

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2004

(Prepared Under International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Turnover</b>	4	<b>10,175,438</b>	8,065,832
<b>Operating expenses</b>			
Coal consumption		(4,647,567)	(2,842,814)
Depreciation and amortisation		(1,532,923)	(1,282,979)
Major overhaul expenses		(233,417)	(374,620)
Repairs and maintenance		(144,180)	(247,609)
Personnel costs	5	(919,543)	(519,344)
Selling and administration expenses		(357,708)	(428,534)
Sales related taxes	6	(108,213)	(95,951)
Other operating expenses		(214,414)	(219,258)
		<b>(8,157,965)</b>	(6,011,109)
<b>Operating profit</b>	7	<b>2,017,473</b>	2,054,723
<b>Investment income</b>		<b>30,066</b>	—
<b>Other income</b>		<b>20,632</b>	10,851
<b>Net finance costs</b>	8	<b>(493,708)</b>	(474,567)
<b>Non-operating income/(expenses) (net)</b>		<b>1,487</b>	(3,798)
<b>Share of profits less losses of associates</b>		<b>439</b>	—
<b>Profit from ordinary activities before taxation</b>		<b>1,576,389</b>	1,587,209
<b>Taxation</b>	11(a)	<b>(504,328)</b>	(538,681)
<b>Profit from ordinary activities after taxation</b>		<b>1,072,061</b>	1,048,528
<b>Minority interests</b>		<b>(26,353)</b>	(19,881)
<b>Profit attributable to shareholders</b>		<b>1,045,708</b>	1,028,647
<b>Basic earnings per share</b>	13	<b>RMB0.199</b>	RMB0.196

The notes on pages 47 to 87 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

as at 31 December 2004

(Prepared Under International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	20,925,048	17,162,513
Construction in progress	15	2,876,732	709,699
Lease prepayments	16	416,204	390,597
Intangible assets	17	37,465	41,001
Interest in associates	19	410,163	173,600
Other investments	21	175,639	133,039
Deposit	22	—	237,800
Deferred tax assets	28	61,667	57,903
		<u>24,902,918</u>	<u>18,906,152</u>
<b>Current assets</b>			
Inventories	23	358,036	189,339
Deposits, other receivables and prepayments		452,876	58,676
Trade and bills receivables	24	1,050,495	835,677
Tax recoverable	11(b)	9,210	—
Fixed deposits maturing over three months		10,752	21,032
Cash and cash equivalents	25	1,260,127	568,839
		<u>3,141,496</u>	<u>1,673,563</u>
<b>Current liabilities</b>			
Bank loans	26(a)	3,876,569	824,224
Current portion of loans from a shareholder	26(b)	335,000	36,944
Current portion of state loan	26(c)	9,111	8,451
Other loans	26(d)	629,342	10,506
Trade and other payables	27	2,208,547	1,555,817
Tax payable	11(b)	84,681	172,734
		<u>7,143,250</u>	<u>2,608,676</u>
<b>Net current liabilities</b>		<u>(4,001,754)</u>	<u>(935,113)</u>
<b>Total assets less current liabilities carried forward</b>		<u>20,901,164</u>	<u>17,971,039</u>

# CONSOLIDATED BALANCE SHEET *(continued)*

as at 31 December 2004

*(Prepared Under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

	Note	2004 RMB'000	2003 RMB'000
<b>Total assets less current liabilities brought forward</b>		<b>20,901,164</b>	17,971,039
<b>Non-current liabilities</b>			
Bank loans	26(a)	8,500,075	7,222,493
Loans from a shareholder	26(b)	175,000	510,000
State loan	26(c)	79,492	88,601
Other loans	26(d)	1,008,376	642,406
Deferred government grants		98,920	11,220
Deferred tax liabilities	28	352,799	192,797
		<b>10,214,662</b>	8,667,517
		<b>10,686,502</b>	9,303,522
<b>Equity</b>			
Share capital	29(a)	5,256,084	5,256,084
Reserves		4,617,475	3,860,852
		<b>9,873,559</b>	9,116,936
<b>Minority interests</b>		<b>812,943</b>	186,586
<b>Total equity and minority interests</b>		<b>10,686,502</b>	9,303,522

Approved and authorised for issue by the Board of Directors on 22 March 2005

**He Gong**  
Chairman

**Tian Peiting**  
Director

The notes on pages 47 to 87 form part of these financial statements.

# BALANCE SHEET

as at 31 December 2004

(Prepared Under International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	11,789,830	12,588,891
Construction in progress	15	696,249	160,648
Lease prepayments	16	194,091	181,304
Intangible assets	17	45,457	48,809
Interest in subsidiaries	18	1,406,873	556,102
Interest in associates	19	375,740	173,600
Interest in jointly controlled entities	20	193,983	233,301
Other investments	21	172,939	130,339
Deposit	22	—	237,800
Deferred tax assets	28	50,411	43,398
		<u>14,925,573</u>	<u>14,354,192</u>
<b>Current assets</b>			
Inventories	23	183,269	121,284
Amounts due from subsidiaries		39,812	—
Deposits, other receivables and prepayments		345,194	32,178
Trade receivables	24	572,929	544,172
Fixed deposits maturing over three months		10,752	21,032
Cash and cash equivalents	25	474,547	460,763
		<u>1,626,503</u>	<u>1,179,429</u>
<b>Current liabilities</b>			
Bank loans	26(a)	1,916,359	382,427
Current portion of loans from a shareholder	26(b)	335,000	—
Current portion of state loan	26(c)	9,111	8,451
Other loans	26(d)	198,037	—
Amounts due to subsidiaries		48,000	—
Trade and other payables	27	1,003,858	915,310
Tax payable	11(b)	74,380	154,129
		<u>3,584,745</u>	<u>1,460,317</u>
<b>Net current liabilities</b>		<u>(1,958,242)</u>	<u>(280,888)</u>
<b>Total assets less current liabilities carried forward</b>		<u>12,967,331</u>	<u>14,073,304</u>

## BALANCE SHEET (continued)

as at 31 December 2004

(Prepared Under International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Total assets less current liabilities brought forward</b>		<b>12,967,331</b>	14,073,304
<b>Non-current liabilities</b>			
Bank loans	26(a)	<b>2,601,408</b>	4,676,269
Loans from a shareholder	26(b)	<b>175,000</b>	510,000
State loan	26(c)	<b>79,492</b>	88,601
Other loans	26(d)	<b>700,000</b>	—
Deferred government grants		<b>15,000</b>	—
		<b>3,570,900</b>	5,274,870
		<b>9,396,431</b>	8,798,434
<b>Equity</b>			
Share capital	29(a)	<b>5,256,084</b>	5,256,084
Reserves		<b>4,140,347</b>	3,542,350
		<b>9,396,431</b>	8,798,434

Approved and authorised for issue by the Board of Directors on 22 March 2005

**He Gong**  
Chairman

**Tian Peiting**  
Director

The notes on pages 47 to 87 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004  
(Prepared Under International Financial Reporting Standards)  
(Expressed in Renminbi)

	Share capital <i>RMB'000</i> <i>(note 29(a))</i>	Capital reserve <i>RMB'000</i> <i>(note 29(b))</i>	Statutory surplus reserve <i>RMB'000</i> <i>(note 29(c))</i>	Statutory public welfare fund <i>RMB'000</i> <i>(note 29(d))</i>	Discretionary surplus reserve <i>RMB'000</i> <i>(note 29(e))</i>	Retained profits <i>RMB'000</i>	Total shareholders' equity <i>RMB'000</i>
Balance at							
1 January 2003	5,256,084	778,040	653,347	289,979	3,419	1,401,761	8,382,630
Profit for the year	—	—	—	—	—	1,028,647	1,028,647
Appropriations	—	—	102,353	51,177	—	(153,530)	—
Transfer between reserves	—	—	—	(57,236)	57,236	—	—
Dividends paid	—	—	—	—	—	(294,341)	(294,341)
Balance at 31 December 2003	<u>5,256,084</u>	<u>778,040</u>	<u>755,700</u>	<u>283,920</u>	<u>60,655</u>	<u>1,982,537</u>	<u>9,116,936</u>
Balance at							
1 January 2004	5,256,084	778,040	755,700	283,920	60,655	1,982,537	9,116,936
Profit for the year	—	—	—	—	—	1,045,708	1,045,708
Appropriations	—	—	104,400	52,200	—	(156,600)	—
Transfer between reserves	—	(622)	622	(3,035)	3,035	—	—
Dividends paid	—	—	—	—	—	(289,085)	(289,085)
Balance at 31 December 2004	<u>5,256,084</u>	<u>777,418</u>	<u>860,722</u>	<u>333,085</u>	<u>63,690</u>	<u>2,582,560</u>	<u>9,873,559</u>

The notes on pages 47 to 87 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

(Prepared Under International Financial Reporting Standards)

(Expressed in Renminbi)

	Share capital <i>RMB'000</i> <i>(note 29(a))</i>	Capital reserve <i>RMB'000</i> <i>(note 29(b))</i>	Statutory surplus reserve <i>RMB'000</i> <i>(note 29(c))</i>	Statutory public welfare fund <i>RMB'000</i> <i>(note 29(d))</i>	Discretionary surplus reserve <i>RMB'000</i> <i>(note 29(e))</i>	Retained profits <i>RMB'000</i>	Total shareholders' equity <i>RMB'000</i>
Balance at							
1 January 2003	5,256,084	778,040	653,347	289,979	3,419	1,150,998	8,131,867
Profit for the year	—	—	—	—	—	960,908	960,908
Appropriations	—	—	102,353	51,177	—	(153,530)	—
Transfer between reserves	—	—	—	(57,236)	57,236	—	—
Dividends paid	—	—	—	—	—	(294,341)	(294,341)
Balance at 31 December 2003	<u>5,256,084</u>	<u>778,040</u>	<u>755,700</u>	<u>283,920</u>	<u>60,655</u>	<u>1,664,035</u>	<u>8,798,434</u>
Balance at							
1 January 2004	5,256,084	778,040	755,700	283,920	60,655	1,664,035	8,798,434
Profit for the year	—	—	—	—	—	887,082	887,082
Appropriations	—	—	104,400	52,200	—	(156,600)	—
Transfer between reserves	—	(622)	622	(3,035)	3,035	—	—
Dividends paid	—	—	—	—	—	(289,085)	(289,085)
Balance at 31 December 2004	<u>5,256,084</u>	<u>777,418</u>	<u>860,722</u>	<u>333,085</u>	<u>63,690</u>	<u>2,105,432</u>	<u>9,396,431</u>

The notes on pages 47 to 87 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004  
(Prepared Under International Financial Reporting Standards)  
(Expressed in Renminbi)

Note	2004 RMB'000	2003 RMB'000
<b>Operating activities</b>		
Cash receipts from customers	10,187,042	7,755,376
Cash paid to suppliers and employees	(6,693,619)	(4,467,909)
Cash generated from operations	3,493,423	3,287,467
Interest paid	(616,045)	(514,774)
Enterprise income tax paid	(554,312)	(548,943)
<b>Net cash from operating activities</b>	<b>2,323,066</b>	<b>2,223,750</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment and construction in progress	(2,774,951)	(1,992,275)
Proceeds from sale of property, plant and equipment	231	626
Lease prepayments paid	(26,061)	(32,011)
Acquisition of subsidiaries, net of cash acquired	32 (216,293)	—
Acquisition of associates	(79,740)	(173,360)
Capital injection in an associate	(140,360)	—
Acquisition of other investments	(12,600)	—
Capital injection in other investment	(30,000)	—
Deposit paid	—	(237,800)
Interest received	12,717	15,254
Dividends received	30,066	—
Maturity of/(addition of) fixed deposits maturing over 3 months	10,280	(10,577)
<b>Net cash used in investing activities</b>	<b>(3,226,711)</b>	<b>(2,430,143)</b>



## CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2004

(Prepared Under International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Financing activities</b>			
Proceeds from borrowings		7,371,568	4,292,619
Proceeds from government grants		45,445	11,220
Repayment of borrowings		(5,534,719)	(4,279,225)
Contribution from minority shareholders of a subsidiary		9,000	—
Dividends paid		(289,085)	(294,341)
Dividends paid to minority shareholders of subsidiaries		(7,276)	(443)
<b>Net cash from/(used in) financing activities</b>		<b>1,594,933</b>	<b>(270,170)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>691,288</b>	<b>(476,563)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>568,839</b>	<b>1,045,402</b>
<b>Cash and cash equivalents at end of the year</b>	25	<b>1,260,127</b>	<b>568,839</b>

The notes on pages 47 to 87 form part of these financial statements.

# NOTES ON THE FINANCIAL STATEMENTS

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 1 BACKGROUND OF THE COMPANY

Huadian Power International Corporation 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 and its subsidiaries (the "Group") and jointly controlled entities are principally engaged in the generation of electricity and heat. All electricity generated is supplied to the provincial grid companies where the power plants are located.

## 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 except for the adoption of IFRS 3 Business Combinations, IAS 36 Impairment of Assets (revised March 2004) and IAS 38 Intangible Assets (revised March 2004) for business combinations for which the agreement date is on or after 31 March 2004.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and 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.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 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 associates 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.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 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 accounted for as follows:

- In respect of business combinations for which the agreement date is before 31 March 2004, 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.
- In respect of business combinations for which the agreement date is on or after 31 March 2004, all business combinations are accounted for by applying the purchase method. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment (see note 2(g)).
- In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

#### (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 is accounted for as follows:

- In respect of business combinations for which the agreement date is before 31 March 2004, 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. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

- In respect of business combinations for which the agreement date is on or after 31 March 2004, negative goodwill arising on an acquisition is recognised directly in profit or loss.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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)).

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

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

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

### (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(p)) 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.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(g) Impairment** *(Continued)*

In respect of goodwill acquired in business combinations for which the agreement date is on or after 31 March 2004, the recoverable amount of goodwill is estimated at each balance sheet date.

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.

In respect of goodwill arising on business combinations for which the agreement date is before 31 March 2004, an impairment loss 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 goodwill arising on business combinations for which the agreement date is on or after 31 March 2004, an impairment loss is not reversed.

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.

### **(h) Lease prepayments**

Lease prepayments represent land use rights paid to the PRC's Land Bureau. Land use rights are carried at cost less amortisation. Amortisation is charged to the income statement from the date of initial recognition 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.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(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) Hedging**

Derivative financial instrument are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

### **(m) Revenue recognition**

#### **(i) Electricity income**

Electricity income is recognised when electricity is supplied to the provincial grid companies.

#### **(ii) Heat income**

Heat income is recognised when heat is supplied to customers.

#### **(iii) Dividend income**

Dividend income from unlisted equity securities is recognised when the shareholder's right to receive payment is established.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Revenue recognition *(Continued)*

#### (iv) Government grants

A conditional government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grant that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as revenue on an systematic basis over the useful life of the asset.

### (n) Major overhauls, repairs and maintenance

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

### (o) 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.

### (p) 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.



# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(p) Taxation *(Continued)***

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.

### **(q) 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.

### **(r) 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.

### **(s) Operating leases**

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

### **(t) Retirement plan**

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

### **(u) Research and development costs**

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

### **(v) 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.

### **(w) Dividends**

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

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 3 SEGMENT REPORTING

The Group's profits are almost entirely attributable to the generation and sale of electricity in 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:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Sale of electricity	<b>9,975,734</b>	7,920,881
Sale of heat	<b>199,704</b>	144,951
	<b><u>10,175,438</u></b>	<u>8,065,832</u>

## 5 PERSONNEL COSTS

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Wages and staff welfare	<b>606,032</b>	381,389
Retirement costs (see note 31)	<b>162,845</b>	73,175
Other staff costs	<b>150,666</b>	64,780
	<b><u>919,543</u></b>	<u>519,344</u>

## 6 SALES RELATED TAXES

Sales related taxes represent city maintenance and construction tax and education surcharge, which are calculated at 5—7% and 3%, respectively, of net VAT payable.

# NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 7 OPERATING PROFIT

*Operating profit is arrived at after charging/(crediting):*

	2004 RMB'000	2003 RMB'000
Auditors' remuneration	4,779	3,937
Amortisation of intangible assets and lease prepayments	21,534	22,086
Cost of inventories	5,098,095	3,023,549
Depreciation	1,511,389	1,260,893
(Gain)/loss on disposal of property, plant and equipment	(51)	31,874
Operating lease charges in respect of land and buildings	35,070	30,178
Research and development costs	5,232	—

## 8 NET FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank advances and other loans repayable within five years	625,066	515,584
Interest on other loans repayable after five years	5,868	4,006
Less: Interest capitalised	(100,440)	(29,769)
	530,494	489,821
Less: Interest income	(12,717)	(15,254)
Net gain on derivative financial instruments	(24,069)	—
	493,708	474,567

The interest costs have been capitalised at a rate of 4.99% per annum (2003: 5.39%) for construction in progress.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Directors' and supervisors' fees	—	—
Salaries, allowances and benefits in kind	644	465
Retirement benefits	79	55
Bonuses	1,583	681
	<u>2,306</u>	<u>1,201</u>

Salaries and other benefits paid to non-executive directors and independent non-executive directors amounted to RMBNil and RMB200,000 respectively (2003: RMBNil and RMB170,000 respectively).

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2003: two) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments of the remaining two highest paid individuals (2003: three) is as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Salaries and other emoluments	228	281
Retirement benefits	42	53
Bonuses	838	664
	<u>1,108</u>	<u>998</u>

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 11 TAXATION

### (a) Taxation in the consolidated income statement represents:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
<b>Current tax</b>		
Charge for PRC enterprise income tax for the year	457,050	540,846
(Over)/under-provision in respect of previous years	(2,643)	11,802
	<u>454,407</u>	<u>552,648</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 28)	49,745	(13,967)
<b>Share of associates' taxation</b>	<u>176</u>	<u>—</u>
Total income tax expense in the consolidated income statement	<u><u>504,328</u></u>	<u><u>538,681</u></u>

### *Reconciliation of effective tax rate:*

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	<u>1,576,389</u>	<u>1,587,209</u>
Expected PRC enterprise income tax expense at a statutory tax rate of 33%	520,208	523,779
Non-deductible expenses	11,847	6,004
Non-taxable income	(9,923)	(2,904)
(Over)/under-provision in respect of previous years	(2,643)	11,802
Differential tax rate on subsidiary's income	<u>(15,161)</u>	<u>—</u>
	<u><u>504,328</u></u>	<u><u>538,681</u></u>

*Note:* The charge for PRC enterprise income tax is calculated at the statutory rate of 33% (2003: 33%) on the estimated assessable profits of the year determined in accordance with relevant enterprise income tax rules and regulations, except for a subsidiary of the Company, which is taxed at a preferential rate of 15%.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 11 TAXATION *(Continued)*

### (b) Taxation in the balance sheets represents:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Charge for PRC enterprise income tax for the year	457,050	540,846	421,452	500,728
Payments made relating to the current year	(381,579)	(368,112)	(347,072)	(346,599)
PRC enterprise income tax payable (net)	<u>75,471</u>	<u>172,734</u>	<u>74,380</u>	<u>154,129</u>
Representing:				
Tax payable	84,681	172,734	74,380	154,129
Tax recoverable	(9,210)	—	—	—
	<u>75,471</u>	<u>172,734</u>	<u>74,380</u>	<u>154,129</u>

## 12 DIVIDENDS

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

	2004 RMB'000	2003 RMB'000
Final dividend proposed of RMB0.035 per share (2003: RMB0.035)	<u>210,738</u>	<u>183,963</u>

Pursuant to a resolution passed at the Directors' meeting held on 22 March 2005, a final dividend of RMB0.035 per share totalling RMB210,738,000 will be payable to shareholders, subject to the approval of the shareholders at the coming Annual General Meeting. The amount of the final dividend proposed is calculated with reference to the number of shares in issue at the date of approval of the financial statements.

## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 12 DIVIDENDS (Continued)

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

	2004 RMB'000	2003 RMB'000
Interim dividend of RMB0.02 per share for the year ended 31 December 2004 (2003: RMB0.02)	105,122	105,122
Final dividend of RMB0.035 per share for the year ended 31 December 2003 (2002: RMB0.036)	183,963	189,219
	<u>289,085</u>	<u>294,341</u>

### 13 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 2004 of RMB1,045,708,000 (2003: RMB1,028,647,000) and the number of shares in issue during the year ended 31 December 2004 of 5,256,084,200 (2003: 5,256,084,200).

#### (b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2004 and 2003.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 14 PROPERTY, PLANT AND EQUIPMENT

### (a) The Group

	Buildings <i>RMB'000</i>	Generators and related machinery and equipment <i>RMB'000</i>	Motor vehicles, furniture, fixtures, equipment and others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost:</b>				
At 1 January 2004	5,599,514	17,888,466	517,808	24,005,788
Additions	11,448	6,096	16,409	33,953
Through acquisition of subsidiaries	1,210,506	1,956,631	22,115	3,189,252
Transferred from construction in progress (note 15)	679,442	1,319,086	52,371	2,050,899
Disposals	—	(19,115)	(1,628)	(20,743)
At 31 December 2004	<u>7,500,910</u>	<u>21,151,164</u>	<u>607,075</u>	<u>29,259,149</u>
<b>Accumulated depreciation:</b>				
At 1 January 2004	1,463,305	5,197,526	182,444	6,843,275
Charge for the year	323,685	1,126,529	61,175	1,511,389
Written back on disposal	—	(19,102)	(1,461)	(20,563)
At 31 December 2004	<u>1,786,990</u>	<u>6,304,953</u>	<u>242,158</u>	<u>8,334,101</u>
<b>Net book value:</b>				
At 31 December 2004	<u>5,713,920</u>	<u>14,846,211</u>	<u>364,917</u>	<u>20,925,048</u>
At 31 December 2003	<u>4,136,209</u>	<u>12,690,940</u>	<u>335,364</u>	<u>17,162,513</u>



## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 14 PROPERTY, PLANT AND EQUIPMENT (Continued)

#### (b) The Company

	Buildings RMB'000	Generators and related machinery and equipment RMB'000	Motor vehicles, furniture, fixtures, equipment and others RMB'000	Total RMB'000
<b>Cost:</b>				
At 1 January 2004	3,972,854	14,210,207	398,550	18,581,611
Additions	433	1,793	14,761	16,987
Transferred from construction in progress (note 15)	3,022	122,968	34,210	160,200
Disposals	—	(16,321)	(513)	(16,834)
At 31 December 2004	<u>3,976,309</u>	<u>14,318,647</u>	<u>447,008</u>	<u>18,741,964</u>
<b>Accumulated depreciation:</b>				
At 1 January 2004	1,200,873	4,651,117	140,730	5,992,720
Charge for the year	187,795	752,559	35,859	976,213
Written back on disposal	—	(16,308)	(491)	(16,799)
At 31 December 2004	<u>1,388,668</u>	<u>5,387,368</u>	<u>176,098</u>	<u>6,952,134</u>
<b>Net book value:</b>				
At 31 December 2004	<u>2,587,641</u>	<u>8,931,279</u>	<u>270,910</u>	<u>11,789,830</u>
At 31 December 2003	<u>2,771,981</u>	<u>9,559,090</u>	<u>257,820</u>	<u>12,588,891</u>

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

# NOTES ON THE FINANCIAL STATEMENTS (*continued*)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 15 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	709,699	1,363,657	160,648	514,242
Through acquisition of subsidiaries	1,359,268	—	—	—
Additions	2,858,664	2,454,819	695,801	906,001
Transferred to property, plant and equipment (note 14)	(2,050,899)	(3,108,777)	(160,200)	(1,259,595)
Balance at 31 December	<u>2,876,732</u>	<u>709,699</u>	<u>696,249</u>	<u>160,648</u>

## 16 LEASE PREPAYMENTS

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

## 17 INTANGIBLE ASSETS

### (a) The Group

	Goodwill	Negative goodwill	Total
	RMB'000	RMB'000	RMB'000
<b>Cost:</b>			
At 1 January 2004 and 31 December 2004	65,173	(10,998)	54,175
<b>Accumulated amortisation:</b>			
At 1 January 2004	16,473	(3,299)	13,174
Amortisation charge for the year	4,269	(733)	3,536
At 31 December 2004	<u>20,742</u>	<u>(4,032)</u>	<u>16,710</u>
<b>Carrying amount:</b>			
At 31 December 2004	<u>44,431</u>	<u>(6,966)</u>	<u>37,465</u>
At 31 December 2003	<u>48,700</u>	<u>(7,699)</u>	<u>41,001</u>

## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 17 INTANGIBLE ASSETS (Continued)

#### (b) The Company

	<b>Goodwill</b> RMB'000
<hr/>	
<b>Cost:</b>	
At 1 January 2004 and 31 December 2004	60,330 -----
<b>Accumulated amortisation:</b>	
At 1 January 2004	11,521
Amortisation charge for the year	3,352 -----
At 31 December 2004	14,873 -----
<b>Carrying amount:</b>	
At 31 December 2004	45,457 =====
At 31 December 2003	48,809 =====

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.

### 18 INTEREST IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Unlisted shares, at cost	<b>1,406,873</b>	553,541
Amounts due from subsidiaries	—	2,561 -----
	<b>1,406,873</b> =====	556,102 =====

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 18 INTEREST IN SUBSIDIARIES *(Continued)*

The particulars of subsidiaries, all of which are limited liability companies established and operating in the PRC, at 31 December 2004 are as follows:

Company	Paid up capital <i>RMB'000</i>	Proportion of ownership interest			Principal activities
		Group's effective interest %	held by the Company %	held by subsidiary %	
Sichuan Guangan Power Generation Company Limited ("Guangan Company")	700,000	80	80	—	Generation and sale of electricity
Huadian Qingdao Power Company Limited (formerly known as Qingdao Power Plant Phase I) (Note 1)	380,000	55	55	—	Generation and sale of electricity and heat
Huadian Zibo Power Company Limited	254,800	100	100	—	Generation and sale of electricity and heat
Huadian Zhangqiu Power Company Limited	180,000	70	70	—	Generation and sale of electricity
Huadian Tengzhou Xinyuan Power Company Limited (formerly known as Shangdong 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

# NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 18 INTEREST IN SUBSIDIARIES (Continued)

The particulars of subsidiaries, all of which are limited liability companies established and operating in the PRC, at 31 December 2004 are as follows: (continued)

Company	Paid up capital RMB'000	Proportion of ownership interest			Principal activities
		Group's effective interest %	held by the Company %	held by subsidiary %	
Zaozhuang Shiliquan Electric Power Industry Company Limited	19,989	90	90	—	Provision of services to Shiliquan Power Plant
Huadian International Shandong Materials Company Limited (Note 2)	30,000	94	40	60	Procurement of materials
Huadian International Shandong Project Management Company Limited (Note 2)	3,000	94	40	60	Provision of power construction project management and advisory services
Huadian Qingdao Heat Company Limited (Note 2)	20,000	55	55	—	Sale of heat

Notes:

- (1) Qingdao Power Plant Phase I, a previous jointly controlled entity, registered as a limited liability company in the PRC on 28 December 2004 and changed its name to Huadian Qingdao Power Company Limited ("Qingdao Company") accordingly.

Pursuant to the articles of association of Qingdao Company, the Company has obtained the power to govern the financial and operating policies of Qingdao Company and therefore, Qingdao Company became a subsidiary of the Company from 28 December 2004. The Group changed from adopting proportionate consolidation accounting method to consolidation accounting method to account for its investment in Qingdao Company in the preparation of the consolidated financial statements thereafter.

- (2) These companies were newly setup in 2004.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 19 INTEREST IN ASSOCIATES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	—	—	375,740	173,600
Share of net assets	410,163	173,600	—	—
	<b>410,163</b>	<b>173,600</b>	<b>375,740</b>	<b>173,600</b>

The particulars of the associates, which are limited liability companies established and operating in the PRC, at 31 December 2004 are as follows:

Company	Paid up capital RMB'000	Proportion of ownership interest			Principal activities
		Group's effective interest %	held by the Company %	held by subsidiary %	
Ningxia Yinglite Zhongning Power Company Limited	51,200	50	50	—	Development of power plant
Ningxia Power Generation Company (Group) Limited	600,000	31.11	31.11	—	Generation and sales of electricity and investment holding
Anhui Chizhou Jiu Hua Power Generation Company Limited ("Chizhou Company")	448,000	40	40	—	Development of power plant
Sichuan Huayingshan Longtan Coal Company Limited	75,920	36	—	45	Development of coal mines and sales of coal

## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 20 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2004	2003
	RMB'000	RMB'000
Unlisted interests, at cost	<u>193,983</u>	<u>233,301</u>

The particulars of jointly controlled entity, which is established in the form of contractual arrangements operating in the PRC, at 31 December 2004 are as follows:

Company	Proportion of ownership interest			Principal activities
	Group's effective interest	held by the Company	held by subsidiary	
	%	%	%	
Weifang Power Plant Phase I	30	30	—	Generation and sale of electricity

Weifang Power Plant Phase I did not have a registered capital at 31 December 2004.

Qingdao Power Plant Phase I became a subsidiary of the Group on 28 December 2004. For details, please refer to note 18.

## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 20 INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

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

	2004 RMB'000	2003 RMB'000
Non-current assets	701,551	1,944,546
Current assets	68,822	205,208
Non-current liabilities	(66,113)	(1,279,125)
Current liabilities	(403,967)	(278,838)
Net assets	<u>300,293</u>	<u>591,791</u>
Revenue	1,006,723	907,911
Expenses	(910,842)	(813,385)
	<u>95,881</u>	<u>94,526</u>

### 21 OTHER INVESTMENTS

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity securities, at cost	<u>175,639</u>	<u>133,039</u>	<u>172,939</u>	<u>130,339</u>

Other investments of the Group and the Company mainly include investment in Shandong Luneng Heze Coal Power Development Company Limited (formerly known as Shandong Luneng Heze Minerals Development Company Limited) ("Heze Company") amounting to RMB91,339,000. The principal activities of Heze Company 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 Company as at 31 December 2004.



## NOTES ON THE FINANCIAL STATEMENTS (*continued*)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 22 DEPOSIT

The amount in 2003 represented the deposit paid for the acquisition of 80% equity interest in Guangan Company from China Huadian Corporation ("China Huadian"), the Company's the holding company. The acquisition was completed in January 2004.

### 23 INVENTORIES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Coal	<b>155,869</b>	51,023	<b>58,741</b>	22,618
Fuel oil	<b>39,712</b>	8,603	<b>23,250</b>	4,158
Materials, components and spare parts	<b>162,455</b>	129,713	<b>101,278</b>	94,508
	<b><u>358,036</u></b>	<u>189,339</u>	<b><u>183,269</u></b>	<u>121,284</u>

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

### 24 TRADE AND BILLS RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables for the sale of electricity	<b>991,515</b>	780,134	<b>572,929</b>	544,172
Trade and bills receivables for the sale of heat	<b>58,980</b>	55,543	—	—
	<b><u>1,050,495</u></b>	<u>835,677</u>	<b><u>572,929</u></b>	<u>544,172</u>

Receivables from sale of electricity are due within 30 days from the date of billing. Receivables from sale of heat are due within 90 days from the date of billing.

## NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

### 24 TRADE AND BILLS RECEIVABLES *(Continued)*

The ageing analysis of trade and bills receivables is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,020,280	835,677	572,929	544,172
Between one and two years	3,030	—	—	—
Between two and three years	25,572	—	—	—
More than three years	1,613	—	—	—
	<u>1,050,495</u>	<u>835,677</u>	<u>572,929</u>	<u>544,172</u>

### 25 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	1,203,466	307,748	417,886	202,672
Deposits with banks and other financial institutions	56,661	261,091	56,661	258,091
	<u>1,260,127</u>	<u>568,839</u>	<u>474,547</u>	<u>460,763</u>

## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 26 LOANS

#### (a) Bank loans

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due:				
Within one year				
- short term bank loans	<b>2,567,810</b>	268,600	<b>961,511</b>	50,000
- current portion of long term bank loans	<b>1,308,759</b>	555,624	<b>954,848</b>	332,427
	<b>3,876,569</b>	824,224	<b>1,916,359</b>	382,427
Between one and two years	<b>1,863,331</b>	2,270,432	<b>564,848</b>	1,533,854
Between two to five years	<b>4,414,719</b>	3,335,240	<b>1,394,560</b>	1,950,415
After five years	<b>2,222,025</b>	1,616,821	<b>642,000</b>	1,192,000
	<b>8,500,075</b>	7,222,493	<b>2,601,408</b>	4,676,269
	<b>12,376,644</b>	8,046,717	<b>4,517,767</b>	5,058,696

All of the bank loans are unsecured, except for an amount of RMB1,480,000,000 (2003: RMB Nil) in a subsidiary, which is secured by the income stream in respect of the sale of electricity of the subsidiary.

## NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

### 26 LOANS *(Continued)*

#### (a) Bank loans *(Continued)*

Details of the currencies, interest rates and maturity dates of bank loans are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b><i>Renminbi loans</i></b>				
Floating interest rates				
mainly ranging from				
4.54% to 5.85%				
per annum as at				
31 December 2004				
(2003: 4.54% to 5.76%),				
with maturities up to				
2021	10,966,858	7,354,370	3,160,421	4,396,560
<b><i>US dollars loans</i></b>				
Floating interest rates				
mainly ranging from				
2.3% to 3.94%				
per annum as at				
31 December 2004				
(2003: 2.19%) with				
maturities up to 2017	1,409,786	692,347	1,357,346	662,136
	<u>12,376,644</u>	<u>8,046,717</u>	<u>4,517,767</u>	<u>5,058,696</u>

## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 26 LOANS (Continued)

#### (b) Loans from a shareholder

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due:				
Within one year	335,000	36,944	335,000	—
Between one and two years	175,000	335,000	175,000	335,000
Between two to five years	—	175,000	—	175,000
	175,000	510,000	175,000	510,000
	510,000	546,944	510,000	510,000

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

The loans are denominated in RMB and bear floating interest rate of 5.76% per annum (2003: 5.76%) with maturities up to 2006.

#### (c) State loan

	The Group and the Company	
	2004	2003
	RMB'000	RMB'000
Due:		
Within one year	9,111	8,451
Between one and two years	9,831	9,113
Between two to five years	34,380	31,865
After five years	35,281	47,623
	79,492	88,601
	88,603	97,052

The state loan is denominated in US dollars and bears floating interest rate of 2.05% per annum (2003: 1.27%), with maturities up to 2012.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 26 LOANS *(Continued)*

### (c) State loan *(Continued)*

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 Shandong Electric Power (Group) Corporation ("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.

### (d) Other loans

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due:				
Within one year				
- short term other loans	<b>548,037</b>	—	<b>198,037</b>	—
- current portion of long term other loans	<b>81,305</b>	10,506	—	—
	<b>629,342</b>	10,506	<b>198,037</b>	—
Between one and two years	<b>99,102</b>	138,711	—	—
Between two to five years	<b>899,720</b>	487,937	<b>700,000</b>	—
After five years	<b>9,554</b>	15,758	—	—
	<b>1,008,376</b>	642,406	<b>700,000</b>	—
	<b>1,637,718</b>	652,912	<b>898,037</b>	—

All of the other loans are unsecured, denominated in RMB, except for an amount of RMB105,054,000 (2003: RMB68,286,000) which is denominated in US dollars. Details of the interest rates and maturity dates of other loans are as follows:

## NOTES ON THE FINANCIAL STATEMENTS (*continued*)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 26 LOANS (*Continued*)

#### (d) Other loans (*Continued*)

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Loans from China Huadian Finance Corporation Limited ("China Huadian Finance")</i>				
Floating interest rates ranging from 4.54% to 4.94% per annum with maturities up to 2007	978,037	—	898,037	—
<i>Others</i>				
Floating interest rates ranging from 3.41% to 5.76% per annum (2003: 3.32% to 5.76%) with maturities up to 2010	659,681	652,912	—	—
	<b>1,637,718</b>	652,912	<b>898,037</b>	—

## NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 27 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	667,055	283,192	498,831	253,064
Payable to contractors	759,644	676,274	92,020	187,677
Others	781,848	596,351	413,007	474,569
	<b>2,208,547</b>	<b>1,555,817</b>	<b>1,003,858</b>	<b>915,310</b>

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 2004.

### 28 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	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pre-operating expenses	12,537	19,183	—	—	12,537	19,183
Provision for inventories and receivables	26,289	25,010	—	—	26,289	25,010
Depreciation of property, plant and equipment	1,160	2,697	(303,593)	(150,936)	(302,433)	(148,239)
Fair value adjustment on property, plant and equipment acquired	—	—	(56,387)	(46,854)	(56,387)	(46,854)
Expenses to be claimed on paid basis	26,677	14,850	—	—	26,677	14,850
Others	2,185	1,156	—	—	2,185	1,156
	<b>68,848</b>	<b>62,896</b>	<b>(359,980)</b>	<b>(197,790)</b>	<b>(291,132)</b>	<b>(134,894)</b>
Set-off within legal tax units and jurisdictions	(7,181)	(4,993)	7,181	4,993	—	—
Net deferred tax liabilities	<b>61,667</b>	<b>57,903</b>	<b>(352,799)</b>	<b>(192,797)</b>	<b>(291,132)</b>	<b>(134,894)</b>



## NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 28 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

#### The Company:

	2004 RMB'000	2003 RMB'000
Pre-operating expenses	1,914	5,141
Provision for inventories and receivables	20,588	20,710
Depreciation of property, plant and equipment	1,160	2,697
Expenses to be claimed on paid basis	26,677	14,850
Others	72	—
Deferred tax assets	<u>50,411</u>	<u>43,398</u>

There is no significant deferred tax asset or liability not recognised in the financial statements.

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

#### The Group:

	Balance Recognised at 1 in the 2003		Balance at 1	Through acquisition of	Recognised in the 2004	Balance at 31
	January 2003	income statement	January 2004	subsidiaries	income statement	December 2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pre-operating expenses	17,477	1,706	19,183	2,763	(9,409)	12,537
Provision for inventories and receivables	20,201	4,809	25,010	1,514	(235)	26,289
<b>Depreciation of property, plant and equipment</b>	(134,863)	(13,376)	(148,239)	(98,651)	(55,543)	(302,433)
Fair value adjustment on property, plant and equipment acquired	(51,757)	4,903	(46,854)	(13,069)	3,536	(56,387)
Expenses to be claimed on paid basis	—	14,850	14,850	—	11,827	26,677
Others	81	1,075	1,156	950	79	2,185
	<u>(148,861)</u>	<u>13,967</u>	<u>(134,894)</u>	<u>(106,493)</u>	<u>(49,745)</u>	<u>(291,132)</u>
	(note 11(a))		(note 11(a))			

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 28 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

The Company:

	Recognised		Recognised		
	Balance at	in the 2003	Balance at	in the 2004	Balance at
	1 January	income	1 January	income	31 December
	2003	statement	2004	statement	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pre-operating expenses	3,093	2,048	5,141	(3,227)	1,914
Provision for inventories and receivables	14,771	5,939	20,710	(122)	20,588
Depreciation of property, plant and equipment	—	2,697	2,697	(1,537)	1,160
Expenses to be claimed on paid basis	—	14,850	14,850	11,827	26,677
Others	—	—	—	72	72
	<u>17,864</u>	<u>25,534</u>	<u>43,398</u>	<u>7,013</u>	<u>50,411</u>

## 29 SHARE CAPITAL AND RESERVES

- (a) The registered capital of the Company comprises 3,825,056,200 domestic shares of RMB1 each (2003: 3,825,056,200) and 1,431,028,000 H shares of RMB1 each (2003: 1,431,028,000). All shares rank pari passu in all material respects.
- (b) Capital reserve mainly represents premium received from issuance of shares, less expenses, which are required to be included in this reserve by PRC regulations.
- (c) 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 surplus 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 surplus 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% (2003: 10%) of the profit for the year ended 31 December 2004 to this reserve on 22 March 2005.

## NOTES ON THE FINANCIAL STATEMENTS (*continued*)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

### 29 SHARE CAPITAL AND RESERVES (*Continued*)

- (d) 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 public 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% (2003: 5%) of the profit for the year ended 31 December 2004 to the fund on 22 March 2005.
- (e) Pursuant to PRC Accounting Regulations for Business Enterprises, statutory public welfare fund is transferred to discretionary surplus reserve upon utilisation for the collective benefits of the employees. For year ended 31 December 2004, RMB3,035,000 (2003: RMB57,236,000) of the statutory public welfare fund was transferred to discretionary surplus reserve accordingly.
- (f) The transfer to the statutory surplus reserve and statutory public welfare fund from the income statement is subject to approval by shareholders at the coming Annual General Meeting.
- (g) 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 2004, the retained profits available for distribution were RMB1,894,694,000 (2003: RMB1,480,072,000), after taking into account the current year's proposed final dividend (see note 12) and the transfer to the statutory surplus reserve and the statutory public welfare fund according to the Company's Articles of Association.
- (h) The profit attributable to shareholders for 2004 includes a profit of RMB887,082,000 (2003: RMB960,908,000) which has been dealt with in the financial statements of the Company.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 30 MATERIAL RELATED PARTY TRANSACTIONS

- (a) Following the 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 related parties during the year.

	Note	2004 RMB'000	2003 RMB'000
Sale of electricity	(i)	—	1,885,413
Repairs and maintenance services	(ii)	—	48,473
Construction costs paid and payable to entities controlled by the holding company	(iii)	<b>19,797</b>	58,560
Interest expenses	(iv)	<b>58,250</b>	37,122
Net loans obtained from/(repaid to) related parties	(iv)	<b>941,093</b>	(151,000)

### Notes:

- (i) The amount represented sale of electricity to SEPCO, the sole purchaser from power plants in Shandong Province.
- (ii) Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited, which is controlled by SEPCO, was responsible for the repair and maintenance works, including major overhauls, of the Group in 2003. The amount payable was determined on a cost reimbursement basis.
- (iii) The amount in 2003 represented construction costs paid and payable to entities controlled by SEPCO.
- The amount in 2004 represented construction costs paid and payable to China Huadian Engineering (Group) Company ("Huadian Engineering"), a subsidiary of China Huadian. In December 2003, Qingdao Company entered into a construction agreement with Hundian Engineering and ALSTOM Power Norway AS in respect of the construction work of a sea water de-sulphur project in Qingdao Company for a consideration of US\$5,790,000 (approximately RMB47,922,000).
- (iv) Details of the loans from SITIC and China Huadian Finance are set out in notes 26(b) and 26(d) respectively.
- (v) The Company acquired 80% equity interest in Guangan Company from China Huadian for a total consideration of RMB580.8 million in January 2004.
- (vi) The Company acquired 40% equity interest in Chizhou Company from China Huadian for a total consideration of RMB79.4 million in August 2004.

# NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 31 RETIREMENT PLANS

The Group is required to make contributions to retirement plans operated by the State at a rate of 20% (2003: 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 other material 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 RMB162,845,000 during the year (2003: RMB73,175,000) which was charged to the consolidated income statement.

## 32 ACQUISITION OF SUBSIDIARIES

In 2004, the Group acquired certain subsidiaries. The fair value of assets acquired and liabilities assumed were as follows:

	<b>2004</b> RMB'000
Property, plant and equipment	3,189,252
Construction in progress	1,359,268
Lease prepayments	17,544
Investment in an associate	16,200
Inventories	57,491
Deposits, other receivables and prepayments	47,823
Trade receivables	230,107
Tax recoverable	3,627
Cash and cash equivalents	126,720
Trade and other payables	(278,586)
Tax payable	(6,269)
Loans	(3,432,491)
Deferred government grants	(42,860)
Deferred tax liabilities	(106,493)
Minority interests	(600,520)
Total consideration paid	580,813
Less: Cash and cash equivalents acquired	(126,720)
Deposit paid in 2003	(237,800)
Net cash outflow	<u>216,293</u>

As a result of the acquisitions, the Group's net profit for the year have been increased by RMB97,396,000.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 33 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 financial statements as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for				
- Development of power plants	<b>6,185,912</b>	1,863,322	<b>2,995,935</b>	1,108,590
- Investments	<b>796,940</b>	571,490	<b>790,600</b>	571,490
- Improvement projects and others	<b>276,921</b>	20,620	<b>12,880</b>	20,620
	<b>7,259,773</b>	2,455,432	<b>3,799,415</b>	1,700,700
Authorised but not contracted for				
- Development of power plants	<b>9,367,247</b>	459,337	<b>5,557,685</b>	372,808
- Improvement projects and others	<b>567,380</b>	71,686	<b>103,627</b>	64,542
	<b>9,934,627</b>	531,023	<b>5,661,312</b>	437,350
	<b>17,194,400</b>	2,986,455	<b>9,460,727</b>	2,138,050

In addition to the above, the Group's proportionate share of the jointly controlled entity's capital expenditure commitments amounted to RMB312,096,000 at 31 December 2004 (2003: RMB745,324,000).

# NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

## 33 COMMITMENTS (Continued)

### (b) Operating lease commitments

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	The Group and the Company	
	2004	2003
	RMB'000	RMB'000
Within one year	34,778	30,178
After one year but within five years	120,712	120,712
After five years	533,145	563,323
	<u>688,635</u>	<u>714,213</u>

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. The future minimum lease payments in respect of the land is calculated based on the existing annual rental of RMB30,178,000.

## 34 CONTINGENT LIABILITIES

At 31 December 2004, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to RMB1,197,975,000 (2003: RMB1,314,322,000).

## 35 FORWARD CONTRACTS

During 2004, the Company borrowed short-term foreign currency bank loans totalling US\$100 million. In order to hedge with the foreign currency risk of the aforesaid US dollars loans, the Company entered into foreign currency forward contracts at the same time of the borrowings.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## 36 FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

Financial assets of the Group include cash and cash equivalents, fixed deposits maturing over three months, trade and bills receivables, deposits and other 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 26.

### (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.

Provincial grid companies are the purchasers 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.

The Company had entered into several US dollars forward contracts with banks to hedge against the foreign currency risk in respect of several US dollars loans in 2004 (note 35).

### (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.



## NOTES ON THE FINANCIAL STATEMENTS (*continued*)

(Prepared under International Financial Reporting Standards)

(Expressed in Renminbi)

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

#### (d) Fair value (*Continued*)

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.

The forward exchange contracts are stated at their fair values.

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 POST BALANCE SHEET EVENT

On 3 February 2005, the Company successfully issued its 765,000,000 new A Shares with nominal value of RMB1 each at an issue price of RMB2.52 each for cash.

Among the new A Shares issued, 196,000,000 shares were issued to China Huadian in the form of unlisted State-owned shares. The remaining 569,000,000 shares were issued to individuals and institutional investors in the PRC and were listed on the Shanghai Stock Exchange.

### 38 PRESENTATION IN THE CHANGES IN EQUITY

In 2003, all the changes in each element within the equity of the Group were disclosed in the consolidated statement of recognised gains and losses and notes on the financial statements.

In 2004, all the changes in each element within the equity of the Group were disclosed in the consolidated statement of changes in equity.

# NOTES ON THE FINANCIAL STATEMENTS *(continued)*

*(Prepared under International Financial Reporting Standards)*

*(Expressed in Renminbi)*

## **39 RECENTLY ISSUED ACCOUNTING STANDARDS**

The IASB has promulgated a number of new and revised International Financial Reporting Standards and International Accounting Standards ("new IFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new IFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a significant impact on its results of operations and financial position.

## **40 ULTIMATE HOLDING COMPANY**

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