1 GENERAL INFORMATION

China Power International Development Limited (the "Company") was incorporated in Hong Kong on 24 March 2004 as a limited liability company under the Hong Kong Companies Ordinance. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 October 2004.

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

These consolidated accounts are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 16 March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 BASIS OF PREPARATION *(CONTINUED)*

The following amendments to standards and interpretations are mandatory for financial year ended 31 December 2006.

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

The adoption of the above amendments to standards and interpretation did not have any significant impacts to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted. The directors anticipate that the adoption of these standards, amendments to standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

In preparing these accounts, the directors have taken into account all information that could reasonably be expected to be available and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the accounts on a going concern basis notwithstanding that at 31 December 2006, the Group's current liabilities exceeded its current assets by RMB809,989,000.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 CONSOLIDATION

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 CONSOLIDATION *(CONTINUED)*

(b) Associated company

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

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

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

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses (Note 2.8). The results of associated company are accounted for by the Company on the basis of dividend received and receivable.

2.3 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 FOREIGN CURRENCY TRANSLATION *(CONTINUED)*

(c) Group companies

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

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

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

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

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

2.4 PROPERTY, PLANT AND EQUIPMENT

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

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

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

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

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

2.5 CONSTRUCTION IN PROGRESS

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 LEASEHOLD LAND PREPAYMENTS

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

2.7 GOODWILL

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

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

2.8 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANY AND NON-FINANCIAL ASSETS

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 INVENTORIES

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

2.10 ACCOUNTS AND OTHER RECEIVABLES

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

2.11 CASH AND CASH EQUIVALENTS

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

2.12 BORROWINGS

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 DEFERRED INCOME TAX

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

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

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

2.14 EMPLOYEE BENEFITS

(a) Pension obligations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Share-based compensation

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

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

2.15 PROVISIONS

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

2.16 DEFERRED INCOME

Deferred income represents subsidies received from government in connection with the purchases of property, plant and equipment and are initially recognised at their fair values. Deferred income are included in non-current liabilites and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

2.17 OPERATING LEASE

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

2.18 BORROWING COSTS

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.19 REVENUE RECOGNITION

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

Management fee income is recognised when services are rendered.

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

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

2.20 DIVIDEND DISTRIBUTION

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

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

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

(a) Foreign exchange risk

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

As at 31 December 2005 and 2006, certain of the Group's bank deposits were denominated in HK$ and USD, details of which have been disclosed in Note 26. RMB against HK$ and USD has been relatively stable over the past few years until July 2005 where RMB experienced certain appreciation which is the major reason for the significant exchange differences recognised by the Group for the years ended 31 December 2005 and 2006. Further depreciation or appreciation of HK$ and USD against RMB will affect the Group's financial position and results of operations.

(b) Credit risk

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

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 FINANCIAL RISK FACTORS *(CONTINUED)*

(c) Liquidity risk

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

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

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 26. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Notes 29 to 31. Borrowings issued at floating rates expose the Group to cash flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 FAIR VALUE ESTIMATION

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) PROPERTY, PLANT AND EQUIPMENT CARRIED AT VALUATION

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

(ii) USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

(iii) IMPAIRMENT OF ASSETS

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(iv) INCOME TAXES

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

Revenue recognised during the year is as follows:

	2006	2005
	RMB'000	RMB'000
Sales of electricity	**5,202,934**	4,361,718

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

SEGMENT INFORMATION

The Group's principal activities are the generation and sale of electricity, and the development of power plants as a single business segment. Substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC except that certain cash and bank balances equivalent to approximately RMB476 million were deposited in certain banks in Hong Kong at 31 December 2006 (2005: approximately RMB1,471 million). Accordingly, no segment information is presented.

6 OTHER INCOME

	2006 RMB'000	2005 RMB'000
Management fee income (Note 39)	**14,196**	14,531
Rental income	**4,549**	3,921
Interest income on bank deposits	**56,469**	57,550
	75,214	76,002

7 OTHER GAINS

	2006 RMB'000	2005 RMB'000
Amortisation of deferred income	**4,898**	3,951
Write-back of provision for amount due from SEPC	**982**	30,000
Write-back of provision for other receivables	**1,816**	6,011
Write-back of previous revaluation deficits of property, plant and equipment	**79,674**	—
Write-back of other payables	**—**	28,397
	87,370	68,359

8 OPERATING PROFIT

Operating profit is stated after charging the following:

	2006 RMB'000	2005 RMB'000
Amortisation of leasehold land prepayments	**386**	193
Auditors' remuneration	**5,248**	4,078
Depreciation of property, plant and equipment	**376,206**	320,488
Loss on disposal of property, plant and equipment	**4,628**	2,872
Operating lease rental in respect of leasehold land and buildings	**24,609**	18,482
Revaluation deficits of property, plant and equipment	**18,143**	—
Staff costs including directors' emoluments (Note 11)	**354,908**	315,112
Write-off of pre-operating expenses	**24,064**	10,191

9 FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest expense on		
– bank borrowings wholly repayable within five years	**196,263**	121,165
– bank borrowings not wholly repayable within five years	**46,779**	8,466
– other borrowings wholly repayable within five years	**5,280**	2,406
– long-term payable to related companies wholly repayable within five years	**20,525**	3,088
	268,847	135,125
Less: Amounts capitalised in property, plant and equipment	**(180,085)**	(57,642)
	88,762	77,483
Net exchange loss	**44,727**	40,422
	133,489	117,905

Net exchange loss included in other operating expenses in prior year is reclassified under finance costs to conform to the current year presentation.

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The weighted average interest rate on such capitalised borrowings is approximately 5.7% (2005: 5.3%) per annum.

10 TAXATION

No Hong Kong profits tax has been provided as the Group did not have any assessable profit in Hong Kong for the year (2005: Nil).

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

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

	2006	2005
	RMB'000	RMB'000
PRC current income tax	**94,965**	81,546
Deferred income tax (Note 35)	**9,513**	902
	104,478	82,448

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

	2006	2005
	RMB'000	RMB'000
Profit before taxation	**806,153**	743,657
Less: Share of profit of an associated company	**(102,053)**	(122,480)
	704,100	621,177
Calculated at the PRC statutory tax rate of 33% (2005: 33%)	**232,353**	204,988
Effect of different taxation rates	**7,211**	2,255
Effect of preferential tax rate	**(146,169)**	(118,664)
Effect of tax holiday	**(17,968)**	(16,769)
Income not subject to taxation	**(16,588)**	(15,419)
Expenses not deductible for taxation purposes	**45,639**	26,057
Taxation charge	**104,478**	82,448

Share of taxation attributable to the associated company for the year ended 31 December 2006 of RMB17,436,000 (2005: RMB22,556,000) are included in the consolidated profit and loss account as share of profit of an associated company.

Pursuant to the relevant PRC income tax rules and regulations, a special income tax rate of 15% has been granted to certain subsidiaries of the Group and the associated company as being foreign invested enterprises which are engaged in the energy, transportation or infrastructure activities. A subsidiary acquired by the Group in year 2005 is entitled to a two-year exemption from income tax starting from 2005 followed by a 50% reduction in income tax rate of 7.5% for the subsequent three years towards year 2009.

11 STAFF COSTS

	2006 RMB'000	2005 RMB'000
Wages, salaries and bonuses	**224,155**	195,637
Share options granted to directors and employees	**1,274**	4,285
Pension costs – defined contribution plans	**45,346**	49,216
Staff welfare	**84,133**	65,974
	354,908	315,112

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of RMB720,730,000 (2005: RMB690,726,000).

13 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year are based on the profit attributable to equity holders of the Company of RMB702,767,000 (2005: RMB661,904,000). The basic earnings per share is calculated based on the weighted average of 3,180,106,214 (2005: 3,135,000,000) shares in issue during the year. The diluted earnings per share is calculated based on 3,180,106,214 (2005: 3,135,000,000) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 2,062,838 (2005: 518,646) shares deemed to be issued at no consideration if all outstanding options had been exercised.

14 DIVIDENDS

	2006 RMB'000	2005 RMB'000
Proposed final dividend of RMB0.08 (2005: RMB0.079) per share	**288,408**	247,665

The dividend paid during the year ended 31 December 2006 was RMB247,665,000 (or RMB0.079 per share). A final dividend in respect of 2006 of RMB0.08 (equivalent to HK$0.0807) per share, amounting to a total dividend of RMB288,408,000 (equivalent to HK$290,932,000) is to be proposed at the Annual General Meeting on 27 April 2007. These accounts do not reflect this dividend payable.

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) DIRECTORS' EMOLUMENTS

The remuneration of each of the directors of the Company for the year ended 31 December 2006 is set out below:

Name of director	Fees	Basic salary, housing allowance, other allowances and benefits in kind	Discretionary bonuses	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms. Li Xiaolin	—	905#	317	10	1,232
Mr. Hu Jiandong	—	649#	126	10	785
Non-executive directors					
Mr. Wang Binghua	205	237#	—	—	442
Mr. Gao Guangfu	123	68#	—	—	191
Independence non-executive directors					
Mr. Kwong Che Keung, Gordon	205	61	—	—	266
Mr. Li Fang	205	61	—	—	266
Mr. Tsui Yiu Wa, Alec	123	61	—	—	184

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(CONTINUED)*

(a) DIRECTORS' EMOLUMENTS *(CONTINUED)*

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

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

None of the directors of the Company waived any emoluments during the years ended 31 December 2005 and 2006.

Included in the amount were share-based compensation, which are determined based on the fair value of the share options granted to the relevant directors at the date of grant and recognised over the vesting period. During the year ended 31 December 2005 and 2006, none of these options has been exercised by the directors.

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(CONTINUED)*

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include 2 (2005: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2005: 3) individuals during the year are as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances, share options and benefits in kind	**1,654**	3,067
Discretionary bonuses	**394**	484
Employers' contributions to pension schemes	**39**	31
	2,087	3,582

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**3**	—
HK$1,000,000 to HK$2,000,000	**—**	3

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

16 PROPERTY, PLANT AND EQUIPMENT

(a) GROUP

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
At 1 January 2006	2,718,608	5,663,986	1,272,360	450,842	107,202	983,782	11,196,780
Additions	11,756	3,279	88	24,070	8,437	3,041,399	3,089,029
Disposals	(4,311)	(3,291)	(10,080)	(45,720)	(846)	—	(64,248)
Transfer	3,999	16,959	23,077	28,353	31,853	(104,241)	—
Revaluation	402,360	1,561,640	149,836	53,994	3,399	—	2,171,229
At 31 December 2006	**3,132,412**	**7,242,573**	**1,435,281**	**511,539**	**150,045**	**3,920,940**	**16,392,790**
Representing:							
Cost	—	—	—	—	—	3,920,940	3,920,940
Valuation	3,132,412	7,242,573	1,435,281	511,539	150,045	—	12,471,850
	3,132,412	**7,242,573**	**1,435,281**	**511,539**	**150,045**	**3,920,940**	**16,392,790**
Accumulated depreciation and impairment losses							
At 1 January 2006	1,124,554	3,533,955	897,532	217,918	79,612	—	5,853,571
Depreciation charge for the year	91,954	214,200	33,313	31,616	5,123	—	376,206
Disposals	(1,426)	(2,663)	(8,951)	(44,399)	(760)	—	(58,199)
Revaluation	345,419	1,495,903	138,325	41,710	(6,919)	—	2,014,438
At 31 December 2006	**1,560,501**	**5,241,395**	**1,060,219**	**246,845**	**77,056**	**—**	**8,186,016**
Net book value							
At 31 December 2006	**1,571,911**	**2,001,178**	**375,062**	**264,694**	**72,989**	**3,920,940**	**8,206,774**

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) GROUP *(CONTINUED)*

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
At 1 January 2005	2,138,135	4,892,068	1,166,103	326,171	103,409	441,008	9,066,894
Additions	26,184	2,337	—	14,709	2,737	1,039,279	1,085,246
Acquisition of a subsidiary (Note 37)	356,409	448,591	66,438	23,680	940	159,831	1,055,889
Disposals	—	(2,100)	—	(4,403)	(260)	—	(6,763)
Write-off	—	—	—	(4,486)	—	—	(4,486)
Transfer	197,880	323,090	39,819	95,171	376	(656,336)	—
At 31 December 2005	2,718,608	5,663,986	1,272,360	450,842	107,202	983,782	11,196,780
Representing:							
Cost	645,161	795,170	112,717	145,877	8,045	983,782	2,690,752
Valuation	2,073,447	4,868,816	1,159,643	304,965	99,157	—	8,506,028
	2,718,608	5,663,986	1,272,360	450,842	107,202	983,782	11,196,780
Accumulated depreciation and impairment losses							
At 1 January 2005	1,054,274	3,345,072	866,603	198,165	76,644	—	5,540,758
Depreciation charge for the year	70,280	189,893	30,929	26,263	3,123	—	320,488
Disposals	—	(1,010)	—	(2,024)	(155)	—	(3,189)
Write-off	—	—	—	(4,486)	—	—	(4,486)
At 31 December 2005	1,124,554	3,533,955	897,532	217,918	79,612	—	5,853,571
Net book value							
At 31 December 2005	1,594,054	2,130,031	374,828	232,924	27,590	983,782	5,343,209

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) GROUP *(CONTINUED)*

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

	Buildings	Power generators and equipment	Electricity supply equipment	Tools and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2006							
Cost	3,000,569	6,130,536	1,482,733	521,488	152,213	3,920,940	15,208,479
Accumulated depreciation and impairment losses	(1,406,764)	(3,920,014)	(907,650)	(289,517)	(88,997)	—	(6,612,942)
	1,593,805	**2,210,522**	**575,083**	**231,971**	**63,216**	**3,920,940**	**8,595,537**
At 31 December 2005							
Cost	2,988,968	6,118,344	1,470,656	529,594	112,770	983,782	12,204,114
Accumulated depreciation and impairment losses	(1,299,128)	(3,666,680)	(846,587)	(314,131)	(83,711)	—	(6,210,237)
	1,689,840	**2,451,664**	**624,069**	**215,463**	**29,059**	**983,782**	**5,993,877**

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

(ii) As at 31 December 2006, certain property, plant and equipment of the Group with carrying amount of approximately RMB727 million (2005: RMB1,318 million) was pledged as security for certain long-term bank borrowings of the Group (Note 29).

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(b) COMPANY

	Leasehold improvements RMB'000	Office and other equipment RMB'000	Furniture and fixture RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost or valuation					
As at 1 January 2005	—	28	56	—	84
Additions	5,669	564	19	—	6,252
As at 31 December 2005 and 1 January 2006	5,669	592	75	—	6,336
Additions	—	662	—	530	1,192
Disposals	—	(14)	—	—	(14)
Revaluation	—	(85)	(10)	(3)	(98)
As at 31 December 2006	**5,669**	**1,155**	**65**	**527**	**7,416**
Representing:					
Cost	—	—	—	—	—
Valuation	5,669	1,155	65	527	7,416
	5,669	**1,155**	**65**	**527**	**7,416**
Accumulated depreciation and impairment losses					
As at 1 January 2005	—	2	2	—	4
Depreciation charge for the year	945	70	14	—	1,029
As at 31 December 2005 and 1 January 2006	945	72	16	—	1,033
Depreciation charge for the year	1,114	192	15	18	1,339
Disposals	—	(4)	—	—	(4)
Revaluation	—	(32)	(7)	1	(38)
As at 31 December 2006	**2,059**	**228**	**24**	**19**	**2,330**
Net book value					
As at 31 December 2006	**3,610**	**927**	**41**	**508**	**5,086**
As at 31 December 2005	4,724	520	59	—	5,303

As detailed in Note 2.4, property, plant and equipment other than construction in progress are recognised initially at cost and are stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The latest independent valuation was performed by Sallmanns (Far East) Limited, independent valuers registered in Hong Kong, on a depreciated replacement cost or market value basis, where applicable, as at 31 December 2006.

17 PREPAYMENT FOR CONSTRUCTION OF POWER PLANTS

Prepayment for construction of power plants represents advance payments made to contractors in connection with the construction of the Group's power plants including payments for equipment and machineries pending delivery to the relevant power plants for installation.

18 LEASEHOLD LAND PREPAYMENTS

	RMB'000
Cost	
As at 1 January 2005	—
Acquisition of a subsidiary (Note 37)	19,097
As at 31 December 2005 and 2006	**19,097**
Accumulated amortisation	
As at 1 January 2005	—
Amortisation charge for the year	193
As at 31 December 2005 and 1 January 2006	193
Amortisation charge for the year	386
As at 31 December 2006	**579**
Net book value	
As at 31 December 2006	**18,518**
As at 31 December 2005	18,904

The leasehold land prepayments represent cost of the land use rights in respect of land located in the PRC where certain of the Group's property, plant and equipment are built on. The remaining period of the land use rights is 48 years.

19 GOODWILL

	2006	2005
	RMB'000	RMB'000
Cost		
As at 1 January	**166,939**	—
Acquisition of a subsidiary (Note 37)	**—**	166,939
As at 31 December	**166,939**	166,939

Goodwill is allocated to Shanxi Shentou Electric Power Company Limited, a subsidiary acquired by the Group during 2005.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. The pre-tax discount rate used for value-in-use calculations for goodwill is 9%. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the cash-generating unit. Other key assumptions applied in the impairment tests include the expected tariff rates, demands of electricity in the region where the power plant is located and fuel costs.

Management prepared the financial budgets taking into account actual and prior year performance and market development expectations.

20 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**3,623,450**	2,864,555

During the year, the Company made additional capital contribution to power plants under construction amounting to approximately RMB759 million.

The following is a list of the subsidiaries as at 31 December 2006:

Name of companies	Place of establishment and operation	Paid up/ issued capital	Equity interest attributable to the Group	Type of legal entity	Principal activities
Interests held directly:					
Pingdingshan Yaomeng Power Generating Company Limited	PRC	RMB986,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Anhui Huainan Pingwei Electric Power Generating Company Limited	PRC	RMB970,000,000	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
Huainan Pingwei No.2 Electric Power Generating Company Limited	PRC	USD65,318,790	100%	Wholly foreign-owned enterprise	Development of power plants
Pingdingshan Yaomeng No.2 Power Generating Company Limited	PRC	USD54,476,747	100%	Wholly foreign-owned enterprise	Development of power plants
Huanggang Dabieshan Power Generating Company Limited	PRC	RMB374,494,609	93%	Sino-foreign equity joint venture	Development of power plants
Tianze Development Limited ("Tianze")	British Virgin Islands	USD1	100%	Limited liability company	Investment holding
Interests held indirectly:					
Shanxi Shentou Electric Power Company Limited	PRC	RMB501,681,030	100%	Wholly foreign-owned enterprise	Generation and sale of electricity
中電博亞企業管理（北京）有限公司	PRC	HK$Nil	100%	Wholly foreign-owned enterprise	Provision of management service

21 INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2006	2005
	RMB'000	RMB'000
Beginning of the year	**835,860**	849,539
Share of results		
– profit before taxation	**119,489**	145,036
– taxation	**(17,436)**	(22,556)
	102,053	122,480
Other equity movements (Note 28)		
– net revaluation surplus of property, plant and equipment	**13,545**	—
– deferred tax on net revaluation surplus of property, plant and equipment	**(2,032)**	—
	11,513	—
Dividends	**(98,751)**	(136,159)
End of the year	**850,675**	835,860

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**552,500**	552,500

21 INTEREST IN AN ASSOCIATED COMPANY *(CONTINUED)*

The following is the details of the associated company as at 31 December 2006:

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

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

	2006 RMB'000	2005 RMB'000
Operating results		
Turnover	**1,865,541**	2,074,106
Profit before taxation	**238,977**	290,073
Profit after taxation	**204,105**	244,960
Financial position		
Property, plant and equipment	**2,227,666**	2,225,646
Current assets	**438,454**	553,692
Current liabilities	**(845,242)**	(1,007,848)
Long-term liabilities	**(119,529)**	(99,770)
Net assets	**1,701,349**	1,671,720

22 PREPAYMENT FOR ACQUISITION OF AN ASSOCIATED COMPANY

Pursuant to an agreement entered into by the Company and CPI Group on 27 August 2004, the Company was granted a call option (the "Call Option") to acquire up to 25% equity interest in Shanghai Electric Power Co., Ltd ("Shanghai Power"), a joint stock company with limited liability listed on the Shanghai Stock Exchange. The Call Option is exercisable within 3 years from 29 October 2004.

Pursuant to a resolution passed by an extraordinary general meeting of the Company on 6 December 2006, the Company was approved to exercise the Call Option to acquire 25% equity interest in Shanghai Power at an aggregate consideration of approximately RMB1, 665 million. As at 31 December 2006, the Company had paid the consideration in full to CPI Group and therefore a prepayment for acquisition of an associated company was recorded as at year end. The Company will recognise Shanghai Power as an associated company in early 2007 when the Company has the ability to exercise influence over Shanghai Power.

23 INVENTORIES

	Group	
	2006	2005
	RMB'000	RMB'000
Coal and oil	**139,035**	136,837
Spare parts and consumables	**148,107**	129,034
	287,142	265,871

24 ACCOUNTS RECEIVABLE

	Group	
	2006	2005
	RMB'000	RMB'000
Accounts receivable from provincial power companies (note (a))	**424,796**	556,741
Bills receivable (note (b))	**436,008**	247,038
	860,804	803,779

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

Note:

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

	Group	
	2006	2005
	RMB'000	RMB'000
1 to 3 months	**408,635**	537,297
4 to 6 months	**16,161**	19,444
	424,796	556,741

(b) Bills receivable are normally with maturity period of 90 to 180 days (2005: 90 to 180 days).

25 BALANCES WITH AN INTERMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The balances with an intermediate holding company and fellow subsidiaries are unsecured, interest free and are repayable on demand.

26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**289,647**	803,418	**26,132**	373,723
Time deposits with initial term of less than three months	**1,157,281**	1,384,525	**1,157,281**	1,379,525
	1,446,928	2,187,943	**1,183,413**	1,753,248
Denominated in:				
HK$	**476,887**	1,471,301	**475,787**	1,471,301
RMB	**969,892**	644,225	**707,615**	281,937
USD	**149**	72,417	**11**	10
	1,446,928	2,187,943	**1,183,413**	1,753,248

(i) The weighted average effective interest rate on short-term time deposits in banks, with maturity ranging from 1 to 3 months, was 4.1% and 2.3% per annum during the years ended 31 December 2006 and 2005 respectively. Cash at bank earns interest at floating rates based on daily bank deposit rates.

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

27 SHARE CAPITAL

(a) AUTHORISED AND ISSUED CAPITAL

	Company	
	Number of shares	RMB'000
Authorised:		
As at 1 January 2005, 31 December 2005 and 31 December 2006	10,000,000,000	10,600,000
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	3,135,000,000	3,323,100
Placing of shares (note)	470,000,000	474,897
Exercise of share options	103,850	107
As at 31 December 2006	3,605,103,850	3,798,104

Note:

On 27 November 2006, the Company completed a placing of 470,000,000 shares at a subscription price of HK$3.70 per share for an aggregate consideration of HK$1,739 million (equivalent to approximately RMB1,757 million). Accordingly, 470,000,000 shares of HK$1 each were issued at a premium of HK$2.70 each. The premium on issue of shares of HK$1,269 million (equivalent to approximately RMB1,282 million) net of expenses of approximately HK$35 million (equivalent to approximately RMB35 million) was credited to the share premium account. These new shares rank pari passu in all respects with the existing shares.

27 SHARE CAPITAL *(CONTINUED)*

(b) SHARE OPTION SCHEMES

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

(i) Share Option Scheme

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

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

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

27 SHARE CAPITAL *(CONTINUED)*

(b) SHARE OPTION SCHEMES *(CONTINUED)*

(ii) Pre-IPO Share Option Scheme

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

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

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

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

Details of the options granted under the Pre-IPO Scheme outstanding as at 31 December 2006 and 31 December 2005 are as follows:

	Date of grant	Expiry date	Exercise price	Number of shares subject to the options **31 December 2006**	31 December 2005
Directors	18 September 2004	17 September 2014	HK$2.53	**4,361,500**	4,361,500
Senior management	18 September 2004	17 September 2014	HK$2.53	**3,904,600**	4,320,000
Other employees	11 October 2004	10 October 2014	HK$2.53	**3,553,000**	3,553,000
				11,819,100	12,234,500

Consideration in connection with all options granted were received. During the year, no share options were granted, cancelled or exercised except that 311,550 share options were lapsed and 103,850 share options were exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

27 SHARE CAPITAL *(CONTINUED)*

(b) SHARE OPTION SCHEMES *(CONTINUED)*

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

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

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

Note:

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

28 RESERVES

GROUP

	Share premium RMB'000	Merger reserve (note (i)) RMB'000	Capital reserve (note (ii)) RMB'000	Revaluation reserve RMB'000	Statutory reserves (note (iii)) RMB'000	Share-based compen-sation reserve RMB'000	Accumulated losses (note (iv)) RMB'000	Total RMB'000
At 1 January 2006	1,507,626	350,395	2,293,848	443,762	137,972	11,675	(1,259,989)	3,485,289
Issuance of new shares								
– Placing of shares	1,282,223	—	—	—	—	—	—	1,282,223
– Exercise of share options	162	—	—	—	—	(123)	123	162
Share issuance expenses	(35,425)	—	—	—	—	—	—	(35,425)
Employee share option benefits	—	—	—	—	—	1,274	—	1,274
Net revaluation surplus of property, plant and equipment								
– Group	—	—	—	95,260	—	—	—	95,260
– Associated company	—	—	—	13,545	—	—	—	13,545
Deferred tax on net revaluation surplus of property, plant and equipment								
– Group (Note 35)	—	—	—	(14,287)	—	—	—	(14,287)
– Associated company	—	—	—	(2,032)	—	—	—	(2,032)
Profit for the year	—	—	—	—	—	—	702,767	702,767
2005 final dividend (Note 14)	—	—	—	—	—	—	(247,665)	(247,665)
At 31 December 2006	**2,754,586**	**350,395**	**2,293,848**	**536,248**	**137,972**	**12,826**	**(804,764)**	**5,281,111**
At 1 January 2005	1,507,626	350,395	2,293,848	443,762	137,972	7,390	(1,838,815)	2,902,178
Employee share option benefits	—	—	—	—	—	4,285	—	4,285
Profit for the year	—	—	—	—	—	—	661,904	661,904
2004 final dividend	—	—	—	—	—	—	(83,078)	(83,078)
At 31 December 2005	1,507,626	350,395	2,293,848	443,762	137,972	11,675	(1,259,989)	3,485,289

Note:

(i) Merger reserve

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

28 RESERVES *(CONTINUED)*

Note:

(ii) Capital reserve

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

(iii) Statutory reserves

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

(iv) Accumulated losses

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

COMPANY

	Share premium RMB'000	Revaluation reserve RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2006	1,507,626	—	11,675	751,907	2,271,208
Issuance of new shares					
– Placing of shares	1,282,223	—	—	—	1,282,223
– Exercise of share options	162	—	(123)	123	162
Share issuance expenses	(35,425)	—	—	—	(35,425)
Employee share option benefits	—	—	1,274	—	1,274
Profit for the year	—	—	—	720,730	720,730
Revaluation surplus on property, plant and equipment	—	13	—	—	13
2005 final dividend (Note 14)	—	—	—	(247,665)	(247,665)
At 31 December 2006	**2,754,586**	**13**	**12,826**	**1,225,095**	**3,992,520**
At 1 January 2005	1,507,626	—	7,390	144,259	1,659,275
Profit for the year	—	—	—	690,726	690,726
Employee share option benefits	—	—	4,285	—	4,285
2004 final dividend	—	—	—	(83,078)	(83,078)
At 31 December 2005	1,507,626	—	11,675	751,907	2,271,208

29 BORROWINGS

Bank and other borrowings are analysed as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
– secured	**493,000**	643,000
– unsecured	**4,315,000**	2,470,500
Less: current portion of long-term bank borrowings		
– secured	**(150,000)**	(150,000)
– unsecured	**(846,000)**	(250,000)
	3,812,000	2,713,500
Current		
Short-term bank borrowings	**1,330,000**	389,500
Short-term other borrowings (Note (c))	**98,000**	98,000
	1,428,000	487,500
Current portion of long-term bank borrowings	**996,000**	400,000
	2,424,000	887,500
Total borrowings	**6,236,000**	3,601,000

The long-term bank borrowings of RMB493,000,000 (2005: RMB643,000,000) are secured by certain property, plant and equipment of the Group (Note 16).

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

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

	Group	
	2006	2005
	RMB'000	RMB'000
Wholly repayable within five years	**1,740,000**	1,815,000
Not wholly repayable within five years	**3,068,000**	1,298,500
	4,808,000	3,113,500

29 BORROWINGS *(CONTINUED)*

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

	Group	
	2006	2005
	RMB'000	RMB'000
Within one year	**996,000**	400,000
In the second year	**651,000**	951,000
In the third to fifth year	**93,000**	464,000
After the fifth year	**3,068,000**	1,298,500
	4,808,000	3,113,500

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

	Group	
	2006	2005
	RMB'000	RMB'000
Long-term bank borrowings, at floating rate	**5.8%**	5.5%
Short-term bank borrowings, at floating rate	**5.3%**	5.2%

(c) Other borrowings represent loan from 中國電力財務有限公司 (formerly known as 華北電網財務有限公司), a financial institution approved by the relevant PRC authorities, which is unsecured, carries interest at 5.02% (2005: 5.02%) per annum and was repayable by 12 December 2006. During the year, it was agreed that repayment of the loan shall be extended to 18 June 2007.

30 LONG-TERM PAYABLE TO AND SHORT-TERM LOAN FROM CPIF

	Group	
	2006	2005
	RMB'000	RMB'000
Non-current		
Long-term payable to CPIF (note (a))	**395,562**	393,110
Current		
Short-term loan from CPIF (note (b))	**140,000**	—
	535,562	393,110

Note:

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

	Group	
	2006	2005
	RMB'000	RMB'000
Repayable by 5 November 2008, bearing interest at 3.6% per annum	**125,267**	122,815
Repayable by 30 June 2010, bearing interest at 5.27% per annum	**270,295**	270,295
	395,562	393,110

The carrying amount of the long-term payable to CPIF approximates its fair value.

(b) The short-term loan from CPIF is unsecured, bearing interest at 5.5% per annum and is repayable on 19 November 2007.

31 LONG-TERM PAYABLE TO SEPC

The long-term payable to SEPC (“山西省電力公司”) is unsecured, bearing interest at 5.52% (2005: 5.52%) per annum and is repayable on 30 June 2010. The carrying amount of long-term payable to SEPC approximates its fair value.

32 ACCOUNTS PAYABLE

	Group	
	2006	2005
	RMB'000	RMB'000
Accounts payable	**226,535**	253,190
Due to other related companies	**13,709**	33,454
	240,244	286,644

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

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

	Group	
	2006	2005
	RMB'000	RMB'000
1 to 6 months	**228,266**	260,774
7 to 12 months	**1,703**	1,430
Over 1 year	**10,275**	24,440
	240,244	286,644

Amounts due to other related companies mainly represent balances arising from transactions with those companies as detailed in Note 39 below.

33 OTHER PAYABLES AND ACCRUED CHARGES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Discharge fee payable	**2,612**	9,849	**—**	—
Insurance expense payable	**14,739**	25,010	**—**	—
Interests payable	**728**	1,476	**—**	—
Repairs and maintenance expense payable	**19,478**	21,135	**—**	—
Salaries and staff welfare payable	**59,541**	72,735	**—**	—
Value added tax payable	**45,893**	48,943	**—**	—
Other taxes payable	**28,412**	39,899	**—**	—
Other accrued expenses	**133,117**	48,356	**17,309**	24,442
	304,520	267,403	**17,309**	24,442

34 AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

35 DEFERRED INCOME TAX

The gross movement on the deferred income tax liabilities/(assets) is as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	**(12,893)**	(13,795)
Charged to the consolidated profit and loss account (Note 10)	**9,513**	902
Charged directly to equity (Note 28)	**14,287**	—
At 31 December	**10,907**	(12,893)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Revaluation surplus on property, plant and equipment	
	2006 RMB'000	2005 RMB'000
At 1 January	**—**	—
Charged to the consolidated profit and loss account	**27,357**	—
Charged directly to equity (Note 28)	**18,138**	—
At 31 December	**45,495**	—

35 DEFERRED INCOME TAX *(CONTINUED)*

Deferred tax assets:

	Provision for other receivables		Provision for inventories obsolescence		Revaluation deficit on property, plant and equipment		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1 January	**(8,422)**	(9,324)	**(4,471)**	(4,471)	**—**	—	**(12,893)**	(13,795)
Charged/(credited) to the consolidated profit and loss account	**272**	902	**—**	—	**(18,116)**	—	**(17,844)**	902
Credited to the equity (Note 28)	**—**	—	**—**	—	**(3,851)**	—	**(3,851)**	—
At 31st December	**(8,150)**	(8,422)	**(4,471)**	(4,471)	**(21,967)**	—	**(34,588)**	(12,893)

The deferred income tax charged to equity during the year is as follows:

	2006	2005
	RMB'000	RMB'000
Revaluation reserve in shareholders' equity:		
– property, plant and equipment (Note 28)	**14,287**	—

35 DEFERRED INCOME TAX *(CONTINUED)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**—**	(12,893)
– Deferred tax assets to be recovered within 12 months	**—**	—
	—	(12,893)
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**9,813**	—
– Deferred tax liabilities to be settled within 12 months	**1,094**	—
	10,907	—
	10,907	(12,893)

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2006	2005
	RMB'000	RMB'000
Profit before taxation	**806,153**	743,657
Share of profit of an associated company	**(102,053)**	(122,480)
Interest expense	**88,762**	77,483
Interest income	**(56,469)**	(57,550)
Depreciation of property, plant and equipment	**376,206**	320,488
Amortisation of leasehold land prepayments	**386**	193
Loss on disposal of property, plant and equipment	**4,628**	2,872
Share-based compensation expense	**1,274**	4,285
Revaluation deficits of property, plant and equipment	**18,143**	—
Write-back of previous revaluation deficits of property, plant and equipment	**(79,674)**	—
Operating profit before working capital changes	**1,057,356**	968,948
(Increase)/decrease in accounts receivable	**(57,025)**	5,008
Decrease in prepayments, deposits and other receivables	**30,983**	61,338
Increase in inventories	**(21,271)**	(52,686)
Decrease in amount due from an intermediate holding company	**6,670**	7,044
Increase in balances with fellow subsidiaries	**(8,162)**	—
Decrease in accounts payable	**(46,400)**	(171,018)
Increase in construction cost payable	**256,878**	122,272
Increase/(decrease) in other payables and accrued charges	**53,806**	(164,187)
(Decrease)/increase in amount due to ultimate holding company	**(22,776)**	18,482
Increase in deferred income	**115,027**	38,136
Increase in long-term payable to CPIF	**2,452**	—
Cash generated from operations	**1,367,538**	833,337

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Long-term and short-term bank and other borrowings RMB'000
Balance at 1 January 2005	2,006,676
Acquisition of subsidiaries	108,500
New bank loans	2,311,324
Repayment of bank borrowings	(825,500)
Balance at 31 December 2005	3,601,000
New bank and other borrowings	3,529,500
Repayment of bank borrowings	(894,500)
Balance at 31 December 2006	6,236,000

37 BUSINESS COMBINATIONS

During 2005, the Group acquired the entire share capital of Tianze, an investment holding company holding 100% interest in Shanxi Shentou Electric Power Company Limited, from China Power Development Limited ("CPDL"), the immediate holding company of the Company.

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

Details of net assets acquired and goodwill were as follows:

	2006	2005
	RMB'000	RMB'000
Purchase consideration:		
– Cash paid	—	592,732
– Direct costs relating to the acquisition	—	17,413
Total purchase consideration	—	610,145
Fair value of net assets acquired – shown as below	—	(443,206)
Goodwill (Note 19)	—	166,939

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

37 BUSINESS COMBINATIONS *(CONTINUED)*

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

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

38 COMMITMENTS

(a) CAPITAL COMMITMENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised but not contracted for				
in respect of				
– property, plant and equipment	**1,373,804**	19,170	**—**	—
Contracted but not provided for				
in respect of				
– property, plant and equipment	**3,133,943**	6,545,185	**—**	—
– investments in subsidiaries	**—**	—	**1,754,916**	960,567
– investments in a jointly controlled entity	**30,000**	—	**30,000**	—
	4,537,747	6,564,355	**1,784,916**	960,567

(b) COMMITMENTS UNDER OPERATING LEASES

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Land and buildings				
Not later than one year	**30,454**	19,780	**13,197**	2,530
Later than one year and				
not later than five years	**46,200**	9,202	**19,110**	1,792
	76,654	28,982	**32,307**	4,322

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

38 COMMITMENTS *(CONTINUED)*

(c) FUTURE OPERATING LEASE ARRANGEMENTS

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other equipment				
Not later than one year	**4,481**	4,659	**—**	—
Later than one year and not later than five years	**6,721**	4,659	**—**	—
	11,202	9,318	**—**	—

39 RELATED PARTY TRANSACTIONS

The Group is controlled by CPDL which owns approximately 55.38% of the Company's shares. The remaining interests are widely held. The directors regard CPI Group, a company incorporated in the PRC, as being the ultimate holding company.

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

Related parties	**Relationship with the Company**
CPI Group	Ultimate holding company
China Power International Holding Limited ("CPIH")	Intermediate holding company
CPDL	Immediate holding company
CPIF	A company controlled by CPI Group
SEPC	Related parties of the Company as defined under HKAS 24
Other related companies	Companies owned by certain individuals who are also employees or operational managers of certain subsidiaries of the Group
Other state-owned enterprises	Related parties of the Company as defined under HKAS 24

The following is a summary of significant related party transactions which, in the opinion of the directors, are entered into in the ordinary course of the Group's business in addition to the related party information shown elsewhere in these accounts.

(i) REVENUES

	Note	**2006** **RMB'000**	2005 RMB'000
Management fee from CPIH	(a)	**14,196**	14,531
Sales of electricity to other stated-owned enterprises	(b)	**5,202,934**	4,361,718

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

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(ii) EXPENSES

	Note	2006 RMB'000	2005 RMB'000
Operating lease rental in respect of land to CPI Group	(a)	**17,245**	14,780
Operating lease rental in respect of building to CPIH	(a)	**3,822**	—
Purchases of fuel, raw material and spare parts from	(b)		
– other related companies		**30,191**	94,826
– fellow subsidiaries		**22,204**	—
Service fees to	(c)		
– other related companies		**85,700**	112,300
– fellow subsidiaries		**30,770**	—
Construction costs to	(d)		
– other related companies		**16,636**	55,369
– fellow subsidiaries		**75,806**	—
Labor costs charged by	(e)		
– other related companies		**9,087**	8,976
– fellow subsidiaries		**5,860**	—
Purchases of coal from other state-owned enterprises	(f)	**2,492,745**	1,880,447
Interest expense to CPIF	(g)	**19,543**	2,522
Interest expense to SEPC	(g)	**982**	566

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

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

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

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

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

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

(g) Interest expense was charged based on terms as disclosed in Notes 30 and 31.

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(iii) KEY MANAGEMENT COMPENSATION

	2006 RMB'000	2005 RMB'000
Basic salaries, housing allowances, other allowances, discretionary bonus and benefits in kind	**6,316**	8,194
Employer's contributions to pension scheme	**78**	64
Share-based compensation	**815**	3,057
	7,209	11,315

(iv) YEAR-END BALANCES WITH RELATED PARTIES

		As at 31 December	
	Note	2006 RMB'000	2005 RMB'000
Accounts receivable from other state-owned enterprises (Note 24)	(a)	**860,804**	803,779
Amount due from CPIH (Note 25)	(a)	**1,638**	8,308
Amount due from a fellow subsidiary (Note 25)	(a)	**11,441**	—
Amount due to a fellow subsidiary (Note 25)	(a)	**3,279**	—
Long-term payable to CPIF (Note 30)	(a)	**395,562**	393,100
Short-term loan from CPIF (Note 30)	(a)	**140,000**	—
Long-term payable to SEPC (Note 31)	(a)	**19,437**	19,979
Payables to related companies (Note 32)	(a)	**13,709**	33,454
Amount due to CPI Group (Note 34)	(a)	**68,889**	91,665
Prepayments to other state-owned enterprises	(b)	**55,675**	69,300
Accounts payable to other state-owned enterprises	(c)	**24,992**	53,229

(a) The terms of balances with related parties are disclosed in Notes 24, 25, 30, 31, 32 and 34 respectively.

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

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(v) OTHERS

	2006	2005
	RMB'000	RMB'000
Prepayment for acquisition of an associated company (Note 22)	**1,665,133**	—
Acquisition of a subsidiary from CPI Group (Note 37)	**—**	592,732

40 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 16 March 2007.