



華電國際電力股份有限公司

HUADIAN POWER INTERNATIONAL CORPORATION LIMITED

(Stock code : 1071)



2006 Interim Report

The board of directors (the “Board”) of Huadian Power International Corporation Limited (the “Company”) hereby presents the unaudited consolidated interim financial results of the Company, its subsidiaries and jointly controlled entity (the “Group”) for the six months ended 30 June 2006 (the “Period”), as prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Although the Group’s interim financial report for the six months ended 30 June 2006 was unaudited, it has been reviewed by KPMG, Certified Public Accountants and the auditors of the Company, in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by Hong Kong Institute of Certified Public Accountants. KPMG’s unmodified independent review report to the Board is set out on page 38. The Company’s Audit Committee has also reviewed the Group’s 2006 interim report and its relevant financial information.

INTERIM RESULTS AND INTERIM DIVIDEND

During the Period, profit after taxation attributable to equity shareholders of the Company amounted to approximately RMB536 million, representing an increase of approximately 14.64% over the corresponding period in 2005. Earnings per share were approximately RMB0.089.

The Board of the Company decided not to declare any interim dividend for the six months ended 30 June 2006.

BUSINESS REVIEW

Power generation

During the Period, power generated by of the Group, on the same consolidation basis as that of the financial statement, amounted to 24.86 million MWh, representing an increase of approximately 8.91% over the corresponding period in 2005. The average utilization hours of the power generation facilities of the Group were 2,714 hours, representing a decrease of 77 hours over the same period in 2005.

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The Group is one of the largest listed power-generating group companies in the PRC. As at 30 June 2006, the total installed capacity controlled and invested by the Group and the Company's total interested installed capacity amounted to 10,967.2MW and 8,601.4MW, respectively. As at the date of this report (25 August 2006), the total installed capacity controlled and invested by the Group and the Company's total interested installed capacity amounted to 11,567.2MW and 9,007.6MW respectively. The details are set out as follows:

Power Plants/ Companies	Installed Capacity (MW) (as at the date of this report)	Equity Interest	Generating Units	Notes
Zouxian Plant	2,540	100%	2 x 600MW + 4 x 335MW	2 x 1,000MW generating units under construction
Shiliquan Plant	1,285	100%	2 x 300MW + 4 x 140MW + 1 x 125MW	
Laicheng Plant	1,200	100%	4 x 300MW	
Huadian Weifang Power Generation Company Limited ("Weifang Company") (Note1)	660	45%	2 x 330MW	2 x 670MW generating units under construction
Huadian Qingdao Power Company Limited ("Qingdao Company") (Note2)	1,260	55%	4 x 300MW + 60MW	
Huadian Zibo Power Company Limited ("Zibo Company")	467	100%	2 x 145MW + 2 x 88.5MW	
Huadian Zhangqiu Power Company Limited ("Zhangqiu Company") (Note2 / Note3)	590	80.41%	1 x 300MW + 2 x 145MW	1 x 300MW generating unit under construction

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Power Plants/ Companies	Installed Capacity (MW) (as at the date of this report)	Equity Interest	Generating Units	Notes
Huadian Tengzhou Xinyuan Power Company Limited ("Tengzhou Company") (Note3)	333	54.49%	2 x 150MW + 1 x 33MW	2 x 315MW generating units under construction
Sichuan Guangan Power Generation Company Limited ("Guangan Company")	1,200	80%	4 x 300MW	2 x 600MW generating units under construction
Anhui Huadian Suzhou Power Generation Company Limited ("Suzhou Company")	—	97%	—	2 x 600MW generating units under construction
Huadian Xinxiang Power Generation Company Limited ("Xinxiang Company")	—	90%	—	2 x 660MW generating units under construction
Ningxia Zhongning Power Company Limited ("Zhongning Company") (Note4)	660	50%	2 x 330MW	
Huadian Ningxia Lingwu Power Generation Company Limited ("Lingwu Company") (Note5)	—	65%	—	2 x 600MW generating units under construction
Ningxia Power Generation (Group) Company Limited ("Ningxia Power Company")	1,432.2	31.11%	4 x 330MW + 112.2MW	112.2MW wind power, 4 x 330MW thermal power

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Power Plants/ Companies	Installed Capacity (MW) (as at the date of this report)	Equity Interest	Generating Units	Notes
Anhui Chizhou Jiu Hua Power Generation Company Limited ("Chizhou Company")	600	40%	2 x 300MW	
Sichuan Luzhou Chuannan Power Generation Company Limited ("Luzhou Company")	—	40%	—	2 x 600MW generating units under construction
Total installed capacity controlled and invested (Note6)	<u>11,567.2</u>			
Total interested installed capacity (Note7)	<u>9,007.6</u>			

Note 1: Upon the completion of capital increase and change of business registration procedures in January 2006, the Company held 45% equity interest in and obtained the power to govern the financial and operating policies of Weifang Company. As of January 2006, Weifang Company was accounted for 100% instead of the previous 30% in the consolidated financial statements.

Note 2: The second 300MW generating unit of Qingdao Company Phase II Project and the first 300MW generating unit of Zhangqiu Company Phase II Project have each completed 168 hours trial operation in full load capacity required by the State and commenced commercial operations on 9 July 2006 and 14 July 2006 respectively.

Note 3: The expansion project of two 315MW generating units of Tengzhou Company Phase II Project and the expansion project of two 300MW generating units of Zhangqiu Company Phase II Project were approved by the National Development and Reform Commission (the "NDRC") in April and June 2006 respectively.

Note 4: Zhongning Company, formerly known as Ningxia Yinglite Zhongning Power Company Limited, was renamed as Ningxia Zhongning Power Company Limited upon the change of business registration in June 2006.

Note 5: In February 2006, Lingwu Company was established in which the Company held 65% equity interest, and was included into the Group's consolidated financial statement since its incorporation.

Note 6: The aggregate total installed capacities of the Company, its subsidiaries, jointly controlled entity and associates, of which the capacity of Ningxia Power Company was aggregated by excluding the capacity of 660MW of Zhongning Company, a jointly controlled entity with 50% equity interest held by Ningxia Power Company.

Note 7: The aggregate proportionate installed capacities of the Company and companies controlled and invested by the Company, determined based on the respective percentage equity interest held by the Company, of which the interested capacity of Ningxia Power Company of 1,092MW was 31.11% included, representing the Company's equity interest in Ningxia Power Company.

During the Period, the operation safety of the Group's generating units maintained at a safe and stable level and had achieved the 100-day safety record for 16 times. Plants managed by the Group such as Tengzhou Company had recorded continuous safe production over 3,000 days; Zouxian Plant, Laicheng Plant, Guangan Company, Qingdao Company, Weifang Company and Zibo Company had recorded continuous safe production for over 2,000 days; and Zhangqiu Company had recorded continuous safe production for over 1,000 days.

In June 2006, a total of 317 generating units participated in the 35th Large-scale Thermal Power Units Competition of the PRC for the Year 2005 (with unit capacity of 300MW and above). Generating units were assessed in accordance with their performance in operating efficiency, safe operating period and production rate. Awards were given to 69 generating units in the competition, representing an overall prize winning rate of 21.8%. The Group participated in the competition with 20 generating units of 300MW or 600MW, and 9 of them won awards, representing a prize winning rate of 45%. In the competition, No.5 unit and No.6 unit of Zouxian Plant won the first-class award and third-class award respectively for the 600MW generating units category; No.3 unit of Zouxian Plant, No.2 unit of Qingdao Company and No. 3 unit of Laicheng Plant won the first-class awards respectively under the category of 300MW generating units; No.3 and No.4 units of Guangan Company won the second-class awards under the category of 300MW generating units; and No.2 unit of Weifang Company, No.6 unit of Shiliquan Plant and No.1 unit of Qingdao Company won the third-class awards respectively under the 300MW generating units category.

Major operating statistics

The table below sets out the major operating statistics of the Group's power plants during the first half of 2006:

Items	Zouxian Plant	Shilliquan Plant	Laicheng Plant	Qingdao Company	Weifang Company	Zibo Company	Zhangqiu Company	Tengzhou Company	Guangan Company	Zhongning Company	Total
Interest owned (%)	100	100	100	55	45	100	80.41	54.49	80	50	—
Installed capacity (MW)	2,540	1,285	1,200	960	660	467	290	333	1,200	660	9,595
Average utilization hours	2,579	2,704	2,626	2,693	2,482	2,715	2,679	2,842	2,738	3,587	2,714
Total amount of electricity generated (00'million kWh)	65.5	34.7	31.5	25.8	16.4	12.7	7.8	9.5	32.9	23.7	248.6
Total amount of electricity supplied (00'million kWh)	62.1	32.5	29.8	24.0	15.4	11.1	7.2	8.8	30.6	22.5	232.7
Equivalent availability factor (%)	93.92	95.08	93.59	93.29	85.28	87.49	92.68	97.29	89.77	92.17	91.29
Capacity factor (%)	59.36	62.25	60.45	61.99	57.13	62.51	61.67	65.41	63.04	82.57	61.84
Equivalent forced suspension rate (%)	0.03	0.00	0.00	1.43	0.00	2.24	0.00	0.00	1.28	3.56	0.70
Electricity supplied coal consumption (g/kWh)	332.4	356.1	339.4	344.2	347.0	371.0	365.2	365.7	342.7	348.1	345.2

Note:

For the total of the Group, except for electricity generated by Zhongning Company which was accounted for based on the Company's 50% equity interest in the plant, electricity generated by the other power plants and companies under the Group were 100% accounted for. In the first half of 2005, Weifang Company was a jointly controlled entity of the Company which was accounted for based on the Company's 30% proportionate equity interest in the plant, while Zhongning Company was an associate of the Company and hence its investment held by the Company had not been accounted for in the total of the Group.

Infrastructure construction projects and future development projects

All of the Group's projects under construction have been progressing smoothly as scheduled. To date, two new generating units of the Group have commenced commercial operations in 2006. The second 300MW generating unit of Qingdao Company Phase II Project was completed and commenced commercial operations on 9 July 2006. The first 300MW generating unit of Zhangqiu Company Phase II Project was completed and commenced commercial operations on 14 July 2006.

1. Construction in progress

To date, the Group's projects under construction include: two 1,000MW generating units of Zouxian Plant Phase IV Project, two 670MW generating units of Weifang Company Phase II Project, one 300MW generating unit of Zhangqiu Company Phase II Project, two 315MW heat and electricity co-generating units of Tengzhou Company Phase II Project, two 600MW generating units of Guangan Company Phase III Project, two 600MW generating units of Lingwu Company, two 600MW generating units of Suzhou Company Phase I Project, two 660MW generating units of Xinxiang Company Phase I Project and two 600MW generating units of Luzhou Company. The above generating units are expected to be put into operation successively from the second half of 2006 to 2008.

2. Preliminary projects

The preliminary projects currently under development by the Group include: four 220MW hydropower stations in Sichuan Daduhe Luding Hydropower Station which were granted rights of development and the Group actively seeks to obtain development rights for other hydropower projects in Daduhe River Basin; proactively participated in the tender for license of wind power generation in China and was granted development rights for wind power generation projects in Binhai of Jiangsu and Jimo of Qingdao, and entered into agreements with local authorities of Shandong, Hebei, Liaoning, Ningxia and Inner Mongolia to develop wind power generation in the regions. With regards to thermal power reserves exploration projects, the Group is actively exploring power source reserves in Shandong, Anhui, Ningxia and Henan.

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomy and demand on electricity

In the first half of 2006, the gross domestic product (“GDP”) of the PRC amounted to RMB9,144.3 billion, representing an increase of 10.9% over the corresponding period in 2005 determined based on comparable prices. Power consumption of the whole society totalled 1,311.1 million MWh, representing an increase of 12.89% over the corresponding period in 2005, of which the consumption of the primary, secondary and tertiary industries registered an increase of 9.31%, 13.28% and 10.39% over the same period of last year respectively. Power consumption of urban and rural residents grew by 13.43%.

Currently, the Company’s power generating units in operation or under construction are located in Shandong, Sichuan, Ningxia, Anhui and Henan Provinces / Autonomous Region with fast-growing economy and considerable GDP growth in recent years. Based on comparable prices, the GDP growth rates of Shandong, Sichuan, Anhui and Henan Provinces in the first half of 2006 reached 15.3%, 13.3%, 11.9% and 14.0% respectively. Their GDP growth rates are higher than the national average by 4.4, 2.4, 1.0 and 3.1 percentage points, respectively. The GDP growth rate of Ningxia Hui Autonomous Region was 10.6%, which was slightly lower than the national average. Power consumption of the whole society in Shandong Province increased by 16.59%. In line with the GDP growth, power demands in other regions increased at a relatively rapid rate.

Turnover and profit

During the Period, the total volume of electricity sold by the Group to the power grids was 23.27 million MWh, representing an increase of 8.87% over the same period of last year. The increase was mainly due to a growth in the volume of power generation by newly installed generating units, a change in the accounting treatment of Weifang Company from the previous 30% proportionate consolidation method to 100% consolidation method and adopted 50% proportionate consolidation method to account for Zhongning Company since 2006 (the “Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis”. For details, please refer to Significant Events (3)). During the Period, the turnover of the Group amounted to approximately RMB7,116 million, representing an increase of approximately 11.20% over the same period in 2005. This was mainly due to increase in the volume of electricity generated and the average on-grid electricity tariff increased by approximately 2.16% or RMB7.40/MWh (including value-added tax). Revenue from the sale of electricity amounted to approximately RMB6,956 million, representing an increase of 11.21% over the same period in 2005. Revenue from sale of heat amounted to approximately RMB160 million, representing an increase of 10.54% over the same period in 2005.

The Group's operating profit during the Period amounted to approximately RMB1,091 million, representing an increase of approximately 14.71% over the same period in 2005. Profit after taxation attributable to equity shareholders of the Company amounted to approximately RMB536 million, representing an increase of approximately 14.64% over the corresponding period of last year. Earnings per share were approximately RMB0.089 and net assets value per share (excluding minority interests) amounted to approximately RMB2.13.

Operating expenses

During the Period, the operating expenses of the Group amounted to approximately RMB6,025 million, representing an increase of about 10.59% when compared with the corresponding period of last year, attributable to the growth in the volume of power generation and the Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis.

The major operating expense of the Group was the coal costs. The coal costs of the Group during the Period was approximately RMB3,854 million, representing an increase of 6.96% over the same period in 2005, and the percentage of growth was lower than that in the volume of electricity generation. The unit coal cost of the Group was approximately RMB159.54/MWh, representing a decrease of approximately 1.59% over the same period of last year.

During the Period, depreciation and amortization expenses of the Group amounted to RMB934 million, representing an increase of approximately RMB126 million over the same period of last year. This was mainly due to an increase of the Group's depreciation arising from the additional assets of new generating units being put into operation and Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis.

During the Period, the Group had undertaken a total of 5 major overhauls and 14 minor overhauls for its generating units, representing a planned overhaul rate of 6.91%. Major overhaul expenses of the Group amounted to approximately RMB138 million, representing a decrease of approximately RMB5.30 million over the same period of last year. The decrease was mainly attributable to the decreased number of generating units undertaken major overhauls over the corresponding period of last year.

During the Period, repairs and maintenance expenses of the Group amounted to approximately RMB69.18 million, representing an increase of approximately RMB2.68 million, or 4.03%, over the same period of last year. However, the percentage of growth in repairs and maintenance expenses was relatively lower than that in power generation capacity and power generation volume under the implementation of cost control measures.

During the Period, personnel costs of the Group amounted to approximately RMB550 million, representing an increase of approximately RMB118 million, or 27.33%, over the same period of last year. This was mainly due to the Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis.

During the Period, administrative expenses of the Group amounted to approximately RMB249 million, representing an increase of approximately RMB35.16 million compared with the same period of last year. This was mainly due to the increase in environmental protection charges and the Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis.

During the Period, other operating expenses of the Group amounted to approximately RMB144 million, representing an increase of RMB23.44 million over the same period of last year. This was mainly due to the surge in fuel oil prices and increase in water expenses for power generation resulting from increased volume of power generation.

Finance costs

During the Period, net finance costs of the Group amounted to approximately RMB253 million, representing an increase of approximately 7.08% when compared with the corresponding period of last year, of which interest expenses amounted to RMB291 million, representing an increase of approximately 8.28% when compared with the corresponding period of last year. This was mainly attributable to the increase in loan interests expenses after the new generating unit of Qingdao Company was put into operation as well as the Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis.

Charges of assets

As at 30 June 2006, the Company's subsidiary — Guangan Company, and jointly controlled entity — Zhongning Company, have charged their income stream in respect of the sale of electricity to banks as security for bank loans amounting to RMB2,521 million.

Indebtedness

As at 30 June 2006, the borrowings of the Group amounted to approximately RMB24,495 million, of which loans denominated in US dollars amounted to approximately US\$197 million. The gearing ratio (that is total liabilities / total assets) was 65.46%. All borrowings of the Group were mainly subject to floating interest rates, among which short-term borrowings and long-term borrowings due within one year amounted to approximately RMB10,264 million and long-term borrowings amounted to RMB14,231 million.

Commitments and contingent liabilities

As at 30 June 2006, the Group had capital commitment of RMB26,256 million, which was primarily the expenses relating to construction and external investment.

As at 30 June 2006, the jointly controlled entity of the Company, Zhongning Company provided guarantees to banks for loans granted to an associate of the Company, Ningxia Power Company amounting to RMB42.5 million. The subsidiary of the Company, Guangan Company provided guarantees to banks for loans granted to an associate of the Company, Sichuan Huayingshan Longtan Coal Company Limited amounting to RMB68.9 million. Except for the above two guarantees, the Group did not have any other material contingent liabilities.

Capital expenditure

During the period, the capital expenditure of the Group was approximately RMB5,920 million, which was mainly used to finance construction materials and work-in-progress expenses.

Cash and cash equivalents

As at 30 June 2006, cash and cash equivalents owned by the Group amounted to approximately RMB735 million. Cash and cash equivalents were mainly denominated in RMB.

Save as the information disclosed herein, information in respect of the Group's other matters as set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from that included in the Company's 2005 annual report.

BUSINESS PURSUITS

In 2006, the first year of the "11th Five-Year" Plan, the PRC will embark on a series of new strategic initiatives for national economy and social development during the "11th Five-Year" period. The PRC government has clearly indicated that it would lead the economy and the society by scientific means. On such basis, the PRC government strives to establish a harmonious society; to develop a cyclical economy; to expedite the transformation of the mode of economic growth; and pursue an energy-saving and environmental-friendly society. As for power generating enterprises, the steady growth of the PRC economy will lay a strong foundation for increasing demand for electricity power.

The major objectives of the Group in the second half of 2006 are as follows:

1. To ensure safe and stable operation of the Group's power plants, to achieve the Group's operational targets for 2006, to control costs strictly and maintain the Group's power plants in leading position in various technological and economic performance indicators within the industry.
2. To ensure smooth and effectively-controlled construction in progress in terms of, construction safety, quality, speed and pricing, to commence commercial operations of the first 670MW generating unit of Weifang Company Phase II Project, the second 300MW generating unit of Zhangqiu Company Phase II Project and the first 315MW generating unit of Tengzhou Company Phase II Project within the year of 2006.
3. To actively pursue the Group's preliminary projects, further optimize power source structure and regional structure, and actively explore new energy projects to realize a diversified power generation structure focusing on thermal power and supplemented by other power generating sources including hydropower, wind power and biomass energy power generation.

4. To continue to make use of the edge of China Huadian Corporation's ("Huadian Corporation") power source exploration projects across the PRC; to compete for the exploration and establishment of an increasing number of new projects and to speed up the Group's power generation business in the entire PRC.
5. To strengthen control on coal cost, continue to strengthen long-term strategic partnership with coal mines to improve coal quality and secure coal supply.
6. To adhere to low cost strategies and achieve further increase in the Company's profitability.
7. To actively explore various debt financing channels so as to cut down finance costs for future financial needs as a result of the accelerating development of the Group.
8. To introduce innovative human resources management system so as to improve the overall quality of the Group's management.

SIGNIFICANT EVENTS

(1) Share Reform

Pursuant to the "Guidelines for Promoting the Reform and Opening-up and Sustained Development of the Capital Market" promulgated by the State Council of the PRC and the provisions of relevant regulations promulgated by China Securities Regulatory Commission ("CSRC"), the Company published the "Indicative Announcement in Relation to Share Reform" on 12 June 2006 and the shares of the Company were suspended from trading for implementation of Share Reform; the "Announcement on Share Reform Proposal" was published on 15 June 2006; the "Announcement on Revised Share Reform Proposal" was published on 23 June 2006; the "Share Reform Proposal approved by State-owned Assets Supervision and Administration Commission" was published on 5 July 2006. On 10 July 2006, the Company convened the Relevant Shareholders' Meeting of A Share Market in relation to the Share Reform to approve the Share Reform Proposal of the Company, and the "Announcement on the Results of Relevant Shareholders' Meeting in Relation to Share Reform" was published on the following day; the "Share Reform Proposal Approved by the Ministry of Commerce" was published on 20 July 2006. On 26 July 2006, the Company published the "Announcement on Implementation of Share Reform Proposal". The trading in shares of the Company was resumed on 1 August 2006 and its short name was "G Huadiandian".

The holder of circulating A shares of the Company whose name appeared on the register of members on 28 July 2006 was offered 3 shares as a consideration by holders of non-circulating shares for every 10 circulating A shares held by it. The original non-circulating shares held by the holder of non-circulating shares of the Company were granted the status of listing from 1 August 2006. However, there is currently no real circulation of shares due to the trading moratorium.

Other than statutory undertakings, Huadian Corporation also made special undertakings as follows: (1) Huadian Corporation will not engage in the trading of the non-circulating shares held by it within 36 months from the day of granting listing status of non-circulating shares of the Company. Moreover, Huadian Corporation will also comply with the same undertakings for its 196,000,000 placing A Shares and the 58,800,000 shares offered to it under the Share Reform. (2) Huadian Corporation will increase its holding of the Company's circulating A shares at a right time within two months after the implementation of the Share Reform Proposal of the Company. The amount contributed will not be more than RMB300 million and the number of shares to be acquired by Huadian Corporation will not be more than 120,000,000 shares. Huadian Corporation will not sell the acquired shares and will duly discharge the obligation of relevant information disclosure during the period of the acquisition of the acquired social public shares of the Company and within 6 months after the completion of such acquisition. (3) upon the official issuing and implementation of the relevant regulations in relation to the incentive plan for the management of listed companies by the State, Huadian Corporation will propose and proactively procure an incentive plan for the management of the Company.

For details, please refer to the related announcements published by the Company.

(2) Electricity tariff adjustment

To alleviate the impact of the rise in coal price and adjustment of railway transportation expenses, the NDRC adjusted the on-grid tariffs of power grids located in areas such as Northern China, Central China, Eastern China and North-Western China with effect from 30 June 2006. The Group's existing on-grid tariffs for power generating units in Shandong Province at a rate lower than RMB400/MWh (value-added tax inclusive, the same for below) will be adjusted upward by RMB10.9/MWh and on-grid tariffs at a rate higher than RMB400/MWh will be adjusted upward by RMB6/MWh; on-grid tariffs for power generating units of Guangan Company in Sichuan Province will increase by RMB14.8/MWh; on-grid tariffs for power generating units of Zhongning Company in Ningxia Hui Autonomous Region, where excess output tariffs will not be cancelled in the meantime, will increase by RMB3.4/MWh; on-grid tariffs for power generating units of Chizhou Company in Anhui Province will be adjusted upward by RMB2/MWh.

According to the above-mentioned electricity tariff adjustments, the average on-grid tariffs (value-added tax inclusive) of the Company will increase by RMB11/MWh (excluding tariffs rise resulting from desulphurization) with effect from 30 June 2006. Details of the adjustment plan were set out in the announcement of the Company dated 30 June 2006.

(3) Change of Consolidation Method for Weifang Company and Inclusion of Zhongning Company on a Consolidated Basis

The Company increased its equity interest in Weifang Company by 15% to 45% in January 2006 and in accordance with the revised articles of association of Weifang Company, the Company has obtained the power to govern the financial and operating policies of Weifang Company. Hence, Weifang Company changed from a jointly controlled entity into a subsidiary of the Company and changed its accounting treatment from the previous 30% proportionate consolidation method to 100% consolidation method. Zhongning Company, in accordance with the revised articles of association, became a jointly controlled entity of the Company, and was accounted for on a 50% proportionate consolidation basis in the preparation of the consolidated financial statement since 2006.

(4) Connected Transaction

Connected transaction, as defined in the Listing Rules, entered into by the Company during the six months ended 30 June 2006 is as follows:

Investment in Huadian Coal Industry Group Co., Ltd. ("Huadian Coal")

On 24 April 2006, the Company and Huadian Coal entered into the Capital Enlargement Agreement ("Enlargement Agreement") in Huadian Coal Industry Group Co., Ltd. such that the Company participated in the capital enlargement of Huadian Coal. Upon completion of the Enlargement Agreement, the Company owns approximately 20.19% equity interest in Huadian Coal, while Huadian Corporation directly holds approximately 51.28% equity interest in Huadian Coal with the rest of the equity interest to be held by the other subsidiaries and associates of Huadian Corporation. Details of the above were set out in the announcement of the Company dated 24 April 2006.

(5) Inspection Tour made by Shandong Securities Regulatory Bureau ("SSRB") of CSRC

SSRB made an inspection tour to the Company from 29 May 2006 to 2 June 2006. On 29 June 2006, SSRB issued the Notice of Rectification (Lu Zheng Jian Gong Si Zi [2006] No.32). The Company proposed detailed rectification measures for the issues in accordance with requirements stated in the Notice of Rectification and in line with requirements of relevant laws, regulations and rules. For details, please refer to the 2006 Interim Report prepared under the PRC Listing Rules, which is available on the website of Shanghai Stock Exchange: <http://www.sse.com.cn>.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

So far as the directors of the Company (the "Directors") are aware, each of the following persons, not being a Director, Supervisor, chief executive or member of senior management of the Company, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 30 June 2006 which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or was otherwise, as at 30 June 2006 interested in 5% or more of any class of the then issued share capital of the Company or was, as at 30 June 2006, a substantial shareholder (as defined in the Listing Rules) of the Company:

Name of shareholder	Type of shares	Number of shares held	Interest as at 30 June 2006			Short position
			Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued domestic shares	Approximate percentage of shareholding in the Company's total issued H shares	
Huadian Corporation	Domestic shares	3,011,075,430	50.01%	65.60%	—	—
Shandong International Trust and Investment Corporation	Domestic shares	903,443,970	15.00%	19.68%	—	—
HKSCC Nominees Limited (Notes)	H shares	1,422,675,900	23.63%	—	99.42%	See Notes

Notes: Based on the information available to and obtained by the Directors as at 30 June 2006, and so far as the Directors are aware and understand, as at 30 June 2006:

1. Among the 1,422,675,900 H shares held by HKSCC Nominees Limited, UBS AG had an interest, in the capacity as beneficial owner and through controlled corporations, in an aggregate of 285,873,900 H shares of the Company (representing approximately 19.98% of the then total issued H shares). According to the information as disclosed in the website of the Stock Exchange and so far as the Directors understand, UBS AG held its indirect interest in the Company in the manner as follows:
 - (a) 8,979,000 H shares (representing approximately 0.63% of the Company's then total issued H shares) were held by UBS Fund Services (Luxembourg) SA, which in turn was 100% controlled by UBS AG;

- (b) 16,568,000 H shares (representing approximately 1.16% of the Company's then total issued H shares) were held by UBS Global Asset Management (Americas) Inc, which in turn was 100% controlled by UBS AG;
- (c) 3,242,000 H shares (representing approximately 0.23% of the Company's then total issued H shares) were held by UBS Global Asset Management (Hong Kong) Limited, which in turn was 100% controlled by UBS AG;
- (d) 9,392,000 H shares (representing approximately 0.66% of the Company's then total issued H shares) were held by UBS Global Asset Management (Japan) Ltd, which in turn was 100% controlled by UBS AG;
- (e) 48,788,900 H shares (representing approximately 3.41% of the Company's then total issued H shares) were held by UBS Global Asset Management (Singapore) Limited, which in turn was 100% controlled by UBS AG;
- (f) 32,016,000 H shares (representing approximately 2.24% of the Company's then total issued H shares) were held by UBS Global Asset Management (UK) Inc, which in turn was 100% controlled by UBS AG;
- (g) 2,914,000 H shares (representing approximately 0.20% of the Company's then total issued H shares) were held by UBS Securities LLC, which in turn was 100% controlled by UBS AG.
- (h) 18,987,100 H shares (representing approximately 1.33% of the Company's then total issued H shares) were held by UBS Fund Management (Switzerland) AG, which in turn was 100% controlled by UBS AG.

According to the information as disclosed in the website of the Stock Exchange and so far as the Directors are aware and understand, as at 30 June 2006, UBS AG also had a short position in 2,914,000 H shares of the Company (representing approximately 0.20% of the Company's then total issued H shares), which was held by UBS Securities LLC, which in turn was 100% controlled by UBS AG.

2. Among the 1,422,675,900 H shares held by HKSCC Nominees Limited, JP Morgan Chase & Co. had an interest in an aggregate of 157,178,900 H shares of the Company (representing approximately 10.98% of the then total issued H shares). Out of such 157,178,900 H shares, JP Morgan Chase & Co. had an interest in the capacity as a custodian/approved lending agent comprising 151,058,900 H shares (representing approximately 10.56% of the then total issued H shares), with the remaining 6,120,000 H shares (representing approximately 0.43% of the then total issued H shares) held in the capacity as a beneficial owner. According to the information as disclosed in the website of the Stock Exchange and so far as the Directors understand, JP Morgan Chase & Co. was, as at 30 June 2006, interested in the aforesaid 157,178,900 H shares of the Company in the manner as follows:

- (a) 151,058,900 H shares (representing approximately 10.56% of the Company's then total issued H shares) were held in the capacity as custodian / approved lending agent (in the lending pool) by JP Morgan Chase Bank, N.A., which in turn was apparently 100% controlled by JP Morgan Chase & Co.;

- (b) *700,000 H shares (representing approximately 0.05% of the Company's then total issued H shares) were held in the capacity as beneficial owner by JP Morgan Whitefriars Inc., which in turn was apparently ultimately 100% controlled by JP Morgan Chase & Co.*
 - (c) *5,420,000 H shares (representing approximately 0.38% of the Company's then total issued H shares) were held in the capacity as beneficial owner by J.P. Morgan Securities Ltd., which in turn was approximately 98.95% controlled by JP Morgan Chase International Holdings, which in turn was approximately 72.72% controlled by JP Morgan Chase & Co..*
3. *Among the 1,422,675,900 H shares held by HKSCC Nominees Limited, Templeton Asset Management Limited had a direct interest in the capacity of investment manager in an aggregate of 142,054,000 H shares of the Company (representing approximately 9.93% of the then total issued H shares).*
 4. *Among the 1,422,675,900 H shares held by HKSCC Nominees Limited, Gandhara Master Fund Limited had a direct interest in an aggregate of 96,786,000 H shares of the Company (representing approximately 6.76% of its then total issued H shares) in the capacity as a investment manager.*

Save as disclosed above, according to the records of HKSCC Nominees Limited and other information available to the Directors as at 30 June 2006, the other H shares held by HKSCC Nominees Limited were held by it on behalf of a number of other persons, and to the knowledge of the Directors, none of such persons individually was interested in 5% or more of the Company's then total issued H shares of the Company as at 30 June 2006.

Save as disclosed above and so far as the Directors are aware, as at 30 June 2006, no other person (other than the Directors, Supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Listing Rules) of the Company.

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

As at 30 June 2006, none of the Directors, Supervisors, chief executives or members of senior management of the Company or their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), and entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the Directors and Supervisors).

In relation to the six months ended 30 June 2006, the Company has adopted a code of conduct regarding Directors' transactions in the Company's securities on terms identical to those of the Model Code. Having made specific enquiry of all Directors, the Company understands that all Directors have complied with the required standard set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its issued securities ('securities' having the meaning as ascribed thereto under paragraph 1 of Appendix 16 to the Listing Rules).

DESIGNATED DEPOSITS AND OVERDUE MATERIAL DEPOSITS

As at 30 June 2006, the Group deposits placed with financial institutions or other parties did not include any designated or truth deposits, or any material deposits which could not be collected by the Group upon maturity.

MATERIAL LITIGATION

As at 30 June 2006, the Group was not involved in any material litigation or arbitration. Besides, no litigation or claim of material importance was known to the Directors of the Company to be pending or threatened by or against the Group.

AUDIT COMMITTEE

The unaudited financial statements prepared under International Accounting Standards 34 “Interim Financial Reporting” for the six months ended 30 June 2006 were reviewed by the Company’s Audit Committee.

CORPORATE GOVERNANCE PRACTICES

The codes on corporate governance practices adopted by the Company include, but are not limited to, its Articles of Association, Rules of Procedures of Audit Committee, Code on Shareholders’ Meetings, Code on Board Practices and Code on Supervisory Committee and related documents.

The Board has reviewed the relevant requirements prescribed under the codes on corporate governance practices adopted by the Company and its actual operations, and took the view that the corporate governance practices adopted by the Company during the first half of 2006 met the requirements under the code provisions in the Code on Corporate Governance Practices (the “Code”) as contained in Appendix 14 to the Listing Rules and there was no deviation from such code provisions. In certain aspects, the corporate governance practices adopted by the Company have been more stringent than those of the code provisions under the Code.

The following describes the major aspects of corporate governance practices of the Company which have been more stringent than those of the code provisions under the Code:

- In the first half of 2006, altogether four Board meetings were held.
- the Company has formulated the Code on Trading of the Company’s Securities by Directors (Supervisors) of Huadian Power International Corporation Limited and the Code on Trading of the Company’s Securities by Employees of Huadian Power International Corporation Limited, which are not less strict than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
- The Audit Committee comprises five members, including two non-executive directors and three independent non-executive directors. Mr. Hu Yuanmu, the Independent Non-executive Director, was the Chairman of Audit Committee. The other four members were Independent Non-executive Directors Mr. Ding Huiping and Mr. Wang Chuanshun and Non-executive Directors, Mr. Peng Xingyu and Ms. Wang Yingli, who were mainly responsible for communication, supervision and inspection of internal and external audit of the Company and reported to the Directors in relation to their opinions on audit, internal control and corporate governance.

- In addition to the Audit Committee and the Remuneration Committee, the Company has established its Strategic Committee and formulated Detailed Rules on the Work of the Strategic Committee and its main duties include:
1. to study and recommend the strategic planning for the long-term development of the Company;
 2. to study and recommend on financing proposals in major investments requiring approval of the Board;
 3. to study and recommend on major production operation policies requiring approval of the Board;
 4. to study and recommend on significant events that impact on the development of the Company;
 5. to monitor the implementation of the above matters; and
 6. to attend to other matters as requested by the Board.

To date, no deviation from the code provisions under the Code was found.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2006 RMB'000	2005 RMB'000
Turnover	3	7,116,054	6,399,448
Operating expenses			
Coal consumption		(3,853,880)	(3,602,948)
Depreciation and amortisation		(933,666)	(807,280)
Major overhaul expenses		(137,833)	(143,133)
Repairs and maintenance		(69,179)	(66,501)
Personnel costs		(549,666)	(431,684)
Administrative expenses		(248,602)	(213,439)
Sales related taxes		(88,209)	(62,769)
Other operating expenses		(143,866)	(120,429)
		(6,024,901)	(5,448,183)
Operating profit		1,091,153	951,265
Investment income		19,296	—
Other net income		14,437	18,556
Net finance costs	4	(253,009)	(236,289)
Share of profits less losses of associates		(186)	9,621
Profit before taxation	5	871,691	743,153
Income tax	6	(270,136)	(226,844)
Profit for the period		601,555	516,309
Attributable to:			
Equity shareholders of the company		536,042	467,587
Minority interests		65,513	48,722
Profit for the period		601,555	516,309
Basic earnings per share	8(i)	RMB0.089	RMB0.079

The notes on pages 26 to 37 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

as at 30 June 2006 (unaudited)
(Expressed in Renminbi)

	Note	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Non-current assets			
Property, plant and equipment		22,734,105	21,348,609
Construction in progress	9	16,014,024	9,048,143
Lease prepayments		508,223	429,770
Intangible assets		44,431	44,431
Interest in associates		1,218,812	918,211
Other investments		135,539	175,639
Deferred tax assets		32,161	46,218
		<u>40,687,295</u>	<u>32,011,021</u>
Current assets			
Inventories		474,450	558,847
Deposits, other receivables and prepayments		246,236	87,127
Trade and bills receivables	10	1,483,179	1,263,332
Tax recoverable		1,803	2,789
Cash and cash equivalents	11	735,215	845,642
		<u>2,940,883</u>	<u>2,757,737</u>
Current liabilities			
Bank loans		8,608,545	5,492,551
Current portion of loans from shareholders		—	175,000
Current portion of state loans		9,864	9,584
Other loans		1,645,950	398,623
Amounts due to holding company		10,415	33,000
Trade and bills payables	12	1,834,822	1,061,917
Other payables		1,161,293	889,640
Tax payable		123,179	113,970
		<u>13,394,068</u>	<u>8,174,285</u>
Net current liabilities		<u>(10,453,185)</u>	<u>(5,416,548)</u>
Total assets less current liabilities carried forward		<u>30,234,110</u>	<u>26,594,473</u>

CONSOLIDATED BALANCE SHEET *(continued)*

as at 30 June 2006 (unaudited)
(Expressed in Renminbi)

<i>Note</i>	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Total assets less current liabilities	30,234,110	26,594,473
Non-current liabilities		
Bank loans	12,158,631	9,785,891
Loans from shareholders	1,335,000	1,135,000
State loans	80,977	70,179
Other loans	655,820	1,365,647
Deferred government grants	196,300	136,170
Deferred tax liabilities	737,711	439,170
	<u>15,164,439</u>	<u>12,932,057</u>
Net assets	15,069,671	13,662,416
Capital and reserves		
Share capital	6,021,084	6,021,084
Reserves	6,790,023	6,600,625
Total equity attributable to equity shareholders of the company	12,811,107	12,621,709
Minority interests	2,258,564	1,040,707
Total equity	15,069,671	13,662,416

The notes on pages 26 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi)

	Attributable to equity shareholders of the company										Total equity
	Share capital	Capital reserve	Statutory surplus		Statutory Discretionary surplus		Revaluation reserve	Retained profits	Minority interests	Total	
			reserve	welfare fund	public	surplus					
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2006	6,021,084	1,897,919	962,219	379,434	68,089	—	3,292,964	12,621,709	1,040,707	13,662,416	
Profit for the period	—	—	—	—	—	—	536,042	536,042	65,513	601,555	
Transfer to statutory surplus reserve	—	—	379,434	(379,434)	—	—	—	—	—	—	
Capital injection from minority equity shareholders of subsidiaries	—	—	—	—	—	—	—	—	476,734	476,734	
Dividends approved for equity shareholders of the company	7	—	—	—	—	—	(391,370)	(391,370)	—	(391,370)	
Dividends approved for minority equity shareholders of subsidiaries	—	—	—	—	—	—	—	—	(11,338)	(11,338)	
Acquisition of a subsidiary	—	—	—	—	—	44,726	—	44,726	694,835	739,561	
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(7,867)	(7,867)	
Balance at 30 June 2006	6,021,084	1,897,919	1,341,653	—	68,089	44,726	3,437,636	12,811,107	2,258,564	15,069,671	
Balance at 1 January 2005	5,256,084	777,418	860,722	333,085	63,690	—	2,589,526	9,880,525	812,943	10,693,468	
Profit for the period	—	—	—	—	—	—	467,587	467,587	48,722	516,309	
Issuance of A shares	765,000	1,120,501	—	—	—	—	—	1,885,501	—	1,885,501	
Capital injection from minority equity shareholders of a subsidiary	—	—	—	—	—	—	—	—	80,000	80,000	
Dividends approved for equity shareholders of the company	7	—	—	—	—	—	(210,738)	(210,738)	—	(210,738)	
Dividends approved for minority equity shareholders of subsidiaries	—	—	—	—	—	—	—	—	(4,710)	(4,710)	
Balance at 30 June 2005	6,021,084	1,897,919	860,722	333,085	63,690	—	2,846,375	12,022,875	936,955	12,959,830	

The notes on pages 26 to 37 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi)

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Net cash from operating activities	1,667,407	864,186
Net cash used in investing activities	(5,688,955)	(2,531,270)
Net cash from financing activities	3,911,121	1,596,245
Decrease in cash and cash equivalents	(110,427)	(70,839)
Cash and cash equivalents at 1 January	845,642	1,260,127
Cash and cash equivalents at 30 June	<u>735,215</u>	<u>1,189,288</u>

2006 Interim Report (Prepared under International Financial Reporting Standards)

2006 Interim Report

The notes on pages 26 to 37 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” adopted by the International Accounting Standards Board (“IASB”). It was authorised for issuance on 25 August 2006.

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

In preparing this interim financial report, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the IASB. IFRS includes all applicable IFRS, IAS and related interpretations.

IASB has issued a number of new and revised IFRS that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies to be adopted in the preparation of the group’s annual financial statements for the year ending 31 December 2006, on the basis of IFRS currently in issue.

The IFRS that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the group’s financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

1 Basis of preparation *(continued)*

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements. The adoption of the new and revised IFRS did not have any significant impact on the group's results of operations and financial position.

The interim financial report set out on pages 21 to 37 is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 38.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the company's annual financial statements prepared under IFRS for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2005 are available from the company's legal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2006.

2 Acquisitions

In January 2006, the company increased its equity interests in Huadian Weifang Power Generation Company Limited ("Weifang Company") from 30% to 45%. Pursuant to the revised articles of association of Weifang Company, the company has obtained the power to govern the financial and operating policies of Weifang Company and therefore, Weifang Company changed from a jointly controlled entity to a subsidiary of the company. The group changed from adopting proportionate consolidation accounting method to consolidation accounting method to account for its investment in Weifang Company in the preparation of the consolidated financial statements thereafter.

In 2006, Ningxia Zhongning Power Generation Company Limited ("Zhongning Company") (formerly known as Ningxia Yinglite Zhongning Power Company Limited) amended its articles of association. Pursuant to the revised articles of association, the company and Ningxia Power Generation (Group) Company Limited ("Ningxia Power Company") jointly controlled Zhongning Company and therefore, Zhongning Company changed from an associate to a jointly controlled entity of the company. The group changed from adopting equity method to proportionate consolidation method to account for its investment in Zhongning Company in the preparation of the consolidated financial statements thereafter.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

2 Acquisitions (continued)

The acquisitions had the following effect on the group's assets and liabilities:

	Pre- acquisition carrying amounts <i>RMB'000</i>	Fair value adjustments <i>RMB'000</i>	Recognised values on acquisitions <i>RMB'000</i>
Property, plant and equipment	2,039,255	166,080	2,205,335
Construction in progress	1,054,545	—	1,054,545
Lease prepayments	78,547	—	78,547
Other investments	3,500	—	3,500
Inventories	36,088	—	36,088
Deposits, other receivables and prepayments	2,255	—	2,255
Trade receivables	114,262	—	114,262
Cash and cash equivalents	675,149	—	675,149
Trade payables	(101,885)	—	(101,885)
Other payables	(109,717)	—	(109,717)
Tax payable	(3,366)	—	(3,366)
Loans	(2,270,732)	—	(2,270,732)
Deferred government grants	(33,530)	—	(33,530)
Deferred tax liabilities	(179,377)	(51,402)	(230,779)
Minority interests	(612,838)	(81,997)	(694,835)
Total	<u>692,156</u>	<u>32,681</u>	724,837
Less: Cash and cash equivalents acquired			(675,149)
Reclassification from investment in associate			<u>(95,337)</u>
Net cash inflow			<u>(45,649)</u>

The acquisitions contributed unaudited turnover amounting to RMB551,341,000 and unaudited profit after tax amounting to RMB32,992,000 for the six months ended 30 June 2006.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

3 Turnover

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Sale of electricity	6,956,095	6,254,736
Sale of heat	159,959	144,712
	7,116,054	6,399,448

4 Net finance costs

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interest on bank and other loans	608,904	361,969
Less: Interest capitalised	(318,218)	(93,509)
Net interest expenses	290,686	268,460
Less: Interest income	(4,542)	(11,511)
Net foreign exchange gain	(14,481)	—
Net gain on derivative financial instruments	(18,654)	(20,660)
Net finance costs	253,009	236,289

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Cost of inventories	4,117,367	3,851,966
Amortisation of intangible assets and lease prepayments	15,844	11,008
Depreciation	917,822	796,272
Dividend income	(3,140)	—
Profit on sale of investments	(16,156)	—
	<u>4,991,737</u>	<u>4,659,246</u>

6 Income tax

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Charge for the People's Republic of China ("PRC") enterprise income tax	210,452	162,680
Deferred tax expense	59,684	64,164
	<u>270,136</u>	<u>226,844</u>

The charge for PRC enterprise income tax is calculated at the statutory rate of 33% (six months ended 30 June 2005: 33%) on the estimated assessable profits of the group for the six months ended 30 June 2006 determined in accordance with relevant enterprise income tax rules and regulations, except for a subsidiary of the company which is taxed at a preferential rate of 15% and a jointly controlled entity of the company which is tax exempted.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

7 Dividends

(i) Dividends attributable to the interim period:

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB Nil).

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

	Six months ended 30 June 2006 RMB'000	2005 RMB'000
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the following interim period, of RMB0.065 per share (year ended 31 December 2004: RMB0.035)	<u>391,370</u>	<u>210,738</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

8 Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company for the six months ended 30 June 2006 of RMB536,042,000 (six months ended 30 June 2005: RMB467,587,000) and the weighted average number of shares in issue during the six months ended 30 June 2006 of 6,021,084,000 (six months ended 30 June 2005: 5,893,584,000).

(ii) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2005 and 2006.

9 Construction in progress

The acquisition and transfer of items of construction in progress during the six months ended 30 June 2005 and 2006 are as follows:

	Six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Through acquisition of a subsidiary	1,054,545	—
Additions	5,920,019	2,040,671
Transfer to property, plant and equipment	<u>(8,683)</u>	<u>(7,622)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

10 Trade and bills receivables

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Trade and bills receivables for sale of electricity	1,421,218	1,214,094
Trade and bills receivables for sale of heat	61,961	49,238
	<u>1,483,179</u>	<u>1,263,332</u>

Receivables from sale of electricity are due within 30 days from the date of billing.
Receivables from sale of heat are due within 90 days from the date of billing.

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

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Within one year	1,465,810	1,247,413
Between one and two years	1,468	17
Between two and three years	733	1,594
More than three years	15,168	14,308
	<u>1,483,179</u>	<u>1,263,332</u>

11 Cash and cash equivalents

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Cash at bank and in hand	692,675	845,554
Deposits with banks and other financial institutions	42,540	88
	<u>735,215</u>	<u>845,642</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

12 Trade and bills payables

All of the trade and bills payables are expected to be settled within one year.

13 Material related party transactions

(a) Transactions with China Huadian Corporation ("China Huadian"), fellow subsidiaries, associates and Shandong International Trust and Investment Company Limited ("SITIC")

- (i) The group had the following material transactions with China Huadian, fellow subsidiaries, associates and SITIC during the six months ended 30 June 2005 and 2006:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Construction costs and equipment costs paid and payable to entities controlled by the holding company	45,111	—
Interest expenses	75,030	41,997
Loans obtained from related parties	630,000	498,037
Loans repaid to related parties	375,000	248,037

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

	Nature of transactions	At 30 June	At 31 December
		2006	2005
		RMB'000	RMB'000
Amount due to a fellow subsidiary	Construction and equipment costs	14,404	10,328
Amount due to shareholders	Loan	1,335,000	1,310,000
Amount due to a fellow subsidiary	Loan	1,388,037	1,288,037
Amount due to associates	Loan	447,500	—

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

13 Material related party transactions (continued)

(a) Transactions with China Huadian Corporation (“China Huadian”), fellow subsidiaries, associates and Shandong International Trust and Investment Company Limited (“SITIC”) (continued)

- (iii) In April 2006, the company contributed RMB315 million to the registered capital of Huadian Coal Industry Group Co., Ltd (“Huadian Coal”), which was originally a wholly owned subsidiary of China Huadian, for part of the capital enlargement. After the completion of the capital enlargement of Huadian Coal, the company owns about 20.19% equity interests in Huadian Coal.
- (iv) At 30 June 2006, the jointly controlled entity, Zhongning Company provided guarantees to banks for loans granted to an associate of the company, Ningxia Power Company amounting to RMB42,500,000 (year ended 31 December 2005: RMB Nil).
- (v) At 30 June 2006, the subsidiary, Sichuan Guangan Power Generation Company Limited provided guarantees to banks for loans granted to an associate of the company, Sichuan Huayingshan Longtan Coal Company Limited amounting to RMB68,900,000 (year ended 31 December 2005: RMB Nil).

(b) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the company’s directors and supervisors is as follows:

	Six months ended 30 June	
	2006 RMB’000	2005 RMB’000
Salaries and other emoluments	964	641
Retirement benefits	105	97
Bonuses	406	331
	<u>1,475</u>	<u>1,069</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

13 Material related party transactions (continued)

(c) Transactions with other state-controlled entities in the PRC

The group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliates and other organisations.

Transactions with other state-controlled entities include but not limited to the following:

- sales of electricity and heat; and
- depositing and borrowing money.

These transactions are conducted in the ordinary course of the group's business on terms comparable to those with other entities that are not state-controlled. The group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions require disclosure as related party transactions:

	Six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of electricity to the grid	6,956,095	6,254,736
Interest expenses	264,199	135,203
Contribution to defined contribution retirement plans	<u>71,620</u>	<u>66,262</u>
	At 30 June	At 31 December
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Receivables from sale of electricity	1,421,218	1,214,094
Loans payables	11,635,940	7,798,352
Cash at bank	<u>437,802</u>	<u>751,431</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

14 Capital commitments

- (i) The group (excluding jointly controlled entity) had capital commitments outstanding as at 30 June 2006 and 31 December 2005 not provided for in the consolidated financial statements as follows:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Contracted for		
— Development of power plants	12,815,878	12,188,311
— Investments	240,000	461,800
— Improvement projects and others	460,416	216,687
	<u>13,516,294</u>	<u>12,866,798</u>
Authorised but not contracted for		
— Development of power plants	11,916,406	12,726,711
— Improvement projects and others	823,711	762,482
	<u>12,740,117</u>	<u>13,489,193</u>
	<u>26,256,411</u>	<u>26,355,991</u>

- (ii) The group does not have significant proportionate share of the jointly controlled entity's capital expenditure commitments at 30 June 2006 (At 31 December 2005: RMB1,058,502,000).

15 Contingent liabilities

The group did not have any material contingent liabilities as at 30 June 2006 and 31 December 2005, except for those disclosed in notes 13(a)(iv) and (v).

16 Segment reporting

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

Independent review report

To the board of directors of Huadian Power International Corporation Limited

Introduction

We have been instructed by the company to review the interim financial report set out on pages 21 to 37.

Respective responsibilities of directors and auditors

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

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

Review work performed

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

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG
Certified Public Accountants
Hong Kong, 25 August 2006

CONSOLIDATED BALANCE SHEET

as at 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	Note	30 June 2006	31 December 2005				
ASSETS							
Current assets							
Cash at bank and in hand	4	735,215	845,642				
Bank acceptance bills receivable		7,165	6,475				
Trade receivables	5	1,476,014	1,256,857				
Other receivables	6	119,868	69,441				
Prepayments	7	121,665	11,168				
Inventories	8	474,450	558,847				
Total current assets		2,934,377	2,748,430				
Long-term investments							
Long-term equity investments	9	1,710,627	1,374,344				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Including consolidation difference and equity investment difference</td> <td style="width: 20%;"></td> <td style="width: 15%; text-align: right;">358,652</td> <td style="width: 15%; text-align: right;">283,017</td> </tr> </table>				Including consolidation difference and equity investment difference		358,652	283,017
Including consolidation difference and equity investment difference		358,652	283,017				
Fixed assets							
Fixed assets, at cost		35,714,214	33,007,379				
Less: Accumulated depreciation		(13,643,932)	(11,829,642)				
Net book value of fixed assets	10	22,070,282	21,177,737				
Construction materials	11	7,085,688	5,062,900				
Construction in progress	11	8,741,813	3,850,818				
Total fixed assets		37,897,783	30,091,455				
Intangible assets and other assets							
Intangible assets	12	199,881	170,747				
Deferred taxation							
Deferred tax assets	20	56,651	58,822				
Total assets		42,799,319	34,443,798				

He Gong
Legal
representative

Zhu Fangxin
Person in charge
of the accounting affairs

Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET *(continued)*

as at 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	Note	30 June 2006	31 December 2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	13	7,230,496	4,094,297
Bank acceptance bills payable		745,934	164,045
Trade payables	14	1,088,888	897,872
Wages payable		118,636	108,527
Welfare payable		24,731	24,673
Taxes payable	15	247,428	250,569
Other payables	16	32,781	25,298
Other creditors	17	869,508	624,754
Long-term loans due within one year	18	3,033,863	1,981,461
Total current liabilities		13,392,265	8,171,496
Long-term liabilities			
Long-term loans	19	14,230,428	12,356,717
Special payables		174,100	113,370
Total long-term liabilities		14,404,528	12,470,087
Deferred taxation			
Deferred tax liabilities	20	430,555	299,038
Total liabilities		28,227,348	20,940,621
Minority interests		1,929,423	977,006

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The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET *(continued)*

as at 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	<i>Note</i>	30 June 2006	31 December 2005
LIABILITIES AND SHAREHOLDERS' EQUITY <i>(Continued)</i>			
Shareholders' equity			
Share capital	21	6,021,084	6,021,084
Capital reserve	22(a)	1,897,561	1,897,561
Surplus reserves	22(b)	1,409,742	1,409,742
Including statutory public welfare fund		—	379,434
Retained profits		3,314,161	3,197,784
Including cash dividends proposed after the balance sheet date		—	391,370
Total shareholders' equity		12,642,548	12,526,171
Total liabilities and shareholders' equity		42,799,319	34,443,798

This interim financial report is approved by the Board of Directors on 25 August 2006.

He Gong
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representative*

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Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

BALANCE SHEET

as at 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	Note	30 June 2006	31 December 2005
ASSETS			
Current assets			
Cash at bank and in hand	4	223,185	484,574
Trade receivables	5	775,618	654,317
Other receivables	6	206,478	83,570
Prepayments	7	62,674	7,031
Inventories	8	199,045	313,524
Total current assets		1,467,000	1,543,016
Long-term investments			
Long-term equity investments	9	5,880,902	4,349,190
Fixed assets			
Fixed assets, at cost		19,051,265	19,016,471
Less: Accumulated depreciation		(8,470,934)	(7,987,049)
Net book value of fixed assets	10	10,580,331	11,029,422
Construction materials	11	1,865,310	2,084,575
Construction in progress	11	1,659,432	1,039,315
Total fixed assets		14,105,073	14,153,312
Intangible assets and other assets			
Intangible assets	12	123,428	127,307
Deferred taxation			
Deferred tax assets	20	50,470	50,826
Total assets		21,626,873	20,223,651

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The notes on pages 54 to 129 form part of this interim financial report.

BALANCE SHEET (continued)as at 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	Note	30 June 2006	31 December 2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	13	2,304,996	1,200,597
Bank acceptance bills payable		630,000	130,000
Trade payables	14	279,702	288,719
Wages payable		86,044	85,827
Welfare payable		12,227	14,761
Taxes payable	15	184,390	160,448
Other payables	16	12,071	20,824
Other creditors	17	310,415	285,753
Long-term loans due within one year	18	1,637,353	792,827
Total current liabilities		5,457,198	2,979,756
Long-term liabilities			
Long-term loans	19	3,457,927	4,674,724
Special payables		69,200	43,000
Total long-term liabilities		3,527,127	4,717,724
Total liabilities		8,984,325	7,697,480
Shareholders' equity			
Share capital	21	6,021,084	6,021,084
Capital reserve	22(a)	1,897,561	1,897,561
Surplus reserves	22(b)	1,409,742	1,409,742
Including statutory public welfare fund		—	379,434
Retained profits		3,314,161	3,197,784
Including cash dividends proposed after the balance sheet date		—	391,370
Total shareholders' equity		12,642,548	12,526,171
Total liabilities and shareholders' equity		21,626,873	20,223,651

This interim financial report is approved by the Board of Directors on 25 August 2006.

He GongLegal
representative**Zhu Fangxin**Person in charge
of the accounting affairs**Tao Yunpang**

Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	Note	Six months ended 30 June	
		2006	2005
Sales from principal activities	24	7,116,054	6,399,448
Less: Cost of sales from principal activities		(5,471,619)	(4,995,240)
Sales taxes and surcharges	25	(88,209)	(62,769)
Profit from principal activities		1,556,226	1,341,439
Add: Profit from other operations		10,994	7,736
Less: Administrative expenses		(433,122)	(381,494)
Financial expenses	26	(305,107)	(255,758)
Operating profit		828,991	711,923
Add: Investment income	27	19,110	9,386
Non-operating income		2,899	11,332
Less: Non-operating expenses		(1,267)	(2,371)
Profit before income tax		849,733	730,270
Less: Income tax	28	(267,042)	(227,045)
Minority interests		(74,944)	(49,172)
Net profit for the period		507,747	454,053
Add: Retained profits at the beginning of the period		3,197,784	2,545,791
Profits available for distribution to shareholders		3,705,531	2,999,844
Less: Ordinary shares' dividend appropriated to shareholders	23(a)	(391,370)	(210,738)
Retained profits carried forward		3,314,161	2,789,106

This interim financial report is approved by the Board of Directors on 25 August 2006.

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Tao Yunpang

Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	Note	Six months ended 30 June	
		2006	2005
Sales from principal activities	24	3,765,836	3,730,371
Less: Cost of sales from principal activities		(2,862,702)	(2,933,122)
Sales taxes and surcharges	25	(53,689)	(36,534)
Profit from principal activities		849,445	760,715
Add: Profit from other operations		41	155
Less: Administrative expenses		(241,879)	(229,486)
Financial expenses	26	(110,263)	(94,773)
Operating profit		497,344	436,611
Add: Investment income	27	181,261	161,164
Non-operating income		5	1,413
Less: Non-operating expenses		(287)	(876)
Profit before income tax		678,323	598,312
Less: Income tax	28	(170,576)	(144,259)
Net profit for the period		507,747	454,053
Add: Retained profits at the beginning of the period		3,197,784	2,545,791
Profits available for distribution to shareholders		3,705,531	2,999,844
Less: Ordinary shares' dividend appropriated to shareholders	23(a)	(391,370)	(210,738)
Retained profits carried forward		3,314,161	2,789,106

This interim financial report is approved by the Board of Directors on 25 August 2006.

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Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	<i>Note to the consolidated cash flow statement</i>	Six months ended 30 June 2006
Cash flows from operating activities:		
Cash received from sales of electricity and heat		8,205,066
Other cash received relating to operating activities		22,912
Sub-total of cash inflows		8,227,978
Cash paid for goods and services		(3,940,541)
Cash paid to and for employees		(524,168)
Cash paid for all types of taxes		(1,197,880)
Other cash paid relating to operating activities		(314,250)
Sub-total of cash outflows		(5,976,839)
Net cash inflow from operating activities	(i)	2,251,139
Cash flows from investing activities:		
Cash received from sales of investments		84,761
Cash received from investment income		2,778
Acquisition of a subsidiary and a jointly controlled entity, net of cash acquired	(ii)	45,649
Other cash received relating to investing activities		5,286
Sub-total of cash inflows		138,474
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(5,373,907)
Cash paid for acquisition of investments		(452,974)
Other cash paid relating to investing activities		(548)
Sub-total of cash outflows		(5,827,429)
Net cash outflow from investing activities		(5,688,955)

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The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	<i>Note to the consolidated cash flow statement</i>	Six months ended 30 June 2006
Cash flows from financing activities:		
Proceeds from investments		473,642
Proceeds from borrowings		11,688,169
Proceeds from government grants		27,200
Other cash received relating to financing activities		13,129
Sub-total of cash inflows		12,202,140
Repayments of borrowings		(7,881,564)
Cash paid for interest		(583,732)
Cash paid for dividends		(391,370)
Dividends paid to minority shareholders		(11,338)
Other cash paid relating to financing activities		(6,747)
Sub-total of cash outflows		(8,874,751)
Net cash inflow from financing activities		3,327,389
Net decrease in cash and cash equivalents	(iii)	(110,427)

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Head of accounting department

2006 Interim Report (Prepared under PRC Accounting Standards and Regulations)

2006 Interim Report

The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

Notes to the consolidated cash flow statement

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

	Six months ended 30 June 2006
Net profit	507,747
Add: Depreciation of fixed assets	886,969
Amortisation of intangible assets	6,407
Amortisation of consolidation difference and equity investment difference	9,696
Financial expenses	305,107
Investment income	(19,257)
Minority interests	74,944
Increase in net deferred tax liabilities	56,590
Decrease in inventories	114,924
Increase in operating receivables	(271,410)
Increase in operating payables	579,422
Net cash inflow from operating activities	<u>2,251,139</u>

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Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

Notes to the consolidated cash flow statement *(continued)***(ii) Acquisition of a subsidiary and a jointly controlled entity, net of cash acquired:**

Effect of the Group's assets and liabilities arose from acquisition of a subsidiary and a jointly controlled entity:

	Six months ended 30 June 2006
Cash at bank and in hand	675,149
Trade receivables	114,262
Other receivables	1,506
Prepayments	749
Inventories	36,088
Long-term equity investments	3,500
Fixed assets	1,749,926
Construction materials and construction in progress	1,054,545
Intangible assets	19,799
Trade payables	(101,885)
Wages and welfare payables	(817)
Taxes payable	(16,975)
Other payables	(670)
Other creditors	(94,621)
Loans	(2,270,732)
Special payables	(33,530)
Deferred tax liabilities	(77,001)
Minority interests	(419,787)
Net assets and liabilities acquired	639,506
Equity investment difference from acquisition	85,331
Initial investment cost	724,837
Less: Cash at bank and in hand acquired from a subsidiary and a jointly controlled entity	(675,149)
Transfer from long-term equity investments	(95,337)
Net cash inflow from acquisition of a subsidiary and a jointly controlled entity	<u>(45,649)</u>

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Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

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

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

	Six months ended 30 June 2006
Cash and cash equivalents at the end of the period	735,215
Less: Cash and cash equivalents at the beginning of the period	<u>(845,642)</u>
Net decrease in cash and cash equivalents	<u><u>(110,427)</u></u>

This interim financial report is approved by the Board of Directors on 25 August 2006.

He Gong
*Legal
representative*

Zhu Fangxin
*Person in charge
of the accounting affairs*

Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CASH FLOW STATEMENT

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	<i>Note to the cash flow statement</i>	Six months ended 30 June 2006
Cash flows from operating activities:		
Cash received from sales of electricity and heat		4,284,948
Other cash received relating to operating activities		2,206
Sub-total of cash inflows		4,287,154
Cash paid for goods and services		(1,780,665)
Cash paid to and for employees		(313,301)
Cash paid for all types of taxes		(709,292)
Other cash paid relating to operating activities		(234,841)
Sub-total of cash outflows		(3,038,099)
Net cash inflow from operating activities	(i)	1,249,055
Cash flows from investing activities:		
Cash received from sales of investments		84,761
Cash received from investment income		39,731
Other cash received relating to investing activities		624,647
Sub-total of cash inflows		749,139
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,244,784)
Cash paid for acquisition of investments		(1,520,146)
Sub-total of cash outflows		(2,764,930)
Net cash outflow from investing activities		(2,015,791)

He Gong
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Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

	<i>Note to the cash flow statement</i>	Six months ended 30 June 2006
Cash flows from financing activities:		
Proceeds from borrowings		4,215,699
Proceeds from government grants		26,200
Other cash received relating to financing activities		<u>13,129</u>
Sub-total of cash inflows		4,255,028
Repayments of borrowings		(3,180,603)
Cash paid for interest		(171,143)
Cash paid for dividends		(391,370)
Other cash paid relating to financing activities		<u>(6,565)</u>
Sub-total of cash outflows		(3,749,681)
Net cash inflow from financing activities		505,347
Net decrease in cash and cash equivalents	(ii)	<u>(261,389)</u>

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Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

CASH FLOW STATEMENT *(continued)*

for the six months ended 30 June 2006 (unaudited)
(Expressed in Renminbi'000)

Notes to the cash flow statement**(i) Reconciliation of net profit to cash flows from operating activities:**

	Six months ended 30 June 2006
Net profit	507,747
Add: Depreciation of fixed assets	483,933
Amortisation of intangible assets	4,751
Amortisation of equity investment difference	9,373
Financial expenses	110,263
Investment income	(190,634)
Decrease in deferred tax assets	356
Decrease in inventories	114,479
Increase in operating receivables	(299,851)
Increase in operating payables	508,638
Net cash inflow from operating activities	<u>1,249,055</u>

(ii) Net decrease in cash and cash equivalents:

	Six months ended 30 June 2006
Cash and cash equivalents at the end of the period	223,185
Less: Cash and cash equivalents at the beginning of the period	<u>(484,574)</u>
Net decrease in cash and cash equivalents	<u>(261,389)</u>

This interim financial report is approved by the Board of Directors on 25 August 2006.

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Tao Yunpang
Head of accounting department

The notes on pages 54 to 129 form part of this interim financial report.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(Expressed in Renminbi)

1 Company status

Huadian Power International Corporation Limited (hereinafter referred to as the "Company") is a joint stock company limited by shares established in the People's Republic of China (the "PRC") on 28 June 1994 pursuant to the approval document (Ti Gai Sheng [1994] No. 76 - Reply on the approval for the establishment of Shandong International Power Development Company Limited) issued by the former State Commission for Economic Restructuring of the PRC. The Company had a registered share capital of RMB3,825,056,200, divided into 3,825,056,200 ordinary shares of RMB 1 each. At the same date, the Company's joint promoters, namely Shandong Electric Power (Group) Corporation ("SEPCO"), Shandong International Trust and Investment Corporation, Shandong Luneng Development (Group) Company Limited, China Power Trust and Investment Company Limited and Zaozhuang City Infrastructure Investment Company, injected all assets (except parcels of land) and liabilities, together with certain construction in progress, of two power plants in Zouxian and Shiliqian of Shandong Province into the Company. In return, these joint promoters were being allotted the entire share capital mentioned above.

Pursuant to the document (Zheng Jian Fa [1998] No. 317) issued by the Securities Commission of the State Council on 15 December 1998, the Company was authorised to issue H shares and its registered share capital had been increased to 5,256,084,200 ordinary shares of RMB1 each, comprising of 3,825,056,200 domestic shares and 1,431,028,000 H shares. The Company's 1,431,028,000 H shares were successfully listed on The Stock Exchange of Hong Kong Limited in June 1999.

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

In January 2005, the Company was approved by China Securities Regulatory Commission, with Zheng Jian Fa Xing Zi [2005] No. 2, to issue 765,000,000 RMB ordinary shares with par value of RMB1 each. As a result, the registered capital of the Company was increased to 6,021,084,200 shares. The RMB ordinary shares include 196,000,000 unlisted domestic shares. The remaining 569,000,000 A shares were listed on the Shanghai Stock Exchange on 3 February 2005.

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

1 Company status *(continued)*

In accordance with the “Approval notice related to State-owned Share Reform Plan of Huadian Power International Corporation Limited” issued by State-owned Assets Supervision and Administration Commission of the State Council in the PRC, the Company implemented its State-owned Share Reform Plan (“Reform Plan”) on 28 July 2006. All holders of non-circulating shares of the Company transferred 170,700,000 shares of the Company to those registered A share shareholders on 28 July 2006. After that, shares of the Company held by all holders of non-circulating shares were reduced by 170,700,000 shares. The Company’s A shares were increased by 170,700,000 shares accordingly.

Holders of non-circulating shares of the Company will bear all the costs and expenses arising from the Reform Plan.

The Company, its subsidiaries and jointly controlled entity (the “Group”) are principally engaged in power generation and heat supply activities. Electricity generated is transmitted to power grid companies of provinces in which the power plants are located.

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

The significant accounting policies adopted by the Group in the preparation of the interim financial report conform to the Accounting Standards for Business Enterprises, the Accounting Regulations for Business Enterprises and the relevant regulations issued by the Ministry of Finance (“MOF”) of the People’s Republic of China.

For details of the names, principal activities, registered capital, investment costs, percentage of each class of equity held by the Company and the period of consolidation of the Group’s subsidiaries, please refer to note 32.

(a) Accounting year

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(b) Basis of consolidation

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

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

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

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

(c) Basis of preparation and measurement basis

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(d) Reporting currency

The Group's reporting currency is Renminbi.

(e) Translation of foreign currencies

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

(f) Cash equivalents

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

(g) Provision for bad and doubtful debts

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(h) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by the power plants, are stated at cost, less provision for obsolescence.

The cost of inventories includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of coal and fuel oil is calculated on the weighted average basis. The cost of materials, components and spare parts is calculated on the first-in-first-out basis.

The Group adopts a perpetual inventory system.

(i) Long-term equity investments

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

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

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(i) Long-term equity investments *(continued)*

- Any shortfall of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis over 10 years if the investment was acquired before the MOF's issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No. 10). The unamortised balance is included in long-term equity investments at the period end. Such shortfalls are recognised in the "Capital reserve - reserve for equity investment" if the investment was acquired after the issuance of Cai Kuai [2003] No. 10.

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

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

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

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(j) Fixed assets and construction in progress

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

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

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

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

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

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(k) Operating lease charges

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

(l) Intangible assets

Intangible assets mainly represent land use right.

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

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

(m) Impairment loss

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

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(m) Impairment loss *(continued)*

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

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

(n) Income tax

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

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

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(n) Income tax *(continued)*

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

(o) Provisions and contingent liabilities

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

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

(p) Special payables

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

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

(q) Revenue recognition

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

(i) Electricity income

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

(ii) Heat income

Heat income is recognised when heat is supplied to customers.

(r) Research and development costs

Research and development costs are recognised in the income statement when incurred.

(s) Borrowing costs

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

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

(t) Major overhaul, repair and maintenance expenses

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***2 Basis of preparation of interim financial report and significant accounting policies** *(continued)***(u) Dividends appropriation**

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

(v) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by governmental organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement when they are due. The Group does not have any other payment obligation except for the contributions to the retirement scheme.

(w) Related parties

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

(x) Fair value hedges

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

3 Taxation

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

	Tax rate	Tax basis
Value added tax ("VAT")		
– Sale of electricity	17%	based on sales
– Sale of heat	13%	based on sales
City maintenance and construction tax	1 - 7%	based on VAT payable
Income tax (<i>Note</i>)	15%, 33%	based on taxable income

Note: The income tax rates applicable to the Group are mainly 33% for the six months ended 30 June 2005 and 2006, except for Sichuan Guangan Power Generation Company Limited ("Guangan Company") and Ningxia Zhongning Power Generation Company Limited ("Zhongning Company") (formerly known as Ningxia Yinglite Zhongning Power Company Limited).

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***3 Taxation (continued)**

The preferential tax treatments of the Group for the six months ended 30 June 2005 and 2006 are mainly set out below:

Company name	Preferential tax rate	Reasons for preferential treatment
Guangan Company	15%	Enterprise income tax preferential policies on the development of the Western Region (Note (i))
Zhongning Company	—	Enterprise income tax preferential policies on the development of the Western Region (Note (ii))

Notes:

- (i) Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Issues Concerning Tax Preferential Policies on the Development of the Western Region (Cai Shui [2001] No. 202) and the Notice of the State Administration of Taxation on Opinions Regarding the Implementation of Taxation Policies on the Development of the Western Region (Guo Shui Fa [2002] No. 47), during the period from 2001 to 2010, upon verification and confirmation by tax authorities, enterprises may enjoy a reduced enterprise income tax rate of 15%. In accordance with the approval document issued by the State Administration of Taxation of Sichuan Province, Guangan Company's enterprise income tax rate for the six months ended 30 June 2005 and 2006 had been reduced to 15%.
- (ii) Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Issues Concerning Tax Preferential Policies on the Development of the Western Region (Cai Shui [2001] No. 202), the Notice of the State Administration of Taxation on Opinions Regarding the Implementation of Taxation Policies on the Development of the Western Region (Guo Shui Fa [2002] No. 47) and Notice of the People's Government of Ningxia Hui Autonomous Regions on Printing and Distributing the Provisions on Several Policies concerning Attracting Investment in Ningxia Hui Autonomous Region (Ning Zheng Fa [2004] No. 61), and approved by the State Administration of Taxation of Ningxia Hui Autonomous Region, Zhongning Company was exempted from enterprise income tax for the six months ended 30 June 2005 and 2006.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

4 Cash at bank and in hand

	The Group				The Company			
	30 June 2006		31 December 2005		30 June 2006		31 December 2005	
	Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000
Cash in hand								
- Renminbi		1,292		1,016		868		657
Saving accounts and fixed deposits with banks and other financial institutions (within three months)								
- Renminbi		733,727		844,427		222,121		483,718
- US Dollars	24	188	24	191	24	188	24	191
- HK Dollars	8	8	8	8	8	8	8	8
		<u>733,923</u>		<u>844,626</u>		<u>222,317</u>		<u>483,917</u>
Cash and cash equivalents		<u>735,215</u>		<u>845,642</u>		<u>223,185</u>		<u>484,574</u>

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

	30 June 2006	31 December 2005
US Dollars	<u>7.9956</u>	<u>8.0702</u>
HK Dollars	<u>1.0294</u>	<u>1.0403</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

5 Trade receivables

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Trade receivables for the sale of electricity	1,433,315	1,229,497	775,271	653,690
Trade receivables for the sale of heat	58,602	43,263	347	627
	1,491,917	1,272,760	775,618	654,317
Less: Provision for bad and doubtful debts	(15,903)	(15,903)	—	—
Total	<u>1,476,014</u>	<u>1,256,857</u>	<u>775,618</u>	<u>654,317</u>

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

	The Group	
	30 June 2006 '000	31 December 2005 '000
Balance at 1 January	15,903	1,590
Charge for the period/year	—	14,313
Balance at 30 June/31 December	<u>15,903</u>	<u>15,903</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

5 Trade receivables (continued)

The ageing analysis of trade receivables is as follows:

Ageing	The Group							
	30 June 2006				31 December 2005			
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	1,458,645	97.8%	—	—	1,240,938	97.5%	—	—
Between one and two years	1,468	0.1%	—	—	17	—	—	—
Between two and three years	1,467	0.1%	734	50%	3,189	0.3%	1,595	50%
Over three years	30,337	2.0%	15,169	50%	28,616	2.2%	14,308	50%
Total	1,491,917	100%	15,903		1,272,760	100%	15,903	

Ageing	The Company							
	30 June 2006				31 December 2005			
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	775,618	100%	—	—	654,317	100%	—	—

Provision is calculated based on the nature of the receivables and on individual basis. No evidence indicated that recoverability problem exists for the trade receivables aged within one year, therefore no provision for bad and doubtful debts has been made in this regard.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***5 Trade receivables (continued)**

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

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

Total of the five largest trade receivables are as follows:

	30 June 2006		31 December 2005	
	Amount '000	Percentage of trade receivables	Amount '000	Percentage of trade receivables
The Group	1,470,333	98.6%	1,260,180	99.0%
The Company	<u>775,618</u>	<u>100.0%</u>	<u>654,317</u>	<u>100.0%</u>

6 Other receivables

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Amounts due from related parties	—	8,475	181,042	64,929
Others	<u>126,213</u>	<u>66,824</u>	<u>28,897</u>	<u>22,102</u>
	126,213	75,299	209,939	87,031
Less: Provision for bad and doubtful debts	<u>(6,345)</u>	<u>(5,858)</u>	<u>(3,461)</u>	<u>(3,461)</u>
Total	<u>119,868</u>	<u>69,441</u>	<u>206,478</u>	<u>83,570</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

6 Other receivables (continued)

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

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Balance at 1 January	5,858	12,113	3,461	3,628
Transfer from acquisition of subsidiaries	744	—	—	—
Transfer out for sales of investments	(257)	—	—	—
Written back during the period/year	—	(6,255)	—	(167)
Balance at 30 June/ 31 December	<u>6,345</u>	<u>5,858</u>	<u>3,461</u>	<u>3,461</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

6 Other receivables (continued)

The ageing analysis of other receivables is as follows:

Ageing	The Group							
	30 June 2006				31 December 2005			
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	105,281	83.4%	2	—	58,407	77.5%	146	0.2%
Between one and two years	15,283	12.1%	1,152	7.5%	10,983	14.6%	1,093	10%
Between two and three years	241	0.2%	—	—	501	0.7%	10	2%
Over three years	5,408	4.3%	5,191	96%	5,408	7.2%	4,609	85.2%
Total	126,213	100%	6,345		75,299	100%	5,858	

Ageing	The Company							
	30 June 2006				31 December 2005			
	Amount '000	Proportion	Provision '000	Proportion	Amount '000	Proportion	Provision '000	Proportion
Within one year	204,499	97.4%	—	—	83,126	95.5%	59	0.1%
Between one and two years	1,601	0.8%	59	3.7%	12	—	—	—
Between two and three years	241	0.1%	—	—	501	0.6%	10	2%
Over three years	3,598	1.7%	3,402	94.6%	3,392	3.9%	3,392	100%
Total	209,939	100%	3,461		87,031	100%	3,461	

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

6 Other receivables *(continued)*

Provision is calculated based on the ageing analysis of receivables, by nature and on individual basis. The proportion of provision using ageing analysis is as follows: aged within 1 year provides 5%, aged within 1 - 2 years provides 10%, aged within 2 - 3 years provides 50%, aged over 3 years provides 100%.

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

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

Total of the five largest other receivables are as follows:

	30 June 2006		31 December 2005	
	Amount '000	Percentage of other receivables	Amount '000	Percentage of other receivables
The Group	88,115	69.8%	43,660	58.0%
The Company	<u>181,042</u>	<u>86.2%</u>	<u>64,929</u>	<u>74.6%</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

7 Prepayments

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Prepayments to related parties	—	—	56,430	—
Others	121,665	11,168	6,244	7,031
	121,665	11,168	62,674	7,031

Ageing	The Group				The Company			
	30 June 2006		31 December 2005		30 June 2006		31 December 2005	
	Amount '000	Proportion	Amount '000	Proportion	Amount '000	Proportion	Amount '000	Proportion
Within one year	118,739	97.6%	4,501	40.3%	60,007	95.7%	364	5.2%
Between one and two years	259	0.2%	6,667	59.7%	—	—	6,667	94.8%
Between two and three years	2,667	2.2%	—	—	2,667	4.3%	—	—
Total	121,665	100%	11,168	100%	62,674	100%	7,031	100%

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

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

8 Inventories

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Coal	238,393	343,374	65,922	181,111
Fuel oil	37,714	35,400	18,794	19,856
Materials, components and spare parts	271,441	244,334	171,675	169,903
	547,548	623,108	256,391	370,870
Less: Provision for diminution in value of inventories	(73,098)	(64,261)	(57,346)	(57,346)
	<u>474,450</u>	<u>558,847</u>	<u>199,045</u>	<u>313,524</u>

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

Provision for diminution in value of inventories

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Balance at 1 January	64,261	67,268	57,346	58,755
Transfer from acquisition of subsidiaries	8,837	—	—	—
Reversal for the period/year	—	(3,007)	—	(1,409)
Balance at 30 June/ 31 December	<u>73,098</u>	<u>64,261</u>	<u>57,346</u>	<u>57,346</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

8 Inventories (continued)

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

	Six months ended 30 June	
	2006 '000	2005 '000
The Group	4,117,367	3,851,966
The Company	<u>2,112,076</u>	<u>2,224,139</u>

All inventories are purchased.

9 Long-term equity investments

The Group

	Investments in associates '000	Other equity investments '000	Consolidation difference and equity investment difference '000	Total '000
Cost of investment				
Balance at 1 January 2006	915,688	175,639	283,017	1,374,344
Additions for the period	395,000	26,600	85,331	506,931
Transfer from investments in subsidiaries	2,389	3,500	—	5,889
Transfer to investments in jointly controlled entity	(95,337)	—	—	(95,337)
Adjustments under equity method	(39)	—	—	(39)
Disposals	—	(70,200)	—	(70,200)
Dividends received	(1,265)	—	—	(1,265)
Amortisation for the period	—	—	(9,696)	(9,696)
Balance at 30 June 2006	<u>1,216,436</u>	<u>135,539</u>	<u>358,652</u>	<u>1,710,627</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

9 Long-term equity investments (continued)

The Company

	Investments in subsidiaries '000	Investments in jointly controlled entity '000	Investments in associates '000	Other equity investments '000	Equity investment difference '000	Total '000
Cost of investment						
Balance at 1 January 2006	2,875,546	146,405	875,188	172,939	279,112	4,349,190
Additions for the period	953,425	57,200	395,000	26,600	85,331	1,517,556
Transfer from investments in jointly controlled entity	146,405	(146,405)	—	—	—	—
Transfer from investments in associates	—	95,337	(95,337)	—	—	—
Transfer from investments in subsidiaries	(2,389)	—	2,389	—	—	—
Adjustment under equity method	152,348	19,029	(39)	—	—	171,338
Disposals	(53,207)	—	—	(69,000)	—	(122,207)
Dividends received	(20,163)	(4,174)	(1,265)	—	—	(25,602)
Amortisation for the period	—	—	—	—	(9,373)	(9,373)
Balance at 30 June 2006	<u>4,051,965</u>	<u>167,392</u>	<u>1,175,936</u>	<u>130,539</u>	<u>355,070</u>	<u>5,880,902</u>

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

The details of subsidiaries, jointly controlled entity and associates of the Company are listed in note 32.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

9 Long-term equity investments (continued)

(a) At 30 June 2006, the investment in principal subsidiaries of the Company are analysed as follows:

	Huadian Qingdao Power Company Limited	Huadian Welfang Power Company Limited	Huadian Zibo Power Company Limited	Huadian Zhangqiu Power Company Limited	Huadian Tengzhou Xinyuan Power Company Limited	Huadian Xinxiang Power Company Limited	Anhui Huadian Suzhou Power Generation Company Limited	Huadian Ningxia Lingwu Power Generation Company Limited	Other subsidiaries	Total
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Percentage of equity interest	80%	55%	45%	100%	80.41%	54.49%	90%	97%	65%	
Investment period	Nil	20 years	30 years	Nil	Nil	Nil	30 years	30 years	30 years	
Initial investment cost										
- At 30 June 2006	1,037,013	248,318	823,483	374,800	405,740	133,620	140,100	184,872	97,500	76,214
Cost of investment										
Balance at 1 January 2006	1,256,274	526,387	—	436,235	326,072	133,241	62,100	53,350	—	81,877
Add: Additions	—	—	544,169	—	100,000	—	50,000	109,972	97,500	51,784
Transfer from investments in jointly controlled entity	—	—	146,405	—	—	—	—	—	—	—
Adjustments under equity method	59,071	34,314	17,657	11,517	14,419	9,157	—	—	—	6,213
Less: Disposals	—	—	—	—	—	—	—	—	—	(50,207)
Transfer to investments in associates	—	—	—	—	—	—	—	—	—	(2,389)
Dividends received	—	—	—	—	(15,930)	(4,233)	—	—	—	—
Balance at 30 June 2006	1,315,345	560,711	708,231	447,752	424,561	138,165	112,100	163,322	97,500	84,278

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

9 Long-term equity investments *(continued)*

- (b) At 30 June 2006, the investment in the jointly controlled entity of the Company is analysed as follows:

	Weifang Company '000	Zhongning Company '000	Total '000
Percentage of equity interest	30%	50%	
Investment period	30 years	25 years (construction period excluded)	
Initial investment cost - At 30 June 2006	<u>—</u>	<u>142,800</u>	<u>142,800</u>
Cost of investment			
Balance at 1 January 2006	146,405	—	146,405
Add: Additions	—	57,200	57,200
Transfer from investments in associates	—	95,337	95,337
Adjustments under equity method	—	19,029	19,029
Less: Transfer to investments in subsidiaries	(146,405)	—	(146,405)
Dividends received	<u>—</u>	<u>(4,174)</u>	<u>(4,174)</u>
Balance at 30 June 2006	<u>—</u>	<u>167,392</u>	<u>167,392</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

9 Long-term equity investments (continued)

(c) At 30 June 2006, the investment in principal associates of the Group and the Company are listed as follows:

Associates	Investment period	Initial investment cost '000	Percentage of equity invest	Balance at 1 January 2006 '000	Additions '000	Transfer from investments in subsidiaries '000	Transfer to investments in associates '000	Adjustments under equity method '000	Dividends received '000	Balance at 30 June 2006 '000
(At 30 June 2006)										
The Company										
Ningxia Power Generation (Group) Company Limited ("Ningxia Power Company")	Nil	280,000	31.11%	286,835	—	—	—	7,022	(1,265)	292,592
Anhui Chizhou Jihua Power Generation Company Limited ("Chizhou Company")	30 years	258,940	40%	248,016	—	—	—	(11,177)	—	236,839
Huadian Property Co. Ltd. ("Huadian Property")	Nil	165,000	30%	165,000	—	—	—	—	—	165,000
Sichuan Luzhou Chuannan Power Generation Company Limited ("Luzhou Company")	25 years	160,000	40%	80,000	80,000	—	—	—	—	160,000
Zhongning Company	25 years (construction period excluded)	—	—	95,337	—	—	(95,337)	—	—	—
Huadian Coal Industry Group Company Limited ("Huadian Coal")	Nil	315,000	20.19%	—	315,000	—	—	4,217	—	319,217
Zoucheng Lunan Electric Power Technology Development Company Limited ("Zoucheng Lunan")	Nil	1,733	40%	—	—	2,389	—	(101)	—	2,288
The Company total		1,180,673		875,188	395,000	2,389	(95,337)	(39)	(1,265)	1,175,936
Sichuan Huayingshan Longtan Coal Company Limited ("Longtan Coal Company")	Nil	40,500	36%	40,500	—	—	—	—	—	40,500
The Group total		1,221,173		915,688	395,000	2,389	(95,337)	(39)	(1,265)	1,216,436

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

9 Long-term equity investments (continued)

(d) At 30 June 2006, the investment in principal other equity investments of the Group and the Company are listed as follows:

Name of investee enterprise	Investment period	Initial investment	Percentage of equity interest	Balance at 1 January 2006	Transfer from investments in		Balance at 30 June 2006
		cost	interest	2006	Addition	subsidiaries Disposals	2006
		'000		'000	'000	'000	'000
(At 30 June 2006)							
The Company							
Shandong Luneng Heze Coal Power Development Company Limited	50 years	91,339	18.4%	91,339	—	—	91,339
Shandong Luneng Minerals Group Company Limited	—	—	—	69,000	—	(69,000)	—
Shanxi Jinzhongnan Railway Coal Distribution Company Limited	Nil	39,200	10.42%	12,600	26,600	—	39,200
The Company total		130,539		172,939	26,600	(69,000)	130,539
Others		5,000		2,700	—	3,500 (1,200)	5,000
The Group total		135,539		175,639	26,600	3,500 (70,200)	135,539

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

9 Long-term equity investments (continued)

(e) At 30 June 2006, the consolidation difference and equity investment difference of the Group and the Company are listed as follows:

	Guangan Company '000	Qingdao Company '000	Weifang Company '000	Chizhou Company '000	Suzhou Company '000	Xinxiang Company '000	Others '000	The Company total '000	Zibo Company '000	The Group total '000
Amortisation period	10 years	20 years	30 years	10 years	30 years	30 years			10 years	
Consolidation difference and equity investment difference										
Balance at 1 January 2006	29,436	90,412	235,706	2,940	21,550	28,000	37,556	445,600	6,506	452,106
Additions	—	—	85,331	—	—	—	—	85,331	—	85,331
Balance at 30 June 2006	29,436	90,412	321,037	2,940	21,550	28,000	37,556	530,931	6,506	537,437
Accumulated amortisation										
Balance at 1 January 2006	(5,887)	(39,178)	(98,211)	(417)	—	—	(22,795)	(166,488)	(2,601)	(169,089)
Amortisation for the period	(1,472)	(1,349)	(3,714)	(147)	(359)	(467)	(1,865)	(9,373)	(323)	(9,696)
Balance at 30 June 2006	(7,359)	(40,527)	(101,925)	(564)	(359)	(467)	(24,660)	(175,861)	(2,924)	(178,785)
Net book value:										
Balance at 30 June 2006	22,077	49,885	219,112	2,376	21,191	27,533	12,896	355,070	3,582	358,652
Balance at 1 January 2006	23,549	51,234	137,495	2,523	21,550	28,000	14,761	279,112	3,905	283,017

At 30 June 2006, the Group's proportion of the total long-term investments to the net assets was 13.5% (31 December 2005: 11.0%).

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

10 Fixed assets

	The Group			
	Land use rights and buildings '000	Generators and related machinery and equipment '000	Others '000	Total '000
Cost:				
Balance at 1 January 2006	8,220,932	24,104,398	682,049	33,007,379
Transfer from acquisition for subsidiaries and jointly controlled entity	785,017	1,828,401	81,453	2,694,871
Additions for the period	7,856	1,998	28,288	38,142
Transfer from construction in progress (note 11)	806	5,500	2,377	8,683
Disposals for the period	(20,243)	—	(14,618)	(34,861)
Balance at 30 June 2006	8,994,368	25,940,297	779,549	35,714,214
Accumulated depreciation:				
Balance at 1 January 2006	(2,536,749)	(8,939,607)	(353,286)	(11,829,642)
Transfer from acquisition for subsidiaries and jointly controlled entity	(244,347)	(657,705)	(42,893)	(944,945)
Charge for the period	(193,116)	(656,035)	(37,818)	(886,969)
Written back on disposal	7,286	—	10,338	17,624
Balance at 30 June 2006	(2,966,926)	(10,253,347)	(423,659)	(13,643,932)
Net book value:				
Balance at 30 June 2006	6,027,442	15,686,950	355,890	22,070,282
Balance at 1 January 2006	5,684,183	15,164,791	328,763	21,177,737

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

10 Fixed assets (continued)

	The Company			
	Land use rights and buildings '000	Generators and related machinery and equipment '000	Others '000	Total '000
Cost:				
Balance at 1 January 2006	3,946,467	14,607,958	462,046	19,016,471
Additions for the period	7,652	1,323	20,914	29,889
Transfer from construction in progress (note 11)	806	3,904	1,331	6,041
Disposals for the period	—	—	(1,136)	(1,136)
Balance at 30 June 2006	<u>3,954,925</u>	<u>14,613,185</u>	<u>483,155</u>	<u>19,051,265</u>
Accumulated depreciation:				
Balance at 1 January 2006	(1,601,620)	(6,162,724)	(222,705)	(7,987,049)
Charge for the period	(95,755)	(367,600)	(20,578)	(483,933)
Written back on disposal	—	—	48	48
Balance at 30 June 2006	<u>(1,697,375)</u>	<u>(6,530,324)</u>	<u>(243,235)</u>	<u>(8,470,934)</u>
Net book value:				
Balance at 30 June 2006	<u>2,257,550</u>	<u>8,082,861</u>	<u>239,920</u>	<u>10,580,331</u>
Balance at 1 January 2006	<u>2,344,847</u>	<u>8,445,234</u>	<u>239,341</u>	<u>11,029,422</u>

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

	30 June 2006 '000	31 December 2005 '000
The Group	<u>1,817,557</u>	1,532,354
The Company	<u>1,114,582</u>	<u>1,071,330</u>

At 30 June 2006, the Group has no temporarily idle fixed assets.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

11 Construction materials and construction in progress

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

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

Project	Budgeted amount '000	Balance at 1 January 2006 '000	Additions		Transfer to fixed assets '000	Transfer to investments in subsidiaries '000	Balance at 30 June 2006 '000	Percentage of completion	Source of funding	Capitalisation of borrowing costs during the period '000
			through acquisition of subsidiaries '000	Additions '000						
The Company										
Zouxian Power Plant Phase IV generating units	8,128,419	535,272	—	644,521	—	—	1,179,793	14.5%	Self-financing and bank loans	11,999
Ningwu Company generating units	5,046,580	344,827	—	—	—	(344,827)	—	Self-financing and bank loans	—	
Construction materials		2,084,575	—	329,695	—	(548,960)	1,865,310	—	Self-financing and bank loans	23,140
Desulphurisation, technical improvement projects and others		159,216	—	326,464	(6,041)	—	479,639	—	Self-financing and bank loans	11,773
Total for the Company		3,123,890	—	1,300,680	(6,041)	(893,787)	3,524,742			46,912
Subsidiaries										
Guangan Company Phase III generating units	4,490,000	407,430	—	239,570	(1,389)	—	645,611	14.4%	Self-financing and bank loans	11,027
Qingdao Company Phase II generating units	2,502,550	241,134	—	150,371	—	—	391,505	74.2%	Self-financing and bank loans	18,700
Tengzhou Company Phase II generating units	2,666,315	356,949	—	503,959	—	—	860,908	32.3%	Self-financing and bank loans	14,939
Zhanggu Company Phase II generating units	2,857,660	684,232	—	775,120	—	—	1,459,352	51.1%	Self-financing and bank loans	19,848
Weltang Company Phase II generating units	4,759,520	—	519,213	678,520	—	—	1,197,733	25.2%	Self-financing and bank loans	17,795
Ningwu Company generating units	5,046,580	—	—	348,337	—	344,827	693,164	13.7%	Self-financing and bank loans	9,865

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
 (continued)

11 Construction materials and construction in progress (continued)

 Major construction materials and construction in progress of the Group are as follows:
 (continued)

Project	Budgeted amount '000	Balance at 1 January '000	Additions		Transfer to fixed assets '000	Transfer to investments in subsidiaries '000	Balance at 30 June 2006 '000	Percentage of completion	Source of funding	Capitalisation of borrowing costs during the period '000
			through acquisition of subsidiaries '000	Additions '000						
Subsidiaries (continued)										
Xinxiang Company Baoshan Power Plant generating units	4,970,260	248,078	—	266,588	—	—	514,666	10.4%	Self-financing and bank loans	9,273
Suzhou Company generating units	4,702,560	413,257	—	323,543	—	—	736,800	15.7%	Self-financing and bank loans	13,348
Construction materials		2,716,388	873,123	1,081,907	—	548,960	5,220,378	—	Self-financing and bank loans	102,162
Desulphurisation, technical improvement projects and others		270,412	114,157	198,028	(1,253)	—	581,344	—	Self-financing and bank loans	2,251
Sub-total for subsidiaries		5,337,880	1,506,493	4,565,943	(2,642)	893,787	12,301,461			219,208
Share of jointly controlled entity										
Welfang Company Phase II generating units	1,427,853	155,764	(155,764)	—	—	—	—	—	Self-financing and bank loans	—
Construction materials		261,937	(261,937)	—	—	—	—	—	Self-financing and bank loans	—
Desulphurisation, technical improvement projects and others		34,247	(34,247)	1,298	—	—	1,298	—	Self-financing and bank loans	—
Sub-total for share of jointly controlled entity		451,948	(451,948)	1,298	—	—	1,298			—
Total for the Group		8,813,718	1,054,545	5,867,921	(8,683)	—	15,827,501			266,120

(note 10)

(note 26)

The borrowing costs of the Group for the period have been capitalised at an average rate of 5.45% (six months ended 30 June 2005: 5.11%).

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

*(continued)***12 Intangible assets**

	The Group '000	The Company '000
Cost:		
Balance at 1 January 2006	212,115	163,431
Additions	15,742	872
Additions through acquisition of subsidiaries	24,172	—
	<u>252,029</u>	<u>164,303</u>
Accumulated amortisation:		
Balance at 1 January 2006	(41,368)	(36,124)
Charge for the period	(6,407)	(4,751)
Additions through acquisition of subsidiaries	(4,373)	—
	<u>(52,148)</u>	<u>(40,875)</u>
Net book value:		
Balance at 30 June 2006	<u>199,881</u>	<u>123,428</u>
Balance at 1 January 2006	<u>170,747</u>	<u>127,307</u>

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

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

At 30 June 2006, the remaining amortisation period of land use rights are ranging from 6 to 66 years.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

13 Short-term loans

	The Group					
	30 June 2006			31 December 2005		
	Interest rate	Original currency '000	Renminbi/ Renminbi equivalent '000	Interest rate	Original currency '000	Renminbi/ Renminbi equivalent '000
Short-term bank loans						
- Renminbi	4.70% - 5.58%		6,090,100	4.70% - 5.58%		3,526,860
- US Dollars	5.57% - 6.40%	49,139	392,896	4.60% - 5.43%	33,139	267,437
Short-term Renminbi other loans (note)	5.00% - 5.58%		747,500	5.02%		300,000
			<u>7,230,496</u>			<u>4,094,297</u>

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

13 Short-term loans (continued)

	The Company					
	30 June 2006			31 December 2005		
	Interest rate	Original currency '000	Renminbi/Renminbi equivalent '000	Interest rate	Original currency '000	Renminbi/Renminbi equivalent '000
Short-term bank loans						
- Renminbi	4.70% - 5.40%		1,872,100	4.70% - 5.22%		891,160
- US Dollars	5.57% - 6.40%	49,139	392,896	4.60% - 5.43%	33,139	267,437
Short-term Renminbi other loans (note)	5.02% - 5.27%		40,000	5.02%		42,000
			<u>2,304,996</u>			<u>1,200,597</u>

note: Short-term Renminbi other loans

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

13 Short-term loans (continued)

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
China Huadian Finance Corporation Limited ("Huadian Finance")	300,000	300,000	—	—
Huadian Coal	300,000	—	—	—
Ningxia Power Company	147,500	—	—	—
Other related party	—	—	40,000	42,000
	<u>747,500</u>	<u>300,000</u>	<u>40,000</u>	<u>42,000</u>

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

The other loans borrowed from Huadian Coal and Ningxia Power Company, associates of the Company, bear interest rates at 5% and 5.58% respectively.

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

	30 June 2006	31 December 2005
US Dollars	<u>7.9956</u>	<u>8.0702</u>

All the above short-term loans are unsecured.

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

14 Trade payables

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

At 31 December 2005 and 30 June 2006, all the trade payables of the Group are due within one year and no individual significant trade payable are aged more than three years.

15 Taxes payable

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
VAT payable	99,104	99,495	69,378	49,437
City maintenance and construction tax payable	11,643	17,440	7,036	14,588
Enterprise income tax payable	123,179	113,970	97,792	79,098
Enterprise income tax recoverable	(1,803)	(2,789)	—	—
Others	15,305	22,453	10,184	17,325
Total	247,428	250,569	184,390	160,448

16 Other payables

Other payables mainly represent payable for education surcharge. Education surcharge is calculated base on 3% - 4% of VAT payable.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

17 Other creditors

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Amount due to China Huadian	10,415	33,000	—	33,000
Amount due to other related parties	—	—	129,820	101,753
Amount due to independent construction companies	484,821	317,092	46,212	44,896
Others	374,272	274,662	134,383	106,104
	<u>869,508</u>	<u>624,754</u>	<u>310,415</u>	<u>285,753</u>

Amount due to independent construction companies mainly represent quality guarantee deposits.

Except for amount due to China Huadian, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of other creditors.

At 31 December 2005 and 30 June 2006, there is no individual significant other creditors of the Group that aged over three years.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

18 Long-term loans due within one year

	The Group				The Company			
	30 June 2006		31 December 2005		30 June 2006		31 December 2005	
	Original currency '000	Renminbi/ equivalent '000	Original currency '000	Renminbi/ equivalent '000	Original currency '000	Renminbi/ equivalent '000	Original currency '000	Renminbi/ equivalent '000
Bank loans due within one year								
- Renminbi		1,195,500		1,437,428		—		350,000
- US Dollars	116,320	930,049	32,320	260,826	116,000	927,489	32,000	258,243
Shareholder loans due within one year								
- Renminbi		—		175,000		—		175,000
State loans due within one year								
- US Dollars	1,234	9,864	1,188	9,584	1,234	9,864	1,188	9,584
Other loans due within one year								
- Renminbi		880,000		80,000		700,000		—
- US Dollars	2,307	18,450	2,308	18,623	—	—	—	—
		<u>3,033,863</u>		<u>1,981,461</u>		<u>1,637,353</u>		<u>792,827</u>
		(note 19(b))		(note 19(b))		(note 19(b))		(note 19(b))

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

	30 June 2006	31 December 2005
US Dollars	<u>7.9956</u>	<u>8.0702</u>

Please refer to note 19 for details of loans.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

19 Long-term loans

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

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Bank loans				
- Between one year to two years	1,054,659	2,055,743	289,060	996,071
- Between two years to five years	6,029,558	5,315,555	1,982,353	2,127,687
- Over five years	5,074,414	2,414,593	330,000	—
	<u>12,158,631</u>	<u>9,785,891</u>	<u>2,601,413</u>	<u>3,123,758</u>
Shareholder loans (note (i))				
- Between two years to five years	535,000	335,000	335,000	335,000
- Over five years	800,000	800,000	250,000	250,000
	<u>1,335,000</u>	<u>1,135,000</u>	<u>585,000</u>	<u>585,000</u>
State loans (note (ii))				
- Between one year to two years	10,640	10,340	10,640	10,340
- Between two years to five years	39,603	36,374	38,239	36,169
- Over five years	30,734	23,465	24,598	21,420
	<u>80,977</u>	<u>70,179</u>	<u>73,477</u>	<u>67,929</u>
Other loans (note (iii))				
- Between one year to two years	296,848	828,623	198,037	700,000
- Between two years to five years	151,492	537,024	—	198,037
- Over five years	207,480	—	—	—
	<u>655,820</u>	<u>1,365,647</u>	<u>198,037</u>	<u>898,037</u>
	<u>14,230,428</u>	<u>12,356,717</u>	<u>3,457,927</u>	<u>4,674,724</u>

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

19 Long-term loans (continued)

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

The Group

Interest rates and periods	30 June 2006		31 December 2005	
	Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000
Long-term bank loans				
Renminbi loans		Interest rates mainly ranging from 5.02% to 6.39% per annum as at 30 June 2006 (2005: 4.94% to 6.12%), with maturity up to 2022	13,249,680	10,364,700
US Dollars loans	129,383	Interest rates mainly ranging from 5.90% to 6.75% per annum as at 30 June 2006 (2005: 4.67% to 5.86%), with maturity up to 2017	1,034,500	138,713
			14,284,180	1,119,445
Shareholder loans (note (j))				
Renminbi loans		Interest rates mainly ranging from 4.15% to 5.85% per annum as at 30 June 2006 (2005: 4.98% to 5.85%), with maturity up to 2015	1,335,000	1,310,000

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

19 Long-term loans (continued)

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

The Group (continued)

Interest rates and periods	30 June 2006		31 December 2005	
	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent
	'000	'000	'000	'000
State loans (note (ii))				
Renminbi loans	Interest rates mainly at 2.55% per annum as at 30 June 2006 (2005: 2.55%), with maturity up to 2020		18,700	2,250
US Dollars loans	Interest rates mainly at 4.84% per annum as at 30 June 2006 (2005: 3.77%), with maturity up to 2012		9,023	72,141
		90,841	9,605	77,513
				79,763
Other loans (note (iii))				
Renminbi loans	Interest rates mainly ranging from 5.18% to 5.76% per annum as at 30 June 2006 (2005: 5.02% to 5.76%), with maturity up to 2021		1,480,458	1,380,468
US Dollars loans	Interest rates mainly at 5.93% per annum as at 30 June 2006 (2005: 5.93%), with maturity up to 2010		9,232	73,812
		1,554,270	10,384	83,802
		17,264,291		1,464,270
				14,338,178
Less: Long-term loans due within one year (note 18)		(3,033,863)		(1,981,461)
		14,230,428		12,356,717

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

19 Long-term loans (continued)

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

The Company

Interest rates and periods	30 June 2006		31 December 2005	
	Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000
Long-term bank loans				
Renminbi loans	Interest rates mainly ranging from 5.18% to 5.75% per annum as at 30 June 2006 (2005: 4.94% to 5.51%), with maturity up to 2016		2,541,060	2,661,060
US Dollars loans	Interest rates mainly ranging from 5.90% to 6.75% per annum as at 30 June 2006 (2005: 4.67% to 5.86%), with maturity up to 2008		123,548	987,842
			132,703	1,070,941
			<u>3,528,902</u>	<u>3,732,001</u>
Shareholder loans (note (j))				
Renminbi loans	Interest rates mainly ranging from 5.27% to 5.85% per annum as at 30 June 2006 (2005: 5.27% to 5.85%), with maturity up to 2011		585,000	760,000

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

19 Long-term loans (continued)

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

The Company (continued)

Interest rates and periods	30 June 2006		31 December 2005	
	Original currency '000	Renminbi/ Renminbi equivalent '000	Original currency '000	Renminbi/ Renminbi equivalent '000
State loans (note (ii))				
Renminbi loans	Interest rates mainly at 2.55% per annum as at 30 June 2006 (2005: Nil), with maturity up to 2020		11,200	—
US Dollars loans	Interest rates mainly at 4.84% per annum as at 30 June 2006 (2005: 3.77%), with maturity up to 2012		9,023	77,513
		<u>83,341</u>		<u>77,513</u>
Other loans (note (iii))				
Renminbi loans	Interest rates mainly ranging from 5.18% to 5.43% per annum as at 30 June 2006 (2005: 5.02% to 5.18%), with maturity up to 2008		898,037	898,037
		<u>5,095,280</u>		<u>5,467,551</u>
Less: Long-term loans due within one year (note 18)		<u>(1,637,353)</u>		<u>(792,827)</u>
		<u><u>3,457,927</u></u>		<u><u>4,674,724</u></u>

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

19 Long-term loans (continued)

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

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

	30 June 2006	31 December 2005
US Dollars	<u>7.9956</u>	<u>8.0702</u>

note (i) Shareholder loans

Balance of shareholder loans is analysed as follows:

	<u>The Group</u>		<u>The Company</u>	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	'000	'000	'000	'000
Shandong International Trust and Investment Company Limited ("SITIC")	585,000	760,000	585,000	760,000
China Huadian	750,000	550,000	—	—
	<u>1,335,000</u>	<u>1,310,000</u>	<u>585,000</u>	<u>760,000</u>

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

Shareholder loans borrowed from China Huadian bear interest rates at 4.15% - 5.4% (31 December 2005: 4.98%). These loans represent corporate debentures issued by China Huadian, part of which was then on-lent to the Group with the same interest rate and repayment term.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

19 Long-term loans (continued)

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

note (ii) State loans

The loans mainly represent a loan facility of US\$310 million granted by the International Bank for Reconstruction and Development (the "World Bank") to the PRC state government pursuant to a loan agreement entered into 1992, to finance the Zouxian Phase III project. According to the terms of the aforesaid loan agreement, the PRC state government on-lent the loan facility to the Shandong Provincial Government which in turn on-lent it to Shandong Electric Power (Group) Corporation ("SEPCO"). Pursuant to a notice from the Finance Office of Shandong Province dated 5 August 1997 and as formally agreed by the World Bank, part of the loan facility in the principal amount of US\$278.25 million was made available by the Shandong Provincial Government to the Company. The repayment of this loan is guaranteed by SEPCO.

note (iii) Other loans

Balance of other loans is analysed as follows:

	<u>The Group</u>		<u>The Company</u>	
	<u>30 June</u> <u>2006</u> <u>'000</u>	<u>31 December</u> <u>2005</u> <u>'000</u>	<u>30 June</u> <u>2006</u> <u>'000</u>	<u>31 December</u> <u>2005</u> <u>'000</u>
Huadian				
Finance	1,088,037	988,037	898,037	898,037
Others	466,233	476,233	—	—
	<u>1,554,270</u>	<u>1,464,270</u>	<u>898,037</u>	<u>898,037</u>

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

19 Long-term loans (continued)

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

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
On credit	13,208,640	10,705,065	5,023,139	5,390,038
Guaranteed by SEPCO	72,141	77,513	72,141	77,513
Guaranteed by				
China Huadian	380,000	380,000	—	—
Guaranteed by third parties	1,083,010	1,245,600	—	—
Secured	2,520,500	1,930,000	—	—
	<u>17,264,291</u>	<u>14,338,178</u>	<u>5,095,280</u>	<u>5,467,551</u>
Less: Long-term loans due within one year	<u>(3,033,863)</u>	<u>(1,981,461)</u>	<u>(1,637,353)</u>	<u>(792,827)</u>
	<u>14,230,428</u>	<u>12,356,717</u>	<u>3,457,927</u>	<u>4,674,724</u>

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

20 Deferred tax

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

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Deferred tax assets:				
Preliminary expenses	6,377	8,431	883	1,227
Provision for stock and trade receivables	28,477	25,461	20,067	20,067
Depreciation of fixed assets	1,160	1,160	1,160	1,160
Others	34,390	37,082	28,360	28,372
	<u>70,404</u>	<u>72,134</u>	<u>50,470</u>	<u>50,826</u>
Set-off within legal tax units and jurisdictions	<u>(13,753)</u>	<u>(13,312)</u>	<u>—</u>	<u>—</u>
Total deferred tax assets	<u>56,651</u>	<u>58,822</u>	<u>50,470</u>	<u>50,826</u>
Deferred tax liabilities:				
Depreciation of fixed assets	(444,308)	(312,350)	—	—
Set-off within legal tax units and jurisdictions	<u>13,753</u>	<u>13,312</u>	<u>—</u>	<u>—</u>
Total deferred tax liabilities	<u>(430,555)</u>	<u>(299,038)</u>	<u>—</u>	<u>—</u>
Net deferred tax (liabilities)/ assets	<u>(373,904)</u>	<u>(240,216)</u>	<u>50,470</u>	<u>50,826</u>

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

21 Share capital

	30 June 2006 '000	31 December 2005 '000
Registered, issued and paid up capital:		
4,021,056,200 domestic shares of RMB1 each (unlisted)	4,021,056	4,021,056
1,431,028,000 H shares of RMB1 each	1,431,028	1,431,028
569,000,000 A shares of RMB1 each (listed)	569,000	569,000
	<u>6,021,084</u>	<u>6,021,084</u>

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***22 Capital reserve, statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve**

(a) Capital reserve

The movement of capital reserve is as follows:

	The Group and the Company		
	Share premium '000	Others '000	Total '000
At 1 January 2005	747,941	7,442	755,383
Additions	1,120,501	21,677	1,142,178
At 31 December 2005 and 30 June 2006	<u>1,868,442</u>	<u>29,119</u>	<u>1,897,561</u>

Share premium represents the net premium received from the issuance of H Shares in June 1999 and the issuance of RMB ordinary shares in January 2005. Other capital reserves mainly represent the transfer of government grants from special payables after completion of the relevant projects.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

22 Capital reserve, statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve *(continued)*

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

	The Group and the Company			Total '000
	Statutory surplus reserve '000	Statutory public welfare fund '000	Discretionary surplus reserve '000	
At 1 January 2005	860,722	333,085	63,690	1,257,497
Profit appropriations	101,497	50,748	—	152,245
Transfer to discretionary surplus reserve	—	(4,399)	4,399	—
At 31 December 2005	962,219	379,434	68,089	1,409,742
Transfer to statutory surplus reserve	379,434	(379,434)	—	—
At 30 June 2006	<u>1,341,653</u>	<u>—</u>	<u>68,089</u>	<u>1,409,742</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

22 Capital reserve, statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve *(continued)*

(c) Profit appropriations

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

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

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

(iii) According to the Notice of the Ministry of Finance on accounting issues relating to the implementation of the Company Law of the PRC (Cai Qi [2006] No. 67), the Company transferred the balance of the statutory public welfare fund as at 31 December 2005 to statutory surplus reserve.

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

22 Capital reserve, statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve *(continued)*

- (c) Profit appropriations *(continued)*
- (iv) For the six months ended 30 June 2006, the Company did not make appropriations to statutory surplus reserve or discretionary surplus reserve.
- For details of distribution of dividend, please refer to note 23.
- (v) According to the articles of association of the Company, the retained profits available for distribution are the lower of the amounts determined under PRC Accounting Standards and Regulations applicable to the Company and the amount determined under International Financial Reporting Standards ("IFRS") or the applicable financial regulations of the place in which the Company is listed (if the financial statements of the Group is not prepared under IFRS).

23 Dividends

- (a) Dividends paid for the six months ended 30 June 2005 and 2006 are as follows:

	Six months ended 30 June	
	2006	2005
	'000	'000
Final dividend of RMB0.065 per share for year 2005	391,370	—
Final dividend of RMB0.035 per share for year 2004	—	210,738
	391,370	210,738

- (b) The Company did not declare any dividends for the six months ended 30 June 2005 and 2006.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

24 Sales from principal activities

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

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	'000	'000	'000	'000
Revenue from sale of electricity	6,956,095	6,254,736	3,763,357	3,730,371
Revenue from sale of heat	159,959	144,712	2,479	—
	7,116,054	6,399,448	3,765,836	3,730,371

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

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

	Six months ended 30 June			
	2006		2005	
	Total sales	Percentage over sales from principal activities	Total sales	Percentage over sales from principal activities
	'000		'000	
The Group	7,033,383	98.8%	6,352,455	99.3%
The Company	3,765,836	100%	3,730,371	100%

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

25 Sales taxes and surcharges

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2006 '000	2005 '000	2006 '000	2005 '000
City maintenance and construction tax	55,772	39,855	34,166	23,249
Education surcharge	32,437	22,914	19,523	13,285
	<u>88,209</u>	<u>62,769</u>	<u>53,689</u>	<u>36,534</u>

26 Financial expenses

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2006 '000	2005 '000	2006 '000	2005 '000
Interest incurred	608,904	361,969	191,016	134,315
Less: Interest capitalised	(266,120)	(74,040)	(46,912)	(10,673)
Net interest expenses	342,784	287,929	144,104	123,642
Interest income	(4,542)	(11,511)	(1,825)	(8,209)
Net exchange gain	(14,481)	—	(13,362)	—
Net gain on derivative financial instruments	(18,654)	(20,660)	(18,654)	(20,660)
Total	<u>305,107</u>	<u>255,758</u>	<u>110,263</u>	<u>94,773</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

27 Investment income

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2006 '000	2005 '000	2006 '000	2005 '000
Long-term equity investment income				
- Accounted for under the cost method	3,140	—	3,140	—
- Accounted for under the equity method	(39)	9,533	171,338	175,519
Amortisation of equity investment difference	(147)	(147)	(9,373)	(14,355)
Gain on disposal of investment	16,156	—	16,156	—
Total	19,110	9,386	181,261	161,164

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

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

28 Income tax

Income tax in the income statement represents:

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2006 '000	2005 '000	2006 '000	2005 '000
Current taxation				
Charge for PRC enterprise income tax for the period	210,452	162,680	170,220	132,076
Deferred taxation				
Original and reversal of temporary differences	56,590	64,365	356	12,183
	<u>267,042</u>	<u>227,045</u>	<u>170,576</u>	<u>144,259</u>

For six months ended 30 June 2005 and 2006, enterprise income tax is calculated at applicable rate on taxable profits (note 3). There was no material deferred taxation not recognised by the Group.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

29 Related parties and material related party transactions

(a) Related parties that control/ are controlled by the Company

Company name	Registered address	Principal operation	Relationship with the Company	Type of enterprise	Authorised representative
China Huadian	Beijing, the PRC	Development, construction and operation management of electricity related business, organisation of production and sale of electricity and heat	Holding company	State-owned enterprise	He Gong
Guangan Company	Guangan, the PRC	Generation and sale of electricity	Subsidiary	Limited liability company	Chen Jianhua
Qingdao Company	Qiangdao, the PRC	Generation and sale of electricity and heat	Subsidiary	Limited liability company	Chen Jianhua
Weifang Company	Weifang, the PRC	Generation and sale of electricity	Subsidiary	Limited liability company	Zhong Tonglin
Zibo Company	Zibo, the PRC	Generation and sale of electricity and heat	Subsidiary	Limited liability company	Wang Wenqi
Zhangqiu Company	Zhangqiu, the PRC	Generation and sale of electricity and heat	Subsidiary	Limited liability company	Zhong Tonglin

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

29 Related parties and material related party transactions (continued)

(a) Related parties that control/ are controlled by the Company (continued)

Company name	Registered address	Principal operation	Relationship with the Company	Type of enterprise	Authorised representative
Tengzhou Company	Tengzhou, the PRC	Generation and sale of electricity and heat	Subsidiary	Limited liability company	Gou Wei
Xinxiang Company	Xinxiang, the PRC	Development of power plant	Subsidiary	Limited liability company	Yang Jiapeng
Suzhou Company	Suzhou, the PRC	Development of power plant	Subsidiary	Limited liability company	Zhang Tao
Ningwu Company	Ningwu, the PRC	Development of power plant	Subsidiary	Limited liability company	Geng Yuanzhu
Sichuan Huadian Luding Hydropower Company Limited ("Luding Company")	Garze Tibetan Autonomous Region, the PRC	Development of power plant	Subsidiary	Limited liability company	Zhong Tonglin
Jiangsu Huadian Binhai Wind Power Company Limited ("Binhai Company")	Yancheng, the PRC	Development of power plant	Subsidiary	Limited liability company	Gou Wei

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

29 Related parties and material related party transactions (continued)

(a) Related parties that control/ are controlled by the Company (continued)

Company name	Registered address	Principal operation	Relationship with the Company	Type of enterprise	Authorised representative
Huadian International Shandong Materials Company Limited ("Materials Company")	Jinan, the PRC	Procurement of materials	Subsidiary	Limited liability company	Wang Wenqi
Huadian Qingdao Heat Company Limited ("Qingdao Heat Company")	Qingdao, the PRC	Sale of heat	Subsidiary	Limited liability company	Wang Wenqi
Huadian International Shandong Project Company Limited ("Project Company")	Jinan, the PRC	Management of construction project	Subsidiary	Limited liability company	Sun Qingsong
Huadian International Shandong Information Company Limited ("Information Company")	Jinan, the PRC	Development and maintenance of information system	Subsidiary	Limited liability company	Zhong Tonglin

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

29 Related parties and material related party transactions *(continued)*

- (b) Registered capital and its movement of the related parties that control / are controlled by the Company

Company name	Balance at 1 January 2006 '000	Additions for the period '000	Balance at 30 June 2006 '000
China Huadian	12,000,000	—	12,000,000
Guangan Company	1,270,260	—	1,270,260
Qingdao Company	380,000	143,000	523,000
Weifang Company	200,000	1,050,000	1,250,000
Zibo Company	374,800	—	374,800
Zhangqiu Company	380,508	100,242	480,750
Tengzhou Company	245,000	—	245,000
Xinxiang Company	69,000	50,000	119,000
Suzhou Company	55,000	113,464	168,464
Lingwu Company	—	150,000	150,000
Luding Company	—	10,000	10,000
Binhai Company	—	10,000	10,000
Materials Company	30,000	—	30,000
Qingdao Heat Company	20,000	—	20,000
Project Company	3,000	—	3,000
Information Company	—	3,000	3,000
	<u> </u>	<u> </u>	<u> </u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

29 Related parties and material related party transactions (continued)

- (c) Shareholding and its movement of related parties that control/ are controlled by the Company

Company name	Balance at		Additions for		Balance at	
	1 January 2006		the year		30 June 2006	
	Shares '000	%	Shares '000	%	Shares '000	%
China Huadian	3,011,075	50.01	—	—	3,011,075	50.01
Guangan Company	1,016,200	80.00	—	—	1,016,200	80.00
Qingdao Company	209,000	55.00	78,650	—	287,650	55.00
Weifang Company	60,000	30.00	502,500	15.00	562,500	45.00
Zibo Company	374,800	100.00	—	—	374,800	100.00
Zhangqiu Company	305,975	80.41	80,606	—	386,581	80.41
Tengzhou Company	133,500	54.49	—	—	133,500	54.49
Xinxiang Company	62,100	90.00	45,000	—	107,100	90.00
Suzhou Company	53,350	97.00	110,060	—	163,410	97.00
Lingwu Company	—	—	97,500	65.00	97,500	65.00
Luding Company	—	—	10,000	100.00	10,000	100.00
Binhai Company	—	—	10,000	100.00	10,000	100.00
Materials Company	28,200	94.00	1,800	6.00	30,000	100.00
Qingdao Heat Company	11,000	55.00	—	—	11,000	55.00
Project Company	2,820	94.00	180	6.00	3,000	100.00
Information Company	—	—	3,000	100.00	3,000	100.00

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

29 Related parties and material related party transactions *(continued)*

(d) Related parties that do not control / are not controlled by the Company

Major related parties that do not control / are not controlled by the Company up to 30 June 2006 were:

<u>Company name</u>	<u>Relationship with the Company</u>
SITIC	holding 15.00% shareholding in the Company
China Huadian Engineering (Group) Corporation	Controlled by China Huadian
Huadian Finance	Controlled by China Huadian
Huadian Coal	Associate
Ningxia Power Company	Associate

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

		<u>Six months ended 30 June</u>	
		<u>2006</u>	<u>2005</u>
<i>Note</i>		<i>'000</i>	<i>'000</i>
Construction costs	(i)	45,111	—
Interest expenses	(ii)	75,030	41,997
Loans borrowed from related party	(ii)	630,000	498,037
Loans repaid to related party	(ii)	375,000	248,037

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

29 Related parties and material related party transactions *(continued)*

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

Notes:

- (i) *The amount represented construction cost paid and payables to China Huadian Engineering (Group) Corporation.*
- (ii) *Loans borrowed from SITIC, China Huadian, Huadian Finance, Huadian Coal and Ningxia Power Company are set out in notes 13 and 19.*
- (f) In April 2006, the Company contributed RMB315 million to the registered capital of Huadian Coal, which was originally a wholly owned subsidiary of China Huadian, for part of the capital enlargement. After the completion of the capital enlargement of Huadian Coal, the Company owns about 20.19% equity interest in Huadian Coal.
- (g) Apart from the amount due to related parties mentioned in note 13 and 19 and other receivables/payables from/to related parties mentioned in note 6 and 17, the Group did not have any other receivables/payables from/to related parties at 31 December 2005 and 30 June 2006.
- (h) At 30 June 2006, Zhongning Company provided guarantees to banks for loans granted to Ningxia Power Company amounting to RMB42,500,000.
- (i) At 30 June 2006, Guangan Company provided guarantees to banks for loans granted to Longtan Coal Company amounting to RMB68,900,000.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***30 Capital commitments**

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

	The Group		The Company	
	30 June 2006 '000	31 December 2005 '000	30 June 2006 '000	31 December 2005 '000
Contracted for	13,516,294	12,866,798	6,173,818	6,997,542
Authorised but not contracted for	12,740,117	13,489,193	2,822,633	6,203,586
	26,256,411	26,355,991	8,996,451	13,201,128

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

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

	30 June 2006 '000	31 December 2005 '000
The Group's proportionate share of the jointly controlled entity's capital expenditure commitments	—	1,058,502

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***31 Operating lease commitments**

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

	30 June	31 December
	2006	2005
	'000	'000
Within one year	33,578	33,978
Between one and two years	30,178	30,178
Between two and three years	30,178	30,178
Over three years	548,234	563,323
	642,168	657,657

Pursuant to an agreement, the Company is leasing certain land from the Shandong Provincial Government for a term of 30 years with effect from 1 September 1997. The annual rental will be adjusted every five years thereafter with an upward adjustment of not more than 30% of the previous year's rental. The current annual rental effective from 1 January 2001 is RMB30,178,000. The future minimum lease payments in respect of the land is calculated based on the existing annual rental of RMB30,178,000 as the revision of annual rental is still under negotiation.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

32 Subsidiaries, jointly controlled entity and associates

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 30 June 2006 are as follows:

(i) Subsidiaries

Company	Registered capital '000	Percentage of equity interest held by the Group and the Company %	Cost of investment '000	Consolidation period	Principal activities
Guangan Company	1,270,260	80	1,037,013	Since 2004	Generation and sale of electricity
Qingdao Company	523,000	55	248,318	Since 1999	Generation and sale of electricity and heat
Weifang Company	1,250,000	45	823,483	Since 1999	Generation and sale of electricity
Zibo Company	374,800	100	374,800	Since 2001	Generation and sale of electricity and heat
Zhangqiu Company	480,750	80.41	405,740	Since 2002	Generation and sale of electricity and heat

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

32 Subsidiaries, jointly controlled entity and associates (continued)

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 30 June 2006 are as follows: (continued)

(i) **Subsidiaries** (continued)

Company	Registered capital '000	Percentage of equity interest held by the Group and the Company %	Cost of investment '000	Consolidation period	Principal activities
Tengzhou Company	245,000	54.49	133,620	Since 2002	Generation and sale of electricity and heat
Xinxiang Company	119,000	90	140,100	Since 2005	Development of power plant
Suzhou Company	168,464	97	184,872	Since 2005	Development of power plant
Lingwu Company	150,000	65	97,500	Since 2006	Development of power plant
Luding Company	10,000	100	10,000	Since 2006	Development of power plant
Binhai Company	10,000	100	10,000	Since 2006	Development of power plant

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

32 Subsidiaries, jointly controlled entity and associates *(continued)*

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 30 June 2006 are as follows: *(continued)*

(i) Subsidiaries *(continued)*

Company	Registered capital '000	Percentage of equity interest held by the Group and the Company %	Cost of investment '000	Consolidation period	Principal activities
Materials Company	30,000	100	38,838	Since 2004	Procurement of materials
Qingdao Heat Company	20,000	55	11,000	Since 2004	Sale of heat
Project Company	3,000	100	3,376	Since 2004	Management of construction project
Information Company	3,000	100	3,000	Since 2006	Development and maintenance of information system

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***32 Subsidiaries, jointly controlled entity and associates** *(continued)*

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 30 June 2006 are as follows: *(continued)*

(i) Subsidiaries *(continued)*

At January 2006 (the “acquisition date”), the Group increased its equity interest in Weifang Company from 30% to 45%. Since the acquisition date, the Group has obtained the power to govern the financial and operating policies of Weifang Company, and hence obtained benefits and bear risks from its operation. Since the acquisition date, Weifang Company changed from a jointly controlled entity to a subsidiary of the Group. Assets and liabilities as at acquisition date and operating results of Weifang Company for the period from the acquisition date to 30 June 2006 had the following effect on the Group’s financial statements:

	'000
The effect of net assets on the Group’s financial statements at the acquisition date:	
Current assets	133,059
Long-term investments	3,500
Fixed assets	1,759,912
Intangible assets and other assets	19,799
Current liabilities	(899,599)
Long-term liabilities	(682,215)
Net assets	<u>334,456</u>
The effect of operating results for the period from the acquisition date to 30 June 2006 on the Group’s financial statements:	
Sales from principal activities	346,502
Profit from principal activities	42,249
Profit before income tax	40,995
Income tax	(13,528)
Net profit	<u>27,467</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***32 Subsidiaries, jointly controlled entity and associates** *(continued)*

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 30 June 2006 are as follows: *(continued)*

(ii) Jointly controlled entity

Company	Registered capital '000	Percentage of equity interest held by the Company %	Cost of investment '000	Consolidation period	Principal activities
Zhongning Company	285,600	50	142,800	Since 2006	Generation and sale of electricity

In April 2006, Zhongning amended its article of association. Pursuant to the revised association, the Company and Ningxia Power Company jointly controlled Zhongning Company. Thereafter, Zhongning Company changed from an associate to a jointly controlled entity of the Company.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)
(continued)

32 Subsidiaries, jointly controlled entity and associates (continued)

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 30 June 2006 are as follows: (continued)

(iii) Associates

Company	Registered capital '000	Percentage of equity interest held by the Group %	Percentage of equity interest held by the Company %	Percentage of equity interest held by subsidiaries %	Cost of investment '000	Principal activities
Ningxia Power Company	900,000	31.11	31.11	—	280,000	Generation and sale of electricity and investment holding
Chizhou Company	640,000	40	40	—	258,940	Development of power plant
Huadian Property	550,000	30	30	—	165,000	Development of property
Luzhou Company	200,000	40	40	—	160,000	Development of power plant
Huadian Coal	1,560,000	20.19	20.19	—	315,000	Processing and sale of coal products
Zoucheng Lunan	4,333	40	40	—	1,733	Provide service to Zouxian Power Plant
Longtan Coal Company	75,920	36	—	45	40,500	Development of coal mines and sale of coal

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NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)*(continued)***33 Contingent liabilities**

At 30 June 2006, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to RMB484,911,000 (31 December 2005: RMB876,911,000).

At 30 June 2006, the Group (including proportionate share of jointly controlled entity's contingent liabilities) provided guarantees to banks for loans granted to certain associates amounting to RMB90,150,000 (31 December 2005: RMB Nil).

34 Extraordinary gain and loss

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

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	'000	'000	'000	'000
Extraordinary gain and loss for the period				
Non-operating income	2,899	11,332	5	1,413
Non-operating expenses	(1,267)	(2,371)	(287)	(876)
Net gain on derivative financial instruments	18,654	20,660	18,654	20,660
	20,286	29,621	18,372	21,197
Less: Tax effect of the above items	(6,694)	(9,775)	(6,063)	(6,995)
Total	13,592	19,846	12,309	14,202

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

(continued)

35 Post balance sheet event

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

36 Segment reporting

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

**DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS
PREPARED UNDER THE PRC ACCOUNTING STANDARDS AND
REGULATIONS (“PRC GAAP”) AND INTERNATIONAL FINANCIAL
REPORTING STANDARDS (“IFRS”)**

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

	Note	Six months ended 30 June	
		2006 Rmb'000	2005 Rmb'000
Net profits under PRC GAAP		507,747	454,053
Adjustments:			
Net fair value adjustment	(a)	(20,242)	(16,447)
Adjustment of goodwill/consolidation difference	(b)	9,696	14,679
Capitalised interest from general loans	(c)	46,460	14,985
Government grants	(d)	480	—
Other adjustments	(e)	—	235
Effects of the above adjustments on taxation		(8,099)	82
Minority interests	(f)	65,513	48,722
Profit for the period under IFRS		601,555	516,309

**DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS
PREPARED UNDER THE PRC ACCOUNTING STANDARDS AND
REGULATIONS (“PRC GAAP”) AND INTERNATIONAL FINANCIAL
REPORTING STANDARDS (“IFRS”) (continued)**

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

	Note	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Shareholders' fund under PRC GAAP		12,642,548	12,526,171
Adjustments:			
Net fair value adjustment	(a)	580,766	415,976
Adjustment on goodwill/consolidation difference	(b)	(314,221)	(238,586)
Capitalisation of general loans	(c)	104,717	58,257
Government grants	(d)	(17,760)	(18,240)
Other adjustments	(e)	(127)	(127)
Effects of the above adjustments on taxation		(184,816)	(121,742)
Minority interests	(f)	2,258,564	1,040,707
Total equity under IFRS		15,069,671	13,662,416

DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING STANDARDS AND REGULATIONS (“PRC GAAP”) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

Notes:

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

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

- (b) *According to PRC GAAP, consolidation difference represents the excess of the cost of investment over the carrying value of the net assets acquired. According to IFRS, goodwill represents the excess of the cost of acquisition over the fair value of net identifiable assets acquired. As mentioned in note (a), there are differences between the carrying value and the fair value of net assets acquired, and so there are differences between consolidation difference and goodwill. Also, according to PRC GAAP, consolidation difference is amortised using straight line method. According to IFRS 3, goodwill is not amortised but is tested annually for impairment.*
- (c) *According to PRC GAAP, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as part of the cost of that asset. According to IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs could be capitalised as part of the cost of that asset.*
- (d) *According to PRC GAAP, conditional government grants should be recorded in long-term liabilities first and credited to capital reserve after fulfilling the requirements from government for the construction projects. According to IFRS, conditional government grants should be recorded in long-term liabilities first and credited to the income statement using straight line method over the useful lives of the relevant assets after fulfilling the requirements from government for the construction projects.*
- (e) *No material individual adjustments included in other adjustments.*
- (f) *According to PRC GAAP, minority interests are presented in the consolidated balance sheet separately from liabilities and as deduction from the shareholders' funds. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as deduction before arriving at the net profit. According to IFRS, minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented in the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity shareholders of the Company.*