1. GENERAL

The Company is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company as at 31 December 2005 is China Resources (Holdings) Company Limited ("CRH"), a company incorporated in Hong Kong. The directors regard the ultimate holding company as at 31 December 2005 to be China Resources National Corporation ("CRNC"), a company established in the People's Republic of China (the "PRC"). The address of the registered office and principal place of business of the Company is Rooms 2001-2002, 20th Floor, China Resources Buildings, 26 Harbour Road, Wanchai, Hong Kong.

The financial statements are presented in Hong Kong dollars and the functional currency of the Group and the Company is Renminbi. The Company uses Hong Kong dollars as its presentation currency is because the Company is a public company incorporated in Hong Kong with its shares listed on the Hong Kong Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entity are set out in notes 18, 19 and 20, respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$ 11,738,000 with a corresponding decrease in the cost of goodwill (see note 21). The Group has discontinued amortising such goodwill from 1 January 2005 and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(CONT'D)*

Business combinations *(cont'd)*

Goodwill (cont'd)

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operations and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired some foreign operations, and goodwill arose on the acquisition of the foreign operations has been translated at the closing rate at 31 December 2005. There is no material impact on the Group's translation reserve in respect of such transaction.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment ("discount on acquisition") is recognised immediately in profit or loss in the year in which the acquisition takes place. In previous years, negative goodwill was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 (see note 3 for financial impact on opening adjustments). Discount on acquisition in relation to acquisition of an associate has been recognised in profit or loss in the current year (see note 3 for financial impact).

Share-based payments

In the current year, the Group has applied HKFRS 2 Share-based Payment, which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors', employees' and other participants' share options of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. All the equity-settled share based payment arrangement of the Group was granted after 7 November 2002 and had not yet vested on 1 January 2005, and accordingly, the Group is required to apply HKFRS 2 retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(CONT'D)*

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on the result of the Group. There are no significant effects resulting from the implementation of HKAS 39 on the results for the current year as summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities

From 1 January 2005, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 Accounting for Investments in Securities) in accordance with the requirements of HKAS 39. They are classified as "available-for-sale financial assets" or "loan and receivable", as appropriate. The investment in an investee company acquired during the current year is classified as available-for-sale financial assets and is carried at cost less impairment as there is no quoted market price in an active market and the fair value cannot be reliably measured. If there is objective evidence that an individual investment has been impaired, such impairment would be recognised in the income statement. Any impairment losses relating to available-for-sale financial assets carried at cost are not reversed in the subsequent periods. Loans and receivables are measured at amortised cost using the effective interest method.

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the year in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group designates certain derivatives as hedging instruments to hedge against its exposure of changes in interest rate.

The Group has applied the relevant transitional provisions in HKAS 39. For hedges that meet the requirements of hedge accounting set out in HKAS 39, the Group has, from 1 January 2005 onwards, applied hedge accounting in accordance with HKAS 39 to account for such hedges. Derivatives financial instruments in the amount of HK$25,813,000 have been recognised as non-current assets as at 31 December 2005.

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(CONT'D)*

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2005	2004
	HK$'000	HK$'000
Decrease in amortisation of goodwill of a subsidiary	**5,869**	—
Decrease in amortisation of goodwill of associates	**34,430**	—
Decrease in release of negative goodwill of associates	**(6,843)**	—
Expenses in relation to share options granted to employees	**(106,256)**	(112,121)
Recognition of discount on acquisition of an associate	**40,412**	—
Decrease in profit for the year	**(32,388)**	(112,121)

Analysis of decrease in net profit for the year by line items presented according to their function:

	2005	2004
	HK$'000	HK$'000
Decrease in depreciation and amortisation	**5,869**	—
Increase in other operating expenses	**(106,256)**	(112,121)
Decrease in share of results of associates	**(85,761)**	(146,120)
Decrease in share of result of jointly controlled entity	**(61,637)**	(120,890)
Decrease in amortisation of goodwill of associates	**34,430**	—
Decrease in release of negative goodwill of associates	**(6,843)**	—
Decrease in taxation	**187,810**	267,010
Decrease in profit for the year	**(32,388)**	(112,121)

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(CONT'D)*

The effects of the application of the new HKFRSs for the year ended 31 December 2004 are summarised below:

	1.1.2004 to 31.12.2004 HK$'000 (originally stated)	Adjustments HK$'000	1.1.2004 to 31.12.2004 HK$'000 (restated)
Income statement items			
Operating expenses - others	(256,251)	(112,121)	(368,372)
Share of results of associates	1,103,912	(146,120)	957,792
Share of result of jointly controlled entity	370,806	(120,890)	249,916
Taxation	(267,388)	267,010	(378)
Decrease in profit for the year		(112,121)	

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	31.12.2004 HK$'000 (originally stated)	Retrospective adjustments HK$'000	31.12.2004 HK$'000 (restated)	Opening adjustments HK$'000	1.1.2005 HK$'000 (restated)
Balance sheet items					
Property, plant and equipment	12,082,687	(102,017)	11,980,670	—	11,980,670
Prepaid lease payments	—	102,017	102,017	—	102,017
Interests in associates	3,878,246	—	3,878,246	40,369	3,918,615
Negative goodwill	(52,735)	—	(52,735)	52,735	—
Increase in assets		—		93,104	
Retained profits	1,723,438	(140,743)	1,582,695	93,104	1,675,799
Share premium	4,469,136	121	4,469,257	—	4,469,257
Share option reserve	—	140,622	140,622	—	140,622
Minority interests	—	983,888	983,888	—	983,888
Total effect on equity		983,888		93,104	
Minority interests	983,888	(983,888)	—	—	—

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(CONT'D)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2003 and 1 January 2004 are summarised below:

	As at 31.12.2003 HK$'000 (originally stated)	Adjustment HK$'000	As at 1.1.2004 HK$'000 (restated)
Retained earnings	601,311	(28,622)	572,689
Share option reserve	—	28,622	28,622
Minority interests	—	558,328	558,328
Total effect on equity		558,328	
Minority interests	558,328	(558,328)	—

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005.

The Group has commenced considering the potential impact of these standards, interpretations and amendments. The management anticipates the application of these new standards, interpretations and amendments will have no material impact on the Group's financial statements except for HKAS 39 and HKFRS 4 (Amendments) which may have effect on the Company's financial position. The management determined that it is not yet in a position to reasonably ascertain how the following amendments may affect the preparation and presentation of the results of operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [3]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment [3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 *Effective for annual periods beginning on or after 1 January 2007.*

2 *Effective for annual periods beginning on or after 1 January 2006.*

3 *Effective for annual periods beginning on or after 1 December 2005.*

4 *Effective for annual periods beginning on or after 1 March 2006.*

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

The financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest 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.

Acquisition of additional interests in subsidiaries is recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

Goodwill

Goodwill arising on an acquisition of subsidiaries or associates represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries or associates at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2005

For previously capitalised goodwill arising on acquisitions prior to 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whether there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Goodwill *(cont'd)*

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of subsidiaries or associates for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or associates at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment loss.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet. Capitalised goodwill arising on acquisition of associates is included in the cost of the investment of the relevant associates.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of subsidiaries or associates, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of associates for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the year in which the investment is acquired.

Investments in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Sales of electricity are recognised when electricity has been delivered.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives from the date on which they are in the manner of intended use and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress represents assets in the course of construction for production, rental or administrative purposes. They are carried at cost, less any identified impairment loss. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories which consist of coal, fuel, spare parts and consumables are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Foreign currencies *(cont'd)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in note 3, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised base on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, pledged bank deposits, bank balances and cash, other receivables and prepayments, amounts due from minority shareholders of subsidiaries/associates/group companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loan and receivable, financial assets at fair value through profit or loss and held-to-maturity investments. The investment in an investee company is classified as an available-for-sale financial asset.

Investment in an investee company does not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, it is measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits which are subject to an insignificant risk of changes in value.

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables, amount due to a fellow subsidiary/an associate/minority shareholders of subsidiaries, bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily interest rate swap) to hedge its exposure against changes in interest rate. Such derivatives are measured at fair value and is designated as effective cash flow hedging instruments. The effective portion and the ineffective portion of any unrealised gain or loss arising on the changes in fair value of the hedging on the instrument is recognised directly in equity and in the income statement respectively. The cumulated gain or loss associated with the effective portion of the cash flow hedge is removed from equity and is generally "recycled" in the income statement in the same period or periods during which the gain or loss arising from the hedged item is recognised in the income statement.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company, directors of CRH, employees of CRH and its subsidiaries

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Retirement benefit contributions

Payment to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For the year ended 31 December 2005

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following judgments that have the most significant effect on the amounts recognised in the financial statements.

Share option benefit expenses

The share option benefit expense is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 37 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss account and share option reserve.

Impairment review of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill as at 31 December 2005 are HK$107,718,000 arising from acquisitions of subsidiaries. Details of the recoverable amount calculations of goodwill arising from acquisitions of subsidiaries are disclosed in note 21.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investment in an investee company, pledged bank deposits, bank balances and cash, trade and other receivables, trade and other payables and amount due from group companies, associates and minority shareholders of subsidiaries, amount due to a fellow subsidiary, an associate and a minority shareholder of a subsidiary, loan from a minority shareholder of a subsidiary and, bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group collects all of its revenue in Renminbi ("RMB") and most of the expenditures including expenditures incurred in the operation of power plants as well as capital expenditures are also denominated in RMB. Dividends receivable by the Group from the associates can be collected in either RMB, US Dollar ("USD") or Hong Kong Dollar ("HKD").

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the People's Republic of China (the "PRC") government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against HKD and USD may have positive or negative impact on the results of operations of the Group.

For the year ended 31 December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONT'D)*

Market risk *(cont'd)*

(i) Currency risk *(cont'd)*

Certain borrowings of the Group are denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The interest rate risk was managed through appropriate derivative financial instruments and hedging strategies of which interest rate swap is the most commonly used by the Group to hedge the interest rate exposure (see note 26 for details).

The Group entered into floating-to-fixed interest swaps to hedge the interest rate risk of the Group's floating-rate bank borrowing (see note 26 for details).

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk for power producers in the PRC power industry is limited to/concentrated on a limited number of power grids. However, the management, having considered the strong financial background and good creditability of the power grids, believes there is no significant credit risk.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to certain internal control measures of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

For the year ended 31 December 2005

7. SEGMENT INFORMATION

Business segments

The Group's principal activities are the development and operation of power stations as a single business segment.

Geographical segments

Substantially all of the Group's assets and liabilities are located in the PRC, other than Hong Kong, and operations for the year were substantially made in the PRC, other than Hong Kong. Accordingly, no geographical segment information for the year is presented.

8. TURNOVER

Turnover represents the net amount received and receivable for the sales of electricity during the year.

9. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank and other loans:		
- wholly repayable within five years	**(387,367)**	(128,650)
- not wholly repayable within five years	**(192,938)**	(206,327)
	(580,305)	(334,977)
Less: Interest capitalised	**199,085**	211,895
	(381,220)	(123,082)

10. TAXATION

	2005 HK$'000	2004 HK$'000
The charge comprises:		
The Company and its subsidiaries		
- PRC Enterprise Income Tax	**—**	—
- Deferred taxation (note 35)	**11,371**	378
Taxation attributable to the Company and its subsidiaries	**11,371**	378

No provision for Hong Kong Profits Tax has been made as the Group had no taxable profit in Hong Kong for both years.

PRC Enterprise Income Tax has been calculated based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries in the PRC.

For the year ended 31 December 2005

10. TAXATION *(CONT'D)*

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The Company is entitled to a tax benefit ("Tax Benefit"), which is calculated as 40% of the current year's purchase of PRC produced plant and equipment for production use. The Tax Benefits is, however, limited to the amount of increase in enterprise income tax for the current year in which the plant and equipment are acquired as compared with the tax amount of the previous year. The portion of the Tax Benefit that is not utilised in the current year can be carried forward for future application for a period of not more than seven years.

No provision for PRC Enterprise Income Tax has been made in the financial statements as all of the PRC subsidiaries are exempted from PRC Enterprises Income Tax or are entitled to the Tax Benefits during both years.

The taxation charge can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005	2004
	HK$'000	HK$'000
Profit before taxation	**3,082,114**	1,493,187
Less: Share of results of associates	**(854,993)**	(957,792)
Share of result of jointly controlled entity	**(194,815)**	(249,916)
Profit before taxation attributable to the Company and its subsidiaries	**2,032,306**	285,479
Tax at applicable rate of 18% (2004: 18%)	**365,815**	51,386
Tax effect of income that is not taxable in determining current year taxable profit	**(199,535)**	(3,112)
Tax effect of expenses that are not deductible in determining current year taxable profit	**15,859**	22,807
Effect of tax exemptions granted to PRC subsidiaries	**(155,684)**	(77,094)
Reduction of tax in respect of Tax Benefits	**(16,640)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**227**	178
Tax effect of tax losses not recognised	**630**	6,219
Others	**699**	(6)
Tax expense for the year	**11,371**	378

Note: Tax rate of 18% is adopted for the taxation reconciliation as such tax rate is applicable to most of the Group's operations in the PRC for both years.

For the year ended 31 December 2005

11. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
- Fees	**518**	588
- Other emoluments	**7,779**	5,411
- Pension costs	**124**	120
- Share option benefits expenses	**8,419**	10,728
	16,840	16,846
Other staff costs	**164,839**	82,386
Pension costs, excluding directors	**35,316**	9,995
Share option benefits expense, excluding directors	**97,837**	101,393
Total staff costs	**314,832**	210,620
Less: Staff costs included in pre-operating expenses of subsidiaries	**(6,210)**	(3,862)
	308,622	206,758
Amortisation of goodwill of subsidiaries (included in other operating expenses)	**—**	5,869
Amortisation of prepaid lease payments	**9,333**	4,848
Auditors' remuneration	**2,304**	2,056
Depreciation of property, plant and equipment	**578,401**	182,980
Loss on disposal of property, plant and equipment	**—**	51
Minimum lease payments under operating leases in respect of:		
- land and buildings	**51,191**	1,264
- other assets	**362**	129
Share of tax of associates (included in share of results of associates) (note)	**126,173**	146,120
Share of tax of jointly controlled entity (included in share of result of jointly controlled entity) (note)	**61,637**	120,890
Write-off of pre-operating expenses of subsidiaries	**32,385**	25,512
and after crediting:		
Recognition of discount on acquisition of an associate (included in share of results of associates)	**40,412**	—
Release of negative goodwill of subsidiaries to income	**—**	1,352
Interest income	**45,524**	20,635
Expenses capitalised in construction in progress:		
Other staff costs	**78,306**	42,243
Pension costs	**5,781**	734
Depreciation	**1,050**	2,945
Minimum lease payments under operating leases in respect of:		
- land and buildings	**—**	411
- other assets	**—**	12

Note: PRC Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the associates and jointly controlled entity in the PRC.

For the year ended 31 December 2005

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Details of directors' remuneration are as follows:

The emoluments paid or payable to each of the nine (2004: ten) directors were as follows:

For the year ended 31 December 2005

	Song Lin HK$'000	Wang Shuai Ting HK$'000	Shen Zhong Min HK$'000	Tang Cheng HK$'000	Zhang Shen Wen HK$'000	Jiang Wei HK$'000	Fong Ching, Eddy HK$'000	Anthony H. Adams HK$'000	Wu Jing Ru HK$'000	Total 2005 HK$'000
Fees	70	—	—	—	—	70	126	126	126	518
Other emoluments										
Salaries and other benefits	—	1,266	863	600	595	—	—	—	—	3,324
Pension costs	—	58	39	—	27	—	—	—	—	124
Share option benefits expenses	1,198	2,069	1,379	1,379	1,379	682	111	111	111	8,419
Performance related incentive payments (note)	—	870	1,200	1,744	641	—	—	—	—	4,455
Total emoluments	1,268	4,263	3,481	3,723	2,642	752	237	237	237	16,840

For the year ended 31 December 2004

	Song Lin HK$'000	Wang Shuai Ting HK$'000	Shen Zhong Min HK$'000	Tang Cheng HK$'000	Zhang Shen Wen HK$'000	Ning Gao Ning HK$'000	Jiang Wei HK$'000	Fong Ching, Eddy HK$'000	Anthony H. Adams HK$'000	Wu Jing Ru HK$'000	Total 2004 HK$'000
Fees	70	—	—	—	—	70	70	126	126	126	588
Other emoluments											
Salaries and other benefits	—	1,211	860	703	569	—	—	—	—	—	3,343
Pension costs	—	55	40	—	25	—	—	—	—	—	120
Share option benefits expenses	1,226	2,759	1,839	1,839	1,839	613	613	—	—	—	10,728
Performance related incentive payments (note)	—	770	379	638	280	—	—	—	—	—	2,067
Total emoluments	1,296	4,795	3,118	3,180	2,713	683	683	126	126	126	16,846

Note: The performance related incentive payments are determined having regard to the performance of individuals and market trends.

For the year ended 31 December 2005

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(CONT'D)*

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals (including four (2004: four) directors, and the remaining (2004: one) employee) for the year are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**4,553**	4,543
Pension costs	**185**	180
Performance related incentive payments	**5,035**	2,368
Share option benefits expenses	**7,585**	10,115
	17,358	17,206

Emoluments of these five individuals were within the following bands:

	2005 HK$'000	2004 HK$'000
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**2**	3
HK$3,500,001 to HK$4,000,000	**1**	—
HK$4,000,001 to HK$4,500,000	**1**	—
HK$4,500,001 to HK$5,000,000	**—**	1

During the year, no remuneration has been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. No directors have waived any remunerations during the year.

13. RETIREMENT BENEFIT SCHEMES

(a) Hong Kong

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

During the year, the total amounts contributed by the Group to the scheme in Hong Kong and charged to the consolidated income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme are as follows:

	2005 HK$'000	2004 HK$'000
Amount contributed and charged to the consolidated income statement	**771**	669

For the year ended 31 December 2005

13. RETIREMENT BENEFIT SCHEMES *(CONT'D)*

(b) PRC

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

The total costs (i) charged to the consolidated income statement or (ii) capitalised in construction in progress in respect of the above-mentioned schemes in the PRC during each of the years are as follows:

	2005 **HK$'000**	2004 HK$'000
Amount contributed and charged to the consolidated income statement	**34,669**	9,446
Amount contributed and capitalised in the construction in progress	**5,781**	734

14. DIVIDENDS

	2005 **HK$'000**	2004 HK$'000
Interim dividend paid of HK$0.030 (2004: HK$0.025) per share	**114,275**	95,200
Final dividend proposed of HK$0.100 (2004: HK$0.061) per share	**381,092**	232,318
Special dividend proposed of HK$0.060 (2004: nil) per share	**228,655**	—
Additional prior year's dividend paid as a result of exercise of share options	**9**	—
	724,031	327,518

The proposed final dividend and special dividend for 2005 is based on 3,810,921,000 shares in issue at 20 March 2006 and to be approved by shareholders in general meeting.

For the year ended 31 December 2005

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005 HK$'000	2004 HK$'000
Profit attributable to equity holders of the Company	**2,858,225**	1,195,735
Represented by:		
Profit from ordinary business	**1,787,144**	1,195,735
Gain on disposal of jointly controlled entity	**1,071,081**	—
	2,858,225	1,195,735

	Number of ordinary shares 2005	2004
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,808,876,816**	3,808,004,351
Effect of dilutive potential ordinary shares on share options	**34,583,272**	17,854,883
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,843,460,088**	3,825,859,234

	2005 HK cents	2004 HK cents
Basic earning per share		
- Profit from ordinary business	**46.92**	31.40
- Gain on disposal of jointly controlled entity	**28.12**	—
	75.04	31.40
Diluted earning per share		
- Profit from ordinary business	**46.50**	31.25
- Gain on disposal of jointly controlled entity	**27.87**	—
	74.37	31.25

	2005		2004	
	Basic HK cents	**Diluted HK cents**	Basic HK cents	Diluted HK cents
Reconciliation of earnings per share				
Reported figures before adjustments	**75.89**	**75.21**	34.34	33.87
Adjustments arising from the adoption of HKFRSs	**(0.85)**	**(0.84)**	(2.94)	(2.62)
Restated	**75.04**	**74.37**	31.40	31.25

For the year ended 31 December 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Power generating plant and equipment HK$'000	Motor vehicles, furniture, fixtures, equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP					
COST					
At 1 January 2004					
- as originally stated	389,577	1,536,516	22,617	4,232,069	6,180,779
- effect on adoption of HKAS 17	(18,760)	—	—	(87,957)	(106,717)
- as restated	370,817	1,536,516	22,617	4,144,112	6,074,062
Currency realignment	514	2,129	33	5,841	8,517
Additions	—	29	28,990	6,098,453	6,127,472
Disposals	—	(7)	(1,480)	—	(1,487)
Transfer	1,200,701	3,140,262	1,359	(4,342,322)	—
At 31 December 2004	1,572,032	4,678,929	51,519	5,906,084	12,208,564
Currency realignment	36,521	108,094	1,061	135,954	281,630
Additions	10,738	1,188,718	39,198	4,651,665	5,890,319
Transfer	995,637	5,420,560	—	(6,416,197)	—
At 31 December 2005	2,614,928	11,396,301	91,778	4,277,506	18,380,513
DEPRECIATION					
At 1 January 2004	6,919	31,857	3,507	—	42,283
Currency realignment	9	43	5	—	57
Provided for the year	41,404	138,784	5,737	—	185,925
Eliminated on disposals	—	—	(371)	—	(371)
At 31 December 2004	48,332	170,684	8,878	—	227,894
Currency realignment	2,529	9,621	280	—	12,430
Provided for the year	116,424	451,239	11,788	—	579,451
At 31 December 2005	167,285	631,544	20,946	—	819,775
CARRYING VALUES					
At 31 December 2005	2,447,643	10,764,757	70,832	4,277,506	17,560,738
At 31 December 2004	1,523,700	4,508,245	42,641	5,906,084	11,980,670

For the year ended 31 December 2005

16. PROPERTY, PLANT AND EQUIPMENT *(CONT'D)*

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life as follows:

Buildings	18 to 20 years
Power generating plant and equipment	15 to 18 years
Motor vehicles, furniture, fixtures, equipment and others	3 to 10 years

Included in construction in progress is interest capitalised of HK$171,593,000 (2004: HK$220,377,000) not yet transferred to the appropriate categories of property, plant and equipment.

	Motor vehicles, furniture, fixtures, equipment and others HK$'000
THE COMPANY	
COST	
At 1 January 2004	2,789
Additions	1,900
At 31 December 2004 and 1 January 2005	4,689
Additions	871
At 31 December 2005	5,560
DEPRECIATION	
At 1 January 2004	1,154
Provided for the year	981
At 31 December 2004 and 1 January 2005	2,135
Provided for the year	864
At 31 December 2005	2,999
CARRYING VALUES	
At 31 December 2005	2,561
At 31 December 2004	2,554

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments are situated in the PRC and held under medium term leases.

The prepaid lease payments are amortised over the term of the leases.

For the year ended 31 December 2005

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares/capital contribution, at cost	**4,808,366**	4,047,145
Loans to subsidiaries (note)	**1,003,904**	528,381
	5,812,270	4,575,526

Note: The amounts are unsecured, bear interest at prevailing market rates and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand for the repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

The directors consider the carrying amounts approximate their fair values.

Details of the Company's principal subsidiaries as at 31 December 2005 are set out below:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Leader Best Limited 豐能有限公司	Hong Kong	Ordinary shares - HK$10,000 Non-voting deferred* shares - HK$10,000	100	—	Investment holding
Resources Shajiao C Investments Limited 香港潤朗沙角投資有限公司	Hong Kong	Ordinary shares - HK$9,999 Special share - HK$1**	—	87.5	Investment holding
China Resources Power Dengfeng Co., Ltd. 華潤電力登封有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB630,000,000 Paid-up capital - RMB525,019,875	85	—	Operation of a power station
China Resources (Luoyang) Thermal Power Co., Ltd. 洛陽華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB80,000,000	51	—	Operation of a power station

For the year ended 31 December 2005

18. INTERESTS IN SUBSIDIARIES *(CONT'D)*

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
China Resources Power (Changshu) Co., Ltd. 華潤電力（常熟）有限公司 (Wholly-Owned Foreign Enterprise)	PRC	Registered and paid-up capital - US$173,520,000	100	—	Operation of a power station
China Resources Power Hunan Liyujiang Co., Ltd. 湖南華潤電力（鯉魚江）有限公司 (Sino-Foreign Equity Joint Venture) (note a)	PRC	Registered capital - RMB696,000,000 Paid-up capital - RMB627,064,000	60	—	Operation of a power station
China Resources Power Hubei Co., Ltd. 華潤電力湖北有限公司 (Wholly-Owned Foreign Enterprise) (note b)	PRC	Registered capital - US$150,000,000 Paid-up capital - US$112,000,000	100	—	Operation of a power station
China Resources (Jiaozuo) Thernal Power Co., Ltd. 焦作華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB267,540,000 Paid-up capital - RMB194,748,500	—	60	Operation of a power station
China Resources Power Performance Co., Ltd.	BVI#	Share - HK$0.01	100	—	Investment holding
Tangshan China Resources Thermal Power Co., Ltd. 唐山華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB270,490,000 Paid-up capital - RMB236,721,676	—	80	Operation of a power station
China Resources Power Henan Shouyangshan Co., Ltd. 河南華潤電力首陽山有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB1,237,500,000 Paid-up capital - RMB1,079,718,753	—	85	Development of a power station

For the year ended 31 December 2005

18. INTERESTS IN SUBSIDIARIES *(CONT'D)*

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Yixing China Resources Thermal Power Co., Ltd. 宜興華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB201,000,000 Paid-up capital - RMB125,714,801	—	55	Operation of a power station
China Resources Power Hunan Co., Ltd. 華潤電力湖南有限公司 (Wholly-Owned Foreign Enterprise)	PRC	Registered capital - RMB1,361,000,000 Paid-up capital - RMB204,150,000	100	—	Development of a power station
Henan China Resources Power Gu Cheng Co., Ltd. 河南華潤電力古城有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB740,500,000 Paid-up capital - RMB165,302,981	—	65	Development of a power station
華潤電力(唐山曹妃甸)有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB15,000,000	—	90	Development of a power station
China Resources Power Project Service Co., Ltd. 華潤電力工程服務有限公司 (Wholly-Owned Foreign Enterprise)	PRC	Registered and paid-up capital - HK$50,000,000	100	—	Power station project consultancy services

For the year ended 31 December 2005

18. INTERESTS IN SUBSIDIARIES *(CONT'D)*

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
CR Power Fuel (Henan) Co., Ltd. 華潤電力燃料（河南）有限公司 (Wholly-Owned Foreign Enterprise)	PRC#	Registered and paid-up capital - HK$35,000,000	100	—	Investment holding
郴州華潤煤業有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - US$29,990,000 Paid-up capital - US$9,896,700	—	84	Exploration and sale of coal

* *The non-voting deferred shares are not entitled to receive notice of or attend or vote at any general meeting nor to any participation in the profits or surplus assets on winding up.*

** *The special share carries same rights as ordinary shares.*

\# *The company is an investment holding company which has no specific principal operations.*

The above table lists the subsidiaries of the Company which in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes:

(a) *As at 31 December 2004, the minority shareholder of China Resources Power Hunan Liyujiang Co., Ltd. ("CRP Liyujiang") has not yet paid up the required capital contribution. The directors of the Company had agreed with the minority shareholder of CRP Liyujiang that the minority shareholder will not share any profit generated before 2003. During the year, the minority shareholder of CRP Liyujiang had made the required capital contribution.*

(b) *On 22 October 2002, the Company acquired with cash consideration a 100% equity interest in China Resources Power Hubei Co., Ltd. ("CRP Hubei") from third parties. Upon expiry of the operating period in 2026, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of CRP Hubei will be distributed to the Group. The power generating related assets and other property, plant and equipment will be reverted to Hubei Provincial Government or other authority department without compensation.*

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Cost of investment in associates - unlisted	**3,804,107**	3,560,060
Share of post-acquisition profits, net of dividend received	**19,499**	368,618
Share of reserve	**66,528**	(10,063)
Negative goodwill	**—**	(40,369)
	3,890,134	3,878,246

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Cost of investment in an associate - unlisted	**111,829**	—

Included in the cost of investment in associates is goodwill of HK$492,851,000 (2004: HK$472,751,000) arising on acquisition of certain associates. The movement of goodwill is set out below:

	Goodwill
	HK$'000
COST	
At 1 January 2004	387,135
Arising on acquisition of an associate	140,263
At 31 December 2004	527,398
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 3)	(54,647)
Arising on acquisition of an associate	20,100
At 31 December 2005	492,851
AMORTISATION	
At 1 January 2004	28,236
Amortised during the year	26,411
At 31 December 2004	54,647
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 3)	(54,647)
At 31 December 2005	—
CARRYING VALUES	
At 31 December 2005	492,851
At 31 December 2004	472,751

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES *(CONT'D)*

	Negative goodwill HK$'000
MOVEMENTS OF NEGATIVE GOODWILL OF ASSOCIATES	
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	(47,168)
RELEASE TO INCOME	
At 1 January 2004	(3,093)
Released during the year	(3,706)
At 31 December 2004	(6,799)
CARRYING VALUES	
At 31 December 2004	(40,369)
Derecognised upon application of HKFRS 3 (note 3)	40,369
At 1 January 2005	—

Until 31 December 2004, the purchased goodwill of associates is amortised over the estimated useful lives of 13 to 20 years.

Until 31 December 2004, the negative goodwill of associates is released to income on a straight line basis of 12 to 18 years, the remaining weighted average useful life of the depreciable assets of the associates acquired.

As explained in note 3, all negative goodwill arising on acquisitions prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

Particulars of associates held by the Group at 31 December 2005 are as follows:

Name of associate	Place of registration	Registered and paid-up capital	Attributable equity interest held by the Group	Principal activities
Guangdong Guanghope Power Co., Ltd. ("Guangdong Guanghope") (note a) 廣東廣合電力有限公司 (Sino-Foreign Co-operative Joint Venture)	PRC	Registered capital - US$391,600,000 Paid-up capital - US$241,600,000	35%	Operation of a power station
Hebei Harv Power Generation Company Limited 河北衡豐發電有限責任公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB777,000,000	25%	Operation of a power station

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES *(CONT'D)*

Name of associate	Place of registration	Registered and paid-up capital	Attributable equity interest held by the Group	Principal activities
Zhejiang Wenzhou Telluride Power Generating Company Limited ("Wenzhou Telluride") (note b) 浙江溫州特魯萊發電有限責任公司 (Sino-Foreign Co-operative Joint Venture)	PRC	Registered and paid-up capital - RMB796,120,000	40%	Operation of a power station
China Resources (Xuzhou) Electric Power Company Limited ("Xuzhou Power") (note c) 徐州華潤電力有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB1,058,310,000 Paid-up capital - RMB828,310,000	35%	Operation of a power station
Guangdong Xingning Xingda Power Co., Ltd. 廣東省興寧市興達電力有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB337,500,000	29%	Development of a power station
Hengshui Hengxing Power Generation Company Limited 衡水恒興發電有限責任公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB475,000,000	25%	Operation of a power station
Weishan (China Resources) Coal & Power Development Co., Ltd. 微山華潤煤電開發有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB96,000,000 Paid-up capital - RMB8,053,400	33%	Power station technical consultancy services

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES *(CONT'D)*

Name of associate	Place of registration	Registered and paid-up capital	Attributable equity interest held by the Group	Principal activities
Beijing Bluesky Golden Concord Gas-fired Cogeneration Power Co., Ltd. 北京藍天協鑫燃氣熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB247,100,000 Paid-up capital - RMB152,884,969	25%	Development of a power plant
河南永華能源有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB202,000,000	49%	Logistics of coal

Notes:

(a) Guangdong Guanghope - significant associate

On 23 December 2002, the Company through its wholly-owned subsidiary, China Resources Power Performance Company Limited, acquired for cash consideration from a third party a 82.5% equity interest in Resources Shajiao C Investments Limited ("Resources Shajiao") which holds a 40% interest in Guangdong Guanghope.

Resources Shajiao entered into a joint venture contract and supplemental agreements with Guangdong Province Shajiao (Plant-C) Power Generation Corporation ("Shajiao Power") for the construction, operation and management of the Guangdong Province Shajiao C Power Station in Guangdong Province of the PRC, which are undertaken by Guangdong Guanghope, a co-operative joint venture company established in the PRC. The co-operation period commenced on 15 June 1992 and will expire in June 2016 which is 20 years after the contract completion date of construction of the power station in June 1996. Upon expiry of the co-operation period, all the remaining assets of Guangdong Guanghope will be reverted to the PRC partner without compensation.

Resources Shajiao is entitled to a share of 40% of the profit generated by Guangdong Guanghope after the deduction of a special electricity fund to be distributed to Shajiao Power as specified in the joint venture contracts. The special electricity fund is calculated as to 30% of the net profit generated by Guangdong Guanghope for the initial ten years of the co-operation period and as to 60% of the net profit generated by Guangdong Guanghope for the remaining ten years of the co-operation period. No dividend can be declared and paid out by Guangdong Guanghope until all its syndicated borrowings, shareholders' loan and loan related to early generation profits have been repaid, and registered capital has been repatriated. Resources Shajiao is entitled to share the result of Guangdong Guanghope attributable to the Group of an amount of HK$451,044,000 (2004: HK$599,356,000) for the year ended 31 December 2005.

In January 2005, 1.1% of the issued share capital of Resources Shajiao (representing 0.44% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US$3,000,000.

In December 2005, 12.5% of the issued share capital of Resources Shajiao (representing 5% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US$39,000,000.

The discount on acquisitions amounting to HK$40,412,000 is recognised in income statement and is included in share of results of associates.

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES *(CONT'D)*

Notes: (cont'd)

(a) *Guangdong Guanghope - significant associate* (cont'd)

The extracts of the unaudited management accounts prepared under HKFRSs for the years ended 31 December 2005 and 2004 of Guangdong Guanghope, are as follows:

Balance sheet

	2005 **RMB'000**	2004 RMB'000
Non-current assets	**7,750,326**	8,269,671
Current assets	**1,146,437**	1,408,994
Current liabilities	**(585,497)**	(942,442)
Non-current liabilities	**(1,201,184)**	(717,306)
Shareholders' funds	**7,110,082**	8,018,917

Income statement

	2005 **RMB'000**	2004 RMB'000
Turnover	**4,755,429**	4,767,026
Profit for the year	**1,558,526**	1,607,443

Cash flow statement

	2005 **RMB'000**	2004 RMB'000
Net cash from operating activities	**2,374,646**	2,175,117
Net cash used in investing activities	**(385,376)**	(42,884)
Net cash used in financing activities	**(1,543,095)**	(2,072,291)
Net increase in cash and cash equivalents	**446,175**	59,942

Share of results of Guangdong Guanghope

Pursuant to a legally binding memorandum of understanding (the "MOU") entered into among Resources Shajiao, a subsidiary of the Company, Shajiao Power and Guangdong Province Yudean Group Co., Ltd. dated 26 February 2004, the mandatory tariff reduction imposed by the Guangdong Province Pricing Bureau on Guangdong Guanghope as from 1 July 2002 was restored as if there were no tariff reduction and profit distributable to shareholders is to be calculated according to the terms of the operation and offtake agreement dated 18 December 1992 (as amended) between Guangdong Province Guangdian Group Co., Ltd. (the "Operation and Offtake Agreement") and Guangdong Guanghope and the joint venture agreement dated 4 June 1992 (as amended) between Shajiao Power and Resources Shajiao (the "JV Agreement") to the extent to which the distributable net profits related to Guangdong Guanghope's minimum on grid power output of 10,800,000,000 kWh per year.

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES *(CONT'D)*

Notes: (cont'd)

(b) *Wenzhou Telluride*

The Group owned 100% effective interest in Telluride International Energy Limited Partnership ("Telluride International") which holds 40% interest in Wenzhou Telluride.

Telluride International entered into a joint venture contract with Zhejiang Provincial Electric Power Development Company and Wenzhou Electric Power Investment Company Limited for the construction, operation and management of the Wenzhou Power Station in Zhejiang Province of the PRC, which are undertaken by Wenzhou Telluride, a co-operative joint venture company established in the PRC. The co-operation period shall be approximately 23 years and six months commencing from 25 September 1998. Upon expiry of the co-operation period, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Wenzhou Telluride will be distributed to owners according to respective equity interest ratio and the power generating related assets and other property, plant and equipment will be reverted to the PRC owners without compensation. Telluride International is entitled to share 40% of the operating surplus of Wenzhou Telluride.

At 31 December 2005, Telluride International has pledged its equity interest in Wenzhou Telluride and a bank deposit amounting to HK$37,225,000 (2004: HK$39,492,000) to a bank for securing the bank loans granted to Wenzhou Telluride of approximately HK$413,980,000 (2004: HK$476,883,000).

The extracts of the unaudited management accounts prepared under HKFRSs for the years ended 31 December 2005 and 2004 of Wenzhou Telluride, are as follows:

Balance sheet

	2005 RMB'000	2004 RMB'000
Non-current assets	**2,326,732**	2,453,279
Current assets	**310,926**	385,945
Current liabilities	**(197,658)**	(223,399)
Non-current liabilities	**(1,062,239)**	(1,160,052)
Shareholders' funds	**1,377,761**	1,455,773

Income statement

	2005 RMB'000	2004 RMB'000
Turnover	**1,482,007**	1,543,825
Profit for the year	**309,599**	458,754

Cash flow statement

	2005 RMB'000	2004 RMB'000
Net cash from operating activities	**601,386**	634,571
Net cash (used in) from investing activities	**(33,040)**	96,046
Net cash used in financing activities	**(637,594)**	(795,819)
Net decrease in cash and cash equivalents	**(69,248)**	(65,202)

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES *(CONT'D)*

Notes: (cont'd)

(c) *Xuzhou Power*

On 10 September 2003, the Company acquired a 100% equity interest in China Resources Power Excellence Limited, an investment holding company which holds 35% equity interest in Xuzhou Power from CRH in the form of shareholder's loan. Such shareholder's loan was subsequently capitalised on 17 October 2003.

The extracts of unaudited management accounts prepared under HKFRSs for the years ended 31 December 2005 and 2004 of Xuzhou Power are as follows:

Consolidated balance sheet

	2005 RMB'000	2004 RMB'000
Non-current assets	**2,877,142**	2,914,142
Current assets	**864,908**	871,056
Current liabilities	**(1,593,816)**	(1,752,170)
Non-current liabilities	**(860,000)**	(810,000)
Shareholders' funds	**1,288,234**	1,223,028

Consolidated income statement

	2005 RMB'000	2004 RMB'000
Turnover	**2,181,864**	1,453,508
Profit for the year	**467,863**	387,036

Consolidated cash flow statement

	2005 RMB'000	2004 RMB'000
Net cash from operating activities	**556,105**	254,197
Net cash used in investing activities	**(6,273)**	(634,081)
Net cash (used in) from financing activities	**(523,003)**	390,695
Net increase in cash and cash equivalents	**26,829**	10,811

(d) *The summarised financial information in respect of the Group's remaining associates is set out below:*

	2005 RMB'000	2004 RMB'000
Total assets	**5,364,943**	2,417,360
Total liabilities	**2,659,649**	659,970
Turnover	**1,953,517**	1,015,843
Profit for the year	**395,245**	244,883

For the year ended 31 December 2005

20. INTEREST IN JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Unlisted investment, at cost	—	929,704
Share of post-acquisition profits, net of dividends received	—	174,070
Share of reserves	—	81,335
	—	1,185,109

During the year, the Group's entire interest in Huaneng International Power Development Corporation 華能國際電力開發公司 ("HIPDC") has been disposed to third parties for a consideration of HK$2,452,992,000. On 22 September 2005, the Group entered into an agreement with China Huaneng Group Hong Kong Limited (中國華能集團香港有限公司) ("Huaneng Hong Kong") in relation to the disposal of a 50% interest in the issued share capital of China Resources Power North Achievement Co., Ltd. ("North Achievement"), a wholly owned subsidiary of the Company, and a separate agreement with Bank of China Group Investment Limited ("BOCGI") in relation to the disposal of the remaining 50% interest in the issued share capital of North Achievement. North Achievement owned an indirect and effective 10% interest in HIPDC. Hence, the Group disposed of effective 5% interest in HIPDC to each of Huaneng Hong Kong and BOCGI.

The transaction was completed on 30 September 2005. The resulting gain on disposal was HK$1,071,081,000 and the share of result of HIPDC for the nine months ended 30 September 2005 was HK$194,815,000.

21. GOODWILL

	HK$'000
THE GROUP	
GROSS VALUE	
At 1 January 2004 and 31 December 2004	117,377
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 3)	(11,738)
Arising on acquisition of additional interest of a subsidiary	2,079
At 31 December 2005	107,718
AMORTISATION	
At 1 January 2004	5,869
Amortisation during the year	5,869
As at 31 December 2004	11,738
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 3)	(11,738)
At 31 December 2005	—
CARRYING VALUES	
At 31 December 2005	107,718
At 31 December 2004	105,639

For the year ended 31 December 2005

21. GOODWILL *(CONT'D)*

Until 31 December 2004, goodwill arising on acquisition of subsidiaries had been amortised over the estimated useful life of 20 years.

For the purpose of impairment review, goodwill set out above is allocated to the cash generating units ("CGUs"), each of the two power station operations. The carrying amount of goodwill allocated to the CGUs as at 31 December 2005 is HK$105,639,000 and HK$2,079,000, respectively.

The recoverable amounts of each of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets approved by management using a discount rate of 9%, while the forecast is based on the financial budget which assumes no growth. The value in use calculated by using the discount rate is higher than the carrying amount of the goodwill allocated to the CGUs and accordingly, no impairment loss was considered necessary.

22. NEGATIVE GOODWILL

	HK$'000
THE GROUP	
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	(54,087)
RELEASE TO INCOME	
At 1 January 2004	—
Released during the year	1,352
At 31 December 2004	1,352
CARRYING VALUES	
At 31 December 2004	(52,735)
Derecognised upon the application of HKRFS 3 (note 3)	52,735
At 1 January 2005	—

As explained in note 3, all negative goodwill arising on acquisition prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

For the year ended 31 December 2005

23. INVESTMENT IN AN INVESTEE COMPANY

It represents investment in unlisted equity securities issued by a private entity incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that the fair value cannot be measured reliably as there is no active market information available. The directors of the Company considered that no impairment loss is necessary for the investment.

At the balance sheet, the long-term strategic investment is stated at cost.

24. AMOUNTS DUE FROM ASSOCIATES

THE GROUP

	2005	2004
	HK$'000	HK$'000
Loan to an associate		
Current (note a)	**22,131**	—
Non-current (note b)	**124,930**	—
Dividend receivable from an associate (note c)	**5,264**	82,038
Amounts due from associates (note c)	**3,955**	1,232
	156,280	83,270
Amounts due from associates		
- due within one year	**31,350**	83,270
- due over one year	**124,930**	—
	156,280	83,270

THE COMPANY

	2005	2004
	HK$'000	HK$'000
Amount due from an associate	**6,045**	66

Notes:

(a) *The current loan to an associate is unsecured, repayable on demand and bears fixed interest at 6.12% per annum.*

(b) *The non-current loan to an associate is unsecured, bears interest at the rate set by People's Bank of China for loan of the same maturity plus 10% upward adjustment. In the opinion of the directors, the Group will not demand repayment within the next twelve months. Accordingly, it is classified as non-current loan.*

(c) *The dividend receivable and amounts due from associates are unsecured, non-interest bearing and repayable on demand.*

The directors consider the carrying amounts approximate their fair values.

For the year ended 31 December 2005

25. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$499,000 (2004: HK$62,729,000) have been pledged to secure short-term bank loans and are therefore classified as current assets. The remaining deposits amounting to HK$37,225,000 (2004: nil) have been pledged to secure long-term bank borrowings of an associate.

The deposits carried an average floating interest rate of 2.1%. The pledged bank deposits will be released upon the repayment of the relevant bank borrowings. The fair values of bank deposits at 31 December 2005 approximate to the corresponding carrying amounts.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives under hedge accounting

	THE GROUP AND THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Cash flow hedges - Interest rate swaps	**25,813**	—

Cash flow hedges

The Group uses interest rate swaps to minimise its exposure to interest expenses of its floating-rate Hong Kong Dollar bank borrowings by swapping floating interest rates to fixed interest rates. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

Notional amount	**Maturity**	**Swaps**
HK$600,000,000	20 May 2010	From HIBOR + 0.39% to 4.18%
HK$400,000,000	20 May 2010	From HIBOR + 0.39% to 4.10%

As at 31 December 2005, fair value gains of HK$25,813,000 (2004: nil) from the interest rate swap under cash flow hedge have been deferred in equity and are expected to be released to the income statement when the hedged forecast transactions occur.

The above derivatives are measured at fair value, as calculated by the present value of the estimated future cash flow at each balance sheet date or as determined by independent financial institutions.

27. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Coal	**215,021**	110,176
Fuel oil	**10,613**	23,298
Spare parts and consumables	**65,952**	20,881
	291,586	154,355

At the balance sheet date, all inventories were stated at cost.

For the year ended 31 December 2005

28. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

THE GROUP

Trade receivables are due within 60 days from the date of billing.

The following is an aged analysis of trade receivables included in trade receivables, other receivables and prepayments at the reporting date:

	2005	2004
	HK$'000	HK$'000
0 - 30 days	**859,133**	327,534
31 - 60 days	**155,422**	73,373
Over 60 days	**203**	—
	1,014,758	400,907

The fair value of the Group's trade and other receivables at 31 December 2005 approximates the corresponding carrying amount.

THE COMPANY

The fair value of the Company's other receivables at 31 December 2005 approximates the corresponding carrying amount.

29. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

	2005	2004
	HK$'000	HK$'000
Loan to a minority shareholder of a subsidiary	**81,999**	—
Amount due from a minority shareholder of a subsidiary	**51,306**	—
	133,305	—

The loan to a minority shareholder of a subsidiary is unsecured, repayable within one year and bears fixed interest at 5.22% per annum. The directors consider the carrying amount of the loan to a minority shareholder approximates its fair value.

The amount due from a minority shareholder is unsecured, non-interest bearing and fully settled after the balance sheet date. The directors consider the carrying amount of the amount due from a minority shareholder approximates its fair value.

For the year ended 31 December 2005

30. AMOUNTS DUE FROM GROUP COMPANIES

THE GROUP

	2005 HK$'000	2004 HK$'000
Amounts due from related companies	**21**	18
Amounts due from fellow subsidiaries	**7,434**	133
Amount due from immediate holding company	**2,263**	453
	9,718	604

THE COMPANY

	2005 HK$'000	2004 HK$'000
Amounts due from related companies	**21**	18
Amounts due from fellow subsidiaries	**420**	133
Amount due from immediate holding company	**1,846**	453
Amounts due from subsidiaries	**3,598,400**	2,907,338
	3,600,687	2,907,942

The amounts are unsecured, non-interest bearing and repayable within one year. The directors consider the carrying amounts of the amounts due from group companies approximate their fair values.

31. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

THE GROUP

The following is an aged analysis of trade payables included in trade payables, other payables and accruals at the reporting date:

	2005 HK$'000	2004 HK$'000
0 - 30 days	**76,966**	129,954
61 - 90 days	**6,652**	590
Over 90 days	**5,542**	183
	89,160	130,727

The fair value of the Group's trade and other payables at 31 December 2005 approximates the corresponding carrying amount.

THE COMPANY

The fair value of the Company's other payables as at 31 December 2005 approximates the corresponding carrying amount.

For the year ended 31 December 2005

32. AMOUNTS DUE TO A FELLOW SUBSIDIARY/AN ASSOCIATE

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and repayable on demand. The directors consider the carrying values of the amounts due to a fellow subsidiary/an associate approximate their fair values.

33. AMOUNTS DUE TO/LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

The amounts due to minority shareholders of subsidiaries are unsecured, non-interest bearing and repayable within one year. The directors consider the carrying values of the amounts approximate their fair values.

At 31 December 2004, loans from minority shareholders of subsidiaries were unsecured, non-interesting bearing and fully settled during the year. The directors considered the carrying values of the loan from minority shareholders approximate their fair values.

34. BANK AND OTHER BORROWINGS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Secured bank loans	**3,308,915**	239,991
Unsecured bank loans	**4,810,365**	8,795,606
Unsecured other loans	**—**	23,952
Other loans	**2,925,987**	—
	11,045,267	9,059,549
Carrying amount repayable:		
Within 1 year	**1,983,026**	2,457,679
More than 1 year, but not exceeding 2 years	**824,538**	499,708
More than 2 years, but not exceeding 5 years	**2,900,378**	1,873,903
More than 5 years	**5,337,325**	4,228,259
	11,045,267	9,059,549
Less: Amount due within 1 year shown under current liabilities	**(1,983,026)**	(2,457,679)
Amount due after 1 year	**9,062,241**	6,601,870
The above bank and other loans are supported by:		
Pledge of assets (note)	**3,308,915**	239,991
No guarantee required	**7,736,352**	8,819,558
	11,045,267	9,059,549

The bank borrowings carry fixed interest at a range from 4.491% to 5.544% per annum.

For the year ended 31 December 2005

34. BANK AND OTHER BORROWINGS *(CONT'D)*

During the year, the Group has raised RMB3,000,000,000 (equivalent to approximately HK$2,883,000,000) loans which are lent by CRNC through a bank in PRC. The loan bears interest at 5.09% per annum and is repayable in 2015. During the year ended 31 December 2005, total interest incurred is HK$73,495,000.

The fair value of the Group's bank and other borrowings approximates the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

THE COMPANY

As at 31 December 2005, the bank borrowings of the Company amounted to HK$1,000,000,000 (2004: nil). It is unsecured and no guarantee is required. It bears interest at HIBOR plus 0.39% and is repayable in 2010.

The fair value of the Company's bank borrowings approximates the carrying amount calculated by discounting the future cash flow at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

The Group and the Company's borrowings that are denominated in currencies other than the functional currency, Renminbi, of the relevant entities are set out below:

	THE GROUP		**THE COMPANY**	
	HK$'000	RMB'000	HK$'000	RMB'000
As at 31 December 2005	1,000,000	10,452,932	1,000,000	—
As at 31 December 2004	—	9,645,000	—	—

Note: Certain bank loans are secured by the Group's land use rights and buildings with a carrying values of HK$10,147,000 (2004: HK$9,918,000). In addition, bank loans were secured by the Group's power generating plant and equipment with a carrying value of HK$8,863,274,000 (2004: HK$117,691,000). As at 31 December 2004, certain bank loans were secured by the Group's construction in progress with a carrying value of HK$191,450,000.

At 31 December 2005, the interest rate risk of the Group and the Company's borrowing of HK$1,000,000,000 was hedged using interest rate swap (floating-fixed interest swaps) (see note 26).

35. DEFERRED TAXATION

THE GROUP

	2005	2004
	HK$'000	HK$'000
At 1 January	**4,648**	5,026
Currency realignment	**(164)**	—
Charge to income statement for the year (note 10)	**(11,371)**	(378)
At 31 December	**(6,887)**	4,648

The deferred taxation assets and deferred taxation liabilities represent the tax effect of temporary differences arising as a result of the pre-operating expenses written-off and the differences between accounting depreciation and tax depreciation respectively.

For the year ended 31 December 2005

35. DEFERRED TAXATION *(CONT'D)*

THE GROUP *(cont'd)*

The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2005	2004
	HK$'000	HK$'000
Deferred taxation assets	**5,695**	7,876
Deferred taxation liabilities	**(12,582)**	(3,228)
	(6,887)	4,648

At 31 December 2005, the Group has unused tax losses of HK$64,847,000 (2004: HK$61,246,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

THE COMPANY

At 31 December 2005, the Company has unused tax losses of HK$59,760,000 (2004: HK$58,816,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

36. SHARE CAPITAL

	Number of shares		**Amount**	
	2005	2004	**2005**	2004
	'000	'000	**HK$'000**	HK$'000
Ordinary share of HK$1.00 each				
Authorised:				
Balance at 1 January and 31 December	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Issued and fully paid:				
Balance at 1 January	**3,808,080**	3,808,000	**3,808,080**	3,808,000
Issues of shares				
- upon exercise of share options	**1,964**	80	**1,964**	80
Balance at 31 December	**3,810,044**	3,808,080	**3,810,044**	3,808,080

For the year ended 31 December 2005

37. SHARE OPTION

Pursuant to a resolution in writing passed on 6 October 2003 by the shareholders of the Company, a Pre-IPO Share Option Scheme and a Share Option Scheme have been adopted by the Company.

(a) Pre-IPO Share Option Scheme

On 6 October 2003, the Company granted options to the grantees to subscribe for 167,395,000 shares in the Company at an exercise price of HK$2.80 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 five years. 20% of the share options will be allowed to exercise upon each of the first five anniversary dates.

Movement of options under Pre-IPO Share Option Scheme during the years ended 31 December 2004 and 2005 is as follows:

		Number of options							
	Exercise price HK$	Granted on 6.10.2003	Lapsed or cancelled during the year ended 31.12.2004	Exercised during the year ended 31.12.2004	Outstanding at 31.12.2004	Reclassification during the year ended 31.12.2005	Lapsed or cancelled during the year ended 31.12.2005	Exercised during the year ended 31.12.2005	Outstanding at 31.12.2005
Directors of the Company	2.80	17,500,000	—	—	17,500,000	(1,000,000)	—	—	16,500,000
Directors of CRH	2.80	3,600,000	—	—	3,600,000	—	—	(470,000)	3,130,000
Employees of the Company	2.80	101,575,000	(1,000,000)	—	100,575,000	—	—	(140,000)	100,435,000
Employees of CRH and its subsidiaries	2.80	44,610,000	—	(80,000)	44,530,000	1,000,000	(104,000)	(1,354,000)	44,072,000
		167,285,000	(1,000,000)	(80,000)	166,205,000	—	(104,000)	(1,964,000)	164,137,000

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help to motivate the participants to optimise their performance and efficiency and retain participants whose contributions are important to the long-term growth and profitability of the Group.

(b) Share Option Scheme

Pursuant to the Share Option Scheme approved by the resolution of the shareholders of the Company dated 6 October 2003, the Board may, at its absolute discretion, offer any employee, director, consultant or advisor of (i) CRH and its subsidiaries; and (ii) the Company, its subsidiaries and associated companies, option to subscribe for the Company's shares, for the promotion of success of the business of the Group. The exercise price of the share option will be determined at the highest of (1) the closing price of the Company's shares on the Stock Exchange on the date of grant of the option; (2) the average closing price of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant; and (3) the nominal value of the shares.

Options granted are exercisable within a period of ten years within which there is a total vesting period of five years. 20% of the share options will be allowed to exercise on each of the first five anniversary dates.

For the year ended 31 December 2005

37. SHARE OPTION *(CONT'D)*

(b) Share Option Scheme *(cont'd)*

Movement of options granted under the Share Option Scheme in 2004 and 2005 is as follows:

	Exercise price HK$	Date of grant	Number of options: Outstanding at 1.1.2004	Granted during the year ended 31.12.2004	Outstanding at 1.1.2005	Granted during the year ended 31.12.2005	Lapsed or cancelled during the year ended 31.12.2005	Outstanding at 31.12.2005
Directors of CRH and its subsidiaries	3.990	18.3.2005	—	—	—	4,400,000	—	4,400,000
Directors of the Company	3.990	18.3.2005	—	—	—	4,200,000	—	4,200,000
Employees of CRH and its subsidiaries	4.250	1.9.2004	—	4,300,000	4,300,000	—	—	4,300,000
	3.990	18.3.2005	—	—	—	4,100,000	—	4,100,000
	4.725	18.11.2005	—	—	—	9,750,000	—	9,750,000
Employees of the Company	4.250	1.9.2004	—	23,600,000	23,600,000	—	(400,000)	23,200,000
	3.990	18.3.2005	—	—	—	22,300,000	—	22,300,000
	4.725	18.11.2005	—	—	—	52,050,000	—	52,050,000
			—	27,900,000	27,900,000	96,800,000	(400,000)	124,300,000

Total consideration received during the year for the options granted under the Share Option Scheme amounted to HK$333.

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 Share-based Payment to account for equity-settled share-based payment transactions. In accordance with HKFRS 2, fair value of share options granted to directors, employees and other participants determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current year, an amount of share option expense of HK$106,256,000 (2004: HK$112,121,000) has been recognised in the income statement, with a corresponding adjustment made in the Group's share option reserve.

The weighted average closing price of the Company's shares at dates on which the options were exercised during the year was HK$4.45.

The weighted average closing prices of the Company's shares at the dates immediately before the date on which the options were exercised during the year was HK$4.46.

The fair value of the options was determined at the date of grant using the Black-Scholes option pricing model, taken into account the terms and conditions upon which the share options were granted.

For the year ended 31 December 2005

37. SHARE OPTION *(CONT'D)*

(b) Share Option Scheme *(cont'd)*

The following assumptions were used to calculate the fair values of share options granted in both years.

	18.11.2005	18.3.2005	1.9.2004
Weighted average share price	HK$4.72	HK$3.85	HK$4.25
Exercise price	HK$4.725	HK$3.99	HK$4.25
Expected life of options	7.5 years	7.5 years	7.5 years
Expected volatility	31.44%	46.21%	54.63%
Expected dividend yield	1.93%	2.23%	0.59%
Risk free rate	4.33%	4.03%	3.18%
Estimated fair value of option at grant date	HK$1.61	HK$1.62	HK$2.39
Closing share price immediately before date of grant	HK$4.68	HK$3.88	HK$4.12

Notes:

(i) *The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over certain periods immediately preceding the grant date.*

(ii) *The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.*

(iii) *As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.*

38. RESERVES

THE GROUP

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on pages 83 and 84.

General reserve is part of the shareholders' funds and comprises statutory surplus reserve, enterprise expansion fund and reserve fund of subsidiaries, associates and a jointly controlled entity in the PRC. The general reserve shall be used for making up losses, capitalisation into capital and expansion of the operation and production of the respective subsidiaries, associates and jointly controlled entity.

The special 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 share capital of subsidiaries acquired pursuant to a group reorganisation for the purpose of the preparation of the Company's share listing on the Stock Exchange.

At 31 December 2005, the retained profits of the Group include HK$471,904,000 (2004: HK$966,785,000) retained by associates of the Group.

At 31 December 2004, the retained profits of the Group included HK$174,070,000 retained by jointly controlled entity of the Group. The jointly controlled entity was disposed during 2005.

For the year ended 31 December 2005

38. RESERVES *(CONT'D)*

	Share premium HK$'000	Merger reserve HK$'000	Hedging reserve HK$'000	Share option reserve HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2004	4,468,992	82,309	—	—	(30,202)	4,521,099
Effect of changes in accounting policies	—	—	—	28,622	(28,622)	—
As restated	4,468,992	82,309	—	28,622	(58,824)	4,521,099
Profit for the year	—	—	—	—	311,794	311,794
Shares issued upon exercise of options	144	—	—	—	—	144
Recognition of share based payments	—	—	—	112,121	—	112,121
Transfer of share option reserves on exercise of share options	121	—	—	(121)	—	—
Dividend paid	—	—	—	—	(95,200)	(95,200)
At 31 December 2004	4,469,257	82,309	—	140,622	157,770	4,849,958
Profit for the year	—	—	—	—	3,170,061	3,170,061
Shares issued upon exercise of share options	3,535	—	—	—	—	3,535
Recognition of share based payments	—	—	—	106,256	—	106,256
Transfer of share option reserves on exercise of share option	2,961	—	—	(2,961)	—	—
Gain on cash flow hedges	—	—	25,813	—	—	25,813
Dividend paid	—	—	—	—	(346,602)	(346,602)
At 31 December 2005	4,475,753	82,309	25,813	243,917	2,981,229	7,809,021

The merger reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal amount of the Company's shares issued for the acquisition.

For the year ended 31 December 2005

39. ACQUISITION OF SUBSIDIARY/BUSINESS

During the year, the Group also acquired 100% of the issued share capital of Eastern Cogen Investment Limited ("Eastern Cogen"), which holds 25% interest in Beijing Bluesky Golden Concord Gas-fired Cogeneration Power Co., Ltd. (北京藍天協鑫燃氣熱電有限公司) ("Beijing Bluesky"), for a consideration of HK$30,789,000.

During the year ended 31 December 2004, the Group acquired 100% of the issued share capital of S.T.K. Technology Co., Ltd, which holds 29% interest in Guangdong Xingning Xingda Power Co., Ltd., for a consideration of HK$232,187,000.

	2005 **HK$'000**	2004 HK$'000
NET ASSETS/BUSINESS ACQUIRED		
Interests in associates	**12,480**	91,924
Goodwill attributable to an associate (note)	**18,310**	140,263
Total consideration	**30,790**	232,187
SATISFIED BY		
Cash	**30,790**	232,187
NET CASH OUTFLOW ARISING ON ACQUISITIONS		
Cash consideration	**30,790**	232,187
Balance of consideration payable	**(22,790)**	(52,187)
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries/business	**8,000**	180,000

Note: Goodwill arising from the acquisition of a subsidiary holding interest in an associate is attributable to the anticipated future operating synergies from the acquisition of the associate.

There is no profit or loss from Eastern Cogen during the year.

40. MAJOR NON CASH TRANSACTIONS

During the year ended 31 December 2005, one of the minority shareholders of a subsidiary has contributed capital amounting to HK$220,515,000. The contribution was in the form of property, plant and equipment and other assets and liabilities. Details of the assets and liabilities are as follows:

	HK$'000
Property, plant and equipment	36,341
Prepaid lease payments	133,112
Trade and other receivables	174,801
Trade and other payables	(123,739)
Net assets contributed	220,515

For the year ended 31 December 2005

41. OPERATING LEASE COMMITMENTS

THE GROUP AND THE COMPANY AS LESSEE

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005		2004	
	Land and buildings HK$'000	**Other assets HK$'000**	Land and buildings HK$'000	Other assets HK$'000
THE GROUP				
Within one year	**4,947**	**175**	974	129
In the second to fifth year inclusive	**3,899**	**515**	240	515
Over five years	**3**	**2,171**	5	2,299
	8,849	**2,861**	1,219	2,943

Operating lease payments represent rentals payable by the Group for its office properties and other assets which represented motor vehicles, railway and related facilities. Leases are negotiated for an average term of 2 to 25 years and rentals are fixed for an average of 1 to 2 years.

	2005		2004	
	Land and buildings HK$'000	**Other assets HK$'000**	Land and buildings HK$'000	Other assets HK$'000
THE COMPANY				
Within one year	**1,398**	**—**	476	—
In the second to fifth year inclusive	**893**	**—**	—	—
	2,291	**—**	476	—

Operating lease payments represent rentals payable by the Company for its office properties. Leases are negotiated and rentals are fixed for an average term of 2 years.

For the year ended 31 December 2005

42. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
THE GROUP		
Capital expenditure in respect of the acquisition of construction in progress		
- Authorised but not contracted for	**19,789**	15,719
- Contracted for but not provided in the financial statements	**7,104,100**	4,707,443
	7,123,889	4,723,162
Capital expenditure in respect of the acquisition of investment in an investee company	**76,880**	—
	7,200,769	4,723,162
THE COMPANY		
Unpaid capital contribution to subsidiaries	**1,501,183**	503,802

43. CONTINGENT LIABILITIES

	2005 HK$'000	2004 HK$'000
THE COMPANY		
Guarantees given to banks for credit facilities granted to subsidiaries (to the extent of facilities utilised)	**2,385,779**	5,509,370

44. RELATED PARTY TRANSACTIONS

The Company entered into two trademark licence agreements dated 17 October 2003 with CRNC and CRH, respectively, under which the Company was granted irrevocable, royalty free and non-exclusive licences to use certain trade marks and the rights to sub-license the same to any member of the Group in consideration of a nominal amount of HK$1 each.

A deed of option dated 17 October 2003 was executed by CRH in favour of the Company, under which the Company was granted options, in consideration of a nominal amount of HK$1, to acquire from CRH its entire (i) 48% interest in Dongguan Houjie Power Company Limited, (ii) 65% interest in Yunnan China Resources Power (Honghe) Company Limited and (iii) 55% interest in Fuyang China Resources Power Company Limited. The Company may exercise its rights to acquire each of these power plants within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of each power plant which will be shown in the financial statements of CRH or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which each option is exercised.

For the year ended 31 December 2005

44. RELATED PARTY TRANSACTIONS *(CONT'D)*

A deed of option dated 17 October 2003 was executed by CRNC in favour of the Company, under which the Company was granted an option, in consideration of a nominal amount of HK$1, to acquire all of CRNC's interest in 25% of the entire registered capital of Hengshui Hengxing Power Generation Co., Ltd. ("Hengfeng Phase II"). Subject to the approval of the shareholders, the Company may exercise its right of acquisition within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of Hengfeng Phase II which will be shown in the financial statements of CRNC or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which the option is exercised. The option was exercised and the acquisition of Hengfeng Phase II was completed in January 2005.

(a) In addition, the Group entered into the following significant transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	**2005 HK$'000**	2004 HK$'000
China Resources Property Management Co., Ltd.	Fellow subsidiary	Rental expenses paid	**1,416**	1,159
China Resources (Shenzhen) Co., Ltd.	Fellow subsidiary	Rental expenses paid	**2,857**	—
Wenzhou Telluride	Associate	Service income received	**—**	3,561
Guangdong Guanghope	Associate	Reimbursement of repair and maintenance fee to Guangdong Guanghope	**6,222**	6,420
Beijing Bluesky	Associate	Interest income received	**906**	—
Guangdong Xinging Xingda Power Co., Ltd.	Associate	Interest income received	**2,168**	—
CRH	Immediate holding company	Management fee income received	**2,000**	2,475
CRNC	Ultimate holding company	Consideration paid for acquisition of interest in an associate	**61,315**	—
		Management fee income received	**—**	238
		Interest expense payable in respect of on-lent loans	**73,495**	—
China Resources Power (Jiangsu) Investment Co., Ltd.	Fellow subsidiary	Disposal of interest in investee company	**6,996**	—

For the year ended 31 December 2005

44. RELATED PARTY TRANSACTIONS*(CONT'D)*

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 12.

Note: Saved as the above, the Group also had balances with related parties at the balance sheet date which are set out in notes 24, 29, 30, 32 and 33.

(b) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CRNC which is controlled by the PRC government. Apart from the transactions with CRNC, CRH, and fellow subsidiaries disclosed in (a) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

The Company constructs and operates power plants in the PRC and sells electricity to the power grid companies which are also state-controlled entities in the PRC. In addition, the Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those transactions, the Directors are of the opinion that separate disclosure on these transactions and balances would not be meaningful.