

CONSOLIDATED BALANCE SHEET

as at 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2004	2003
ASSETS			
Current assets			
Cash at bank and in hand	4	1,270,879	589,871
Bank acceptance bills receivable		49,633	—
Trade receivables	5	1,000,862	835,677
Other receivables	6	96,779	38,057
Prepayments	7	349,578	14,365
Inventories	8	358,036	189,339
Total current assets		3,125,767	1,667,309
Long-term investments			
Long-term equity investments	9	845,812	566,279
Including consolidation difference and equity investment difference		262,827	259,640
Fixed assets			
Fixed assets, at cost		30,992,853	24,523,213
Less: Accumulated depreciation		(10,267,481)	(7,469,383)
Net book value of fixed assets	10	20,725,372	17,053,830
Construction materials	11	1,881,316	499,993
Construction in progress	11	1,007,498	209,706
Total fixed assets		23,614,186	17,763,529
Intangible assets and other assets			
Intangible assets	12	143,276	136,899
Investment prepayment	13	—	237,800
Total intangible assets and other assets		143,276	374,699
Deferred taxation			
Deferred tax assets	21	61,667	57,903
Total assets		27,790,708	20,429,719

He Gong
Legal
representative

Zhu Fangxin
Person in charge
of the accounting
affairs

Tao Yunpang
Head of
accounting
department

The notes on pages 105 to 154 form part of these financial statements.

CONSOLIDATED BALANCE SHEET (continued)

as at 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	14	3,115,847	268,600
Trade payables	15	1,426,699	959,466
Wages and welfare payables		105,552	53,708
Taxes payable	16	308,045	412,020
Other payables	17	17,551	9,387
Other creditors	18	426,171	294,233
Long-term loans due within one year	19	1,734,175	611,525
Total current liabilities		7,134,040	2,608,939
Long-term liabilities			
Long-term loans	20	9,762,943	8,463,500
Special payables		98,920	11,220
Total long-term liabilities		9,861,863	8,474,720
Deferred taxation			
Deferred tax liabilities	21	232,082	100,468
Total liabilities		17,227,985	11,184,127
Minority interests		747,968	186,415

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CONSOLIDATED BALANCE SHEET (continued)

as at 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)			
Shareholders' equity			
Share capital	22	5,256,084	5,256,084
Capital reserve	23(a)	755,383	754,778
Surplus reserves	23(b)	1,257,497	1,100,897
Including statutory public welfare fund		333,085	283,920
Retained profits		2,545,791	1,947,418
Including cash dividends proposed after the balance sheet date		24(b) 210,738	183,963
Total shareholders' equity		9,814,755	9,059,177
Total liabilities and shareholders' equity		27,790,708	20,429,719

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BALANCE SHEET

as at 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2004	2003
ASSETS			
Current assets			
Cash at bank and in hand	4	485,299	481,795
Trade receivables	5	572,929	544,172
Other receivables	6	75,436	21,950
Prepayments	7	309,571	12,791
Inventories	8	183,269	121,284
Total current assets		1,626,504	1,181,992
Long-term investments			
Long-term equity investments	9	2,674,992	1,462,502
Fixed assets			
Fixed assets, at cost		18,803,782	18,643,429
Less: Accumulated depreciation		(7,015,439)	(6,055,122)
Net book value of fixed assets	10	11,788,343	12,588,307
Construction materials	11	501,231	74,910
Construction in progress	11	207,100	85,738
Total fixed assets		12,496,674	12,748,955
Intangible assets and other assets			
Intangible assets	12	121,819	119,717
Investment prepayment	13	—	237,800
Total intangible assets and other assets		121,819	357,517
Deferred taxation			
Deferred tax assets	21	50,411	43,398
Total assets		16,970,400	15,794,364

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BALANCE SHEET (continued)

as at 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	14	1,159,548	50,000
Trade payables	15	590,851	440,741
Wages and welfare payables		92,141	48,918
Taxes payable	16	255,938	378,593
Other payables	17	16,214	8,881
Other creditors	18	171,094	192,306
Long-term loans due within one year	19	1,298,959	340,878
Total current liabilities		3,584,745	1,460,317
Long-term liabilities			
Long-term loans	20	3,555,900	5,274,870
Special payables		15,000	—
Total long-term liabilities		3,570,900	5,274,870
Total liabilities		7,155,645	6,735,187
Shareholders' equity			
Share capital	22	5,256,084	5,256,084
Capital reserve	23(a)	755,383	754,778
Surplus reserves	23(b)	1,257,497	1,100,897
Including statutory public welfare fund		333,085	283,920
Retained profits		2,545,791	1,947,418
Including cash dividends proposed after the balance sheet date		210,738	183,963
Total shareholders' equity		9,814,755	9,059,177
Total liabilities and shareholders' equity		16,970,400	15,794,364

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CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2004
(Prepared under PRC Accounting Standards and Regulations)
(Expressed in Renminbi'000)

	Note	2004	2003
Sales from principal activities	25	10,175,438	8,065,832
Less: Cost of sales from principal activities		(7,364,476)	(5,264,785)
Sales taxes and surcharges	26	(108,213)	(95,951)
Profit from principal activities		2,702,749	2,705,096
Add: Profit from other operations		15,586	6,190
Less: Operating expenses		—	(14,537)
General and administrative expenses		(673,606)	(595,220)
Financial expenses	27	(493,708)	(474,567)
Operating profit		1,551,021	1,626,962
Add: Investment income	28	30,329	—
Non-operating income		8,884	3,042
Less: Non-operating expenses		(6,804)	(38,714)
Profit before income tax		1,583,430	1,591,290
Less: Income tax	29	(512,384)	(548,189)
Minority interests		(26,988)	(19,567)
Net profit for the year		1,044,058	1,023,534
Add: Retained profits at the beginning of the year		1,947,418	1,371,755
Profits available for distribution		2,991,476	2,395,289
Less: Transfer to statutory surplus reserve	23(b)	(104,400)	(102,353)
Transfer to statutory public welfare fund	23(b)	(52,200)	(51,177)
Profits available for distribution to shareholders		2,834,876	2,241,759
Less: Ordinary shares' dividend appropriated to shareholders	24(a)	(289,085)	(294,341)
Retained profits carried forward		2,545,791	1,947,418
Including cash dividends proposed after the balance sheet date	24(b)	210,738	183,963

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INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2004
(Prepared under PRC Accounting Standards and Regulations)
(Expressed in Renminbi'000)

	Note	2004	2003
Sales from principal activities	25	6,668,344	6,129,644
Less: Cost of sales from principal activities		(4,679,280)	(3,894,870)
Sales taxes and surcharges	26	(75,649)	(74,898)
Profit from principal activities		1,913,415	2,159,876
Add: Profit from other operations		2,590	1,200
Less: Operating expenses		-	(11,960)
General and administrative expenses		(432,184)	(414,111)
Financial expenses	27	(223,241)	(311,495)
Operating profit		1,260,580	1,423,510
Add: Investment income	28	201,313	96,119
Non-operating income		40	2,023
Less: Non-operating expenses		(3,436)	(22,925)
Profit before income tax		1,458,497	1,498,727
Less: Income tax	29	(414,439)	(475,193)
Net profit for the year		1,044,058	1,023,534
Add: Retained profits at the beginning of the year		1,947,418	1,371,755
Profits available for distribution		2,991,476	2,395,289
Less: Transfer to statutory surplus reserve	23(b)	(104,400)	(102,353)
Transfer to statutory public welfare fund	23(b)	(52,200)	(51,177)
Profits available for distribution to shareholders		2,834,876	2,241,759
Less: Ordinary shares' dividend appropriated to shareholders	24(a)	(289,085)	(294,341)
Retained profits carried forward		2,545,791	1,947,418
Including cash dividend proposed after the balance sheet date	24(b)	210,738	183,963

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CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004
(Prepared under PRC Accounting Standards and Regulations)
(Expressed in Renminbi'000)

		<i>Notes to the consolidated cash flow statement</i>	2004
Cash flows from operating activities			
	Cash received from sales of electricity and heat		11,912,563
	Other cash received relating to operating activities		133,589
	Sub-total of cash inflows		12,046,152
	Cash paid for goods and services		(5,847,761)
	Cash paid to and for employees		(843,218)
	Cash paid for all types of taxes		(1,858,265)
	Other cash paid relating to operating activities		(557,797)
	Sub-total of cash outflows		(9,107,041)
	Net cash inflow from operating activities	(i)	2,939,111
Cash flows from investing activities			
	Cash received from investment income		30,066
	Net cash received from sales of fixed assets		231
	Decrease in fixed deposits		66,088
	Other cash received relating to investing activities		12,717
	Sub-total of cash inflows		109,102
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(2,801,012)
	Increase in fixed deposits		(55,808)
	Cash paid for acquisition of investments		(262,700)
	Acquisition of subsidiaries, net of cash acquired	(ii)	(216,293)
	Sub-total of cash outflows		(3,335,813)
	Net cash outflow from investing activities		(3,226,711)
He Gong	Zhu Fangxin	Tao Yunpang	
<i>Legal representative</i>	<i>Person in charge of the accounting affairs</i>	<i>Head of accounting department</i>	

The notes on pages 105 to 154 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (*continued*)

for the year ended 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	<i>Notes to the consolidated cash flow statement</i>	2004
Cash flows from financing activities		
Proceeds from investments		9,000
Proceeds from borrowings		7,371,568
Proceeds from special payables		45,445
		<hr/>
Sub-total of cash inflows		7,426,013

Repayments of borrowings		(5,534,719)
Cash paid for interest		(616,045)
Cash paid for dividends		(289,085)
Dividends paid to minority shareholders		(7,276)
		<hr/>
Sub-total of cash outflows		(6,447,125)
		=====
Net cash inflow from financing activities		978,888
		=====
Net increase in cash and cash equivalents	(iii)	691,288
		<hr/> <hr/>

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CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2004
(Prepared under PRC Accounting Standards and Regulations)
(Expressed in Renminbi'000)

Notes to the consolidated cash flow statement

2004

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

Net profit	1,044,058
Add: Provision for impairment of assets	591
Depreciation of fixed assets	1,488,431
Amortisation of intangible assets	7,602
Amortisation of consolidation difference and equity investment difference	29,189
Net gains on disposal of fixed assets	(51)
Financial expenses	493,708
Investment income	(30,452)
Minority interests	26,988
Increase in net deferred tax liabilities	57,977
Increase in inventories	(112,290)
Increase in operating receivables	(308,063)
Increase in operating payables	241,423
	<hr/>
Net cash inflow from operating activities	2,939,111

He Gong

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CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

Notes to the consolidated cash flow statement *(Continued)*

2004

(ii) Net cash paid for acquisition of subsidiaries

Effect on the Group's assets and liabilities arose
from acquisition of subsidiaries:

Cash at bank and in hand	126,720
Trade receivables	230,107
Other receivables	39,399
Prepayments	8,424
Inventories	57,491
Long-term equity investments	16,200
Fixed assets	3,075,301
Construction materials and construction in progress	1,359,268
Deferred tax assets	4,241
Trade payables	(185,899)
Wages and welfare payables	(4,014)
Taxes payable	(34,171)
Other payables	(384)
Other creditors	(56,760)
Loans	(3,432,491)
Special payables	(42,860)
Deferred tax liabilities	(74,114)
Minority interests	(535,081)
	<hr/>
Net assets and liabilities acquired	551,377
Equity investment difference	29,436
	<hr/>
Initial investment cost	580,813
Less: Investment prepayment paid in 2003	(237,800)
	<hr/>
Investment cost paid for acquisition of subsidiaries in 2004	343,013
Less: Cash at bank and in hand acquired from subsidiaries	(126,720)
	<hr/>
Net cash outflow from acquisition of subsidiaries	<u>216,293</u>

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CONSOLIDATED CASH FLOW STATEMENT (*continued*)

for the year ended 31 December 2004
(Prepared under PRC Accounting Standards and Regulations)
(Expressed in Renminbi'000)

Notes to the consolidated cash flow statement (<i>Continued</i>)	2004
(iii) Net increase in cash and cash equivalents	
Cash and cash equivalents at the end of the year	1,260,127
Less: Cash and cash equivalents at the beginning of the year	<u>(568,839)</u>
Net increase in cash and cash equivalents	<u><u>691,288</u></u>

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CASH FLOW STATEMENT

for the year ended 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Notes to the cash flow statement	2004
Cash flows from operating activities		
Cash received from sales of electricity and heat		7,773,205
Other cash received relating to operating activities		16,186
		<hr/>
Sub-total of cash inflows		7,789,391

Cash paid for goods and services		(3,654,915)
Cash paid to and for employees		(577,556)
Cash paid for all types of taxes		(1,402,568)
Other cash paid relating to operating activities		(312,684)
		<hr/>
Sub-total of cash outflows		(5,947,723)
		=====
Net cash inflow from operating activities	(i)	1,841,668

Cash flows from investing activities		
Cash received from investment income		49,548
Net cash received from sales of fixed assets		138
Decrease in fixed deposits		66,088
Other cash received relating to investing activities		9,291
		<hr/>
Sub-total of cash inflows		125,065

Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(890,074)
Increase in fixed deposits		(55,808)
Cash paid for acquisition of investments		(820,953)
		<hr/>
Sub-total of cash outflows		(1,766,835)
		=====
Net cash outflow from investing activities		(1,641,770)

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

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CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2004
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	<i>Notes to the cash flow statement</i>	2004
Cash flows from financing activities		
Proceeds from borrowings		3,279,531
Proceeds from special payables		15,000
		<hr/>
Sub-total of cash inflows		3,294,531

Repayments of borrowings		(2,930,872)
Cash paid for interest		(260,688)
Cash paid for dividends		(289,085)
		<hr/>
Sub-total of cash outflows		(3,480,645)

Net cash outflow from financing activities		(186,114)

Net increase in cash and cash equivalents	(ii)	13,784
		<hr/> <hr/>

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CASH FLOW STATEMENT (*continued*)

for the year ended 31 December 2004

(Prepared under PRC Accounting Standards and Regulations)

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Notes to the cash flow statement

2004

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

Net profit	1,044,058
Add: Written back provision for impairment of assets	(371)
Depreciation of fixed assets	977,116
Amortisation of intangible assets	7,081
Amortisation of equity investment difference	28,538
Net gains on disposal of fixed assets	(103)
Financial expenses	223,241
Investment income	(229,851)
Increase in deferred tax assets	(7,013)
Increase in inventories	(62,318)
Increase in operating receivables	(355,229)
Increase in operating payables	216,519
	<hr/>
Net cash inflow from operating activities	<u>1,841,668</u>

(ii) Net increase in cash and cash equivalents

Cash and cash equivalents at the end of the year	474,547
Less: Cash and cash equivalents at the beginning of the year	<u>(460,763)</u>
	<hr/>
Increase in cash and cash equivalents	<u>13,784</u>

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NOTES ON THE FINANCIAL STATEMENTS

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

1 COMPANY STATUS

Huadian Power International Corporation Limited (formerly known as “Shandong International Power Development Company 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).

The Company, its subsidiaries and jointly controlled entities 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. These 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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company, its subsidiaries and jointly controlled entities in proportionate consolidation (“the Group”) in the preparation of the financial statements conform to the Accounting Standards for Business Enterprises, the Accounting Regulations for Business Enterprises and other 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 Group during the reporting period and the period of consolidation of the Group’s subsidiaries and jointly control entities, 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.

Jointly control entities are enterprises 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 entities’ 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 entities are different from the policies adopted by the Company, the financial statements of the subsidiaries and the jointly controlled entities 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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 year 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 (initial term of less than three months), highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

(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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 year end.
- 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 over the investment period as stipulated in the relevant agreement, or 10 years 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 unamortised balance is included in long-term equity investments at the year 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 has no power to control, but 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)).

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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)).

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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS 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 had no impairment loss 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.

(n) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year 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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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:

(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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 arranged by governmental organisations for the employees. 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.

(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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

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 years ended 31 December 2003 and 2004, except for Sichuan Guangan Power Generation Company Limited ("Guangan Company").

The preferential tax treatments of the Group in 2004 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 2004 had been reduced to 15%.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

4 CASH AT BANK AND IN HAND

	The Group				The Company			
	2004		2003		2004		2003	
	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		<u>3,801</u>		<u>470</u>		<u>1,406</u>		<u>401</u>
Saving accounts and fixed deposits with banks and other financial institutions (within three months)								
— Renminbi		<u>1,256,266</u>		<u>567,586</u>		<u>473,081</u>		<u>459,579</u>
— US Dollars	<u>6</u>	<u>48</u>	91	752	<u>6</u>	<u>48</u>	91	752
— HK Dollars	<u>11</u>	<u>12</u>	29	31	<u>11</u>	<u>12</u>	29	31
		<u>1,256,326</u>		<u>568,369</u>		<u>473,141</u>		<u>460,362</u>
Cash and cash equivalents		<u>1,260,127</u>		<u>568,839</u>		<u>474,547</u>		<u>460,763</u>
Fixed deposits with banks (over three months)								
— Renminbi		<u>10,752</u>		<u>21,032</u>		<u>10,752</u>		<u>21,032</u>
		<u>1,270,879</u>		<u>589,871</u>		<u>485,299</u>		<u>481,795</u>

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

	2004	2003
US Dollars	<u>8.2765</u>	<u>8.2767</u>
HK Dollars	<u>1.0637</u>	<u>1.0657</u>

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

5 TRADE RECEIVABLES

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Trade receivables for the sale of electricity	961,758	780,134	572,929	544,172
Trade receivables for the sale of heat	40,694	55,543	—	—
	1,002,452	835,677	572,929	544,172
Less: Provision for bad and doubtful debts	(1,590)	—	—	—
Total	<u>1,000,862</u>	<u>835,677</u>	<u>572,929</u>	<u>544,172</u>

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

	The Group 2004 '000
Charge for the year and balance at 31 December 2004	<u>1,590</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

5 TRADE RECEIVABLES(Continued)

The ageing analysis of trade receivables is as follows:

Ageing	The Group							
	2004			2003				
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	970,647	96.8%	—	—	835,677	100%	—	—
Between one to two years	3,189	0.3%	159	5.0%	—	—	—	—
Between two to three years	26,918	2.7%	1,346	5.0%	—	—	—	—
Over three years	1,698	0.2%	85	5.0%	—	—	—	—
Total	<u>1,002,452</u>	<u>100.0%</u>	<u>1,590</u>	<u>0.2%</u>	<u>835,677</u>	<u>100%</u>	<u>—</u>	<u>—</u>

Ageing	The Company							
	2004			2003				
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	<u>572,929</u>	<u>100%</u>	<u>—</u>	<u>—</u>	<u>544,172</u>	<u>100%</u>	<u>—</u>	<u>—</u>

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:

	2004		2003	
	Amount '000	Percentage of trade receivables	Amount '000	Percentage of trade receivables
The Group	<u>997,996</u>	<u>99%</u>	831,102	99%
The Company	<u>572,929</u>	<u>100%</u>	<u>544,172</u>	<u>100%</u>

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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

6 OTHER RECEIVABLES

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Amounts due from related parties	—	—	37,096	2,562
Others	108,892	49,296	41,968	23,720
	108,892	49,296	79,064	26,282
Less: Provision for bad and doubtful debts	(12,113)	(11,239)	(3,628)	(4,332)
Total	96,779	38,057	75,436	21,950

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

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Balance at 1 January	11,239	13,167	4,332	6,538
Transfer from acquisition of subsidiaries	2,957	—	—	—
Written back during the year	(2,083)	(1,928)	(704)	(2,206)
Balance at 31 December	12,113	11,239	3,628	4,332

The ageing analysis of other receivables is as follows:

Ageing	The Group							
	2004				2003			
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	86,634	79.6%	1,103	1.3%	32,697	66.3%	1,250	3.8%
Between one to two years	3,708	3.4%	2	0.1%	1,730	3.5%	11	0.6%
Between two to three years	385	0.4%	7	1.8%	7,838	15.9%	3,557	45.4%
Over three years	18,165	16.6%	11,001	60.6%	7,031	14.3%	6,421	91.3%
Total	108,892	100.0%	12,113	11.1%	49,296	100.0%	11,239	22.8%

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

6 OTHER RECEIVABLES (Continued)

Ageing	The Company							
	2004				2003			
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	72,223	91.4%	68	0.1%	20,774	79.0%	779	3.7%
Between one to two years	3,276	4.1%	2	0.1%	413	1.6%	11	2.7%
Between two to three years	14	—	7	50.0%	—	—	—	—
Over three years	3,551	4.5%	3,551	100.0%	5,095	19.4%	3,542	69.5%
Total	<u>79,064</u>	<u>100.0%</u>	<u>3,628</u>	4.6%	<u>26,282</u>	<u>100.0%</u>	<u>4,332</u>	16.5%

Total of the five largest other receivables are as follows:

	2004		2003	
	Amount '000	Percentage of trade receivables	Amount '000	Percentage of trade receivables
The Group	43,091	39.6%	25,420	51.6%
The Company	<u>41,199</u>	<u>52.1%</u>	<u>19,069</u>	<u>72.6%</u>

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 or the Company had no individually significant write back or write off of other receivables and had no individually significant other receivable been fully or substantially provided for.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

7 PREPAYMENTS

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Prepayments to related parties	—	—	2,716	—
Others	349,578	14,365	306,855	12,791
Total	349,578	14,365	309,571	12,791

	The Group				The Company			
	2004		2003		2004		2003	
Ageing	Amount '000	Proportion	Amount '000	Proportion	Amount '000	Proportion	Amount '000	Proportion
Within one year	342,558	98%	14,205	99%	304,904	98%	12,631	99%
Between one to two years	7,020	2%	160	1%	4,667	2%	160	1%
Total	349,578	100%	14,365	100%	309,571	100%	12,791	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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

8 INVENTORIES

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Coal	155,869	51,023	58,741	22,618
Fuel oil	39,712	8,603	23,250	4,158
Materials, components and spare parts	229,723	194,264	160,033	152,930
	425,304	253,890	242,024	179,706
Less: Provision for diminution in value of inventories	(67,268)	(64,551)	(58,755)	(58,422)
	<u>358,036</u>	<u>189,339</u>	<u>183,269</u>	<u>121,284</u>

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

Provision for diminution in value of inventories

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Balance at 1 January	64,551	40,727	58,422	38,215
Transfer from acquisition of subsidiaries	1,633	—	—	—
Charge for the year	1,084	23,824	333	20,207
Balance at 31 December	<u>67,268</u>	<u>64,551</u>	<u>58,755</u>	<u>58,422</u>

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

	2004 '000	2003 '000
The Group	5,098,095	3,023,549
The Company	<u>3,158,380</u>	<u>2,219,027</u>

All inventories are purchased.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS

The Group

	Investments in associates '000	Other equity investments '000	Consolidation difference and equity investment difference '000	Total '000
Cost of investment:				
Balance at 1 January	173,600	133,039	259,640	566,279
Transfer from acquisition of subsidiaries	16,200	—	29,436	45,636
Additions for the year	217,160	42,600	2,940	262,700
Adjustments under equity method	386	—	—	386
Amortisation for the year	—	—	(29,189)	(29,189)
Balance at 31 December	<u>407,346</u>	<u>175,639</u>	<u>262,827</u>	<u>845,812</u>

The Company

	Investments in subsidiaries '000	Investments in jointly controlled entities '000	Investments in associates '000	Other equity investments '000	Equity investment difference '000	Total '000
Balance at 1 January	593,469	310,660	173,600	130,339	254,434	1,462,502
Additions for the year	784,577	—	199,200	42,600	32,376	1,058,753
Adjustments under equity method	111,121	89,124	386	—	—	200,631
Amortisation for the year	—	—	—	—	(28,538)	(28,538)
Dividends receivable	(16,298)	(2,058)	—	—	—	(18,356)
Transfer to investment in subsidiary (note)	269,490	(269,490)	—	—	—	—
Balance at 31 December	<u>1,742,359</u>	<u>128,236</u>	<u>373,186</u>	<u>172,939</u>	<u>258,272</u>	<u>2,674,992</u>

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

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

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS (Continued)

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

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

(a) At 31 December 2004, the investment in principal subsidiaries of the Company are analysed as follows:

	Guangan Company '000	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 (formerly Shandong Tengzhou Xinyuan Power Company Limited) '000	Other subsidiaries '000	Total '000
Percentage of equity interest held by the Group	80%	55%	100%	70%	54.49%		
Investment period	Nil	20 years	Nil	Nil	Nil		
Initial investment cost							
— At 31 December 2004	<u>580,813</u>	<u>248,318</u>	<u>254,800</u>	<u>126,000</u>	<u>133,620</u>	<u>63,322</u>	<u>1,406,873</u>
Cost of investment							
Balance at 1 January	—	—	282,834	141,588	130,524	38,523	593,469
Transfer to investment in subsidiary	—	269,490	—	—	—	—	269,490
Add: Additions for the year	551,377	209,000	—	—	—	24,200	784,577
Adjustments under equity method	78,846	—	8,285	10,952	3,592	9,446	111,121
Less: Dividends receivable	—	—	—	(10,079)	(6,219)	—	(16,298)
Balance at 31 December	<u>630,223</u>	<u>478,490</u>	<u>291,119</u>	<u>142,461</u>	<u>127,897</u>	<u>72,169</u>	<u>1,742,359</u>

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS *(Continued)*

- (b) At 31 December 2004, the investment in the principal jointly controlled entities of the Company are analysed as follows:

	Qingdao Power Plant <i>'000</i>	Weifang Power Plant <i>'000</i>	Total <i>'000</i>
Percentage of equity interest held by the Group	55%	30%	
Investment period	15 years	15 years	
Initial investment cost			
— At 31 December 2004	<u>—</u>	<u>193,983</u>	<u>193,983</u>
Cost of investment			
Balance at 1 January	215,647	95,013	310,660
Add: Adjustments under equity method	53,843	35,281	89,124
Dividends receivable	—	(2,058)	(2,058)
Less: Transfer to investment in subsidiary	<u>(269,490)</u>	<u>—</u>	<u>(269,490)</u>
Balance at 31 December	<u>—</u>	<u>128,236</u>	<u>128,236</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS (Continued)

- (c) At 31 December 2004, the investment in principal associates of the Group and the Company are listed as follows:

Associates	Investment period	Initial investment cost '000 (At 31 December 2004)	Percentage of equity interest held by the Group	Balance at 1 January '000	Additions for the year '000	Transfer from acquisition of subsidiary '000	Adjustments under equity method '000	Balance at 31 December '000
The Company								
Ningxia Yinglite Zhongning Power Company Limited ("Zhongning Company")	25 years (construction period excluded)	25,600	50%	5,600	20,000	—	—	25,600
Ningxia Power Generation Company (Group) Limited ("Ningxia Power Company")	Nil	168,000	31.11%	168,000	—	—	386	168,386
Anhui Chizhou Jinhua Power Generation Company Limited ("Chizhou Company")	30 years	182,140	40%	—	179,200	—	—	179,200
The Company total		375,740		173,600	199,200	—	386	373,186
Sichuan Huayingshan Longtan Coal Company Limited ("Longtan Coal Company")	Nil	34,160	36%	—	17,960	16,200	—	34,160
The Group total		409,900		173,600	217,160	16,200	386	407,346

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS *(Continued)*

(d) At 31 December 2004, the investment in principal other equity investments are listed as follows:

Name of investee enterprise	Investment period	Initial investment cost '000 (At 31 December 2004)	Percentage of equity interest	Balance at 1 January '000	Additions for the year '000	Balance at 31 December '000
The Company						
Shandong Luneng Heze Coal Power Development Limited (formerly known as Shandong Luneng Heze Minerals Development Company Limited)	50 years	91,339	18.4%	91,339	—	91,339
Shandong Luneng Minerals Group Company Limited (formerly known as Shandong Luneng Hengyuan Trading Group Company Limited)	Nil	69,000	7.04%	39,000	30,000	69,000
Shanxi Jinzhongnan Railway Coal Distribution Company	Nil	12,600	14.0%	—	12,600	12,600
The Company total		172,939		130,339	42,600	172,939
Others		2,700	—	2,700	—	2,700
The Group total		<u>175,639</u>		<u>133,039</u>	<u>42,600</u>	<u>175,639</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS (Continued)

- (d) At 31 December 2004, the investment in principal other equity investments are listed as follows:
(continued)

	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	—	90,412	235,706	—	37,556	363,674	6,506	370,180
Additions for the year	29,436	—	—	2,940	—	32,376	—	32,376
Balance at 31 December	29,436	90,412	235,706	2,940	37,556	396,050	6,506	402,556
Accumulated amortisation:								
Balance at 1 January	—	(27,122)	(66,785)	—	(15,333)	(109,240)	(1,300)	(110,540)
Amortisation for the year	(2,944)	(6,027)	(15,713)	(123)	(3,731)	(28,538)	(651)	(29,189)
Balance at 31 December	(2,944)	(33,149)	(82,498)	(123)	(19,064)	(137,778)	(1,951)	(139,729)
Net book value:								
Balance at 31 December	26,492	57,263	153,208	2,817	18,492	258,272	4,555	262,827
Balance at 1 January	—	63,290	168,921	—	22,223	254,434	5,206	259,640

At 31 December 2004, the Group's proportion of the total long-term investments to the net assets was 8.6% (2003: 6.3%).

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

10 FIXED ASSETS

	The Group			Total '000
	Land use rights and buildings '000	Generators and related machinery and equipment '000	Others '000	
Cost:				
Balance at 1 January	5,711,832	18,298,680	512,701	24,523,213
Transfer from acquisition of subsidiaries	1,533,535	2,816,465	55,531	4,405,531
Additions for the year	11,448	6,096	16,409	33,953
Transfer from construction in progress (note 11)	679,442	1,319,086	52,371	2,050,899
Disposals for the year	—	(19,115)	(1,628)	(20,743)
Balance at 31 December	<u>7,936,257</u>	<u>22,421,212</u>	<u>635,384</u>	<u>30,992,853</u>
Accumulated depreciation:				
Balance at 1 January	(1,553,655)	(5,711,819)	(203,909)	(7,469,383)
Transfer from acquisition of subsidiaries	(332,316)	(964,605)	(33,309)	(1,330,230)
Charge for the year	(320,440)	(1,107,417)	(60,574)	(1,488,431)
Written back on disposal	—	19,102	1,461	20,563
Balance at 31 December	<u>(2,206,411)</u>	<u>(7,764,739)</u>	<u>(296,331)</u>	<u>(10,267,481)</u>
Net book value:				
Balance at 31 December	<u>5,729,846</u>	<u>14,656,473</u>	<u>339,053</u>	<u>20,725,372</u>
Balance at 1 January	<u>4,158,177</u>	<u>12,586,861</u>	<u>308,792</u>	<u>17,053,830</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

10 FIXED ASSETS (Continued)

	The Company			Total '000
	Land use rights and buildings '000	Generators and related machinery and equipment '000	Others '000	
Cost:				
Balance at 1 January	3,916,729	14,335,101	391,599	18,643,429
Additions for the year	433	1,793	14,761	16,987
Transfer from construction in progress (note 11)	3,022	122,968	34,210	160,200
Disposals for the year	—	(16,321)	(513)	(16,834)
Balance at 31 December	<u>3,920,184</u>	<u>14,443,541</u>	<u>440,057</u>	<u>18,803,782</u>
Accumulated depreciation:				
Balance at 1 January	(1,222,558)	(4,681,118)	(151,446)	(6,055,122)
Charge for the year	(188,713)	(752,544)	(35,859)	(977,116)
Written back on disposal	—	16,308	491	16,799
Balance at 31 December	<u>(1,411,271)</u>	<u>(5,417,354)</u>	<u>(186,814)</u>	<u>(7,015,439)</u>
Net book value:				
Balance at 31 December	<u>2,508,913</u>	<u>9,026,187</u>	<u>253,243</u>	<u>11,788,343</u>
Balance at 1 January	<u>2,694,171</u>	<u>9,653,983</u>	<u>240,153</u>	<u>12,588,307</u>

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

	2004 '000	2003 '000
The Group	<u>1,137,597</u>	1,066,666
The Company	<u>687,574</u>	<u>670,180</u>

At 31 December 2004, the Group and the Company have no temporarily idle fixed assets.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

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	Through acquisition	Additions '000	Transfer to fixed assets '000	Balance	Percentage of completion	Source of funding	Capitalisation
		at 1 January '000	of subsidiaries '000			at 31 December '000			of borrowing costs during the year '000
The Company									
Construction materials		74,910	—	426,321	—	501,231	—	Bank loans and self-financing	6,867
Desulphurisation, technical improvement projects and others		85,738	—	281,562	(160,200)	207,100	—	Self-financing	—
Total for the Company		160,648	—	707,883	(160,200)	708,331			6,867
					(note 10)				
Subsidiaries									
Guangan Company's generating units No. 3 and 4	2,204,380	—	968,830	923,394	(1,838,363)	53,861	86%	Bank loans and self-financing	41,961
Construction materials		300,794	446,749	472,844	—	1,220,387	—	Bank loans and self-financing	30,887
Desulphurisation, technical improvement projects and others		112,767	326,183	282,001	(30,839)	690,112	—	Bank loans and self-financing	13,585
Sub-total for subsidiaries		413,561	1,741,762	1,678,239	(1,869,202)	1,964,360			86,433
Share of jointly controlled entities									
Construction materials		124,289	(244,718)	280,127	—	159,698	—	Bank loans and self-financing	7,084
Desulphurisation, technical improvement projects and others		11,201	(137,776)	204,497	(21,497)	56,425	—	Bank loans and self-financing	56
Subtotal for share of jointly controlled entities		135,490	(382,494)	484,624	(21,497)	216,123			7,140
Total for the Group		709,699	1,359,268	2,870,746	(2,050,899)	2,888,814			100,440
					(note 10)				(note 27)

The borrowing costs for the year have been capitalised at an average rate of 4.99% (2003: 5.39%).

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

12 INTANGIBLE ASSETS

	The Group '000	The Company '000
Cost:		
Balance at 1 January	161,103	141,123
Additions	<u>13,979</u>	<u>9,183</u>
Balance at 31 December	- - - - - 175,082	- - - - - 150,306
Accumulated depreciation:		
Balance at 1 January	(24,204)	(21,406)
Charge for the year	<u>(7,602)</u>	<u>(7,081)</u>
Balance at 31 December	- - - - - (31,806)	- - - - - (28,487)
Net book value:		
Balance at 31 December	<u><u>143,276</u></u>	<u><u>121,819</u></u>
Balance at 1 January	<u><u>136,899</u></u>	<u><u>119,717</u></u>

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, Qiangdao Company and Guangan Company, which are granted by the state.

At 31 December 2004, the remaining amortisation period of land use rights are ranging from 7 to 67 years.

13 INVESTMENT PREPAYMENT

The balance at 31 December 2003 represented the investment prepayment paid to China Huadian for acquisition of its 80% equity interest in Guangan Company. The transaction was completed in January 2004.

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 prepayments.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

14 SHORT-TERM LOANS

	Interest rate	The Group		Interest rate	
		2004 Original currency '000	'000		
Short-term bank loans					
— Renminbi	4.54% - 5.58%		1,740,160	4.54% - 5.31%	268,600
— US Dollars	2.30% - 2.76%	100,000	827,650	—	—
Short-term Renminbi other loans (note)	4.54% - 4.78%		548,037	—	—
			3,115,847		268,600

	Interest rate	The Company		Interest rate	
		2004 Original currency '000	'000		
Short-term bank loans					
— Renminbi	5.02%		133,861	4.54% - 5.04%	50,000
— US Dollars	2.30% - 2.76%	100,000	827,650	—	—
Short-term Renminbi other loans (note)	4.54%		198,037	—	—
			1,159,548		50,000

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

14 SHORT-TERM LOANS (Continued)

Note: Short-term Renminbi other loans

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
China Huadian Finance Corporation Limited ("Huadian Finance")	248,037	—	198,037	—
Others	300,000	—	—	—
	<u>548,037</u>	<u>—</u>	<u>198,037</u>	<u>—</u>

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%.

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

	2004	2003
US Dollars	<u>8.2765</u>	<u>—</u>

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.

At 31 December 2004, 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 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 Company expects the loans will be repaid by the end of 2005.

15 TRADE PAYABLES

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 2003 and 2004, all the trade payables of the Group due within one year, no individual significant trade payable are aged more than three years.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

16 TAXES PAYABLE

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
VAT payable	192,660	209,502	148,981	196,839
City maintenance and construction tax payable	16,699	15,771	13,978	14,529
Enterprise income tax payable	84,681	172,734	74,380	154,129
Enterprise income tax recoverable	(9,210)	—	—	—
Others	23,215	14,013	18,599	13,096
Total	308,045	412,020	255,938	378,593

17 OTHER PAYABLES

Other payables mainly represent payable for education surcharge.

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

18 OTHER CREDITORS

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Amount due to related parties	—	—	48,000	—
Amount due to independent construction companies	246,362	184,381	48,458	132,081
Others	179,809	109,852	74,636	60,225
	426,171	294,233	171,094	192,306

Amount due to independent construction companies mainly represent 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 2003 and 2004, there is no individual significant other creditors of the Group and the Company that aged over three years.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

19 LONG-TERM LOANS DUE WITHIN ONE YEAR

	The Group				The Company			
	2004		2003		2004		2003	
	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
Bank loans due within one year								
— Renminbi		1,041,428		422,119		690,000		200,000
— US Dollars	32,300	267,331	16,130	133,505	32,000	264,848	16,000	132,427
Shareholder loans due within one year								
— Renminbi		335,000		36,944		335,000		—
State loan due within one year								
— US Dollars	1,101	9,111	1,021	8,451	1,101	9,111	1,021	8,451
Other loans due within one year								
— Renminbi		62,206		—		—		—
— US Dollars	2,308	19,099	1,269	10,506		—		—
		<u>1,734,175</u>		<u>611,525</u>		<u>1,298,959</u>		<u>340,878</u>
		(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:

	2004	2003
US Dollars	<u>8.2765</u>	<u>8.2767</u>

Please refer to note 20 for details of loans.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

20 LONG-TERM LOANS

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

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Bank loans				
— Between one year to two years	1,863,331	2,270,432	564,848	1,533,854
— Between two years to five years	4,414,719	3,335,240	1,394,560	1,950,415
— Over five years	2,222,025	1,616,821	642,000	1,192,000
	<u>8,500,075</u>	<u>7,222,493</u>	<u>2,601,408</u>	<u>4,676,269</u>
Shareholder loans <i>(note (i))</i>				
— Between one year to two years	175,000	335,000	175,000	335,000
— Between two years to five years	—	175,000	—	175,000
	<u>175,000</u>	<u>510,000</u>	<u>175,000</u>	<u>510,000</u>
State loan <i>(note (ii))</i>				
— Between one year to two years	9,831	9,113	9,831	9,113
— Between two years to five years	34,380	31,865	34,380	31,865
— Over five years	35,281	47,623	35,281	47,623
	<u>79,492</u>	<u>88,601</u>	<u>79,492</u>	<u>88,601</u>
Other loans <i>(note (iii))</i>				
— Between one year to two years	99,102	138,711	—	—
— Between two years to five years	899,720	487,937	700,000	—
— Over five years	9,554	15,758	—	—
	<u>1,008,376</u>	<u>642,406</u>	<u>700,000</u>	<u>—</u>
	<u>9,762,943</u>	<u>8,463,500</u>	<u>3,555,900</u>	<u>5,274,870</u>

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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

20 LONG-TERM LOANS (Continued)

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

The Group

Interest rates and periods		2004		2003	
		Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000
Long-term bank loans					
Renminbi loans	Interest rates mainly ranging from 4.78% to 5.85% per annum as at 31 December 2004 (2003: 4.54% to 5.76%), with maturity up to 2021		9,226,698		7,085,770
US Dollars loans	Interest rates mainly at 3.94% per annum as at 31 December 2004 (2003: 2.19%), with maturity up to 2017	70,336	582,136	83,650	692,347
			9,808,834		7,778,117
Shareholder loans (note (i))					
Renminbi loans	Interest rates mainly at 5.76% per annum as at 31 December 2004 (2003: 5.76%), with maturity up to 2006		510,000		546,944
State loan (note (ii))					
US Dollars loans	Interest rates mainly at 2.05% per annum as at 31 December 2004 (2003: 1.27%), with maturity up to 2012	10,705	88,603	11,726	97,052
Other loans (note (iii))					
Renminbi loans	Interest rates mainly ranging from 4.94% to 5.76% per annum as at 31 December 2004 (2003: 5.49% to 5.76%), with maturity up to 2008		984,627		584,626
US Dollars loans	Interest rates mainly at 3.41% per annum as at 31 December 2004 (2003: 3.32%), with maturity up to 2010	12,693	105,054	8,250	68,286
			1,089,681		652,912
			11,497,118		9,075,025
Less: Long-term loans due within one year (note 19)			(1,734,175)		(611,525)
			9,762,943		8,463,500

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

20 LONG-TERM LOANS (Continued)

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

The Company

Interest rates and periods		2004		2003	
		Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000
Long-term bank loans					
Renminbi loans	Interest rates mainly ranging from 4.94% to 5.51% per annum as at 31 December 2004 (2003: 4.54% to 5.76%), with maturity up to 2010		3,026,560		4,346,560
US Dollars loans	Interest rates mainly at 3.94% per annum as at 31 December 2004 (2003: 2.19%), with maturity up to 2006	64,000	529,696	80,000	662,136
			3,556,256		5,008,696
Shareholder loans (note (i))					
Renminbi loans	Interest rates mainly at 5.76% per annum as at 31 December 2004 (2003: 5.76%), with maturity up to 2006		510,000		510,000
State loan (note (ii))					
US Dollars loans	Interest rates mainly at 2.05% per annum as at 31 December 2004 (2003: 1.27%), with maturity up to 2012	10,705	88,603	11,726	97,052
Other loans (note (iii))					
Renminbi loans	Interest rates mainly at 4.94% per annum as at 31 December 2004 (2003: Nil), with maturity up to 2007		700,000		—
			4,854,859		5,615,748
Less: Long-term loans due within one year (note 19)			(1,298,959)		(340,878)
			3,555,900		5,274,870

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

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:

	2004	2003
US Dollars	<u>8.2765</u>	<u>8.2767</u>

Notes:

(i) Shareholder loans

Balance of shareholder loans is analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Shandong International Trust and Investment Corporation ("SITIC")	<u>510,000</u>	<u>546,944</u>	<u>510,000</u>	<u>510,000</u>

Shareholder loans 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.

(iii) Other loans

Balance of other loans is analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Huadian Finance	730,000	—	700,000	—
Others	<u>359,681</u>	<u>652,912</u>	<u>—</u>	<u>—</u>
	<u>1,089,681</u>	<u>652,912</u>	<u>700,000</u>	<u>—</u>

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

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

20 LONG-TERM LOANS *(Continued)*

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

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
On credit	8,236,773	8,498,624	4,766,256	5,518,696
Guaranteed by SEPCO	88,603	169,152	88,603	97,052
Guaranteed by third parties	1,691,742	407,249	—	—
Secured	1,480,000	—	—	—
	11,497,118	9,075,025	4,854,859	5,615,748
Less: Long-term loans due within one year	(1,734,175)	(611,525)	(1,298,959)	(340,878)
	9,762,943	8,463,500	3,555,900	5,274,870

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

21 DEFERRED TAX

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

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Deferred tax assets:				
Preliminary expenses	12,537	19,183	1,914	5,141
Provision for stock, trade receivables and other receivables	26,289	25,010	20,588	20,710
Depreciation	1,160	2,697	1,160	2,697
Others	28,862	16,006	26,749	14,850
	68,848	62,896	50,411	43,398
Set-off within legal tax units and jurisdictions	(7,181)	(4,993)	—	—
Total deferred tax assets	61,667	57,903	50,411	43,398
Deferred tax liabilities:				
Depreciation	(239,263)	(105,461)	—	—
Set-off within legal tax units and jurisdictions	7,181	4,993	—	—
Total deferred tax liabilities	(232,082)	(100,468)	—	—
Net deferred tax (liabilities)/assets	(170,415)	(42,565)	50,411	43,398

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

22 SHARE CAPITAL

	2004 '000	2003 '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
	<u>5,256,084</u>	<u>5,256,084</u>

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

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

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 2003	747,941	4,912	752,853
Additions	—	1,925	1,925
At 31 December 2003	747,941	6,837	754,778
Additions	—	605	605
At 31 December 2004	<u>747,941</u>	<u>7,442</u>	<u>755,383</u>

Share premium represents the net premium received from the issuance of H Shares in June 1999.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

23 CAPITAL RESERVE, STATUTORY SURPLUS RESERVE, STATUTORY PUBLIC WELFARE FUND AND DISCRETIONARY SURPLUS RESERVE

(Continued)

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

	The Group and the Company			Total '000
	Statutory surplus reserve '000	Statutory public welfare fund '000	Discretionary surplus reserve '000	
At 1 January 2003	653,969	289,979	3,419	947,367
Profit appropriations	102,353	51,177	—	153,530
Transfer to discretionary surplus reserve	—	(57,236)	57,236	—
At 31 December 2003	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	860,722	333,085	63,690	1,257,497

- (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. For year end 31 December 2004, Rmb 3,035,000 (2003: Rmb 57,236,000) of the statutory public welfare fund was transferred to discretionary surplus reserve accordingly.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

23 CAPITAL RESERVE, STATUTORY SURPLUS RESERVE, STATUTORY PUBLIC WELFARE FUND AND DISCRETIONARY SURPLUS RESERVE (Continued)

(c) Profit appropriations (Continued)

(v) The Board of Directors of the Company approved the percentage of appropriation for 2003 and 2004 as follows:

	2004	2003
(a) To statutory surplus reserve	10%	10%
(b) To statutory public welfare fund	5%	5%

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 during the year are as follows:

	2004 '000	2003 '000
Interim dividend of Rmb 0.02 per share	105,122	105,122
Final dividend of Rmb 0.035 per share for year 2003	183,963	—
Final dividend of Rmb 0.036 per share for year 2002	—	189,219
	<u>289,085</u>	<u>294,341</u>

(b) Dividends not provided for in the financial statements:

	2004 '000	2003 '000
Final dividend proposed:		
For the year 2004 (Rmb 0.035 per share) (note)	210,738	—
For the year 2003 (Rmb 0.035 per share)	—	183,963
	<u>210,738</u>	<u>183,963</u>

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

Note: The amount of the final dividend proposed is calculated with reference to the number of shares in issue at the date of approval of the financial statements.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

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	
	2004 '000	2003 '000	2004 '000	2003 '000
Revenue from sale of electricity	9,975,734	7,920,881	6,668,344	6,129,644
Revenue from sale of heat	199,704	144,951	—	—
	<u>10,175,438</u>	<u>8,065,832</u>	<u>6,668,344</u>	<u>6,129,644</u>

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 from 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:

	2004		2003	
	Total sales '000	Percentage over sales from principal activities	Total sales '000	Percentage over sales from principal activities
The Group	10,133,544	99.6%	8,038,367	99.7%
The Company	<u>6,668,344</u>	<u>100%</u>	<u>6,129,644</u>	<u>100%</u>

26 SALES RELATED TAXES AND SURCHARGES

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
City maintenance and construction tax	75,128	67,166	52,955	52,429
Education surcharge	33,085	28,785	22,694	22,469
	<u>108,213</u>	<u>95,951</u>	<u>75,649</u>	<u>74,898</u>

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

27 FINANCIAL EXPENSES

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Interest incurred	630,934	519,590	263,465	340,493
Less: Interest capitalised	(100,440)	(29,769)	(6,867)	(6,752)
Net interest expenses	530,494	489,821	256,598	333,741
Interest income	(12,717)	(15,254)	(9,288)	(22,246)
Net revaluation gain on derivative financial instruments <i>(note)</i>	(24,069)	—	(24,069)	—
Total	493,708	474,567	223,241	311,495

Note: In 2004, the Company borrowed short-term foreign currency bank loans totalling US\$100,000,000. 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 at the same time of the borrowing. 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	
	2004 '000	2003 '000	2004 '000	2003 '000
Long-term equity investment income				
— Accounted for under the cost method	30,066	—	29,825	—
— Accounted for under the equity method	386	—	200,026	123,591
— Amortisation of equity investment difference	(123)	—	(28,538)	(27,472)
Total	30,329	—	201,313	96,119

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

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

29 INCOME TAX

Income tax in the income statement represents:

	The Group		The Company	
	2004 '000	2003 '000	2004 '000	2003 '000
Current taxation				
Charge for PRC enterprise income tax for the year	457,050	540,846	421,452	500,728
(Over)/under-provision in respect of previous years	(2,643)	11,802	—	—
	454,407	552,648	421,452	500,728
Deferred taxation				
Original and reversal of temporary differences	57,977	(4,459)	(7,013)	(25,535)
	512,384	548,189	414,439	475,193

In 2003 and 2004, enterprise income tax is calculated at 15% or 33% on taxable profits (note 3). There was 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

Related party having the ability to exercise control over the Group up to 31 March 2003 represented:

Company name	Registered address	Principal operation	Relationship with the Company	Type of enterprise	Authorised representative
SEPCO	Shandong Province, the PRC	Sale of electricity	Former holding company	State-owned enterprise	Zhu Chang Fu

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

30 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS

(Continued)

- (a) Related parties having the ability to exercise control over the Group *(Continued)*

Related party having the ability to exercise control over the Group from 1 April 2003 represents:

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

China Huadian was incorporated on 1 April 2003. On 1 April 2003, the entire shareholding interest in the Company, which was originally held by SEPCO, was transferred to China Huadian. After the transfer, China Huadian became the holding company of the Company.

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

Company name	'000
SEPCO <i>(note)</i>	9,860,000
China Huadian	12,000,000

Note: There was no change in registered share capital of SEPCO for the three months ended 31 March 2003.

There was no change in registered share capital of China Huadian for the period from 1 April 2003 to 31 December 2004.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

30 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS

(Continued)

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

Company name	Up to		Transfer out		Transfer in		From 1 April 2003 to	
	31 March 2003						31 December 2004	
	thousand shares	%	thousand shares	%	thousand shares	%	thousand shares	%
SEPCO	2,815,075	53.56	2,815,075	53.56	—	—	—	—
China Huadian	—	—	—	—	2,815,075	53.56	2,815,075	53.56

Note: There was no change in percentage of shareholding of SEPCO in the Company for the three months ended 31 March 2003.

There was no change in percentage of shareholding of China Huadian in the Company up to 31 December 2004.

(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 31 December 2004 were:

Company name	Relationship with the Company
SITIC	holding 17.19% shareholding in the Company
China Huadian Engineering (Group) Corporation	controlled by China Huadian
Huadian Finance	controlled by China Huadian

Related parties not having the ability to exercise control over the Group up to 31 March 2003 were (note):

Company name	Relationship with the Company
Shandong Electric Power No.1 Construction Engineering Company	controlled by SEPCO
Shandong Electric Power No.2 Construction Engineering Company	controlled by SEPCO
Shandong Electric Power No.3 Construction Engineering Company	controlled by SEPCO
Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited	controlled by SEPCO

Note: From 1 April 2003, SEPCO ceased to be the holding company of the Company and so the companies listed above ceased to be related parties of the Company.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

30 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS

(Continued)

- (e) The major related party transactions for the three months ended 31 March 2003 were conducted in accordance with the agreements governing such transactions, which were agreed by SEPCO and companies controlled by SEPCO. 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.

From 1 April 2003, as SEPCO ceased to be the holding company of the Company, the following material transactions between the Company and SEPCO and companies controlled by SEPCO ceased to be related party transactions.

	Note	2004 '000	2003 '000
Sale of electricity	(i)	—	1,885,413
Repairs and maintenance services	(ii)	—	48,473
Construction costs	(iii)	19,797	58,560
Interest expenses	(iv)	58,250	37,122
Net loans borrowed from/(repaid to) related parties	(iv)	941,093	(151,000)

- (i) All sales of electricity were made to SEPCO.
- (ii) Shandong Electric Power Hongyuan Electricity Generation Overhaul Company Limited, which is controlled by SEPCO, was responsible for the repair and maintenance works, including major overhauls, of the Group in 2003. The amount payable was determined on a cost reimbursement basis.
- (iii) The amount in 2003 represented construction cost paid and payables to companies controlled by SEPCO.

The amount in 2004 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.

- (iv) Loans borrowed from SITIC and Huadian Finance are set out in notes 14 and 20.
- (f) In January 2004, the Company acquired 80% equity interest in Guangan Company from China Huadian for a total consideration of Rmb 580,000,000.
- (g) In August 2004, the Company acquired 40% equity interest in Chizhou Company from China Huadian for a total consideration of Rmb 79,740,000.
- (h) On 31 December of 2003 and 2004, the Group and the Company had no balance due to/from related parties, except for loans payable to related parties as disclosed in notes 14 and 20.

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

31 CAPITAL COMMITMENTS

As at 31 December, the capital commitments of the Company and the Group (not including jointly controlled entities) are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	'000	'000	'000	'000
Contracted for	7,259,773	2,455,432	3,799,415	1,700,700
Authorised but not contracted for	9,934,627	531,023	5,661,312	437,350
	17,194,400	2,986,455	9,460,727	2,138,050

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

	2004	2003
	'000	'000
The Group's proportionate share of the jointly controlled entities' capital expenditure commitments	312,096	745,324

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:

	2004	2003
	'000	'000
Within one year	34,778	30,178
Between one and two years	30,178	30,178
Between two and three years	30,178	30,178
Over three years	593,501	623,679
	688,635	714,213

Pursuant to an agreement, the Company is leasing certain land from the Provincial Government of Shandong Province 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.

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

33 SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

The particulars of subsidiaries, jointly controlled entities and associates of the Company at 31 December 2004 are as follows:

(i) Subsidiaries

Company	Registered share 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	Consolidation period	Principal activities
Guangan Company	700,000	80	80	—	580,813	From 2004	Generation and sale of electricity
Qingdao Company	380,000	55	55	—	248,318	From 1999 (note 9)	Generation and sale of electricity and heat
Zibo Company	254,800	100	100	—	254,800	From 2001	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
Zhangjiu 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

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

33 SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(Continued)

(i) Subsidiaries *(Continued)*

Company	Registered share 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	Consolidation period	Principal activities
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

NOTES ON THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

33 SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(Continued)

(i) Subsidiaries (Continued)

The Company acquired 80% equity interest in Guangan Company on 1 January 2004 and acquired 45% equity interest in Qingdao Company on 28 December 2004 (please refer to note 9 for details). Since the respective acquisition dates, the Group has the power to govern the financial and operating policies of the above companies to obtain benefits and bear risks from its operation. As a result, the above companies were included the consolidated financial statements of the Group since the respective acquisition dates. Net assets as at respective acquisition dates and operating results of the above companies for the period from the dates of acquisition to 31 December 2004 are as follows:

	'000
Net assets at respective acquisition dates:	
Current assets	462,141
Long-term investments	16,200
Fixed assets	4,434,569
Deferred tax assets	4,241
Current liabilities	(1,298,300)
Long-term liabilities	(2,458,279)
Deferred tax liabilities	(74,114)
Net assets	<u>1,086,458</u>
Results of operation in 2004:	
Sales from principal activities	954,278
Profit from principal activities	304,186
Profit before income tax	143,570
Income tax	(45,012)
Net profit	<u>98,558</u>

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

33 SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(Continued)

(ii) Jointly controlled entities

Company	Registered share 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 incorporated as a company as at 31 December 2004, so there is no registered share capital on that date.

Qingdao Company has become a subsidiary of the Company from 28 December 2004. For details, please refer to note 9.

(iii) Associates

Company	Registered share 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
Zhongning Company	51,200	50	50	—	25,600	Development of power plant
Ningxia Power Company	600,000	31.11	31.11	—	168,000	Generation and sale of electricity, investment holding
Chizhou Company	448,000	40	40	—	182,140	Development of power plant
Longtan Coal Company	75,920	36	—	45	34,160	Development of coal mines and sales of coal

NOTES ON THE FINANCIAL STATEMENTS *(continued)*

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

34 CONTINGENT LIABILITIES

At 31 December 2004, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to Rmb 1,197,975,000.

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	
	2004	2003	2004	2003
	'000	'000	'000	'000
Extraordinary gain and loss for the year				
Non-operating income	8,884	3,042	40	2,023
Non-operating expenses	(6,804)	(38,714)	(3,436)	(22,925)
Net revaluation gain on derivative financial instruments	24,069	—	24,069	—
	26,149	(35,672)	20,673	(20,902)
Less: Tax effect of the above items	(8,629)	11,772	(6,822)	6,898
Total	17,520	(23,900)	13,851	(14,004)

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 Company.

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.