The board of directors (the "Board") of Huadian Power International Corporation Limited (the "Company") hereby presents the unaudited consolidated interim financial results of the Company, its subsidiaries and jointly controlled entity (the "Group") for the six months ended 30 June 2005 (the "Period"), as prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Although the Group's interim financial report for the six months ended 30 June 2005 was unaudited, it has been reviewed by KPMG, Certified Public Accountants and the auditors of the Company, in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by Hong Kong Institute of Certified Public Accountants. KPMG's unmodified independent review report to the Board is set out on page 37. The Company's Audit Committee has also reviewed the relevant information in respect of the 2005 interim financial results of the Group.

## INTERIM RESULTS AND INTERIM DIVIDEND

During the Period, profit after taxation attributable to equity holders of the Company amounted to approximately RMB468 million, representing a decrease of approximately 29.06% when compared with that for the corresponding period of 2004. Earnings per share were approximately RMB0.079.

The Board decided not to declare any interim dividend for the Period.

## BUSINESS REVIEW

### Power generation

During the Period, power generation of the Group amounted to 22.83 million MWh, representing an increase of approximately 31.03% over the around 17.42 million MWh for the corresponding period in 2004. On-grid power supply amounted to 21.38 million MWh, representing an increase of approximately 31.52% over the around 16.26 million MWh for the corresponding period in 2004.

As at 30 June 2005, the total installed capacity managed by the Group and the Company's total interested installed capacity amounted to 8,635MW and 7,581.2MW, respectively, and are set out as follows:

| Name of power plants / companies | Installed capacity (MW) | Equity interest held by the Company | Composition of generating units | Remarks |
|---|---|---|---|---|
| Zouxian Plant | 2,540 | 100% | 2 x 600MW + 4 x 335MW | 2 x 1,000MW generating units under construction |
| Shiliquan Plant | 1,285 | 100% | 2 x 300MW + 4 x 140MW + 1 x 125MW | |
| Laicheng Plant | 1,200 | 100% | 4 x 300MW | |
| Huadian Qingdao Power Company Limited ("Qingdao Company") | 660 | 55% | 2 x 300MW + 60MW | 2 x 300MW generating units under construction |
| Huadian Zibo Power Company Limited ("Zibo Company") | 467 | 100% | 2 x 145MW + 2 x 88.5MW | |
| Huadian Zhangqiu Power Company Limited ("Zhangqiu Company") | 290 | 70% | 2 x 145MW | |
| Huadian Tengzhou Xinyuan Power Company Limited ("Tengzhou Company") | 333 | 54.49% | 2 x 150MW + 1 x 33MW | |
| Sichuan Guangan Power Generation Company Limited ("Guangan Company") | 1,200 | 80% | 4 x 300MW | 2 x 600MW generating units under construction |
| Weifang Plant | 660 | 30% | 2 x 330MW | 2 x 600MW generating units under construction |
| **Total capacity managed by the Group(Note 1)** | **8,635** | | | |

| Name of power plants / companies | Installed capacity (MW) | Equity interest held by the Company | Composition of generating units | Remarks |
|---|---|---|---|---|
| Ningxia Yinglite Zhongning Power Company Limited ("Zhongning Company") | 330 | 50% | 1 x 330MW | 1 x 330MW generating unit under construction |
| Ningxia Power Generation Company (Group) Limited ("Ningxia Power Company") | 60 | 31.11% | 60MW | Wind power generation |
| Anhui Chizhou Jiuhua Power Generation Company Limited ("Chizhou Company") | — | 40% | | 2 x 300MW generating units under construction |
| Sichuan Luzhou Chuannan Power Generation Company Limited ("Luzhou Company") | — | 40% | | 2 x 600MW generating units project proposal approved |
| **Total interested capacity(Note 2)** | **7,581.2** | | | |

*Note 1: The aggregate total installed capacities of the Company, its subsidiaries and jointly controlled entity.*

*Note 2: The aggregate proportionate installed capacities of the power plants and companies comprised under the Group and the other companies invested by the Company, determined based on the respective percentage equity interest held by the Company.*

In the first half of 2005, the operation safety of the Group's generating units maintained at a satisfactory level and had achieved the 100-day safety record for 16 times. The plants managed by the Group such as Laicheng Plant, Qingdao Company, Weifang Plant, Zibo Company and Tengzhou Company had recorded continuous safe production for over 2,000 days; while the safe production record achieved by each of Zouxian Plant and Guangan Company was a period of over 1,500 days and that of over 1,000 days by Zhangqiu Company.

In 2005, a total of 281 generating units participated in the 34th Large-scale Thermal Power Units Competition of the PRC for the Year 2004 (with unit capacity of 300MW and above). Generating units were examined in accordance with their performance in operating efficiency, safe operating period and production rate. Awards were given to 52 generating units in the competition, representing an overall prize winning rate of 18.5%. The Group participated in the competition with 18 300MW or 600MW generating units, and 8 of them won awards, representing a prize winning rate of 44.4%. In the competition this year, the No.6 unit of Zouxian Plant won the special award (Championship) for the 600MW generating units category; the No.2 unit of Zouxian Plant and the No.1 unit of Qingdao Company won the special award (Championship) and first-class award (First runner-up award), respectively, under the category of 300MW generating units; the No.3 unit of Zouxian Plant, the No.3 and No.4 units of Laicheng Plant won second-class awards; and the No.1 unit of Laicheng Plant and the No.6 unit of Shiliquan Plant won third-class awards.

## Major operating statistics

The table below sets out the major operating statistics of the Group's power plants during the first half of 2005:

| Items | Zouxian Plant | Shiliquan Plant | Laicheng Plant | Qingdao Company | Zibo Company | Zhangqiu Company | Tengzhou Company | Guangan Company | Weifang Plant | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest owned (%) | 100 | 100 | 100 | 55 | 100 | 70 | 54.49 | 80 | 30 | — |
| Installed capacity (MW) | 2,540 | 1,285 | 1,200 | 660 | 467 | 290 | 333 | 1,200 | 660 | 8,635 |
| Average utilization hours | 2,720 | 2,687 | 2,685 | 2,712 | 2,742 | 2,768 | 2,973 | 3,195 | 2,753 | 2,791 |
| Total amount of electricity generated (00'million kWh) | 69.1 | 34.5 | 32.2 | 17.9 | 12.8 | 8.0 | 9.9 | 38.3 | 18.2 | 228.3 |
| Total amount of electricity supplied (00'million kWh) | 65.6 | 32.2 | 30.4 | 16.6 | 11.3 | 7.4 | 9.2 | 36.0 | 17.1 | 213.8 |
| Equivalent availability factor (%) | 92.46 | 91.86 | 87.12 | 88.16 | 86.73 | 93.65 | 97.87 | 94.62 | 89.85 | 91.35 |
| Capacity factor (%) | 62.62 | 62.58 | 61.81 | 63.49 | 65.96 | 68.45 | 68.43 | 73.54 | 63.37 | 64.74 |
| Equivalent forced suspension rate (%) | 0.01 | 0.00 | 0.01 | 0.00 | 3.20 | 0.00 | 0.01 | 0.00 | 0.45 | 0.22 |
| Electricity supplied coal consumption (g/kWh) | 331.58 | 356.70 | 339.39 | 348.05 | 370.59 | 368.31 | 369.22 | 340.14 | 347.15 | 345.14 |

*Note:*

*On a consolidated basis of the Group: Electricity generated by Weifang Plant was accounted for based on the Company's 30% proportionate equity interest in the plant. Qingdao Company was registered as a limited liability company in the PRC on 28 December 2004. Pursuant to the articles of association of Qingdao Company, the Company has obtained the power to effectively control Qingdao Company, which has therefore become a subsidiary of the Company. The Group has since then changed its accounting treatment in respect of Qingdao Company from proportionate consolidation accounting method to consolidation accounting method to account for its investment in Qingdao Company in the preparation of the consolidated financial statements. Accordingly, electricity generated by Qingdao Company during the corresponding period of 2004 was accounted for by reference to the Company's then proportionate 55% equity interest therein, but has since 2005 become 100% accounted for on the Group's consolidated basis. Electricity generated by the other power plants and companies comprised under the Group was 100% accounted for on the Group's consolidated basis.*

## Infrastructure construction projects and future development projects

All of the Group's projects under construction have been progressing smoothly as scheduled. Further, the first 330MW generating unit of Zhongning Company, 50% held by the Company, officially commenced commercial operation on 22 January 2005.

1. Construction in progress

   To date, the Group's projects under construction include: two 1,000MW generating units of Zouxian Plant Phase IV, two 600MW generating units of Weifang Plant Phase II, two 300MW generating units of Qingdao Company Phase II, two 600MW generating units of Guangan Company Phase III. In addition, construction projects of other plants and companies in which the Company has investment include: the second 330MW generating unit of Zhongning Company, two 300MW generating units of Chizhou Company and two 600MW generating units of Ningxia Lingwu Plant ("Lingwu Plant").The above generating units are expected to be sucessively put into operation from 2005 to 2008.

2. Preliminary projects

Currently, the preliminary projects being developed by the Group include: two 300MW heat and electricity co-generating units of Zhangqiu Company Phase II, two 600MW generating units of Luzhou Company and two 315MW heat and electricity co-generating units of Tengzhou Company Phase II. The Group is preparing supplementary review submission documents as required under the relevant PRC approval policies for these projects. Further, with the completion of the preliminary feasibility study report for the Sichuan Daduhe Luding Hydropower Station project, the Group is carrying out the relevant feasibility study in respect of this project.

The new construction project of two 600MW coal-fired generating units of Lingwu Plant and the expansion project of two 600MW coal-fired generating units of Weifang Plant Phase II have been approved by the State Development and Reform Commission with planned total investment of approximately RMB5,150 million in respect of each of the projects. The Company will make further announcement, if considered necessary or appropriate, in the event that the investments are carried out and significant progress in respect of the projects occurs.

In addition, the two 600MW generating units of Guangan Company Phase III expansion project has been approved by the State Development and Reform Commission. It is estimated that the total investment in the project (including desulphurisation installation) is approximately RMB4,490 million. The Company will make its investments in accordance with its proportionate equity interest in Guangan Company. 20% of its investments are expected to be funded out of the Company's internal resources, with its remaining investments being expected to be financed by way of loans.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Macro economy and power demand

The PRC economy maintained a steady growth in the first half of 2005, with national Gross Domestic Product ("GDP") amounted to approximately RMB6,742.2 billion, representing an increase of 9.5% over the same period in 2004. GDP of Shandong Province, in which the Group's operations are mainly based, was approximately RMB849.03 billion, representing an increase of 15.4% over the same period of the previous year, and was 5.9 percentage points higher than the national average. GDP of Sichuan Province was approximately RMB323.16 billion, representing an increase of 11.6% over the same period in last year, and was 2.1 percentage points higher than the national average. GDP of Ningxia area was approximately RMB21.1 billion, representing an increase of 11.5% over the same period in last year, and was 2.0 percentage points higher than the national average.

In the first half of 2005, the power consumption of the whole Shandong Province community amounted to 90.865 million MWh, representing an increase of 16.9% over the same period last year. The power consumption of the whole Sichuan Province community amounted to 43.98 million MWh, increased by 9.8% when compared with that for the same period in last year. The power consumption of the whole Ningxia community was 15.66 million MWh, representing a growth of 17.89% as compared with that of the corresponding period in last year.

### Turnover and profit

In the first half of 2005, the total volume of electricity supplied by the Group to the grids was 21.38 million MWh, representing an increase of 31.52% over the same period in last year. For the six months ended 30 June 2005, the Group's turnover amounted to approximately RMB6,399 million, representing an increase of approximately 34.24% over the same period in last year. The revenue from sale of electricity for the Period amounted to approximately RMB6,255 million, representing an increase of approximately 33.78% over the same period in last year. The revenue from sale of heat for the Period amounted to approximately RMB145 million, representing an increase of approximately 57.49% over the same period in last year.

For the six months ended 30 June 2005, the Group's operating profit amounted to approximately RMB951 million, representing a decrease of approximately 23.11% over same period in last year. Profit after taxation attributable to equity holders of the Company amounted to approximately RMB468 million, representing a decrease of approximately 29.06% from the corresponding period of 2004. Earnings per share were approximately RMB0.079 and net assets per share (excluding minority interests) amounted to approximately RMB1.99.

### Operating expenses

During the Period, the operating expenses of the Group amounted to approximately RMB5,448 million, representing an increase of about 54.33% when compared with the corresponding period in last year, attributable to a growth in the volume of power generation and a rise in coal prices.

The major operating expense of the Group was the coal costs. Due to the rise in the price of coal and the growth of power generation, during the Period, such costs recorded a relatively higher growth and amounted to RMB3,603 million. During the first half of 2005, the unit price of standard coal was RMB162.00/ MWh, representing an increase of 43.82% over the same period in last year.

During the Period, depreciation and amortization expenses of the Group amounted to RMB807 million, increased by RMB59 million over the same period in last year. This was mainly due to an increase of the Group's depreciation arising from the additional assets of new generating units of Guangan Company being put into operation.

During the Period, the Group had undertaken a total of 10 major overhauls and 5 minor overhauls for its generating units, representing a planned overhaul rate of 8.52%. Major overhaul expenses of the Group amounted to RMB143 million, representing an increase of RMB30.37 million, or 26.93%, over the same period in last year. The increase was mainly attributable to the new generating units put into operation and the increased number of major overhauls.

During the Period, repairs and maintenance expenses of the Group amounted to RMB66.5 million, representing an increase of RMB4.2 million, or 6.73%, over the same period in last year. However, the percentage growth in repairs and maintenance expenses was relatively lower than that in power generation capacity and power generation volume due to the effectiveness in the implementation of cost control measures.

During the Period, expenses on personnel costs of the Group amounted to RMB432 million, representing an increase of RMB37.63 million, or 9.55%, over the same period in last year. This was mainly due to the change in the accounting treatment in respect of Qingdao Company from the original proportionate consolidation accounting method to the currently adopted consolidation accounting method to account for the Company's investment in Qingdao Company.

During the Period, administrative expenses of the Group amounted to RMB213 million, representing an increase of RMB73.05 million compared with the same period in last year. This was mainly due to the increase in environmental protection charges of approximately RMB44 million and the change in the accounting treatment in respect of Qingdao Company from the original proportionate consolidation accounting method to the currently adopted consolidation accounting method to account for the Company's investment in Qingdao Company.

During the Period, other operating expenses of the Group amounted to RMB120 million, representing an increase of RMB13.05 million. This was mainly due to the increased water consumption resulting from increase in volume of power generation.

### Finance costs

During the Period, net finance costs borne by the Group amounted to RMB236 million (representing an increase of 3.05% when compared with the corresponding period in the previous year), of which interest expenses amounted to RMB268 million, representing an increase of 3.13% when compared with the corresponding period in last year. This was mainly attributable to the increase in expenses of loan interests after the new generating units of Guangan Company being put into operation as well as the change in the accounting treatment in respect of Qingdao Company from the original proportionate consolidation accounting method to the currently adopted consolidation accounting method to account for the Company's investment in Qingdao Company.

### Indebtedness

As at 30 June 2005, the borrowings of the Group amounted to RMB14,427 million, of which loans denominated in US dollars amounted to US$193 million. The gearing ratio (that is total liabilities/total assets) was 56.74%, representing a decrease of 5.15 percentage points when compared with that of 2004.

### Cash and cash equivalents

As at 30 June 2005, cash and cash equivalnets owned by the Group amounted to around RMB1,189 million.

Save as the information disclosed herein, information about the Group's other matters as are required by and set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from that included in the Company's 2004 annual report.

## BUSINESS PURSUITS

1. To ensure safe production of the Group's power plants and to strive for maintaining the various technological economic indexes of the power generating plants at an industry leading position.

2. To strengthen cost control with particular emphasis on controlling the rise in fuel costs, and to adopt several effective cost measures to control the degree of fuel cost increase.

3. To ensure smooth and effectively-controlled implementation and managed progress of projects under construction, and to maintain the quality of work and minimize unit costs. We will also strive to put into commercial operation this year the first set of the 300MW unit of Qingdao Company Phase II, the second set of the 330MW unit of Zhongning Company and the first set of the 300MW unit of Chizhou Company.

4. With the enhanced market share of electricity generation industry within Shandong Province, we will continue the Group's efforts in exploring power generation markets in the country, proactively pushing forth the progress of the Group's preliminary projects and taking full advantage of the low cost edge of the proximity of power plants to coal mines.

5. To increase the capacity in power generation by fostering sales and marketing work as a way to increase the utilization rate of power generating equipment.

6. To prepare the Company to satisfy its future financing needs by actively exploring financing sources so as to reduce its finance costs and to rationalize its capital structure.

7. To closely observe relevant government policies relating to energy and to actively research and develop new energy sources, with particular focus to speed up the development of renewable energy.

## SIGNIFICANT EVENTS

### (1) Re-election of members of the Board and the Supervisory Committee

Due to the expiry of the third session of the Board, as approved at the annual Board meeting and the meeting of the Supervisory Committee held on 22 March 2005 and resolved at the 2004 annual general meeting held on 2 June 2005, members of the fourth session of the Board have been elected, comprising 12 members, namely, He Gong, Chen Feihu, Zhu Chongli, Chen Jianhua, Tian Peiting, Wang Yingli, Zhang Bingju, Peng Xingyu, Ding Huiping, Zhao Jinghua, Wang Chuanshun and Hu Yuanmu. Members of the fourth session of the Supervisory Committee have also been elected, comprising 3 members, namely, Feng Lanshui, Li Changxu and Zheng Feixue. Details and the relevant information of the above-named directors and supervisors are included in the circular and announcement issued by the Company on 17 April 2005 and 2 June 2005, respectively.

A Vice Chairman of the third session of the Board, Mr. Da Hongxing, resigned as a director with effect from 2 June 2005 (the conclusion of 2004 annual general meeting) and is no longer a member of the Board or a Vice Chairman of the Company.

### (2) Electricity tariff adjustments

To alleviate the impact from rising coal prices since June 2004 and the cancellation of tariffs previously allowed for extra electricity supplied, on 22 April 2005, the State Development and Reform Commission officially issued the notice with respect to the implementation of coal-electricity price linkage mechanism for on-grid power plants to grid companies in North China, East China, Central China, North-eastern China and South China. This mechanism is expected to help minimising the apparent difference between electricity tariffs and coal prices, hence improving the on-grid electricity tariffs and electricity tariff prices. The adjustments to electricity tariffs under such mechanism took effect from 1 May 2005 and are applicable to the Group's power plants in Shandong and Sichuan Provinces. Details of such adjustments are set out in the Company's announcements dated 9 May 2005 and 27 May 2005.

### (3) Issue of A shares

In January 2005, the Company issued 765,000,000 A shares at an issue price of RMB2.52 per share in the PRC. On 3 February 2005, the Company's A shares were listed on the Shanghai Stock Exchange. Under the Company's A share issue, 196,000,000 shares (in the form of unlisted State-owned shares) were allocated and issued to China Huadian Corporation ("China Huadian"). Such shares issued to China Huadian are not listed. The remaining 569,000,000 shares issued under the Company's A share issue are listed A shares, representing approximately 9.45% of the Company's total enlarged issued share capital comprising 6,021,084,200 shares. Total proceeds raised from the A share issue amounted to RMB1,927,800,000.

As China Huadian is the controlling shareholder of the Company, the issue of 196,000,000 State-owned shares pursuant to the Company's A share issue to China Huadian constituted a connected transaction of the Company under the Listing Rules, which was duly approved by independent shareholders of the Company at its 2002 annual general meeting held on 24 June 2003 and 2003 annual general meeting held on 29 June 2004.

Shareholding structure of the Company immediately before and immediately after completion of its A share issue is as follows:

| Type of shares | Number of shares immediately before completion of the A share issue | Approximate shareholding percentage (%) | Number of shares immediately after completion of the A share issue | Approximate shareholding percentage (%) |
|---|---|---|---|---|
| 1. Unlisted domestic shares: | | | | |
| China Huadian | | | | |
| (State-owned shares) | 2,815,075,430 | 53.56 | 3,011,075,430 | 50.01 |
| Other unlisted domestic | | | | |
| shareholders | 1,009,980,770 | 19.21 | 1,009,980,770 | 16.77 |
| Sub-total | 3,825,056,200 | 72.77 | 4,021,056,200 | 66.78 |
| 2. Listed shares: | | | | |
| Shareholders of A shares | — | — | 569,000,000 | 9.45 |
| Shareholders of H shares | 1,431,028,000 | 27.23 | 1,431,028,000 | 23.77 |
| Sub-total | 1,431,028,000 | 27.23 | 2,000,028,000 | 33.22 |
| 3. Total | 5,256,084,200 | 100.00 | 6,021,084,200 | 100.00 |

For further details, please refer to the Company's announcements dated 14 May 2004, 25 June 2004, 29 June 2004, 14 January 2005, 19 January 2005, 21 January 2005 and 28 January 2005, and the Company's shareholders circular dated 14 May 2004.

## (4) Connected transactions

In addition to the issue of State-owned shares to China Huadian by the Company under its A share issue as described above, connected transactions under the Listing Rules newly entered into by the Company during the six months period ended 30 June 2005 are as follows:

4.1 Establishment of Huadian Property Co. Ltd. ("Huadian Property")

On 7 April 2005, the Company entered into an agreement with China Huadian and certain other subsidiaries of China Huadian for the establishment of Huadian Property.

The entering into of the agreement constituted a connected transaction of the Company. The transaction falls within Rule 14A.32(1) of the Listing Rules, and is therefore exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The registered capital of Huadian Property, which was established in June 2005, is RMB550 million, and the Company has a 30% equity interest in Huadian Property. Pursuant to the agreement, the Company has made capital contribution in cash amounting to RMB165 million (representing 30% of Huadian Property's registered capital) to Huadian Property within five days after its proposed company name has been approved by the relevant PRC regulatory authority. The Company's capital contribution was funded out of its internal resources.

The relevant details are set out in the Company's announcement dated 7 April 2005.

4.2 Connected transactions in relation to the proposed acquisitions of 97% equity interest in Anhui Huadian Suzhou Power Generation Company Limited ("Suzhou Company") and 90% equity interest in Huadian Xinxiang Power Generation Company Limited ("Xinxiang Company")

On 14 June 2005, the Company entered into an agreement with China Huadian in respect of the proposed acquisition from China Huadian of its 97% equity interest in Suzhou Company for a consideration of RMB74,900,000.

On the same day, the Company entered into another agreement with China Huadian in respect of the proposed acquisition from China Huadian of its 90% equity interest in Xinxiang Company for a consideration of RMB90,100,000.

As China Huadian is the controlling shareholder of the Company and hence a connected person of the Company, each of the two agreements described above and the transactions thereunder constituted connected transactions of the Company under Chapter 14A of the Listing Rules. Such transactions, when aggregated pursuant to Rule 14A.25 of the Listing Rules, constituted transactions of the Company which are subject to approval by the Company's independent shareholders at an extraordinary general meeting as required under Chapter 14A of the Listing Rules. Such approval has been obtained at the extraordinary general meeting held on 24 August 2005.

Further details are set out in the Company's announcement dated 14 June 2005, its notice of extraordinary general meeting and the related circular dated 6 July 2005 (including a letter from the Company's independent Board committee established in respect of the relevant transactions and its recommendations to independent shareholders and an opinion letter from the independent financial adviser), and the Company's announcement dated 24 August 2005.

## SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company (the "Directors"), as at 30 June 2005, each of the following persons, not being a Director, supervisor, chief executive or member of senior management of the Company, had an interest and/or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or was otherwise interested in 5% or more of any class of the then issued share capital of the Company:

| | | | Interest as at 30 June 2005 | | | |
|---|---|---|---|---|---|---|
| Name of shareholder | Type of shares | Number of shares held | Approximate percentage of shareholding in the Company's total issued share capital | Approximate percentage of shareholding in the Company's total issued domestic shares | Approximate percentage of shareholding in the Company's total issued H shares | Short position |
| China Huadian | Domestic shares | 3,011,075,430 | 50.01% | 65.60% | — | — |
| Shandong International Trust and Investment Corporation | Domestic shares | 903,443,970 | 15.00% | 19.68% | — | — |
| HKSCC Nominees Limited (Notes) | H shares | 1,420,381,900 | 23.59% | — | 99.26% | See Note 4 |

*Notes:* *Based on the information available to and obtained by the Directors as at 30 June 2005, and so far as the Directors are aware and understand, as at 30 June 2005:*

1. *Among the 1,420,381,900 H shares held by HKSCC Nominees Limited, UBS AG had an interest, in the capacity as beneficial owner and through controlled corporations, in an aggregate of 175,045,900 H shares of the Company (representing approximately 12.23% of the then total issued H shares). According to the information available to the Directors and so far as the Directors understand, information in relation to interests in the Company of corporations controlled by UBS AG was as follows:*

(a) *6,757,000 H shares (representing approximately 0.472% of the Company's then total issued H shares) were held by UBS Fund Services (Luxembourg) SA, which in turn was 100% controlled by UBS AG;*

(b) *7,350,000 H shares (representing approximately 0.514% of the Company's then total issued H shares) were held by UBS Global Asset Management (Americas) Inc, which in turn was 100% controlled by UBS AG;*

(c) *1,500,000 H shares (representing approximately 0.105% of the Company's then total issued H shares) were held by UBS Global Asset Management (Hong Kong) Limited, which in turn was 100% controlled by UBS AG;*

(d) *9,180,000 H shares (representing approximately 0.641% of the Company's then total issued H shares) were held by UBS Global Asset Management (Japan) Ltd, which in turn was 100% controlled by UBS AG;*

(e) *78,160,000 H shares (representing approximately 5.462% of the Company's then total issued H shares) were held by UBS Global Asset Management (Singapore) Limited, which in turn was 100% controlled by UBS AG;*

(f) *614,000 H shares (representing approximately 0.043% of the Company's then total issued H shares) were held by UBS Global Asset Management Trust Company, which in turn was 100% controlled by UBS AG;*

(g) *35,070,000 H shares (representing approximately 2.451% of the Company's then total issued H shares) were held by UBS Global Asset Management (UK) Inc, which in turn was 100% controlled by UBS AG.*

2. *Among the 1,420,381,900 H shares held by HKSCC Nominees Limited, J.P. Morgan Chase & Co. had an interest in an aggregate of 158,681,400 H shares of the Company (representing approximately 11.09% of the then total issued H shares). Out of such 158,681,400 H shares, J.P. Morgan Chase & Co. had an interest in a lending pool comprising 156,626,400 H shares (representing approximately 10.95% of the then total issued H shares). According to the information available to the Directors and so far as the Directors understand, J.P. Morgan Chase & Co. was, as at 30 June 2005, interested in the aforesaid 158,681,400 H shares of the Company in the manner as follows:*

(a) *156,626,400 H shares (representing approximately 10.945% of the Company's then total issued H shares) were held in the capacity as custodian corporation/approved lending agent (in the lending pool) by JPMorgan Chase Bank, N.A., which in turn was apparently 100% controlled by J.P. Morgan Chase & Co.;*

(b) *2,055,000 H shares (representing approximately 0.144% of the Company's then total issued H shares) were held in the capacity as beneficial owner by J.P. Morgan Whitefriars Inc., which in turn was apparently ultimately 100% controlled by J.P. Morgan Chase & Co.*

3. *Among the 1,420,381,900 H shares held by HKSCC Nominees Limited, Templeton Asset Management Limited had a direct interest in the capacity of investment manager in an aggregate of 124,576,000 H shares of the Company (representing approximately 8.71% of the then total issued H shares).*

4. *Among the 1,420,381,900 H shares held by HKSCC Nominees Limited, Morgan Stanley had, through controlled corporations, an interest in an aggregate of 103,472,897 H shares of the Company (representing approximately 7.23% of its then total issued H shares). According to the information available to the Directors and so far as the Directors understand, information in relation to interests in the Company of corporations controlled by Morgan Stanley was as follows:*

   *(a) 78,599,000 H shares (representing approximately 5.492% of the Company's then total issued H shares) were apparently held by Morgan Stanley Investment Management Company. Morgan Stanley Investment Management Company was ultimately 100% controlled by Morgan Stanley Asia Pacific (Holdings) Limited, which in turn was 90% controlled by Morgan Stanley International Incorporated, and Morgan Stanley International Incorporated was 90% controlled by Morgan Stanley;*

   *(b) 4,582,000 H shares (representing approximately 0.320% of the Company's then total issued H shares) were apparently held by MSDW Equity Finance Services I (Cayman) Limited, which was in turn ultimately 100% controlled by Morgan Stanley;*

   *(c) 3,193,000 H shares (representing approximately 0.223% of the Company's then total issued H shares) were apparently held by Morgan Stanley Asset & Investment Trust Management Co., Limited, which was 100% controlled by Morgan Stanley International Incorporated, and Morgan Stanley International Incorporated was 90% controlled by Morgan Stanley;*

   *(d) 16,241,595 H shares (representing approximately 1.135% of the Company's then total issued H shares) were apparently held by Morgan Stanley & Co International Limited, which in turn was ultimately 100% controlled by Morgan Stanley Group (Europe). Morgan Stanley Group (Europe) was approximately 98.30% controlled by Morgan Stanley International Limited. Morgan Stanley International Limited was 100% controlled by Morgan Stanley International Incorporated, and Morgan Stanley International Incorporated was 90% controlled by Morgan Stanley;*

   *(e) 808,343 H shares (representing approximately 0.056% of the Company's then total issued H shares) were apparently held by Morgan Stanley & Co. Incorporated, which in turn was 100% controlled by Morgan Stanley;*

   *(f) 48,960 H shares (representing approximately 0.003% of the Company's then total issued H shares) were apparently held by Morgan Stanley Capital Services Inc., which in turn was 100% controlled by Morgan Stanley.*

   *According to the information available to the Directors and so far as the Directors understand, as at 30 June 2005, Morgan Stanley also had, through controlled corporations, a short position in 20,665,952 H shares of the Company (representing approximately 1.44% of its then total issued H shares), which was held as to 4,582,000 H shares by MSDW Equity Finance Services I (Cayman) Limited, 15,943,952 H shares by Morgan Stanley & Co International Limited and 140,000 H shares by Morgan Stanley & Co. Incorporated.*

5. *Among the 1,420,381,900 H shares held by HKSCC Nominees Limited, Alliance Capital Management L.P. had, through controlled corporations, an interest in an aggregate of 97,824,000 H shares of the Company (representing approximately 6.84% of the Company's then total issued H shares). According to the information available to the Directors and so far as the Directors understand, information in relation to interests in the Company of corporations controlled by Alliance Capital Management L.P. was as follows:*

   (a) *450,000 H shares (representing approximately 0.03% of the Company's then total issued H shares) were held by Alliance Capital Ltd, which in turn was 100% controlled by Alliance Capital Management Corporation of Delaware, and Alliance Capital Management Corporation of Delaware was 100% controlled by Alliance Capital Management L.P.;*

   (b) *2,854,000 H shares (representing approximately 0.20% of the Company's then total issued H shares) were held by Alliance Capital Management Australia Limited, which in turn was 50% controlled by Alliance Capital Management Corporation of Delaware, and Alliance Capital Management Corporation of Delaware was 100% controlled by Alliance Capital Management L.P.*

Save as disclosed above and so far as is known to the Directors, as at 30 June 2005, no other person (other than the Directors, supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

## SECURITIES INTERESTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND MEMBERS OF SENIOR MANAGEMENT

As at 30 June 2005, none of the Directors, supervisors, chief executives or members of senior management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was (i) required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), or (ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the Company's supervisors to the same extent as its applies to the Directors).

In relation to the six months' period ended 30 June 2005, the Company has adopted a code of conduct regarding Directors' transactions in the Company's securities on terms identical to those of the Model Code. Having made specific enquiry of all Directors, the Company understands that all Directors have complied with the required standard set out in the Model Code.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its issued securities ('securities' having the meaning as ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules), without taking into account, for the avoidance of doubt, any issue of new securities.

## DESIGNATED DEPOSITS AND OVERDUE MATERIAL DEPOSITS

As at 30 June 2005, the Group's deposits placed with financial institutions or other parties did not include any designated or trust deposits, or any material deposits which could not be collected by the Group upon maturity.

## MATERIAL LITIGATION

As at 30 June 2005, the Group was not involved in any material litigation or arbitration. Besides, no litigation or claim of material importance was known to the Directors of the Company to be pending or threatened by or against the Group.

## CORPORATE GOVERNANCE PRACTICES

The codes on corporate governance practices adopted by the Company include, without limitation, its articles of association, Rules of Procedures of Audit Committee, Code on Shareholders' Meetings, Code on Board Practices and Code on Supervisory Committee and related documents.

The Board has reviewed the relevant requirements prescribed under the codes on corporate governance practices adopted by the Company and its actual operations, and took the view that the corporate governance practices adopted by the Company during the first half of 2005 met the requirements under most of the code provisions in the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Listing Rules. In certain aspects, the corporate governance practices adopted by the Company have been more stringent than those of the code provisions under the Code. The following describes the major aspects of corporate governance practices of the Company which have been more stringent than those of the code provisions under the Code and deviation from such code provisions.

Major aspects of corporate governance practices of the Company which have been more stringent than those of the code provisions under the Code:

— In the first half of 2005, altogether five Board meetings were held.

— In addition to the Audit Committee and the Remuneration Committee, the Company has established its Strategic Committee and its main duties include:

1. to study and recommend the strategic planning for the long-term development of the Company;

2. to study and recommend on financing proposals in major investments requiring approval of the Board;

3. to study and recommend on major production operation policies requiring approval of the Board;

4. to study and recommend on material events that impact on the development of the Company;

5. to monitor the implementation of the above matters; and

6. to attend to other matters as requested by the Board.

Deviation from the code provisions under the Code:

One of the code provisions under the Code requires the Company to establish written guidelines for relevant employees in respect of their dealings in the securities of the Company. For this purpose, "relevant employees" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Currently, the Company has not adopted, but has been devising, such written guidelines, in order to be able to comply with the relevant code provision.

## CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi)*

| | Note | Six months ended 30 June 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|
| Turnover | 3 | **6,399,448** | 4,767,278 |
| Operating expenses | | | |
| Coal consumption | | **(3,602,948)** | (1,910,264) |
| Depreciation and amortisation | | **(807,280)** | (748,279) |
| Major overhaul expenses | | **(143,133)** | (112,764) |
| Repairs and maintenance | | **(66,501)** | (62,305) |
| Personnel costs | | **(431,684)** | (394,056) |
| Administrative expenses | | **(213,439)** | (140,391) |
| Sales related taxes | | **(62,769)** | (54,724) |
| Other operating expenses | | **(120,429)** | (107,384) |
| | | **(5,448,183)** | (3,530,167) |
| Operating profit | | **951,265** | 1,237,111 |
| Other income | | **9,595** | 5,693 |
| Net finance costs | 4 | **(236,289)** | (229,288) |
| Non-operating income, net | | **8,961** | 3,274 |
| Share of profits less losses of associates | | **9,621** | — |
| Profit before taxation | 5 | **743,153** | 1,016,790 |
| Income tax | 6 | **(226,844)** | (333,477) |
| Profit after taxation | | **516,309** | 683,313 |
| Attributable to: | | | |
| Equity holders of the parent | | **467,587** | 659,136 |
| Minority interests | | **48,722** | 24,177 |
| Profit after taxation | | **516,309** | 683,313 |
| Basic earnings per share | 8(i) | **RMB0.079** | RMB0.125 |

The notes on pages 24 to 36 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi)*

| | Note | At 30 June 2005 *RMB'000* | At 31 December 2004 *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **20,147,360** | 20,925,048 |
| Construction in progress | 9 | **4,909,781** | 2,876,732 |
| Lease prepayments | | **410,249** | 416,204 |
| Intangible assets | | **44,431** | 37,465 |
| Interest in associates | 10 | **913,331** | 410,163 |
| Other investments | | **175,639** | 175,639 |
| Deposits | 11 | **49,500** | — |
| Deferred tax assets | | **44,638** | 61,667 |
| | | **26,694,929** | 24,902,918 |
| **Current assets** | | | |
| Inventories | | **534,620** | 358,036 |
| Deposits, other receivables and prepayments | | **135,354** | 452,876 |
| Trade and bills receivables | 12 | **1,392,674** | 1,050,495 |
| Tax recoverable | | **1,510** | 9,210 |
| Fixed deposits maturing over three months | | **10,853** | 10,752 |
| Cash and cash equivalents | 13 | **1,189,288** | 1,260,127 |
| | | **3,264,299** | 3,141,496 |
| **Current liabilities** | | | |
| Bank loans | 14 | **4,072,271** | 3,876,569 |
| Current portion of loans from a shareholder | | **510,000** | 335,000 |
| Current portion of state loan | | **9,462** | 9,111 |
| Other loans | | **381,305** | 629,342 |
| Trade and other payables | 15 | **1,995,085** | 2,208,547 |
| Tax payable | | **78,396** | 84,681 |
| | | **7,046,519** | 7,143,250 |
| **Net current liabilities** | | **(3,782,220)** | (4,001,754) |
| **Total assets less current liabilities carried forward** | | **22,912,709** | 20,901,164 |

## CONSOLIDATED BALANCE SHEET *(Continued)*

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi)*

| | Note | **At 30 June 2005** ***RMB'000*** | At 31 December 2004 *RMB'000* |
|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **22,912,709** | 20,901,164 |
| **Non-current liabilities** | | | |
| Bank loans | | **8,182,487** | 8,500,075 |
| Loans from a shareholder | | **—** | 175,000 |
| State loan | | **74,676** | 79,492 |
| Other loans | | **1,196,862** | 1,008,376 |
| Deferred government grants | | **98,920** | 98,920 |
| Deferred tax liabilities | | **399,934** | 352,799 |
| | | **9,952,879** | 10,214,662 |
| **NET ASSETS** | | **12,959,830** | 10,686,502 |
| **Capital and reserves** | | | |
| Share capital | 16 | **6,021,084** | 5,256,084 |
| Reserves | | **6,001,791** | 4,617,475 |
| **Total equity attributable to equity holders of the parent** | | **12,022,875** | 9,873,559 |
| **Minority interests** | | **936,955** | 812,943 |
| **TOTAL EQUITY** | | **12,959,830** | 10,686,502 |

The notes on pages 24 to 36 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi)*

| | | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Statutory public welfare fund RMB'000 | Discretionary surplus reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| Balance at 1 January 2005 | | | | | | | | | | |
| — as previously reported | | 5,256,084 | 777,418 | 860,722 | 333,085 | 63,690 | 2,582,560 | 9,873,559 | 812,943 | 10,686,502 |
| — opening balance adjustment in respect of negative goodwill | 2(i) | — | — | — | — | — | 6,966 | 6,966 | — | 6,966 |
| — as restated | | 5,256,084 | 777,418 | 860,722 | 333,085 | 63,690 | 2,589,526 | 9,880,525 | 812,943 | 10,693,468 |
| Issuance of A shares | 16 | 765,000 | 1,120,501 | — | — | — | — | 1,885,501 | — | 1,885,501 |
| Contribution from minority shareholders of a subsidiary | | — | — | — | — | — | — | — | 80,000 | 80,000 |
| Profit for the period | | — | — | — | — | — | 467,587 | 467,587 | 48,722 | 516,309 |
| Dividends approved for equity holders of the parent | 7 | — | — | — | — | — | (210,738) | (210,738) | — | (210,738) |
| Dividends approved for minority equity holders of subsidiaries | | — | — | — | — | — | — | — | (4,710) | (4,710) |
| Balance at 30 June 2005 | | 6,021,084 | 1,897,919 | 860,722 | 333,085 | 63,690 | 2,846,375 | 12,022,875 | 936,955 | 12,959,830 |
| Balance at 1 January 2004 | | 5,256,084 | 778,040 | 755,700 | 283,920 | 60,655 | 1,982,537 | 9,116,936 | 186,586 | 9,303,522 |
| Profit for the period | | — | — | — | — | — | 659,136 | 659,136 | 24,177 | 683,313 |
| Acquisition of a subsidiary | | — | — | — | — | — | — | — | 141,097 | 141,097 |
| Dividends approved for equity holders of the parent | 7 | — | — | — | — | — | (183,963) | (183,963) | — | (183,963) |
| Dividends approved for minority equity holders of subsidiaries | | — | — | — | — | — | — | — | (9,514) | (9,514) |
| Balance at 30 June 2004 | | 5,256,084 | 778,040 | 755,700 | 283,920 | 60,655 | 2,457,710 | 9,592,109 | 342,346 | 9,934,455 |

The notes on pages 24 to 36 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi)*

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Net cash from operating activities | **864,186** | 1,074,511 |
| Net cash used in investing activities | **(2,531,270)** | (1,275,234) |
| Net cash from financing activities | **1,596,245** | 815,168 |
| (Decrease)/increase in cash and cash equivalents | **(70,839)** | 614,445 |
| Cash and cash equivalents at 1 January | **1,260,127** | 568,839 |
| Cash and cash equivalents at 30 June | **1,189,288** | 1,183,284 |

The notes on pages 24 to 36 form part of this interim financial report.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in Renminbi)*

### (1) Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 25 August 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report set out on pages 19 to 36 is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 37.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the company's annual financial statements prepared under IFRS for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2004 are available from the company's legal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2005.

**(2) Changes in accounting policies**

The IASB has issued a number of new and revised IFRS (which term collectively includes IASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the group's annual financial statements for the year ending 31 December 2005, on the basis of IFRS currently in issue.

The IFRS that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(i) Amortisation of positive and negative goodwill (IFRS 3, Business combinations and IAS 36, Impairment of assets)

In prior periods:

— In respect of business combinations for which the agreement date was before 31 March 2004, positive goodwill was stated at cost less accumulated amortisation and any impairment losses. Amortisation was charged to the income statement from the date of initial recognition on a straight-line basis over the time during which the benefits were expected to be consumed, subject to a maximum of 20 years. The recoverable amount of goodwill was estimated when there was any indication of impairment.

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

— In respect of business combinations for which the agreement date was before 31 March 2004, negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, was recognised in the income statement over the weighted average useful life of those assets that were depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired was recognised immediately in the income statement.

**(2) Changes in accounting policies** *(Continued)*

(i) Amortisation of positive and negative goodwill (IFRS 3, Business combinations and IAS 36, Impairment of assets) *(Continued)*

With effect from 1 January 2005, in accordance with IFRS 3 and IAS 36, the group no longer amortises positive goodwill arising from business combinations. Such goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. An impairment loss is not reversed.

Also with effect from 1 January 2005 and in accordance with IFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under IFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30 June 2005.

The new policy in respect of negative goodwill has been applied prospectively in accordance with the transitional arrangements under IFRS 3. As a result, comparative amounts have not been restated, the carrying amount of negative goodwill has been derecognised, with a corresponding adjustment to the opening balance of retained profits, and no amortisation for negative goodwill has been recognised in the income statement for the six months ended 30 June 2005.

As a result of the adoption of this accounting policy, the group's amortisation of goodwill and profit after tax, and basic earnings per share for the six months ended 30 June 2005 have been increased by RMB 1,768,000 (six months ended 30 June 2004: nil) and RMB 0.0003 (six months ended 30 June 2004: nil) respectively. The opening balance of retained profits as at 1 January 2005 has been increased by RMB 6,966,000.

**(2) Changes in accounting policies** *(Continued)*

(ii) Minority interests (IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

**(3) Turnover**

Turnover represents the sale of electricity and heat, net of value added tax. Components of the group's turnover is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Sale of electricity | **6,254,736** | 4,675,389 |
| Sale of heat | **144,712** | 91,889 |
| | **6,399,448** | 4,767,278 |

### (4) Net finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank and other loans | **361,969** | 303,851 |
| Less: interest capitalised | **(93,509)** | (43,534) |
| Net interest expenses | **268,460** | 260,317 |
| Less: interest income | **(11,511)** | (6,960) |
| net gain on derivative financial instruments | **(20,660)** | (24,069) |
| Net finance costs | **236,289** | 229,288 |

The interest costs have been capitalised at a rate of 5.07% per annum (six months ended 30 June 2004: 4.95% per annum) for construction in progress.

### (5) Profit before taxation

Profit before taxation is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories | **3,851,966** | 2,127,061 |
| Amortisation of intangible assets and lease prepayments | **11,008** | 11,730 |
| Depreciation | **796,272** | 736,549 |

### (6) Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Charge for the People's Republic of China ("PRC") enterprise income tax | **162,680** | 312,920 |
| Deferred tax expense | **64,164** | 20,557 |
| | **226,844** | 333,477 |

The charge for PRC enterprise income tax is calculated at the rate of 33% (six months ended 30 June 2004: 33%) on the estimated assessable profits of the group for the six months ended 30 June 2005, except for a subsidiary of the Company, which is taxed at a preferential rate of 15%.

## (7) Dividends

(i) Dividends attributable to the interim period:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Interim dividend declared and paid after the interim period of RMB nil per share (six months ended 30 June 2004: RMB0.02) | **—** | 105,122 |

The 2004 interim dividend has not been recognised as a liability at the balance sheet date.

(ii) Dividends attributable to the previous financial year, approved during the interim period:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the financial year ended 31 December 2004, approved during the following interim period, of RMB0.035 per share (year ended 31 December 2003: RMB0.035) | **210,738** | 183,963 |

## (8) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the six months ended 30 June 2005 of RMB467,587,000 (six months ended 30 June 2004: RMB659,136,000) and the weighted average number of shares in issue during the six months ended 30 June 2005 of 5,893,584,000 (six months ended 30 June 2004: 5,256,084,200).

(ii) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2004 and 2005.

## (9) Construction in progress

The acquisition and transfer of items of construction in progress during the six months ended 30 June 2004 and 2005 are as follows:

| | **At 30 June 2005** *RMB'000* | At 30 June 2004 *RMB'000* |
|---|---|---|
| Through acquisition of subsidiary | — | 1,046,319 |
| Additions | **2,040,671** | 937,865 |
| Transferred to property, plant and equipment | **(7,622)** | (11,212) |

## (10) Interest in associates

At 30 June 2005, the group had the following associates, all of which are unlisted and incorporated in the PRC:

| Name of associates | Paid up capital RMB'000 | Proportion of ownership interest group's effective interest | held by the company | held by subsidiary | Principal activities |
|---|---|---|---|---|---|
| Anhui Chizhou Jiuhua Power Generation Company Limited | 640,000 | 40% | 40% | — | Development of power plant |
| Ningxia Power Generation Company (Group) Limited | 900,000 | 31.11% | 31.11% | — | Generation and sales of electricity and investment holding |
| Ningxia Yinglite Zhongning Power Company Limited | 111,200 | 50% | 50% | — | Generation and sales of electricity |
| Sichuan Huayingshan Longtan Coal Company Limited | 75,920 | 36% | — | 45% | Development of coal mines and sales of coal |
| Sichuan Luzhou Chuannan Power Generation Company Limited * | 200,000 | 40% | 40% | — | Development of power plant |
| Huadian Property Co. Ltd. ("Huadian Property") * | 550,000 | 30% | 30% | — | Property development |

* *Newly set up during the six months ended 30 June 2005.*

According to the articles of association of respective associates, the group has made capital contributions amounting to RMB493,800,000 to these associates during the six months ended 30 June 2005.

## (11) Deposits

Pursuant to acquisition agreements dated 14 June 2005 entered into between the company and China Huadian Corporation ("China Huadian"), the company will acquire 97% equity interest in Anhui Huadian Suzhou Power Generation Company Limited and 90% equity interest in Huadian Xinxiang Power Generation Company Limited from China Huadian for considerations of RMB 74.9 million and RMB 90.1 million, respectively. These acquisitions are conditional upon the relevant approvals to be obtained from the PRC State—owned Assets Supervision and Administration Authority.

As at 30 June 2005, the company paid deposits amounting to RMB 49.5 million to China Huadian in this connection.

## (12) Trade and bills receivables

| | **At 30 June 2005** *RMB'000* | At 31 December 2004 *RMB'000* |
|---|---|---|
| Trade and bills receivables for sale of electricity | **1,344,328** | 991,515 |
| Trade and bills receivables for sale of heat | **48,346** | 58,980 |
| | **1,392,674** | 1,050,495 |

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.

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

| | **At 30 June 2005** *RMB'000* | At 31 December 2004 *RMB'000* |
|---|---|---|
| Within one year | **1,345,358** | 1,020,280 |
| Between one and two years | **18,496** | 3,030 |
| Between two and three years | **16,439** | 25,572 |
| More than three years | **12,381** | 1,613 |
| | **1,392,674** | 1,050,495 |

## (13) Cash and cash equivalents

| | **At 30 June 2005** *RMB'000* | At 31 December 2004 *RMB'000* |
|---|---|---|
| Cash at bank and in hand | **1,132,091** | 1,203,466 |
| Deposits with banks | **57,197** | 56,661 |
| | **1,189,288** | 1,260,127 |

## (14) Bank loans

At 30 June 2005, Weifang Power Plant, a jointly controlled entity, has overdue loans amounting to RMB76,428,000 (the group's proportionate share). These loans are borrowed from China Construction Bank for the construction of 2 x 300MW generating units in Weifang Power Plant which were matured from 1996 to 2000. Weifang Investment Company, one of the joint venture partners of Weifang Power Plant has been negotiating with China Construction Bank for postponing repayments in order to meet the operations needs of Weifang Power Plant. The current interest rate is 5.76% per annum and no penalty interest is levied. The group expects the loans will be repaid by the end of 2005.

## (15) Trade and other payables

| | **At 30 June 2005** *RMB'000* | At 31 December 2004 *RMB'000* |
|---|---|---|
| Trade payables | **476,368** | 667,055 |
| Payable to contractors | **783,485** | 759,644 |
| Others | **735,232** | 781,848 |
| | **1,995,085** | 2,208,547 |

Trade payables are generally due within 30 days from the date of billing. The amounts were not yet due for payment as at 30 June 2005.

### (16) Share capital

In January 2005, the company issued its 765,000,000 new A shares with nominal value of Rmb 1 each at an issue price of Rmb 2.52 each for cash. Total net proceeds raised from issuing the A shares amounted to RMB 1,885,501,000, of which RMB 765,000,000 was credited to share capital and the balance of RMB 1,120,501,000 was credited to the capital reserve account.

### (17) Material related party transactions

(i) The group had the following material transactions with related parties during the six months ended 30 June 2004 and 2005:

| | Six months ended 30 June 2005 *RMB'000* | 2004 *RMB'000* |
|---|---|---|
| Construction costs and equipment costs paid and payable to entities controlled by the holding company | — | 2,640 |
| Interest expenses | **41,997** | 20,700 |
| Net loans obtained from related parties | **250,000** | 908,056 |

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

| | Nature of transactions | At 30 June 2005 RMB'000 | At 31 December 2004 RMB'000 |
|---|---|---|---|
| China Huadian Finance Corporation Limited ("China Huadian Finance") | Loan | **1,228,037** | 978,037 |
| Shandong International Trust and Investment Company Limited ("SITIC") | Loan | **510,000** | 510,000 |

**(17) Material related party transactions** *(Continued)*

(iii) The company acquired 80% equity interest in Sichuan Guangan Power Generation Company Limited from China Huadian for a total consideration of RMB 580,813,000 in January 2004.

(iv) In April 2005, the company, China Huadian and certain fellow subsidiaries jointly set up a company, Huadian Property, in Beijing, the PRC. Huadian Property was incorporated on 8 June 2005 and has a registered capital of Rmb 550 million. The company owns 30% equity interest in Huadian Property with a cost of investment amounting to Rmb 165 million.

(v) For details of deposits paid to China Huadian for acquisitions, please refer to note 11.

(vi) The company is a subsidiary of China Huadian, which itself is owned by the PRC government. The group also conducts business with other enterprises directly or indirectly owned or controlled by the PRC government ("State-owned enterprises"). The related party transactions as disclosed above only refer to transactions with SITIC, China Huadian and enterprises which are under common control of China Huadian. The transactions with other State-owned enterprises are conducted in the ordinary course of business and under normal commercial terms and as such the group believes that meaningful disclosure of related party transactions has been provided in the above.

## (18) Capital commitments

(i) The group (excluding jointly controlled entity) had capital commitments outstanding as at 30 June 2005 and 31 December 2004 not provided for in the consolidated financial statements as follows:

| | **At 30 June 2005** *RMB'000* | At 31 December 2004 *RMB'000* |
|---|---|---|
| **Contracted for** | | |
| — Development of power plants | **8,721,038** | 6,185,912 |
| — Investments | **583,640** | 796,940 |
| — Improvement projects and others | **205,396** | 276,921 |
| | **9,510,074** | 7,259,773 |
| **Authorised but not contracted for** | | |
| — Development of power plants | **11,383,600** | 9,367,247 |
| — Improvement projects and others | **538,140** | 567,380 |
| | **11,921,740** | 9,934,627 |
| | **21,431,814** | 17,194,400 |

(ii) The group's share of the jointly controlled entity's capital expenditure commitments amounted to RMB1,318,578,000 at 30 June 2005 (At 31 December 2004 : RMB312,096,000).

## (19) Contingent liabilities

The group and the jointly controlled entity did not have any material contingent liabilities as at 30 June 2005 and 31 December 2004.

## (20) Segment reporting

The group and its jointly controlled entity's profits are almost entirely attributable to the generation and sale of electricity in the PRC. Accordingly, no segmental analysis is provided.

# INDEPENDENT REVIEW REPORT

To the board of directors of Huadian Power International Corporation Limited

## Introduction

We have been instructed by the company to review the interim financial report set out on pages 19 to 36.

## Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, "Interim Financial Reporting" adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

KPMG

Certified Public Accountants
Hong Kong, 25 August 2005

## CONSOLIDATED BALANCE SHEET

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | **30 June 2005** | 31 December 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash at bank and in hand | 4 | **1,200,141** | 1,270,879 |
| Bank acceptance bills receivables | | **9,442** | 49,633 |
| Trade receivables | 5 | **1,383,232** | 1,000,862 |
| Other receivables | 6 | **85,291** | 96,779 |
| Prepayments | 7 | **43,546** | 349,578 |
| Inventories | 8 | **534,620** | 358,036 |
| **Total current assets** | | **3,256,272** | 3,125,767 |
| **Long-term investments** | | | |
| Long-term equity investments | 9 | **1,334,448** | 845,812 |
| Including consolidation difference and equity investment difference | | **248,148** | 262,827 |
| **Fixed assets** | | | |
| Fixed assets, at cost | | **31,010,560** | 30,992,853 |
| Less: Accumulated depreciation | | **(11,048,453)** | (10,267,481) |
| Net book value of fixed assets | 10 | **19,962,107** | 20,725,372 |
| Construction materials | 11 | **2,972,937** | 1,881,316 |
| Construction in progress | 11 | **1,929,457** | 1,007,498 |
| **Total fixed assets** | | **24,864,501** | 23,614,186 |
| **Intangible assets and other assets** | | | |
| Intangible assets | 12 | **144,248** | 143,276 |
| Investment prepayments | 13 | **49,500** | — |
| **Total intangible assets and other assets** | | **193,748** | 143,276 |
| **Deferred taxation** | | | |
| Deferred tax assets | 21 | **47,775** | 61,667 |
| **Total assets** | | **29,696,744** | 27,790,708 |

**He Gong**
*Legal representative*

**Zhu Fangxin**
*Person in charge of the accounting affairs*

**Tao Yunpang**
*Head of accounting department*

The notes on pages 51 to 105 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET *(Continued)*

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | **30 June 2005** | 31 December 2004 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Short-term loans | 14 | **2,448,012** | 3,115,847 |
| Bank acceptance bills payables | | **79,747** | — |
| Trade payables | 15 | **1,180,106** | 1,426,699 |
| Wages payables | | **53,099** | 83,739 |
| Welfare payables | | **20,805** | 21,813 |
| Taxes payable | 16 | **253,775** | 308,045 |
| Other payables | 17 | **28,579** | 17,551 |
| Other creditors | 18 | **455,859** | 426,171 |
| Long-term loans due within one year | 19 | **2,525,026** | 1,734,175 |
| **Total current liabilities** | | **7,045,008** | 7,134,040 |
| **Long-term liabilities** | | | |
| Long-term loans | 20 | **9,454,025** | 9,762,943 |
| Special payables | | **98,920** | 98,920 |
| **Total long-term liabilities** | | **9,552,945** | 9,861,863 |
| **Deferred taxation** | | | |
| Deferred tax liabilities | 21 | **282,555** | 232,082 |
| **Total liabilities** | | **16,880,508** | 17,227,985 |
| **Minority interests** | | **872,430** | 747,968 |

| | | |
|---|---|---|
| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET *(Continued)*

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | **30 June 2005** | 31 December 2004 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)** | | | |
| **Shareholders' equity** | | | |
| Share capital | 22 | **6,021,084** | 5,256,084 |
| Capital reserve | 23(a) | **1,876,119** | 755,383 |
| Surplus reserves | 23(b) | **1,257,497** | 1,257,497 |
| Including statutory public welfare fund | | **333,085** | 333,085 |
| Retained profits | | **2,789,106** | 2,545,791 |
| Including cash dividends proposed after the balance sheet date | | **—** | 210,738 |
| **Total shareholders' equity** | | **11,943,806** | 9,814,755 |
| **Total liabilities and shareholders' equity** | | **29,696,744** | 27,790,708 |

This interim financial report is approved by the Board of Directors on 25 August 2005.

| | | |
|---|---|---|
| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## BALANCE SHEET

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | **30 June 2005** | 31 December 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash at bank and in hand | 4 | **754,356** | 485,299 |
| Trade receivables | 5 | **692,711** | 572,929 |
| Other receivables | 6 | **66,437** | 75,436 |
| Prepayments | 7 | **14,606** | 309,571 |
| Inventories | 8 | **320,388** | 183,269 |
| **Total current assets** | | **1,848,498** | 1,626,504 |
| **Long-term investments** | | | |
| Long-term equity investments | 9 | **3,635,989** | 2,674,992 |
| **Fixed assets** | | | |
| Fixed assets, at cost | | **18,812,867** | 18,803,782 |
| Less: Accumulated depreciation | | **(7,504,837)** | (7,015,439) |
| Net book value of fixed assets | 10 | **11,308,030** | 11,788,343 |
| Construction materials | 11 | **912,178** | 501,231 |
| Construction in progress | 11 | **499,985** | 207,100 |
| **Total fixed assets** | | **12,720,193** | 12,496,674 |
| **Intangible assets and other assets** | | | |
| Intangible assets | 12 | **119,675** | 121,819 |
| Investment prepayments | 13 | **49,500** | — |
| **Total intangible assets and other assets** | | **169,175** | 121,819 |
| **Deferred taxation** | | | |
| Deferred tax assets | 21 | **38,228** | 50,411 |
| **Total assets** | | **18,412,083** | 16,970,400 |

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## BALANCE SHEET *(Continued)*

as at 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | 30 June 2005 | 31 December 2004 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Short-term loans | 14 | **597,712** | 1,159,548 |
| Trade payables | 15 | **369,288** | 590,851 |
| Wages payables | | **46,982** | 80,839 |
| Welfare payables | | **9,222** | 11,302 |
| Taxes payable | 16 | **179,012** | 255,938 |
| Other payables | 17 | **21,557** | 16,214 |
| Other creditors | 18 | **161,347** | 171,094 |
| Long-term loans due within one year | 19 | **1,384,310** | 1,298,959 |
| **Total current liabilities** | | **2,769,430** | 3,584,745 |
| **Long-term liabilities** | | | |
| Long-term loans | 20 | **3,683,847** | 3,555,900 |
| Special payables | | **15,000** | 15,000 |
| **Total long-term liabilities** | | **3,698,847** | 3,570,900 |
| **Total liabilities** | | **6,468,277** | 7,155,645 |
| **Shareholders' equity** | | | |
| Share capital | 22 | **6,021,084** | 5,256,084 |
| Capital reserve | 23(a) | **1,876,119** | 755,383 |
| Surplus reserves | 23(b) | **1,257,497** | 1,257,497 |
| Including statutory public welfare fund | | **333,085** | 333,085 |
| Retained profits | | **2,789,106** | 2,545,791 |
| Including cash dividends proposed after the balance sheet date | | **—** | 210,738 |
| **Total shareholders' equity** | | **11,943,806** | 9,814,755 |
| **Total liabilities and shareholders' equity** | | **18,412,083** | 16,970,400 |

This interim financial report is approved by the Board of Directors on 25 August 2005.

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | **Six months ended 30 June** **2005** | 2004 |
|---|---|---|---|
| **Sales from principal activities** | 25 | **6,399,448** | 4,767,278 |
| Less: Cost of sales from principal activities | | **(4,995,240)** | (3,185,713) |
| Sales taxes and surcharges | 26 | **(62,769)** | (54,724) |
| **Profit from principal activities** | | **1,341,439** | 1,526,841 |
| Add: Profit from other operations | | **7,736** | 4,366 |
| Less: Administrative expenses | | **(381,494)** | (284,695) |
| Financial expenses | 27 | **(255,758)** | (229,288) |
| **Operating profit** | | **711,923** | 1,017,224 |
| Add: Investment income | 28 | **9,386** | — |
| Non-operating income | | **11,332** | 7,990 |
| Less: Non-operating expenses | | **(2,371)** | (4,716) |
| **Profit before income tax** | | **730,270** | 1,020,498 |
| Less: Income tax | 29 | **(227,045)** | (338,561) |
| Minority interests | | **(49,172)** | (24,294) |
| **Net profit for the period** | | **454,053** | 657,643 |
| Add: Retained profits at the beginning of the period | | **2,545,791** | 1,947,418 |
| **Profits available for distribution to shareholders** | | **2,999,844** | 2,605,061 |
| Less: Ordinary shares' dividend appropriated to shareholders | 24(a) | **(210,738)** | (183,963) |
| **Retained profits carried forward** | | **2,789,106** | 2,421,098 |
| **Including cash dividends proposed after the balance sheet date** | 24(b) | **—** | 105,122 |

This interim financial report is approved by the Board of Directors on 25 August 2005.

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

# INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note* | Six months ended 30 June **2005** | 2004 |
|---|---|---|---|
| **Sales from principal activities** | 25 | **3,730,371** | 3,121,006 |
| Less: Cost of sales from principal activities | | **(2,933,122)** | (1,989,174) |
| Sales taxes and surcharges | 26 | **(36,534)** | (37,493) |
| **Profit from principal activities** | | **760,715** | 1,094,339 |
| Add: Profit from other operations | | **155** | 467 |
| Less: Administrative expenses | | **(229,486)** | (177,593) |
| Financial expenses | 27 | **(94,773)** | (103,132) |
| **Operating profit** | | **436,611** | 814,081 |
| Add: Investment income | 28 | **161,164** | 110,523 |
| Non-operating income | | **1,413** | 39 |
| Less: Non-operating expenses | | **(876)** | (3,135) |
| **Profit before income tax** | | **598,312** | 921,508 |
| Less: Income tax | 29 | **(144,259)** | (263,865) |
| **Net profit for the period** | | **454,053** | 657,643 |
| Add: Retained profits at the beginning of the period | | **2,545,791** | 1,947,418 |
| **Profits available for distribution to shareholders** | | **2,999,844** | 2,605,061 |
| Less: Ordinary shares' dividend appropriated to shareholders | 24(a) | **(210,738)** | (183,963) |
| **Retained profits carried forward** | | **2,789,106** | 2,421,098 |
| **Including cash dividend proposed after the balance sheet date** | 24(b) | **—** | 105,122 |

This interim financial report is approved by the Board of Directors on 25 August 2005.

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note to the consolidated cash flow statement* | **Six months ended 30 June 2005** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from sales of electricity and heat | | 7,139,387 |
| Other cash received relating to operating activities | | 66,451 |
| **Sub-total of cash inflows** | | 7,205,838 |
| Cash paid for goods and services | | (4,402,062) |
| Cash paid to and for employees | | (458,654) |
| Cash paid for all types of taxes | | (886,362) |
| Other cash paid relating to operating activities | | (233,145) |
| **Sub-total of cash outflows** | | (5,980,223) |
| **Net cash inflow from operating activities** | (i) | 1,225,615 |
| **Cash flows from investing activities** | | |
| Cash received from investment income | | 253 |
| Net cash received from sales of fixed assets | | 632 |
| Decrease in fixed deposits | | 67,948 |
| Other cash received relating to investing activities | | 11,511 |
| **Sub-total of cash inflows** | | 80,344 |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets | | (2,000,265) |
| Increase in fixed deposits | | (68,049) |
| Cash paid for acquisition of investments | | (543,300) |
| **Sub-total of cash outflows** | | (2,611,614) |
| **Net cash outflow from investing activities** | | (2,531,270) |

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note to the consolidated cash flow statement* | **Six months ended 30 June 2005** |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from investments | | 1,973,315 |
| Proceeds from borrowings | | 4,412,238 |
| Other cash received relating to financing activities | | 24,939 |
| **Sub-total of cash inflows** | | 6,410,492 |
| Repayments of borrowings | | (4,598,140) |
| Cash paid for interest | | (361,429) |
| Cash paid for dividends | | (210,738) |
| Dividends paid to minority shareholders | | (1,975) |
| Other cash paid relating to financing activities | | (3,394) |
| **Sub-total of cash outflows** | | (5,175,676) |
| **Net cash inflow from financing activities** | | 1,234,816 |
| **Net decrease in cash and cash equivalents** | (ii) | (70,839) |

**He Gong**
*Legal representative*

**Zhu Fangxin**
*Person in charge of the accounting affairs*

**Tao Yunpang**
*Head of accounting department*

The notes on pages 51 to 105 form part of this interim financial report.

## CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

### Notes to the consolidated cash flow statement

**(i) Reconciliation of net profit to cash flows from operating activities:**

| | **Six months ended 30 June 2005** |
|---|---|
| Net profit | 454,053 |
| Add: Depreciation of fixed assets | 781,848 |
| Amortisation of intangible assets | 4,075 |
| Amortisation of consolidation difference and equity investment difference | 14,679 |
| Net gains on disposal of fixed assets | (48) |
| Financial expenses | 255,758 |
| Investment income | (9,533) |
| Minority interests | 49,172 |
| Increase in net deferred tax liabilities | 64,365 |
| Increase in inventories | (176,584) |
| Increase in operating receivables | (28,265) |
| Decrease in operating payables | (183,905) |
| Net cash inflow from operating activities | 1,225,615 |

**(ii) Net decrease in cash and cash equivalents:**

| | **Six months ended 30 June 2005** |
|---|---|
| Cash and cash equivalents at the end of the period | 1,189,288 |
| Less: Cash and cash equivalents at the beginning of the period | (1,260,127) |
| Net decrease in cash and cash equivalents | (70,839) |

This interim financial report is approved by the Board of Directors on 25 August 2005.

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CASH FLOW STATEMENT

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note to the cash flow statement* | **Six months ended 30 June 2005** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from sales of electricity and heat | | 4,244,752 |
| Other cash received relating to operating activities | | 3,956 |
| **Sub-total of cash inflows** | | 4,248,708 |
| Cash paid for goods and services | | (2,593,278) |
| Cash paid to and for employees | | (301,942) |
| Cash paid for all types of taxes | | (581,158) |
| Other cash paid relating to operating activities | | (167,408) |
| **Sub-total of cash outflows** | | (3,643,786) |
| **Net cash inflow from operating activities** | (i) | 604,922 |
| **Cash flows from investing activities** | | |
| Cash received from investment income | | 14,599 |
| Net cash received from sales of fixed assets | | 621 |
| Decrease in fixed deposits | | 67,948 |
| Other cash received relating to investing activities | | 8,209 |
| **Sub-total of cash inflows** | | 91,377 |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets | | (718,901) |
| Increase in fixed deposits | | (68,049) |
| Cash paid for acquisition of investments | | (863,300) |
| **Sub-total of cash outflows** | | (1,650,250) |
| **Net cash outflow from investing activities** | | (1,558,873) |

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CASH FLOW STATEMENT *(Continued)*

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

| | *Note to the cash flow statement* | **Six months ended 30 June 2005** |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from investments | | 1,893,315 |
| Proceeds from borrowings | | 1,939,538 |
| Other cash received relating to financing activities | | 24,939 |
| **Sub-total of cash inflows** | | 3,857,792 |
| Repayments of borrowings | | (2,288,076) |
| Cash paid for interest | | (132,677) |
| Cash paid for dividends | | (210,738) |
| Other cash paid relating to financing activities | | (3,394) |
| **Sub-total of cash outflows** | | (2,634,885) |
| **Net cash inflow from financing activities** | | 1,222,907 |
| **Net increase in cash and cash equivalents** | (ii) | 268,956 |

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## CASH FLOW STATEMENT *(Continued)*

for the six months ended 30 June 2005 (unaudited)
*(Expressed in Renminbi'000)*

### Notes to the cash flow statement

**(i) Reconciliation of net profit to cash flows from operating activities:**

| | Six months ended 30 June 2005 |
|---|---|
| Net profit | 454,053 |
| Add: Depreciation of fixed assets | 489,738 |
| Amortisation of intangible assets | 3,603 |
| Amortisation of equity investment difference | 14,355 |
| Net gains on disposal of fixed assets | (38) |
| Financial expenses | 94,773 |
| Investment income | (175,519) |
| Decrease in deferred tax assets | 12,183 |
| Increase in inventories | (137,119) |
| Decrease in operating receivables | 179,332 |
| Decrease in operating payables | (330,439) |
| Net cash inflow from operating activities | 604,922 |

**(ii) Net increase in cash and cash equivalents:**

| | Six months ended 30 June 2005 |
|---|---|
| Cash and cash equivalents at the end of the period | 743,503 |
| Less: Cash and cash equivalents at the beginning of the period | (474,547) |
| Net increase in cash and cash equivalents | 268,956 |

This interim financial report is approved by the Board of Directors on 25 August 2005.

| **He Gong** | **Zhu Fangxin** | **Tao Yunpang** |
|---|---|---|
| *Legal representative* | *Person in charge of the accounting affairs* | *Head of accounting department* |

The notes on pages 51 to 105 form part of this interim financial report.

## NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

*(Expressed in Renminbi)*

### 1 Company status

Huadian Power International Corporation Limited (hereinafter referred to as the "Company") is a joint stock company limited by shares established in the People's Republic of China (the "PRC") on 28 June 1994 pursuant to the approval document (Ti Gai Sheng [1994] No. 76 - Reply on the approval for the establishment of Shandong International Power Development Company Limited) issued by the former State Commission for Economic Restructuring of the PRC. The Company had a registered share capital of Rmb 3,825,056,200, divided into 3,825,056,200 ordinary shares of Rmb 1 each. At the same date, the Company's joint promoters, namely Shandong Electric Power (Group) Corporation ("SEPCO"), Shandong International Trust and Investment Corporation, Shandong Luneng Development (Group) Company Limited, China Power Trust and Investment Company Limited and Zaozhuang City Infrastructure Investment Company, injected all assets (except parcels of land) and liabilities, together with certain construction in progress, of two power plants in Zouxian and Shiliquan of Shandong Province into the Company. In return, these joint promoters were being allotted the entire share capital mentioned above.

Pursuant to the document (Zheng Jian Fa [1998] No. 317) issued by the Securities Commission of the State Council on 15 December 1998, the Company was authorised to issue H shares and its registered share capital had been increased to 5,256,084,200 ordinary shares of Rmb 1 each, comprising of 3,825,056,200 domestic shares (representing 72.77% of the total share capital) and 1,431,028,000 H shares (representing 27.23% of the total share capital). The Company's 1,431,028,000 H shares were successfully listed on The Stock Exchange of Hong Kong Limited in June 1999.

On 1 April 2003, SEPCO, the Company's former holding company, transferred its 53.56% equity interest in the Company to China Huadian Corporation ("China Huadian"), a wholly state-owned enterprise. China Huadian thus became the Company's holding company after the change in equity interest.

The Company changed its name from "Shandong International Power Development Company Limited" to "Huadian Power International Corporation Limited" pursuant to a resolution passed on the general meeting held on 24 June 2003. On 1 November 2003, the Company obtained a new business licence for body corporate (Qi Gu Lu Zong Zi No. 003922).

## 1 Company status *(Continued)*

The Company, its subsidiaries and jointly controlled entity are principally engaged in power generation and heat supply activities. Electricity generated is transmitted to power grid companies of provinces in which the power plants are located. In January 2005, the Company was approved by China Securities Regulatory Commission, with Zheng Jian Fa Xing Zi [2005] No. 2, to issue 765,000,000 A shares. Registered capital of ordinary shares with par value of Rmb 1 each was increased to 6,021,084,200 shares. The new A shares include 196,000,000 unlisted state-owned shares. The remaining 569,000,000 A shares were listed on the Shanghai Stock Exchange on 3 February 2005.

## 2 Basis of preparation of interim financial report and significant accounting policies

The significant accounting policies adopted by the Company, its subsidiaries and jointly controlled entity in proportionate consolidation ("the Group") in the preparation of the interim financial report conform to the Accounting Standards for Business Enterprises, the Accounting Regulations for Business Enterprises and the relevant regulations issued by the Ministry of Finance ("MOF") of the People's Republic of China.

For details of the names, principal activities, registered capital, investment costs, percentage of each class of equity held by the Company and the period of consolidation of the Group's subsidiaries and jointly controlled entity, please refer to note 33.

### (a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

### (b) Basis of consolidation

The Group's consolidated financial statements are prepared in accordance with the Accounting Regulations for Business Enterprises and Cai Kuai Zi [1995] No. 11 "Provisional regulations on consolidated financial statements" issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. Subsidiaries are those entities in which the Company directly or indirectly, holds more than 50% (50% not inclusive) of the issued share capital, or has the power to control despite the issued share capital held by the Company is less than 50%. The results of the subsidiaries during the period in which the Company holds more than 50% of the issued share capital or the Company has the power to control despite the issued share capital held is less than 50%, are included in the consolidated income statement of the Group. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (b) Basis of consolidation *(Continued)*

A jointly controlled entity is an enterprise over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Company's proportionate share of the jointly controlled entity's assets, liabilities, revenue, costs and expenses with items of similar nature on a line by line basis.

Where the accounting policies adopted by the subsidiaries or the jointly controlled entity are different from the policies adopted by the Company, the financial statements of the subsidiaries and the jointly controlled entity have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

### (c) Basis of preparation and measurement basis

The Group's basis of preparation is on an accrual basis. Unless specifically stated, the measurement basis is under the historical cost convention.

### (d) Reporting currency

The Group's reporting currency is Renminbi.

### (e) Translation of foreign currencies

Foreign currency transactions during the period are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 2(j)), are dealt with in the income statement.

### (f) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (g) Provision for bad and doubtful debts

The provision for bad and doubtful debts is estimated by management based on individual trade receivables which show signs of uncollectibility and an ageing analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

### (h) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts 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.

The Group adopts a perpetual inventory system.

### (i) Long-term equity investments

Long-term investments are stated at the lower of the carrying amount and the recoverable amount. A provision for impairment which is determined on an item by item basis is made on the difference between the carrying amount and the recoverable amount if the latter amount is lower.

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of the investors' equity in the investee enterprise.

Equity investment difference, which is the difference between the initial investment cost and the Company's share of investors' equity in the investee enterprise, is accounted for as follows:

– Any excess of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (i) Long-term equity investments *(Continued)*

– Any shortfall of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis if the investment was acquired before the MOF's issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No. 10). The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end. Such shortfalls are recognised in the "Capital reserve - reserve for equity investment" if the investment was acquired after the issuance of Cai Kuai [2003] No. 10.

An associate is a company in which the Group or the Company holds, for long-term purposes, not less than 20% but not more than 50% of its equity interests and exercises significant influence in its management.

Where the Group and the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

Upon the disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

The Group makes provision for impairment losses on long-term equity investments (see note 2(m)).

### (j) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of electricity and heat and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(m)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 2(m)).

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (j) Fixed assets and construction in progress *(Continued)*

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The respective estimated useful lives and the estimated rate of residual values on cost adopted for the Group's fixed assets are as follows:

| | Estimated useful life | Estimated rate of residual value |
|---|---|---|
| Land use rights and buildings | 15 - 50 years | 0 % - 3% |
| Generators and related machinery and equipment | 10 - 20 years | 3% |
| Others | 5 - 10 years | 3% |

### (k) Operating lease charges

Rental payments under operating leases are charged as expenses on a straight-line basis over the lease term.

### (l) Intangible assets

Intangible assets mainly represent land use right.

Land use right are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(m)).

The cost of the land use right is amortised on a straight-line basis over the land use right period.

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (m) Impairment loss

The carrying amounts of assets (including long-term investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Company's share of the investors' equity of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior year is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined as no impairment loss had been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (n) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the period comprises current tax paid and payable and movement of deferred tax assets and liabilities.

Current tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilised against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related benefits are expected to be realised.

### (o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

### (p) Special payables

Special payables are fund granted by the state specially for environmental protection purposes. The funds are recognised as special payables when received. Upon the completion of the related projects, the fund will be transferred to capital reserve.

### (q) Revenue recognition

When it is probable that the economic benefits will flow to the Group and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (q) Revenue recognition *(Continued)*

(i) Electricity income

Electricity income is recognised when electricity is supplied to the respective provincial grid companies where the power plants are located.

(ii) Heat income

Heat income is recognised when heat is supplied to customers.

### (r) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

### (s) Major overhaul, repair and maintenance expenses

Major overhaul, repair and maintenance expenses are recognised in the income statement when incurred.

### (t) Dividends appropriation

Cash dividends are recognised in the income statement and profit appropriation statement when declared. Cash dividends approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are separately disclosed in the shareholders' equity in the balance sheet.

### (u) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by governmental organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement when they are due.

### (v) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

## 2 Basis of preparation of interim financial report and significant accounting policies *(Continued)*

### (w) Fair value hedges

Where a derivative financial instrument hedges the change 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.

## 3 Taxation

The types of tax and tax rates applicable to the Group are as follows:

| | Tax rate | Tax basis |
|---|---|---|
| Value added tax ("VAT") | | |
| – Sales of electricity | 17% | based on sales |
| – Sales of heat | 13% | based on sales |
| City maintenance and construction tax | 5 - 7% | based on VAT payable |
| Income tax *(Note)* | 15%, 33% | based on taxable income |

*Note:* *The income tax rates applicable to the Group are mainly 33% for the six months ended 30 June 2004 and 2005, except for Sichuan Guangan Power Generation Company Limited ("Guangan Company").*

The preferential tax treatments of the Group for the six months ended 30 June 2004 and 2005 are mainly set out below:

| Company name | Preferential tax rate | Reasons for preferential treatment |
|---|---|---|
| Guangan Company | 15% | Enterprise income tax preferential policies on the development of the Western Region |

Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Issues Concerning Tax Preferential Policies on the Development of the Western Region (Cai Shui [2001] No. 202) and the Notice of the State Administration of Taxation on Opinions Regarding the Implementation of Taxation Policies on the Development of the Western Region (Guo Shui Fa [2002] No. 47), during the period from 2001 to 2010, upon verification and confirmation by tax authorities, enterprises may enjoy a reduced enterprise income tax rate of 15%. In accordance with the approval document issued by the State Administration of Taxation of Sichuan Province, Guangan Company's enterprise income tax rate for the six months ended 30 June 2004 and 2005 had been reduced to 15%.

## 4 Cash at bank and in hand

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2005** | | 31 December 2004 | | **30 June 2005** | | 31 December 2004 | |
| | **Original currency '000** | **Renminbi/ Renminbi equivalent '000** | Original currency '000 | Renminbi/ Renminbi equivalent '000 | **Original currency '000** | **Renminbi/ Renminbi equivalent '000** | Original currency '000 | Renminbi/ Renminbi equivalent '000 |
| Cash in hand | | | | | | | | |
| – Renminbi | | **914** | | 3,801 | | **788** | | 1,406 |
| Saving accounts and fixed deposits with banks (within three months) | | | | | | | | |
| – Renminbi | | **1,188,317** | | 1,256,266 | | **742,658** | | 473,081 |
| – US Dollars | **6** | **48** | 6 | 48 | **6** | **48** | 6 | 48 |
| – HK Dollars | **8** | **9** | 11 | 12 | **8** | **9** | 11 | 12 |
| | | **1,188,374** | | 1,256,326 | | **742,715** | | 473,141 |
| Cash and cash equivalents | | **1,189,288** | | 1,260,127 | | **743,503** | | 474,547 |
| Fixed deposits with banks (over three months) | | | | | | | | |
| – Renminbi | | **10,853** | | 10,752 | | **10,853** | | 10,752 |
| | | **1,200,141** | | 1,270,879 | | **754,356** | | 485,299 |

The foreign currency saving accounts and fixed deposits with banks and other financial institutions are translated into Renminbi at the following exchange rates:

| | **30 June 2005** | 31 December 2004 |
|---|---|---|
| US Dollars | **8.2765** | 8.2765 |
| HK Dollars | **1.0649** | 1.0637 |

## 5 Trade receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 '000** | 31 December 2004 '000 | **30 June 2005 '000** | 31 December 2004 '000 |
| Trade receivables for the sale of electricity | **1,343,926** | 961,758 | **692,711** | 572,929 |
| Trade receivables for the sale of heat | **40,896** | 40,694 | **—** | — |
| | **1,384,822** | 1,002,452 | **692,711** | 572,929 |
| Less: Provision for bad and doubtful debts | **(1,590)** | (1,590) | **—** | — |
| Total | **1,383,232** | 1,000,862 | **692,711** | 572,929 |

The analysis of provision for bad and doubtful debts is as follows:

| | The Group | |
|---|---|---|
| | **30 June 2005 '000** | 31 December 2004 '000 |
| Balance at 1 January | **1,590** | — |
| Charge for the period/year | **—** | 1,590 |
| Balance at 30 June/31 December | **1,590** | 1,590 |

## 5 Trade receivables *(Continued)*

The ageing analysis of trade receivables is as follows:

**The Group**

| Ageing | **30 June 2005** | | | | 31 December 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Amount** *'000* | **Proportion** | **Provision** *'000* | **Proportion** | Amount *'000* | Proportion | Provision *'000* | Proportion |
| Within one year | **1,335,916** | **96.5%** | **—** | **—** | 970,647 | 96.8% | — | — |
| Between one and two years | **18,569** | **1.4%** | **73** | **0.4%** | 3,189 | 0.3% | 159 | 5.0% |
| Between two and three years | **17,304** | **1.2%** | **865** | **5.0%** | 26,918 | 2.7% | 1,346 | 5.0% |
| Over three years | **13,033** | **0.9%** | **652** | **5.0%** | 1,698 | 0.2% | 85 | 5.0% |
| Total | **1,384,822** | **100%** | **1,590** | **0.1%** | 1,002,452 | 100% | 1,590 | 0.2% |

**The Company**

| Ageing | **30 June 2005** | | | | 31 December 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Amount** *'000* | **Proportion** | **Provision** *'000* | **Proportion** | Amount *'000* | Proportion | Provision *'000* | Proportion |
| Within one year | **692,711** | **100%** | **—** | **—** | 572,929 | 100% | — | — |

No evidence indicated that recoverability problem exists for the trade receivables aged within one year, therefore no provision for bad and doubtful debts has been made in this regard.

Total of the five largest trade receivables are as follows:

| | **30 June 2005** | | 31 December 2004 | |
|---|---|---|---|---|
| | **Amount** *'000* | **Percentage of trade receivables** | Amount *'000* | Percentage of trade receivables |
| The Group | **1,377,397** | **99%** | 997,996 | 99% |
| The Company | **692,711** | **100%** | 572,929 | 100% |

There is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of trade receivables.

The Group had no individually significant trade receivables been fully or substantially provided for.

The Group had no individually significant write back or write off of trade receivables, which had been fully or substantially provided for in prior years.

## 6 Other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Amounts due from related parties | **—** | — | **37,617** | 37,096 |
| Others | **97,404** | 108,892 | **32,448** | 41,968 |
| | **97,404** | 108,892 | **70,065** | 79,064 |
| Less: Provision for bad and doubtful debts | **(12,113)** | (12,113) | **(3,628)** | (3,628) |
| Total | **85,291** | 96,779 | **66,437** | 75,436 |

Analysis of provision for bad and doubtful debts is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| Balance at 1 January | **12,113** | 11,239 | **3,628** | 4,332 |
| Transfer from acquisition of subsidiaries | **—** | 2,957 | **—** | — |
| Written back during the period/year | **—** | (2,083) | **—** | (704) |
| Balance at 30 June/ 31 December | **12,113** | 12,113 | **3,628** | 3,628 |

## 6 Other receivables *(Continued)*

The ageing analysis of other receivables is as follows:

**The Group**

| Ageing | 30 June 2005 Amount '000 | Proportion | Provision '000 | Proportion | 31 December 2004 Amount '000 | Proportion | Provision '000 | Proportion |
|---|---|---|---|---|---|---|---|---|
| Within one year | **62,208** | **63.9%** | **1,094** | **1.8%** | 86,634 | 79.6% | 1,103 | 1.3% |
| Between one and two years | **16,626** | **17.1%** | **9** | **0.1%** | 3,708 | 3.4% | 2 | 0.1% |
| Between two and three years | **405** | **0.4%** | **9** | **2.2%** | 385 | 0.4% | 7 | 1.8% |
| Over three years | **18,165** | **18.6%** | **11,001** | **60.6%** | 18,165 | 16.6% | 11,001 | 60.6% |
| Total | **97,404** | **100%** | **12,113** | **12.4%** | 108,892 | 100% | 12,113 | 11.1% |

**The Company**

| Ageing | 30 June 2005 Amount '000 | Proportion | Provision '000 | Proportion | 31 December 2004 Amount '000 | Proportion | Provision '000 | Proportion |
|---|---|---|---|---|---|---|---|---|
| Within one year | **62,268** | **88.8%** | **67** | **0.1%** | 72,223 | 91.4% | 68 | 0.1% |
| Between one and two years | **4,211** | **6.0%** | **—** | **—** | 3,276 | 4.1% | 2 | 0.1% |
| Between two and three years | **34** | **0.1%** | **9** | **26.5%** | 14 | — | 7 | 50% |
| Over three years | **3,552** | **5.1%** | **3,552** | **100%** | 3,551 | 4.5% | 3,551 | 100% |
| Total | **70,065** | **100%** | **3,628** | **5.2%** | 79,064 | 100% | 3,628 | 4.6% |

Total of the five largest other receivables are as follows:

| | 30 June 2005 Amount '000 | Percentage of other receivables | 31 December 2004 Amount '000 | Percentage of other receivables |
|---|---|---|---|---|
| The Group | **38,769** | **39.8%** | 43,091 | 39.6% |
| The Company | **40,925** | **58.4%** | 41,199 | 52.1% |

## 6 Other receivables *(Continued)*

There is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of other receivables.

The Group and the Company had no individually significant other receivables been substantially provided for.

The Group and the Company had no individually significant write back or write off of other receivables, which had been fully or substantially provided for in prior years.

## 7 Prepayments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 *'000*** | 31 December 2004 *'000* | **30 June 2005 *'000*** | 31 December 2004 *'000* |
| Prepayments to related parties | **—** | — | **2,120** | 2,716 |
| Others | **43,546** | 349,578 | **12,486** | 306,855 |
| | **43,546** | 349,578 | **14,606** | 309,571 |

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2005** | | 31 December 2004 | | **30 June 2005** | | 31 December 2004 | |
| Ageing | **Amount *'000*** | **Proportion** | Amount *'000* | Proportion | **Amount *'000*** | **Proportion** | Amount *'000* | Proportion |
| Within one year | **32,379** | **74%** | 342,558 | 98% | **3,439** | **24%** | 304,904 | 98% |
| Between one and two years | **11,167** | **26%** | 7,020 | 2% | **11,167** | **76%** | 4,667 | 2% |
| Total | **43,546** | **100%** | 349,578 | 100% | **14,606** | **100%** | 309,571 | 100% |

There is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of prepayments.

Prepayments aged over one year mainly represent deposit for future purchase and prepaid rentals.

## 8 Inventories

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Coal | **335,049** | 155,869 | **195,882** | 58,741 |
| Fuel oil | **29,086** | 39,712 | **15,797** | 23,250 |
| Materials, components and spare parts | **237,753** | 229,723 | **167,464** | 160,033 |
| | **601,888** | 425,304 | **379,143** | 242,024 |
| Less: Provision for diminution in value of inventories | **(67,268)** | (67,268) | **(58,755)** | (58,755) |
| | **534,620** | 358,036 | **320,388** | 183,269 |

Provision for diminution in value of inventories represents provision for obsolescence for materials, components and spare parts.

**Provision for diminution in value of inventories**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Balance at 1 January | **67,268** | 64,551 | **58,755** | 58,422 |
| Transfer from acquisition of subsidiaries | **—** | 1,633 | **—** | — |
| Charge for the period/year | **—** | 1,084 | **—** | 333 |
| Balance at 30 June/ 31 December | **67,268** | 67,268 | **58,755** | 58,755 |

## 8 Inventories *(Continued)*

Cost of inventories recognised in cost of sales and expenses are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***'000*** | *'000* |
| The Group | **3,851,966** | 2,127,061 |
| The Company | **2,224,139** | 1,280,718 |

All inventories are purchased.

## 9 Long-term equity investments

**The Group**

| | Investments in associates | Other equity investments | Consolidation difference and equity investment difference | Total |
|---|---|---|---|---|
| | *'000* | *'000* | *'000* | *'000* |
| **Cost of investment** | | | | |
| Balance at 1 January 2005 | 407,346 | 175,639 | 262,827 | 845,812 |
| Additions for the period | 493,800 | — | — | 493,800 |
| Adjustments under equity method | 9,768 | — | — | 9,768 |
| Amortisation for the period | — | — | (14,679) | (14,679) |
| Dividends receivable | (253) | — | — | (253) |
| Balance at 30 June 2005 | 910,661 | 175,639 | 248,148 | 1,334,448 |

## 9 Long-term equity investments *(Continued)*

### The Company

| | Investments in subsidiaries *'000* | Investments in jointly controlled entity *'000* | Investments in associates *'000* | Other equity investments *'000* | Equity investment difference *'000* | Total *'000* |
|---|---|---|---|---|---|---|
| **Cost of investment** | | | | | | |
| Balance at 1 January 2005 | 1,742,359 | 128,236 | 373,186 | 172,939 | 258,272 | 2,674,992 |
| Additions for the period | 320,000 | — | 493,800 | — | — | 813,800 |
| Adjustments under equity method | 156,036 | 9,950 | 9,768 | — | — | 175,754 |
| Amortisation for the period | — | — | — | — | (14,355) | (14,355) |
| Dividends receivable | (13,949) | — | (253) | — | — | (14,202) |
| Balance at 30 June 2005 | 2,204,446 | 138,186 | 876,501 | 172,939 | 243,917 | 3,635,989 |

No impairment losses was made for any individually significant long-term equity investment.

The details of subsidiaries, jointly controlled entity and associates of the Company are listed in note 33.

## 9 Long-term equity investments *(Continued)*

(a) At 30 June 2005, the investments in principal subsidiaries of the Company are analysed as follows:

| | Guangan Company '000 | Huadian Qingdao Power Company Limited ("Qingdao Company") '000 | Huadian Zibo Power Company Limited ("Zibo Company") '000 | Huadian Zhangqiu Power Company Limited ("Zhangqiu Company") '000 | Huadian Tengzhou Xinyuan Power Company Limited ("Tengzhou Company") '000 | Other subsidiaries '000 | Total '000 |
|---|---|---|---|---|---|---|---|
| Percentage of equity interest held by the Company | 80% | 55% | 100% | 70% | 54.49% | | |
| Investment period | Nil | 20 years | Nil | Nil | Nil | | |
| Initial investment cost | | | | | | | |
| – At 30 June 2005 | 900,813 | 248,318 | 254,800 | 126,000 | 133,620 | 63,322 | 1,726,873 |
| **Cost of investment** | | | | | | | |
| Balance at 1 January 2005 | 630,223 | 478,490 | 291,119 | 142,461 | 127,897 | 72,169 | 1,742,359 |
| Add: Additions for the period | 320,000 | — | — | — | — | — | 320,000 |
| Adjustments under equity method | 116,205 | 21,380 | 6,641 | 8,709 | (923) | 4,024 | 156,036 |
| Less: Dividends receivable | — | — | — | (10,080) | (467) | (3,402) | (13,949) |
| Balance at 30 June 2005 | 1,066,428 | 499,870 | 297,760 | 141,090 | 126,507 | 72,791 | 2,204,446 |

(b) At 30 June 2005, the investment in the principal jointly controlled entity of the Company is analysed as follows:

| | **Weifang Power Plant** *'000* |
|---|---|
| Percentage of equity interest held by the Company | 30% |
| Investment period | 15 years |
| Initial investment cost | |
| – At 30 June 2005 | 193,983 |
| **Cost of investment** | |
| Balance at 1 January 2005 | 128,236 |
| Add: Adjustments under equity method | 9,950 |
| Balance at 30 June 2005 | 138,186 |

## 9 Long-term equity investments *(Continued)*

(c) At 30 June 2005, the investments in principal associates of the Group and the Company are listed as follows:

| Associates | Investment period | Initial investment cost '000 (At 30 June 2005) | Percentage of equity interest held by the Group | Balance at 1 January 2005 '000 | Additions for the period '000 | Adjustments under equity method '000 | Dividends receivable '000 | Balance at 30 June 2005 '000 |
|---|---|---|---|---|---|---|---|---|
| **The Company** | | | | | | | | |
| Ningxia Yinglite Zhongning Power Company Limited ("Zhongning Company") | 25 years (construction period excluded) | 85,600 | 50% | 25,600 | 60,000 | 6,792 | — | 92,392 |
| Ningxia Power Generation Company (Group) Limited ("Ningxia Power Company") | Nil | 280,000 | 31.11% | 168,386 | 112,000 | 2,976 | (253) | 283,109 |
| Anhui Chizhou Jinhua Power Generation Company Limited ("Chizhou Company") | 30 years | 258,940 | 40% | 179,200 | 76,800 | — | — | 256,000 |
| Sichuan Luzhou Chuannan Power Generation Company Limited ("Luzhou Company") | 25 years | 80,000 | 40% | — | 80,000 | — | — | 80,000 |
| Huadian Property Co. Ltd. ("Huadian Property") | Nil | 165,000 | 30% | — | 165,000 | — | — | 165,000 |
| **The Company total** | | 869,540 | | 373,186 | 493,800 | 9,768 | (253) | 876,501 |
| Sichuan Huayingshan Longtan Coal Company Limited ("Longtan Coal Company") | Nil | 34,160 | 36% | 34,160 | — | — | — | 34,160 |
| **The Group total** | | 903,700 | | 407,346 | 493,800 | 9,768 | (253) | 910,661 |

## 9 Long-term equity investments *(Continued)*

(d) At 30 June 2005, the investments in principal other equity investments are listed as follows:

| **Name of investee enterprise** | **Investment period** | **Initial investment cost** *'000* (At 30 June 2005) | **Percentage of equity interest** | **Balance at 1 January 2005/ 30 June 2005** *'000* |
|---|---|---|---|---|
| **The Company** | | | | |
| Shandong Luneng Heze Coal Power Development Company Limited | 50 years | 91,339 | 18.4% | 91,339 |
| Shandong Luneng Minerals Group Company Limited | Nil | 69,000 | 7.04% | 69,000 |
| Shanxi Jinzhongnan Railway Coal Distribution Company Limited | Nil | 12,600 | 14% | 12,600 |
| **The Company total** | | 172,939 | | 172,939 |
| Others | | 2,700 | — | 2,700 |
| **The Group total** | | 175,639 | | 175,639 |

## 9 Long-term equity investments *(Continued)*

(e) At 30 June 2005, the consolidation difference and equity investment difference of the Group and the Company are listed as follows:

| | Guangan Company '000 | Qingdao Company '000 | Weifang Power Plant '000 | Chizhou Company '000 | Others '000 | The Company total '000 | Zibo Company '000 | The Group total '000 |
|---|---|---|---|---|---|---|---|---|
| Amortisation period | 10 years | 15 years | 15 years | 10 years | | | 10 years | |
| **Consolidation difference and equity investment difference** | | | | | | | | |
| Balance at 1 January 2005/ 30 June 2005 | 29,436 | 90,412 | 235,706 | 2,940 | 37,556 | 396,050 | 6,506 | 402,556 |
| **Accumulated amortisation** | | | | | | | | |
| Balance at 1 January 2005 | (2,944) | (33,149) | (82,498) | (123) | (19,064) | (137,778) | (1,951) | (139,729) |
| Amortisation for the period | (1,471) | (3,014) | (7,857) | (147) | (1,866) | (14,355) | (324) | (14,679) |
| Balance at 30 June 2005 | (4,415) | (36,163) | (90,355) | (270) | (20,930) | (152,133) | (2,275) | (154,408) |
| **Net book value:** | | | | | | | | |
| Balance at 30 June 2005 | 25,021 | 54,249 | 145,351 | 2,670 | 16,626 | 243,917 | 4,231 | 248,148 |
| Balance at 31 December 2004 | 26,492 | 57,263 | 153,208 | 2,817 | 18,492 | 258,272 | 4,555 | 262,827 |

At 30 June 2005, the Group's proportion of the total long-term investments to the net assets was 11.2% (31 December 2004: 8.6%).

## 10 Fixed assets

| | The Group | | | |
|---|---|---|---|---|
| | Land use rights and buildings | Generators and related machinery and equipment | Others | Total |
| | *'000* | *'000* | *'000* | *'000* |
| **Cost:** | | | | |
| Balance at 1 January 2005 | 7,936,257 | 22,421,212 | 635,384 | 30,992,853 |
| Additions for the period | 693 | 833 | 10,019 | 11,545 |
| Transfer from construction in progress *(Note 11)* | — | 6,499 | 1,123 | 7,622 |
| Disposals for the period | (923) | — | (537) | (1,460) |
| Balance at 30 June 2005 | 7,936,027 | 22,428,544 | 645,989 | 31,010,560 |
| **Accumulated depreciation:** | | | | |
| Balance at 1 January 2005 | (2,206,411) | (7,764,739) | (296,331) | (10,267,481) |
| Charge for the period | (179,432) | (567,524) | (34,892) | (781,848) |
| Written back on disposal | 340 | — | 536 | 876 |
| Balance at 30 June 2005 | (2,385,503) | (8,332,263) | (330,687) | (11,048,453) |
| **Net book value:** | | | | |
| Balance at 30 June 2005 | 5,550,524 | 14,096,281 | 315,302 | 19,962,107 |
| Balance at 31 December 2004 | 5,729,846 | 14,656,473 | 339,053 | 20,725,372 |

## 10 Fixed assets *(Continued)*

| | The Company | | | |
|---|---|---|---|---|
| | **Land use rights and buildings** *'000* | **Generators and related machinery and equipment** *'000* | **Others** *'000* | **Total** *'000* |
| **Cost:** | | | | |
| Balance at 1 January 2005 | 3,920,184 | 14,443,541 | 440,057 | 18,803,782 |
| Additions for the period | 692 | 215 | 5,021 | 5,928 |
| Transfer from construction in progress *(Note 11)* | — | 3,306 | 774 | 4,080 |
| Disposals for the period | (923) | — | — | (923) |
| Balance at 30 June 2005 | 3,919,953 | 14,447,062 | 445,852 | 18,812,867 |
| **Accumulated depreciation:** | | | | |
| Balance at 1 January 2005 | (1,411,271) | (5,417,354) | (186,814) | (7,015,439) |
| Charge for the period | (95,403) | (374,258) | (20,077) | (489,738) |
| Written back on disposal | 340 | — | — | 340 |
| Balance at 30 June 2005 | (1,506,334) | (5,791,612) | (206,891) | (7,504,837) |
| **Net book value:** | | | | |
| Balance at 30 June 2005 | 2,413,619 | 8,655,450 | 238,961 | 11,308,030 |
| Balance at 31 December 2004 | 2,508,913 | 9,026,187 | 253,243 | 11,788,343 |

The original cost of the fixed assets that have been fully depreciated but are still in use was:

| | **30 June 2005** *'000* | 31 December 2004 *'000* |
|---|---|---|
| The Group | **1,235,317** | 1,137,597 |
| The Company | **778,450** | 687,574 |

At 30 June 2005, the Group and the Company have no temporarily idle fixed assets.

## 11 Construction materials and construction in progress

Construction materials of the Group and the Company are mainly prepayment for purchase of equipment.

Major construction materials and construction in progress of the Group and the Company are as follows:

| Project | Budgeted amount '000 | Balance at 1 January 2005 '000 | Additions '000 | Transfer to fixed assets '000 | Balance at 30 June 2005 '000 | Percentage of completion | Source of funding | Capitalisation of borrowing costs during the period '000 |
|---|---|---|---|---|---|---|---|---|
| **The Company** | | | | | | | | |
| Zouxian Power Plant Phase IV generating units | 8,490,000 | 66,779 | 165,735 | — | 232,514 | 2.7% | Bank loans and self-financing | 1,321 |
| Ningxia Ningwu Power Plant generating units | 5,145,230 | 51,531 | 68,061 | — | 119,592 | 2.3% | Bank loans and self-financing | 1,592 |
| Construction materials | | 501,231 | 410,947 | — | 912,178 | — | Bank loans and self-financing | 7,760 |
| Desulphurisation, technical improvement projects and others | | 88,790 | 63,169 | (4,080 ) | 147,879 | — | Self-financing | — |
| **Total for the Company** | | 708,331 | 707,912 | (4,080 ) (note 10) | 1,412,163 | | | 10,673 |
| **Subsidiaries** | | | | | | | | |
| Guangan Company Phase III generating units | 4,490,000 | 74,761 | 89,936 | — | 164,697 | 3.7% | Bank loans and self-financing | 2,657 |
| Qingdao Company Phase II generating units | 2,502,550 | 225,554 | 184,052 | — | 409,606 | 16% | Bank loans and self-financing | 3,624 |
| Construction materials | | 1,220,387 | 644,233 | — | 1,864,620 | — | Bank loans and self-financing | 34,595 |

## 11 Construction materials and construction in progress *(Continued)*

| Project | Budgeted amount '000 | Balance at 1 January 2005 '000 | Additions '000 | Transfer to fixed assets '000 | Balance at 30 June 2005 '000 | Percentage of completion | Source of funding | Capitalisation of borrowing costs during the period '000 |
|---|---|---|---|---|---|---|---|---|
| Desulphurisation, technical improvement projects and others | | 443,658 | 303,942 | (3,542 ) | 744,058 | — | Bank loans and self-financing | 15,734 |
| **Sub-total for subsidiaries** | | 1,964,360 | 1,222,163 | (3,542 ) | 3,182,981 | | | 56,610 |
| **Share of jointly controlled entity** | | | | | | | | |
| Weifang Power Plant Phase II generating units | 1,545,000 | 34,039 | 44,097 | — | 78,136 | 5.1% | Bank loans and self-financing | 1,514 |
| Construction materials | | 159,698 | 36,441 | — | 196,139 | — | Bank loans and self-financing | 4,802 |
| Desulphurisation, technical improvement projects and others | | 22,386 | 10,589 | — | 32,975 | — | Bank loans and self-financing | 441 |
| **Sub-total for share of jointly controlled entity** | | 216,123 | 91,127 | — | 307,250 | | | 6,757 |
| **Total for the Group** | | 2,888,814 | 2,021,202 | (7,622 ) | 4,902,394 | | | 74,040 |
| | | | | (note 10) | | | | (note 27) |

The borrowing costs for the period have been capitalised at an average rate of 5.11% (six months ended 30 June 2004: 4.95%).

## 12 Intangible assets

| | The Group '000 | The Company '000 |
|---|---|---|
| **Cost:** | | |
| Balance at 1 January 2005 | 175,082 | 150,306 |
| Additions | 5,047 | 1,459 |
| Balance at 30 June 2005 | 180,129 | 151,765 |
| **Accumulated depreciation:** | | |
| Balance at 1 January 2005 | (31,806) | (28,487) |
| Charge for the period | (4,075) | (3,603) |
| Balance at 30 June 2005 | (35,881) | (32,090) |
| **Net book value:** | | |
| Balance at 30 June 2005 | 144,248 | 119,675 |
| Balance at 31 December 2004 | 143,276 | 121,819 |

Intangible assets mainly represent land use rights. Land use rights included in intangible assets are those not yet developed or those developed before the adoption of Accounting Regulations for Business Enterprises.

All land use rights (including those recorded in fixed assets, construction in progress and intangible assets) are mainly obtained through acquisition, except for those in Weifang Power Plant, Qingdao Company and Guangan Company, which are granted by the state.

At 30 June 2005, the remaining amortisation period of land use rights are ranging from 7 to 67 years.

## 13 Investment prepayments

The balance at 30 June 2005 represented the investment prepayments paid to China Huadian for acquisition of its 97% equity interest in Anhui Huadian Suzhou Power Generation Company Limited and 90% equity interest in Huadian Xinxiang Power Generation Company Limited.

Except for the balance disclosed on note 30, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of investment prepayments.

## 14 Short-term loans

| | **The Group** | | | | | |
|---|---|---|---|---|---|---|
| | **30 June 2005** | | | 31 December 2004 | | |
| | **Interest rate** | **Original currency** *'000* | **Renminbi/ Renminbi equivalent** *'000* | Interest rate | Original currency *'000* | Renminbi/ Renminbi equivalent *'000* |
| Short-term bank loans | | | | | | |
| — Renminbi | **4.70%-5.58%** | | **2,006,160** | 4.54%-5.58% | | 1,740,160 |
| — US Dollars | **4.33%-4.39%** | **17,139** | **141,852** | 2.30%-2.76% | 100,000 | 827,650 |
| Short-term Renminbi other loans *(Note)* | **5.02%** | | **300,000** | 4.54%-4.78% | | 548,037 |
| | | | **2,448,012** | | | 3,115,847 |

## 14 Short-term loans *(Continued)*

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | 30 June 2005 | | | 31 December 2004 | | |
| | **Interest rate** | **Original currency** *'000* | **Renminbi/ Renminbi equivalent** *'000* | Interest rate | Original currency *'000* | Renminbi/ Renminbi equivalent *'000* |
| Short-term bank loans | | | | | | |
| — Renminbi | **4.70%-5.22%** | | **423,860** | 5.02% | | 133,861 |
| — US Dollars | **4.33%-4.39%** | **17,139** | **141,852** | 2.30%-2.76% | 100,000 | 827,650 |
| Short-term Renminbi other loans *(Note)* | **5.02%** | | **32,000** | 4.54% | | 198,037 |
| | | | **597,712** | | | 1,159,548 |

Note: Short-term Renminbi other loans

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** *'000* | 31 December 2004 *'000* | **30 June 2005** *'000* | 31 December 2004 *'000* |
| China Huadian Finance Corporation Limited ("Huadian Finance") | **300,000** | 248,037 | **—** | 198,037 |
| Other loans from related parties | **—** | — | **32,000** | — |
| Others | **—** | 300,000 | **—** | — |
| | **300,000** | 548,037 | **32,000** | 198,037 |

The other loans borrowed from Huadian Finance, a subsidiary of China Huadian, bear interest at rates quoted from the People's Bank of China for same periods less 10%.

## 14 Short-term loans *(Continued)*

The above foreign currency loans are translated into Renminbi at the following exchange rate:

| | **30 June 2005** | 31 December 2004 |
|---|---|---|
| US Dollars | **8.2765** | 8.2765 |

All the above short-term loans are unsecured.

There is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of short-term loans.

## 15 Trade payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 *'000*** | 31 December 2004 *'000* | **30 June 2005 *'000*** | 31 December 2004 *'000* |
| Amount due to related parties | **—** | — | **21,543** | — |
| Others | **1,180,106** | 1,426,699 | **347,745** | 590,851 |
| | **1,180,106** | 1,426,699 | **369,288** | 590,851 |

There is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of trade payables.

At 31 December 2004 and 30 June 2005, all the trade payables of the Group are due within one year, no individual significant trade payable are aged more than three years.

## 16 Taxes payable

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| VAT payable | **151,739** | 192,660 | **108,907** | 148,981 |
| City maintenance and construction tax payable | **12,112** | 16,699 | **8,823** | 13,978 |
| Enterprise income tax payable | **78,396** | 84,681 | **51,583** | 74,380 |
| Enterprise income tax recoverable | **(1,510)** | (9,210) | **—** | — |
| Others | **13,038** | 23,215 | **9,699** | 18,599 |
| Total | **253,775** | 308,045 | **179,012** | 255,938 |

## 17 Other payables

Other payables mainly represent payable for education surcharge.

Education surcharge is calculated base on 3% - 4% of VAT payable.

## 18 Other creditors

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Amount due to related parties | **—** | — | **20,662** | 48,000 |
| Amount due to independent construction companies | **201,638** | 246,362 | **38,738** | 48,458 |
| Others | **254,221** | 179,809 | **101,947** | 74,636 |
| | **455,859** | 426,171 | **161,347** | 171,094 |

Amount due to independent construction companies mainly represents construction and quality guarantee deposits.

There is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of other creditors.

At 31 December 2004 and 30 June 2005, there are no individual significant other creditors of the Group and the Company aged over three years.

## 19 Long-term loans due within one year

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2005** | | 31 December 2004 | | **30 June 2005** | | 31 December 2004 | |
| | **Original currency** | **Renminbi/ Renminbi equivalent** | Original currency | Renminbi/ Renminbi equivalent | **Original currency** | **Renminbi/ Renminbi equivalent** | Original currency | Renminbi/ Renminbi equivalent |
| | ***'000*** | ***'000*** | *'000* | *'000* | ***'000*** | ***'000*** | *'000* | *'000* |
| Bank loans due within one year | | | | | | | | |
| — Renminbi | | **1,656,928** | | 1,041,428 | | **600,000** | | 690,000 |
| — US Dollars | **32,300** | **267,331** | 32,300 | 267,331 | **32,000** | **264,848** | 32,000 | 264,848 |
| Shareholder loan due within one year | | | | | | | | |
| — Renminbi | | **510,000** | | 335,000 | | **510,000** | | 335,000 |
| State loan due within one year | | | | | | | | |
| — US Dollars | **1,143** | **9,462** | 1,101 | 9,111 | **1,143** | **9,462** | 1,101 | 9,111 |
| Other loans due within one year | | | | | | | | |
| — Renminbi | | **62,206** | | 62,206 | | **—** | | — |
| — US Dollars | **2,308** | **19,099** | 2,308 | 19,099 | | **—** | | — |
| | | **2,525,026** | | 1,734,175 | | **1,384,310** | | 1,298,959 |
| | | **(note 20(b))** | | (note 20(b)) | | **(note 20(b))** | | (note 20(b)) |

The above foreign currency loans are translated into Renminbi at the following exchange rate:

| | **30 June 2005** | 31 December 2004 |
|---|---|---|
| US Dollars | **8.2765** | 8.2765 |

Please refer to note 20 for details of loans.

## 20 Long-term loans

### (a) Details of repayment periods of long-term loans are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 *'000*** | 31 December 2004 *'000* | **30 June 2005 *'000*** | 31 December 2004 *'000* |
| Bank loans | | | | |
| — Between one year to two years | **1,662,147** | 1,863,331 | **960,074** | 564,848 |
| — Between two years to five years | **4,606,629** | 4,414,719 | **1,551,060** | 1,394,560 |
| — Over five years | **1,913,711** | 2,222,025 | **200,000** | 642,000 |
| | **8,182,487** | 8,500,075 | **2,711,134** | 2,601,408 |
| Shareholder loan *(Note (i))* | | | | |
| — Between one year to two years | **—** | 175,000 | **—** | 175,000 |
| State loan *(Note (ii))* | | | | |
| — Between one year to two years | **10,210** | 9,831 | **10,210** | 9,831 |
| — Between two years to five years | **35,715** | 34,380 | **35,715** | 34,380 |
| — Over five years | **28,751** | 35,281 | **28,751** | 35,281 |
| | **74,676** | 79,492 | **74,676** | 79,492 |
| Other loans *(Note (iii))* | | | | |
| — Between one year to two years | **829,098** | 99,102 | **700,000** | — |
| — Between two years to five years | **367,764** | 899,720 | **198,037** | 700,000 |
| — Over five years | **—** | 9,554 | **—** | — |
| | **1,196,862** | 1,008,376 | **898,037** | 700,000 |
| | **9,454,025** | 9,762,943 | **3,683,847** | 3,555,900 |

Except for the balance disclosed on note 30, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of long-term loans.

## 20 Long-term loans

### (b) Details of long-term loans are as follows:

**The Group**

| | Interest rates and periods | 30 June 2005 Original currency '000 | 30 June 2005 Renminbi/ Renminbi equivalent '000 | 31 December 2004 Original currency '000 | 31 December 2004 Renminbi/ Renminbi equivalent '000 |
|---|---|---|---|---|---|
| Long-term bank loans | | | | | |
| Renminbi loans | Interest rates mainly ranging from 4.78% to 6.12% per annum as at 30 June 2005 (2004: 4.78% to 5.85%), with maturity up to 2021 | | **8,830,699** | | 9,226,698 |
| US Dollars loans | Interest rates mainly ranging from 4.67% to 4.84% per annum as at 30 June 2005 (2004: 3.94%), with maturity up to 2017 | **154,177** | **1,276,047** | 70,336 | 582,136 |
| | | | **10,106,746** | | 9,808,834 |
| Shareholder loan *(Note (i))* | | | | | |
| Renminbi loans | Interest rates mainly at 5.76% per annum as at 30 June 2005 (2004: 5.76%), with maturity up to 2006 | | **510,000** | | 510,000 |
| State loan *(Note (ii))* | | | | | |
| US Dollars loans | Interest rates mainly at 2.86% per annum as at 30 June 2005 (2004: 2.05%), with maturity up to 2012 | **10,166** | **84,138** | 10,705 | 88,603 |
| Other loans *(Note (iii))* | | | | | |
| Renminbi loans | Interest rates mainly ranging from 4.94% to 5.76% per annum as at 30 June 2005 (2004: 4.94% to 5.76%), with maturity up to 2008 | | **1,182,663** | | 984,627 |
| US Dollars loans | Interest rates mainly at 5.04% per annum as at 30 June 2005 (2004: 3.41%), with maturity up to 2010 | **11,539** | **95,504** | 12,693 | 105,054 |
| | | | **1,278,167** | | 1,089,681 |
| | | | **11,979,051** | | 11,497,118 |
| Less: Long-term loans due within one year (note 19) | | | **(2,525,026)** | | (1,734,175) |
| | | | **9,454,025** | | 9,762,943 |

## 20 Long-term loans *(Continued)*

### (b) Details of long-term loans are as follows: *(Continued)*

**The Company**

| | Interest rates and periods | 30 June 2005 Original currency '000 | 30 June 2005 Renminbi/ Renminbi equivalent '000 | 31 December 2004 Original currency '000 | 31 December 2004 Renminbi/ Renminbi equivalent '000 |
|---|---|---|---|---|---|
| Long-term bank loans | | | | | |
| Renminbi loans | Interest rates mainly ranging from 4.94% to 5.51% per annum as at 30 June 2005 (2004: 4.94% to 5.51%), with maturity up to 2010 | | **2,351,060** | | 3,026,560 |
| US Dollars loans | Interest rates mainly ranging from 4.67% to 4.84% per annum as at 30 June 2005 (2004: 3.94%), with maturity up to 2007 | **148,000** | **1,224,922** | 64,000 | 529,696 |
| | | | **3,575,982** | | 3,556,256 |
| Shareholder loan *(Note (i))* | | | | | |
| Renminbi loans | Interest rates mainly at 5.76% per annum as at 30 June 2005 (2004: 5.76%), with maturity up to 2006 | | **510,000** | | 510,000 |
| State loan *(Note (ii))* | | | | | |
| US Dollars loans | Interest rates mainly at 2.86% per annum as at 30 June 2005 (2004: 2.05%), with maturity up to 2012 | **10,166** | **84,138** | 10,705 | 88,603 |
| Other loans *(Note (iii))* | | | | | |
| Renminbi loans | Interest rates mainly at 5.18% per annum as at 30 June 2005 (2004: 4.94%), with maturity up to 2008 | | **898,037** | | 700,000 |
| | | | **5,068,157** | | 4,854,859 |
| Less: Long-term loans due within one year (note 19) | | | **(1,384,310)** | | (1,298,959) |
| | | | **3,683,847** | | 3,555,900 |

## 20 Long-term loans *(Continued)*

### (b) Details of long-term loans are as follows: *(Continued)*

The above foreign currency loans are translated into Renminbi at the following exchange rate:

| | **30 June 2005** | 31 December 2004 |
|---|---|---|
| US Dollars | 8.2765 | 8.2765 |

Notes:

*(i)* *Shareholder loan*

*Balance of shareholder loan is analysed as follows:*

| | ***The Group*** | | ***The Company*** | |
|---|---|---|---|---|
| | ***30 June 2005 '000*** | *31 December 2004 '000* | ***30 June 2005 '000*** | *31 December 2004 '000* |
| *Shandong International Trust and Investment Company Limited ("SITIC")* | ***510,000*** | *510,000* | ***510,000*** | *510,000* |

*Shareholder loan borrowed from SITIC bear interest at rates quoted from the People's Bank of China for same periods.*

*(ii)* *State loan*

*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 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.*

## 20 Long-term loans *(Continued)*

### (b) Details of long-term loans are as follows: *(Continued)*

Notes: (continued)

*(iii) Other loans*

*Balance of other loans is analysed as follows:*

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 '000** | 31 December 2004 '000 | **30 June 2005 '000** | 31 December 2004 '000 |
| Huadian Finance | **928,037** | 730,000 | **898,037** | 700,000 |
| Others | **350,130** | 359,681 | **—** | — |
| | **1,278,167** | 1,089,681 | **898,037** | 700,000 |

*Other loans borrowed from Huadian Finance bear interest at rates quoted from the People's Bank of China for same periods less 10%.*

### (c) Terms of long-term loans are analysed as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 '000** | 31 December 2004 '000 | **30 June 2005 '000** | 31 December 2004 '000 |
| On credit | **8,700,926** | 8,236,773 | **4,984,019** | 4,766,256 |
| Guaranteed by SEPCO | **84,138** | 88,603 | **84,138** | 88,603 |
| Guaranteed by third parties | **1,513,987** | 1,691,742 | **—** | — |
| Secured | **1,680,000** | 1,480,000 | **—** | — |
| | **11,979,051** | 11,497,118 | **5,068,157** | 4,854,859 |
| Less: Long-term loans due within one year | **(2,525,026)** | (1,734,175) | **(1,384,310)** | (1,298,959) |
| | **9,454,025** | 9,762,943 | **3,683,847** | 3,555,900 |

The secured loans are secured by the income stream in respect of the sale of electricity of a subsidiary.

## 20 Long-term loans *(Continued)*

**(d)** At 30 June 2005, Weifang Power Plant, a jointly controlled entity, has overdue loans amounting to Rmb 76,428,000 (the Company's proportionate share). These loans are borrowed from China Construction Bank for the construction of 2 x 300MW generating units in Weifang Power Plant which were matured from 1996 to 2000. Weifang Investment Company, one of the joint venture partner of Weifang Power Plant, has been negotiating with China Construction Bank for postponing repayments in order to meet the operations needs of Weifang Power Plant. The current interest rate is 5.76% per annum and no penalty interest is levied. The Company expects the loans will be repaid by the end of 2005.

## 21 Deferred tax

Deferred tax assets/(liabilities) are attributable to tax effect of the following items:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2005 *'000*** | 31 December 2004 *'000* | **30 June 2005 *'000*** | 31 December 2004 *'000* |
| **Deferred tax assets:** | | | | |
| Preliminary expenses | **10,484** | 12,537 | **1,570** | 1,914 |
| Provision for inventories, trade receivables and other receivables | **26,289** | 26,289 | **20,588** | 20,588 |
| Depreciation | **1,160** | 1,160 | **1,160** | 1,160 |
| Others | **17,023** | 28,862 | **14,910** | 26,749 |
| | **54,956** | 68,848 | **38,228** | 50,411 |
| Set-off within legal tax units and jurisdictions | **(7,181)** | (7,181) | **—** | — |
| Total deferred tax assets | **47,775** | 61,667 | **38,228** | 50,411 |
| **Deferred tax liabilities:** | | | | |
| Depreciation | **(289,736)** | (239,263) | **—** | — |
| Set-off within legal tax units and jurisdictions | **7,181** | 7,181 | **—** | — |
| Total deferred tax liabilities | **(282,555)** | (232,082) | **—** | — |
| Net deferred tax (liabilities)/ assets | **(234,780)** | (170,415) | **38,228** | 50,411 |

## 22 Share capital

| | **30 June 2005** *'000* | 31 December 2004 *'000* |
|---|---|---|
| **Registered, issued and paid up capital:** | | |
| 3,825,056,200 domestic shares of Rmb 1 each | **3,825,056** | 3,825,056 |
| 1,431,028,000 H shares of Rmb 1 each | **1,431,028** | 1,431,028 |
| 765,000,000 A shares of Rmb 1 each | **765,000** | — |
| | **6,021,084** | 5,256,084 |

All the domestic shares, H shares and A shares rank pari passu in all material respects.

The paid up domestic shares was verified by Shangdong Jining Public Accounting Firm. The capital verification report Kuai Shi (Zou) Yan Zi No. 102 was issued on 18 June 1994.

The paid up H shares was verified by KPMG Huazhen. The capital verification report KPMG-C-(1999) CV No. 0005 was issued on 30 August 1999.

The paid up A shares was verified by KPMG Huazhen. The capital verification report KPMG-A-(2005) CR No. 0005 was issued on 28 January 2005.

## 23 Capital reserve, statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve

### (a) Capital reserve

The movement of capital reserve is as follows:

| | The Group and the Company | | |
|---|---|---|---|
| | Share premium '000 | Others '000 | Total '000 |
| At 1 January 2004 | 747,941 | 6,837 | 754,778 |
| Additions | — | 605 | 605 |
| At 31 December 2004 | 747,941 | 7,442 | 755,383 |
| Additions | 1,120,501 | 235 | 1,120,736 |
| At 30 June 2005 | 1,868,442 | 7,677 | 1,876,119 |

Share premium represents the net premium received from the issuance of H shares and A shares in June 1999 and January 2005 respectively.

### (b) The movement of statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve are as follow:

| | The Group and the Company | | | |
|---|---|---|---|---|
| | Statutory surplus reserve '000 | Statutory public welfare fund '000 | Discretionary surplus reserve '000 | Total '000 |
| At 1 January 2004 | 756,322 | 283,920 | 60,655 | 1,100,897 |
| Profit appropriations | 104,400 | 52,200 | — | 156,600 |
| Transfer to discretionary surplus reserve | — | (3,035) | 3,035 | — |
| At 31 December 2004/ 30 June 2005 | 860,722 | 333,085 | 63,690 | 1,257,497 |

## 23 Capital reserve, statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve *(Continued)*

### (c) Profit appropriations

(i) Appropriation is determined in accordance with the related rules and regulations in the Company Law of the PRC and the Company's articles of association.

(ii) According to the Company's articles of association, the Company is required to appropriate at least 10% of its profit after taxation, as determined under PRC Accounting Standards and Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered share capital. The appropriation to the statutory surplus reserve must be made before distribution of dividend to shareholders.

The statutory surplus reserve can be used to make good previous years' losses, if any, or to increase the share capital provided that the balance after such issue is not less than 25% of the registered share capital.

(iii) According to the Company's articles of association, the Company is required to appropriate 5% to 10% (at the discretion of the Board of Directors) of its profit after taxation as determined under PRC Accounting Standards and Regulations to the statutory public welfare fund. The use of this fund is restricted to the provision of employees' collective welfare benefits, for example, construction of staff dormitories, staff canteens and other staff welfare facilities. The fund is non-distributable, other than on the Company's liquidation. The appropriation to the statutory public welfare fund must be made before distribution of dividend to shareholders.

(iv) 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.

(v) For the six months ended 30 June 2005, the Company did not make appropriations to statutory surplus reserve, statutory public welfare fund or discretionary surplus reserve.

For details of distribution of dividend, please refer to note 24.

(vi) According to the articles of association of the Company, the retained profits available for distribution are the lower of the amounts determined under PRC Accounting Standards and Regulations applicable to the Company and the amount determined under International Financial Reporting Standards ("IFRS") or the applicable financial regulations of the place in which the Company is listed (if the financial statements of the Group is not prepared under IFRS).

## 24 Dividends

**(a) Dividends paid for the six months ended 30 June 2004 and 2005 are as follows:**

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***'000*** | *'000* |
| Final dividend of Rmb 0.035 per share for year 2004 | **210,738** | — |
| Final dividend of Rmb 0.035 per share for year 2003 | **—** | 183,963 |
| | **210,738** | 183,963 |

**(b) Dividends not provided for the six months ended 30 June 2004 and 2005:**

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***'000*** | *'000* |
| Interim dividend of Rmb 0.02 per share for the year 2004 | — | 105,122 |

Dividend is recognised as a liability in the period of declaration.

## 25 Sales from principal activities

Sales from principal activities represent revenues from sale of electricity and heat, net of VAT, and are summarised as follow:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Revenue from sale of electricity | **6,254,736** | 4,675,389 | **3,730,371** | 3,121,006 |
| Revenue from sale of heat | **144,712** | 91,889 | **—** | — |
| | **6,399,448** | 4,767,278 | **3,730,371** | 3,121,006 |

Revenues from sale of electricity and heat of the Group are subject to VAT based on the invoiced amounts at 17% and 13% respectively (output VAT). SEPCO, Sichuan Province Power Company and purchasers of heat are liable to pay output VAT together with the invoiced amounts. VAT paid for purchase of raw materials by the Group (input VAT) can be netted off against output VAT received from sale of electricity and heat.

Total sales from top five customers of the Group and the Company, and the percentage over sales from principal activities are as follow:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2005** | | 2004 | |
| | **Total sales** | **Percentage over sales from principal activities** | Total sales | Percentage over sales from principal activities |
| | ***'000*** | | *'000* | |
| The Group | **6,352,455** | **99.3%** | 4,751,606 | 99.7% |
| The Company | **3,730,371** | **100%** | 3,121,006 | 100% |

## 26 Sales taxes and surcharges

| | The Group | | The Company | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| City maintenance and construction tax | **39,855** | 37,959 | **23,249** | 26,243 |
| Education surcharge | **22,914** | 16,765 | **13,285** | 11,250 |
| | **62,769** | 54,724 | **36,534** | 37,493 |

## 27 Financial expenses

| | The Group | | The Company | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Interest incurred | **361,969** | 303,851 | **134,315** | 132,578 |
| Less: Interest capitalised | **(74,040)** | (43,534) | **(10,673)** | — |
| Net interest expenses | **287,929** | 260,317 | **123,642** | 132,578 |
| Interest income | **(11,511)** | (6,960) | **(8,209)** | (5,377) |
| Net revaluation gain on derivative financial instruments (note) | **(20,660)** | (24,069) | **(20,660)** | (24,069) |
| Total | **255,758** | 229,288 | **94,773** | 103,132 |

*Note: In order to hedge with the foreign currency risk at repayment of the USD loans, the Company entered into several foreign currency forward contracts with bank. The gain from the revaluation on the foreign currency forward contracts and the loss from the hedged items are both recognised in the income statement.*

## 28 Investment income

| | The Group | | The Company | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Long-term equity investment income — Accounted for under the equity method | **9,533** | — | **175,519** | 124,731 |
| Amortisation of equity investment difference | **(147)** | — | **(14,355)** | (14,208) |
| Total | **9,386** | — | **161,164** | 110,523 |

There is no material restriction on the Company to obtain the remittance of investment income.

## 29 Income tax

Income tax in the income statement represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| **Current taxation** | | | | |
| Charge for PRC enterprise income tax for the period | **162,680** | 312,920 | **132,076** | 256,794 |
| **Deferred taxation** | | | | |
| Original and reversal of temporary differences | **64,365** | 25,641 | **12,183** | 7,071 |
| | **227,045** | 338,561 | **144,259** | 263,865 |

For six months ended 30 June 2004 and 2005, enterprise income tax was calculated at 15% or 33% on taxable profits (note 3). There is no material deferred taxation not recognised by the Group and the Company.

## 30 Related parties and material related party transactions

### (a) Related parties having the ability to exercise control over the Group

| Company name | Registered address | Principal operation | Relationship with the Company | Type of enterprise | Authorised representative |
|---|---|---|---|---|---|
| China Huadian | Beijing, the PRC | Development, construction and operation management of electricity related business, organisation of production and sale of electricity and heat | Holding company | State-owned enterprise | He Gong |

### (b) Registered capital and its movement of the related parties having the ability to exercise control over the Group

| Company name | *'000* |
|---|---|
| China Huadian | 12,000,000 |

There was no change in registered share capital of China Huadian for the six months ended 30 June 2005.

### (c) Shareholding and its movement of related parties having the ability to exercise control over the Group

| | Balance at 1 January 2005 | | Additions | | Balance at 30 June 2005 | |
|---|---|---|---|---|---|---|
| Company name | thousand shares | % | thousand shares | % | thousand shares | % |
| China Huadian | 2,815,075 | 53.56 | 196,000 | (3.55) | 3,011,175 | 50.01 |

## 30 Related parties and material related party transactions *(Continued)*

### (d) Related parties not having the ability to exercise control over the Group

Related parties not having the ability to exercise control over the Group up to 30 June 2005 were:

| Company name | Relationship with the Company |
|---|---|
| SITIC | holding 15.00% shareholding in the Company |
| China Huadian Engineering (Group) Corporation | a subsidiary of China Huadian |
| Huadian Finance | a subsidiary of China Huadian |

### (e) The Board of Directors of the Company are of the opinion that the following material transactions were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | ***'000*** | *'000* |
| Construction costs | (i) | **—** | 2,640 |
| Interest expenses | (ii) | **41,997** | 20,700 |
| Net loans borrowed from related parties | (ii) | **250,000** | 908,056 |

*Notes:*

*(i) The amount represented construction cost paid and payables to China Huadian Engineering (Group) Corporation.*

*In December 2003, Qingdao Company entered into a construction agreement with China Huadian Engineering (Group) Corporation 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.*

*(ii) Loans borrowed from SITIC and Huadian Finance are set out in notes 14 and 20.*

## 30 Related parties and material related party transactions *(Continued)*

**(f)** **In January 2004, the Company acquired 80% equity interest in Guangan Company from China Huadian for a total consideration of Rmb 580,800,000.**

**(g)** **In April 2005, the Company, China Huadian and certain fellow subsidiaries jointly set up a company, Huadian Property, in Beijing, the PRC. Huadian Property was established on 8 June 2005 and has registered capital Rmb 550 million. The Company owns 30% equity interest in Huadian Property with a cost of investment amounting to Rmb 165 million.**

**(h)** **On 31 December 2004 and 30 June 2005, the Group and the Company had no balance due to/from related parties, except for loans payable to related parties as disclosed on notes 14 and 20 and investment prepayments paid to related parties as disclosed on note 13.**

## 31 Capital commitments

The capital commitments of the Company and the Group (not including jointly controlled entity) are as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **30 June 2005** | 31 December 2004 | **30 June 2005** | 31 December 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Contracted for | **9,510,074** | 7,259,773 | **5,152,590** | 3,799,415 |
| Authorised but not contracted for | **11,921,740** | 9,934,627 | **8,835,683** | 5,661,312 |
| | **21,431,814** | 17,194,400 | **13,988,273** | 9,460,727 |

The Group's proportionate share of the jointly controlled entity's capital expenditure commitments:

| | **30 June 2005** | 31 December 2004 |
|---|---|---|
| | ***'000*** | *'000* |
| The Group's proportionate share of the jointly controlled entity's capital expenditure commitments | **1,318,578** | 312,096 |

These capital commitments relate to purchase of fixed assets and capital contributions to the Group's investments and interests in associates.

## 32 Operating lease commitments

According to those non-cancellable operating lease agreements in respect of land and buildings, the total future minimum lease payments of the Group and the Company are as follows:

| | **30 June 2005 *'000*** | 31 December 2004 *'000* |
|---|---|---|
| Within one year | **34,378** | 34,778 |
| Between one and two years | **30,178** | 30,178 |
| Between two and three years | **30,178** | 30,178 |
| Over three years | **578,412** | 593,501 |
| | **673,146** | 688,635 |

Pursuant to an agreement, the Company is leasing certain land from the Shandong Provincial Government for a term of 30 years with effect from 1 September 1997. 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 current annual rental effective from 1 January 2001 is Rmb 30,178,000. The future minimum lease payments in respect of the land is calculated based on the existing annual rental of Rmb 30,178,000.

## 33 Subsidiaries, jointly controlled entity and associates

The particulars of subsidiaries, jointly controlled entity and associates of the Group at 30 June 2005 are as follows:

(i) Subsidiaries

| Company | Registered capital | Percentage of equity interest held by the Group | Percentage of equity interest held by the Company | Percentage of equity interest held by subsidiaries | Cost of investment | Consolidation period | Principal activities |
|---|---|---|---|---|---|---|---|
| | *'000* | *%* | *%* | *%* | *'000* | | |
| Guangan Company | 1,100,000 | 80 | 80 | — | 900,813 | From 2004 | Generation and sale of electricity |
| Zibo Company | 254,800 | 100 | 100 | — | 254,800 | From 2001 | Generation and sale of electricity and heat |
| Qingdao Company | 380,000 | 55 | 55 | — | 248,318 | From 1999 | Generation and sale of electricity and heat |
| Tengzhou Company | 245,000 | 54.49 | 54.49 | — | 133,620 | From 2002 | Generation and sale of electricity and heat |
| Zhangqiu Company | 180,000 | 70 | 70 | — | 126,000 | From 2002 | Generation and sale of electricity |
| Zoucheng Lunan Electric Power Technology Development Company Limited | 26,047 | 90 | 90 | — | 23,447 | From 1997 | Provision of services to Zouxian Power Plant |

## 33 Subsidiaries, jointly controlled entity and associates *(Continued)*

The particulars of subsidiaries, jointly controlled entity and associates of the Group at 30 June 2005 are as follows: *(Continued)*

(i) Subsidiaries *(Continued)*

| Company | Registered capital | Percentage of equity interest held by the Group | Percentage of equity interest held by the Company | Percentage of equity interest held by subsidiaries | Cost of investment | Consolidation period | Principal activities |
|---|---|---|---|---|---|---|---|
| | *'000* | *%* | *%* | *%* | *'000* | | |
| Zaozhuang Shiliquan Electric Power Industry Company Limited | 19,989 | 90 | 90 | — | 15,675 | From 1997 | Provision of services to Shiliquan Power Plant |
| Huadian International Shandong Materials Company Limited | 30,000 | 94 | 40 | 60 | 12,000 | From 2004 | Procurement of materials |
| Huadian Qingdao Heat Company Limited | 20,000 | 55 | 55 | — | 11,000 | From 2004 | Sale of heat |
| Huadian International Shandong Project Management Company Limited | 3,000 | 94 | 40 | 60 | 1,200 | From 2004 | Provision of power construction project management and advisory services |

## 33 Subsidiaries, jointly controlled entity and associates *(Continued)*

The particulars of subsidiaries, jointly controlled entity and associates of the Group at 30 June 2005 are as follows: *(Continued)*

(ii) Jointly controlled entity

| Company | Registered capital *'000* | Percentage of equity interest held by the Company *%* | Cost of investment *'000* | Consolidation period | Principal activities |
|---|---|---|---|---|---|
| Weifang Power Plant | — | 30 | 193,983 | From 1999 | Generation and sale of electricity |

Weifang Power Plant was not registered as a company as at 30 June 2005, so there is no registered capital on that date.

(iii) Associates

| Company | Registered capital *'000* | Percentage of equity interest held by the Group *%* | Percentage of equity interest held by the Company *%* | Percentage of equity interest held by subsidiaries *%* | Cost of investment *'000* | Principal activities |
|---|---|---|---|---|---|---|
| Ningxia Power Company | 900,000 | 31.11 | 31.11 | — | 280,000 | Generation and sale of electricity and investment holding |
| Chizhou Company | 640,000 | 40 | 40 | — | 258,940 | Development of power plant |
| Huadian Property | 550,000 | 30 | 30 | — | 165,000 | Property development |
| Zhongning Company | 111,200 | 50 | 50 | — | 85,600 | Generation and sale of electricity |
| Luzhou Company | 200,000 | 40 | 40 | — | 80,000 | Development of power plant |
| Longtan Coal Company | 75,920 | 36 | — | 45 | 34,160 | Development of coal mines and sales of coal |

## 34 Contingent liabilities

At 30 June 2005, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to Rmb 1,170,730,000.

## 35 Extraordinary gain and loss

According to requirements of "Questions and answers on the preparation of information disclosures of companies issuing public shares No. 1 - extraordinary gain and loss" (2004 revised), extraordinary gain and loss of the Group and the Company are set out below:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| **Extraordinary gain and loss for the period** | | | | |
| Non-operating income | **11,332** | 7,990 | **1,413** | 39 |
| Non-operating expenses | **(2,371)** | (4,716) | **(876)** | (3,135) |
| Net revaluation gain on derivative financial instruments | **20,660** | 24,069 | **20,660** | 24,069 |
| | **29,621** | 27,343 | **21,197** | 20,973 |
| Less: Tax effect of the above items | **(9,775)** | (9,023) | **(6,995)** | (6,921) |
| Total | **19,846** | 18,320 | **14,202** | 14,052 |

## 36 Post balance sheet events

Up to the approval date of these financial statements, there was no material post balance sheet event required to be disclosed by the Group.

## 37 Other significant events

Up to the date of approval of the financial statements, there was no other significant event required to be disclosed by the Group.

## 38 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.

## DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND REGULATIONS ("PRC GAAP") AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Effects of major differences between PRC GAAP and IFRS on net profit are analysed as follows:

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | ***Rmb'000*** | *Rmb'000* |
| Net profits under PRC GAAP | | **454,053** | 657,643 |
| Adjustments: | | | |
| Net fair value adjustment | (a) | **(16,447)** | (15,478) |
| Adjustment of goodwill/ consolidation difference | (b) | **14,679** | 11,944 |
| Capitalisation of general borrowing costs | (c) | **14,985** | — |
| Other adjustments | (d) | **235** | — |
| Effects of the above adjustments on taxation | | **82** | 5,027 |
| Profit attributable to equity holders of the parent under IFRS | | **467,587** | 659,136 |

## DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND REGULATIONS ("PRC GAAP") AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(Continued)*

Effects of major differences between PRC GAAP and IFRS on shareholders' equity are analysed as follows:

| | *Note* | **30 June 2005** ***Rmb'000*** | 31 December 2004 *Rmb'000* |
|---|---|---|---|
| Shareholders' equity under PRC GAAP | | **11,943,806** | 9,814,755 |
| Adjustments: | | | |
| Net fair value adjustment | (a) | **358,469** | 374,916 |
| Adjustment on goodwill/ consolidation difference | (b) | **(203,717)** | (225,362) |
| Capitalisation of general borrowing costs | (c) | **14,985** | — |
| Other adjustments | (d) | **(127)** | (127) |
| Effects of the above adjustments on taxation | | **(90,541)** | (90,623) |
| Equity attributable to equity holders of the parent under IFRS | | **12,022,875** | 9,873,559 |

## DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND REGULATIONS ("PRC GAAP") AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(Continued)*

*Notes:*

*(a) When preparing consolidated financial statements, according to PRC GAAP, consolidated financial statements are prepared based on respective financial statements of the Company and subsidiaries and jointly controlled entity. According to IFRS, consolidated financial statements are prepared based on the respective financial statements of the Company and assets and liabilities, being adjusted to fair values at the time of acquisition, of subsidiaries and jointly controlled entity. There are differences between the carrying value and the fair value of net assets, at the time of acquisition, of subsidiaries and jointly controlled entity of the Company and such differences are mainly attributable to fixed assets.*

*Fair value adjustment mainly represents the difference between the carrying value and the fair value of fixed assets, at the time of acquisition, of subsidiaries and jointly controlled entity and the related adjustment in depreciation in respect of the difference between the carrying value and the fair value after the acquisition.*

*(b) According to PRC GAAP, consolidation difference represents the excess of the cost of investment over the carrying value of the net assets acquired. According to IFRS, goodwill represents the excess of the cost of acquisition over the fair value of net identifiable assets acquired. As mentioned in note (a), there are differences between the carrying value and the fair value of net assets acquired, and so there are differences between consolidation difference and goodwill. The difference on net profit for the 6 months ended 30 June 2004 was caused by differences in amortisation. With effect from 1 January 2005, in accordance with IFRS 3, the Group no longer amortises positive goodwill. Negative goodwill arose from previous years has been derecognised as at 1 January 2005, with a corresponding adjustment to the opening balance of retained profits.*

*(c) According to PRC GAAP, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as fixed assets. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs could be capitalised as part of the cost of that asset.*

*(d) No material individual adjustments included in other adjustments.*