax	69,549	(91,974)
	988,947	672,156

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% (2002 – 33%), except for Datang Tuoketuo and Datang Fengning Hydropower. Pursuant to document Guo Ban Fa [2001] 73 issued by State Council of PRC and approved by the local tax authorities in late 2003, Datang Tuoketuo was granted a tax concession to pay PRC income tax at a preferential rate of 15% until 2011. In addition, pursuant to document Feng Zheng [1996] 51 issued by the local government, all the enterprise income tax paid by Datang Fengning Hydropower is refunded for ten years starting from 2002.

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

	2003	2002
	'000	'000
Profit before taxation	2,857,514	2,010,226
Tax computed at the statutory tax rate of 33%	942,980	663,375
Add: Tax effect of non-tax deductible items	3,656	8,781
Preferential tax rate impact on the income of subsidiaries	(14,149)	–
Preferential tax rate impact on deferred tax assets arising from the fair value loss of interest rate swap	56,460	–
Tax charge	988,947	672,156

24. TAXATION (CONT'D)

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

	Company and its subsidiaries					
	2003					2002
	Preliminary expenses	Depreciation	Fair value loss on an interest rate swap	Deductible operating loss	Total	Total
	'000	'000	'000	'000	'000	'000
Beginning of year	17,636	2,579	79,274	–	99,489	10,630
(Charged) / Credited to net profit	(9,752)	6,444	(56,460)	10,121	(49,647)	88,859
End of year	7,884	9,023	22,814	10,121	49,842	99,489

As at 31 December 2003, there were no deferred tax assets in the Company's accounts.

(c) The movement in deferred tax liabilities during the year is as follows:

	Company and its subsidiaries				
	2003				2002
	Deferred housing benefits	Capitalised borrowing costs	Convertible bond	Total	Total
	'000	'000	'000	'000	'000
Beginning of year	8,208	22,915	–	31,123	33,570
Charged to equity	–	–	73,780	73,780	–
(Credited) / Charged to net profit	(1,368)	14,467	6,803	19,902	(2,447)
End of year	6,840	37,382	80,583	124,805	31,123

24. TAXATION (CONT'D)

(c) The movement in deferred tax liabilities during the Year is as follows: (cont'd)

	Company			
	2003			2002
	Deferred housing benefits	Convertible bond	Total	Total
	'000	'000	'000	'000
Beginning of year	8,208	–	8,208	9,576
Charged to equity	–	73,780	73,780	–
(Credited) / Charged to net profit	(1,368)	6,803	5,435	(1,368)
End of year	6,840	80,583	87,423	8,208

The amounts of deferred tax assets and deferred tax liabilities shown in the consolidated balance sheets include the following:

	2003	2002
	'000	'000
Deferred tax assets to be recovered after more than 12 months	33,455	65,713
Deferred tax liabilities to be settled after more than 12 months	105,947	28,239

25. RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of relationship
Related parties in which the Company has no equity interest	
China Datang Corporation ("China Datang") (Note (i))	Substantial shareholder
Tianjin Jinneng Investment Company	Shareholder
Beijing International Power Development and Investment Company	Shareholder
Inner Mongolia Mengdian Huaneng Power Generation Company Limited	Minority shareholder of Datang Tuoketuo
Related parties in which the Company has equity interest	
NCEPR	Associate
NCPG Finance	Investee of the Company

25. RELATED PARTY TRANSACTIONS (CONT'D)

(i) Pursuant to document Guo Han [2003] 16, "Approval from the State Council Regarding the Establishment of China Datang Corporation" and Power Generation Entities Transfer Agreement entered into between CDT and NCG on 15 January 2004 ("Entities Transfer Agreement"), NCG transferred its 35.43% equity interests in the Company to CDT with retroactive effect from 1 January 2003. Immediately following the equity transfer on 1 January 2003, CDT became the substantial shareholder of the Company.

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

	Note	2003	2002
		'000	'000
Ash disposal fee to divisions and affiliates of China Datang/NCG	(a)	94,338	86,392
Rental fee to CDT/NCG	(b)	7,229	7,229
Technical supervision, assistance and testing service fee to NCEPR	(c)	53,456	32,569
Interest income from NCPG Finance	(d)	12,440	3,177
Interest expenses to NCPG Finance	(d)	80,789	14,503
Dividend income from NCPG Finance		10,063	7,107

(a) The ash disposal fee was determined based on ash disposal operating costs, taxes, depreciation of ash yards and a profit margin at 5% to 10% of the total costs incurred by CDT / NCG.

(b) The Company has leased buildings of 141,671 (2002 – 141,671) square metres from CDT for an annual rental rate of approximately Rmb7 million in 2003 (2002 – Rmb7 million).

(c) 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.

25. RELATED PARTY TRANSACTIONS (CONT'D)

(d) As at 31 December 2003, cash and cash equivalents of approximately Rmb3,273,493,000 (2002 – Rmb49,090,000) were deposited with NCPG Finance at the prevailing market interest rate of 0.72% to 1.76% (2002 – 0.72%). In addition, as discussed in Notes 16 and 17 above, the Company and its subsidiaries had loans payable to NCPG Finance totalling approximately Rmb2,191 million (2002 – Rmb316 million) as at 31 December 2003.

(e) As discussed in Notes 16 and 17 above, NCG and the minority shareholders of the Company's subsidiaries had provided guarantees for the Company and its subsidiaries' loans totalling approximately Rmb6,096 million as at 31 December 2003 (2002 – Rmb4,767 million). Pursuant to the Entities Transfer Agreement, CDT will assumes all of NCG's obligations in relation to the guarantees provided for the Company and its subsidiaries. The legal procedures of this arrangement was still in the process as at 31 December 2003.

(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 Rmb116,628,000 (2002 – Rmb56,015,000) to the Company and its subsidiaries. In addition, coals purchased from these related companies by a subsidiary of the Company amounted to approximately Rmb66,254,000 (2002 – Nil) for the year ended 31 December 2003. As at 31 December 2003, the balance due from and to these companies amounted to approximately Rmb3,320,000 (2002 – Rmb1,210,000) and Rmb12,695,000 (2002 – Rmb1,733,000) respectively, and were included in other receivables and accounts payable.

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

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

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

	2003	2002
	'000	'000
Fees for executive directors, non-executive directors and supervisors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	570	304
– bonus	548	292
– retirement benefits	390	208
Other emoluments for non-executive directors	2,639	1,014
Other emoluments for supervisors	1,058	390

No directors' and senior executives' special bonuses was provided for during the year ended 31 December 2003.

No director had waived or agreed to waive any emoluments during the year ended 31 December 2003.

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

	2003	2002
	'000	'000
Basic salaries and allowances	697	490
Bonus	669	305
Retirement benefits	477	210

For the year ended 31 December 2003, 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 2003, the annual emoluments paid to each of the directors, supervisors and the five highest paid individuals did not exceed Rmb1,000,000.

27. DIVIDENDS

On 17 March 2004, the Board of Directors proposed a dividend of Rmb0.175 per share, totalling approximately Rmb903,499,000 for the year ended 31 December 2003. The proposed dividends distribution is subject to the shareholders' approval in their next general meeting.

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 was approved by the shareholders in the general meeting dated 10 July 2003.

28. EARNINGS PER SHARE AND DIVIDEND PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2003 was based on the net profit of approximately Rmb1,811,799,000 (2002 – Rmb1,404,612,000) and on the weighted average number of 5,162,849,000 shares (2002 – 5,162,849,000 shares) in issue during the year.

The diluted earnings per share is calculated adjusting the weighted average number of ordinary share outstanding to assume conversion of all dilutive potential ordinary shares. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expenses less the tax effect. No diluted earnings per share have been presented for the year ended 31 December 2002 as there were no dilutive potential ordinary shares outstanding by then.

	2003
Net profit attributable to shareholders (Rmb '000)	1,811,799
Interest expense on convertible bond (net of tax) (Rmb '000)	11,587
Net profit used to determine diluted earnings per share (Rmb '000)	1,823,386
Weighted average number of ordinary shares in issue (shares in thousand)	5,162,849
Adjustments for assumed conversion of convertible bond (shares in thousand)	66,813
Weighted average number of ordinary shares for diluted earnings per share (shares in thousand)	5,229,662
Diluted earnings per share (Rmb)	0.35

Proposed dividend per share for the year ended 31 December 2003 were calculated based on the proposed dividends of approximately Rmb903,499,000 (2002 – Rmb619,542,000) divided by the number of 5,162,849,000 shares (2002 – 5,162,849,000 shares) in issue as at 31 December 2003.

29. NOTES TO STATEMENT OF CASH FLOWS

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

	2003	2002
	'000	'000
Profit before taxation	2,857,514	2,010,226
Adjustments for:		
Depreciation of property, plant and equipment	1,647,856	1,388,984
Fair value loss on an interest rate swap	53,636	240,224
Amortisation of goodwill	5,592	5,592
Amortisation of staff housing benefits	37,347	37,216
Loss on disposals of property, plant and equipment	36,360	74,606
Loss/(Gain) on disposals of investments held for trading	2,073	(15,300)
Interest income	(41,395)	(89,314)
Interest expenses	308,878	282,478
Dividend income	(10,423)	(7,494)
Share of profit from associates	(16,979)	(5,499)
Operating profit before working capital changes	4,880,459	3,921,719
(Increase) decrease in current assets:		
Inventories	(40,726)	(43,094)
Other receivables and current assets	(58,679)	20,061
Accounts receivable	(266,360)	(318,527)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	282,679	56,022
Taxes payable	(11,642)	40,168
Cash provided by operations	4,785,731	3,676,349

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

(b) Significant non-cash transactions

The Company and its subsidiaries incurred additional payable of approximately Rmb 515 million (2002 – Rmb147 million) to contractors and equipment suppliers for construction-in-progress during the year ended 31 December 2003.

(c) Undrawn borrowing facilities

The undrawn borrowing facilities in Rmb and USD available to settle the Company and its subsidiaries' capital commitments for investments in subsidiaries and associates and construction of electricity utility plants as at 31 December 2003 were as follows.

	Company and its subsidiaries		Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Expiring within one year	**27,823,946**	12,839,498	**21,685,440**	9,942,400
Expiring beyond one year	**61,433,031**	43,040,086	**59,335,510**	40,000,000
	89,256,977	55,879,584	**81,020,950**	49,942,400

30. COMMITMENTS

(a) Capital commitments

As at 31 December 2003, the Company had capital commitments related to investments in subsidiaries and associates amounted to Rmb6,757 million (2002 – Rmb1,615 million). In addition, capital commitments of the Company and its subsidiaries in relation to the construction and renovation of the electricity utility plants not provided for in the balance sheets were as follows:

	Company and its subsidiaries		Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Authorised and contracted for	19,184,771	6,070,345	6,212,299	139,877
Authorised but not contracted for	5,348,052	4,869,639	205,046	228,149
	24,532,823	10,939,984	6,417,345	368,026

(b) Operating lease commitment

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

	Company and its subsidiaries	
	2003	2002
	'000	'000
Amount repayable		
Within one year	12,127	12,127
Between one to five years	31,250	36,161
Over five years	57,736	64,953
	101,113	113,241

31. SUBSEQUENT EVENT

On 16 January 2004, Datang Tangshan and CDT entered into an agreement under which Datang Tangshan agreed to acquire the net assets of Tangshan Power Plant from CDT for a cash consideration of approximately Rmb155 million. The sales transaction is subject to approval of relevant government authorities.

32. ADDITIONAL FINANCIAL INFORMATION

As at 31 December 2003, net current liabilities and total assets less current liabilities of the Company and its subsidiaries amounted to approximately Rmb178 million (2002 – net current assets Rmb 2,028 million) and Rmb28,425 million (2002 – Rmb23,443 million), respectively.

33. PRIOR YEAR COMPARATIVES

Certain comparative figures of 2002 have been reclassified to conform to the presentation of financial statements for the year ended 31 December 2003.