

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 1. COMPANY BACKGROUND

Huaneng Power International, Inc. (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) as a Sino-foreign joint stock company on 30th June, 1994.

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

Five of the power plants were already in commercial operations at time of incorporation of the Company in 1994 (hereinafter collectively referred to as the “five original operating plants”). The five original operating plants were previously divisions of Huaneng International Power Development Corporation (“HIPDC”), which is a Sino-foreign equity joint venture established in the PRC. In accordance with the Reorganization Agreement dated 30th June, 1994, the Company acquired the assets, liabilities and businesses of the five original operating plants from HIPDC which in return received an equity interest in the Company (the “Reorganization”). The other operating plants were either constructed or acquired by the Company after the Reorganization.

The Company’s Overseas Listed Foreign Shares were listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 6th October, 1994 and 4th March, 1998, respectively. The A shares of the Company issued to the public were listed on the Shanghai Stock Exchange on 6th December, 2001.

The Company’s ultimately parent company is China Huaneng Group (“Huaneng Group”). Huaneng Group is a state-owned enterprise registered in the People’s Republic of China. For details, please refer to Note 8(1).

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 1. COMPANY BACKGROUND (Cont'd)

Particulars of operating power plants of the Company, its subsidiaries and associates 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
Wholly-owned power plants:			
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")	595	595	Shandong
Huaneng Changxing Power Plant (the "Changxing Power Plant")	250	250	Zhejiang
Shanghai Shidongkou Power Plant (the "Shidongkou I Power Plant")	1,200	1,200	Shanghai
Huaneng Xindian Power Plant (the "Xindian Power Plant")**	450	450	Shandong
Subsidiaries:			
Huaneng Weihai Power Company (the "Weihai Power Company")	850	510	Shandong
Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company")	600	450	Jiangsu
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company")	400	255	Jiangsu
Huaneng Yushe Power Company (the "Yushe Power Company")**	200	120	Shanxi
Associates:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	700	178	Shandong
Shenzhen Energy Group Co., Ltd. (the "SEG")*	1,844	461	Guangdong
	18,356	15,736	

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 1. COMPANY BACKGROUND (Cont'd)

- \* On 28th January, 2003, the Company entered into an agreement with Shenzhen Investment Holding Corporation (“Shenzhen Investment”) and SEG. Pursuant to which, SEG increased its original registered capital by 10%. The Company subscribed equity interest representing 10% of SEG’s expanded share capital and acquired additional equity interest representing 15% of SEG’s expanded share capital from Shenzhen Investment at a total consideration of Rmb 2.39 billion. The acquisition became effective on 22nd April, 2003 after obtaining all necessary government approvals on the transaction and the payment of the consideration.
- \*\* On 5th June, 2003, the Company entered into an agreement with Huaneng Group, pursuant to which the Company acquired from Huaneng Group 55% equity interest in Huaneng Qinbei Power Company (the “Qinbei Power Company”), 60% equity interest in Yushe Power Company and all the assets and liabilities of Xindian Power Plant at a total consideration of Rmb550 million. The acquisition became effective on 27th October, 2003 after obtaining all necessary government approvals on the transaction and the payment of the consideration. Qinbei Power Company has two 600MW units under construction.

## 2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Effective 1st July, 2003, the Company has adopted the revised “Accounting Standards for Business Enterprises - Events Occurring After the Balance Sheet Date”. Prior to the adoption of the revised standard, profit distribution was transferred out of shareholders’ equity and cash dividends were recognized as payables in the period related to which the Board of Directors proposed the distribution plan. Subsequent to 1st July 2003, profit distribution is recognized as a liability in the period when the distribution plan is approved at the general meeting of the shareholders. This change in accounting policy has been accounted for retroactively, and as a result, the net assets as at 1st January, 2003 and 1st January, 2002 have been increased by Rmb2,040,093,146 and Rmb1,800,000,000, respectively. For details, please refer to Note 6(20).

## 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### (1) Basis of preparation

The financial statements have been prepared in accordance the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises and relevant regulations as promulgated by the government of the PRC.

### (2) Accounting year

The financial year starts on 1st January and ends on 31st December.

### (3) Reporting currency

The Company and its subsidiaries use the Renminbi as reporting currency.

### (4) Basis of accounting and measurement bases

Accrual method is used as the basis of accounting. Assets are initially recorded at their costs. Subsequently, if they are impaired, impairment provisions are taken accordingly.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### **3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

#### **(5) Foreign currency translation**

Transactions denominated in foreign currencies are translated into Rmb at the exchange rates stipulated by the People's Bank of China (the "PBOC") prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the exchange rates stipulated by the PBOC at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account, except that when they are attributable to foreign currency borrowings that have been taken out specifically for construction of fixed assets, which are capitalized as part of the fixed asset costs accordingly.

#### **(6) Cash and cash equivalents**

For the purpose of the cash flow statement, cash refers to all cash on hand and deposits held at call with banks. Cash equivalents refers to short-term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statement, restricted cash and time deposits with maturity beyond of three months are not considered as cash and cash equivalents. Their movements are considered as cash flow from investing activities.

#### **(7) Receivables and provision for bad debts**

Receivables include accounts receivable and other receivables.

The Company and its subsidiaries make provision for bad debts using the "allowance method". Receivables are netted with the provision for bad debts.

Provisions for bad debts are made based on the assessment of the collectibility of the receivables. Based on the actual circumstances and experiences, the Company and its subsidiaries made specific provisions against balances that have been assessed to be uncollectible.

For balances where there are clear evidence that they cannot be recovered (e.g. creditor has been deregistered, declared bankruptcy, unable to meet its liabilities as they fall due or having serious cash flow problem), then bad debts are recognized and the balances are written off against the provision.

#### **(8) Inventories**

Inventories include fuel for power generation, materials and supplies for repairs and maintenance. Inventories are recorded at actual cost and are charged to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate, using weighted average cost basis. Cost of inventories includes costs of purchase and transportation costs.

Inventories at balance sheet date are stated at lower of cost and net realizable values. When their costs exceed their net realizable value, the excess of their original cost over their net realizable value is taken as a "provision for loss on realization of inventories". Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to conclude the sale.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

#### (9) Long-term investments

Long-term investments comprise equity investments in companies that the Company does not intend to dispose of within one year, bonds and other debt investments that are not readily convertible into cash or the Company does not intend to dispose.

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% of the voting rights, or otherwise has power to govern the investees' financial and operating policies. Associates generally represent investees in which the Company has an interest of between 20% to 50% (excluding 20% and 50%) of the voting rights or otherwise has significant influence over the financial and operating policies.

##### (a) Equity investment

Long-term equity investments are recorded at the actual cost of acquisition. The Company accounts for long-term equity investments in subsidiaries and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When long-term equity investments acquired prior to 17th March, 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over a certain period. According to Cai Kuai [2003] No.10, when long-term equity investments acquired after 17th March, 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over a certain period.

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the period is recognized as an investment income or loss. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

##### (b) Debt investment

Long-term debt investments are recorded at cost on acquisition, less unpaid interest which has been accrued. Interest income from investments is computed for each period.

Entrusted loans refers to loans that the Company provides to other companies via intermediary financial institutions with maturities over one year. Interest income is accrued and recorded as income in each period. Interest receivable that has been accrued, but cannot be collected when due, should be written off. At the balance sheet date, when events indicate that the principal amount is higher than the recoverable amount of the entrusted loans, provision for impairment loss will be made.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

#### (10) Fixed assets and depreciation

Fixed assets include buildings, plant and other equipment related to the production and operation of the Company and its subsidiaries with useful lives over one year. Effective from 1st January, 2001, when construction takes place on the Company's land and the construction is for its own use, the carrying value of land use right is capitalized as part of the cost of buildings.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets obtained upon Reorganization were initially recorded at their appraised value approved by relevant government authorities.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost of each asset, net of estimated residual values, over their estimated useful lives. When a provision for impairment loss has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life.

The estimated useful lives, estimated residual value and depreciation rates of the fixed assets of the Company and its subsidiaries are as follows:

Categories	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	8-35 years	0%-11%	2.54%-12.50%
Electric utility plant in service	4-30 years	0%-11%	2.97%-25.00%
Transportation and transmission facilities	13-27 years	5%-11%	3.30%-7.31%
Others	5-13 years	0%-11%	6.85%-20.00%

When fixed assets are sold, transferred, disposed of or destroyed, proceeds reduced by the carrying amount of the assets, related taxes and expenses, are included in non-operating income or expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets.

#### (11) Construction-in-progress

Construction-in-progress represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which include interest costs incurred on specific borrowings used to finance the capital assets, prior to the date at which the asset reaches the expected usable condition. Construction-in-progress is transferred to the fixed assets account and depreciation commences when the assets has been substantially completed and reaches the expected usable condition.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### **3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

#### **(12) Borrowing costs**

The borrowings are initially recognized at the amount of the proceeds received. Ancillary costs incurred in connection with the borrowing arrangement are expensed as incurred.

Interest, ancillary costs incurred, and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the assets when the capital expenditures and borrowing costs have been incurred and the activities to enable the assets to reach their expected usable condition have commenced. The capitalization of borrowing costs ceases when the construction-in-progress has reached the asset's expected usable condition. Borrowing costs incurred thereafter are recognized as expenses in the period in which they are incurred.

The capitalization amount of interest for each accounting period is determined by using the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period and the weighted average capitalization rate of the relevant borrowings. The amount of interest for each capitalization period shall not exceed the actual amount of interest incurred of the specific borrowings during that period. Exchange difference for specific borrowings denominated in foreign currency and ancillary costs incurred in connection with the arrangement of specific borrowings are capitalized in the period in which they are incurred.

Interests incurred in connection with other borrowings are recognized as expenses in the period in which they are incurred.

#### **(13) Intangible assets**

Intangible assets include land use rights, goodwill and negative goodwill and are stated at cost net of accumulated amortization.

The land use rights acquired directly from the land bureau, through payment of land use fees, are initially recorded at cost. They are amortized using the straight-line method over the land use rights period of 20-70 years. Effective 1st January, 2001, when construction is taking place on land for which will eventually be utilized by the Company, then the carrying value of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January, 2001 that have already been constructed and utilized by the Company and its subsidiaries are not reclassified.

Goodwill and negative goodwill arose from acquisitions are amortized over 10 years on a straight-line basis.

#### **(14) Long-term deferred expenses**

Long-term deferred expenses represent other deferred expenses with amortization period of more than one year. They are stated at cost and amortized using the straight-line method over the expected beneficial period of the asset.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

#### (15) Asset impairment

The recognition of impairment provisions against entrusted loans, receivables and loss on realization of inventories is described in the respective accounting policies. When events or changes in circumstances indicate that the carrying value of other individual assets is higher than their recoverable amounts, then test for impairment is undertaken. If the carrying amount is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss account.

The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.

If there are indications that the impairment loss recognized for an asset in prior years no longer exist or have decreased, then the recoverable amount of the asset will be assessed. If the carrying value of the asset is lower than the reassessed recoverable amount, then the provision for asset impairment is reversed to the extent of impairment loss being recognized in the previous years.

#### (16) Convertible notes

Convertible notes are stated at principal plus interest receivable.

As mentioned in Note 6(16), the convertible notes are issued at par value with redemption rights. The notes might be redeemed, at the option of the noteholders, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest. Such premium is accrued together with the interest payable on the notes from date of issuance to date of redemption. The accounting treatment of accrued interest of the convertible notes is the same as that of borrowing costs.

#### (17) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised by the local government authorities in accordance with relevant regulations. Except for the above social security benefits as disclosed, the Company and its subsidiaries have no additional material commitment to other employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on percentages (47% to 62.5%) of the total salary of employees, subject to certain ceilings. Contributions to the plans are charged to the profit and loss account as incurred.

#### (18) Profit distribution

If a profit distribution plan is proposed by the Board of Directors after the balance sheet date but before the date the financial statements are authorized for issuance, statutory surplus reserve fund, statutory public welfare fund and discretionary surplus reserve fund are recognized in related equity account.

Profit distribution is transferred out of owners' equity in the period when the distribution plan is approved by the shareholders at their annual general meeting.



(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

#### (19) Revenue recognition

Revenue is recognized under the following methods:

(a) Operating revenue

Operating revenue represents amounts earned for electricity generated and transmitted to the ultimate consumers through respective provincial or regional grid companies (net of Value Added Tax (“VAT”). The Company and its subsidiaries bill the respective power companies based on the actual quantity of electricity transmitted or sold to the power grid controlled and owned by the respective grid companies and recognize revenue at the end of each month.

(b) Interest income

Interest income is recognized on a time proportion basis on the amounts deposited/entrusted lending and the effective yield.

(c) Management service income

As mentioned in Note 8(5)(l), the Company provides management service to certain power plants owned by Huaneng Group and HIPDC. The Company recognized the service income as other income when service was provided in accordance with the management service agreement.

#### (20) Lease

Leases of fixed assets where all the risks and rewards of ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases. Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

#### (21) Accounting for income tax

The Company and its subsidiaries account for enterprise and local income taxes using the tax payable method. Tax expense is recognized based on current period taxable income and tax rates.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

### 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

#### (22) Consolidation of financial statements

The consolidated financial statements, including the financial statements of the Company and its subsidiaries, are prepared in accordance with the Cai Kuai Zi (1995) 11 “Tentative Regulations for Consolidated Financial Statements” and relevant regulations issued by the Ministry of Finance of the PRC.

Subsidiaries are consolidated from the date on which control is obtained by the Company. Major intercompany balances, transactions and unrealized gains between the Company and its subsidiaries are eliminated upon consolidation. Minority interests in the consolidated financial statements represent the portion of the shareholders equity of the subsidiaries that are not owned by the Company.

When the accounting policies adopted by subsidiaries are not consistent with those adopted by the Company and such inconsistency created a material impact to the consolidated financial statements, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Company.

## 4. TAXATION

### (1) Value added tax

The electricity sales of the Company and its subsidiaries is subjected to Value Added Tax (“VAT”). The applicable tax rate is 17%. Input VAT from purchase of raw materials and other production materials can be netted off against output VAT from sales.

### (2) Income tax

According to the relevant income tax law, Sino-foreign enterprises are, in general, subject to statutory income tax of 33% (30% of Enterprise Income Tax (“EIT”) and 3% of local income tax). If these enterprises are located in specified location or city, or specifically approved by the State Tax Bureau, a lower tax rate can be enjoyed. Effective from 1st January, 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, a reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country. The Company applied this rule in all operating power plants after the approval of State Tax Bureau since 1st January, 1999.

Pursuant to “Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises”, all power plants (except for the Dezhou Power Plant, Jining Power Plant, Changxing Power Plant, Shidongkou I Power Plant, Xindian Power Plant and Dalian Power Plant 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”).

In accordance with Guo Shui Han [1994] No.381, the head office, the Shandong branch (the former headquarter of Shandong Huaneng Power Development Company Limited (“Shandong Huaneng”)) and all the individual power plants make their income tax payment to local tax bureau individually.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 4. TAXATION (Cont'd)

### (2) Income tax(Cont'd)

The statutory income tax rates applicable to the head office, the Shandong branch and the operating individual power plants after the expiration of tax holiday are summarized as follow:

	EIT rate	Tax holiday period
Head Office	15.0%	None
Dalian Power Plant (including Dalian Phase II)	18.0%	Till 31st December, 1994
Shangan Power Plant	18.0%	Till 31st December, 1996
Shangan Phase II	18.0%	Till 31st December, 2003
Nantong Power Plant	15.0%	Till 31st December, 1996
Nantong Phase II	15.0%	Till 31st December, 2004
Fuzhou Power Plant	15.0%	Till 31st December, 1995
Fuzhou Phase II	15.0%	Till 31st December, 2004
Shantou Oil-Fired Plant	15.0%	Till 31st December, 1994
Shantou Power Plant	15.0%	Till 31st December, 2005
Shanghai Power Plant	16.5%	Till 31st December, 1998
Dandong Power Plant	18.0%	Not commenced yet
Nanjing Power Plant	15.0%	Till 31st December, 2001
Shandong Branch	17.0%	None
Dezhou Power Plant	17.0%	None
Jining Power Plant	15.0%	None (Effective from 1st September, 2002)
Changxing Power Plant	16.5%	None (Effective from 1st July, 2002)
Shidongkou I Power Plant	18.0%	None
Xindian Power Plant*	18.0%	None
Weihai Power Company	33.0%	None
Taicang Power Company	33.0%	None
Huaiyin Power Company	33.0%	None
Yushe Power Company	33.0%	None

\* The Company acquired all of the assets and liabilities of Xindian Power Plant in 2003. As such, Xindian Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises and it is in the process of applying to the relevant tax bureau for such preferential treatment.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

#### 4. TAXATION (Cont'd)

##### (2) Income tax (Cont'd)

The actual income tax rates applicable to the head office, the Shandong branch and the operating individual power plants, after taking the effect of tax holiday into consideration are summarized as follow:

	Approved File No.	2003	2002
Head Office	Guo Shui Han [1997]368	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II)	Guo Shui Han [1994]381	18.0%	18.0%
Shangan Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	18.0%
Shangan Phase II	Guo Shui Han [1994]381 & Guo Shui Han [2000]194	9.0%	9.0%
Nantong Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Nantong Phase II (i)	Su Guo Shui Han [2003]248 & Tong Guo Shui Wai Zi [2003] 1	7.5%	7.5%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Phase II (ii)	Min Guo Shui Han [2003]37	7.5%	7.5%
Shantou Oil-Fired Plant	Guo Shui Han [1994]381	15.0%	15.0%
Shantou Power Plant (iii)	Approved by Shantou State Tax Bureau	10.0%	7.5%
Shanghai Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant (vii)	Dan Guo Shui She Wai [1999]7	—	—
Nanjing Power Plant	Ning Guo Shui Wai Zi [1997]039	15.0%	15.0%
Shandong Branch	Guo Shui Han [2001]866	17.0%	17.0%
Dezhou Power Plant	Guo Shui Han [2001]866	17.0%	17.0%
Jining Power Plant (iv)	Guo Shui Han [2002]1063 and Ji Guo Shui Han [2003]1	15.0%	15.0%
Changxing Power Plant (v)	Guo Shui Han [2002]1030	16.5%	16.5%
Shidongkou I Power Plant	Hu Guo Shui Ba Shui [2003]31	18.0%	33.0%
Xindian Power Plant (vi)	Not applicable	18.0%	Not applicable
Weihai Power Company	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	33.0%
Huaiying Power Company	Not applicable	33.0%	33.0%
Yushe Power Company (vi)	Not applicable	33.0%	Not applicable

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 4. TAXATION (Cont'd)

### (2) Income tax (Cont'd)

- (i) 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.
- (ii) 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.
- (iii) 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%.
- (iv) Effective from 1st September, 2002, Jining Power Plant enjoyed an income tax rate of 15%.
- (v) Effective from 1st July, 2002, Changxing Power Plant enjoyed an income tax rate of 16.5%.
- (vi) Not applicable in 2002 as they were not subsidiaries or branches of the Company.
- (vii) The tax holiday of Dandong Power Plant has not commenced yet as it has not recovered all of the accumulated deficits.

## 5. SUBSIDIARIES

As at 31st December 2003, the Company had equity interests in the following subsidiaries, which are included in the consolidated financial statements:

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Weihai Power Company	Weihai, Shandong 22nd November, 1993	Rmb761,832,800	Power generation	Rmb457,103,040	60%
Taicang Power Company	Suzhou Industrial Park, Jiangsu 19th June, 1997	Rmb682,840,000	Power generation	Rmb512,130,000	75%
Huaiyin Power Company	Huaiyin, Jiangsu 26th January, 1995	Rmb265,000,000	Power generation	Rmb168,646,000	63.64%
Qinbei Power Company	Jiyuan, Henan 12th July, 1995	Rmb10,000,000	Power generation	Rmb148,200,000	55%
Yushe Power Company	Dengyu village, Yushe county, Shanxi 29th November, 1994	Rmb80,000,000	Power generation	Rmb48,000,000	60%

As at 31st December, 2003, Yushe Power Company, one of the Company's subsidiaries, had 95% equity interests in Shanxi Huaneng Yushe Yuanheng Service Company ("Yuanheng Company"). As at 31st December, 2003, the registered capital of Yuanheng Company was Rmb3,000,000, and Yushe Power Company's investment in Yuanheng Company was Rmb2,850,000. The principal operating activities of Yuanheng Company is providing logistic services and other services to Yushe Power Company. As at 31st December, 2003, the total assets of Yuanheng Company amounted to Rmb18,276,165, and net assets amounted to Rmb2,186,689. For the period from the date when Yushe Power Company became a subsidiary of the Company to 31st December, 2003, the net profit of Yuanheng Company amounted to Rmb815,270. Since the assets, liabilities and operating result of Yuanheng Company are immaterial to the Company, it is not included in the consolidated financial statement.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (1) Cash and cash equivalents

	31st December, 2003			31st December, 2002		
	Original currency amount	Exchange rate	Rmb equivalent	Original currency amount	Exchange rate	Rmb equivalent
Cash - RMB			726,410			266,342
Bank deposit - RMB			4,018,311,639			3,610,632,507
- USD	34,328,609	8.2767	284,127,729	66,019,558	8.2773	546,463,686
- Japanese yen	1,688,242,236	0.0773	130,438,660	—		—
Sub-total			4,432,878,028			4,157,096,193
Total cash and cash equivalents			4,433,604,438			4,157,362,535

The cash and cash equivalents as stated in the cash flow statement comprised the following:

	31st December, 2003
Cash	4,433,604,438
Less: Time deposit with maturity of more than 3 months	(144,995,813)
Restricted cash	(159,960,611)
Cash and cash equivalents as at 31st December, 2003	4,128,648,014
Less: Cash and cash equivalents as at 31st December, 2002	(3,002,601,470)
Net Increase in cash and cash equivalents	1,126,046,544

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (2) Notes receivable

	31st December, 2003	31st December, 2002
Banking notes receivable	149,940,000	—
Commercial notes receivable	297,260,000	472,750,000
	<b>447,200,000</b>	<b>472,750,000</b>

As at 31st December, 2003 and 31st December, 2002, all the notes receivable were unsecured notes receivable.

### (3) Accounts receivable and other receivables

#### (i) Accounts receivable

	31st December, 2003	31st December, 2002
Accounts receivable	2,356,825,998	1,889,082,774

Aging of the accounts receivable was as follows:

Aging	31st December, 2003		31st December, 2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,353,129,998	100	1,884,462,774	100
1 - 2 years	—	—	4,620,000	—
2 - 3 years	3,696,000	—	—	—
	<b>2,356,825,998</b>	<b>100</b>	<b>1,889,082,774</b>	<b>100</b>

All accounts receivable represented receivable from the provincial or regional grid companies for the sale of electric power. Since these accounts receivable are collectible, no bad debt provision was provided by the Company and its subsidiaries.

As at 31st December, 2003, the five largest accounts receivable of the Company and its subsidiaries amounted to Rmb1,966,974,945 (31st December, 2002: Rmb1,607,995,057), representing 83.46% of total accounts receivable (31st December, 2002: 85.12%).

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (3) Accounts receivable and other receivables (Cont'd)

#### (ii) Other receivables

	31st December, 2003	31st December, 2002
Other receivables	214,605,918	124,038,553
Less: bad debt provision	(53,885,032)	(21,443,406)
	<b>160,720,886</b>	102,595,147

Aging and bad debt provision for other receivables were as follow:

Aging	31st December, 2003			31st December, 2002		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	88,240,614	41	(2,647,218)	51,988,624	42	(1,559,659)
1-2 years	18,827,094	9	(1,564,813)	28,088,594	23	(842,658)
2-3 years	55,952,155	26	(1,678,565)	22,129,117	18	(663,874)
Over 3 years	51,586,055	24	(47,994,436)	21,832,218	17	(18,377,215)
	<b>214,605,918</b>	100	<b>(53,885,032)</b>	124,038,553	100	(21,443,406)

Breakdown of other receivables was as follow:

	31st December, 2003	31st December, 2002
Prepayments for materials	4,667,925	26,468,978
Receivable from employees for sales of staff quarters	10,272,586	10,086,707
Social insurance funds	14,680,384	14,442,688
Petty cash	11,103,320	3,328,956
Transmission fee refund receivable from Shandong Electric Power Corporation	19,067,120	—
Payment on behalf of Huai'an Huaneng Shiye Company	21,735,192	—
Others	133,079,391	69,711,224
	<b>214,605,918</b>	124,038,553

As at 31st December, 2003, the five largest other receivables of the Company and its subsidiaries amounted to Rmb82,448,358 (31st December, 2002: Rmb54,172,387), representing 38.42% of total other receivables (31st December, 2002: 43.67%).

As at 31st December, 2003 and 31st December, 2002, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company.

See Note 8 for related party transactions.



(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (4) Inventories

	31st December, 2003	31st December, 2002
Fuel (coal and oil) for power generation	308,861,120	434,725,588
Material and spare parts	512,919,617	518,237,161
	<b>821,780,737</b>	952,962,749
Less: provision for inventory obsolescence-spare parts	(13,621,461)	(12,238,901)
	<b>808,159,276</b>	940,723,848

Movements of provision for inventory obsolescence during the year are analyzed as follows:

	Provision for inventory obsolescence
31st December, 2002	(12,238,901)
Current year addition	(2,262,847)
Current year reversal	880,287
31st December, 2003	(13,621,461)

### (5) Other current assets

Other current assets represented receivable from Shantou Harbor Group Company Limited for coal-port construction. On 28th January, 2003, Shantou Harbor Group Company Limited had repaid the amount to the Company.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (6) Long-term investments

	1st January, 2003	Current year additions	Current year decrease	31st December, 2003
Long-term equity investment				
Consolidated difference in value (i)	313,862,886	908,047,944	(88,648,197)	1,133,262,633
Associates (ii)	200,960,043	1,816,809,699	(4,830,110)	2,012,939,632
Other long-term equity investments (iii)	254,989,551	—	—	254,989,551
Others	6,364,276	—	(521,561)	5,842,715
	776,176,756	2,724,857,643	(93,999,868)	3,407,034,531
Less: current portion of other long-term investments	(25,160)	—	25,160	—
Long-term equity investments	776,151,596	2,724,857,643	(93,974,708)	3,407,034,531
Long-term debt investments	10,137,770	—	(10,042,210)	95,560
Less: current portion of long-term debt investments	—	(83,060)	—	(83,060)
Long-term debt investments	10,137,770	(83,060)	(10,042,210)	12,500
Total long-term investments	786,289,366	2,724,774,583	(104,016,918)	3,407,047,031

As at 31st December, 2003 and 31st December, 2002, there was no indication of impairment of long-term investments of the Company and its subsidiaries and therefore no provision of impairment of long-term investments was made.

The long-term investments of the Company and its subsidiaries are not subject to restriction on conversion into cash or restriction on remittance of investment income.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (6) Long-term investments (Cont'd)

- (i) Equity investment difference that resulted in consolidated difference in value

Consolidated difference in value represents the difference between the considerations paid for the acquisitions of Taicang Power Company, Huaiyin Power Company, Qinbei Power Company and SEG and the proportionate share of the net assets of these four companies. Details are summarized as follows:

Name	Amortization period	Original cost	Balance at 1st January, 2003	Current year additions	Current year amortization	Accumulated amortization	Balance at 31st December, 2003
Taicang Power Company	10 years	191,587,073	180,549,248	2,203,583	(18,938,349)	(27,772,591)	163,814,482
Huaiyin Power Company	10 years	151,623,305	133,313,638	15,285,580	(15,162,331)	(18,186,418)	133,436,887
Qinbei Power Company	10 years	96,461,357	—	96,461,357	(1,607,689)	(1,607,689)	94,853,668
SEG	10 years	794,097,424	—	794,097,424	(52,939,828)	(52,939,828)	741,157,596
		1,233,769,159	313,862,886	908,047,944	(88,648,197)	(100,506,526)	1,133,262,633

- (ii) Investment in associates

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Associates:					
Rizhao Power Company	Rizhao, Shandong 20th March, 1996	US\$150 million	Power generation	Rmb317.5 million	25.5%
SEG	Shenzhen, Guangdong 16th July, 1997	Rmb955.56 million	Development, production and sale of energy, and energy construction project	Rmb2,390 million	25%

Name	Investment period	Investment cost movement		
		1st January, 2003	Current year additions	31st December, 2003
Rizhao Power Company	20 years	231,868,800	—	231,868,800
SEG	No specific terms	—	1,595,902,576	1,595,902,576
		231,868,800	1,595,902,576	1,827,771,376

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (6) Long-term investments (Cont'd)

#### (ii) Investment in associates (Cont'd)

Name	1st January, 2003	Accumulated equity pick-up movement		31st December, 2003
		Current year profit/(loss)	Other additions	
Rizhao Power Company	(30,908,757)	(4,830,110)	—	(35,738,867)
SEG	—	216,659,277	4,247,846	220,907,123
	(30,908,757)	211,829,167	4,247,846	185,168,256
		Net carrying value		
Name	1st January, 2003			31st December, 2003
Rizhao Power Company	200,960,043			196,129,933
SEG	—			1,816,809,699
	200,960,043			2,012,939,632

#### (iii) Other long-term equity investment

Other long-term equity investment represents investment in China Yangtze Power Co., Limited (the "Yangtze Power"), details are as follows:

Name	Investment period	Total investment contributed by the Company	Percentage of equity interest held
Yangtze Power	Starting from 22nd August, 2002, with no specific terms	Rmb254,989,551	3%

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (7) Fixed assets

The movement of cost of fixed assets and related accumulated depreciation were as follow:

	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
<b>Cost</b>					
1st January, 2003	2,273,032,382	54,658,543,525	741,285,113	1,267,378,625	58,940,239,645
Reclassification*	(908,905,012)	155,042,162	(55,226,096)	92,257,319	(716,831,627)
Additions from acquisitions	291,015,974	1,453,073,048	31,639,264	128,711,813	1,904,440,099
Transfer from construction- in-progress	23,539,769	874,482,743	699,413	39,303,641	938,025,566
Current year additions	7,086,187	26,143,672	244,843	46,038,761	79,513,463
Current year disposals	(5,698,146)	(298,639,644)	—	(109,239,309)	(413,577,099)
31st December, 2003	1,680,071,154	56,868,645,506	718,642,537	1,464,450,850	60,731,810,047
<b>Accumulated depreciation</b>					
1st January, 2003	435,772,726	17,509,933,141	235,361,812	544,011,047	18,725,078,726
Reclassification*	(150,456,717)	(560,338,084)	(15,322,318)	9,285,492	(716,831,627)
Additions from acquisitions	67,957,223	430,621,762	13,456,091	13,842,777	525,877,853
Current year depreciation	69,956,077	3,824,607,298	29,276,851	141,136,214	4,064,976,440
Current year disposals	(2,054,447)	(188,287,489)	—	(77,836,959)	(268,178,895)
31st December, 2003	421,174,862	21,016,536,628	262,772,436	630,438,571	22,330,922,497
<b>Net book value</b>					
31st December, 2003	1,258,896,292	35,852,108,878	455,870,101	834,012,279	38,400,887,550
1st January, 2003	1,837,259,656	37,148,610,384	505,923,301	723,367,578	40,215,160,919

As at 31st December, 2003 and 31st December, 2002, there was no indication of impairment of fixed assets of the Company and its subsidiaries and therefore no impairment provision of fixed assets was made. No fixed assets were pledged as at 31st December, 2003.

As at 31st December, 2003, fixed assets amounted to Rmb413.81million had been fully depreciated but still in use (31st December, 2002: 83.77 million).

\*Reclassification includes reclassification of Jining Power Plant's fixed assets. Because Jining Power Plant became a branch of the Company. The net book value of its fixed assets became the cost of the fixed assets.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (8) Construction materials

	31st December, 2003	31st December, 2002
Specified material & equipment	165,740,734	125,182,754
Prepayment for major equipment	939,069,664	49,934,300
Utility & instrument for production	6,844,406	—
	<b>1,111,654,804</b>	<b>175,117,054</b>

### (9) Construction-in-progress

Projects	1st January, 2003	Additions from acquisitions	Current year additions	Transfer to fixed assets	31st December, 2003	Budget	Percent of completion	Source of financing
Yuhuan Power Plant project	2,294,815	—	262,552,871	—	264,847,686	8,529,430,000	5%	Funds borrowed from financial institutions and internal funds
Huaiyin Power Plant Phase II project	29,357,635	—	215,847,514	—	245,205,149	2,380,000,000	22%	Funds borrowed from financial institutions and internal funds
Taicang Power Plant Phase II project	29,418,220	—	106,385,461	—	135,803,681	4,400,000,000	13.50%	Funds borrowed from financial institutions and internal funds
Shantou Power Plant Phase II project	2,884,812	—	57,235,357	—	60,120,169	2,260,230,000	2.66%	Funds borrowed from financial institutions and internal funds
Jining Power Plant Phase III expansion project	141,823,501	—	608,176,499	(750,000,000)	—	850,900,000	100%	Funds borrowed from financial institutions and internal funds

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (9) Construction-in-progress (Cont'd)

Projects	1st January, 2003	Additions from acquisitions	Current year additions	Transfer to fixed assets	31st December, 2003	Budget	Percent of completion	Source of financing
Yushe Power Company Phase II project	—	386,902,091	182,670,267	(12,827,380)	556,744,978	4,676,310,000	24%	Funds borrowed from financial institutions and internal funds
Qinbei Power Company project	—	1,252,683,768	285,567,545	(2,718,570)	1,535,532,743	2,686,250,000	60%	Funds borrowed from financial institutions and internal funds
Other projects	304,865,520	18,811,030	141,508,841	(172,479,616)	292,705,775	—		Internal fund
	510,644,503	1,658,396,889	1,859,944,355	(938,025,566)	3,090,960,181			

For the year ended 31st December, 2003, the interest capitalized for construction-in-progress was Rmb21,224,053 and the capitalized rate per annum was 4.83% (2002: Rmb28,026,381, at 4.24% per annum).

As at 31st December, 2003 and 31st December, 2002, there was no indication of impairment of construction-in-progress of the Company and its subsidiaries. Accordingly, no provision for impairment loss was made.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (10) Intangible assets

The movement of intangible assets, which comprised land-use rights, goodwill and negative goodwill, was as follow:

	Original cost	1st January, 2003	Addition from acquisitions	Current year addition	Current year amortization	Accumulated amortization	31st December, 2003	Remaining amortization period	Obtained through
Land use rights	759,966,621	662,762,458	—	14,853,403	(15,387,447)	(97,738,207)	662,228,414	17-65 years	Purchase
Negative goodwill	(2,472,783,635)	(1,978,226,907)	—	—	247,278,363	741,835,091	(1,730,948,544)	7 years	Acquisition
Goodwill	2,778,712	2,674,976	—	—	(313,067)	(416,803)	2,361,909	7.5 years	Acquisition
Others	13,469,428	6,621,977	446,417	3,790,473	(1,907,375)	(4,517,936)	8,951,492	2-18 years	Purchase
	(1,696,568,874)	(1,306,167,496)	446,417	18,643,876	229,670,474	639,162,145	(1,057,406,729)		

As at 31st December, 2003 and 31st December, 2002, there was no indication that the intangible assets of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was made. No intangible assets of the Company and its subsidiaries were pledged as at 31st December, 2003.

### (11) Short-term loans

	31st December, 2003	31st December, 2002
Credit loans	1,600,000,000	550,000,000

All of the short-term loans of the Company and its subsidiaries were dominated in Rmb, with the interest rate of 4.54% to 5.05% per annum as at 31st December, 2003 (31st December, 2002: 4.78% to 5.56% per annum).

As at 31st December, 2003, short-term loans amounted to Rmb1,130 million was borrowed from China Huaneng Finance Company ("Huaneng Finance"), with the interest rate of 4.78% to 5.05% per annum. (31st December, 2002: Rmb200 million, with interest rate of 5.56% per annum); Short-term loans amounted to Rmb130 million was borrowed from Henan Construction Investment Company ("Henan Investment"), with the interest rate of 4.78% (31st December, 2002: nil).

### (12) Accounts payable

Accounts payable was mainly the amounts due to coal suppliers. As at 31st December, 2003 and 31st December, 2002, there was no accounts payable that were due to the shareholders who were holding 5% or more of the equity interest in the Company, and there was no accounts payable aged over three years.

See Note 8 for related party transactions.



(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (13) Taxes payable

Taxes payable comprised:

	31st December, 2003	31st December, 2002
Income tax payable	472,850,018	311,436,416
VAT payable	415,147,473	291,456,338
Others	29,365,201	17,296,146
	<b>917,362,692</b>	<b>620,188,900</b>

### (14) Other payables

Other payables comprised:

	31st December, 2003	31st December, 2002
Payable to contractors	572,459,421	1,333,447,550
Other payable to contractors	207,257,299	140,328,419
Payable to HIPDC	87,507,580	100,475,344
Technical service fee payable	—	28,124,210
Project saving bonus	26,541,527	62,110,406
Payable of housing maintenance fund	66,807,932	47,488,793
Others	710,367,858	568,439,463
	<b>1,670,941,617</b>	<b>2,280,414,185</b>

As at 31st December, 2003, there was no other payable that were due to the shareholders who were holding 5% or more of the equity interest in the Company, except for the payable to HIPDC amounted to Rmb87,507,580 as mentioned in Note 8(7) (31st December, 2002: Rmb100,475,344), and there was no other payable aged over three years.

See Note 8 for related party transactions.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (15) Long-term loans

Long-term loans comprised (all were credit loans unless otherwise stated):

		31st December, 2003	31st December, 2002
Long-term loans from shareholders	(i)	388,875,071	777,782,754
Long-term bank loans	(ii)	10,714,560,499	10,393,252,361
Other long-term loans	(iii)	1,091,669,808	427,402,311
		12,195,105,378	11,598,437,426
Less: current portion of long-term loans		(3,041,501,169)	(2,413,636,557)
		9,153,604,209	9,184,800,869

(i) Long-term loans from shareholders

Long-term loans from shareholders were all foreign bank loans on-lent by HIPDC, which would mature within on year.

	Currency	Original currency	31st December, 2003 Exchange rate	Rmb equivalent
Current portion of long-term loans:				
Foreign currency bank loans on-lent by HIPDC	US\$	46,984,314	8.2767	388,875,071

As at 31st December, 2003, detailed information of the long-term loans from shareholders was as follow:

Lender	31st December, 2003	Loan period	Annual interest rate
Bank loans on-lent by HIPDC			
Bank of China	388,875,071	1997 -2004	LIBOR+0.9%

The foreign currency bank loans bore interest at the prevailing lending rates (both fixed and floating), prescribed by the loan contracts, which ranged from 3.62% to 4.01% per annum for the year ended 31st December, 2003 (2002: 4.01% to 7.40%). These loans are repayable in accordance with the repayment schedules set by the banks.

The foreign-currency bank loans were previously borrowed by HIPDC for financing the construction of power plants. Upon the restructuring of the Company in 1994 or on the acquisition of the relevant power plants from HIPDC, all these outstanding long-term bank loans were restructured. HIPDC continued to borrow the loans from the banks and then on-lent to the Company as shareholders loans. The existing terms of the loans including interest rates and repayment schedules remained intact after the restructuring.

(Prepared in accordance with PRC Accounting Standards)  
 AS AT 31st DECEMBER, 2003  
 (Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

### (15) Long-term loans *(Cont'd)*

(ii) Long-term bank loans

Long-term bank loans (including current portion) comprised:

	31st December, 2003
Renminbi bank loans	4,064,499,370
United States dollar bank loans	6,650,061,129
	10,714,560,499
Less: current portion of long-term bank loans	(2,409,240,130)
	8,305,320,369

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (15) Long-term loans (Cont'd)

#### (ii) Long-term bank loans (Cont'd)

As at 31st December, 2003, detailed information of the long-term bank loans was as follows:

Lenders	31st December, 2003	Loan period	Interest rate per annum	Current portion	Terms
Renminbi bank loans	480,000,000	1998-2004	5.76%	480,000,000	Guaranteed by the
China Construction Bank-Weihai branch					Company and Weihai Power Development Bureau ("WPDB")
China Construction Bank-Weihai branch*	30,000,000	1999-2005	5.76%	—	Guaranteed by the Company
China Construction Bank-Weihai branch*	100,000,000	1999-2007	5.76%	—	Guaranteed by the WPDB
Bank of China**	276,000,000	1999-2009	5.76%	—	Guaranteed by the Company
Bank of China-Taicang branch*	664,000,000	1999-2014	5.76%	—	Guaranteed by the Company
Bank of China-Suzhou branch**	98,000,000	1999-2009	5.76%	—	Guaranteed by the Company
China Construction Bank-Huaian Yangzhuang sub branch	10,000,000	1994-2004	5.76%	10,000,000	Guaranteed by the Company
China Construction Bank-Huaian Yangzhuang sub branch	10,000,000	1994-2004	5.76%	10,000,000	Guaranteed by Jiangsu Huaian Investment Company
China Commercial Bank-Nanjing branch*	100,000,000	2003-2006	4.94%	—	Nil
China Development Bank Jiangsu branch*	300,000,000	2003-2008	5.02%	—	Nil
China Construction Bank-Jiyuan sub branch*	905,000,000	2003-2019	5.18%	—	Guaranteed by the Company
China Construction Bank-Linzi sub branch*	50,000,000	2000-2009	6.21%	—	Guaranteed by the Company
China Construction Bank-Linzi sub branch*	250,000,000	2001-2009	6.21%	—	Guaranteed by the Company
China Construction Bank-Linzi sub branch*	80,000,000	2002-2005	5.94%	—	Guaranteed by the Company
China Construction Bank-Linzi sub branch	120,000,000	2001-2004	5.94%	120,000,000	Guaranteed by the Company
China Construction Bank-Yushe sub branch*	5,500,000	1994-2006	5.76%	—	Nil
China Construction Bank-Yushe sub branch	119,700,000	1991-2005	5.76%	32,000,000	Nil
China Construction Bank-Yushe sub branch	13,430,000	1995-2004	5.76%	13,430,000	Guaranteed by the Company
Bank of China-Jinzhong branch*	340,000,000	2003-2019	5.18%	—	Nil
China Construction Bank-Yushe sub branch*	30,000,000	2002-2005	4.94%	—	Guaranteed by the Company
China Construction Bank-Yushe sub branch	13,000,000	2001-2004	5.49%	13,000,000	Guaranteed by the Company
China Construction Bank-Yushe sub branch	49,869,370	Not fixed	4.78%	49,869,370	Nil
China Construction Bank-Yushe sub branch	10,000,000	1994-2004	5.76%	10,000,000	Guaranteed by the Company
China Construction Bank-Yushe sub branch	10,000,000	1995-2004	5.76%	10,000,000	Nil
Sub-total of Renminbi bank loans	4,064,499,370			748,299,370	

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (15) Long-term loans (Cont'd)

#### (ii) Long-term bank loans (Cont'd)

Lenders	31st December, 2003	Loan period	Interest rate per annum	Current portion	Terms
United States dollar bank loans					
Bank of China	719,029,656	2002-2004	LIBOR+0.6%	719,029,656	Nil
Bank of China	103,458,750	2002-2004	LIBOR+0.6%	103,458,750	Nil
Bank of Communication	7,536,645	2000-2005	LIBOR+1.1%	3,808,800	Nil
Bank of China-Taicang branch*	76,183,384	1999-2006	Interest rate of foreign currency loan prescribed by Bank of China-0.5%	24,867,000	Guaranteed by the Company
	<b>906,208,435</b>			<b>851,164,206</b>	
On-lent loans by Bank of China					
American I&E Bank	1,203,707,516	1997-2011	6.54%	145,231,780	Guaranteed by HIPDC
American I&E Bank	1,026,672,698	1995-2011	5.95%	128,334,081	Guaranteed by HIPDC
American I&E Bank	1,186,168,372	1997-2011	5.95%	148,271,131	Guaranteed by HIPDC
American I&E Bank	295,904,293	1997-2012	6.60%	32,878,255	Guaranteed by HIPDC
KFW Bank	765,822,240	1996-2012	6.60%	90,098,087	Guaranteed by HIPDC
Japan Fuji Bank	169,672,354	1996-2004	LIBOR+0.38%	169,672,354	Guaranteed by HIPDC
On-lent loans by China Construction Bank					
KFW Bank	493,658,339	1999-2015	6.36%	42,871,766	Guaranteed by Huaneng Group
Citibank***	602,246,882	1999-2015	LIBOR+0.075%	52,419,100	Guaranteed by Huaneng Group
	<b>5,743,852,694</b>			<b>809,776,554</b>	
Sub-total of US\$ bank loans	<b>6,650,061,129</b>			<b>1,660,940,760</b>	
Total	<b>10,714,560,499</b>			<b>2,409,240,130</b>	

\* As at 31st December, 2003, these loans were not repayable within one year and therefore there was no current portion.

\*\* In accordance with repayment schedules, there was no repayable in 2004, and therefore there was no current portion.

\*\*\* The interest rate of the loan from Citibank was LIBOR prior to the last drawdown date and LIBOR plus 0.075% thereafter. The last drawdown date was 20th July, 2003 or the date of loan cancellation, whichever earlier.

#### (iii) Other long-term loans

	31st December, 2003
Other long-term loans	1,091,669,808
Less: current portion of other long-term loans	(243,385,968)
	<b>848,283,840</b>

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (15) Long-term loans (Cont'd)

#### (iii) Other long-term loans (Cont'd)

As at 31st December, 2003, other long-term loans comprised of:

Lender	31st December, 2003	Loan period	Annual interest rate	Current portion	Terms
Renminbi loans					
WPDB	106,388,822	1994-2004	5.76%	106,388,822	Nil
Huaneng Finance	225,000,000	2002-2005	5.64%	—	Nil
Huaneng Finance	350,000,000	2003-2006	4.94%	—	Nil
Jiangsu International Trust and Investment Company*	31,505,374	1997-2003	5.76%	31,505,374	Nil
Jiangsu Huaian Investment Company*	8,980,253	1997-2003	5.76%	8,980,253	Nil
Jiangsu Electric Power Development Company Limited ("Jiangsu Electric Power")*	19,467,860	1999-2003	5.76%	19,467,860	Nil
Huaneng Finance	35,000,000	2001-2004	5.22%	35,000,000	Guaranteed by the Company
Subtotal of RMB loans	776,342,309			201,342,309	
US\$ loan:					
On-lent foreign loans of Ministry of Finance	177,357,857	1996-2011	LIBOR+0.43%	23,647,707	US\$15 million of the loan were guaranteed by Hua Zhong Power Group Finance Company ("Hua Zhong Power")
Japanese yen loan:					
On-lent foreign loans of Ministry of Finance	137,969,642	1996-2011	LIBOR+0.3%	18,395,952	RMB34,492,441 of the loan were guaranteed by Henan Investment
Subtotal of foreign loans	315,327,499			42,043,659	
Total	1,091,669,808			243,385,968	

\* Pursuant to the related loan contracts, these loans were matured in 2003. However, Huaiyin Power Company had reached an agreement with the lenders that the loans will be repaid in 2004.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (16) Convertible notes

Details of convertible notes comprised:

	1st January, 2003	Current year conversion	Interest accrual	Interest payment	31st December, 2003
Convertible notes	166,497,890	(165,548,000)	10,260	(8,329)	951,821

In May 1997, the Company issued at par value convertible notes with an aggregate principal amount of US\$230 million (Rmb1.904 billion) at 1.75% per annum due in 2004. These notes are listed on the New York Stock Exchange and the Luxemburg Stock Exchange.

On 21st May, 2002, notes amounted to US\$209,685,000 were redeemed by the noteholders. The accrued put premium and interests in connection of the unredeemed portion were charged to the profit and loss account in 2002.

The noteholders converted the convertible notes with principal amount of US\$200,000 to 6,849 ADSs (equivalent to 273,960 Overseas Listed Foreign Shares) in 2002. During the year ended 31st December, 2003, the noteholders converted the convertible notes with principal amount of US\$20 million to 684,931 ADSs (equivalent to 27,397,240 Overseas Listed Foreign Shares).

As at 31st December, 2003, the Company has convertible notes with principal amount of US\$115,000 which have not been redeemed or converted into ADSs.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (17) Share capital

	1st January, 2003	Current year addition	31st December, 2003
Unlisted shares			
Promoters shares	4,250,000,000	—	4,250,000,000
Including: Domestic legal person shares	4,250,000,000	—	4,250,000,000
Sub-total of unlisted shares	4,250,000,000	—	4,250,000,000
Listed shares			
Domestic shares listed in the PRC	250,000,000	—	250,000,000
Overseas listed shares	1,500,273,960	27,397,240	1,527,671,200
Sub-total of listed shares	1,750,273,960	27,397,240	1,777,671,200
Total shares	6,000,273,960	27,397,240	6,027,671,200

As mentioned in Note 6(16), the increase of share capital is due to exercise of conversion rights by noteholders with principal amount of US\$20,000,000 into 684,931 ADSs (equivalent to 27,397,240 overseas listed foreign shares) during the year ended 31st December, 2003.

### (18) Capital surplus

Movement of capital surplus was as follow:

	1st January, 2003	Current year addition	31st December, 2003
Share premium*	10,260,830,755	138,150,760	10,398,981,515
Equity investment provision	—	4,247,846	4,247,846
	10,260,830,755	142,398,606	10,403,229,361

\* The increase of capital surplus is mainly due to the exercise of conversion rights by noteholders with principal amount of US\$20,000,000 into 684,931 ADSs at a premium during the year ended 31st December, 2003 (Note 6(16)).



(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (19) Surplus reserves

	Statutory capital surplus fund	Statutory public welfare fund	Discretionary reserve surplus fund	Total
1st January, 2003	2,350,750,442	1,053,519,606	15,398,194	3,419,668,242
Addition in current year	545,714,255	409,285,691	2,104,498	957,104,444
Deduction in current year	—	(2,104,498)	—	(2,104,498)
31st December, 2003	2,896,464,697	1,460,700,799	17,502,692	4,374,668,188

According to the Company Law of the PRC and the Company's articles of association, the Company appropriates 10% of each year's net profit to the statutory surplus reserve fund until the fund balance reaches 50% of the registered share capital. After obtaining the approval from the relevant authorities, this reserve can be used to make up any losses incurred or to increase share capital. Except for setting off against losses incurred, any other usage may not result in this reserve balance falling below 25% of the registered share capital. Pursuant to the decision of the Board of Directors, the Company appropriated 10% of the profit after taxation to the statutory capital surplus fund amounted to Rmb545,714,255 in 2003 (2002:Rmb408,235,059).

Each year, the Company appropriates 5% to 10% of net profits to the statutory public welfare fund. The use of this reserve is restricted to the provision of employees' collective welfare benefits. The statutory public welfare fund is not available for distribution to shareholders. When utilizing the statutory public welfare fund, the amount is transferred from this account to the discretionary surplus reserve funds account. Any amounts utilized are capitalized in the Company's balance sheet or expensed in the Company's profit and loss. For the year ended 31st December, 2002, 7.5% of net profit was provided for as statutory public welfare fund amounted to Rmb409,285,691 (2002: 7.5%, amounted to Rmb306,176,294).

The Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for discretionary surplus reserve fund. This reserve can be used to make up any losses incurred or to increase the share capital after approval is obtained from the Board of Directors. For the year ended 31st December, 2003, no discretionary surplus reserve fund is provided (2002: nil).

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (20) Unappropriated profit

	For the year ended 31st December, 2003	For the year ended 31st December, 2002
Unappropriated profit brought forward	9,488,703,911	8,160,857,821
Add: Retroactive adjustments-cash dividends approved by the general meeting of the shareholders subsequent to the balance sheet date (Note 2)*	2,040,093,146	1,800,000,000
Adjusted unappropriated profit brought forward	11,528,797,057	9,960,857,821
Add: Net profit of the year	5,457,142,551	4,082,350,589
Less: Appropriation of statutory surplus reserve fund	(545,714,255)	(408,235,059)
Appropriation of statutory public welfare fund	(409,285,691)	(306,176,294)
Dividends payable to ordinary shareholders-cash dividend of prior year approved by the general meeting of the shareholders *	(2,049,408,208)	(1,800,000,000)
Unappropriated profit carried forward	13,981,531,454	11,528,797,057

\* As at 12th March, 2003, the Board of Directors proposed a dividend of Rmb0.34 per ordinary share for the year ended 31st December, 2002. As the outstanding ordinary shares of the company was 6,000,273,960 as at 12th March, 2003, the Company recorded dividends payable amounted to Rmb2,040,093,146 in the financial statements of 2002. On 24th April, 2003, the noteholders converted the convertible notes with principal amount of US\$20,000,000 to 684,931 ADSs (equivalent to 27,397,240. Overseas Listed Foreign Shares), resulted in the increase of ordinary shares from 6,000,273,960 to 6,027,671,200. As at 28th May, 2003, the shareholders approved the declaration of above dividends in the annual general meeting. As there were 6,027,671,200 shares outstanding on that date, the total dividends payable amounted to Rmb2,049,408,208.

As mentioned in Note 2, effective 1 July 2003, the Company has adopted the revised "Accounting Standards for Business Enterprise - Events Occurring After the Balance Sheet Date". If a profit distribution plan is proposed by the Board of Directors after the balance sheet date but before the date the financial statements are authorized for issuance, cash dividends are recognized as a liability in the period in which a profit distribution plan is approved by the general meeting of the shareholders. The retroactive adjustments of the accounting changes were required upon the adoption of this standard and resulted in an increase of unappropriated profit amounted to Rmb2,040,093,146 as at 31st December, 2002 and Rmb1,800,000,000 as at 31st December, 2001.

Pursuant to the resolution of the Board of Directors on 16th March, 2004, on the basis of 6,027,671,200 ordinary shares outstanding as at 31st December, 2003, the directors proposed a cash dividend of Rmb5.0 (inclusive tax) and 5 bonus shares for every 10 existing ordinary shares. In addition, on the basis of 6,027,671,200 ordinary shares outstanding as at 31st December, 2003, the Board of Directors proposed to convert part of the capital surplus and statutory surplus reserve fund into the share capital by issuing new shares to its shareholders on the basis of 5 new shares for every 10 existing ordinary shares (3 of which from capital surplus and 2 of which from statutory surplus reserve fund). This proposal is subjected to the approval of the shareholders at the annual general meeting. Proposed dividends plan had not been reflected in the financial statements. Once the distribution plan is approved by the general meeting of the shareholders, the dividend distribution will be accounted for in the financial statements for the year ended 31st December, 2004.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (20) Unappropriated profit (Cont'd)

The maximum amount available for distribution to the shareholders is the lowest of the amount (i.e. net profit in current year plus undistributed profit brought forward from the beginning of the year, deducting the appropriations to the statutory surplus reserve fund and the statutory public welfare fund) determined under the PRC accounting standards, the amount determined under the International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States of America ("US GAAP").

### (21) Revenues from principal operations and costs of principal operations

	For the year ended 31st December, 2003		For the year ended 31st December, 2002	
	Revenues from principal operations	Costs of principal operations	Revenues from principal operations	Costs of principal operations
Sales of electric power	23,479,646,958	15,690,199,491	18,725,340,857	12,528,622,594

The Company and its subsidiaries have contractual arrangements for the sale of electric power with the provincial or regional grid companies.

For the year ended 31st December, 2003 and 2002, the revenue from the five largest customers of the Company and its subsidiaries amounted to Rmb18,115,304,793 and Rmb14,948,671,962, representing 77.15% and 79.83% of the total revenue, respectively.

### (22) Financial expenses

	For the year ended 31st December, 2003	For the year ended 31st December, 2002
Interest expenses	584,499,789	614,329,847
Less: Interest income	(53,044,361)	(83,014,926)
Exchange losses	630,164	2,893,186
Less: Exchange gain	(154,820)	(66,116)
Others	27,705,695	28,577,824
	559,636,467	562,719,815

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (23) Investment income (losses)

	For the year ended 31st December, 2003	For the year ended 31st December, 2002
Investment income on bonds	906,302	1,327,073
Investment income on other debt investments	9,213,072	421,285
Share of profit(loss) of associates for the year	211,829,167	(10,137,288)
Investment income on other equity investment	585,342	—
Amortization of equity investment differences	(88,648,197)	(37,750,053)
	<b>133,885,686</b>	<b>(46,138,983)</b>

There was no material restriction on the Company and its subsidiaries to obtain the remittance of investment income.

### (24) Non-operating expenses

	For the year ended 31st December, 2003	For the year ended 31st December, 2002
Loss on disposal of fixed assets	139,033,651	31,000,935
Housing benefits to the employees	—	17,856,026
Donations	4,859,649	4,469,616
Others	9,899,511	24,687,946
	<b>153,792,811</b>	<b>78,014,523</b>

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

### (25) Cash paid for acquisition of subsidiaries and condensed income statements of acquired subsidiaries from acquisition date to the year ended 31st December, 2003

As mentioned in Note 1, on 27th October, 2003 the Company entered into an agreement with Huaneng Group, pursuant to which the Company acquired from Huaneng Group 55% equity interest in Qinbei Power Company, 60% equity interest in Yushe Power Company and all the assets and liabilities of Xindian Power Plant. At the acquisition date, the assets, liabilities and acquisition costs comprised:

Current assets	486,477,407
Fixed assets	3,196,602,135
Intangible assets	446,417
Other long-term assets	13,262,433
Current liabilities	(1,411,789,489)
Long-term loans	(1,706,103,649)
Net assets	578,895,254
Acquired equity interest portion	55%-100%
Net assets acquired	453,538,643
Add: Equity investment difference	96,461,357
Total of consideration for acquisition	550,000,000
Less: Cash inflow relating to acquisition of 3 power plant	(215,584,684)
Cash outflow relating to acquisition of 3 power plant in 2003	334,415,316

The condensed income statements of above three power plants from acquisition date to the end of year 2003 were as follows:

Revenues from principal operations	205,460,863
Costs of principal operations	(136,645,022)
Profit from principal operations	68,815,841
Profit before taxation	47,828,366
Income tax	(10,041,131)
Net profit	37,787,235

### (26) Other cash paid relating to operating activities

Cash paid for repair and maintenance expenses	813,176,376
Service fee paid to HIPDC	126,956,210
Payment of balance due to HIPDC	12,967,764
Others	1,290,437,703
	2,243,538,053

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

### (1) Accounts receivable and other receivables

(i) Accounts receivable

	31st December, 2003	31st December, 2002
Accounts receivable	2,005,023,640	1,545,294,232

Aging of the accounts receivable was as follow:

Aging	31st December, 2003		31st December, 2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,001,327,640	100	1,540,674,232	100
1-2 years	—	—	4,620,000	—
2-3 years	3,696,000	—	—	—
	2,005,023,640	100	1,545,294,232	100

All accounts receivable represented receivable from the provincial or regional grid companies for the sale of electric power. Since these accounts receivable are collectible, no bad debt provision was provided by the Company.

As at 31st December, 2003, the five largest accounts receivable of the Company amounted to Rmb1,636,534,781 (31st December, 2002: Rmb1,264,206,514), representing 81.62% of total accounts receivable (31st December, 2002: 81.81%).

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

### (1) Accounts receivable and other receivables (Cont'd)

(ii) Other receivables

	31st December, 2003	31st December, 2002
Other receivables	116,142,277	102,299,280
Less: bad debt provision	(28,652,566)	(21,104,202)
	<b>87,489,711</b>	<b>81,195,078</b>

Aging and bad debt provision for other receivables were as follow:

Aging	31st December, 2003			31st December, 2002		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	65,168,643	56	(1,955,059)	43,906,321	43	(1,317,190)
1-2 years	7,931,460	7	(237,944)	27,725,976	27	(831,779)
2-3 years	9,896,662	8	(296,900)	9,122,225	9	(273,667)
Over 3 years	33,145,512	29	(26,162,663)	21,544,758	21	(18,681,566)
	<b>116,142,277</b>	<b>100</b>	<b>(28,652,566)</b>	<b>102,299,280</b>	<b>100</b>	<b>(21,104,202)</b>

Breakdown of other receivables was as follows:

	31st December, 2003	31st December, 2002
Prepayments for materials	3,313,689	24,534,432
Receivables from employees for sales of staff quarters	10,272,586	9,744,849
Petty cash	8,566,762	2,431,802
Transmission fee refund receivable from Shandong Electric Power Corporation	19,067,120	—
Others	74,922,120	65,588,197
	<b>116,142,277</b>	<b>102,299,280</b>

As at 31st December, 2003, the five largest other receivables of the Company amounted to Rmb57,070,487 (31st December, 2002: Rmb45,783,552), representing 49.14% of total other receivables (31st December, 2002: 44.75%).

As at 31st December, 2003 and 31st December, 2002, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company.

See Note 8 for related party transactions.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

### (2) Long-term equity investments

	1st January, 2003	Current year additions	Current year deductions	31st December, 2003
Long-term equity investments				
Subsidiaries (i)	1,548,297,672	735,058,468	(217,915,233)	2,065,440,907
Associates (ii)	200,960,043	1,816,809,699	(4,830,110)	2,012,939,632
Equity investment difference*	313,862,886	908,047,944	(88,648,197)	1,133,262,633
Other long-term equity investment	254,989,551	—	—	254,989,551
Others *	6,364,278	—	(521,561)	5,842,717
	<b>2,324,474,430</b>	<b>3,459,916,111</b>	<b>(311,915,101)</b>	<b>5,472,475,440</b>
Less: current portion of other long-term equity investments	(25,160)	—	25,160	—
	<b>2,324,449,270</b>	<b>3,459,916,111</b>	<b>(311,889,941)</b>	<b>5,472,475,440</b>

\* Please refer to Note 6(6) for details.

#### (i) Long-term equity investments in subsidiaries

Name	Investment period	1st January, 2003	Investment cost movement	
			Current year additions	31st December, 2003
Weihai Power Company	No specific terms	474,038,793	—	474,038,793
Taicang Power Company	No specific terms	469,706,560	37,500,000	507,206,560
Huaiyin Power Company	No specific terms	341,176,226	76,368,000	417,544,226
Yushe Power Company	No specific terms	—	134,085,896	134,085,896
Qinbei Power Company	50 years	—	84,055,599	84,055,599
		<b>1,284,921,579</b>	<b>332,009,495</b>	<b>1,616,931,074</b>



(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

### (2) Long-term equity investments (Cont'd)

(i) Long-term equity investments in subsidiaries (Cont'd)

Name	1st January, 2003	Accumulated equity pick-up movement		31st December, 2003
		Current year profit/(loss)	Income appropriation	
Weihai Power Company	167,986,263	146,768,214	(134,354,145)	180,400,332
Taicang Power Company	79,999,084	181,999,742	(33,053,751)	228,945,075
Huaiyin Power Company	15,390,746	70,485,291	(49,925,580)	35,950,457
Yushe Power Company	—	3,795,726	—	3,795,726
Qinbei Power Company	—	(581,757)	—	(581,757)
	263,376,093	402,467,216	(217,333,476)	448,509,833

  

Name	1st January, 2003	Net carrying amount		31st December, 2003
Weihai Power Company	642,025,056			654,439,125
Taicang Power Company	549,705,644			736,151,635
Huaiyin Power Company	356,566,972			453,494,683
Yushe Power Company	—			137,881,622
Qinbei Power Company	—			83,473,842
	1,548,297,672			2,065,440,907

There was no significant difference in accounting policies used by the subsidiaries and the Company. There was no significant restriction on the realizability of the investments or the remittance of investment income.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

### (2) Long-term equity investments (Cont'd)

(ii) Long-term equity investments in associates

Name	Investment period	1st January, 2003	Investment cost movement		31st December, 2003
			Current year additions		
Rizhao Power Company	20 years	231,868,800	—		231,868,800
SEG	No specific terms	—	1,595,902,576		1,595,902,576
		231,868,800	1,595,902,576		1,827,771,376
Name	1st January, 2003	Accumulated equity pick-up movement		31st December, 2003	
		Current year profit/(loss)	Other additions		
Rizhao Power Company	(30,908,757)	(4,830,110)	—	(35,738,867)	
SEG	—	216,659,277	4,247,846	220,907,123	
	(30,908,757)	211,829,167	4,247,846	185,168,256	
Name	1st January, 2003	Net carrying amount		31st December, 2003	
Rizhao Power Company	200,960,043			196,129,933	
SEG	—			1,816,809,699	
	200,960,043			2,012,939,632	

There was no significant difference in accounting policies used by the associates and the Company. There was no significant restriction on the realizability of the investments or the remittance of investment income.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

### (3) Long-term debt investments

	1st January, 2003	Current year additions	Current year deductions	31st December, 2003
Long-term entrusted loans to a subsidiary*	696,962,956	—	(226,300,000)	470,662,956
Others	10,137,770	—	(10,042,210)	95,560
	707,100,726	—	(236,342,210)	470,758,516
Less: Current portion of long-term debt investments	(256,300,000)	(470,746,016)	256,300,000	(470,746,016)
	450,800,726	(470,746,016)	19,957,790	12,500

\* Long-term entrusted loans to a subsidiary

In order to finance the construction of Weihai Power Company Phase II, the Company had granted entrusted loans to Weihai Power Company through a financial institution on September 1995. These loans were unsecured, not guaranteed and bore interests at 6.21% per annum. As at 31st December, 2003, most of the entrusted loans is mature within one year.

For the year ended 31st December, 2003, the Company received interest income of approximately Rmb33.60 million (2002: Rmb41.10 million) from Weihai Power Company. As at 31st December, 2003, the outstanding entrusted loans, the related interest income and interest expense were eliminated in the consolidated financial statements.

### (4) Revenues from principal operations

	For the year ended 31st December, 2003		For the year ended 31st December, 2002	
	Revenues from principal operations	Costs of principal operations	Revenues from principal operations	Costs of principal operations
Sales of electric power	20,287,987,380	13,698,115,361	15,720,550,997	10,480,868,719

The Company has contractual arrangements for the sales of electric power with the provincial or regional grid companies.

For the year ended 31st December, 2003 and 2002, the revenue from the five largest customers of the Company amounted to Rmb16,098,304,242 and Rmb11,939,005,458, representing 79.35% and 75.95% of the total revenue, respectively.

(Prepared in accordance with PRC Accounting Standards)  
 AS AT 31st DECEMBER, 2003  
 (Amounts: In Rmb Yuan unless otherwise stated)

## 7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

### (5) Investment income

	For the year ended 31st December, 2003	For the year ended 31st December, 2002
Investment income on bonds	906,302	482,857
Investment income on entrusted loans	40,769,124	41,097,920
Investment income on other debt investments	61,067	421,286
Share of profit of subsidiaries and associates	614,296,383	284,421,378
Other equity investment income	585,342	—
Amortization of equity investment differences	(88,648,197)	(37,750,053)
	<b>567,970,021</b>	<b>288,673,388</b>

There was no material restriction on the Company when remitting the investment income.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 8. RELATED PARTY TRANSACTIONS

### (1) Related parties that control/are controlled by the Company:

Name	Type of enterprise	Legal representative	Registered address	Relationship with the Company	Principal activities
Huaneng Group	State-owned enterprise	Li Xiaopeng	23 Xueyuan South Road, Haidian District, Beijing	Ultimate parent company	Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber, cement and related industries and others
HIPDC	Sino-foreign equity limited liability company	Li Xiaopeng	23 Xueyuan South Road, Haidian District, Beijing	Parent company	Investment in power plants, development and investment in other export-oriented enterprises
Weihai Power Company	Limited liability company	Wu Dawei	No. 58 Haifu road, Economic Development Zone, Weihai, Shandong province	Subsidiary	Power generation
Taicang Power Companys	Limited liability company	Hu Jianmin	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province	Subsidiary	Power generation
Huaiyin Power Company	Limited liability company	Liu Guoyue	No. 291 Huaihai West Road, Huaian, Jiangsu province	Subsidiary	Power generation
Qinbei Power Company	Limited liability company	Xiao An	Wulong county, Jiyuan city, Henan Province	Subsidiary	Power generation
Yushe Power Company	Limited liability company	Na Xizhi	Dengyu village, Yushe county, Shanxi Province	Subsidiary	Power generation

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 8. RELATED PARTY TRANSACTIONS (Cont'd)

### (2) Registered capital and changes in registered capital of related parties that control/are controlled by the Company:

Name	Currency	1st January, 2003	Current year additions	31st December, 2003
Huaneng Group	RMB	1,900,000,000	—	1,900,000,000
HIPDC	US\$	450,000,000	—	450,000,000
Weihai Power Company	RMB	761,832,800	—	761,832,800
Taicang Power Company	RMB	632,840,000	50,000,000	682,840,000
Huaiyin Power Company	RMB	265,000,000	—	265,000,000
Qinbei Power Company	RMB	10,000,000	—	10,000,000
Yushe Power Company	RMB	80,000,000	—	80,000,000

### (3) Equity shares and changes in equity shares held by parties that control/are controlled by the Company:

Name	1st January, 2003		Current year additions		Current year deductions		31st December, 2003	
	Amount	%	Amount	%	Amount	%	Amount	%
Huaneng Group*	1,675,660,547	51.98	—	—	—	—	1,675,660,547	51.98
HIPDC**	2,554,840,000	42.58	—	—	—	(0.19)	2,554,840,000	42.39
Weihai Power Company	457,103,040	60	—	—	—	—	457,103,040	60
Taicang Power Company	474,630,000	75	37,500,000	—	—	—	512,130,000	75
Huaiyin Power Company	168,646,000	63.64	—	—	—	—	168,646,000	63.64
Qinbei Power Company	—	—	148,200,000	55	—	—	148,200,000	55
Yushe Power Company	—	—	48,000,000	60	—	—	48,000,000	60

\* Huaneng Group holds 51.98% equity interest in HIPDC.

\*\* In accordance with a shareholders' agreement entered into by certain founding shareholders, during the operating period of the Company, the voting rights of seven founding shareholders are given to HIPDC. Thus, HIPDC holds 70.09% voting rights in the shareholders' meetings.

### (4) Nature of related parties that do not control/are not controlled by the Company:

Name of related parties	Relationship with the Company
Huaneng Finance	A subsidiary of Huaneng Group
WPDB	Minority shareholder of Weihai Power Company
Henan Investment	Minority shareholder of Qinbei Power Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company ("Time Shipping")	A Joint venture company of Huaneng Group
Rizhao Power Company	An associate of the Company

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 8. RELATED PARTY TRANSACTIONS (Cont'd)

### (5) Related party transactions

- a. On 30th June, 1994, the Company and HIPDC entered into a service agreement pursuant to which HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. The agreements cover a period of 10 years. 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 right of Shanghai Power Plant is leased to the Company for a period of 50 years from 30th June, 1997 at an annual rental payment of Rmb6 million.
- c. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use right of Nanjing Power Plant is leased to the Company for 50 years from 1st January, 1999 at an annual rental payment of Rmb1.334 million.
- d. Pursuant to a leasing agreement between the Company and HIPDC, HIPDC agreed to lease its building to the Company as office at an annual rental of Rmb25 million from 1st January, 2000.
- e. As described in Note 6 (15)(i), certain bank loans were on-lent from HIPDC, and as described in Note 6 (15)(iii), certain bank loans were drawn from WPDB and Huaneng Finance.
- f. As at 31st December, 2003, Huaneng Finance had granted short-term loans amounted to Rmb1,130 million (31st December, 2002: Rmb200 million) to the Company and its subsidiaries, and Henan Investment had granted short-term loans amounted to Rmb130 million (31st December, 2002: nil) to the Company and its subsidiaries. The interest rates for such loans are not materially different from the prevailing market interest rate (see Note 6(11)).
- g. As at 31st December, 2003, long-term bank loans of approximately Rmb4,648 million, Rmb1,096 million, Rmb280 million and Rmb34.49 million were guaranteed by HIPDC, Huaneng Group, WPDB and Henan Investment, respectively (31st December, 2002: Rmb5,544 million, Rmb1,140 million, Rmb280 million and nil, respectively) (see Note 6(15)).
- h. As described in Note 9, certain bank loans of Taicang Power Company, Huaiyin Power Company, Rizhao Power Company, Weihai Power Company, Yushe Power Company and Qinbei Power Company were guaranteed by the Company.
- i. On 9th May, 2002, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 70% equity interest in Shidongkou I Power Plant, 70% equity interest in Taicang Power Plant, 44.16% equity interest in Huaiyin Power Plant and all of the assets and liabilities of Changxing Power Plant. The total consideration for the acquisition of four power plants was Rmb2,050 million payable in cash using internal surplus cash resources.
- j. On 15th November, 2002, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 30% equity interest in Shidongkou I Power Plant and 5% equity interest in Taicang Power Plant. The total consideration for the additional acquisition of two power plants was Rmb415 million payable in cash.
- k. On 5th June, 2003, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 55% equity interest in Qinbei Power Company, 60% equity interest in Yushe Power Company and all of the assets and liabilities of Xindian Power Plant. The total consideration for the acquisition of three power plants was Rmb550 million, and the Company paid the consideration in cash.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 8. RELATED PARTY TRANSACTIONS (Cont'd)

### (5) Related party transactions (Cont'd)

- 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 the year ended 31st December, 2003, the Company earned service fees amounted to Rmb33,294,800 from Huaneng Group and paid expenses on behalf of Huaneng Group's power plants amounted to Rmb6,839,017 (2002: nil). In addition, the Company earned service fees amounted to Rmb17,305,200 and paid expenses on behalf of HIPDC's power plant amounted to Rmb1,273,524 (2002: nil). For the year ended 31st December, 2003, the related cost incurred for the management service provided was approximately Rmb38 million.
- 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, the Company did not pay any agency fee to CHITEC for equipment transportation and insurance service (2002: RMB3 million).
- n. For the year ended 31st December, 2003, the Company and its subsidiaries paid approximately Rmb145.06 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: Rmb301million).

### (6) Cash deposited with a related party

	31st December, 2003	31st December, 2002
Deposited in Huaneng Finance:		
- Current deposit	2,791,770,168	2,376,197,356
- Fixed deposit	—	570,000,000
	<b>2,791,770,168</b>	<b>2,946,197,356</b>

As at 31st December, 2003, the interest rates per annum for the current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% (31st December, 2002: 0.72% to 1.44%). As at 31st December, 2002, the interest rate per annum for the fixed deposit was 1.71%.



(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 8. RELATED PARTY TRANSACTIONS (Cont'd)

### (7) Accounts receivable from/accounts payable to related parties

	31st December, 2003		31st December, 2002	
	Amount	Percentage	Amount	Percentage
Interest receivables (payables)				
Interest receivables (payables) on deposits (loans) from Huaneng Finance	(1,418,954)	1.51%	1,630,137	42.98%
Other receivables				
Other receivables from Huaneng Group's subsidiaries	5,286,705	3.29%	—	—
Other receivables from HIPDC's subsidiaries	575,120	0.36%	—	—
Accounts payable				
Accounts payable to CHITEC	(14,484,416)	2.22%	—	—
Accounts payable to Time Shipping	(11,434,522)	1.75%	(13,917,467)	2.95%
Other payables				
Other payables to HIPDC	(87,507,580)	5.24%	(100,475,344)	4.41%

The balances with Huaneng Group's subsidiaries, HIPDC and its subsidiaries, CHITEC and Time Shipping were unsecured, non-interest bearing and repayable within one year.

## 9. CONTINGENT LIABILITY

Item	31st December, 2003	
	The Company and its subsidiaries	The Company
Guarantee on the long-term bank loans of Rizhao Power Company	339,250,000	339,250,000
Guarantee on the long-term bank loans of Weihai Power Company	—	330,000,000
Guarantee on the long-term bank loans of Taicang Power Company	—	1,114,183,384
Guarantee on the long-term bank loans of Huaiyin Power Company	—	10,000,000
Guarantee on the long-term bank loans of Qinbei Power Company	—	905,000,000
Guarantee on the long-term bank loans of Yushe Power Company	—	101,430,000
	339,250,000	2,799,863,384

Guarantees on the long-term bank loans of Taicang Power Company, Huaiyin Power Company, Rizhao Power Company, Weihai Power Company, Yushe Power Company and Qinbei Power Company by the Company had no significant financial impact on the Company's operation.

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 10. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of electric generation facilities, renovation projects for existing power plants and purchase of coal. Capital commitment and coal purchase commitment amounted to Rmb12.07 billion was not included in the consolidated balance sheet of the Company and its subsidiaries as at 31st December, 2003 (31st December, 2002: Rmb2.66 billion).

The Company had various operating lease arrangements with HIPDC for land and buildings. Total future minimum lease payments under non-cancelable operating leases were as follow:

	31st December, 2003	31st December, 2002
Land and buildings		
- within 1 year	32,334,000	32,334,000
- 1-2 years	7,334,000	32,334,000
- 2-3 years	7,334,000	7,334,000
- after 3 years	299,028,000	306,362,000
	<b>346,030,000</b>	<b>378,364,000</b>

In addition, in accordance with a 30-year operating lease agreement signed by the Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phase I and Phase II in June 1994 annual rental is approximately Rmb29.874 million effective from June 1994 and is subject to revision at the fifth year since the contract 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 rental charged was Rmb29,902,347 (2002: Rmb29,884,933).

## 11. INTEREST RATE SWAP CONTRACT

The Company entered into interest rate swap agreements with the Bank of China to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 31st December, 2003, the notional amount of the outstanding interest swap agreements were approximately US\$20.50 million (31st December, 2002: US\$51.66 million).

(Prepared in accordance with PRC Accounting Standards)  
AS AT 31st DECEMBER, 2003  
(Amounts: In Rmb Yuan unless otherwise stated)

## 12. NET PROFIT AFTER DEDUCTING NON-RECURRING ITEMS

Net profit	5,457,142,551
Add (Less): non-recurring items	
- Loss from disposal of fixed assets	137,631,682
- Income from entrusted investments	(9,171,085)
- Non-operating income	(19,083,635)
- Non-operating expense	14,759,159
Less: tax impact on non-recurring items	(17,362,130)
<hr/>	
Net profit after deducting non-recurring items	<hr/> 5,563,916,542

## 13. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain prior year comparative figures have been reclassified to conform to the current period presentation.