Notes to the Consolidated Accounts

1 General information

China Power International Development Limited (the "Company") was incorporated in Hong Kong on 24th March 2004 as a limited liability company under the Hong Kong Companies Ordinance.

The principal activities of the Company and its subsidiaries (together the "Group") are principally engaged in the generation and sale of electricity, and the development of power plants in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation, which was completed on 1st September 2004 (the "Reorganisation"), in the preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group. The Company's shares were listed on the Stock Exchange on 15th October 2004.

These consolidated accounts are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 16th March 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. These consolidated accounts have been prepared under the historical cost convention except that certain property, plant and equipment are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses; and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (if any).

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and 36 had no material effect on the Group's policies.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is an impairment, the impairment is expensed in the profit and loss account.

The adoption of HKAS 21 had no material effect to the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entities accounts.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKASs 32 and 39, the Group's loan and receivables are measured at amortised cost and the carrying amount of the assets is computed by discounting the future cash flows to the present value using the effective interest method. In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method. The adoption of HKASs 32 and 39 did not have any material financial impact to the Group.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the profit and loss account of the respective periods (Note 2.14).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, when applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

— HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

— HKFRS 3 – prospectively after the adoption date.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of HKFRS 2 resulted in:

	As at 31st December	
	2005	2004
	RMB'000	RMB'000
Increase in other reserves	**11,675**	7,390
Increase in accumulated losses	**(11,675)**	(7,390)

	For the year ended 31st December	
	2005	2004
	RMB'000	RMB'000
Increase in staff costs	**4,285**	7,390

There was no significant impact on the basic and diluted earnings per share from the adoption of HKFRS 2.

There was no impact to opening accumulated losses at 1st January 2004 from the adoption of HKFRS 2.

No early adoption of the following new Standards or Interpretations or Amendments that have been issued but are not yet effective. The Directors anticipate that the adoption of these Standards or Interpretations or Amendments will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the Company's equity holders therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of the respective entities' changes in equity since the date of the combination. The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(b) Associated company

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for by the equity method of accounting and is initially recognised at cost.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The results of associated company are accounted for by the Company on the basis of dividend received and receivable.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated accounts are presented in RMB, which is the Company's functional and presentation currency.

2 Summary of significant accounting policies *(Continued)*

2.3 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of an entity are treated as assets and liabilities of the entity and translated at the closing rate.

2 Summary of significant accounting policies *(Continued)*

2.4 Property, plant and equipment

Property, plant and equipment other than construction in progress (see note 2.5 below) are recognised initially at cost. Cost comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

Subsequent to the initial recognition, property, plant and equipment other than construction in progress are carried at their revalued amounts less subsequent accumulated depreciation and impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed on a regular basis with an interval of not more than five years. In the intervening years, the Directors review the carrying values of the assets and adjustment is made where they consider that there has been a material change.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are expensed in the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged. Upon the disposal of the assets, any revaluation reserve balance remaining attributable to the relevant asset is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease term
Buildings	8-45 years
Power generators and equipment	9-28 years
Electricity supply equipment	13-30 years
Tools, office and other equipment	3-18 years
Motor vehicles	2-12 years
Furniture and fixture	3-5 years

2 Summary of significant accounting policies *(Continued)*

2.4 Property, plant and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8). Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment losses do not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2.5 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.4 in this Section.

2.6 Leasehold land prepayments

Leasehold land prepayments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortisation of leasehold land prepayments is calculated on a straight-line basis over the period of the land use rights.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (Note 2.8). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2 Summary of significant accounting policies *(Continued)*

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account.

2.9 Inventories

Inventories comprise coal, oil, consumable supplies and spare parts held for consumption and usage and are stated at the lower of cost and net realisable value after provision for obsolete items, and are expensed to fuel costs or repair and maintenance expense when used, or capitalised to property, plant and equipment when installed, as appropriate. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location and condition and excludes borrowing costs.

2.10 Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2 Summary of significant accounting policies *(Continued)*

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2 Summary of significant accounting policies *(Continued)*

2.14 Employee benefits

(a) Pension obligations

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers.

For employees in Mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial governments in the PRC based on certain percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.15 Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 Summary of significant accounting policies *(Continued)*

2.16 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made or received under operating leases are charged or credited to in the profit and loss account on a straight-line basis over the period of the lease.

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

2.18 Revenue recognition

Sales of electricity are recognised when electricity is generated and transmitted to the power girds operated by the respective provincial electric power companies.

Management fee income is recognised when services are rendered.

Operating lease rental income is recognised on a straight-line basis over the lease periods.

Interest income is recognised on a time proportion basis using the effective interest method.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors. The Group does not use derivative financial instruments for speculative purposes.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations primarily do not expose to material foreign exchange risk. The Group's borrowings and payables to holding companies are denominated in RMB. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB repayable within one year. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign currency risk is considered minimal.

Certain of the Group's bank deposits are denominated in currencies other than RMB, details of which have been disclosed in Note 23. RMB against USD and HK$ has been comparatively stable over the past few years. Since July 2005, RMB experienced certain appreciation which is the major reason for the significant exchange differences recognised by the Group for the year ended 31st December 2005. Depreciation or appreciation of USD and HK$ against RMB will affect the Group's financial position and results of operations.

(b) Credit risk

All the Group's sales of electricity were made to provincial electric power companies. The Group's historical experience in collection of accounts receivable from these provincial electric power companies indicates no significant recoverability problem.

(c) Liquidity risk

The Group's primary cash requirements have been for construction of power plants, additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances their working capital requirements through a combination of funds generated from operations, short-term and long-term bank loans.

The Directors believe that cash from operations and bank borrowings will be sufficient to meet the Group's operating cashflow. Due to the dynamic nature of the underlying businesses, the Group treasury aims at maintaining flexibility in funding by keeping credit lines available. The Directors believe that the Group has obtained sufficient general credit facilities from PRC banks for financing capital commitments in the near future and for working capital purposes.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 23. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 26. These borrowings expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, accounts receivable, prepayments, deposits and other receivables, and current financial liabilities including accounts payable, other payables and accrued charges, short-term borrowings and amounts due to holding companies and other related companies, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(i) Property, plant and equipment carried at valuation

Property, plant and equipment other than construction in progress are revalued by independent valuers on a regular basis with an interval of not more than five years. In the intervening years the Directors review the carrying values and adjustment is made where there has been a material change. In arriving at the valuation, assumptions and economic estimates have to be made.

4 Critical accounting estimates and judgements *(Continued)*

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment, other than construction in progress. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Impairment of assets

The Group tests annually whether goodwill has suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates (Note 17). Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

5 Turnover, revenues and segment information

The Group is principally engaged in the generation and sale of electricity, and the development of power plants. Revenues recognised during the year are as follows:

	2005 RMB'000	2004 RMB'000
Sales of electricity	**4,361,718**	3,352,001

Pursuant to the power purchase agreements entered into between the Group and the respective provincial electric power companies, all the Group's sales of electric power were made to these electric power companies. The tariff rates are to be agreed with the respective electric power companies, subject to the approval of the relevant government authorities.

Segment information

The Group's principal activities are the generation and sale of electricity, and the development of power plants as a single business segment. Substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC except that certain cash and bank balances equivalent to approximately RMB1,471 million were deposited in certain banks in Hong Kong at 31st December 2005 (2004: approximately RMB2,552 million). Accordingly, no segment information is presented.

6 Other income

	2005 RMB'000	2004 RMB'000
Management fee income (Note 36)	**14,531**	6,884
Rental income	**3,921**	2,854
Interest income on bank deposits	**57,550**	12,135
	76,002	21,873

7 Operating profit

Operating profit is stated after charging/(crediting) the following:

	2005	2004
	RMB'000	RMB'000
Amortisation of leasehold land prepayment	**193**	—
Auditors' remuneration	**4,078**	2,996
Depreciation of property, plant and equipment	**320,488**	325,641
Loss on disposal of property, plant and equipment	**2,872**	1,431
Net exchange loss	**40,422**	—
Operating lease rental in respect of		
— equipment	**—**	3,394
— leasehold land and buildings	**18,482**	6,443
Provision for other receivables	**—**	4,765
Staff costs including Directors' emoluments (Note 10)	**315,112**	262,428
Write-off of property, plant and equipment	**—**	7,478
Write-off of pre-operating expenses	**10,191**	13,555
Write-back of provision for other receivables	**(6,011)**	(4,393)
Write-back of provision for amount due from SEPC	**(30,000)**	—
Write-back of other payables	**(28,397)**	(8,870)

8 Finance costs

	2005	2004
	RMB'000	RMB'000
Interest expense on		
bank loans wholly repayable within five years	**121,165**	49,960
bank loans not wholly repayable within five years	**8,466**	39,916
other loans wholly repayable within five years	**2,406**	—
long-term payable to a related party wholly repayable within five years	**2,522**	—
	134,559	89,876
Less: Amounts capitalised in property, plant and equipment	**(57,642)**	(12,591)
	76,917	77,285

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The weighted average interest rate on such capitalised borrowings is approximately 5.3% (2004: 4.9%) per annum.

Notes to the Consolidated Accounts

9 Taxation

No Hong Kong profits tax has been provided as the Group did not have any assessable profit in Hong Kong for the year (2004: Nil).

The provision for PRC current income tax is calculated based on the statutory tax rate of 33% of the assessable income for the year except as disclosed below.

The amount of taxation charged to the consolidated profit and loss account represents:

	2005	2004
	RMB'000	RMB'000
PRC current income tax	**81,546**	42,589
Deferred taxation (Note 32)	**902**	3,824
	82,448	46,413

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the country where the Group principally operates as follows:

	2005	2004
	RMB'000	RMB'000
		(Restated)
Profit before taxation	**743,657**	681,652
Less: Share of profit of an associated company	**(122,480)**	(150,805)
	621,177	530,847
Calculated at the PRC statutory tax rate of 33% (2004: 33%)	**204,988**	175,180
Effect of different taxation rates	**2,255**	262
Effect of preferential tax rate	**(118,664)**	(99,142)
Effect of tax holiday	**(16,769)**	(41,309)
Income not subject to taxation	**(15,419)**	(4,782)
Expenses not deductible for taxation purposes	**26,057**	16,204
Taxation charge	**82,448**	46,413

Share of taxation attributable to the associated company for the year ended 31st December 2005 of RMB22,556,000 (2004: RMB12,799,000) are included in the consolidated profit and loss account as share of profit of an associated company.

Pursuant to the relevant PRC income tax rules and regulations, a special income tax rate of 15% has been granted to certain subsidiaries of the Group and the associated company as being foreign invested enterprises which are engaged in the energy, transportation or infrastructure activities. These companies are entitled to a two-year exemption from income tax starting from their first profit-making year and followed by a 50% reduction in income tax for the subsequent three years. Other than a subsidiary acquired by the Group during the year which was established in year 2005 and has been exempted from income tax in current year, the tax rate applicable to these companies for the year ended 31st December 2005 is 15% (2004: 7.5%).

10 Staff costs

	2005 RMB'000	2004 RMB'000 (Restated)
Wages, salaries and bonuses	**195,637**	140,971
Share options granted to directors and employees	**4,285**	7,390
Pension costs – defined contribution plans	**49,216**	38,666
Staff welfare	**65,974**	75,401
	315,112	262,428

11 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of RMB690,726,000 (2004: RMB144,259,000 as restated).

12 Earnings per share

The calculation of basic and diluted earnings per share for the year are based on the Group's profit for the year of RMB661,904,000 (2004: RMB635,813,000 as restated). The basic earnings per share is based on the weighted average of 3,135,000,000 (2004: 2,315,901,639) shares in issue during the year. The diluted earnings per share is based on 3,135,000,000 (2004: 2,315,901,639) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 518,646 (2004: 704,231) shares deemed to be issued at no consideration if all outstanding options had been exercised.

13 Dividends/profit distributions

	2005 RMB'000	2004 RMB'000
Profit distributions (note (i))	—	377,230
Proposed final dividend of RMB0.079 (2004: RMB0.0265) per share (note (ii))	**247,665**	83,078
	247,665	460,308

Note:

(i) The profit distributions disclosed for the year ended 31st December 2004 represented dividends from certain subsidiaries of the Group in connection with their profits for the period from 1st January 2004 to 30th September 2004 attributed to China Power International Holding Limited ("CPIH"), an intermediate holding company of the Company, pursuant to the Reorganisation.

The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not meaningful.

(ii) The dividend paid during the year ended 31st December 2005 was HK$78,378,000 (or HK$0.025 per share) (equivalent to RMB83,078,000 (or RMB0.0265 per share)). A final dividend in respect of 2005 of RMB0.079 per share, amounting to a total dividend of RMB247,665,000 is to be proposed at the Annual General Meeting on 28th April 2006. These accounts do not reflect this dividend payable.

14 Emoluments for Directors and five highest paid individuals

(a) Directors' emoluments

The remuneration of each of the Directors of the Company for the year ended 31st December 2005 is set out below:

Name of Director	Fees RMB'000	Basic salary, housing allowance, other allowances, share options and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Ms. Li Xiaolin	—	1,470*	259	7	1,736
Mr. Hu Jiandong	—	1,005*	158	7	1,170
Non-executive directors					
Mr. Wang Binghua	208	599*	—	—	807
Mr. Gao Guangfu	125	146*	—	—	271
Independence non-executive directors					
Mr. Kwong Che Keung, Gordon	208	104	—	—	312
Mr. Li Fang	208	104	—	—	312
Mr. Tsui Yiu Wa, Alec	125	94	—	—	219

* Included in the amount were share-based compensation, which are determined based on the fair value of the share options granted to the relevant Directors at the date of grant and recognised over the vesting period. During the year ended 31st December 2005, none of these options has been exercised by the Directors.

14 Emoluments for Directors and five highest paid individuals *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of each of the Directors of the Company for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Basic salary, housing allowance, other allowances, share options and benefits in kind	Discretionary bonuses	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms. Li Xiaolin	—	1,543*	457	10	2,010
Mr. Hu Jiandong	—	963*	370	10	1,343
Non-executive directors					
Mr. Wang Binghua	170	905*	—	—	1,075
Mr. Gao Guangfu	106	126*	—	—	232
Independence non-executive directors					
Mr. Kwong Che Keung, Gordon	159	21	—	—	180
Mr. Li Fang	159	21	—	—	180
Mr. Tsui Yiu Wa, Alec	95	21	—	—	116

* Included in the amount were share-based compensation, which are determined based on the fair value of the share options granted to the relevant Directors at the date of grant and recognised over the vesting period. During the year ended 31st December 2004, none of these options has been exercised by the Directors.

None of the Directors of the Company waived any emoluments during the years ended 31st December 2004 and 2005.

14 Emoluments for Directors and five highest paid individuals *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 (2004: 4) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2004: 1) individual(s) during the year are as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances, share options and benefits in kind	**3,067**	1,047
Discretionary bonuses	**484**	127
Employer's contributions to pension schemes	**31**	8
	3,582	1,182

The emoluments fell within the following bands:

	Number of individual(s)	
	2005	2004
Nil to HK$1,000,000	**—**	1
HK$1,000,000 to HK$2,000,000	**3**	—

(c) During the year, no emoluments have been paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15 Property, plant and equipment

(a) Group

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
At 1st January 2005	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Additions	26,184	2,337	—	14,709	2,737	1,039,279	1,085,246
Acquisition of a subsidiary (Note 34)	356,409	448,591	66,438	23,680	940	159,831	1,055,889
Disposals	—	(2,100)	—	(4,403)	(260)	—	(6,763)
Write-off	—	—	—	(4,486)	—	—	(4,486)
Transfer	197,880	323,090	39,819	95,171	376	(656,336)	—
At 31st December 2005	**2,718,608**	**5,663,986**	**1,272,360**	**450,842**	**107,202**	**983,782**	**11,196,780**
Representing:							
Cost	645,161	795,170	112,717	145,877	8,045	983,782	2,690,752
Valuation	2,073,447	4,868,816	1,159,643	304,965	99,157	—	8,506,028
	2,718,608	**5,663,986**	**1,272,360**	**450,842**	**107,202**	**983,782**	**11,196,780**
Accumulated depreciation and impairment losses							
At 1st January 2005	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Depreciation charge for the year	70,280	189,893	30,929	26,263	3,123	—	320,488
Disposals	—	(1,010)	—	(2,024)	(155)	—	(3,189)
Write-off	—	—	—	(4,486)	—	—	(4,486)
At 31st December 2005	**1,124,554**	**3,533,955**	**897,532**	**217,918**	**79,612**	**—**	**5,853,571**
Net book value							
At 31st December 2005	**1,594,054**	**2,130,031**	**374,828**	**232,924**	**27,590**	**983,782**	**5,343,209**

15 Property, plant and equipment *(Continued)*

(a) Group *(Continued)*

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
At 1st January 2004	2,076,286	5,111,585	1,181,946	332,901	100,762	182,739	8,986,219
Additions	29	185	76	7,104	3,958	355,526	366,878
Disposals	(290)	(18,427)	(87)	(5,092)	(284)	—	(24,180)
Write-off	(2,549)	(222,242)	(22,216)	(13,955)	(1,061)	—	(262,023)
Transfer	64,659	20,967	6,384	5,213	34	(97,257)	—
At 31st December 2004	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Representing:							
Cost	64,688	21,152	6,460	12,317	3,992	441,008	549,617
Valuation	2,073,447	4,870,916	1,159,643	313,854	99,417	—	8,517,277
	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Accumulated depreciation and impairment losses							
At 1st January 2004	996,315	3,386,797	844,663	189,557	73,098	—	5,490,430
Depreciation charge for the year	60,362	190,535	43,516	26,532	4,696	—	325,641
Disposals	(1)	(16,108)	(74)	(4,431)	(154)	—	(20,768)
Write-off	(2,402)	(216,152)	(21,502)	(13,493)	(996)	—	(254,545)
At 31st December 2004	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Net book value							
At 31st December 2004	1,083,861	1,546,996	299,500	128,006	26,765	441,008	3,526,136

15 Property, plant and equipment *(Continued)*

(a) Group *(Continued)*

Had the property, plant and equipment been carried at cost less accumulated depreciation and impairment losses, the carrying amounts would have been:

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31st December 2005							
Cost	2,988,968	6,118,344	1,470,656	529,594	112,770	983,782	12,204,114
Accumulated depreciation and impairment losses	(1,299,128)	(3,666,680)	(846,587)	(314,131)	(83,711)	—	(6,210,237)
	1,689,840	**2,451,664**	**624,069**	**215,463**	**29,059**	**983,782**	**5,993,877**
At 31st December 2004							
Cost	2,408,495	5,352,932	1,364,399	407,471	109,067	441,008	10,083,372
Accumulated depreciation and impairment losses	(1,206,432)	(3,438,561)	(784,553)	(287,457)	(79,547)	—	(5,796,550)
	1,202,063	**1,914,371**	**579,846**	**120,014**	**29,520**	**441,008**	**4,286,822**

(a) As detailed in Note 2.4, property, plant and equipment other than construction in progress are recognised initially at cost and are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The latest independent valuation was performed by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.) and 中發國際評估有限公司 (DeveChina International Appraisals Co., Ltd.), independent valuers registered in the PRC, on a depreciated replacement cost basis as at 31st December 2003.

The Directors of the Company have reviewed the carrying value of the Group's property, plant and equipment as at 31st December 2005 and are of the opinion that the carrying amount is not materially different from the fair value.

(b) Substantially all of the Group's buildings are situated on leasehold land in the PRC leased from China Power Investment Corporation(中國電力投資集團) ("CPI Group" or the "ultimate holding company") which held the rights on the leasehold land under long-term leases.

(c) As at 31st December 2005, certain property, plant and equipment of the Group with carrying amount of approximately RMB1,102,000,000 (2004: Nil) was pledged as security for certain long-term bank borrowings of the Group (Note 26).

15 Property, plant and equipment *(Continued)*

(b) Company

	Leasehold improvements RMB'000	Office and other equipment RMB'000	Furniture and fixture RMB'000	Total RMB'000
Cost				
Upon incorporation on 24th March 2004	—	—	—	—
Additions	—	28	56	84
As at 31st December 2004 and at 1st January 2005	—	28	56	84
Additions	5,669	564	19	6,252
As at 31st December 2005	**5,669**	**592**	**75**	**6,336**
Accumulated depreciation and impairment losses				
Upon incorporation on 24th March 2004	—	—	—	—
Depreciation charge for the period	—	2	2	4
As at 31st December 2004 and at 1st January 2005	—	2	2	4
Depreciation charge for the year	945	70	14	1,029
As at 31st December 2005	**945**	**72**	**16**	**1,033**
Net book value				
As at 31st December 2005	**4,724**	**520**	**59**	**5,303**
As at 31st December 2004	—	26	54	80

Notes to the Consolidated Accounts

16 Leasehold land prepayment

	RMB'000
Cost	
As at 1st January 2005	—
Acquisition of a subsidiary (Note 34)	19,097
As at 31st December 2005	**19,097**
Accumulated amortisation	
As at 1st January 2005	—
Amortisation charge for the year	193
As at 31st December 2005	**193**
Net book value	
As at 31st December 2005	**18,904**
As at 31st December 2004	—

The leasehold land prepayment represents cost of the land use rights in respect of land located in the PRC where certain of the Group's construction in progress are built on. The remaining period of the land use rights is 49 years.

17 Goodwill

	RMB'000
Cost	
As at 1st January 2005	—
Acquisition of a subsidiary (Note 34)	166,939
As at 31st December 2005	**166,939**
Accumulated impairment	
As at 1st January 2005	—
Impairment expense	—
As at 31st December 2005	**—**
Net book value	
As at 31st December 2005	**166,939**
As at 31st December 2004	—

Goodwill is allocated to Shanxi Shentou Electric Power Company Limited, a subsidiary acquired by the Group during the year.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management. There are a number of assumptions and estimates involved in the preparation of the cashflow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and profit margin, timing of future capital expenditures, and discount rates used to reflect the risk involved. Management prepared the financial budgets reflecting actual and prior year performance and industry development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

18 Investments in subsidiaries

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted investments, at cost	**2,864,555**	1,761,293

During the year, the Company acquired certain subsidiaries amounting to approximately RMB610 million (Note 34) and made additional capital contribution to power plants under construction amounting to approximately RMB493 million.

The following is a list of the subsidiaries as at 31st December 2005:

Name of companies	Place of establishment and operation/date of establishment	Registered/ authorised/ paid up/issued capital	Equity interest attributable to the Group	Type of legal entity	Principal activities
Interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited	PRC 27th August 1999	RMB986,000,000/ RMB986,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited	PRC 17th September 1999	RMB970,000,000/ RMB970,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huainan Pingwei No.2 Electric Power Generating Company Limited	PRC 17th November 2003	USD150,000,000/ USD40,915,944	100%	Wholly foreign-owned enterprise	Development of power plants
Pingdingshan Yaomeng No.2 Power Generating Company Limited	PRC 28th November 2003	USD20,000,000/ USD20,000,000	100%	Wholly foreign-owned enterprise	Development of power plants
Huanggang Dabieshan Power Generating Company Limited	PRC 17th December 2003	RMB240,000,000/ RMB159,836,720	92%	Sino-foreign equity joint venture	Development of power plants
Tianze Development Limited ("Tianze")	British Virgin Islands 31st March 2005	USD50,000/ USD1	100%	Limited liability Company	Investment holding
Interests held directly:					
Shanxi Shentou Electric Power Company Limited	PRC 26th July 2005	RMB501,681,000/ RMB501,681,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity

19 Interest in an associated company

	Group	
	2005	2004
	RMB'000	RMB'000
Beginning of the year	**849,539**	848,095
Share of results		
– profit before taxation	**145,036**	163,604
– taxation	**(22,556)**	(12,799)
	122,480	150,805
Dividends	**(136,159)**	(149,361)
End of the year	**835,860**	849,539

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted investments, at cost	**552,500**	552,500

The following is the details of the associated company as at 31st December 2005:

Name of company	**Place of establishment and operation/date of establishment**	**Registered/paid up capital**	**Equity interest attributable to the Group**	**Type of legal entity**	**Principal activity**
Associated company – interest held directly:					
Jiangsu Changshu Electric Power Generating Company Limited ("Changshu Company")	PRC 15th September 1999	RMB1,105,000,000/ RMB1,105,000,000	50%	Sino-foreign equity joint venture	Generation and sale of electricity

19 Interest in an associated company *(Continued)*

The following is an extract of the operating results and financial position of Changshu Company, based on a set of unaudited management accounts of Changshu Company for the year prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 2.

	2005	2004
	RMB'000	RMB'000
Operating results		
Turnover	**2,074,106**	2,102,455
Profit before taxation	**290,073**	327,208
Profit after taxation	**244,960**	301,609
Financial position		
Property, plant and equipment	**2,225,646**	2,311,629
Current assets	**553,692**	528,326
Current liabilities	**(1,007,848)**	(1,076,072)
Long-term liabilities	**(99,770)**	(64,805)
Net assets	**1,671,720**	1,699,078

20 Inventories

	Group	
	2005	2004
	RMB'000	RMB'000
Coal and oil	**136,837**	31,622
Spare parts and consumables	**129,034**	82,890
	265,871	114,512

As at 31st December 2005, no inventories were stated at net realisable value (2004: Nil).

21 Accounts receivable

	Group	
	2005	2004
	RMB'000	RMB'000
Accounts receivable from provincial power companies (note (a))	**556,741**	411,494
Bills receivable (note (b))	**247,038**	232,689
	803,779	644,183

The carrying value of accounts receivable and bills receivable approximate their fair values due to the short term maturity.

Note:

(a) The Group normally granted 30 to 60 days credit period to the provincial power companies from the end of the month in which the sales are made. The ageing analysis of the accounts receivable is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
1 to 3 months	**537,297**	411,494
4 to 6 months	**19,444**	—
	556,741	411,494

(b) Bills receivable are normally with maturity period of 90 to 180 days (2004: 90 to 180 days).

22 Amount due from an intermediate holding company

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from CPIH	**8,308**	15,352	**8,308**	15,352

The amount due from an intermediate holding company is unsecured, interest free and is repayable on demand.

23 Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**803,418**	743,093	**373,723**	260,554
Time deposits with initial term of less than three months	**1,384,525**	2,321,131	**1,379,525**	2,291,131
	2,187,943	3,064,224	**1,753,248**	2,551,685
Denominated in:				
HK$	**1,471,301**	2,551,685	**1,471,301**	2,551,685
RMB	**644,225**	506,746	**281,937**	—
USD	**72,417**	5,793	**10**	—
	2,187,943	3,064,224	**1,753,248**	2,551,685

(i) The weighted average effective interest rate on short-term bank deposits, with maturity ranging from 1 to 3 months, was 2.3% and 1.3% per annum during the years ended 31st December 2005 and 2004 respectively. Cash at bank earns interest at floating rates based on daily bank deposit rates.

(ii) The Group's cash and cash equivalents denominated in RMB and USD are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24 Share Capital

(a) Authorised and issued capital

	Company	
	Number of shares (in thousand)	RMB'000
Authorised:		
Upon incorporation on 24th March 2004 (note (i))	1,000	106
Consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each (note (ii))	(900)	—
Increase in authorised share capital (note (ii))	9,999,900	10,599,894
As at 31st December 2004 and 31st December 2005	10,000,000	10,600,000
Issued and fully paid:		
Upon incorporation on 24th March 2004 (note (i))	—	—
Allotted and issued on 24th August 2004 (note (i))	—	—
Consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each (note (ii))	—	—
Allotted and issued pursuant to the Reorganisation (note (iii))	2,100,000	2,226,000
Issue of shares for Global Offering (note (iv))	1,035,000	1,097,100
As at 31st December 2004 and 31st December 2005	3,135,000	3,323,100

Note:

(i) The Company was incorporated on 24th March 2004 with an authorised capital of 1,000,000 shares of HK$0.1 each. On the date of incorporation, 1 subscriber share of HK$0.1 was issued at par for cash.

On 24th August 2004, nine shares of HK$0.1 each were allotted, issued and credited as fully paid at par by the Company to its immediate holding company. These shares rank pari passu in all respect with the share in issue.

(ii) Pursuant to a resolution passed by the Company on 24th August 2004, the nominal value of the Company's authorised and issued share capital was increased from HK$0.1 each to HK$1 each by the consolidation of every 10 shares of HK$0.1 each into 1 share of HK$1 each. On the same date, the authorised share capital of the Company was increased from 100,000 shares of HK$1 each to 10,000,000,000 shares of HK$1 each by the creation of an additional 9,999,900,000 shares of HK$1 each. These shares rank pari passu in all respects with the then existing shares.

(iii) On 1st September 2004, pursuant to the Reorganisation, the Company allotted and issued 2,099,999,999 shares of HK$1 each to its immediate holding company at par, all of which were credited as fully paid, in consideration for the transfer of the relevant interests in the companies now comprising the Group and the associated company, and became the holding company of the Group. These shares rank pari passu in all respects with the then existing shares.

24 Share Capital *(Continued)*

(a) Authorised and issued capital *(Continued)*

(iv) On 14th October 2004, the Company completed a global offering of 900,000,000 shares with a par value of HK$1 each at a price of HK$2.53 per share in cash for an aggregate consideration of HK$2,277 million (equivalent to approximately RMB2,414 million). These shares commenced trading on the Stock Exchange on 15th October 2004. On 21st October 2004, pursuant to the terms of the over-allotment option, the Company issued an additional 135,000,000 shares with a par value of HK$1 each at a price of HK$2.53 per share in cash for an aggregate consideration of HK$342 million (equivalent to approximately RMB362 million). All these shares rank pari passu in all respects with the then existing shares.

(b) Share Option Schemes

Pursuant to the written resolutions passed by the shareholders of the Company on 24th August 2004, two share option schemes, namely, Share Option Scheme (the “Option Scheme”), and Pre-IPO Share Option Scheme (the “Pre-IPO Scheme”) were approved and adopted by the Company.

(i) Share Option Scheme

Under the Option Scheme, the Board of Directors of the Company may at its absolute discretion, offer any employees, directors (including executive and non-executive directors other than independent non-executive directors), chief executive and members of the management of the Company and the Group (the “Eligible Person”) options to subscribe for shares of the Company (the “Shares”). Options may be granted without initial payment except the payment of HK$1 as nominal consideration for the grant. The exercise price of the share option shall be not less than the greater of (a) the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet on the date, which must be a business day, of the written offer of the option (the “Offer Date”); (b) the average closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the Offer Date; and (c) the nominal value of the Shares.

The maximum number of Shares which may be issued upon the exercise of all options under the Option Scheme which have been granted and have neither lapsed nor been cancelled or exercised in full and all outstanding options granted and yet to be exercised under any other schemes of the Company or any of its subsidiaries (including the Pre-IPO Scheme) shall not exceed such number of Shares as shall represent 30% of the Company’s issued share capital from time to time. The maximum number of Shares in respect of which options may be granted to any Eligible Person in any 12-month period shall not exceed 1% of the Shares in issue.

No option was granted by the Company under the Option Scheme since since its adoption.

24 Share Capital *(Continued)*

(b) Share Option Schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme

The principal terms of the Pre-IPO Scheme are substantially the same as the terms of the Option Scheme except for the followings:

(a) the subscription price per Share shall be the offer price per Share on the initial public offering of the Company; and

(b) no options will be offered or granted upon the commencement of dealings in the Shares on the Stock Exchange.

During the year ended 31st December 2004, the Company granted options under the Pre-IPO Scheme to certain Directors and employees of the Group, which entitle them to subscribe for a total of 12,234,500 shares at HK$2.53 per share, upon payment of HK$1 per grant. Options granted are exercisable within a period of ten years within which there is a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the offer date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the Shares comprised in his or her option.

Details of the options granted under the Pre-IPO Scheme outstanding as at 31st December 2005 and 31st December 2004 are as follows:

	Date of grant	Expiry date	Exercise price	Number of shares subject to the options
Directors	18th September 2004	17th September 2014	HK$2.53	4,361,500
Senior management	18th September 2004	17th September 2014	HK$2.53	4,320,000
Other employees	11th October 2004	10th October 2014	HK$2.53	3,553,000
				12,234,500

Consideration in connection with all options granted were received. No share options were granted, lapsed, cancelled or exercised during the year. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

24 Share Capital *(Continued)*

(b) Share Option Schemes *(Continued)*

(ii) Pre-IPO Share Option Scheme *(Continued)*

The fair values of options granted under the Pre-IPO Share Option Scheme determined using the Dividend Adjusted Black-Scholes Option Pricing Model were as follows:

	Date of grant of share option	
	18th September 2004	**11th October 2004**
Option value	HK$1.14	HK$1.13
Significant inputs into the valuation model:		
Exercise price	HK$2.53	HK$2.53
Share price at grant date	HK$2.53	HK$2.53
Expected volatility (Note)	43.71%	43.28%
Risk-free interest rate	4.40%	4.41%
Expected life of options	6.3 years	6.3 years
Expected dividend yield	0.99%	0.99%

Note:

The volatility of the underlying stock during the life of the options is estimated based on the historical volatility of the comparable companies for the past four years as of the respective valuation dates since there is no trading record of the Company's shares at the respective grant dates.

25 Reserves

Group

	Share premium RMB'000	Merger reserve (note (i)) RMB'000	Capital reserve (note (ii)) RMB'000	Revaluation reserve RMB'000	Statutory reserves (note (iii)) RMB'000	Share-based compen-sation reserve RMB'000	Accumulated losses (note (iv)) RMB'000	Total RMB'000
At 1st January 2005, as previously reported	1,507,626	350,395	2,293,848	443,762	137,972	—	(1,831,425)	2,902,178
Effect of change in accounting policies – recognition of share-based compensation	—	—	—	—	—	7,390	(7,390)	—
At 1st January 2005, as restated	1,507,626	350,395	2,293,848	443,762	137,972	7,390	(1,838,815)	2,902,178
Employee share option benefits	—	—	—	—	—	4,285	—	4,285
Profit for the year	—	—	—	—	—	—	661,904	661,904
2004 final dividend (Note 13)	—	—	—	—	—	—	(83,078)	(83,078)
At 31st December 2005	1,507,626	350,395	2,293,848	443,762	137,972	11,675	(1,259,989)	3,485,289
At 1st January 2004	—	282,500	2,293,848	443,762	137,972	—	(1,980,898)	1,177,184
Contribution from owner	—	67,895	—	—	—	—	—	67,895
Premium on issue of shares	1,678,563	—	—	—	—	—	—	1,678,563
Share issuance expenses	(170,937)	—	—	—	—	—	—	(170,937)
Profit for the year, as previously reported	—	—	—	—	—	—	643,203	643,203
Effect of change in accounting policies – recognition of share-based compensation	—	—	—	—	—	7,390	(7,390)	—
Profit for the year, as restated							635,813	
Profit distributions	—	—	—	—	—	—	(377,230)	(377,230)
Profit distributions of an associated company	—	—	—	—	—	—	(116,500)	(116,500)
At 31st December 2004	1,507,626	350,395	2,293,848	443,762	137,972	7,390	(1,838,815)	2,902,178

Note:

(i) Merger reserve

The merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the registered capital of the subsidiaries transferred to the Company pursuant to the Reorganisation of the Group took place in 2004.

25 Reserves *(Continued)*

Note:

(ii) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected by the then owner of the subsidiaries of the Group and the associated company; and the registered capital of these companies upon their establishment.

(iii) Statutory reserves

Statutory reserves are non-distributable and the transfers to these funds are determined by the Board of Directors of the relevant PRC subsidiaries and associated company in accordance with the relevant laws and regulations in the PRC.

(iv) Accumulated losses

Accumulated losses retained by the Company and subsidiaries and the associated company mainly represent deficits from revaluation of certain property, plant and equipment of certain subsidiaries and the associated company which have been accounted for in the Group's consolidated profit and loss account in prior years. In the local statutory accounts of the relevant subsidiaries and associated company, revaluation deficits have been dealt with in the respective company's capital reserves in accordance with the relevant local accounting rules and regulations. Profit distributions made by these companies were based on the distributable reserves as reported in the statutory accounts of the respective companies.

Company

	Share premium RMB'000	**Share-based compensation reserve** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1st January 2005, as previously reported	1,507,626	—	151,649	1,659,275
Effect of change in accounting policies				
– recognition of share-based compensation	—	7,390	(7,390)	—
At 1st January 2005, as restated	1,507,626	7,390	144,259	1,659,275
Profit for the year	—	—	690,726	690,726
Employee share option benefits	—	4,285	—	4,285
Dividend relating to 2004	—	—	(83,078)	(83,078)
At 31st December 2005	1,507,626	11,675	751,907	2,271,208
Upon incorporation on 24th March 2004	—	—	—	—
Premium on issue of shares	1,678,563	—	—	1,678,563
Share issuance expenses	(170,937)	—	—	(170,937)
Profit for the period, as previously reported	—	—	151,649	151,649
Effect of change in accounting policies				
- recognition of share-based compensation	—	7,390	(7,390)	—
Profit for the period, as restated			144,259	
At 31st December 2004	1,507,626	7,390	144,259	1,659,275

26 Borrowings

Bank and other borrowings are analysed as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	**3,113,500**	1,414,000
Less: current portion of long-term bank borrowings	**(400,000)**	(261,000)
	2,713,500	1,153,000
Current		
Short-term bank borrowings	**389,500**	592,676
Short-term other borrowings	**98,000**	—
Current portion of long-term bank borrowings	**400,000**	261,000
	887,500	853,676
Total borrowings	**3,601,000**	2,006,676

As at 31st December 2005, long-term bank borrowings of RMB643,000,000 (2004: Nil) were secured by certain property, plant and equipment of the Group (Note 15).

All the Group's bank and other borrowings are denominated in RMB and the carrying amounts of these borrowings approximate their fair values.

26 Borrowings *(Continued)*

The repayment terms of the non-current bank borrowings are analysed as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Wholly repayable within five years	**1,815,000**	721,000
Not wholly repayable within five years	**1,298,500**	693,000
	3,113,500	1,414,000

The Group's non-current bank borrowings were repayable as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Within one year	**400,000**	261,000
In the second year	**951,000**	270,000
In the third to fifth year	**464,000**	790,000
After the fifth year	**1,298,500**	93,000
	3,113,500	1,414,000

The effective interest rates of the Group's bank borrowings are as follows:

	Group	
	2005	2004
Long-term bank borrowings, at floating rate	**5.5%**	5.5%
Short-term bank borrowings, at floating rate	**5.2%**	4.8%

Other borrowings represent loan from 華北電網財務有限公司 (Northern Power Grid Finance Company Limited), a financial institution approved by the relevant PRC authorities, which is unsecured, carries interest at 5.02% per annum and is repayable by 12th December 2006.

Notes to the Consolidated Accounts

27 Long-term payable to a related company

Balance represents the amounts payable to 中電投財務有限公司 ("CPI Financial Company" or "CPIF") which are unsecured and are repayable as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Repayable by 5th November 2008, bearing interest at 3.6% per annum	**122,815**	—
Repayable by 30th June 2010, bearing interest at 5.27% per annum	**270,295**	—
	393,110	—

The carrying amount of the long-term payable to CPIF approximates their fair values.

28 Long-term payable to SEPC

The long-term payable to SEPC ("山西省電力公司") is unsecured, bearing interest at 5.52% per annum and is repayable on 30 June 2010. The carrying amount of the long-term payable to SEPC approximates its fair value.

29 Accounts payable

	Group	
	2005	2004
	RMB'000	RMB'000
Accounts payable	**253,190**	202,460
Due to related companies	**33,454**	34,758
	286,644	237,218

The carrying value of accounts payable approximates their fair values due to the short term maturity.

29 Accounts payable *(Continued)*

The normal credit period for accounts payable generally ranges from 60 to 180 days. Ageing analysis of accounts payable is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
1 to 6 months	**260,774**	188,106
7 to 12 months	**1,430**	24,550
Over 1 year	**24,440**	24,562
	286,644	237,218

Amounts due to related companies mainly represent balances arising from transactions with those companies as detailed in Note 36 below.

30 Other payables and accrued charges

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction cost payable	**165,735**	38,463	**—**	—
Discharge fee payable	**9,849**	—	**—**	—
Insurance expense payable	**25,010**	21,149	**—**	—
Interest payable	**1,476**	21,000	**—**	—
Repair and maintenance expense payable	**21,135**	26,588	**—**	—
Salaries and staff welfare payable	**72,735**	88,607	**—**	—
Value added tax payable	**48,943**	66,731	**—**	—
Other taxes payable	**39,899**	5,259	**—**	—
Other accrued expenses	**91,485**	61,027	**24,442**	45,469
	476,267	328,824	**24,442**	45,469

31 Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured, interest free and is repayable on demand.

32 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using the taxation rate which is expected to apply at the time of reversal of the temporary differences.

The movement on the deferred tax assets account is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
At 1st January	**13,795**	17,619
Deferred tax charged to consolidated profit and loss account (Note 9)	**(902)**	(3,824)
At 31st December	**12,893**	13,795

The deferred tax assets are provided, prior to offsetting of balances within the same tax jurisdiction, in respect of:

	2005	2004
	RMB'000	RMB'000
Provision for other receivables	**8,422**	9,324
Provision for inventories obsolescence	**4,471**	4,471
	12,893	13,795
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	**12,893**	13,795

33 Notes to the consolidated cash flow statement

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	**743,657**	681,652
Share of results of an associated company	**(122,480)**	(150,805)
Interest expense	**134,559**	89,876
Interest income	**(57,550)**	(12,135)
Depreciation of property, plant and equipment	**320,488**	325,641
Amortisation of leasehold land prepayment	**193**	—
Loss on disposal of property, plant and equipment	**2,872**	1,431
Write-off of property, plant and equipment	**—**	7,478
Share-based compensation expense	**4,285**	7,390
Operating profit before working capital changes	**1,026,024**	950,528
Decrease/(increase) in accounts receivable	**5,008**	(183,147)
Decrease/(increase) in prepayments, deposits and other receivables	**61,338**	(152,322)
Increase in inventories	**(52,686)**	(16,660)
Decrease in amount due from an intermediate holding company	**7,044**	170,500
(Decrease)/increase in accounts payable	**(171,018)**	105,185
(Decrease)/increase in other payables and accrued charges	**(3,779)**	69,581
Increase/(decrease) in amount due to ultimate holding company	**18,482**	(37,867)
Cash generated from operations	**890,413**	905,798

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

(b) Analysis of changes in financing during the year

	Long-term and short-term bank and other loans RMB'000	**Minority interests** RMB'000
Balance at 1st January 2004	1,403,000	—
New bank loans	1,574,676	—
Repayment of bank loans	(971,000)	—
Contributions from minority shareholders of a subsidiary	—	3,300
Minority shareholders' share of loss for the year	—	(574)
Balance at 31st December 2004	2,006,676	2,726
Acquisition of subsidiaries	108,500	—
New bank loans	2,311,324	—
Repayment of bank loans	(825,500)	—
Contributions from minority shareholders of a subsidiary	—	9,013
Minority shareholders' share of loss for the year	—	(695)
Balance at 31st December 2005	3,601,000	11,044

34 Business combinations

During the year, the Group acquired the entire share capital of Tianze, an investment holding company holding 100% interest in Shanxi Shentou Electric Power Company Limited, from China Power Development Limited, the immediate holding company of the Company.

The acquired business contributed revenue of RMB628,560,000 and net profit of RMB111,793,000 to the Group for the period from 1st July 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, the revenue contributed to the Group would have been RMB1,073,234,000, and the net profit contributed to the Group for the year would have been RMB35,207,000.

34 Business combinations *(Continued)*

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Cash consideration	592,732
– Direct costs relating to the acquisition	17,413
Total purchase consideration	610,145
Fair value of net assets acquired – shown as below	(443,206)
Goodwill (Note 17)	166,939

Goodwill arose from the acquisition is attributable to the anticipated profitability of the company's operations and the anticipated future operating synergies.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000
Cash and cash equivalents	26,313
Property, plant and equipment (Note 15)	1,055,889
Leasehold land prepayment (Note 16)	19,097
Inventories	98,673
Receivables	189,313
Payables	(354,249)
Amount due to ultimate holding company	(338,667)
Borrowings	(108,500)
Long-term payable to CPIF	(122,497)
Long-term payable to SEPC	(22,166)
Net assets acquired, at fair value	443,206
Purchase consideration	610,145
Purchase consideration payable	(15,941)
Cash and cash equivalents in subsidiary acquired	(26,313)
Cash outflow on acquisition	567,891

There were no acquisitions in the year ended 31st December 2004.

35 Commitments

(a) Capital commitments

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised but not contracted for in respect of				
– property, plant and equipment	**19,170**	6,894	**—**	—
Contracted but not provided for in respect of				
– property, plant and equipment	**6,545,185**	4,678,114	**—**	—
– investments in subsidiaries	**—**	—	**960,567**	135,595
	6,564,355	4,685,008	**960,567**	135,595

(b) Commitments under operating leases

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Land and buildings				
Not later than one year	**19,780**	15,066	**2,530**	2,677
Later than one year and not later than five years	**9,202**	26,870	**1,792**	14,560
	28,982	41,936	**4,322**	17,237

Generally, the Group's operating leases are for terms of 1 to 3 years.

35 Commitments *(Continued)*

(c) Future operating lease arrangements

Future aggregate minimum lease receipts under non-cancellable operating leases in respect of buildings are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than one year	**4,659**	1,930	**—**	—
Later than one year and not later than five years	**4,659**	1,900	**—**	—
	9,318	3,830	**—**	—

36 Related party transactions

The Group is controlled by CPI Group which owns approximately 63.68% of the Company's shares. The remaining interests are widely held. The Directors regard China Power Investment Corporation as being the ultimate holding company.

Related parties refer to entities in which CPI Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or Directors or officers of the Company. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including CPI Group, its subsidiaries, associated companies and jointly controlled entities in the ordinary course of business. In accordance with the revised HKAS 24, "Related Party Disclosures" ("HKAS 24"), state-owned enterprises and their subsidiaries, other than entities under CPI Group (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither CPI Group nor the PRC government has published accounts.

36 Related party transactions *(Continued)*

The major related parties that had transactions with the Group were as follows:

Related parties	**Relationship with the Company**
CPI Group	Ultimate holding company
CPIH	Immediate holding company
CPIF	A company controlled by CPI Group
SEPC	Related party of the Company as defined under HKAS 24
Other related companies	Companies owned by certain individuals who are also employees or operational managers of certain subsidiaries of the Group
Other state-owned enterprises	Related parties of the Company as defined under HKAS 24

Significant transactions with related companies which, in the opinion of the Directors, were carried out in the normal course of the Group's business are as follows:

(i) Revenues

	Note	**2005** **RMB'000**	2004 RMB'000
Management fee from CPIH	(a)	**14,531**	6,884
Sales of electricity to other stated-owned enterprises	(b)	**4,361,718**	3,352,001

(a) Management fee from CPIH in connection with the Group's services rendered for management of certain power plants on behalf of CPIH was charged in accordance with the terms of the relevant agreements.

(b) Pursuant to the power purchase agreements entered into between the Group and the respective provincial power companies, which are regarded as state-owned enterprises, all the Group's sales of electric power were made to those electric power companies. Whilst these companies are related parties of the Group as defined under HKAS 24, the Directors are of the opinion that each party is operating independently; and the tariff rates are to be agreed with the respective electric power companies, subject to the approval of the relevant government authorities.

36 Related party transactions *(Continued)*

(ii) Expenses

	Note	2005 RMB'000	2004 RMB'000
Operating lease rental in respect of land to CPI Group	(a)	**14,780**	5,129
Purchases of fuel, raw material and spare parts from other related companies	(b)	**94,826**	198,109
Services fees to other related companies	(c)	**112,300**	99,547
Construction costs to other related companies	(d)	**55,369**	17,288
Labor costs charged by other related companies	(e)	**8,976**	1,792
Purchases of coal from other state-owned enterprises	(f)	**1,880,447**	1,324,997
Interest expense to CPIF	(g)	**2,522**	—

(a) Rental expense in respect of certain land leased from CPI Group was charged in accordance with the terms of the relevant agreements.

(b) Purchases of goods were charged in accordance with the terms of the relevant agreements.

(c) Services fees mainly related to repair and maintenance services and transportation services which were carried out at mutually agreed prices.

(d) Construction costs were payable in accordance with the terms of contracts.

(e) Labor costs were charged on a cost reimbursement basis.

(f) Purchases of coal form other state-owned enterprises were charged in accordance with the terms of the relevant agreements.

(g) Interest expense was charged on outstanding loan balance at 3.6% per annum.

36 Related party transactions *(Continued)*

(iii) Key management compensation

	2005	2004
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances, discretionary bonus and benefits in kind	**8,194**	3,874
Employer's contributions to pension scheme	**64**	29
Share-based compensation	**3,057**	3,019
	11,315	6,922

(iv) Year-end balances with related parties

		As at	
		31st December	31st December
	Note	**2005**	2004
		RMB'000	RMB'000
Accounts receivable from other state-owned enterprises (Note 21)	(a)	**803,779**	644,183
Amount due from CPIH (Note 22)	(a)	**8,308**	15,352
Long-term payable to CPIF (Note 27)	(a)	**393,110**	—
Long-term payable to SEPC (Note 28)	(a)	**19,979**	—
Payables to related companies (Note 29)	(a)	**33,454**	34,758
Amount due to CPI Group (Note 31)	(a)	**91,665**	5,129
Prepayments to other state-owned enterprises	(b)	**69,300**	—
Accounts payable to other state-owned enterprises	(c)	**53,229**	78,331

(a) The terms of balances with related parties are disclosed in Notes 21, 22, 27, 28, 29 and 31 respectively.

(b) Prepayments to other state-owned enterprises mainly relate to purchase prepayments made by the Group and are included under prepayments, deposits and other receivables. Balances are unsecured, interest free and shall be settled in accordance with the respective trading terms.

(c) Accounts payable to other state-owned enterprises mainly relate to purchase accruals made by the Group and are included under accounts payable. Balance are unsecured, interest free and will be settled in accordance with the respective trading terms.

36 Related party transactions *(Continued)*

(v) Others

	2005	2004
	RMB'000	RMB'000
Acquisition of a subsidiary from CPI Group	**592,732**	—

37 Approval of accounts

The accounts were approved by the Board of Directors on 16th March 2006.