1 BACKGROUND OF THE COMPANY

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

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

By a resolution passed in the General Meeting of Shareholders on 24 June 2003, the name of the Company was changed from "Shandong International Power Development Company Limited (山東國際電源開發股份有限公司)" to "Huadian Power International Corporation Limited (華電國際電力股份有限公司)".

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance and basis of preparation

(i) Statement of compliance

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

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

(ii) Basis of preparation

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

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Associates

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

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

(iii) Jointly controlled entities

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

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

(iv) Transactions eliminated on consolidation

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Investments

Investments, representing unlisted equity securities, are classified as being available-for-sale and are stated at cost less impairment losses (see note 2(g)).

(d) Intangible assets

(i) Goodwill

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

(ii) Negative goodwill

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

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

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

(e) Property, plant and equipment and depreciation

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

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

Buildings	15 - 25 years
Generators and related machinery and equipment	10 - 20 years
Motor vehicles, furniture, fixtures, equipment and others	5 - 10 years

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Construction in progress

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

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

(g) Impairment

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's Land Bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights which mainly range from 15 years to 50 years.

(i) Inventories

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

(j) Cash and cash equivalents

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

(k) Financial assets and liabilities

(i) Financial assets

Adjustments are made for financial assets, other than investments (see note 2(c)), if their carrying amount exceeds the value realisable in the foreseeable future.

(ii) Financial liabilities

Financial liabilities are stated at their carrying amounts.

(l) Revenue recognition

(i) Electricity income

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

(ii) Heat income

Heat income is recognised when heat is supplied to customers.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Major overhauls, repairs and maintenance

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

(n) Translation of foreign currencies

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

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

(o) Taxation

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provisions

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

(q) Borrowing costs

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

(r) Operating leases

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

(s) Retirement plan

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

(t) Research and development costs

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

(u) Related parties

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

(v) Dividends

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

3 SEGMENT REPORTING

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

4 TURNOVER

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

	2003	2002
	RMB'000	*RMB'000*
Sale of electricity to SEPCO	**7,920,881**	7,688,975
Sale of heat	**144,951**	119,263
	8,065,832	7,808,238

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

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

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

5 PERSONNEL COSTS

	2003	2002
	RMB'000	*RMB'000*
Wages and staff welfare	**381,389**	271,670
Retirement costs (see note 32)	**73,175**	63,751
Other staff costs	**64,780**	55,426
	519,344	390,847

6 SALES RELATED TAXES

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

7 OPERATING PROFIT

Operating profit is arrived at after charging:

	2003	2002
	RMB'000	*RMB'000*
Auditors' remuneration	**3,937**	3,143
Amortisation of intangible assets and lease prepayments	**22,086**	19,363
Cost of inventories	**3,023,549**	2,909,354
Depreciation	**1,260,893**	1,204,894
Loss on disposal of property, plant and equipment	**31,874**	83,538
Operating lease charges in respect of land and buildings	**30,178**	31,382
Research and development costs	**–**	17,056

8 OTHER INCOME

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

9 NET FINANCE COSTS

	2003	2002
	RMB'000	*RMB'000*
Interest on bank advances and other loans repayable within five years	**515,584**	541,089
Interest on other loans repayable after five years	**4,006**	11,004
Less: Interest capitalised	**(29,769)**	(50,020)
	489,821	502,073
Less: Interest income	**(15,254)**	(11,807)
	474,567	490,266

The interest costs have been capitalised at a rate of 5.39% per annum (2002: 5.68%) for construction in progress.

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2003	2002
	RMB'000	*RMB'000*
Directors' and supervisors' fees	**–**	–
Salaries, allowances and benefits in kind	**465**	277
Retirement benefits	**55**	63
Bonuses	**681**	341
	1,201	681

Salaries and other benefits paid to non-executive Directors and independent non-executive Directors amounted to RMB Nil and RMB170,000 respectively (2002: RMBNil and RMB105,000 respectively).

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2002: two) are Directors whose emoluments are disclosed in note 10. The aggregate of the emoluments of the remaining three highest paid individuals (2002: three) is as follows:

	2003	2002
	RMB'000	*RMB'000*
Salaries and other emoluments	**281**	132
Retirement benefits	**53**	50
Bonuses	**664**	256
	998	438

12 TAXATION

(a) Taxation in the consolidated income statement represents:

	2003 RMB'000	2002 RMB'000
Current tax expense		
Charge for PRC enterprise income tax for the year	**540,846**	551,717
Under-provision in respect of previous years	**11,802**	10,360
	552,648	562,077
Deferred tax expense		
Origination and reversal of temporary differences (note 29)	**(13,967)**	(20,222)
Total income tax expense in the consolidated income statement	**538,681**	541,855

Reconciliation of effective tax rate:

	2003 RMB'000	2002 RMB'000
Profit before taxation	**1,587,209**	1,719,412
Applicable tax rate (note (i))	**33%**	33%
Computed tax using the applicable tax rate	**523,779**	567,406
Add: Tax credit for capital expenditure (note (ii))	**–**	(29,781)
Non-deductible sundry items	**6,004**	6,315
Under-provision in respect of previous years	**11,802**	10,360
Less: Non-taxable sundry items	**(2,904)**	(12,445)
	538,681	541,855

Notes:

(i) The charge for PRC enterprise income tax is calculated at the rate of 33% (2002: 33%) on the estimated assessable profits of the year determined in accordance with relevant enterprise income tax rules and regulations. The Group did not carry on business overseas and therefore no provision has been made for overseas profits tax.

(ii) Pursuant to the document "Cai Shui Zi (1999) No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company was entitled to an income tax credit of RMB29,781,000 during the year ended 31 December 2002 which was determined based on a percentage of the purchased amount of equipment produced in the PRC for technological improvements.

12 TAXATION *(Continued)*

(b) Taxation in the balance sheets represents:

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Charge for PRC enterprise income tax for the year	**540,846**	551,717	**500,728**	506,332
Balance of PRC enterprise income tax provision relating to previous years	**–**	10,000	**–**	10,000
Payments made relating to the current year	**(368,112)**	(392,688)	**(346,599)**	(377,397)
PRC enterprise income tax payable	**172,734**	169,029	**154,129**	138,935

13 DIVIDENDS

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

	2003	2002
	RMB'000	*RMB'000*
Final dividend proposed of RMB0.035 per share (2002: RMB0.036)	**183,963**	189,219

Pursuant to a resolution passed at the Directors' meeting held on 28 March 2004, a final dividend of RMB0.035 per share totalling RMB183,963,000 will be payable to shareholders, subject to the approval of the shareholders at the coming Annual General Meeting.

13 DIVIDENDS *(Continued)*

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

	2003	2002
	RMB'000	*RMB'000*
Interim dividend of RMB0.02 per share for the year ended 31 December 2003 (2002: RMB0.02)	**105,122**	105,122
Final dividend of RMB0.036 per share for the year ended 31 December 2002 (2001: RMB0.17)	**189,219**	893,534
	294,341	998,656

14 EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2003 of RMB1,028,647,000 (2002: RMB1,181,697,000) and the weighted average number of shares in issue during the year ended 31 December 2003 of 5,256,084,200 (2002: 5,256,084,200).

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2003 and 2002.

15 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings	Generators and related machinery and equipment	Motor vehicles, furniture, fixtures, equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2003	4,961,319	15,634,944	475,868	21,072,131
Additions	17,156	4,253	6,417	27,826
Transferred from construction in progress (note 16)	648,510	2,387,639	72,628	3,108,777
Disposals	(27,471)	(138,370)	(37,105)	(202,946)
At 31 December 2003	5,599,514	17,888,466	517,808	24,005,788
Accumulated depreciation:				
At 1 January 2003	1,216,643	4,370,886	165,299	5,752,828
Charge for the year	260,962	948,213	51,718	1,260,893
Written back on disposal	(14,300)	(121,573)	(34,573)	(170,446)
At 31 December 2003	1,463,305	5,197,526	182,444	6,843,275
Net book value:				
At 31 December 2003	4,136,209	12,690,940	335,364	17,162,513
At 31 December 2002	3,744,676	11,264,058	310,569	15,319,303

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Buildings	Generators and related machinery and equipment	Motor vehicles, furniture, fixtures, equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2003	3,783,683	13,254,392	394,189	17,432,264
Additions	8,491	2,795	3,966	15,252
Transferred from construction in progress (note 16)	196,843	1,037,227	25,525	1,259,595
Disposals	(16,163)	(84,207)	(25,130)	(125,500)
At 31 December 2003	3,972,854	14,210,207	398,550	18,581,611
Accumulated depreciation:				
At 1 January 2003	1,036,173	3,991,659	133,923	5,161,755
Charge for the year	173,468	732,408	30,711	936,587
Written back on disposal	(8,768)	(72,950)	(23,904)	(105,622)
At 31 December 2003	1,200,873	4,651,117	140,730	5,992,720
Net book value:				
At 31 December 2003	2,771,981	9,559,090	257,820	12,588,891
At 31 December 2002	2,747,510	9,262,733	260,266	12,270,509

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

16 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at 1 January	**1,363,657**	986,831	**514,242**	979,550
Through acquisition of subsidiaries	**—**	107,978	**—**	—
Additions	**2,454,819**	2,371,866	**906,001**	941,532
Transferred to property, plant and equipment (note 15)	**(3,108,777)**	(2,103,018)	**(1,259,595)**	(1,406,840)
Balance at 31 December	**709,699**	1,363,657	**160,648**	514,242

17 LEASE PREPAYMENTS

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

18 INTANGIBLE ASSETS

(a) The Group

	Goodwill	Negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2003 and 31 December 2003	65,173	(10,998)	54,175
Accumulated amortisation:			
At 1 January 2003	12,205	(2,566)	9,639
Amortisation charge for the year	4,268	(733)	3,535
At 31 December 2003	16,473	(3,299)	13,174
Carrying amount:			
At 31 December 2003	48,700	(7,699)	41,001
At 31 December 2002	52,968	(8,432)	44,536

18 INTANGIBLE ASSETS *(Continued)*

(b) The Company

	Goodwill *RMB'000*
Cost:	
At 1 January 2003 and 31 December 2003	60,330
Accumulated amortisation:	
At 1 January 2003	8,169
Amortisation charge for the year	3,352
At 31 December 2003	11,521
Carrying amount:	
At 31 December 2003	48,809
At 31 December 2002	52,161

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

19 INTEREST IN SUBSIDIARIES

	The Company	
	2003 ***RMB'000***	2002 *RMB'000*
Unlisted shares, at cost	**553,541**	553,541
Amounts due from subsidiaries	**2,561**	2,561
Loans to subsidiaries	**–**	670,000
	556,102	1,226,102

19 INTEREST IN SUBSIDIARIES *(Continued)*

The particulars of subsidiaries, all of which are limited liability companies established and operating in the PRC, at 31 December 2003 are as follows:

Company	Paid up capital	Percentage of interest directly held by the Company 2003	2002	Principal activities
	RMB'000	*%*	*%*	
Huadian Zibo Power Company Limited (formerly Zibo SIPD Power Company Limited)	254,800	100	100	Generation and sale of electricity and heat
Huadian Zhangqiu Power Company Limited (formerly Shandong Zhangqiu Power Company Limited)	180,000	70	70	Generation and sale of electricity
Shandong Tengzhou Xinyuan Power Company Limited	245,000	54.49	54.49	Generation and sale of electricity and heat
Zoucheng Lunan Electric Power Technology Development Company Limited	26,047	90	90	Provision of services to Zouxian Power Plant
Zaozhuang Shiliquan Electric Power Industry Company Limited	19,989	90	90	Provision of services to Shiliquan Power Plant

20 INTEREST IN ASSOCIATES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**173,600**	2,240
Share of net assets	**173,600**	2,240	**–**	–
	173,600	2,240	**173,600**	2,240

The particulars of the associates, which are limited liability companies established and operating in the PRC, at 31 December 2003 are as follows:

Company	**Paid up capital**	**Percentage of interest directly held by the Company**		**Principal activities**
		2003	**2002**	
	RMB'000	*%*	*%*	
Ningxia Yinglite Zhongning Power Company Limited ("Zhongning") (note i)	11,200	50	20	Development of power plant
Ningxia Power Generation Company (Group) Limited ("Ningxia Group") (note ii)	399,000	31.11	–	Development of power plant

Notes:

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

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

(ii) In June 2003, the Company entered into an agreement with four independent investors to form Ningxia Group for the development and investment in power projects in Ningxia Autonomous Region.

The Company has injected capital of RMB168 million and committed to further inject RMB112 million of capital in Ningxia Group as at 31 December 2003.

21 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2003	2002
	RMB'000	*RMB'000*
Unlisted interests, at cost	**233,301**	233,301

The particulars of jointly controlled entities, both of which are established in the form of contractual arrangements operating in the PRC, at 31 December 2003 are as follows:

	Percentage of interest directly held by the Company		
Company	**2003**	**2002**	**Principal activities**
	%	%	
Weifang Power Plant Phase I	30	30	Generation and sale of electricity
Qingdao Power Plant Phase I ("Qingdao Plant")	55	55	Generation and sale of electricity and heat

The two power plants did not have a registered capital at 31 December 2003.

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

	2003	2002
	RMB'000	*RMB'000*
Non-current assets	**1,944,546**	1,942,803
Current assets	**205,208**	229,870
Non-current liabilities	**(1,279,125)**	(974,150)
Current liabilities	**(278,838)**	(634,636)
Net assets	**591,791**	563,887
Revenue	**907,911**	993,421
Expenses	**(813,385)**	(870,414)
	94,526	123,007

22 INVESTMENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity securities, at cost	**133,039**	133,039	**130,339**	130,339

Investments of the Group and the Company mainly include investment in Shandong Luneng Heze Minerals Development Company Limited ("Heze Minerals") amounting to RMB91,339,000. The principal activities of Heze Minerals are the development and exploration of coalmine and coal-electricity base in Juye coalfield. The Group and Company own 18.4% equity interest in Heze Minerals as at 31 December 2003.

23 DEPOSIT

By a resolution passed in the General Meeting of Shareholders on 24 June 2003, the Company committed to acquire an 80% equity interest in Sichuan Guangan Power Generation Company Limited ("Guangan Company") from China Huadian Corporation ("China Huadian"), the Company's holding company, for a consideration of RMB475.5 million, which is to be adjusted by 80% of the difference between the audited net asset value of Guangan Company as at 31 December 2002 and that as at 31 December 2003, both to be determined in accordance with the PRC Accounting Standards and Regulations.

During December 2003, the Company paid a deposit amounting to RMB237,800,000 to China Huadian in accordance with the terms of the acquisition agreement.

The Company started to exercise effective control of Guangan Company from 1 January 2004 when it obtained the power to govern the financial and operating policies of Guangan Company.

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

24 INVENTORIES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Coal	**51,023**	117,351	**22,618**	87,035
Fuel oil	**8,603**	7,121	**4,158**	2,875
Materials, components and spare parts	**129,713**	143,901	**94,508**	107,499
	189,339	268,373	**121,284**	197,409

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

25 TRADE RECEIVABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables due from SEPCO for the sale of electricity	**780,134**	424,633	**544,172**	326,087
Trade receivables due from other parties for the sale of heat	**55,543**	48,075	**—**	—
	835,677	472,708	**544,172**	326,087

Receivables from SEPCO are due within 30 days from the date of billing. Receivables from other parties are due within 90 days from the date of billing. The age of trade receivables in respect of the sale of electricity and the sale of heat are within two months and six months respectively.

26 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**307,748**	747,493	**202,672**	501,032
Deposits with banks and other financial institutions	**261,091**	297,909	**258,091**	297,909
	568,839	1,045,402	**460,763**	798,941

27 LOANS

(a) Bank loans

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year				
— short term bank loans	**268,600**	252,815	**50,000**	—
— current portion of long term bank loans	**555,624**	224,306	**332,427**	—
	824,224	477,121	**382,427**	—
Between one and two years	**2,270,432**	1,356,551	**1,533,854**	1,164,873
Between two to five years	**3,335,240**	4,161,954	**1,950,415**	3,548,720
After five years	**1,616,821**	1,838,090	**1,192,000**	1,812,000
	7,222,493	7,356,595	**4,676,269**	6,525,593
	8,046,717	7,833,716	**5,058,696**	6,525,593

At 31 December 2003, the Group's and the Company's bank loans are unsecured and they represent:

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Renminbi loans				
Floating interest rates mainly ranging from 4.54% to 5.76% per annum as at 31 December 2003 (2002: 5.04% to 6.34%), with maturities up to 2011	**7,354,370**	7,140,052	**4,396,560**	5,863,409
US dollars loans				
Floating interest rate mainly of 2.19% per annum as at 31 December 2003 (2002: 3.17%) with maturities up to 2017	**692,347**	693,664	**662,136**	662,184
	8,046,717	7,833,716	**5,058,696**	6,525,593

27 LOANS *(Continued)*

(b) Loans from shareholder

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due:				
Within one year	**36,944**	87,794	**—**	—
Between one and two years	**335,000**	—	**335,000**	—
Between two to five years	**175,000**	610,000	**175,000**	610,000
	510,000	610,000	**510,000**	610,000
	546,944	697,794	**510,000**	610,000

The loans are borrowed from Shandong International Trust and Investment Company Limited ("SITIC") and are unsecured.

The loans are denominated in RMB and bear floating interest rate of 5.76% per annum (2002: 5.76%) with maturities up to 2006.

27 LOANS *(Continued)*

(c) State loan

	The Group and the Company	
	2003	2002
	RMB'000	*RMB'000*
Due:		
Within one year	**8,451**	14,594
Between one and two years	**9,113**	8,444
Between two to five years	**31,865**	29,543
After five years	**47,623**	59,076
	88,601	97,063
	97,052	111,657

The state loan is denominated in US dollars and bears floating interest rate of 1.27% per annum (2002: 2.22%), with maturities up to 2012.

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

27 LOANS *(Continued)*

(c) State loan *(Continued)*

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

(d) Other loans

	The Group	
	2003	2002
	RMB'000	*RMB'000*
Due:		
Within one year	**10,506**	10,534
Between one and two years	**138,711**	10,534
Between two to five years	**487,937**	639,798
After five years	**15,758**	26,198
	642,406	676,530
	652,912	687,064

27 LOANS *(Continued)*

(d) Other loans *(Continued)*

All of the other loans are unsecured, denominated in RMB, except for an amount of RMB68,286,000 (2002: RMB78,868,000) which is denominated in US dollars. Details of the interest rates and maturity dates of other loans are as follows:

	The Group	
	2003	2002
	RMB'000	*RMB'000*
Loans from Qingdao Guo Xin Enterprises Company Limited, a joint venture partner of Qingdao Plant		
Floating interest rate of 3.32% per annum (2002: 4.17%) with maturities up to 2010	**68,286**	78,868
Loans from Jinan Yingda International Trust Investment Company		
Floating interest rates ranging from 5.49% to 5.76% per annum (2002: 5.76% to 6.21%) with maturities up to 2008	**584,626**	608,196
	652,912	687,064

28 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**283,192**	207,355	**253,064**	149,813
Payable to contractors	**676,274**	277,962	**187,677**	58,558
Others	**596,351**	441,577	**474,569**	291,497
	1,555,817	926,894	**915,310**	499,868

Trade payables are generally due within 30 days from the date of billing. The amounts were not yet due for payment as of 31 December 2003.

29 DEFERRED TAX ASSETS AND LIABILITIES

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

The Group:

	Assets		Liabilities		Net	
	2003	2002	**2003**	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Pre-operating expenses	**19,183**	17,477	**—**	—	**19,183**	17,477
Provision for inventories and receivables	**25,010**	20,201	**—**	—	**25,010**	20,201
Depreciation of property, plant and equipment	**2,697**	—	**(150,936)**	(134,863)	**(148,239)**	(134,863)
Fair value adjustment on property, plant and equipment acquired	**—**	—	**(46,854)**	(51,757)	**(46,854)**	(51,757)
Expenses to be claimed on paid basis	**14,850**	—	**—**	—	**14,850**	—
Others	**1,156**	81	**—**	—	**1,156**	81
	62,896	37,759	**(197,790)**	(186,620)	**(134,894)**	(148,861)
Set-off within legal tax units and jurisdictions	**(4,993)**	(5,511)	**4,993**	5,511	**—**	—
Net deferred tax liabilities	**57,903**	32,248	**(192,797)**	(181,109)	**(134,894)**	(148,861)

The Company:

	2003	2002
	RMB'000	*RMB'000*
Pre-operating expenses	**5,141**	3,093
Provision for inventories and receivables	**20,710**	14,771
Depreciation of property, plant and equipment	**2,697**	—
Expenses to be claimed on paid basis	**14,850**	—
Deferred tax assets	**43,398**	17,864

There is no significant deferred tax assets or liabilities not recognised in the financial statements.

29 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

The Group:

	Balance at 1 January 2002 *RMB'000*	Recognised in the 2002 income statement *RMB'000*	Balance at 1 January 2003 *RMB'000*	Recognised in the 2003 income statement *RMB'000*	Balance at 31 December 2003 *RMB'000*
Pre-operating expenses	—	17,477	17,477	1,706	19,183
Provision for inventories and receivables	18,154	2,047	20,201	4,809	25,010
Depreciation of property, plant and equipment	(132,118)	(2,745)	(134,863)	(13,376)	(148,239)
Fair value adjustment on property, plant and equipment acquired	(58,424)	6,667	(51,757)	4,903	(46,854)
Expenses to be claimed on paid basis	—	—	—	14,850	14,850
Others	3,305	(3,224)	81	1,075	1,156
	(169,083)	20,222	(148,861)	13,967	(134,894)
				(note 12(a))	

The Company:

	Balance at 1 January 2002 *RMB'000*	Recognised in the 2002 income statement *RMB'000*	Balance at 1 January 2003 *RMB'000*	Recognised in the 2003 income statement *RMB'000*	Balance at 31 December 2003 *RMB'000*
Pre-operating expenses	—	3,093	3,093	2,048	5,141
Provision for inventories and receivables	14,160	611	14,771	5,939	20,710
Depreciation of property, plant and equipment	(18,573)	18,573	—	2,697	2,697
Expenses to be claimed on paid basis	—	—	—	14,850	14,850
Others	2,010	(2,010)	—	—	—
	(2,403)	20,267	17,864	25,534	43,398

30 SHARE CAPITAL AND RESERVES

(a) The Group

	Share capital RMB'000 (note 30(i))	Capital reserve RMB'000 (note 30(ii))	Statutory common reserve RMB'000 (note 30(iii))	Statutory common welfare fund RMB'000 (note 30(iv))	Retained profits RMB'000	Total Shareholders' equity RMB'000
Balance at 1 January 2002	5,256,084	778,040	537,457	230,324	1,397,684	8,199,589
Profit for the year	–	–	–	–	1,181,697	1,181,697
Transfer to statutory reserves	–	–	119,309	59,655	(178,964)	–
Dividends paid	–	–	–	–	(998,656)	(998,656)
Balance at 31 December 2002	5,256,084	778,040	656,766	289,979	1,401,761	8,382,630
Balance at 1 January 2003	5,256,084	778,040	656,766	289,979	1,401,761	8,382,630
Profit for the year	–	–	–	–	1,028,647	1,028,647
Transfer to statutory reserves	–	–	102,353	51,177	(153,530)	–
Transfer to statutory common reserves	–	–	57,236	(57,236)	–	–
Dividends paid	–	–	–	–	(294,341)	(294,341)
Balance at 31 December 2003	5,256,084	778,040	816,355	283,920	1,982,537	9,116,936

30 SHARE CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital RMB'000 (note 30(i))	Capital reserve RMB'000 (note 30(ii))	Statutory common reserve RMB'000 (note 30(iii))	Statutory common welfare fund RMB'000 (note 30(iv))	Retained profits RMB'000	Total Shareholders' equity RMB'000
Balance at 1 January 2002	5,256,084	778,040	537,457	230,324	1,234,498	8,036,403
Profit for the year	–	–	–	–	1,094,120	1,094,120
Transfer to statutory reserves	–	–	119,309	59,655	(178,964)	–
Dividends paid	–	–	–	–	(998,656)	(998,656)
Balance at 31 December 2002	5,256,084	778,040	656,766	289,979	1,150,998	8,131,867
Balance at 1 January 2003	5,256,084	778,040	656,766	289,979	1,150,998	8,131,867
Profit for the year	–	–	–	–	960,908	960,908
Transfer to statutory reserves	–	–	102,353	51,177	(153,530)	–
Transfer to statutory common reserves	–	–	57,236	(57,236)	–	–
Dividends paid	–	–	–	–	(294,341)	(294,341)
Balance at 31 December 2003	5,256,084	778,040	816,355	283,920	1,664,035	8,798,434

Notes:

(i) *The registered capital of the Company comprises 3,825,056,200 domestic shares of RMB1 each (2002: 3,825,056,200) and 1,431,028,000 H shares of Rmb1 each (2002: 1,431,028,000). All shares rank pari passu in all material respects.*

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

30 SHARE CAPITAL AND RESERVES *(Continued)*

(b) The Company *(Continued)*

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

The statutory common reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. The Directors resolved to transfer 10% (2002: 10%) of the profit for the year ended 31 December 2003 to this reserve on 28 March 2004.

(iv) *According to the Company's Articles of Association, the Company is required to transfer 5% to 10% (at the discretion of the Board of Directors) of its profit after taxation, as determined under PRC accounting rules and regulations, to the statutory common welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. This fund is non-distributable other than on the Company's liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders. The Directors resolved to transfer 5% (2002: 5%) of the profit for the year ended 31 December 2003 to the fund on 28 March 2004.*

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

(vi) *According to the Company's Articles of Association, the retained profits available for distribution are the lower of the amount determined under PRC accounting rules and regulations and the amount determined under IFRS. As of 31 December 2003, the retained profits available for distribution were RMB1,480,072,000 (2002: RMB961,779,000), after taking into account the current year's proposed final dividend (see note 13) and the transfer to the statutory common reserve and the statutory common welfare fund according to the Company's Articles of Association.*

(vii) *The profit attributable to shareholders for 2003 includes a profit of RMB960,908,000 (2002: RMB1,094,120,000) which has been dealt with in the financial statements of the Company.*

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Following the recent reform of the power sector in the PRC, the Company's controlling ownership was transferred from SEPCO to China Huadian on 1 April 2003, and SEPCO ceased to be the holding company of the Company on that date.

(b) The Group had the following material transactions with SEPCO, and entities controlled by SEPCO during the year.

	Note	**2003** **RMB'000**	2002 RMB'000
Sale of electricity	i	**1,885,413**	7,688,975
Interconnection and despatch management fees	ii	**14,537**	79,788
Repairs and maintenance services	iii	**48,473**	216,372
Design fee, construction costs and equipment cost paid and payable	iv	**58,560**	554,000

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

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

	Note	**2003** **RMB'000**	2002 RMB'000
SEPCO	i	–	(424,633)
Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited	iii	–	(6,699)
Shandong Electric Power No. 1 Construction Engineering Company, Shandong Electric Power No. 2 Construction Engineering Company and Shandong Electric Power No. 3 Construction Engineering Company	iv	–	70,104

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

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

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

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

In accordance with instructions set out in notices issued by State Development and Reform Commission and State Electricity Regulatory Commission in 2003, SEPCO ceased to levy these fees from 1 March 2003.

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

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

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

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

(v) Details of the acquisition of 80% equity interest in Guangan from China Huadian are set out in note 23 on the financial statements.

(vi) During December 2003, Qingdao Plant entered into a construction agreement with China Huadian Engineering (Group) Corporation, a subsidiary of China Huadian, and ALSTOM Power Norway AS in respect of the construction work of a sea water de-sulphur project in Qingdao Plant for a consideration of US$5,790,000 (approximately RMB47,922,000).

(vii) Details of the loans lent by SITIC are set out in note 27(b).

(viii) At 31 December 2002, the Group had loans totalling RMB867 million guaranteed by SEPCO or were secured by deposits placed with the lender by SEPCO.

32 RETIREMENT PLANS

The Group is required to make contributions to a retirement plan operated by the State at a rate of 20% (2002: 20%) of the total staff salaries. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, the Group established a defined contribution retirement plan, also operated by the State, to supplement the above-mentioned plan. The Group has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

The Group's contribution to these plans amounted to RMB73,175,000 during the year (2002: RMB63,751,000) which was charged to the consolidated income statement.

33 ACQUISITION OF SUBSIDIARIES

In 2002, the Group acquired certain subsidiaries. The fair value of assets acquired and liabilities assumed were as follows:

	2002 *RMB'000*
Property, plant and equipment	709,671
Construction in progress	107,978
Lease prepayments	40,983
Inventories	14,986
Trade debtors	33,258
Deposits, other debtors and prepayments	171,282
Cash and cash equivalents	416,733
Trade creditors	(30,559)
Other creditors and accruals	(280,069)
Loans	(691,781)
Minority interests	(165,167)
Net identifiable assets and liabilities acquired	327,315
Goodwill on acquisition	6,506
Total consideration paid	333,821
Less: Cash and cash equivalents acquired	416,733
Deposits and prepayments paid in 2001	213,820
Net cash inflow	296,732

34 COMMITMENTS

(a) Capital commitments

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

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for				
- Purchases of power generating equipment	**1,863,322**	—	**1,108,590**	—
- Development of power plants	**—**	1,105,868	**—**	500,840
- Investments	**571,490**	88,720	**571,490**	88,720
- Improvement projects and others	**20,620**	71,823	**20,620**	68,710
Authorised but not contracted for				
- Development of power plants	**459,337**	742,215	**372,808**	326,313
- Improvement projects and others	**71,686**	93,385	**64,542**	93,075
	2,986,455	2,102,011	**2,138,050**	1,077,658

In addition to the above, the Group's proportionate share of the jointly controlled entities' capital expenditure commitments amounted to RMB745,324,000 at 31 December 2003 (2002: RMB225,389,000).

(b) Operating lease commitments

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

35 CONTINGENT LIABILITIES

At 31 December 2003, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to RMB1,314,322,000 (2002: RMB390,000,000).

36 FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

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

(a) Interest rate risks

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

(b) Credit risks

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

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

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

(c) Foreign currency risk

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

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

(d) Fair value

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

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

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

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

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

37 ULTIMATE HOLDING COMPANY

The Directors of the Company consider its ultimate holding company to be China Huadian, which is a state-owned enterprise in the PRC.