1. ORGANISATION AND OPERATIONS

Datang International Power Generation Company Limited (the "Company") was incorporated in Beijing, the People's Republic of China (the "PRC"), on 13 December 1994 as a joint stock limited company. The Company listed its H Shares on the Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21 March 1997. The Company was registered as a Sino-foreign joint venture on 13 May 1998. The Company changed its name from Beijing Datang Power Generation Co., Ltd. to Datang International Power Generation Co., Ltd on 15 March 2004. The Company and its subsidiaries currently own and operate nine coal-fired power plants and one hydropower plant. It is also developing various power plant projects through ventures with other parties.

The principal activity of the Company and its subsidiaries is power generation and power plant development in the PRC. Substantially all of the business of the Company and its subsidiaries are conducted within one industry segment.

As at 31 December 2004, the Company holds equity interests in the following subsidiaries and associates, all of which are limited liability companies established and operated in the PRC:

Company name	Date of establishment	Paid-in capital	Attributable interest	Principal activities
		'000		
Subsidiaries				
Inner Mongolia Datang International Tuoketuo Power Generation Company Limited ("Datang Tuoketuo")	17 November 1995	1,674,020	60%	Power generation
Tianjin Datang International Panshan Power Generation Company Limited ("Datang Panshan")	6 August 1997	831,253	75%	Power generation
Hebei Datang International Huaze Hydropower Development Company Limited ("Fengning Hydropower")	29 July 1998	59,162	90%	Hydropower generation
Shanxi Datang Shentou Power Generation Company Limited ("Datang Shentou")	8 December 1998	748,520	60%	Power generation (under construction)

1. ORGANISATION AND OPERATIONS (CONT'D)

Company name	Date of establishment	Paid-in capital	Attributable interest	Principal activities
		'000		
Shanxi Datang International Yungang Thermal Power Company Limited ("Datang Yungang")	14 July 2000	250,000	80%	Power generation
Yunnan Datang International Honghe Power Generation Company Limited ("Datang Honghe")	27 April 2001	109,157	70%	Power generation (under construction)
Gansu Datang Liancheng Power Generation Company Limited ("Datang Liancheng")	18 August 2001	273,500	55%	Power generation
Hebei Datang International Tangshan Thermal Power Company Limited ("Datang Tangshan")	21 February 2002	380,264	80%	Power generation
Yunnan Datang Nalan Hydropower Development Company Limited ("Datang Nalan")	30 October 2002	28,470	51%	Hydropower generation (under construction)
Yunnan Datang International Lixianjiang Hydropower Development Company Limited ("Datang Lixianjiang")	8 November 2002	60,000	70%	Hydropower generation (under construction)
Shanxi Datang International Yuncheng Power Generation Company Limited ("Datang Yuncheng")	28 March 2003	25,300	51%	Power generation (pre-construction)

1. ORGANISATION AND OPERATIONS (CONT'D)

Company name	Date of establishment	Paid-in capital	Attributable interest	Principal activities
		'000		
Jiangsu Datang International Lvsigang Power Generation Company Limited ("Datang Lvsigang")	18 September 2003	50,000	90%	Power generation (under construction)
Guangdong Datang International Chaozhou Power Generation Company Limited ("Datang Chaozhou")	15 November 2003	30,000	75%	Power generation (under construction)
Fujian Datang International Ningde Power Generation Company Limited ("Datang Ningde")	2 December 2003	250,000	55%	Power generation (under construction)
Associates				
North China Electric Power Research Institute Company Limited ("NCEPR")	7 December 2000	100,000	30%	Power related technology services
Beijing Texin Datang Heat Company Limited ("Datang Texin")	27 April 2002	172,800	49%	Provision of heat transfer service
Chongqing Datang Pengshui Hydropower Development Company Limited ("Datang Pengshui")	28 August 2003	125,000	40%	Hydropower generation (under construction)
Ningxia Datang Daba Power Generation Company Limited ("Datang Daba")	31 October 2003	20,000	45%	Power generation (pre-construction)

1. ORGANISATION AND OPERATIONS (CONT'D)

Company name	Date of establishment	Paid-in capital	Attributable interest	Principal activities
		'000		
Tongfang Investment Company Limited	8 May 2004	550,000	36.4%	Project Investment and management
Tongmei Datang Tashan Coalmine Company Limited ("Tashan Coalmine")	15 July 2004	50,000	28%	Coalmine
Tangshan Huaxia Datang Fuel Company Limited	10 August 2004	20,000	30%	Fuel trading
Tongmei Datang Multiple Utilizated Thermal Power Company Limited ("Tongmei Thermal Power")	28 May 2004	20,000	20%	Power generation (pre-construction)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The accompanying financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention as modified by the revaluation of investments held for trading and available-for-sale investments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

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

(a) Basis of preparation (cont'd)

In 2004, the Company and its subsidiaries adopted the IFRS below, which are relevant to its operations.
IFRS 3 (issued 2004) Business Combinations
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets

The adoption of the above IFRS does not have material impact on the Company and its subsidiaries' financial statements because there is no business combination for which the agreement date is on or after 31 March 2004.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Company and its subsidiaries have an interest of more than one half of the voting rights or otherwise have power to govern the financial and operating policies are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company and its subsidiaries control another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Company and its subsidiaries are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note 2(f) for the accounting policy on goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Company and its subsidiaries.

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

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

(b) Principles of consolidation (cont'd)

(ii) Associates

Associates are entities over which the Company and its subsidiaries generally have between 20% and 50% of the voting rights, or over which the Company and its subsidiaries have significant influence, but which they do not control. Investments in associates are accounted for by the equity method of accounting. Under this method, the Company's and its subsidiaries' share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's and its subsidiaries' interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company's and its subsidiaries' investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Company's and its subsidiaries' share of losses in an associate equals or exceeds their interest in the associate, the Company and its subsidiaries do not recognise further losses, unless the Company and its subsidiaries have incurred obligations or made payments on behalf of the associates.

(c) Foreign currency translation

(i) Measurement currency

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

(ii) Transactions and balances

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

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as investment held for trading are reported as part of the fair value gain or loss.

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

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. The initial cost comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Property, plant and equipment, apart from construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment loss.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as additional cost of property, plant and equipment.

Depreciation is calculated on a straight-line basis to write off fixed assets, after taking into account the estimated residual value, over their estimated useful lives as follows:

Buildings	20-50 years
Electricity utility plant in service:	
Coal-fired electricity utility plant	12-30 years
Hydro electricity utility plant	12-45 years
Transportation facilities, computer and others	4-10 years

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

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

Gains and losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included in operating profit.

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

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

(e) Investments

The Company and its subsidiaries classified their investments in debt and equity securities into the following categories: held for trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading investments and included in current assets. For the purpose of these financial statements, short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. During the year ended 31 December 2004, the Company and its subsidiaries did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company and its subsidiaries commit to purchase or sell the asset. Cost of purchase includes transaction costs. Held for Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statements as gains and losses from investment securities.

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

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets acquired at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life and recognised in the income statement as other operating expenses. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Goodwill on acquisition that occurring on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. All the goodwill occurred before 31 March 2004 will cease to be amortised and will be tested for impairment starting from 1 January 2005.

(g) Operating lease

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

(h) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed to fuel costs or other relevant operating expenses when used, or capitalised to fixed assets when installed, as appropriate, using moving weighted average method. Cost of inventories includes direct material cost and transportation expenses incurred in bringing the materials and supplies to the working locations. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(k) Cash and cash equivalents

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

(l) Borrowings

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

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

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

(m) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Government grants

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grants will be received and the Company will comply with all attached conditions.

Government grants are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(o) Provisions

Provisions are recognised when the Company and its subsidiaries have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company and its subsidiaries expect a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

(p) Revenue and income recognition

Revenue and income are recognised when it is probable that the economic benefits associated with a transaction will flow to the Company and its subsidiaries and the revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and on the following bases:

(i) Operating revenue

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

(ii) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on a time proportion basis that takes into account the effective interest yield on the assets.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(q) Retirement and staff housing benefits

(i) Pension obligations

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

Costs of retirement benefits are charged to income statement as incurred.

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

(q) Retirement and staff housing benefits (cont'd)

(ii) Staff housing benefits

The Company and its subsidiaries provide housing to their employees at a discount price. The price difference between the selling price and the cost of housing is considered as housing benefit and is amortised on a straight line basis over the estimated average service lives of relevant employees and included in other operating costs.

Apart from housing benefit, the Company and its subsidiaries also contribute to the state-prescribed housing fund. Such costs are charged to the income statement as incurred.

(r) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(s) Minority interests

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

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

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated for all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

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

(t) Financial instruments

(i) Liability and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or as income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issue, in which case the instrument is classified as equity.

(ii) Derivative financial instruments

On inception, the Company and its subsidiaries identify certain derivatives as either i) a hedge of the fair value of an asset or a liability (fair value hedge), ii) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecast transaction (cash flow hedge) or iii) a hedge of a net investment in a foreign entity.

The Company and its subsidiaries' criteria for classifying a derivative instrument as a hedge include: i) the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, ii) the effectiveness of the hedge can be reliably measured, iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and iv) for cash flow hedges, the forecasted transaction that is subject of the hedges must be highly probable.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in the income statement.

An embedded derivative is separated from the host contract and accounted for as a derivative if i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

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

(t) Financial instruments (cont'd)

(ii) Derivative financial instruments (cont'd)

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortised cost, whenever it is probable that the Company and its subsidiaries will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. A reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost which would have been recorded had the impairment not been recognised.

(u) Contingencies

Contingent liabilities are recognised in the financial statements when it is probable that a liability will crystallise. Where no provision is recorded, they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements unless virtually certain but disclosed when an inflow of economic benefits is probable.

(v) Dividends

Dividends are recorded in the financial statements of the Company and its subsidiaries in the period in which they are approved by the shareholders of the Company and its subsidiaries.

(w) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Interest rate risk

The floating rate loans expose the Company and its subsidiaries to interest rate risk. The Company and its subsidiaries use derivative instruments, to the extent available in the PRC, to manage exposure to fluctuations in interest rates. When considered appropriate, the Company uses interest rate swaps to manage the relative level of its exposure to cash flow risk associated with borrowings with floating interest rates.

Interest rates applicable to the Company and its subsidiaries' borrowings and the schedule of long-term loan repayments are disclosed in Notes 16 and 17.

(ii) Foreign exchange risk

The businesses of the Company and its subsidiaries are principally conducted in Rmb, except that purchases and financing of certain electricity utility plant equipment are denominated in United States dollars (USD). Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars. As at 31 December 2004, all of the Company and its subsidiaries' assets and liabilities were denominated in Rmb except for cash and bank deposits of approximately Rmb1,465 million (2003 – Rmb2,035 million), long-term loans of approximately Rmb3,893 million (2003 – Rmb2,776 million) and convertible bond of approximately Rmb1,078 million (2003 – Rmb1,032 million) which were denominated in foreign currencies, principally in USD and Hong Kong dollars. Fluctuation of exchange rate of Rmb against foreign currencies could affect the Company and its subsidiaries' results of operation.

(iii) Credit risk

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

Substantially all of the Company and its subsidiaries' sales for the year were made to North China Grid Company Limited ("NCG") and its subsidiary (see Note 21). In addition, the 10 largest suppliers accounted for approximately 66% (2003 – 73%) of the coal purchases of the Company and its subsidiaries for the year ended 31 December 2004.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Financial risk factors (cont'd)

(iii) Credit risk (cont'd)

As at 31 December 2004, approximately Rmb250,466,000 (2003 – Rmb3,273,493,000) and Rmb3,421,235,000 (2003 – Rmb2,153,704,000) of the Company and its subsidiaries' cash and bank deposits were deposited with NCPG Finance Company Ltd. ("NCPG Finance"), a non-bank financial institution, (Note 13) and the four largest state-owned banks of the PRC, respectively.

The Company and its subsidiaries do not guarantee obligations of other parties except for the Company's proportionate share of the loans of its subsidiaries.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Company considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of provisions for impairment recognised at the balance sheet date.

(iv) Liquidity risk

The Company and its subsidiaries' policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments regarding construction of power plants. The amount of undrawn credit facilities at the balance sheet date is disclosed in Note 29(c).

(b) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value.

While derivative transactions provide effective economic hedges under the Company and its subsidiaries' risk management policies, the derivatives that do not qualify for hedge accounting under the specific rules in IAS 39 are carried at fair value with changes in fair value included in the income statement.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Fair values

The fair value of investments held for trading is estimated by reference to their quoted market price at the balance sheet date. The fair value of interest rate swap is calculated as the present value of the estimated future cash flows.

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, short-term bank deposits over three months, accounts receivable, accounts payable and short-term loans approximate to their fair values because of the short maturity of these instruments.

Available-for-sale investments are measured at cost less any provision for impairment as there is no quoted market price in an active market and their fair value cannot be reliably measured (see Note 7).

The fair values of long-term loans, including current portions, of approximately Rmb 19,025 million (2003 – Rmb11,133 million) as at 31 December 2004, have been estimated by applying a discounted cash flow approach using interest rates available for comparable instruments. As at the same date, the book value of these liabilities was approximately Rmb19,056 million (2003 – Rmb11,136 million).

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. PROPERTY, PLANT AND EQUIPMENT

	Company and its subsidiaries				
	Buildings	Electricity utility plants in service	Transportation facilities, computers and others	Construction-in-progress	Total
	'000	'000	'000	'000	'000
Cost					
Beginning of year	1,908,654	24,618,908	582,295	8,374,864	35,484,721
Reclassification	(778,857)	781,570	(2,713)	–	–
Transfer in/(out)	31,030	6,686,648	74,461	(6,792,139)	–
Addition	1,202	11,809	71,103	16,843,874	16,927,988
Disposals	(4,413)	(123,268)	(8,837)	–	(136,518)
End of year	1,157,616	31,975,667	716,309	18,426,599	52,276,191
Accumulated depreciation					
Beginning of year	204,736	7,188,909	244,371	–	7,638,016
Reclassification	(39,229)	31,000	8,229	–	–
Charge for the year	23,898	2,015,199	60,738	–	2,099,835
Written back on disposals	(221)	(89,730)	(7,502)	–	(97,453)
End of year	189,184	9,145,378	305,836	–	9,640,398
Net book value					
End of year	968,432	22,830,289	410,473	18,426,599	42,635,793
Beginning of year	1,703,918	17,429,999	337,924	8,374,864	27,846,705

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

	Company				
	Buildings	Electricity utility plants in service	Transportation facilities, computers and others	Construction-in-progress	Total
	'000	'000	'000	'000	'000
Cost					
Beginning of year	1,238,484	14,565,874	396,294	1,273,882	17,474,534
Reclassification	(264,823)	247,711	17,112	–	–
Transfer in/(out)	29,973	336,607	26,951	(393,531)	–
Addition	–	3,094	25,070	5,242,798	5,270,962
Disposals	–	(117,778)	(8,837)	–	(126,615)
End of year	1,003,634	15,035,508	456,590	6,123,149	22,618,881
Accumulated depreciation					
Beginning of year	200,435	6,434,704	218,759	–	6,853,898
Reclassification	(39,777)	38,215	1,562	–	–
Charge for the year	15,690	1,093,019	37,318	–	1,146,027
Written back on disposals	–	(89,251)	(7,502)	–	(96,753)
End of year	176,348	7,476,687	250,137	–	7,903,172
Net book value					
End of year	827,286	7,558,821	206,453	6,123,149	14,715,709
Beginning of year	1,038,049	8,131,170	177,535	1,273,882	10,620,636

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

For the year ended 31 December 2004, the interest rates on the loans for which interest has been capitalised varies from 2.88% to 6.12% (2003 – 1.30% to 5.76%) per annum.

The State Development and Reform Committee ("SDRC") has issued Document 32 <Opinion on Restraining Undisciplined Construction> in November 2004 which aims at bringing power plants construction under control. The Company and its subsidiaries have a significant portion of power plants under construction which may be impacted by Document 32. The directors of the Company have assessed the approval requirements of Document 32 and consider that the power plants under construction will ultimately obtain SDRC approvals. The directors consider that there will be no significant incremental cost incurred in the construction of the power plants and that the assets are not impaired.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	'000	'000
Beginning of year	2,539,373	2,184,460
Additions	490,341	550,499
Share of results after tax	861,996	151,575
Reduction	–	(172,072)
Dividends	(9,118)	(175,089)
End of year	3,882,592	2,539,373

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

6. INVESTMENTS IN ASSOCIATES

	Company and its subsidiaries	
	2004	2003
	'000	'000
Beginning of year	224,435	142,351
Additions	319,140	77,422
Share of results after tax	(3,697)	16,979
Reduction	(25,463)	(12,317)
End of year	514,415	224,435

6. INVESTMENTS IN ASSOCIATES (CONT'D)

The additions in 2004 mainly represented the Company's investments in various power plant projects and entities in other industries.

The reduction in 2004 mainly represented the disposals of the Company's equity investments in Wenshan Malutang Power Generation Company Limited and Tianjin Dagang Huashi Power Generation Company Limited. The Company also reduced its equity interest in Shanxi Datang Niangziguan Power Generation Company Limited ("Datang Nangziguan") from 54% to 3%, causing the reclassification of Datang Nangzigang into an available for sale investment.

As at 31 December 2004, Tongmei Thermal Power is an associate of Datang Yungang.

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

7. AVAILABLE-FOR-SALE INVESTMENTS

	Company and its subsidiaries		Company	
	2004	2003	**2004**	2003
	'000	'000	**'000**	'000
Beginning of the year	**155,620**	47,820	**154,720**	46,920
Addition	**181,980**	107,800	**181,980**	107,800
Reduction	**(900)**	–	**–**	–
End of the year	**336,700**	155,620	**336,700**	154,720

Available-for-sale investments of the Company and its subsidiaries mainly comprised a 16% unlisted equity investment in NCPG Finance, a 10% unlisted equity investment in China Continent Property & Casualty Insurance Company Ltd. ("CCPC") and a 0.98% unlisted equity investment in Daqin Railway Company Limited ("Daqin Railway").

These investments do not have a quoted market price in an active market. NCPG Finance is a non bank financial institution providing financial services exclusively to its shareholders and their affiliates. CCPC is a financial institution providing property insurance services. The principle activity of Daqin Railway is to provide railway transportation services. Based upon the limited forecast financial information regarding these investments available to the Company, the directors are of the opinion that there are no appropriate methods to reliably measure their fair values. Accordingly, these investments are stated at cost and are subject to review for impairment loss.

There were no provisions for impairment on available-for-sale investments for the year ended 31 December 2004.

8. DEFERRED HOUSING BENEFITS

Pursuant to the "Proposal on Further Reform of Housing Policy in Urban Areas" of the State and the implementation schemes for staff quarters issued by the relevant provincial and municipal governments, the Company and its subsidiaries have finalised a scheme for selling staff quarters in 1999.

Under the scheme, the Company and its subsidiaries provide housing benefits to its staff to buy staff quarters from the Company and its subsidiaries at preferential prices. The offer price is calculated based on their length of service and position pursuant to the prevailing local regulations. The deferred housing benefits represent the difference between the net book value of the staff quarters sold and the proceeds collected from the employees. The housing benefits are amortised over the remaining average service life of the relevant employees. The estimated housing benefits are expected to benefit the Company and its subsidiaries over ten years, which is the estimated remaining average service life of the relevant employees.

	Company and its subsidiaries	
	2004	2003
	'000	'000
Cost		
Beginning and end of year	**342,837**	342,837
Accumulated amortisation		
Beginning of year	**(156,105)**	(118,758)
Charge for the year	**(37,347)**	(37,347)
End of year	**(193,452)**	(156,105)
Net book value		
End of year	**149,385**	186,732
Beginning of year	**186,732**	224,079

As at 31 December 2004, there was no deferred housing benefit in subsidiaries' accounts.

9. GOODWILL

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

	Company and its subsidiaries	
	2004	2003
	'000	'000
Cost		
Beginning and end of year	57,363	57,363
Accumulated amortisation		
Beginning of year	(18,210)	(12,618)
Charge for the year	(5,592)	(5,592)
End of year	(23,802)	(18,210)
Net book value		
End of year	33,561	39,153
Beginning of year	39,153	44,745

As at 31 December 2004, there was no goodwill in the subsidiaries' accounts.

10. INVENTORIES

	Company and its subsidiaries		Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Fuel	152,800	82,432	50,251	42,778
Spare parts and consumable supplies	289,815	260,402	157,951	180,482
	442,615	342,834	208,202	223,260

As at 31 December 2004, all inventories were carried at cost.

11. ACCOUNTS RECEIVABLE

Accounts receivable of the Company and its subsidiaries mainly represents the receivable from the respective regional or provincial grid companies for tariff revenue. This receivable is unsecured and non-interest bearing. The tariff revenue is settled on a monthly basis according to the payment provisions in the power purchase agreements. As at 31 December 2004, all tariff revenues receivable from the respective grid companies were aged within three months.

12. SHORT-TERM BANK DEPOSITS OVER THREE MONTHS

Short-term bank deposits over three months consist of fixed-term deposits denominated in Rmb, Hong Kong dollars or USD with original maturities ranging from over three months to one year.

The effective interest rates on short-term bank deposits over three months ranged from 1.33% to 2.15% per annum (2003 – 0.90% to 1.11% per annum), and these deposits have an average maturity of 175 days (2003 – 142 days).

13. CASH AND CASH EQUIVALENTS

	Company and its subsidiaries		Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Deposits with NCPG Finance	250,466	3,273,493	247,906	3,247,989
Bank deposits	3,210,826	881,630	1,684,946	781,963
Cash in hand	727	361	384	150
	3,462,019	4,155,484	1,933,236	4,030,102

The effective interest rates on the RMB and foreign cash deposits ranged from 0.72% to 1.44% per annum (2003 – 0.90% to 1.76% per annum) and 0.0001% to 2.2100% per annum (2003 – 0.0025% to 0.9719% per annum), respectively. These deposits have an average maturity of 5 days (2003 – 34 days).

As at 31 December 2004, cash ad cash equivalents of approximately Rmb 250,466,000 (2003 – Rmb3,273,493,000) were deposited with NCPG Finance at the prevailing market interest rate of 0.72% per annum (2003 – 0.72% per annum).

14. SHARE CAPITAL

As at 31 December 2004, the authorised share capital of the Company was Rmb 5,162,849,000, divided into 5,162,849,000 shares of Rmb1 each. The issued and fully paid up share capital of the Company as at 31 December 2004 and 2003 was as follows:

	Number of shares	Share capital	Share interest
	'000	Rmb '000	%
Domestic Shares	3,732,180	3,732,180	72.29
H Shares	1,430,669	1,430,669	27.71
	5,162,849	5,162,849	100.00

Domestic shares are non-listed promoter shares subscribed by promoters in Rmb upon the Company's incorporation.

H-shares were listed on The Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21 March 1997.

Domestic shares and H shares rank pari passu with each other and in particular will rank in full for all dividends or distributions declared and paid.

15. RESERVES

(a) Capital reserve

Capital reserve mainly represents the difference between the nominal amount of the domestic shares issued and the fair value of the net assets injected into the Company during its formation and also proceeds from the issuance of H Shares in excess of their par value, net of expenses related to the issuance of the shares in 1997.

(b) Statutory surplus reserve

In accordance with the relevant laws and regulations of the PRC and the Company and its subsidiaries' articles of association, the Company and its subsidiaries are required to appropriate 10% of its net profit, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional.

15. RESERVES (CONT'D)

(b) Statutory surplus reserve (cont'd)

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such issue is not less than 25% of share capital. The statutory surplus reserve is non-distributable.

(c) Statutory public welfare fund

In accordance with the Company and its subsidiaries' articles of association, 5%-10% of its net profit is to be appropriated to a statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company's employees such as construction of canteen and other staff welfare facilities. Title of these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Statutory public welfare fund is transferred out to discretionary surplus reserve upon utilisation for the collective benefits of the employees. For the year ended 31 December 2004, approximately Rmb51,545,000 (2003 – Rmb56,466,000) of the statutory public welfare fund was transferred out to the discretionary surplus reserve accordingly.

(d) Discretionary surplus reserve

In accordance with the Company's articles of association, the appropriation of profit to the discretionary surplus reserve and its utilisation are made in accordance with the recommendation of the Board of Directors and is subject to shareholders' approval at their general meeting.

On 28 March 2005, the Board of Directors proposed an appropriation of profit of approximately Rmb1,281,777,000 to the discretionary surplus reserve for the year ended 31 December 2004 (2003 – Rmb509,077,000). The proposed profit appropriation is subject to the shareholders' approval in their next general meeting.

On 17 March 2004, the Board of Directors proposed an appropriation of approximately Rmb 509,077,000 to the discretionary reserve for the year ended 31 December 2003. The proposed profit appropriation was approved by the shareholders in their general meeting dated 22 June 2004.

The discretionary surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them. The discretionary surplus reserve is distributable.

15. RESERVES (CONT'D)

(e) Restricted reserve

Pursuant to documents Cai Qi [2000] 295, Cai Qi [2000] 878 and Cai Kuai [2001] 5 issued by MOF, deferred housing benefits for staff quarters sold that were approved by the government before the effective date of Cai Qi [2000] 295, i.e. 6 September 2000, should be directly deducted from shareholders' equity starting from 2001. Accordingly, approximately Rmb258,881,000 which represented the remaining deferred housing benefits balance in relation to staff quarters sold and the sale approved by the government before 6 September 2000 has been directly deducted from the statutory public welfare fund under PRC accounting standards and regulations ("PRC GAAP"). For financial statements prepared in accordance with IFRS, the deferred housing benefits are amortised over the estimated average service lives of the relevant employees (see Note 8 above). To reflect the reduction of the statutory public welfare fund, an amount equivalent to the corresponding deferred housing benefits balance was transferred from statutory public welfare fund to a restricted reserve specifically set up for this purpose. Upon amortisation of the deferred housing benefits, an amount equivalent to the amortisation for the period is transferred from the restricted reserve to retained earnings. For the year ended 31 December 2004, approximately Rmb32,360,000 (2003 – Rmb32,360,000) had been transferred out from this restricted reserve.

(f) Other reserve

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

(g) Basis for profit appropriations

In accordance with document Cai Kuai Zi [1995] 31 issued by MOF, appropriations to statutory reserves are to be determined based on the financial statements prepared in accordance with the PRC GAAP.

In addition, in accordance with the Company's articles of association, the Company declares dividends based on the lower of retained earnings as reported in accordance with PRC GAAP and those reported in accordance with IFRS after deducting current year's appropriations to other reserves. As at 31 December 2004, the amount of retained earnings as determined under IFRS was less than that determined under PRC GAAP by approximately Rmb 74 million (2003 – Rmb142 million).

The profit attributable to shareholders for the year ended 31 December 2004 includes a profit of approximately Rmb2,292,584,000 (2003 – Rmb1,782,427,000) that has been dealt with in the accounts of the Company.

16. LONG-TERM LOANS

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

	Company and its subsidiaries		Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Long-term bank loans (a)	17,361,017	9,424,317	2,215,000	1,874,000
Other long-term loans (b)	1,694,920	1,711,379	–	–
	19,055,937	11,135,696	2,215,000	1,874,000
Less: Amounts due within one year included under current liabilities	(1,106,875)	(829,209)	(200,000)	(249,000)
	17,949,062	10,306,487	2,015,000	1,625,000

(a) Long-term bank loans

As at 31 December 2004, approximately Rmb2,198 million (2003 – Rmb1,065 million) and Rmb15,163 million (2003 – Rmb8,359 million) of the long-term bank loans were denominated in USD and Rmb, respectively. Except for approximately Rmb2,933 million long-term bank loans were pledged by right of collection of tariff, all long-term bank loans were unsecured and bore interest at rates ranging from 2.88% to 6.12% (2003 – 2.19% to 5.76%) per annum. Approximately Rmb1,415 million (2003 – Rmb1,825 million) of the Company's bank loans were guaranteed by NCG (Note 25(e)). Approximately Rmb4,121 million (2003 – Rmb2,284 million) of the loans of the subsidiaries were guaranteed by the minority shareholders according to their shareholding percentage in the subsidiaries.

16. LONG-TERM LOANS (CONT'D)

(a) Long-term bank loans (cont'd)

The long-term bank loans, as summarised below, were drawn to finance the construction of electricity utility plants:

	Company and its subsidiaries		Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Amount repayable				
Within one year	1,006,180	722,830	200,000	249,000
Between one to two years	1,829,213	1,040,830	300,000	200,000
Between two to five years	7,022,151	5,235,569	1,115,000	1,380,000
Over five years	7,503,473	2,425,088	600,000	45,000
	17,361,017	9,424,317	2,215,000	1,874,000

(b) Other long-term loans

Other long-term loans were borrowed by MOF from International Bank for Reconstruction and Development ("World Bank") and on lent to the Company's subsidiary, Datang Tuoketuo, for the construction of electricity utility plants. The maturity of these loans were as follows:

	Company and its subsidiaries	
	2004	2003
	'000	'000
Amount repayable		
Within one year	100,695	106,379
Between one to two years	106,679	100,697
Between two to five years	359,794	339,533
Over five years	1,127,752	1,164,770
	1,694,920	1,711,379

16. LONG-TERM LOANS (CONT'D)

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

All these loans were denominated in USD and unsecured. The other long-term loans bore interest at the rate of LIBOR Base Rate plus LIBOR Total Spread as defined in the loan agreement between MOF and World Bank, which approximated 1.36% to 2.03% per annum during the year ended 31 December 2004 (2003 – 1.30% to 1.60% per annum). In accordance with a guarantee agreement between NCG and MOF, NCG agreed to guarantee 60% of the loan balances (Note 25(e)). As at 31 December 2004, approximately Rmb1,017 million (2003 – Rmb1,027 million) of the loans were guaranteed by NCG, while the Company provided a counter-guarantee to NCG in respect of this amount.

17. SHORT-TERM LOANS

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

	Company and its subsidiaries		Company	
	2004	2003	**2004**	2003
	'000	'000	**'000**	'000
Short-term bank loans	**5,875,560**	670,020	**900,000**	2,000
Short-term loan payable to NCPG Finance	**104,000**	2,190,814	**–**	–
	5,979,560	2,860,834	**900,000**	2,000

As at 31 December 2004, all short-term loans were denominated in Rmb, unsecured and bore interest at rates ranging from 4.54% to 5.84% (2003 – 2.88% to 4.78%) per annum. Approximately Rmb1,639 million (2003 – Rmb960 million) of short-term loans were guaranteed by the minority shareholders according to their shareholding percentage in the subsidiaries.

18. CONVERTIBLE BOND

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

18. CONVERTIBLE BOND (CONT'D)

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

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

The convertible bond recognised in the balance sheet as at 31 December 2004 was as follows:

	Company and its subsidiaries	
	2004	2003
	'000	'000
Liability component at beginning of the year/initial recognition	1,031,722	1,014,427
Interest expense	55,852	17,295
Interest payment	(9,547)	–
Liability component at end of the year	1,078,027	1,031,722

The carrying amount of the liability component at 31 December 2004 of the convertible bond approximated its fair value.

Interest expense on the bond is calculated on the effective yield basis of 5.51% (2003 – 5.51%) by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bond after considering the effect of issuance cost.

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised:

	Company and its subsidiaries		Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Construction costs and deposits payable to contractors	2,290,647	1,498,454	315,147	155,088
Fuel and material costs payable	678,689	500,356	334,142	347,569
Salary and welfare payable	148,090	125,257	135,525	112,157
Government grants	170,177	138,928	153,677	138,928
Interest rate swap liability	119,885	206,024	–	–
Others	218,381	214,816	123,917	162,684
	3,625,869	2,683,835	1,062,408	916,426

The Company received government grants from local environmental protection authorities for undertaking approved environmental protection projects. The Company has not recognised any deferred income from government grants during the year, as the project related to the government grants have not been completed as at 31 December 2004.

As at 31 December 2004, other than certain deposits for construction which were due between one and two years, substantially all accounts payable were due within one year.

As at 31 December 2004, the notional principal amount of the outstanding interest rate swap contract of Datang Tuoketuo was USD213,911,000 (2003 – USD213,627,000) , and the fixed rate and floating rate were 5.15% (2003 – 5.15%) and 1.86% (2003 – 1.11%) (LIBOR offered by British Bankers' Association at 13 July 2004), respectively.

20. RETIREMENT AND STAFF HOUSING BENEFITS

Retirement benefits

The Company and its subsidiaries are required to make specific contributions to the state-sponsored retirement plan at a rate of 19% to 20% (2003 – 19% to 20%) of the total salaries of the PRC employees. The PRC government is responsible for the pension liability to the retired employees. The employees of the Company and its subsidiaries are entitled to a monthly pension at their retirement dates.

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees of the Company and its subsidiaries have to make a specified contribution based on the number of working years of the employees. The Company and its subsidiaries are required to make a contribution equal to 2 times of the staff's contributions. Moreover, the Company and its subsidiaries may, at their discretion, provide additional contributions to the retirement fund depending on the operating results of the year. The employees will receive the total contributions, and any returns thereon, upon retirement.

The total retirement cost incurred by the Company and its subsidiaries during the year ended 31 December 2004 pursuant to these arrangements amounted to approximately Rmb131,374,000 (2003 – Rmb76,939,000).

Housing benefits

As discussed in Note 8 above, the Company and its subsidiaries sell staff quarters to their employees at preferential prices. The deferred housing benefits represent the difference between the net book value of the staff quarters sold and the proceeds collected from the employees. Amortisation of the deferred housing benefits for the year ended 31 December 2004 amounted to approximately Rmb37,347,000 (2003 – Rmb37,347,000).

In addition, in accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at rate ranging from 10% to 18% (2003 – 8% to 10%) of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company and its subsidiaries' contributions out of their salary. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Company and its subsidiaries have no further obligations for housing benefits beyond the above contributions made. For the year ended 31 December 2004, the Company and its subsidiaries provided approximately Rmb51,667,000 (2003 – Rmb19,120,000) to the fund.

21. OPERATING REVENUE

	2004	2003
	'000	'000
Electricity	13,555,492	9,947,733
Heat	28,247	2,831
	13,583,739	9,950,564

Pursuant to the Power Purchase Agreements entered into between the Company and its subsidiaries and the regional or provincial grid companies, the Company and its subsidiaries are required to sell their entire net generation of electricity to these grid companies at an approved tariff rate as determined based on a regulatory process. For the year ended 31 December 2004, most of the electricity generated by the Company and its subsidiaries was sold to NCG and its subsidiaries.

22. OPERATING PROFIT

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

	2004	2003
	'000	'000
Loss on disposals of property, plant and equipment	33,912	36,360
Amortisation of goodwill	5,592	5,592
Personnel expenses		
– Wages	461,581	327,852
– Retirement benefits	129,763	74,922
– Staff housing benefits	87,903	55,717
– Other staff costs	194,133	172,524
Depreciation	2,099,835	1,653,707
– Capitalised as construction-in-progress	7,205	5,851
– Included as operating expenses	2,086,882	1,643,530
– Included as other operating expenses	5,748	4,326
Auditors' remuneration	5,500	4,730
Cost of inventories		
– Fuel	4,951,410	3,165,103
– Spare parts and consumable supplies	79,549	62,431
Operating lease		
– Buildings	14,622	14,622
Dividend income	(18,783)	(10,423)
Loss on disposals of investments held for trading	–	2,073
Gain on disposal of available-for-sale investment	(433)	–

23. FINANCE COSTS

	2004	2003
	'000	'000
Interest expense on:		
Short-term bank loans	189,033	17,295
Short-term loans payable to NCPG Finance	70,469	80,790
Long-term bank loans		
– wholly repayable within five years	168,509	33,075
– repayable beyond five years	500,383	350,570
Other long-term loans		
– repayable beyond five years	29,260	28,478
Convertible bond	55,852	17,295
	1,013,506	527,503
Less: amount capitalised in property, plant and equipment	(522,252)	(218,625)
	491,254	308,878
Exchange loss/(gain), net	1,562	(5,973)
Fair value (gain)/loss on an interest rate swap (Note a)	(14,061)	53,636
	478,755	356,541

(a) To hedge against its interest rate risk on long-term loans, Datang Tuoketuo has entered into an interest rate swap, which is carried at fair value. However, since the swap does not meet the definitions of an effective hedge under IAS 39, the change in its fair value is included in the income statement.

24. TAXATION

	2004	2003
	'000	'000
Current tax	914,993	919,398
Deferred tax	4,819	69,549
Tax charge	919,812	988,947

Enterprise income tax is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes. Except for Datang Tuoketuo and Fengning Hydropower, the applicable PRC enterprise income tax rate for the Company and its subsidiaries is 33%.

24. TAXATION (CONT'D)

Pursuant to document Guo Ban Fa [2001] 73 issued by State Council of PRC and document Cai Shui [2001] 202 issued by the State Administration of Taxation of PRC, Datang Tuoketuo, as an enterprise set up in the western area of PRC and engaged in a business encouraged by the State, has been granted a tax concession to pay PRC income tax at a preferential rate of 15% from 2001 to 2010. As a newly set up domestic invested enterprise engaged in power generation in the western area of PRC, Datang Tuoketuo is also exempted from PRC enterprise income tax during the first and second years of operation and has been granted a tax concession to pay PRC enterprise income tax at 50% of the preferential rate during the third to fifth year of operation. Datang Tuoketuo started commercial operation in 2003. The applicable PRC enterprise income tax rates approved by the local tax authority in 2003 and 2004 are 15% and 0%, respectively.

Pursuant to document Ji Zheng Han [2003] 126 issued by People's Government of Hebei Province and document Ji Guo Shui Fa [2003] 179 issued by State Administration of Taxation of Hebei Province, Fengning Hydropower, as an enterprise set up in the autonomous county started from 1 January 2003, is exempted from PRC enterprise income tax during the first to third year since the first tax profit year and has been granted a tax concession to pay PRC enterprise income tax at 50% of the tax rate during the fourth to sixth year. Fengning Hydropower has the tax profit since the year 2003. The applicable PRC enterprise income tax rates approved by the local tax authority in 2003 and 2004 are 0%.

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

	2004	2003
	'000	'000
Profit before taxation	3,663,352	2,857,514
Tax computed at the statutory tax rate of 33%	1,208,906	942,980
Add: Tax effect of non-tax deductible items	12,935	3,656
Preferential tax rate impact on the income of a subsidiary	(302,029)	(14,149)
Preferential tax rate impact on deferred tax assets arising from the fair value loss of interest rate swap	–	56,460
Tax charge	919,812	988,947

24. TAXATION (CONT'D)

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

	Company and its subsidiaries					
	2004					2003
	Preliminary expenses	Depreciation	Fair value loss of an interest rate swap	Deductible operating loss	Total	Total
	'000	'000	'000	'000	'000	'000
Beginning of year	7,884	9,023	22,814	10,121	49,842	99,489
(Charged)/Credited to net profit	18,859	9,180	1,854	(4,188)	25,705	(49,647)
End of year	26,743	18,203	24,668	5,933	75,547	49,842

	Company	
	2004	2003
	'000	'000
Preliminary expense		
Beginning of year	–	–
Credited to net profit	4,859	–
End of year	4,859	–

24. TAXATION (CONT'D)

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

	Company and its subsidiaries				
	2004				2003
	Deferred housing benefits	Capitalised borrowing costs	Convertible bond	Total	Total
	'000	'000	'000	'000	'000
Beginning of year	6,840	37,382	80,583	124,805	31,123
Charged to equity	–	–	–	–	73,780
(Credited)/Charged to net profit	(1,368)	47,172	(15,281)	30,523	19,902
End of year	5,472	84,554	65,302	155,328	124,805

	Company				
	2004				2003
Beginning of year	6,840	–	80,583	87,423	8,208
Charged to equity	–	–	–	–	73,780
(Credited)/Charged to net profit	(1,368)	47,403	(15,281)	30,754	5,435
End of year	5,472	47,403	65,302	118,177	87,423

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

	2004	2003
	'000	'000
Deferred tax assets to be recovered after more than 12 months	69,707	33,455
Deferred tax liabilities to be settled after more than 12 months	136,165	105,947

25. RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of relationship
Related parties in which the Company has no equity interest	
China Datang Corporation ("China Datang")	Substantial shareholder
Tianjin Jinneng Investment Company	Shareholder
Beijing Energy Investment (Group) Company	Shareholder
Hunan Huayin Power Company Limited ("Hunan Huayin")	An associate of the substantial shareholder
Tuoketuo Tongsheng Company Limited (" Tuoketuo Tongshen")	Managed by certain management personnel of the Company
Related parties in which the Company has equity interest	
NCEPR	Associate
Datang Texin	Associate

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

	Note	2004	2003
		'000	'000
Ash disposal fee to divisions and affiliates of China Datang	(a)	93,261	94,338
Rental fee to China Datang	(b)	7,228	7,229
Technical supervision, assistance and testing service fee to NCEPR	(c)	54,212	53,456
Transaction amount of assets transfer to Hunan Huayin	(d)	103,021	–
Heat revenue from Datang Texin	(g)	14,921	2,831
Fuel management fee to China Datang	(h)	6,268	–
Power Equipment Repair and Maintenance service fee to Tuoketuo Tongshen	(i)	72,000	36,980

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

25. RELATED PARTY TRANSACTIONS (CONT'D)

(b) The Company has leased buildings of 141,671 (2003 – 141,671) square metres from China Datang for an annual rental rate of approximately Rmb7 million in 2004 (2003 – Rmb7 million).

(c) NCEPR provides technical supervision, assistance and testing services to the Company and its subsidiaries in relation to the power generation equipment and facilities. Pursuant to the Technical Supervision Services Contract, such services are charged at a pre-determined rate based on the installed capacity of the Company and its subsidiaries.

(d) On 5 April 2004, the Company entered into an agreement with Hunan Huayin to transfer the development right of a power plant development project to Hunan Huayin. The transfer price was approximately Rmb103,021,000, which represented the costs incurred by the Company in this project.

(e) As discussed in Notes 16 and 17 above, NCG and the minority shareholders of the Company's subsidiaries had provided guarantees for the Company and its subsidiaries' loans totalling approximately Rmb8,192 million as at 31 December 2004 (2003 – Rmb6,096 million). Pursuant to the Entities Transfer Agreement, China Datang will assume all of NCG's obligations in relation to the guarantees provided for by the Company and its subsidiaries. The legal procedures of this arrangement were still in the process as at 31 December 2004.

(f) As at 31 December 2004, the Company had provided guarantees for loans of its associates, Datang Texin, Datang Pengshui, Datang Daba and Tashan Coalmine, according to the Company's shareholding percentage in its associates totalling approximately Rmb1,115 million (2003 – Rmb419 million).

(g) All of the company's sales of heat for the year were made to Datang Texin. As at 31 December 2004, the balance due from this company amounted to Rmb 4,528,000 (2003 – Nil), and was included in accounts receivable.

(h) In year 2004, China Datang provided fuel management and developing services to the Company. These services were charged at Rmb0.50 per ton of coal purchased. As at 31 December 2004, the balance due to this company amounted to Rmb6,268,000 (2003 – Nil), and was included in other payables.

(i) Tuokeuto Tongshen provided power equipment repair and maintenance service to one of the Company's subsidiaries. The service was charged at the same basis as the Company obtain the similar services from third party. As at 31 December 2004, the balance due to the Company amounted to Rmb7,200,000 (2003 – Nil) and was included in accounts payable.

25. RELATED PARTY TRANSACTIONS (CONT'D)

(j) In addition to the transactions identified above, there are other related companies owned/managed by certain management personnel of the Company and its subsidiaries, which provided property management, cleaning, transportation, and other services of approximately Rmb35,307,000 (2003 – Rmb56,035,000) to the Company and its subsidiaries. In addition, coals purchased from these related companies by a subsidiary of the Company amounted to approximately Rmb 17,976,000 (2003 – Rmb 66,254,000) for the year ended 31 December 2004. As at 31 December 2004, the balance due to these companies amounted to Rmb51,000 (2003 – Rmb12,695,000) respectively, and were included in accounts payable.

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

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

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

	2004	2003
	'000	'000
Fees for executive directors, non-executive directors and supervisors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	340	570
– bonus	327	548
– retirement benefits	233	390
Other emoluments for non-executive directors	4,094	2,639
Other emoluments for supervisors	1,536	1,058

There is no special bonus for directors' and senior executives' during the year ended 31 December 2004.

No director had waived or agreed to waive any emoluments during the year ended 31 December 2004.

26. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS (CONT'D)

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

	2004	2003
	'000	'000
Basic salaries and allowances	807	697
Bonus	835	669
Retirement benefits	502	477

For the year ended 31 December 2004, no emoluments were paid to directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

For the year ended 31 December 2004, the annual emoluments paid to each of the directors, supervisors and the five highest paid individuals did not exceed Rmb 1,060,000 (equivalent to HK$1,000,000).

27. DIVIDENDS

On 28 March 2005, the Board of Directors proposed a dividend of Rmb0.22 per share, totalling approximately Rmb1,135,827,000 for the year ended 31 December 2004. The proposed dividends distribution is subject to the shareholders' approval in their next general meeting.

On 17 March 2004, the Board of Directors proposed a dividend of Rmb0.175 per share, totalling approximately Rmb903,499,000 for the year ended 31 December 2003. The proposed dividends distribution was approved by the shareholders in the general meeting dated 22 June 2004.

28. EARNINGS PER SHARE AND DIVIDEND PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2004 was based on the net profit of approximately Rmb2,292,584,000 (2003 – Rmb1,811,799,000) and on the weighted average number of 5,162,849,000 shares (2003 – 5,162,849,000 shares) in issue during the year.

The diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expenses less the tax effect.

	2004	2003
Net profit attributable to shareholder (Rmb '000)	2,292,584	1,811,799
Interest expense on convertible debt (net of tax) (Rmb '000)	37,421	11,587
Net profit used to determine diluted earnings per share (Rmb '000)	2,330,005	1,823,386
Weighted average number of ordinary shares in issue (shares in thousand)	5,162,849	5,162,849
Adjustments for assumed conversion of convertible debt (shares in thousand)	215,813	66,813
Weighted average number of ordinary shares for diluted earnings per share (shares in thousand)	5,378,662	5,229,662
Diluted earnings per share (Rmb)	0.43	0.35

Proposed dividends per share for the year ended 31 December 2004 were calculated based on the proposed dividends of approximately Rmb1,135,827,000 (2003 – Rmb903,499,000) divided by the number of 5,162,849,000 shares (2003 – 5,162,849,000 shares) in issue as at 31 December 2004.

29. NOTES TO STATEMENT OF CASH FLOWS

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

	2004	2003
	'000	'000
Profit before taxation	3,663,352	2,857,514
Adjustments for:		
Depreciation of property, plant and equipment	2,092,630	1,647,856
Fair value (gain)/loss on an interest rate swap	(14,061)	53,636
Amortisation of goodwill	5,592	5,592
Amortisation of staff housing benefits	37,347	37,347
Loss on disposals of property, plant and equipment	33,912	36,360
loss on disposals of investments held for trading	–	2,073
Interest income	(46,970)	(41,395)
Interest expenses	491,254	308,878
Dividend income	(18,783)	(10,423)
Share of loss/(profit) from associates	3,264	(16,979)
Operating profit before working capital changes	6,247,537	4,880,459
(Increase) decrease in current assets:		
Inventories	(99,780)	(40,726)
Other receivables and current assets	(88,573)	(58,679)
Accounts receivable	(254,061)	(266,360)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	250,458	282,679
Taxes payable	41,737	(11,642)
Cash provided by operations	6,097,318	4,785,731

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

(b) Significant non-cash transactions

The Company and its subsidiaries incurred additional payables of approximately Rmb 792 million (2003 – Rmb515 million) to contractors and equipment suppliers for construction-in-progress during the year ended 31 December 2004.

(c) Undrawn borrowing facilities

The undrawn borrowing facilities in Rmb and USD available to settle the Company and its subsidiaries' capital commitments for investments in subsidiaries and associates and construction of electricity utility plants as at 31 December 2004 were as follows.

	Company and its subsidiaries		Company	
	2004	2003	**2004**	2003
	'000	'000	**'000**	'000
Expiring within one year	**29,286,260**	27,823,946	**28,986,260**	21,685,440
Expiring beyond one year	**35,432,164**	61,433,031	**35,132,164**	59,335,510
	64,718,424	89,256,977	**64,118,424**	81,020,950

30. COMMITMENTS

(a) Capital commitments

As at 31 December 2004, the Company had capital commitments related to investments in subsidiaries and associates amounted to Rmb8,908 million (2003 – Rmb6,757 million). In addition, capital commitments of the Company and its subsidiaries in relation to the construction and renovation of the electricity utility plants not provided for in the balance sheets were as follows:

	Company and its subsidiaries		Company	
	2004	2003	**2004**	2003
	'000	'000	**'000**	'000
Authorised and contracted for	**17,142,577**	19,184,771	**1,743,275**	6,212,299
Authorised but not contracted for	**9,216,942**	5,348,052	**–**	205,046
	26,359,519	24,532,823	**1,743,275**	6,417,345

30. COMMITMENTS (CONT'D)

(b) Operating lease commitment

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

	Company and its subsidiaries	
	2004	2003
	'000	'000
Amount repayable		
Within one year	9,599	12,127
Between one to five years	28,868	31,250
Over five years	50,519	57,736
	88,986	101,113

31. SUBSEQUENT EVENT

On 31 December 2004, State-owned Assets Supervision and Administration Commission of the State Council has approved Datang Tangshan's acquisition of the net assets of Tangshan Power Plant from China Datang for a cash consideration of approximately Rmb 155 million (guozichanquan [2004] 1249). As at the reporting date, the acquisition was still in process.

On 21 December 2004, the Company entered into an investment agreement to establish Datang Wulong Hydropower Company (the "Datang Wudian") for planning, constructing and operating the Wujiang hydropower project. The estimated registered capital of Datang Wudian is approximately Rmb1,000,000,000. The Company holds a 51% interest in Datang Wudian. As at 31 December 2004, no investment has been made by the Company in this investee. As at the reporting date, the Company has invested Rmb 25,500,000 in Datang Wudian.

On 31 December 2004, the Company entered into an investment agreement with China Datang to establish China Datang Finance Co., Ltd. (the "China Datang Finance") to provide various financing services to its shareholders and their affiliates. The estimated registered capital of China Datang Finance is approximately Rmb500,000,000. The Company holds a 20% interest in China Datang Finance. As at 31 December 2004, no investment has been made by the Company in this investee. As at the reporting date, the Company has invested Rmb 100,000,000 in China Datang Finance.

32. ADDITIONAL FINANCIAL INFORMATION

As at 31 December 2004, net current liabilities and total assets less current liabilities of the Company and its subsidiaries amounted to approximately Rmb5,584 million (2003 – Rmb 178 million) and Rmb38,261 million (2003 – Rmb28,425 million), respectively.

33. PRIOR YEAR COMPARATIVES

Certain comparative figures of 2003 have been reclassified to conform to the presentation of financial statements for the year ended 31 December 2004.