(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on 30th June, 1994. As at 31st December, 2003, the Company and its subsidiaries had 17,886 employees (2002: 15,222 employees).

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

Particulars of the Company's, its subsidiaries' and its associates' operating power plants are as follows:

Operating Plants	Total installed capacity of the Company, its subsidiaries and associates (MW)	Equity portion of total capacity of the Company (MW)	Province/ Municipality located
The Company:			
Huaneng Dalian Power Plant (the "Dalian Power Plant")	700	700	Liaoning
Huaneng Shangan Power Plant (the "Shangan Power Plant")	700	700	Hebei
Huaneng Nantong Power Plant (the "Nantong Power Plant")	704	704	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	700	Fujian
Huaneng Shantou Oil-Fired Power Plant (the "Shantou Oil-Fired Power Plant")	103	103	Guangdong
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")	600	600	Guangdong
Huaneng Shangan Power Plant Phase II (the "Shangan Phase II")	600	600	Hebei
Huaneng Shanghai Shidongkou Second Power Plant (the "Shanghai Power Plant")	1,200	1,200	Shanghai
Huaneng Dalian Power Plant Phase II (the "Dalian Phase II")	700	700	Liaoning
Huaneng Dandong Power Plant (the "Dandong Power Plant")	700	700	Liaoning
Huaneng Nantong Power Plant Phase II (the "Nantong Phase II")	700	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II")	700	700	Fujian
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	640	640	Jiangsu
Huaneng Dezhou Power Plant (the "Dezhou Power Plant")	2,520	2,520	Shandong
Huaneng Jining Power Plant (the "Jining Power Plant") *(Note 3)*	595	595	Shandong
Huaneng Changxing Power Plant (the "Changxing Power Plant) *(Note 3)*	250	250	Zhejiang
Huaneng Shanghai Shidongkou I Power Plant (the "Shidongkou I Power Plant") *(Note 3)*	1,200	1,200	Shanghai
Huaneng Xindian Power Plant (the "Xindian Power Plant") *(Note 3)*	450	450	Shandong

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES *(Cont'd)*

Operating Plants	Total installed capacity of the Company, its subsidiaries and associates (MW)	Equity portion of total capacity of the Company (MW)	Province/ Municipality located
Subsidiaries:			
Huaneng Weihai Power Limited Liability Company (the "Weihai Power Company")	850	510	Shandong
Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company") *(Note 3)*	600	450	Jiangsu
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company") *(Note 3)*	400	255	Jiangsu
Shanxi Huaneng Yushe Power Co., Ltd. (the "Yushe Power Company") *(Note 3)*	200	120	Shanxi
Associates:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	700	178	Shandong
Shenzhen Energy Group Co., Ltd. ("SEG") *(Note 3)*	1,844	461	Guangdong
Total	18,356	15,736	

The parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group Corporation ("Huaneng Group") respectively. Both companies are incorporated in the PRC.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries 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 as 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 unrealized gains on transactions between group companies are eliminated; unrealized 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.

(ii) Associates

Associates are entities over which the Company generally has between 20% and 50% of the voting rights, or 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 recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company's investment in associates includes goodwill (net of accumulated amortization) on acquisition. When the Company's share of losses in an associate equals or exceeds its interest in the associates, the Company does not recognize further losses, unless the Company has incurred obligations or made payments on behalf of the associates.

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Company and its subsidiaries are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the measurement currency of the Company and its subsidiaries.

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is determined by comparing proceeds with the carrying amount and is included in the income statement.

The initial cost of property, plant and equipment 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.

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

Depreciation is calculated on a straight-line basis to write off the cost of each asset to their estimated residual value over their estimated useful life as follows:

Buildings	8-35 years
Electric utility plant in service	4-30 years
Transportation facilities	13-27 years
Others	5-13 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Construction-in-progress represents plants and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery and other direct costs. Construction-in-progress is not depreciated until such time as the relevant asset is completed and ready for its intended use.

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(e) Investments

The Company and its subsidiaries classify its investments in debt and equity securities into the following categories: 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 the 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 trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. 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. 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; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Company and its subsidiaries commits 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 amortized cost, which is the amount at which the investment was measured at initial recognition less principal repayments, plus or minus the amortization of any difference between that initial amount and maturity amount by using the effective yield method. Realized and unrealized 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. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for 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 recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(f) Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets of the acquired subsidiary/associate at the date of acquisition, and negative goodwill represents the excess of the fair value of the Company's share of the net assets of the acquired subsidiary/associate over the cost of an acquisition at the date of acquisition.

Goodwill and negative goodwill are amortized using the straight-line method over its estimated useful life and recognized in the income statement. Management determines the estimated useful life of goodwill and negative goodwill based on the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets of the respective business at the time of the acquisition.

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.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(g) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal while value in use is the present value of estimated future cash flow expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(h) Inventories

Inventories consist of fuel, materials and supplies. They are stated at the lower of weighted average costs or net realizable values after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance 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 inventories to the working locations.

(i) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of receivables.

(j) Temporary cash investments

Temporary cash investments are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to one year. Temporary cash investments are classified as held-to-maturity investments and are carried at amortized cost (see Note 2(e)).

(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, other short-term highly liquid investments with original maturities of 3 months or less.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(l) Borrowings and convertible notes

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

The proceeds received on the issue of the convertible notes were allocated into liability and equity components. Upon initial recognition, the liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issue of the notes. After the initial recognition, the liability component is measured at amortized cost.

(m) Provisions

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain.

(n) Equity transaction costs

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred, if any, directly in connection with a business combination are included in the cost of acquisition.

(o) Revenue and income recognition

Revenue and income are recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries and the amount of the revenue and income can be measured reliably.

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial grid companies (net of value added tax ("VAT") and deferred revenue). Revenue is earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective grid companies.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis that reflects the effective yield on the assets.

(iii) Management service income

As mentioned in Note 5, the company provides management services to certain power plants owned by Huaneng Group and HIPDC. The Company recognizes the service income as other income when service is provided in accordance with the management service agreement.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(p) Borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised as part of the cost of property, plant and equipment, if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

(q) Operating leases

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.

(r) Taxation

(i) VAT

Under the relevant PRC tax laws, the Company and its subsidiaries are subject to Value Added Tax ("VAT"). The Company and its subsidiaries are subject to output VAT levied at 17% of the Company's and its subsidiaries' operating revenue. The input VAT can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because the VAT is a tax on the customer and the Company and its subsidiaries collect such tax from the customers and pay such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenues or operating expenses.

(ii) Income Tax

In accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, the reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country.

All the power plants (except for the Dezhou Power Plant, Jining Power Plant, Changxing Power Plant, Shidongkou I Power Plant, Xindian Power Plant and Dalian Phase II) are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

The tax holiday of the Dalian Power Plant, the Shangan Power Plant, the Nantong Power Plant, the Fuzhou Power Plant, the Shantou Oil-Fired Power Plant, the Shanghai Power Plant and the Nanjing Power Plant had already expired prior to 2003. The tax holiday of Shang'an Phase II expired in 2003, the tax holiday of the Nantong Phase II and Fuzhou Phase II will expire in 2004, and the tax holiday of Shantou Power Plant will expire in 2005.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(r) Taxation *(Cont'd)*

(ii) Income Tax *(Cont'd)*

The statutory income tax is assessed on an individual power plant basis, based on each of their results of operations. The commencement dates of tax holiday of each power plant are individually determined. The statutory income tax rates applicable to the head office, Shandong branch and the operating power plants, after taking the effect of tax holidays into consideration, are summarized below:

	2003	2002
Head Office	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II)	18.0%	18.0%
Shangan Power Plant	18.0%	18.0%
Shangan Phase II	9.0%	9.0%
Nantong Power Plant	15.0%	15.0%
Nantong Phase II *	7.5 %	7.5%
Fuzhou Power Plant	15.0%	15.0%
Fuzhou Phase II **	7.5%	7.5%
Shantou Oil-Fired Plant	15.0%	15.0%
Shantou Power Plant ***	10.0%	7.5%
Shanghai Power Plant	16.5%	16.5%
Dandong Power Plant *****	—	—
Nanjing Power Plant	15.0%	15.0%
Shandong Branch	17.0%	17.0%
Dezhou Power Plant	17.0%	17.0%
Jining Power Plant	15.0%	15.0%
Changxing Power Plant	16.5%	16.5%
Shidongkou I Power Plant	18.0%	33.0%
Xindian Power Plant ****	18.0%	Not Applicable
Weihai Power Company	33.0%	33.0%
Taicang Power Company	33.0%	33.0%
Huaiyin Power Company	33.0%	33.0%
Yushe Power Company ****	33.0%	Not Applicable

* In accordance with Su Guo Shui Han [2003] No. 248 and Tong Guo Shui Wai Zi [2003] No.1, the tax holiday of the Nantong Phase II is determined separately from the Nantong Power Plant. The Nantong Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January, 2002 to 31st December, 2004. The Nantong Phase II is currently negotiating with the Jiangsu State Tax Bureau for a refund of the overpaid income tax for the year ended 31st December, 2002.

** In accordance with Min Guo Shui Han [2003] No. 37 the tax holiday of the Fuzhou Phase II is determined separately from the Fuzhou Power Plant. The Fuzhou Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January, 2002 to 31st December, 2004. The Fuzhou Power Plant is currently negotiating with the Fujian State Tax Bureau for a refund of the overpaid income tax for the year ended 31st December, 2002.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(r) Taxation *(Cont'd)*

(ii) Income Tax *(Cont'd)*

*** In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated 16th January, 2003, the Shantou Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January, 2003 to 31st December, 2005. The applicable tax rate during the extension is 10%.

**** Not applicable in 2002 as they were not subsidiaries or branches of the Company.

***** The tax holiday of Dandong Power Plant has not commenced yet as it has not recovered all of the accumulated deficits.

The income tax charge is based on profit for the year and after considering deferred taxation.

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 recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(s) Employee benefits

Pension obligations

The Company and its subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Company and its subsidiaries pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company and its subsidiaries pay contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company and subsidiaries have no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(t) 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.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(u) Financial instruments

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 expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortized 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 recognized in the income statement. Reversal of impairment losses previously recognized 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 recognized to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

(v) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(w) 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.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

3. ACQUISITIONS

During 2002 and 2003, the Company acquired a number of power plants from both the Huaneng Group as well as other parties. These acquisitions have been accounted for under the purchase method of accounting. These acquisitions became effective when, amongst other things, the Company obtained minority shareholders' approval where applicable and all necessary government approvals and made payment of the purchase considerations. All of the acquisitions by the Company were paid by cash.

Details of these acquisitions are shown in the table below:

	For the year ended 31st December, 2003	
	Acquisition of subsidiaries and net assets	**Acquisition of an associate**
Equity interest acquired	55% equity interest in Henan Huaneng Qinbei Power Co., Ltd. (the "Qinbei Power Company"), 60% equity interest in Yushe Power Company and all of the assets and liabilities of Xindian Power Plant*	25% equity interest in SEG's enlarged share capital (Note 11)
Acquired from	Huaneng Group	Shenzhen Investment Holding Corporation ("SIH") and SEG
Effective date	27th October, 2003	22nd April, 2003
Consideration paid	Rmb550 million	Rmb 2,390 million
Direct cost of acquisition	Rmb12 million	Rmb15 million
Fair value of net assets acquired	Rmb382 million	Rmb1,585 million
Goodwill	Rmb180 million	Rmb820 million

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

3. ACQUISITIONS *(Cont'd)*

	For the year ended 31st December, 2002			
	Acquisition of subsidiaries, an associate and net assets	**Acquisition of additional equity interests in subsidiaries**		
Equity interest acquired	70% equity interest in Shidongkou I Power Plant, 70% equity interest in Taicang Power Company, 44.16% equity interest in Huaiyin Power Company and all of the assets and liabilities of Changxing Power Plant*	25% additional equity interest in Jinning Power Plant	30% additional equity interest in Shidongkou I Power Plant and additional 5% equity interest in Taicang Power Company	19.48% additional equity interest in Huaiyin Power Company*
Acquired from	Huaneng Group	Shandong Electricity Power Group Corporation	Huaneng Group	Jiangsu Huaiyin Investment Company ("JHIC")
Effective date	1st July, 2002	18th June, 2002	31st December, 2002	31st December, 2002
Consideration paid	Rmb2,050 million	Rmb109 million	Rmb415 million	Rmb185 million
Direct cost of acquisitions	Rmb18 million	—	Rmb4 million	—
Fair value of net assets acquired	Rmb2,047 million	Rmb106 million	Rmb374 million	Rmb109 million
Goodwill	Rmb21 million	Rmb3 million	Rmb45 million	Rmb76 million

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

3. ACQUISITIONS *(Cont'd)*

* The aggregated assets and liabilities arising from these acquisitions of subsidiaries and net assets in 2002 and 2003 were as follows:

	2003 Rmb'000	2002 Rmb'000
Property, plant and equipment, net	3,085,503	4,923,490
Deferred tax assets	21,809	—
Other long-term assets	18,667	121,324
Inventories	35,608	164,127
Other current assets	96,608	54,402
Accounts receivable	88,556	458,103
Cash and cash equivalents	215,585	569,841
Minority Interest	(115,639)	(829,320)
Long-term loans	(1,706,104)	(2,039,735)
Due to Huaneng Group	(13,968)	—
Deferred tax liabilities	—	(109,568)
Current liabilities	(1,344,842)	(1,156,534)
Fair value of net assets acquired	381,783	2,156,130
Add: Goodwill	179,997	97,280
Less: Direct costs of acquisition	(11,780)	(18,410)
Total consideration paid	550,000	2,235,000
Add: Direct costs of acquisition paid	2,528	17,042
Less: Cash inflow from the acquired power plants	(215,585)	(569,841)
Net cash outflow for the acquisitions	336,943	1,682,201

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

(1) Financial risk factors

The Company and its subsidiaries' activities expose them to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company and its subsidiaries' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company and its subsidiaries. The Company and its subsidiaries use derivative financial instruments such as interest rate swaps to hedge certain exposures.

(a) Interest rate risk

The Company's floating rate bank loans expose the Company to interest rate risk. The Company uses derivative instruments when considered appropriate, to manage exposures arising from changes in interest rates by entering into interest rate swap agreements with PRC banks to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against cash flow interest rate risk.

The interest rates and terms of repayment of the convertible notes, shareholders loans, bank loans and other loans of the Company and its subsidiaries are disclosed in Notes 22, 23, 24, 25 and 28.

(b) Foreign currency risk

The Company and its subsidiaries have foreign currency risk as a significant portion of its long-term bank loans, shareholders loans and other loans are denominated in foreign currencies, principally US dollars, as described in Note 23, 24(b) and 25. Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Company and its subsidiaries' results of operation.

(c) Credit risks

Significant portions of the Company and its subsidiaries' cash and cash equivalents and temporary cash investments maturing over 3 months are deposited with the four largest state-owned banks of the PRC and a non-bank financial institution in the PRC, which is a related party of the Company.

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

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT *(Cont'd)*

(2) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company and its subsidiaries use a variety of methods and make assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair values for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company and its subsidiaries for similar financial instruments.

5. OTHER INCOME, NET

Pursuant to a management service agreement entered into with Huaneng Group and HIPDC, the Company has, in 2003, provided management services to certain power plants owned by the Huaneng Group and HIPDC in return for a service fee. Net other income represented the management service fee income net of relevant expenses.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

6. PROFIT BEFORE TAX

Profit before tax was determined after charging and (crediting) the following:

	2003 '000	2002 '000
Interest expenses on convertible notes	3,248	47,904
Interest expenses on bank loans:		
- repayable within 5 years	104,012	155,987
- repayable beyond 5 years	422,809	415,181
Interest expenses on shareholders loans wholly repayable within 5 years	22,053	29,622
Interest expenses on other long-term loans wholly repayable within 5 years	57,493	29,619
	609,615	678,313
Less: Amount capitalised in property, plant and equipment	(40,467)	(116,438)
Total interest expenses	569,148	561,875
Interest income	(53,044)	(83,015)
Bank charges and exchange losses, net	28,181	31,405
Change in fair value on financial instruments:		
- Gains of interest rate swaps	(11,771)	(2,179)
Auditors' remuneration	19,359	10,750
Loss on disposals of fixed assets	138,726	31,980
Gain from disposals of investment	(10,705)	(1,288)
Operating leases :		
- Buildings	25,985	27,566
- Land use rights	44,100	42,293
Depreciation of property, plant and equipment	4,117,478	3,533,609
Amortization of prepaid land use rights	19,136	16,847
Amortization of other long-term assets	41,566	24,112
Amortization of goodwill	25,170	1,150
Amortization of negative goodwill	(247,278)	(247,278)
Cost of inventories	9,222,583	7,100,336
Provision for doubtful accounts	12,567	15,826
Reversal of provision for inventory obsolescence	(751)	(945)
Staff costs:		
- Wages and staff welfare	1,020,444	698,862
- Retirement benefits	235,950	142,734
- Staff housing benefits	72,163	78,612
- Other staff costs	111,116	115,532

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

7. RELATED PARTY TRANSACTIONS

The related parties of the Company and its subsidiaries include:

Name of related parties	Nature of relationship
Huaneng Group	Ultimate parent
HIPDC	Parent
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of Huaneng Group
Weihai Power Development Bureau ("WPDB")	Minority shareholder of Weihai Power Company
Henan Construction Investment Company ("Henan Investment")	Minority shareholder of Qinbei Power Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Time Shipping Company ("Time Shipping")	A joint venture of Huaneng Group
Rizhao Power Company	An associate of the Company

a. Pursuant to the relevant service agreements entered into between the Company and HIPDC on 30th June, 1994, HIPDC provides transmission services and transformer facilities to some of the power plants of the Company and receives service fees. The agreements cover a period of 10 years. Such service fees represent recoverable costs for rate setting purposes. The total amount of service fees paid to HIPDC for the year ended 31st December, 2003 were approximately Rmb215 million (2002: Rmb264 million).

b. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use rights of the Shanghai Power Plant is leased to the Company for a period of 50 years at an annual rental payment of Rmb6 million, starting from 30th June, 1997.

c. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use rights of the Nanjing Power Plant is leased to the Company for 50 years with an annual rental payment of approximately Rmb1.3 million, starting from 1st January, 1999.

d. As at 31st December, 2003, current deposits of approximately Rmb2,792 million (2002: current deposits: Rmb2,376 million; fixed deposits: Rmb570 million) were placed with a non-bank PRC financial institution, Huaneng Finance.

   As at 31st December, 2003, the interest rate per annum of the current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% (2002: current deposits: 0.72% to 1.44%; fixed deposits: 1.71%). The interest earned from these deposits amounted to Rmb14 million in 2003 (2002: Rmb52 million).

e. Pursuant to the leasing agreement between the Company and HIPDC, HIPDC agreed to lease its building to the Company for 5 years at an annual rental of Rmb25 million effective from 1st January, 2000.

f. As described in Note 23 and Note 25, certain loans of the Company and its subsidiaries were on-lent from HIPDC or borrowed from WPDB and Huaneng Finance.

g. As at 31st December, 2003, short-term loans amounting to Rmb1,130 million (2002: Rmb200 million) and Rmb130 million (2002: nil) were borrowed from Huaneng Finance and Henan Investment, which bore interest at 4.78% to 5.05% (2002: 5.56%) and 4.78% per annum respectively.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

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

h. As at 31st December, 2003, the balances with HIPDC, the subsidiaries and other related parties are unsecured, non-interest bearing and receivable or repayable within one year.

i. As at 31st December, 2003, long-term bank loans of approximately Rmb4,648 million, Rmb1,096 million, Rmb280 million, and Rmb34 million (2002: Rmb5,544 million, Rmb1,140 million, Rmb280 million and nil) were guaranteed by HIPDC, Huaneng Group, WPDB and Henan Investment, respectively.

j. As at 31st December, 2003, the Company had provided guarantees on certain long-term bank loans of the Rizhao Power Company totaling approximately Rmb339 million (2002: Rmb399 million).

k. During the years ended 31st December, 2003 and 2002, the Company entered into several agreements with Huaneng Group to acquire equity interests or net assets of certain power plants (See Note 3).

l. On 6th November, 2002, the Company entered into a management service agreement with Huaneng Group and HIPDC. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC for 5 years. For the year ended 31st December, 2003, the service fee earned from Huaneng Group and HIPDC amounted to approximately Rmb33 million and Rmb17 million, respectively (2002: nil). The Company incurred a total costs of services of Rmb38 million, and recorded the management service fee, net of relevant expenses, as other income.

m. In accordance with an equipment import agency service agreement entered into between Shandong Huaneng and CHITEC, the Company is required to pay an agency fee at 0.5% of the value of imported equipment in return for the agency service provided by CHITEC. For the year ended 31st December, 2003, no agency fee was due to CHITEC (2002: Rmb3 million).

n. For the year ended 31st December, 2003, the Company and its subsidiaries paid approximately Rmb145 million for coal purchased from CHITEC (2002: nil).

o. For the year ended 31st December, 2003, the Company and its subsidiaries paid approximately Rmb457 million for the fuel purchased and transportation services received from Time Shipping (2002: Rmb301 million).

8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the state-sponsored retirement plan at a specified rate, currently set at 18% to 20%, of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31st December, 2003 were approximately Rmb132 million (2002: Rmb89 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31st December, 2003 totaled approximately Rmb111 million (2002: Rmb80 million).

The Company and its subsidiaries have no further obligation for post-retirement benefits beyond the above annual contributions made.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

9. DIRECTORS', SENIOR MANAGEMENTS' AND SUPERVISORS' EMOLUMENTS

(a) Directors' and supervisors' emolument

The aggregate amounts of emoluments payable to directors and supervisors of the company during the year are as follows:

	2003 '000	2002 '000
Fees for executive directors	—	—
Fees for non-executive directors	—	—
Fees for supervisors	—	—
Other emoluments for executive directors:		
Basic salaries and allowances	120	445
Discretionary bonuses	264	1,027
Contributions to pensions schemes for directors (and past directors):		
- as directors	—	—
- for other offices	42	263
Other emoluments for non-executive directors	1,332	1,118
Other emoluments for supervisors	850	576
	2,608	3,429

During the year, no option was granted to the directors (2002: nil).

During the year, no emolument was paid to the directors and supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office.

The annual emoluments paid during the year to each of the directors and supervisors (including the five highest paid employees) fell within the range of nil to Rmb1 million.

No director had waived or agreed to waive any emoluments during the year.

(b) Five highest paid individuals

For the year ended 31st December, 2003, none of the five individuals, whose emoluments were the highest in the Company and its subsidiaries, were directors (2002: all of the five individuals were directors). The emoluments payable to the five highest paid individuals during the year are as follows:

	2003 '000	2002 '000
Basic salaries and allowances	516	477
Bonuses	1,835	1,034
Pensions	192	282
	2,543	1,793

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised:

	The Company and its subsidiaries						
	2003						2002
	Buildings ’000	Electric Utility Plant in Service ’000	Transportation Facilities ’000	Others ’000	Construction-in-progress ’000	Total ’000	Total ’000
Cost							
Beginning of year	2,097,231	52,567,658	634,870	1,067,217	685,758	57,052,734	50,014,849
Reclassification	(895,175)	809,030	(49,930)	136,075	—	—	—
Acquisition *(Note 3)*	131,452	1,022,451	18,184	115,027	1,798,389	3,085,503	4,923,490
Additions	5,432	26,144	245	46,039	2,655,419	2,733,279	2,257,383
Transfer from CIP	23,540	885,859	699	39,304	(949,402)	—	—
Disposals	(5,698)	(295,512)	—	(108,771)	—	(409,981)	(142,988)
End of year	1,356,782	55,015,630	604,068	1,294,891	4,190,164	62,461,535	57,052,734
Accumulated Depreciation							
Beginning of year	419,048	14,913,396	127,132	489,690	—	15,949,266	12,457,735
Reclassification	(153,025)	169,355	(12,073)	(4,257)	—	—	—
Charge for the year	68,331	3,877,634	30,035	141,478	—	4,117,478	3,533,609
Written back on disposals	(2,054)	(184,152)	—	(77,368)	—	(263,574)	(42,078)
End of year	332,300	18,776,233	145,094	549,543	—	19,803,170	15,949,266
Net Book Value							
End of year	1,024,482	36,239,397	458,974	745,348	4,190,164	42,658,365	41,103,468
Beginning of year	1,678,183	37,654,262	507,738	577,527	685,758	41,103,468	37,557,114

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET *(Cont'd)*

	The Company						
	2003						2002
	Buildings '000	Electric Utility Plant in Service '000	Transportation Facilities '000	Others '000	Construction-in-progress '000	Total '000	Total '000
Cost							
Beginning of year	1,853,746	47,099,077	528,428	1,011,034	626,226	51,118,511	46,966,145
Reclassification	(828,027)	777,567	(55,226)	105,686	—	—	—
Acquisition *(Note 3)*	30,676	649,904	14,826	99,086	18,811	813,303	2,058,726
Additions	5,101	23,392	—	40,649	1,203,316	1,272,458	2,197,099
Transfer from CIP	21,648	840,109	699	35,299	(897,755)	—	—
Disposals	(5,111)	(262,337)	—	(91,000)	—	(358,448)	(103,459)
End of year	1,078,033	49,127,712	488,727	1200,754	950,598	52,845,824	51,118,511
Accumulated Depreciation							
Beginning of year	390,353	14,211,658	115,691	448,384	—	15,166,086	12,097,868
Reclassification	(139,826)	110,404	(16,812)	46,234	—	—	—
Charge for the year	58,248	3,408,722	24,215	118,581	—	3,609,766	3,105,813
Written back on disposals	(1,873)	(156,936)	—	(61,730)	—	(220,539)	(37,595)
End of year	306,902	17,573,848	123,094	551,469	—	18,555,313	15,166,086
Net Book Value							
End of year	771,131	31,553,864	365,633	649,285	950,598	34,290,511	35,952,425
Beginning of year	1,463,393	32,887,419	412,737	562,650	626,226	35,952,425	34,868,277

Borrowing costs capitalised to construction-in-progress for the year ended 31st December, 2003 amounted to approximately Rmb40 million (2002: Rmb116 million). The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 5.06% per annum for the year ended 31st December, 2003 (2002: 5.25%).

There was no write-down of any property, plant and equipment during the year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

11. INVESTMENT IN ASSOCIATES

	2003 '000	2002 '000
Beginning of year	**200,960**	226,488
Acquisition of 44.16% equity interest of Huaiyin Power Company *(Note 3)*	—	271,598
Acquisition of 25% equity interest of SEG *(Note 3)*	**2,404,562**	—
Share of results before tax	**212,091**	(11,145)
Share of tax *(Note 32)*	**(51,582)**	(5,059)
Transfer to investment in subsidiary as a result of acquisition of additional interest *(Note 3)*	—	(280,922)
End of year	**2,766,031**	200,960

The share of results before tax included the amortization charge of goodwill of Rmb55 million (2002: nil) in respect of the acquisition of an associate. Investment in associates at 31st December, 2003 included goodwill with a carrying amount of Rmb765 million (2002: nil).

As at 31st December, 2003, the following are details of the Company's investment in associates:

Name	Country and date of incorporation	Percentage of equity interest held	Issued and fully paid capital	Principal activities
Rizhao Power Company	PRC 20th March, 1996	25.5%	US$150,000,000	Power generation
SEG	PRC 16th July, 1997	25%	Rmb955,555,556	Power generation

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

12. INVESTMENT IN SUBSIDIARIES

As at 31st December, 2003, the Company had equity interests in the following significant subsidiaries:

Name of subsidiaries	Country, date of incorporation and type of legal entity	Percentage of equity interest directly held	Issued and fully paid capital	Principal activities
Weihai Power Company	PRC 22nd November, 1993 Limited liability company	60%	Rmb761,832,800	Power generation
Taicang Power Company	PRC 19th June, 1997 Limited liability company	75%	Rmb682,840,000	Power generation
Huaiyin Power Company	PRC 26th January, 1995 Limited liability company	63.64%	Rmb265,000,000	Power generation
Qinbei Power Company	PRC 12th July, 1995 Limited liability company	55%	Rmb10,000,000	Power generation
Yushe Power Company	PRC 29th November, 1994 Limited liability company	60%	Rmb80,000,000	Power generation

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

12. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Summarized financial information of the two subsidiaries (Qinbei Power Company and Yushe Power Company) acquired in 2003 is as follows:

	As at 31st December, 2003 '000
Balance sheet	
Current assets	323,032
Long-term assets	2,739,414
Total assets	3,062,446
Current liabilities	1,073,960
Long-term liabilities	1,641,484
Total liabilities	2,715,444

	For the period from the effective date of the acquisition to 31st December, 2003 '000
Income statement	
Revenue	57,348
Expenses	(54,282)
Net profit	3,066

13. AVAILABLE-FOR-SALE INVESTMENT

Available-for sale investment represents a 3% equity interest (unlisted) in a power generation company China Yangtze Power Co., Ltd. ("Yangtze Power") in the PRC.

The investment does not have a quoted market price in an active market. There is no appropriate method to reliably measure its fair values. Accordingly, the investment is stated at cost and subject to review for impairment loss.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

14. GOODWILL AND NEGATIVE GOODWILL

Goodwill and negative goodwill arose from acquisitions. Goodwill and negative goodwill are recognized in the income statement as other operating expenses and deduction of other operating expenses respectively on a systematic basis over the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets (see Note 3). The movement on the carrying amount of goodwill and negative goodwill during the year is as follows:

	The Company and its subsidiaries		
	Goodwill '000	Negative goodwill '000	Total '000
Year ended 31st December, 2002:			
Beginning of year	—	(2,225,505)	(2,225,505)
Addition from acquisitions *(Note 3)*	127,710	—	127,710
Amortization for the year	(1,150)	247,278	246,128
End of year	126,560	(1,978,227)	(1,851,667)
As at 31st December, 2002			
Cost	127,710	(2,472,784)	(2,345,074)
Accumulated amortization	(1,150)	494,557	493,407
Net book value	126,560	(1,978,227)	(1,851,667)
Year ended 31st December, 2003:			
Beginning of year	126,560	(1,978,227)	(1,851,667)
Addition from acquisitions *(Note 3)*	197,486	—	197,486
Amortization for the year	(25,170)	247,278	222,108
End of year	298,876	(1,730,949)	(1,432,073)
As at 31st December, 2003			
Cost	325,196	(2,472,784)	(2,147,588)
Accumulated amortization	(26,320)	741,835	715,515
Net book value	298,876	(1,730,949)	(1,432,073)

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

14. GOODWILL AND NEGATIVE GOODWILL *(Cont'd)*

		The Company	
	Goodwill '000	Negative goodwill '000	Total '000
Year ended 31st December, 2002:			
Beginning of year	—	(2,225,505)	(2,225,505)
Addition from acquisitions *(Note 3)*	45,716	—	45,716
Amortization for the year	(104)	247,278	247,174
End of year	45,612	(1,978,227)	(1,932,615)
As at 31st December, 2002			
Cost	45,716	(2,472,784)	(2,427,068)
Accumulated amortization	(104)	494,557	494,453
Net book value	45,612	(1,978,227)	(1,932,615)
Year ended 31st December, 2003:			
Beginning of year	45,612	(1,978,227)	(1,932,615)
Addition from acquisitions *(Note 3)*	67,916	—	67,916
Amortization for the year	(6,297)	247,278	240,981
End of year	107,231	(1,730,949)	(1,623,718)
As at 31st December, 2003			
Cost	113,632	(2,472,784)	(2,359,152)
Accumulated amortization	(6,401)	741,835	735,434
Net book value	107,231	(1,730,949)	(1,623,718)

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

15. INVENTORIES, NET

Inventories comprised:

	The Company and its subsidiaries		The Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Fuel (coal and oil) for power generation	**308,861**	434,726	**219,974**	341,446
Material and other supplies	**505,041**	500,854	**414,478**	417,221
	813,902	935,580	**634,452**	758,667
Less: provision for inventory obsolescence	**(13,621)**	(12,239)	**(9,690)**	(10,400)
	800,281	923,341	**624,762**	748,267

As at 31st December 2003, approximately Rmb406 million of the total carrying amount of inventories are carried at net realizable value (2002: Rmb396 million)

16. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	The Company and its subsidiaries		The Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Prepayments for inventories	**76,543**	6,113	**51,713**	4,813
Prepayments for contractors	**42,282**	20,356	**29,833**	19,721
Interest receivable on temporary cash investments	**3,291**	3,792	**2,388**	3,792
Current portion of long-term entrusted loan to Weihai Power Company	**—**	—	**470,663**	256,300
Receivable from Shantou Coal Port Group Company	**—**	70,000	**—**	70,000
Others	**191,190**	164,088	**85,500**	126,515
	313,306	264,349	**640,097**	481,141
Less: Provision for doubtful accounts	**(53,885)**	(21,444)	**(28,653)**	(21,104)
	259,421	242,905	**611,444**	460,037

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

17. ACCOUNTS RECEIVABLE

Accounts receivable comprised:

	The Company and its subsidiaries		The Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Accounts receivable	**2,356,826**	1,889,083	**2,005,024**	1,545,294
Notes receivable	**447,200**	472,750	**336,180**	440,080
	2,804,026	2,361,833	**2,341,204**	1,985,374

The Company and its subsidiaries usually grant about one month credit period to all the local grid companies from the end of the month in which the sales are made.

As at 31st December, 2003, the aging analysis of accounts receivable was as follows:

	The Company and its subsidiaries		The Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Within one year	**2,800,330**	2,357,213	**2,337,508**	1,980,754
Between one to two years	**—**	4,620	**—**	4,620
Between two to three years	**3,696**	—	**3,696**	—
	2,804,026	2,361,833	**2,341,204**	1,985,374

As at 31st December, 2003, the maturity period of the notes receivable ranged from one month to six months (2002: one month to six months).

18. TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of fixed-term deposits denominated in Renminbi and US dollars with original maturities ranging from more than three months to one year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

19. CAPITALISATION

Authorized Share Capital

As at 31st December, 2003, the authorized share capital of the Company was Rmb6,027,671,200, divided into 6,027,671,200 shares of Rmb1.00 each. In addition, the issued and fully paid share capital of the Company as at 31st December, 2003 was Rmb6,027,671,200 (2002: Rmb6,000,273,960) comprising of 4,500,000,000 Domestic Shares and 1,527,671,200 Overseas Listed Foreign Shares. The holders of Overseas Listed Foreign Shares and Domestic Shares, with minor exceptions, are entitled to the same economic and voting rights.

Conversion of Convertible Notes to Share Capital

The noteholders converted the convertible notes with principal of US$200,000 to 6,849 American Depositary Shares ("ADS") (273,960 H shares equivalent) during the year ended 31st December, 2002 (see Note 22).

The noteholders converted the convertible notes with principal of US$20 million to 685,931 ADS (27,397,240 H shares equivalent) during the year ended 31st December, 2003 (see Note 22).

Conversion of the Additional Paid-in Capital and the Statutory Surplus Reserve Fund to Share Capital

On 16th March 2004, the Board resolved to propose to convert part of the additional paid-in capital and the statutory surplus reserve fund into share capital by issuing new shares to all of its shareholders on the basis of 5 new shares for every 10 existing ordinary shares (3 of which from additional paid-in capital and 2 from statutory surplus reserve fund). The proposal is subjected to shareholders' approval at the annual general meeting.

20. APPROPRIATION AND DISTRIBUTION OF PROFIT

The Board of Directors decides on an annual basis the percentages of the profit after tax, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory surplus reserve fund, the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be optional. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of 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 balance after such issue is not less than 25% of registered capital. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company's employees. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the shareholders.

For the year ended 31st December, 2003, the Board of Directors resolved the following on 16th March, 2004:

(i) to appropriate 10% and 7.5% (2002: 10% and 7.5%), respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund. The total amount of appropriation is approximately Rmb955 million (2002: Rmb714 million).

(ii) to make no appropriation to the discretionary surplus reserve fund.

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lowest of the amounts determined in accordance with (a) the PRC accounting standards and regulations, (b) IFRS and (c) US GAAP. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31st December, 2003 was approximately Rmb4.48 billion (2002: Rmb3.18 billion). The cumulative balance of distributable profit as at 31st December, 2003 was approximately Rmb10.97 billion (2002: Rmb9.13 billion).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

21. DIVIDENDS

On 16th March, 2004, the Board of Directors proposed a cash dividend of Rmb0.50 per share, totaling approximately Rmb3,014 million, together with an issue of bonus shares on the basis of 5 bonus shares for every 10 existing ordinary shares. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31st December, 2004.

On 28th May, 2003, the shareholders approved the declaration of Rmb0.34 per share, totaling Rmb2,049 million in respect of the year ended 31st December, 2002, based on the 6,027,671,200 outstanding shares on the date, in their annual general meeting.

22. CONVERTIBLE NOTES

In May 1997, the Company issued at par value convertible notes with an aggregate principal amount of US$230 million at 1.75% due 2004. These notes are listed on the New York Stock Exchange and the Luxemburg Stock Exchange. The notes mature on 21st May, 2004, unless previously redeemed or converted.

The notes are convertible, at the option of the noteholders, at any time from and including 21st August, 1997 up to and including the date of maturity, unless previously redeemed, at an initial conversion price of US$29.20 per ADS, each of which represents 40 Overseas Listed Foreign Shares, subject to adjustment in certain circumstances.

The notes were redeemable, at the option of the noteholders, in whole or in part, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest, if any.

The notes may be redeemed, at the option of the Company, at any time on or after 21st May, 2000, but prior to maturity, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes, together with accrued interest, if any, if the closing price of the ADSs for a period of 30 consecutive trading days is at least 130% of the conversion price in effect on each such trading day.

The proceeds received were allocated for accounting purposes into a liability component of approximately US$168 million (equivalent to Rmb1,393 million) and an equity component of approximately US$62 million (equivalent to Rmb511 million) at the issuance date.

Before 21st May, 2002, the put option for the noteholders to redeem the notes at 128.575% of the principal amount of the notes was accounted for as an embedded derivative. It was separated from the host contract of the convertible notes and measured at its fair value with changes in fair value included in net profit or loss. The liability component was measured at amortized cost.

The fair value of the put option was determined on the following basis:

(i) No fair value was attributed to the share conversion option. Management believed that the probability of the noteholders exercising the conversion option was very low because the prevailing share price of the Company was significantly below 128.575% of the principal amount of the notes.

(ii) The fair value of the liability component was determined by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability (instrument of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option).

(iii) Given (i) and (ii) above, the fair value of the put option was then determined by deducting the fair value of the liability component from the prevailing market price of the convertible notes.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

22. CONVERTIBLE NOTES *(Cont'd)*

On 21st May, 2002, the noteholders, by exercising their put option rights, redeemed a substantial portion of the convertible notes with an aggregate principal amount of US$209,685,000, at 128.575% of the principal amount together with accrued interest. Upon the redemption, the equity component attributable to the redeemed portion of the convertible notes amounting to approximately Rmb465 million was transferred to additional paid-in capital as at 21st May, 2002. The net shortfall of approximately Rmb42 million between (a) the sum of the relevant principal amount plus accrued interest and the 28.575% put premium settled upon redemption and (b) the sum of the amortized cost of the liability component attributable to the redeemed portion of the convertible notes and the total carrying amount of the put option value as at 21st May, 2003, was charged to the income statement as interest expense.

During the year ended 31st December, 2003, convertible notes with principal of US$20 million were converted by noteholders to 684,931 ADS (27,397,240 H shares equivalent) (2002: principal of US$200,000, converted to 6,849 ADS, 273,960 H shares equivalent). Upon the conversion, the equity component attributable to the converted portion of the convertible notes amounting to Rmb44 million was transferred to additional paid-in-capital (2002 Rmb0.44 million).

23. LONG-TERM LOANS FROM SHAREHOLDERS

Long-term loans from shareholders comprised the United States dollar ("US$") denominated bank loans on lent by HIPDC. These loans bear both fixed and floating interest rates that ranged from 3.62% to 4.01% per annum for the year ended 31st December, 2003 (2002: 4.01% to 7.40%), and are repayable in accordance with the repayment schedules set by the banks.

The shareholders' loans are repayable as follows:

	2003 '000	2002 '000
Within one year	**388,875**	388,891
Between one to two years	**—**	388,891
	388,875	777,782
Less: Amount due within one year included under current liabilities	**(388,875)**	(388,891)
	—	388,891

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

24. LONG-TERM BANK LOANS

Long-term bank loans comprised:

	The Company and its subsidiaries			The Company		
	2003		2002	2003		2002
	US$'000	Rmb'000	Rmb'000	US$'000	Rmb'000	Rmb'000
Renminbi bank loans (a)		**4,064,499**	2,053,000		**500,000**	—
United States dollar ("US$") bank loans (b)	**803,465**	**6,650,061**	8,340,253	**794,265**	**6,573,878**	8,247,547
		10,714,560	10,393,253		**7,073,878**	8,247,547

a. Renminbi bank loans were borrowed from PRC banks to finance the construction of the power plants of the Company and its subsidiaries. These loans bore fixed interest rates from 4.94% to 6.21% per annum for the year ended 31st December, 2003 (2002: 5.76% to 6.21%) and are repayable in accordance with the agreed repayment schedules set by the banks.

b. United States dollar bank loans were borrowed to finance the construction of the power plants of the Company and its subsidiaries. These loans bore interest at lending rates (both fixed and floating) ranging from 1.18% to 6.60% per annum for the year ended 31st December, 2003 (2002: 2.00% to 6.60%), and are repayable in accordance with the agreed repayment schedules set by the banks. The Company had entered into interest rate swap agreements with PRC banks to convert certain floating rate bank loans into fixed rate debts to hedge against the interest rate risk (See Note 38).

The long-term bank loans are repayable as follows:

	The Company and its subsidiaries		The Company	
	2003	2002	2003	2002
	'000	'000	'000	'000
Within one year	**2,409,240**	1,928,732	**1,756,074**	1,783,732
Between one to two years	**1,058,155**	2,179,281	**723,832**	1,532,726
Between two to five years	**2,940,506**	2,490,335	**1,920,313**	1,924,184
Over five years	**4,306,659**	3,794,905	**2,673,659**	3,006,905
	10,714,560	10,393,253	**7,073,878**	8,247,547
Less: Amount due within one year included under current liabilities	**(2,409,240)**	(1,928,732)	**(1,756,074)**	(1,783,732)
	8,305,320	8,464,521	**5,317,804**	6,463,815

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

25. OTHER LONG-TERM LOANS

Other long-term loans comprised:

	The Company and its subsidiaries			The Company	
	2003				
	Original currency '000	Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Renminbi loans		776,342	427,402	575,000	225,000
Foreign currency bank loans					
US$	21,429	177,358	—	—	—
Japanese Yen ("JPY")	1,785,714	137,970	—	—	—
		1,091,670	427,402	575,000	225,000

The other long term loans were drawn from:

	The Company and its subsidiaries		The Company	
	2003 '000	2002 '000	2003 '000	2002 '000
Long-term loan from WPDB	106,389	106,389	—	—
Long-term loan from Huaneng Finance	610,000	225,000	575,000	225,000
Long-term loan from Jiangsu International Trust and Investment Corporation	31,505	43,245	—	—
Long-term loan from Huaian Investment Company	8,980	25,050	—	—
Long-term loan from Jiangsu Electric Power Development Co,. Ltd	19,468	27,718	—	—
Long-term foreign loans on lent by Ministry of Finance	177,358	—	—	—
Long-term foreign loans on lent by Ministry of Finance	137,970	—	—	—
	1,091,670	427,402	575,000	225,000

The other long-term loans bear both fixed and floating interest rates, which ranged from 4.94% to 6.21% per annum for the year ended 31st December, 2003 (2002: 5.64% to 6.21%), and are repayable in accordance with the repayment schedules set by the contracts.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

25. OTHER LONG-TERM LOANS *(Cont'd)*

Other long-term loans are repayable as follows:

	The Company and its subsidiaries		The Company	
	2003 '000	2002 '000	2003 '000	2002 '000
Within one year	243,386	96,013	—	—
Between one to two years	267,044	106,389	225,000	—
Between two to five years	476,131	225,000	350,000	225,000
Over five years	105,109	—	—	—
	1,091,670	427,402	575,000	225,000
Less: Amounts due within one year included under current liabilities	(243,386)	(96,013)	—	—
	848,284	331,389	575,000	225,000

26. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	The Company and its subsidiaries		The Company	
	2003 '000	2002 '000	2003 '000	2002 '000
Accounts payable	635,860	471,609	470,676	409,500
Deferred revenue	987,500	939,564	987,500	939,564
Payable to contractors for construction	846,473	1,333,448	805,378	1,319,830
Other payable to contractors	207,257	140,328	157,603	131,129
Accrued interest	96,127	115,861	96,097	113,371
Others	569,300	733,540	389,262	670,094
	3,342,517	3,734,350	2,906,516	3,583,488

As at 31st December, 2003, the aging analysis of accounts payable was as follows:

	The Company and its subsidiaries		The Company	
	2003 '000	2002 '000	2003 '000	2002 '000
Within one year	595,994	465,624	438,352	406,265
Between one to two year	36,188	3,395	28,843	856
Over two years	3,678	2,590	3,481	2,379
	635,860	471,609	470,676	409,500

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

27. TAXES PAYABLE

Taxes payable comprised:

	The Company and its subsidiaries		The Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
VAT payable	**415,147**	291,456	**314,158**	184,992
Income tax payable	**472,850**	311,436	**272,394**	198,256
Others	**29,365**	17,297	**14,785**	12,413
	917,362	620,189	**601,337**	395,661

28. SHORT-TERM LOANS

Short-term loans are denominated in Renminbi and bear interest at the prevailing interest rates in the PRC, which ranged from 4.54% to 5.05% per annum for the year ended 31st December, 2003 (2002: 4.78% to 5.56%), and are repayable within one year (see Note 7(g)).

29. DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the applicable tax rates for the respective operating units.

The movement on the deferred income tax account is as follows:

	The Company and its subsidiaries		The Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
As at 1st January	**121,853**	—	**15,030**	—
Acquisitions *(Note 3)*	**(21,809)**	109,568	**(13,261)**	—
Charged to income statement *(Note 32)*	**(18,241)**	12,285	**(980)**	15,030
As at 31st December	**81,803**	121,853	**789**	15,030

The power plants acquired in 2003 (Note 3) recognized deferred tax assets for the temporary differences of amortization of prepaid land use rights, provisions for doubtful debt and others.

The Company and its subsidiary recognized deferred tax liabilities mainly arising from the acquisitions of the Shidongkou I Power Plant, Changxing Power Plant, Taicang Power Company and Huaiyin Power Company in 2002. The initial recognition of the identifiable assets and liabilities acquired was based on valuations performed by valuers. The resulting valuation surplus is not a tax deductible credit. Deferred tax liability of approximately Rmb107 million relating to this temporary difference was recorded in 2002.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

29. DEFERRED INCOME TAXES *(Cont'd)*

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

Deferred tax assets	The Company and its subsidiaries Difference in Amortization of prepaid land use rights '000	Provisions for doubtful debts '000	Others '000	Total '000	The Company Difference in Amortization of prepaid land use rights '000
As at 1st January, 2003	—	—	—	—	—
Acquisition of power plants	13,261	3,288	5,260	21,809	13,261
charged to income statement	(22)	(69)	(407)	(498)	(22)
As at 31st December, 2003	13,239	3,219	4,853	21,311	13,239

Deferred tax liabilities	The Company and its subsidiaries Difference in depreciation '000	The Company Difference in depreciation '000
As at 1st January, 2003	121,853	15,030
Credited to profit and loss account	(18,739)	(1,002)
As at 31st December, 2003	103,114	14,028

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	The Company and its subsidiaries		The Company	
	2003 '000	2002 '000	**2003 '000**	2002 '000
Deferred tax assets	**(21,311)**	—	**(13,239)**	—
Deferred tax liabilities	**103,114**	121,853	**14,028**	15,030
	81,803	121,853	**789**	15,030
The amounts shown in the consolidated balance sheet include the following:				
Deferred tax assets to be recovered after more than 12 months	**(21,311)**	—	**(13,239)**	—
Deferred tax liabilities to be settled after more than 12 months	**84,375**	121,853	**1,003**	15,030

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

30. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 31st December, 2003, the net current liabilities of the Company and its subsidiaries amounted to approximately Rmb939 million (2002: net current assets Rmb33 million). On the same date, the total assets less current liabilities was approximately Rmb44,367 million (2002: Rmb40,809 million).

31. HOUSING SCHEME

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 7%-11% 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's and its subsidiaries' contribution out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31st December, 2003, the Company and its subsidiaries contributed approximately Rmb77 million (2002: Rmb71 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees. For the year ended 31st December, 2003, the housing benefits provided by the Company and its subsidiaries to the employees amounted to approximately Rmb29 million (2002: Rmb18 million) which is recorded as a long-term deferred asset and amortized over the remaining average service life of the relevant employees which is estimated to be about 10 years.

The Company and its subsidiaries have no further obligation for housing benefits.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

32. INCOME TAX EXPENSE

Income tax expense comprised:

	2003 '000	2002 '000
Current tax expense	1,116,100	963,510
Deferred tax *(Note 29)*	(18,241)	12,285
Share of tax of associates *(Note 11)*	51,582	5,059
	1,149,441	980,854

The reconciliation of the effective income tax rate to the statutory income tax rate in the PRC is as follows:

	2003	2002
Average statutory tax rate	18%	18%
Effect of tax holiday	(1%)	(1%)
Others	—	2%
Effective tax rate	17%	19%

The aggregate effect of the tax holiday was approximately Rmb61 million for the year ended 31st December, 2003 (2002: Rmb58 million).

The average statutory tax rate for the year ended 31st December, 2003 represented the weighted average tax rate of the head office and the individual power plants calculated on the basis of the relative amounts of net profit before tax and the applicable statutory tax rates.

33. MINORITY INTERESTS

	2003 '000	2002 '000
As at 1st January	910,704	486,261
Acquisitions *(Note 3)*	115,639	330,993
Minority shares in net profit of subsidiaries	183,894	156,034
Capital injection from minority shareholders of subsidiaries	77,632	—
Dividends paid	(132,672)	(62,584)
As at 31st December	1,155,197	910,704

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

34. EARNINGS PER SHARE

	2003 Net Profit '000	2003 Weighted Average Shares '000	2003 Per Share Amount	2002 Net Profit '000	2002 Weighted Average Shares '000	2002 Per Share Amount
Earnings per Share						
Net profit attributable to shareholders	**5,430,408**	**6,019,114**	**0.90**	3,921,004	6,000,099	0.65
Finance costs in relation to convertible notes and the relevant put option (net of tax effect)	**2,746**	**—**		41,368	—	
Effect of assumed conversion	**—**	**8,715**		—	139,754	
Diluted Earnings per Share						
Net profit attributable to shareholders plus effect of assumed conversion	**5,433,154**	**6,027,829**	**0.90**	3,962,372	6,139,853	0.65

Basic earnings per share was computed by dividing the net profit attributable to shareholders for the year by the weighted average number of ordinary shares outstanding during the year. On a diluted basis, both net profit and the weighted average number of ordinary shares outstanding were adjusted on the assumption that the convertible notes (see Note 22) had been fully converted at the beginning of the year.

35. NOTES TO CASH FLOW STATEMENT

a. Analysis of cash and cash equivalents

As at 31st December, 2003, cash and cash equivalents consisted of:

	The Company and its subsidiaries 2003 '000	The Company and its subsidiaries 2002 '000	The Company 2003 '000	The Company 2002 '000
Cash in Rmb	**726**	266	**352**	253
Current deposits				
Rmb	**3,763,015**	2,815,473	**3,088,565**	2,516,803
US$ denominated	**234,468**	186,862	**203,006**	186,862
JPY denominated	**130,439**	—	**—**	—
Total cash and cash equivalents	**4,128,648**	3,002,601	**3,291,923**	2,703,918

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

35. NOTES TO CASH FLOW STATEMENT *(Cont'd)*

b. Undrawn borrowing facilities

The Company has obtained unsecured borrowing facilities from banks amounting to Rmb7 billion (2002: Rmb7 billion) and Rmb5 billion (2002: Rmb5 billion) to finance its funding requirements for a period of three years starting from 18th September, 2003 and 4th March, 2002, respectively. As at 31st December, 2003, the unutilized borrowing facilities amounted to Rmb11,998 million (2002: Rmb11,993 million). Such borrowing facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

36. OBLIGATIONS AND COMMITMENTS

a. Capital and Operational Commitments

Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Commitments outstanding as at 31st December, 2003 not provided for in the balance sheet were as follows:

	The Company and its subsidiaries		The Company	
	2003	2002	**2003**	2002
	'000	'000	**'000**	'000
Authorized and contracted for				
- purchase of inventories	**2,279,191**	2,012,170	**1,829,854**	2,012,170
- construction	**9,793,244**	643,344	**5,183,916**	642,344
	12,072,435	2,655,514	**7,013,770**	2,654,514

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

36. OBLIGATIONS AND COMMITMENTS *(Cont'd)*

b. Operating Lease Commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 7). Some of the leases contain renewal options. Most of the leases contain escalation clauses. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debts or further leasing.

Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Head Office, the Nanjing Power Plant and the Shanghai Power Plant are as follows:

	2003 **'000**	2002 '000
Land and buildings		
- not later than one year	**32,334**	32,334
- later than one year and not later than two years	**7,334**	32,334
- later than two years and not later than five years	**22,002**	22,002
- later than five years	**284,360**	291,694
	346,030	378,364

In accordance with the land use operating lease agreement signed by the Dezhou Power Plant and the relevant land management authorities for the land occupied by Dezhou Phase I and Phase II, annual rental is approximately Rmb30 million effective from June 1994 and is subject to revision five years after the said date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended 31st December, 2003, the annual rental is approximately Rmb30 million.

37. CONTINGENT LIABILITIES

	The Company and its subsidiaries		The Company	
	2003 **'000**	2002 '000	**2003** **'000**	2002 '000
Guarantee for loan facilities				
- granted to an associate	**339,250**	399,250	**339,250**	399,250
- granted to subsidiaries	**—**	—	**2,460,613**	1,845,706
	339,250	399,250	**2,799,863**	2,244,956

38. INTEREST RATE SWAPS

As at 31st December, 2003, the notional amount of the outstanding interest rate swap agreements was approximately US$20.5 million (2002: US$52 million). Such agreements will mature in September 2004. For the year ended 31st December, 2003, there was a gain amounting to approximately Rmb11.8 million (2002: Rmb2.2 million) arising from changes in the fair value of the interest rate swaps subsequent to initial recognition. Since the hedging relationship does not meet all of the conditions required for special hedge accounting as set out in IAS 39, the gain was credited to earnings in current year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of Rmb unless otherwise stated)

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company and its subsidiaries' financial instruments not carried at fair value are cash and cash equivalents, temporary cash investments, accounts receivables, other current assets, other non-current assets, accounts and other payables, short-term borrowings, long-term borrowings and held-to-maturity investments.

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, temporary cash investments, short-term investments, short-term borrowings and other current financial assets and liabilities approximated their fair value due to the short-term maturity of these instruments.

Similarly, the historical cost carrying amounts of receivables and payables which are all subject to normal trade credit terms approximate their fair values.

Available-for-sale investments are measured at cost as they are not traded in an active market and their fair value cannot be reliably measured.

The estimated fair value of long-term debt including current maturities was Rmb12.43 billion as at 31st December, 2003 (2002: Rmb11.93 billion). The fair value of long-term debt is determined by discounting the stream of future payments of interest and principal at the prevailing market interest rates for comparable instruments. The book value of these liabilities was Rmb12.20 billion as at 31st December, 2003 (2002: Rmb11.75 billion).

40. BUSINESS RISK

The Company and its subsidiaries conduct their operations in the PRC and accordingly investing in the shares of the Company and its subsidiaries are subject to the risks of, among others, the PRC's political, economic and legal environment, restructuring of the PRC electric power industry and regulatory reform, new regulation pertaining to setting of power tariff and availability of fuel supply at stable price.

For the year ended 31st December, 2003, the Company and its subsidiaries sold electricity to five major customers, each of which amounted to 10% or more of the operating revenue. In aggregation, these customers represented approximately 77% (2002: 90%) of the operating revenue of the Company and its subsidiaries.