

# CONSOLIDATED BALANCE SHEET

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as at 31 December 2006  
(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi'000)

	Note	2006	2005
<b>ASSETS</b>			
Current assets			
Cash at bank and in hand	4	<b>1,283,980</b>	845,642
Bank acceptance bills receivable		<b>8,551</b>	6,475
Trade receivables	5	<b>1,566,553</b>	1,256,857
Other receivables	6	<b>46,978</b>	69,441
Prepayments	7	<b>60,567</b>	11,168
Inventories	8	<b>748,511</b>	558,847
Total current assets		<b>3,715,140</b>	2,748,430
Long-term investments			
Long-term equity investments	9	<b>1,968,304</b>	1,374,344
Including: consolidation difference and equity investment difference			
		<b>350,784</b>	283,017
Fixed assets			
Fixed assets, at cost		<b>50,897,343</b>	33,007,379
Less: Accumulated depreciation		<b>(14,497,384)</b>	(11,829,642)
Net book value of fixed assets	10	<b>36,399,959</b>	21,177,737
Construction materials	11	<b>5,275,197</b>	5,062,900
Construction in progress	11	<b>6,336,183</b>	3,850,818
Total fixed assets		<b>48,011,339</b>	30,091,455
Intangible assets and other assets			
Intangible assets	12	<b>184,270</b>	170,747
Long-term deferred expenses	13	<b>25,179</b>	—
Investment deposit	14	<b>15,250</b>	—
		<b>224,699</b>	170,747
Deferred taxation			
Deferred tax assets	22	<b>95,604</b>	58,822
Total assets		<b>54,015,086</b>	34,443,798

**Cao Peixi**  
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**Zhu Fangxin**  
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affairs

**Tao Yunpang**  
Head of accounting  
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The notes on pages 130 to 190 form part of these financial statements.

## CONSOLIDATED BALANCE SHEET (continued)

as at 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2006	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Short-term loans	15	<b>10,072,402</b>	4,094,297
Bank acceptance bills payable		<b>1,446,841</b>	164,045
Trade payables	16	<b>3,061,574</b>	897,872
Wages payable		<b>243,365</b>	108,527
Welfare payable		<b>4,808</b>	24,673
Taxes payable	17	<b>262,504</b>	250,569
Other payables	18	<b>28,831</b>	25,298
Other creditors	19	<b>1,257,105</b>	624,754
Long-term loans due within one year	20	<b>2,429,078</b>	1,981,461
Total current liabilities		<b>18,806,508</b>	8,171,496
Long-term liabilities			
Long-term loans	21	<b>19,246,426</b>	12,356,717
Special payables		<b>24,940</b>	113,370
Total long-term liabilities		<b>19,271,366</b>	12,470,087
Deferred taxation			
Deferred tax liabilities	22	<b>478,540</b>	299,038
Total liabilities		<b>38,556,414</b>	20,940,621
Minority interests		<b>2,081,356</b>	977,006

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# CONSOLIDATED BALANCE SHEET (continued)

as at 31 December 2006  
(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi'000)

	Note	2006	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (continued)</b>			
Shareholders' equity			
Share capital	23	<b>6,021,084</b>	6,021,084
Capital reserve	24(a)	<b>2,018,190</b>	1,897,561
Surplus reserves	24(b)	<b>1,521,931</b>	1,409,742
Including statutory public welfare fund		—	379,434
Retained profits		<b>3,816,111</b>	3,197,784
Including cash dividends proposed after the balance sheet date	25	<b>373,307</b>	391,370
Total shareholders' equity		<b>13,377,316</b>	12,526,171
Total liabilities and shareholders' equity		<b>54,015,086</b>	34,443,798

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## BALANCE SHEET

as at 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2006	2005
<b>ASSETS</b>			
Current assets			
Cash at bank and in hand	4	576,989	484,574
Trade receivables	5	530,690	654,317
Other receivables	6	319,910	83,570
Prepayments	7	27,347	7,031
Inventories	8	299,032	313,524
Total current assets		1,753,968	1,543,016
Long-term investments			
Long-term equity investments	9	6,845,111	4,349,190
Fixed assets			
Fixed assets, at cost		23,596,558	19,016,471
Less: Accumulated depreciation		(8,840,022)	(7,987,049)
Net book value of fixed assets	10	14,756,536	11,029,422
Construction materials	11	812,632	2,084,575
Construction in progress	11	1,392,458	1,039,315
Total fixed assets		16,961,626	14,153,312
Intangible assets and other assets			
Intangible assets	12	118,037	127,307
Investment deposit	14	15,250	—
		133,287	127,307
Deferred taxation			
Deferred tax assets	22	82,274	50,826
Total assets		25,776,266	20,223,651

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as at 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2006	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Short-term loans	15	4,486,902	1,200,597
Bank acceptance bills payable		480,000	130,000
Trade payables	16	1,231,025	288,719
Wages payable		176,170	85,827
Welfare payable		1,886	14,761
Taxes payable	17	176,958	160,448
Other payables	18	12,181	20,824
Other creditors	19	611,412	285,753
Long-term loans due within one year	20	1,479,935	792,827
Total current liabilities		8,656,469	2,979,756
Long-term liabilities			
Long-term loans	21	3,726,841	4,674,724
Special payables		15,640	43,000
Total long-term liabilities		3,742,481	4,717,724
Total liabilities		12,398,950	7,697,480
Shareholders' equity			
Share capital	23	6,021,084	6,021,084
Capital reserve	24(a)	2,018,190	1,897,561
Surplus reserves	24(b)	1,521,931	1,409,742
Including: statutory public welfare fund		—	379,434
Retained profits		3,816,111	3,197,784
Including: cash dividends proposed after the balance sheet date	25	373,307	391,370
Total shareholders' equity		13,377,316	12,526,171
Total liabilities and shareholders' equity		25,776,266	20,223,651

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## CONSOLIDATED INCOME AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	Note	2006	2005
Sales from principal activities	26	<b>15,130,927</b>	13,300,397
Less: Cost of sales from principal activities		<b>(11,605,077)</b>	(10,221,162)
Sales taxes and surcharges	27	<b>(157,719)</b>	(134,291)
Profit from principal activities		<b>3,368,131</b>	2,944,944
Add: Profit from other operations		<b>23,643</b>	25,548
Less: Administration expenses		<b>(965,485)</b>	(871,956)
Financial expenses	28	<b>(691,938)</b>	(513,273)
Operating profit		<b>1,734,351</b>	1,585,263
Add: Investment income	29	<b>55,845</b>	15,802
Non-operating income		<b>5,851</b>	17,005
Less: Non-operating expenses		<b>(9,542)</b>	(6,873)
Profit before income tax		<b>1,786,505</b>	1,611,197
Less: Income tax	30	<b>(498,426)</b>	(506,581)
Minority interests		<b>(166,193)</b>	(89,640)
Net profit for the year		<b>1,121,886</b>	1,014,976
Add: Retained profits at the beginning of the year		<b>3,197,784</b>	2,545,791
Profits available for distribution		<b>4,319,670</b>	3,560,767
Less: Transfer to statutory surplus reserve	24(b)	<b>(112,189)</b>	(101,497)
Transfer to statutory public welfare fund	24(b)	<b>—</b>	(50,748)
Profits available for distribution to shareholders		<b>4,207,481</b>	3,408,522
Less: Ordinary shares' dividend appropriated to shareholders	25	<b>(391,370)</b>	(210,738)
Retained profits carried forward (Including: cash dividend proposed after the balance sheet date of RMB373,307,000 (2005: RMB391,370,000))		<b>3,816,111</b>	3,197,784
Supplementary information: Gain on sales and disposal of division or investee enterprise		<b>16,156</b>	—

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# INCOME AND PROFIT APPROPRIATION STATEMENT

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for the year ended 31 December 2006  
(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi'000)

	Note	2006	2005
Sales from principal activities	26	<b>7,757,405</b>	8,022,182
Less: Cost of sales from principal activities		<b>(5,916,104)</b>	(6,125,119)
Sales taxes and surcharges	27	<b>(86,579)</b>	(82,907)
Profit from principal activities		<b>1,754,722</b>	1,814,156
Add: Profit from other operations		<b>2,053</b>	791
Less: Administration expenses		<b>(537,594)</b>	(513,439)
Financial expenses	28	<b>(233,347)</b>	(198,506)
Operating profit		<b>985,834</b>	1,103,002
Add: Investment income	29	<b>464,000</b>	275,990
Non-operating income		<b>107</b>	1,447
Less: Non-operating expenses		<b>(8,257)</b>	(1,415)
Profit before income tax		<b>1,441,684</b>	1,379,024
Less: Income tax	30	<b>(319,798)</b>	(364,048)
Net profit for the year		<b>1,121,886</b>	1,014,976
Add: Retained profits at the beginning of the year		<b>3,197,784</b>	2,545,791
Profits available for distribution		<b>4,319,670</b>	3,560,767
Less: Transfer to statutory surplus reserve	24(b)	<b>(112,189)</b>	(101,497)
Transfer to statutory public welfare fund	24(b)	<b>—</b>	(50,748)
Profits available for distribution to shareholders		<b>4,207,481</b>	3,408,522
Less: Ordinary shares' dividend appropriated to shareholders	25	<b>(391,370)</b>	(210,738)
Retained profits carried forward (Including: cash dividend proposed after the balance sheet date of RMB373,307,000 (2005: RMB391,370,000))		<b><u>3,816,111</u></b>	<u>3,197,784</u>
Supplementary information: Gain on sales and disposal of division or investee enterprise		<b><u>16,156</u></b>	<u>—</u>

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# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	<i>Supplementary note to the consolidated cash flow statement</i>	<b>2006</b>
Cash flows from operating activities:		
Cash received from sales of electricity and heat		17,577,287
Other cash received relating to operating activities		58,303
		<u>17,635,590</u>
Sub-total of cash inflows		17,635,590
Cash paid for goods and services		(10,084,686)
Cash paid to and for employees		(1,145,007)
Cash paid for all types of taxes		(2,198,091)
Other cash paid relating to operating activities		(558,849)
		<u>(13,986,633)</u>
Sub-total of cash outflows		(13,986,633)
Net cash flow from operating activities	(i)	<u>3,648,957</u>
Cash flows from investing activities:		
Cash received from sales of investments		84,761
Cash received from investment income		4,405
Net cash received from sales of fixed assets		76,002
Acquisition of a subsidiary and proportionate consolidation a jointly controlled entity, net of cash acquired	(ii)	45,649
Other cash received relating to investing activities		21,697
		<u>232,514</u>
Sub-total of cash inflows		232,514
Cash paid for acquisition of fixed assets and intangible assets		(13,126,022)
Cash paid for acquisition of investments		(787,990)
Disposal of subsidiaries, net of cash disposed of	(iii)	(4,307)
		<u>(13,918,319)</u>
Sub-total of cash outflows		(13,918,319)
Net cash flow from investing activities		<u>(13,685,805)</u>

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# CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2006  
(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi'000)

Supplementary note  
to the consolidated  
cash flow statement **2006**

Cash flows from financing activities		
Proceeds from investments		585,262
Proceeds from borrowings		27,282,190
Proceeds from government grants		67,380
Proceeds from bank acceptance bills receivable discounted		460,000
Other cash received relating to financing activities		13,721
		<hr/>
Sub-total of cash inflows		28,408,553
		<hr/>
Repayments of borrowings		(16,236,153)
Cash paid for interest		(1,263,088)
Cash paid for dividends		(391,370)
Dividends paid to minority shareholders		(18,196)
Increase in deposits for bank acceptance bills receivable		(316,058)
Other cash paid relating to financing activities		(24,560)
		<hr/>
Sub-total of cash outflows		(18,249,425)
		<hr/>
Net cash flow from financing activities		10,159,128
		<hr/>
Net increase in cash and cash equivalents	(iv)	122,280
		<hr/> <hr/>

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## CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

### SUPPLEMENTARY NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006
Net profit	1,121,886
Add: Provision for impairment of assets	738
Depreciation of fixed assets	1,850,343
Amortisation of intangible assets	11,968
Amortisation of consolidation difference and equity investment difference	19,395
Net losses on disposal of fixed assets	7,165
Financial expenses	691,938
Investment income	(56,139)
Minority interests	166,193
Increase in net deferred tax liabilities	65,624
Increase in inventories	(158,333)
Increase in operating receivables	(222,438)
Increase in operating payables	150,617
	<hr/>
Net cash flow from operating activities	<u><u>3,648,957</u></u>

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for the year ended 31 December 2006  
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## SUPPLEMENTARY NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (ii) Acquisition of a subsidiary and proportionate consolidation of a jointly controlled entity, net of cash acquired:

Effect of the Group's assets and liabilities arose from acquisition of a subsidiary and proportionate consolidation of a jointly controlled entity were as follows:

	<i>Note</i>	<b>2006</b>
Cash at bank and in hand		675,149
Trade receivables		114,262
Other receivables		1,495
Prepayments		749
Inventories		36,088
Long-term equity investments		3,500
Fixed assets	10	1,749,926
Construction materials and construction in progress		1,054,545
Intangible assets	12	19,799
Short-term loans		(804,800)
Trade payables		(101,885)
Wages and welfare payables		(817)
Taxes payable		(16,975)
Other payables		(670)
Other creditors		(94,621)
Long-term loans		(1,465,932)
Special payables		(33,530)
Deferred tax liabilities		(76,990)
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	9(c)	(95,337)
Net cash inflow from acquisition of a subsidiary and proportionate consolidation a jointly controlled entity		(45,649)

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*Head of accounting department*

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## CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

### SUPPLEMENTARY NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (iii) Disposal of subsidiaries, net of cash

Effect of the Group's assets and liabilities arose from disposal of subsidiaries were as follows:

	<i>Note</i>	<b>2006</b>
Cash at bank and in hand		4,798
Other receivables		18,074
Long-term equity investments		1,200
Fixed assets	10	5,163
Deferred tax assets		106
Other creditors		(21,253)
Other net assets		2,770
Minority interests		(5,973)
		<hr/>
Net assets and liabilities disposed of		4,885
Add: Gain on disposal of investment		395
Less: Cash at bank and in hand transferred out		(4,798)
Transfer to associates		(2,389)
Other receivables		(2,400)
		<hr/>
Net cash outflow from disposal of subsidiaries		<u>(4,307)</u>

#### (iv) Net increase in cash and cash equivalents:

	<b>2006</b>
Cash and cash equivalents at the end of the year	1,283,980
Less: Cash and cash equivalents at the beginning of the year	(845,642)
Increase in guarantee deposits for bank acceptance bills receivable	(316,058)
	<hr/>
Net increase in cash and cash equivalents	<u>122,280</u>

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**CASH FLOW STATEMENT**

for the year ended 31 December 2006  
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Supplementary note  
 to the cash  
 flow statement **2006**

Cash flows from operating activities		
Cash received from sales of electricity and heat		9,275,763
Other cash received relating to operating activities		7,288
		<u>9,283,051</u>
Sub-total of cash inflows		9,283,051
		-----
Cash paid for goods and services		(5,228,937)
Cash paid to and for employees		(645,259)
Cash paid for all types of taxes		(1,249,034)
Other cash paid relating to operating activities		(260,550)
		<u>(7,383,780)</u>
Sub-total of cash outflows		(7,383,780)
		-----
Net cash flow from operating activities	(i)	1,899,271
		-----
Cash flows from investing activities		
Cash received from sales of investments		85,251
Cash received from investment income		41,357
Net cash received from sales of fixed assets		75,446
Other cash received relating to investing activities		629,644
		<u>831,698</u>
Sub-total of cash inflows		831,698
		-----
Cash paid for acquisition of fixed assets, intangible assets and other long term assets		(3,546,279)
Cash paid for acquisition of investments		(2,114,012)
Other cash paid relating to investing activities		(164)
		<u>(5,660,455)</u>
Sub-total of cash outflows		(5,660,455)
		-----
Net cash flow from investing activities		(4,828,757)
		-----

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**CASH FLOW STATEMENT (continued)**

for the year ended 31 December 2006

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi'000)

	<i>Supplementary note to the cash flow statement</i>	<b>2006</b>
<hr/>		
Cash flows from financing activities		
Proceeds from borrowings		10,865,116
Proceeds from government grants		52,080
Proceeds from bank acceptance bills receivable discounted		360,000
Other cash received relating to financing activities		<u>13,721</u>
Sub-total of cash inflows		11,290,917
		- - - - -
Repayments of borrowings		(7,510,568)
Cash paid for interest		(347,168)
Cash paid for dividends		(391,370)
Increase in deposits for bank acceptance bills receivable		(319)
Other cash paid relating to financing activities		<u>(19,910)</u>
Sub-total of cash outflows		(8,269,335)
		- - - - -
Net cash flow from financing activities		<u>3,021,582</u>
Net increase in cash and cash equivalents	(ii)	<u><u>92,096</u></u>

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## SUPPLEMENTARY NOTES TO THE CASH FLOW STATEMENT

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

	2006
Net profit	1,121,886
Add: Provision for impairment of assets	677
Depreciation of fixed assets	961,720
Amortisation of intangible assets	9,515
Amortisation of equity investment difference	18,745
Net losses on disposal of fixed assets	7,313
Financial expenses	233,347
Investment income	(482,745)
Increase in deferred tax assets	(31,448)
Decrease in inventories	13,636
Increase in operating receivables	(59,473)
Increase in operating payables	106,098
	<hr/>
Net cash inflow from operating activities	<u>1,899,271</u>

### (ii) Net increase in cash and cash equivalents:

	2006
Cash and cash equivalents at the end of the year	576,989
Less: Cash and cash equivalents at the beginning of the year	(484,574)
Increase in deposits for bank acceptance bills receivable	(319)
	<hr/>
Net increase in cash and cash equivalents	<u>92,096</u>

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*Legal  
 representative*

**Zhu Fangxin**  
*Person in charge  
 of the accounting  
 affairs*

**Tao Yunpang**  
*Head of accounting  
 department*

The notes on pages 130 to 190 form part of these financial statements.

(Prepared under PRC Accounting Standards and Regulations)

(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 Rmb 3,825,056,200, divided into 3,825,056,200 ordinary shares of Rmb 1 each. At the same date, the Company’s joint promoters, namely Shandong Electric Power (Group) Corporation (“SEPCO”), Shandong International Trust and Investment Corporation (“SITIC”), Shandong Luneng Development (Group) Company Limited, China Power Trust and Investment Company Limited and Zaozhuang City Infrastructure Investment Company, injected all assets (except parcels of land) and liabilities, together with certain construction in progress, of two power plants in Zouxian and Shiliquan of Shandong Province into the Company. In return, these joint promoters were being allotted the entire share capital mentioned above.

Pursuant to the document (Zheng Jian Fa [1998] No. 317) issued by the Securities Commission of the State Council on 15 December 1998, the Company was authorised to issue H shares and its registered share capital had been increased to 5,256,084,200 ordinary shares of Rmb 1 each, comprising of 3,825,056,200 domestic shares 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 RMB 1 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.

Pursuant to Guo Zi Chan Quan [2006] No.700 “Notice on Approval of the Share Reform of Huadian Power International Corporation Limited” issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company implemented a share reform (the “Share Reform”) on 28 July 2006. All holders of non-circulating shares transferred 3 shares for every 10 shares held by the registered holders of circulating A shares as at the book closing date of the implementation of the Share Reform (28 July 2006) as consideration, totalling 170,700,000 domestic shares. Effective from 1 August 2006, all domestic shares of the Company became eligible for listing and circulation on the Shanghai Stock Exchange. However, the 3,850,356,200 original domestic shares held by the original domestic shareholders are not yet circulated due to restriction for disposal imposed on these shares.

All A shares and H shares of the Company rank pari passu in all material respects.

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 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of the financial statements 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.

### (a) Accounting year

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

### (b) Basis of consolidation

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

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. Subsidiaries are those entities in which the Company directly or indirectly, holds more than 50% (50% not inclusive) of the equity capital, or has the power to control despite the equity capital held by the Company is less than 50%. The results of the subsidiaries are included in the consolidated income statement of the Group of the period only when the Company holds more than 50% of the equity capital or the Company has the power to control despite the equity capital held is less than 50%. The 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.

### (d) Reporting currency

The Group's reporting currency is Renminbi.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### (e) Translation of foreign currencies

Foreign currency transactions 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 at balance sheet date 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)) and the transactions referred to below, are recognised in profit or loss for the period.

Exchange differences which arise during the start-up period are aggregated in the long-term deferred expenses and are then fully charged to profit or loss in the month of commencement of operations.

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

### (h) Inventories

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

The cost of inventories includes cost of purchase and, where applicable, transportation cost and handling fee. Inventories are recognised at actual cost when received. 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Long-term equity investments

Where the Group 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 Group's share of the investors' equity in the investee enterprise.

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

- Any excess of the initial investment cost over its share of the investors' equity in the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the year end.
- Any shortfall of the initial investment cost over its 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 year end. Such shortfalls are recognised in the "Capital reserve - reserve for equity investment" if the investment was acquired after the issuance of Cai Kuai [2003] No.10.

An associate is a company in which the Group, for long-term purposes, has not less than 20% but not more than 50% of its equity interests and exercises significant influence but does not have power to control it; or although the Group has less than 20% of its equity interests but exercises significant influence but does not have power to control it.

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 profit or loss for the period.

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

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 2 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 generation 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% - 5%
Generators and related machinery and equipment	10 - 20 years	3% - 5%
Others	5 - 10 years	3% - 5%

### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **(m) Provision for impairment of assets**

The carrying amounts of assets (including long-term investments, fixed assets, construction in progress, intangible assets and other assets, etc) are reviewed regularly by the Group 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 higher of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis by the Group and recognised in profit or loss for the period. However, when a deficit between the initial investment cost and the Group'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 profit or loss for the period.

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 profit or loss for the period. 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, it is firstly reversed the impairment losses that had previously been recognised in profit or loss and then reversed the impairment losses that had been charged to capital reserve.

### **(n) Long-term deferred expenses**

Except for acquisition and construction of fixed assets, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to profit or loss in the months of commencement of operations.

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (o) 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.

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.

### (p) 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.

### (q) Special payables

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

### (r) Revenue recognition

When it is probable that the economic benefits will flow to the Group and the relevant revenue and costs can be measured reliably, revenue is recognised 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Revenue recognition *(continued)*

#### (iii) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate.

### (s) Research and development costs

Research and development costs are recognised in profit or loss for the period when incurred.

### (t) Borrowing costs

Borrowing costs incurred on specific borrowings for the acquisition and 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 when incurred.

### (u) Major overhaul, repair and maintenance expenses

Major overhaul, repair and maintenance expenses are recognised in profit or loss when incurred.

### (v) Dividends appropriation

Cash dividends are recognised in the income and profit appropriation statement when declared. Cash dividends proposed or 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.

### (w) 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 profit or loss for the period when they are due. The Group does not have any other payment obligation except for the contributions to the retirement scheme.

### (x) 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.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### (y) 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 and profit appropriation 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 and profit appropriation statement.

## 3 TAXATION

The major 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 (note)	33%	based on taxable income of the current period

*Note: The income tax rate applicable to the Group is 33% for the years ended 31 December 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).*

The major preferential tax treatments entitled by the Group are mainly set out below:

Company name	Preferential tax rate	Reasons for preferential treatment
Guangan Company	15%	Entitled to enterprise income tax preferential policies on the development of the Western Region ( <i>note (i)</i> )
Zhongning Company	0%	Entitled to enterprise income tax preferential policies on the development of the Western Region and attracting investment policies of Ningxia Hui Autonomous Regions ( <i>note (ii)</i> )



(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 3 TAXATION *(continued)*

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 be entitled to a reduced enterprise income tax ("EIT") rate of 15%. In accordance with the approval document issued by the State Administration of Taxation of Sichuan Province, Guangan Company's EIT rate for the years 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) 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 be entitled to a reduced enterprise income tax rate of 15%. In addition, pursuant to the Notice issued by the People's Government of the Autonomous Regions on "Certain Policies on Attracting Investments to the Ningxia Hui Autonomous Regions" (Ning Zheng Fa [2004] No. 61), all new Ningxia industrial enterprises set up with non-domestic capital are, upon approval from the State Administration of Taxation of the Ningxia Hui Autonomous Regions, exempted from EIT for the first to third years since the commencement of operations, followed by a 50% reduction in EIT based on a preferential tax rate for the fourth and fifth years. Zhongning Company are exempted from EIT for the years 2006 to 2007 and entitled to a 50% reduction in EIT based on a preferential tax rate for the years 2008 to 2009.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 4 CASH AT BANK AND IN HAND

	The Group				The Company			
	2006		2005		2006		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
<b>Cash in hand</b>								
— Renminbi		<u>1,177</u>		<u>1,016</u>		<u>581</u>		<u>657</u>
<b>Saving accounts and fixed deposits with banks and other financial institutions (within three months)</b>								
— Renminbi		<u>966,691</u>		<u>844,427</u>		<u>576,035</u>		<u>483,718</u>
— US dollars	<u>6</u>	<u>46</u>	<u>24</u>	<u>191</u>	<u>6</u>	<u>46</u>	<u>24</u>	<u>191</u>
— HK dollars	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>
		<u>966,745</u>		<u>844,626</u>		<u>576,089</u>		<u>483,917</u>
<b>Cash and cash equivalents</b>		<u>967,922</u>		<u>845,642</u>		<u>576,670</u>		<u>484,574</u>
<b>Guarantee deposits for bills payable</b>		<u>316,058</u>		<u>—</u>		<u>319</u>		<u>—</u>
		<u>1,283,980</u>		<u>845,642</u>		<u>576,989</u>		<u>484,574</u>

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

	2006	2005
US dollars	<u>7.8087</u>	<u>8.0702</u>
HK dollars	<u>1.0047</u>	<u>1.0403</u>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 5 TRADE RECEIVABLES

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Trade receivables for the sale of electricity	<b>1,555,385</b>	1,229,497	<b>530,084</b>	653,690
Trade receivables for the sale of heat	<b>29,845</b>	43,263	<b>606</b>	627
	<b>1,585,230</b>	1,272,760	<b>530,690</b>	654,317
Less: Provision for bad and doubtful debts	<b>(18,677)</b>	(15,903)	—	—
Total	<b><u>1,566,553</u></b>	<u>1,256,857</u>	<b><u>530,690</u></b>	<u>654,317</u>

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

	The Group	
	2006	2005
	'000	'000
Opening balance	<b>15,903</b>	1,590
Charge for year	<b>2,774</b>	14,313
Closing balance	<b><u>18,677</u></b>	<u>15,903</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 5 TRADE RECEIVABLES (continued)

The ageing analysis of trade receivables is as follows:

Ageing	The Group							
	2006				2005			
	Amount	Proportion	Provision	Proportion	Amount	Proportion	Provision	Proportion
	'000		'000		'000	'000		
Within one year	1,539,073	97.1%	—	—	1,240,938	97.5%	—	—
Between one and two years	14,352	0.9%	2,774	19.3%	17	0.0%	—	—
Between two and three years	—	—	—	—	3,189	0.3%	1,595	50%
Over three years	31,805	2.0%	15,903	50%	28,616	2.2%	14,308	50%
Total	<u>1,585,230</u>	<u>100%</u>	<u>18,677</u>	<u>1.2%</u>	<u>1,272,760</u>	<u>100%</u>	<u>15,903</u>	<u>1.2%</u>

Ageing	The Company							
	2006				2005			
	Amount	Proportion	Provision	Proportion	Amount	Proportion	Provision	Proportion
	'000		'000		'000	'000		
Within one year	<u>530,690</u>	<u>100%</u>	<u>—</u>	<u>—</u>	<u>654,317</u>	<u>100%</u>	<u>—</u>	<u>—</u>

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

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:

	2006		2005	
	Amount	Percentage of trade receivables	Amount	Percentage of trade receivables
	'000		'000	
The Group	<u>1,576,173</u>	<u>99.4%</u>	1,260,018	99.0%
The Company	<u>530,690</u>	<u>100%</u>	<u>654,317</u>	<u>100.0%</u>

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 6 OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Amounts due from subsidiaries	—	—	<b>283,717</b>	56,454
Amounts due from related parties	—	8,475	—	8,475
Others	<b>52,105</b>	66,824	<b>39,475</b>	22,102
	<b>52,105</b>	75,299	<b>323,192</b>	87,031
Less: Provision for bad and doubtful debts	<b>(5,127)</b>	(5,858)	<b>(3,282)</b>	(3,461)
Total	<b>46,978</b>	69,441	<b>319,910</b>	83,570

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Opening balance	<b>5,858</b>	12,113	<b>3,461</b>	3,628
Transfer in from acquisition of a subsidiary	<b>745</b>	—	—	—
Transfer out to disposal of subsidiaries	<b>(257)</b>	—	—	—
Written back during the year	<b>(1,219)</b>	(6,255)	<b>(179)</b>	(167)
Closing balance	<b>5,127</b>	5,858	<b>3,282</b>	3,461

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 6 OTHER RECEIVABLES (continued)

The ageing analysis of other receivables is as follows:

Ageing	The Group							
	2006				2005			
	Amount	Proportion	Provision	Proportion	Amount	Proportion	Provision	Proportion
	'000		'000		'000	'000		
Within one year	43,228	83.0%	185	0.4%	58,407	77.5%	146	0.2%
Between one and two years	3,214	6.1%	2	0.0%	10,983	14.6%	1,093	10.0%
Between two and three years	297	0.6%	1	0.3%	501	0.7%	10	2.0%
Over three years	5,366	10.3%	4,939	92.0%	5,408	7.2%	4,609	85.2%
Total	<u>52,105</u>	<u>100%</u>	<u>5,127</u>	<u>9.8%</u>	<u>75,299</u>	<u>100%</u>	<u>5,858</u>	<u>7.8%</u>

Ageing	The Company							
	2006				2005			
	Amount	Proportion	Provision	Proportion	Amount	Proportion	Provision	Proportion
	'000		'000		'000	'000		
Within one year	318,256	98.5%	185	0.1%	83,126	95.5%	59	0.1%
Between one and two years	1,302	0.4%	2	0.2%	12	0.0%	—	—
Between two and three years	297	0.1%	1	0.3%	501	0.6%	10	2.0%
Over three years	3,337	1.0%	3,094	92.7%	3,392	3.9%	3,392	100%
Total	<u>323,192</u>	<u>100%</u>	<u>3,282</u>	<u>1.0%</u>	<u>87,031</u>	<u>100%</u>	<u>3,461</u>	<u>4.0%</u>

Provision is calculated based on the ageing analysis of the receivables, their nature and on individual basis. The proportion of provision made 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:

	2006		2005	
	Amount	Percentage of other receivables	Amount	Percentage of other receivables
	'000		'000	
The Group	<u>6,624</u>	<u>12.7%</u>	<u>43,660</u>	<u>58.0%</u>
The Company	<u>207,842</u>	<u>64.3%</u>	<u>64,929</u>	<u>74.6%</u>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 7 PREPAYMENTS

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Prepayments to a subsidiary	—	—	26,960	—
Others	60,567	11,168	387	7,031
	<b>60,567</b>	<b>11,168</b>	<b>27,347</b>	<b>7,031</b>

Ageing	The Group				The Company			
	2006		2005		2006		2005	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
	'000	'000	'000	'000	'000	'000	'000	'000
Within one year	60,567	100%	4,501	40.3%	27,347	100%	364	5.2%
Between one and two years	—	—	6,667	59.7%	—	—	6,667	94.8%
Between two and three years	—	—	—	—	—	—	—	—
Over three years	—	—	—	—	—	—	—	—
Total	<b>60,567</b>	<b>100%</b>	<b>11,168</b>	<b>100%</b>	<b>27,347</b>	<b>100%</b>	<b>7,031</b>	<b>100%</b>

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 TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 8 INVENTORIES

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Coal	485,249	343,374	150,632	181,111
Fuel oil	55,021	35,400	25,230	19,856
Materials, components and spare parts	280,523	244,334	181,372	169,903
	820,793	623,108	357,234	370,870
Less: Provision for diminution in value of inventories	(72,282)	(64,261)	(58,202)	(57,346)
	<b>748,511</b>	<b>558,847</b>	<b>299,032</b>	<b>313,524</b>

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Opening balance	64,261	67,268	57,346	58,755
Transfer in from acquisition of subsidiary	8,899	—	—	—
Transfer out through disposal of subsidiaries	(61)	—	—	—
(Reversal)/additional provision for the year	(817)	(3,007)	856	(1,409)
Closing balance	<b>72,282</b>	<b>64,261</b>	<b>58,202</b>	<b>57,346</b>

All inventories are acquired through purchase.

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

	2006	2005
	'000	'000
The Group	8,657,170	7,763,525
The Company	<b>4,326,209</b>	<b>4,588,850</b>



*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 9 LONG-TERM EQUITY INVESTMENTS

### The Group

	Investment in associates	Other equity investments	Consolidation difference and equity investment difference	Total
	'000	'000	'000	'000
<b>Cost of investment</b>				
Opening balance	915,688	175,639	283,017	1,374,344
Addition of investments:				
- Divestment in a subsidiary to an associate	2,389	—	—	2,389
- Transfer from a jointly controlled entity to a subsidiary	—	3,500	—	3,500
- Addition of investment	620,529	26,600	87,162	734,291
Adjustments under equity method:				
- Investment income	36,843	—	—	36,843
- Share of movement in capital reserve	3,134	—	—	3,134
Disposal of investment:				
- Transfer from an associate to a jointly controlled entity	(95,337)	—	—	(95,337)
- Divestment in a subsidiary to an associate	—	(1,200)	—	(1,200)
- Disposal of investments	—	(69,000)	—	(69,000)
Dividends received	(1,265)	—	—	(1,265)
Amortisation for the year	—	—	(19,395)	(19,395)
Closing balance	<u>1,481,981</u>	<u>135,539</u>	<u>350,784</u>	<u>1,968,304</u>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 9 LONG-TERM EQUITY INVESTMENTS (continued)

### The Company

	Investment in subsidiaries	Investment in jointly controlled entity	Investment in associates	Other equity investments	Equity investment difference	Total
	'000	'000	'000	'000	'000	'000
Opening balance	2,875,546	146,405	875,188	172,939	279,112	4,349,190
Addition in investment	1,464,995	57,200	620,529	26,600	87,162	2,256,486
Transfer from a jointly controlled entity to a subsidiary	146,405	(146,405)	—	—	—	—
Transfer from an associate to a jointly controlled entity	—	95,337	(95,337)	—	—	—
Adjustments under equity method:						
- Investment income	364,488	62,118	36,843	—	—	463,449
- Share of movement in capital reserve	38,056	—	3,134	—	—	41,190
Disposal of investments	(53,207)	—	—	(69,000)	—	(122,207)
Divestment in a subsidiary to an associate	(2,389)	—	2,389	—	—	—
Dividends received	(118,813)	(4,174)	(1,265)	—	—	(124,252)
Amortisation for the year	—	—	—	—	(18,745)	(18,745)
Closing balance	<u>4,715,081</u>	<u>210,481</u>	<u>1,441,481</u>	<u>130,539</u>	<u>347,529</u>	<u>6,845,111</u>

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

Details of subsidiaries, jointly controlled entity and associates of the Company are listed in note 34.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 9 LONG-TERM EQUITY INVESTMENTS (continued)

(a) At 31 December 2006, the investment in subsidiaries of the Company are analysed as follows:

	Huadian Huadian Qingdao Power Company Limited Guangan Company	Weifang Power Company Limited ("Qingdao Company")	Huadian Zibo Power Company Limited ("Weifang Company")	Huadian Zhangjiu Power Company Limited ("Zibo Company")	Huadian Tengzhou Xinyuan Power Company Limited ("Zhangjiu Company")	Huadian Xinxiang Power Company Limited ("Tengzhou Company")	Auhui Huadian Suzhou Power Generation Company Limited ("Xinxiang Company")	Huadian Ningxia Lingwu Power Generation Company Limited ("Suzhou Company")	Sichuan Huadian Luding Hydropower Company Limited ("Lingwu Company")	Other subsidiaries	Total
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Percentage of equity interest	80%	55%	45%	100%	84.45%	88.16%	90%	97%	65%	100%	
Investment period	Nil	20 years	30 years	Nil	Nil	Nil	30 years	30 years	30 years	40 years	
Initial investment cost (At 31 December 2006)	1,137,013	345,668	823,483	374,800	405,740	224,400	140,100	234,872	97,500	79,290	71,484
<b>Cost of investment</b>											
Opening balance	1,256,274	526,397	—	436,235	326,072	133,241	62,100	53,350	—	—	81,877
Add: Addition of investments	100,000	176,000	544,169	—	100,000	90,780	50,000	159,972	97,500	79,290	67,284
Transfer from a jointly controlled entity to a subsidiary (note 9(b))	—	—	146,405	—	—	—	—	—	—	—	—
Adjustments under equity method:											
- Investment income	140,933	61,370	47,446	25,325	45,926	22,712	—	—	—	—	20,776
- Share of movement in capital reserve of subsidiaries	—	16,500	21,556	—	—	—	—	—	—	—	—
Less: Disposal of investments	—	—	—	—	—	—	—	—	—	—	(53,207)
Divestment in a subsidiary to an associate	—	—	—	—	—	—	—	—	—	—	(2,389)
Dividends received	—	(78,650)	—	—	(15,930)	(4,233)	—	—	—	—	(20,000)
Closing balance	1,497,207	701,617	759,576	461,560	456,068	242,500	112,100	213,322	97,500	79,290	94,341

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

9 LONG-TERM EQUITY INVESTMENTS (*continued*)

- (b) At 31 December 2006, the investment in the jointly controlled entity of the Company is analysed as follows:

	<b>Weifang Company</b>	<b>Zhongning Company</b>	<b>Total</b>
	'000	'000	'000
Percentage of equity interests	30%	50%	
Investment period	30 years	25 years (construction period excluded)	
Initial investment cost (At 31 December 2006)	<u>—</u>	<u>142,800</u>	<u>142,800</u>
<b>Cost of investment</b>			
Opening balance	146,405	—	146,405
Add: Addition in investment	—	57,200	57,200
Transfer from investments in associates	—	95,337	95,337
Adjustments under equity method	—	62,118	62,118
Less: Transfer to subsidiaries	(146,405)	—	(146,405)
Dividends received	<u>—</u>	<u>(4,174)</u>	<u>(4,174)</u>
Closing balance	<u>—</u>	<u>210,481</u>	<u>210,481</u>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 9 LONG-TERM EQUITY INVESTMENTS (continued)

(c) At 31 December 2006, the investment in associates of the Group and the Company are listed as follows:

Associates	Investment period	Initial investment cost	Percentage of equity interests	Opening balance	Addition in investment	Divestment in a subsidiary to an associate	Transfer from an associate to a jointly controlled entity	Adjustments under equity method		Dividends received	Closing balance
								Investment income	Share of movement in capital reserve of an associate		
		'000		'000	'000	'000	'000	'000	'000	'000	'000
		(At 31 December 2006)									
<b>The Company</b>											
Ningxia Power Generation (Group) Company Limited ("Ningxia Power Company")	Nil	280,000	31.11%	286,835	—	—	—	22,483	3,134	(1,265)	311,187
Anhui Chizhou Jiu Hua Power Generation Company Limited ("Chizhou Company")	30 years	258,940	40%	248,016	—	—	—	147	—	—	248,163
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	240,000	40%	80,000	160,000	—	—	—	—	—	240,000
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	—	—	14,299	—	—	329,299
Zoucheng Lunan Electric Power Technology Development Company Limited ("Zoucheng Lunan")	Nil	1,733	40%	—	—	2,389	—	(86)	—	—	2,303
China Huadian Finance Corporation Limited ("China Huadian Finance")	30 years	147,360	15%	—	145,529	—	—	—	—	—	145,529
<b>The Company total</b>		1,408,033		875,188	620,529	2,389	(95,337)	36,843	3,134	(1,265)	1,441,481
Sichuan Huayingshan Longtan Coal Company Limited ("Longtan Coal Company")	Nil	40,500	36%	40,500	—	—	—	—	—	—	40,500
<b>The Group total</b>		1,448,533		915,688	620,529	2,389	(95,337)	36,843	3,134	(1,265)	1,481,981

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 9 LONG-TERM EQUITY INVESTMENTS (continued)

- (d) At 31 December 2006, the other principal equity investments of the Group and the Company are listed as follows:

Name of investee enterprise	Investment period	Initial investment	Percentage of equity interest	Opening balance	Addition in investment	Transfer from a jointly controlled entity to a subsidiary	Disposal of investment	Closing balance
		'000 (At 31 December 2006)		'000	'000	'000	'000	'000
<b>The Company</b>								
Shandong Luneng Heze Coal Power Development Company Limited	50 years	91,339	12.27%	91,339	—	—	—	91,339
Shandong Luneng Minerals Group Company Limited	Nil	—	—	69,000	—	—	(69,000)	—
Shanxi Jinzhongnan Railway Coal Distribution Company Limited	Nil	39,200	10.42%	12,600	26,600	—	—	39,200
<b>The Company total</b>		<b>130,539</b>		<b>172,939</b>	<b>26,600</b>	<b>—</b>	<b>(69,000)</b>	<b>130,539</b>
Others		5,000		2,700	—	3,500	(1,200)	5,000
<b>The Group total</b>		<b>135,539</b>		<b>175,639</b>	<b>26,600</b>	<b>3,500</b>	<b>(70,200)</b>	<b>135,539</b>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 9 LONG-TERM EQUITY INVESTMENTS (continued)

(e) At 31 December 2006, the consolidated difference and equity investment difference of the Group and the Company are listed as follows:

	Guangan Company	Qingdao Company	Weifang Company	Chizhou Company	Suzhou Company	Xinxiang Company	Others	The Company total	Zibo Company	The Group total
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Amortisation period	10 years	20 years	30 years	10 years	10 years	10 years			10 years	
<b>Consolidation difference and equity investment difference</b>										
Opening balance	29,436	90,412	235,706	2,940	21,550	28,000	37,556	445,600	6,506	452,106
Additions for the year	—	—	85,331	—	—	—	1,831	87,162	—	87,162
Closing balance	29,436	90,412	321,037	2,940	21,550	28,000	39,387	532,762	6,506	539,268
<b>Accumulated amortisation</b>										
Opening balance	(5,887)	(39,178)	(98,211)	(417)	—	—	(22,795)	(166,488)	(2,601)	(169,089)
Amortisation for the year	(2,944)	(2,697)	(7,428)	(294)	(718)	(933)	(3,731)	(18,745)	(650)	(19,395)
Closing balance	(8,831)	(41,875)	(105,639)	(711)	(718)	(933)	(26,526)	(185,233)	(3,251)	(188,484)
<b>Net book value:</b>										
Closing balance	20,605	48,537	215,398	2,229	20,832	27,067	12,861	347,529	3,255	350,784
Opening balance	23,549	51,234	137,495	2,523	21,550	28,000	14,761	279,112	3,905	283,017

At 31 December 2006, the Group's proportion of the total long-term investments to the net assets was 14.7% (31 December 2005: 11.0%).

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 10 FIXED ASSETS

	The Group			
	Land use rights and buildings	Generators and related machinery and equipment	Others	Total
	'000	'000	'000	'000
<b>Cost:</b>				
Opening balance	8,220,932	24,104,398	682,049	33,007,379
Transfer in from acquisition of a subsidiary and a jointly controlled entity	785,017	1,828,401	81,453	2,694,871
Additions for the year	209	26,301	58,449	84,959
Transfer from construction in progress ( <i>note 11</i> )	3,833,048	11,379,995	116,245	15,329,288
Disposals for the year	(50,004)	(137,423)	(10,018)	(197,445)
Transfer out through disposal of subsidiaries	(12,389)	—	(9,320)	(21,709)
Closing balance	<u>12,776,813</u>	<u>37,201,672</u>	<u>918,858</u>	<u>50,897,343</u>
<b>Accumulated depreciation:</b>				
Opening balance	2,536,749	8,939,607	353,286	11,829,642
Transfer in from acquisition of a subsidiary and a jointly controlled entity	244,347	657,705	42,893	944,945
Charge for the year	395,839	1,353,751	106,383	1,855,973
Written back on disposals	(16,717)	(89,383)	(10,530)	(116,630)
Transfer out through disposal of subsidiaries	(7,286)	—	(9,260)	(16,546)
Closing balance	<u>3,152,932</u>	<u>10,861,680</u>	<u>482,772</u>	<u>14,497,384</u>
<b>Net book value:</b>				
Closing balance	<u>9,623,881</u>	<u>26,339,992</u>	<u>436,086</u>	<u>36,399,959</u>
Opening balance	<u>5,684,183</u>	<u>15,164,791</u>	<u>328,763</u>	<u>21,177,737</u>



*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 10 FIXED ASSETS *(continued)*

	The Company			
	Land use rights and buildings	Generators and related machinery and equipment	Others	Total
	'000	'000	'000	'000
<b>Cost:</b>				
Opening balance	3,946,467	14,607,958	462,046	19,016,471
Additions for the year	—	1,046	16,435	17,481
Transfer from subsidiaries	7,654	—	14,275	21,929
Transfer from construction in progress <i>(note 11)</i>	2,156,787	2,549,189	29,800	4,735,776
Disposals for the year	(49,804)	(135,961)	(9,334)	(195,099)
Closing balance	6,061,104	17,022,232	513,222	23,596,558
<b>Accumulated depreciation:</b>				
Opening balance	1,601,620	6,162,724	222,705	7,987,049
Charge for the year	191,582	731,678	40,154	963,414
Written back on disposals	(16,717)	(88,257)	(5,467)	(110,441)
Closing balance	1,776,485	6,806,145	257,392	8,840,022
<b>Net book value:</b>				
Closing balance	4,284,619	10,216,087	255,830	14,756,536
Opening balance	2,344,847	8,445,234	239,341	11,029,422

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

	2006	2005
	'000	'000
The Group	1,970,640	1,532,354
The Company	1,241,205	1,071,330

At 31 December 2006, the Group has no temporarily idle fixed assets.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
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## 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	Opening balance	Transfer from a jointly controlled entity to subsidiary	Net addition/ (disposal) for the year	Transfer to fixed assets for the year	Transfer to subsidiaries	Closing balance	Aggregate payment as a percentage of budgeted	Source of funding	Capitalisation of borrowing costs for the year
	'000	'000	'000	'000	'000	'000	'000			'000
<b>The Company</b>										
Zouxian Power Plant Phase IV generating units	7,264,140	535,272	—	4,526,959	(4,128,709)	—	933,522	69.7%	Self-financing and bank loans	39,017
Lingwu Company generating units	4,592,110	344,827	—	—	—	(344,827)	—	—	Self-financing and bank loans	—
Construction materials		2,084,575	—	(722,983)	—	(548,960)	812,632	—	Self-financing and bank loans	65,381
Desulphurisation, technical improvement projects and others		159,216	—	1,007,722	(607,067)	(100,935)	458,936	—	Self-financing and bank loans	17,010
Total for the Company		3,123,890	—	4,811,698	(4,735,776)	(994,722)	2,205,090			121,408
<b>Subsidiaries</b>										
Guangan Company Phase III generating units	3,979,510	407,430	—	2,119,723	(2,343,969)	—	183,184	63.5%	Self-financing and bank loans	28,603
Qingdao Company Phase II generating units	2,370,830	241,134	—	626,173	(867,307)	—	—	98.4%	Self-financing and bank loans	17,652
Tengzhou Company Phase II generating units	2,406,200	356,949	—	1,763,182	(2,120,025)	—	106	88.1%	Self-financing and bank loans	26,298
Zhangqiu Company Phase II generating units	2,404,910	684,232	—	1,400,359	(2,061,871)	—	22,720	86.7%	Self-financing and bank loans	32,533
Weifang Company Phase II generating units	4,506,160	—	519,213	2,497,932	(2,378,040)	—	639,105	67.0%	Self-financing and bank loans	39,019
Lingwu Company generating units	4,592,110	—	—	894,186	—	344,827	1,239,013	27.0%	Self-financing and bank loans	33,292

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 11 CONSTRUCTION MATERIALS AND CONSTRUCTION IN PROGRESS (continued)

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

Project	Budgeted amount	Opening balance	Transfer from a jointly controlled entity to a subsidiary	Net addition/ (disposal) for the year	Transfer to fixed assets for the year	Transfer to subsidiaries	Closing balance	Aggregate payment as a percentage of budgeted	Source of funding	Capitalisation of borrowing costs for the year
	'000	'000	'000	'000	'000	'000	'000			'000
<b>Subsidiaries (continued)</b>										
Xinxiang Company										
Baoshan Power Plant generating units	4,970,260	248,078	—	749,752	—	—	997,830	20.1%	Self-financing and bank loans	30,469
Suzhou Company generating units	4,274,510	413,257	—	774,700	—	—	1,187,957	27.8%	Self-financing and bank loans	34,208
Construction materials		2,716,388	873,123	324,094	—	548,960	4,462,565	—	Self-financing and bank loans	242,183
Desulphurisation, technical improvement projects and others		270,412	114,157	1,007,576	(819,270)	100,935	673,810	—	Self-financing and bank loans	5,241
Sub-total for subsidiaries		5,337,880	1,506,493	12,157,677	(10,590,482)	994,722	9,406,290			489,498
Share of jointly controlled entity										
Weifang Company Phase II generating units	1,351,848	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)	3,030	(3,030)	—	—	—	Self-financing and bank loans	—
Sub-total for share of jointly controlled entity		451,948	(451,948)	3,030	(3,030)	—	—			—
Total for the Group		8,913,718	1,054,545	16,972,405	(15,329,288)	—	11,611,380			610,906
					(note 10)					(note 28)

The borrowing costs of the Group for the year have been capitalised at an average rate of 5.43% (year ended 31 December 2005: 5.21%).

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

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(Expressed in Renminbi)

## 12 INTANGIBLE ASSETS

	<u>The Group</u>	<u>The Company</u>
	'000	'000
<b>Cost:</b>		
Opening balance	212,115	163,431
Addition for the year	5,692	245
Transfer from acquisition of subsidiary	24,172	—
Closing balance	<u>241,979</u>	<u>163,676</u>
<b>Accumulated depreciation:</b>		
Opening balance	41,368	36,124
Charge for the year	11,968	9,515
Transfer from acquisition of subsidiary	4,373	—
Closing balance	<u>57,709</u>	<u>45,639</u>
<b>Net book value:</b>		
Closing balance	<u>184,270</u>	<u>118,037</u>
Opening balance	<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 for construction of owner-occupied project and those developed or constructed owner-occupied project before the adoption of Accounting Regulations for Business Enterprises.

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

At 31 December 2006, the remaining amortisation period of land use rights are ranging from 5 to 66 years.

## 13 LONG-TERM DEFERRED EXPENSES

	<u>The Group</u>
	<u>Expenses incurred during set-up period that are not related to construction</u>
	'000
<b>Cost:</b>	
Opening balance	—
Addition for the year	<u>25,179</u>
Closing balance	<u>25,179</u>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 14 INVESTMENT DEPOSIT

The investment deposit represents investment deposit paid to China Huadian Corporation (“China Huadian”) for a consideration of acquisition of its 95% equity interests in Anhui Huadian Wuhu Power Company Limited (“Wuhu Company”) by the Company. The Company completed such transaction in January 2007. China Huadian hold more than 5% voting right of the Company.

## 15 SHORT-TERM LOANS

	The Group					
	2006			2005		
	Interest rate	Original currency	Renminbi/ Renminbi equivalent	Interest rate	Original currency	Renminbi/ Renminbi equivalent
	'000	'000		'000	'000	
Short-term bank loans						
- Renminbi	4.86% - 6.12%		8,635,250	4.70% - 5.58%		3,526,860
- US dollars	5.60% - 6.46%	65,139	508,652	4.60% - 5.43%	33,139	267,437
Other short-term Renminbi loans (Note)	5.00% - 5.58%		877,500	5.02%		300,000
Short-term shareholder Renminbi loan	5.27%		51,000	—		—
			<b>10,072,402</b>			<b>4,094,297</b>

	The Company					
	2006			2005		
	Interest rate	Original currency	Renminbi/ Renminbi equivalent	Interest rate	Original currency	Renminbi/ Renminbi equivalent
	'000	'000		'000	'000	
Short-term bank loans						
- Renminbi	4.86% - 5.58%		3,928,250	4.70% - 5.22%		891,160
- US dollars	5.60% - 6.46%	65,139	508,652	4.60% - 5.43%	33,139	267,437
Other short-term Renminbi loans (Note)	5.27%		50,000	5.02%		42,000
			<b>4,486,902</b>			<b>1,200,597</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 15 SHORT-TERM LOANS (continued)

Note: Other short-term Renminbi loans

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
China Huadian Finance	500,000	300,000	—	—
Huadian Coal	300,000	—	—	—
Ningxia Power Company	77,500	—	—	—
Loans from subsidiaries	—	—	50,000	42,000
	<b>877,500</b>	<b>300,000</b>	<b>50,000</b>	<b>42,000</b>

The other loans borrowed from China Huadian Finance, an associate of the Company, 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:

	2006	2005
US dollars	<b>7.8087</b>	<b>8.0702</b>

All the above short-term loans are unsecured, except for a short-term loan amounting to RMB30,000,000 which is guaranteed by Zibo Luneng Industrial Company Limited.

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

### 16 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 2006, there is no individual significant trade payables of the Group and the Company that aged over three years.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 17 TAXES PAYABLE

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
VAT payable	145,951	99,495	84,564	49,437
City maintenance and construction tax payable	22,762	17,440	11,304	14,588
EIT payable	88,792	113,970	68,659	79,098
EIT recoverable	(16,164)	(2,789)	—	—
Others	21,163	22,453	12,431	17,325
Total	<b>262,504</b>	<b>250,569</b>	<b>176,958</b>	<b>160,448</b>

## 18 OTHER PAYABLES

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

## 19 OTHER CREDITORS

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Amount due to China Huadian	10,415	33,000	—	33,000
Amounts due to other related parties	—	—	375,639	101,753
Amounts due to independent construction companies	839,009	317,092	114,397	44,896
Others	407,681	274,662	121,376	106,104
	<b>1,257,105</b>	<b>624,754</b>	<b>611,412</b>	<b>285,753</b>

Amount due to China Huadian represents general current account. The balance as at 31 December 2005 represented the remaining balance for the acquisition of subsidiaries (note 31(g)).

Amounts 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 2006, there is no individual significant other creditors of the Group and the Company that aged over three years.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 20 LONG-TERM LOANS DUE WITHIN ONE YEAR

	The Group				The Company			
	2006		2005		2006		2005	
	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent
	'000	'000	'000	'000	'000	'000	'000	'000
Bank loans due within one year								
- Renminbi		937,060		1,437,428		189,060		350,000
- US dollars	100,400	783,993	32,320	260,826	100,000	780,870	32,000	258,243
Shareholder loans due within one year								
- Renminbi		—		175,000		—		175,000
State loans due within one year								
- US dollars	1,281	10,005	1,188	9,584	1,281	10,005	1,188	9,584
Other loans due within one year								
- Renminbi		680,000		80,000		500,000		—
- US dollars	2,308	18,020	2,308	18,623		—		—
		<u>2,429,078</u>		<u>1,981,461</u>		<u>1,479,935</u>		<u>792,827</u>
		(note 21(b))		(note 21(b))		(note 21(b))		(note 21(b))

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

	2006	2005
US dollars	<u>7.8087</u>	<u>8.0702</u>

Please refer to note 21 for details analysis of loans.



(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 21 LONG-TERM LOANS

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Bank loans				
- Between one year to two years	1,812,420	2,055,743	884,880	996,071
- Between two years to five years	7,116,409	5,315,555	1,452,000	2,127,687
- Over five years	8,077,118	2,414,593	440,000	—
	<u>17,005,947</u>	<u>9,785,891</u>	<u>2,776,880</u>	<u>3,123,758</u>
Shareholder loans (Note (i))				
- Between two years to five years	585,000	335,000	585,000	335,000
- Over five years	750,000	800,000	—	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	10,792	10,340	10,792	10,340
- Between two years to five years	41,155	36,374	39,791	36,169
- Over five years	22,477	23,465	16,341	21,420
	<u>74,424</u>	<u>70,179</u>	<u>66,924</u>	<u>67,929</u>
Other loans (Note (iii))				
- Between one year to two years	252,221	828,623	198,037	700,000
- Between two years to five years	531,810	537,024	100,000	198,037
- Over five years	47,024	—	—	—
	<u>831,055</u>	<u>1,365,647</u>	<u>298,037</u>	<u>898,037</u>
	<u>19,246,426</u>	<u>12,356,717</u>	<u>3,726,841</u>	<u>4,674,724</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 21 LONG-TERM LOANS (continued)

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

## The Group

Interest rates and periods	2006		2005	
	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent
	'000	'000	'000	'000
<b>Long-term bank loans</b>				
Renminbi loans	Interest rates mainly ranging from 3.60% to 6.39% per annum as at 31 December 2006 (2005: 4.94% to 6.12%), with maturities up to 2022		17,774,180	10,364,700
US dollar loans	Interest rates mainly ranging from 6.14% to 6.38% per annum as at 31 December 2006 (2005: 4.67% to 5.86%), with maturities up to 2017		122,020	952,820
			138,713	1,119,445
			<u>18,727,000</u>	<u>11,484,145</u>
<b>Shareholders loans (Note (i))</b>				
Renminbi loans	Interest rates mainly ranging from 4.15% to 5.83% per annum as at 31 December 2006 (2005: 4.98% to 5.85%), with maturities up to 2021		1,335,000	1,310,000
<b>State loans (Note (ii))</b>				
Renminbi loans	Interest rate mainly at 2.55% per annum as at 31 December 2006 (2005: 2.55%), with maturities up to 2020		18,700	2,250
US dollar loans	Interest rate mainly at 5.51% per annum as at 31 December 2006 (2005: 3.77%), with maturity up to 2012		8,417	65,729
			9,605	77,513
			<u>84,429</u>	<u>79,763</u>

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 21 LONG-TERM LOANS *(continued)*

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

#### The Group *(continued)*

Interest rates and periods	2006		2005	
	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent
	'000	'000	'000	'000
<b>Other loans (Note (iii))</b>				
Renminbi loans	Interest rates mainly ranging from 5.18% to 6.16% per annum as at 31 December 2006 (2005: 5.02% to 5.76%), with maturities up to 2021			
		1,465,998		1,380,468
US dollar loans	Interest rate mainly at 7.02% per annum as at 31 December 2006 (2005: 5.93%), with maturity up to 2010			
	8,078	63,077	10,384	83,802
		<u>1,529,075</u>		<u>1,464,270</u>
		21,675,504		14,338,178
Less: Long-term loans due within one year (note 20)		<u>(2,429,078)</u>		<u>(1,981,461)</u>
		<u><u>19,246,426</u></u>		<u><u>12,356,717</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 21 LONG-TERM LOANS (continued)

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

## The Company

Interest rates and periods	2006		2005	
	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent
	'000	'000	'000	'000
<b>Long-term bank loans</b>				
Renminbi loans	Interest rates mainly ranging from 5.18% to 6.16% per annum as at 31 December 2006 (2005: 4.94% to 5.51%), with maturities up to 2016			
		2,851,060		2,661,060
US dollar loans	Interest rates mainly ranging from 6.18% to 6.38% per annum as at 31 December 2006 (2005: 4.67% to 5.86%), with maturities up to 2008			
	114,712	895,750	132,703	1,070,941
		3,746,810		3,732,001
<b>Shareholder loans (Note (i))</b>				
Renminbi loans	Interest rates mainly ranging from 5.27% to 5.83% per annum as at 31 December 2006 (2005: 5.27% to 5.85%), with maturities up to 2011			
		585,000		760,000
<b>State loans (Note (ii))</b>				
Renminbi loans	Interest rate mainly at 2.55% per annum as at 31 December 2006 (2005: Nil), with maturity up to 2020			
		11,200		—
US dollar loans	Interest rate mainly at 5.51% per annum as at 31 December 2006 (2005: 3.77%), with maturity up to 2012			
	8,417	65,729	9,605	77,513
		76,929		77,513

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 21 LONG-TERM LOANS (continued)

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

#### The Company (continued)

Interest rates and periods	2006		2005	
	Original currency	Renminbi/ Renminbi equivalent	Original currency	Renminbi/ Renminbi equivalent
	'000	'000	'000	'000
<b>Other loans (Note (iii))</b>				
Renminbi loans	Interest rates mainly ranging from 5.18% to 5.67% per annum as at 31 December 2006 (2005: 5.02% to 5.18%), with maturities up to 2009		798,037	898,037
		5,206,776		5,467,551
Less: Long-term loans due within one year (note 20)		(1,479,935)		(792,827)
		<u>3,726,841</u>		<u>4,674,724</u>

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 21 LONG-TERM LOANS (continued)

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

#### The Company (continued)

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

	2006	2005
US dollars	<b>7.8087</b>	8.0702

Notes:

(i) Shareholders loans

Balance of shareholders loans is analysed as follows:

	<b>The Group</b>		<b>The Company</b>	
	2006	2005	2006	2005
	'000	'000	'000	'000
SITIC	<b>585,000</b>	760,000	<b>585,000</b>	760,000
China Huadian	<b>750,000</b>	550,000	—	—
	<b>1,335,000</b>	1,310,000	<b>585,000</b>	760,000

Shareholder loan borrowed from SITIC bear interest at rates quoted from the People's Bank of China for same periods less 10%.

Shareholder loans borrowed from China Huadian bear interest rates at 4.15% - 5.40% (2005: 4.98%) based on their respective costs of funds.

(ii) State loans

The loans mainly represent a loan facility of US\$310,000,000 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\$278,250,000 was made available by the Shandong Provincial Government to the Company. The repayment of this loan is guaranteed by SEPCO.

In 2006, a loan of RMB11,200,000 was granted to the Group by the MOF as funding for certain environmental and comprehensive resources utilisation construction projects.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 21 LONG-TERM LOANS (continued)

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

Notes: (continued)

(iii) Other loans

Balance of other loans is analysed as follows:

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
China Huadian Finance	<b>1,140,037</b>	988,037	<b>798,037</b>	898,037
Others	<b>389,038</b>	476,233	—	—
	<b>1,529,075</b>	1,464,270	<b>798,037</b>	898,037

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

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
On credit	<b>16,539,765</b>	10,705,065	<b>5,141,047</b>	5,390,038
Guaranteed by SEPCO	<b>65,729</b>	77,513	<b>65,729</b>	77,513
Guaranteed by China Huadian	<b>220,000</b>	380,000	—	—
Guaranteed by third parties	<b>949,510</b>	1,245,600	—	—
Secured	<b>3,900,500</b>	1,930,000	—	—
	<b>21,675,504</b>	14,338,178	<b>5,206,776</b>	5,467,551
Less: Long-term loans due within one year	<b>(2,429,078)</b>	(1,981,461)	<b>(1,479,935)</b>	(792,827)
	<b>19,246,426</b>	12,356,717	<b>3,726,841</b>	4,674,724

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 22 DEFERRED TAX

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
<b>Deferred tax assets:</b>				
Preliminary expenses	12,993	8,431	3,824	1,227
Provision for stock and trade receivables	28,608	25,461	20,291	20,067
Depreciation of fixed assets	—	1,160	—	1,160
Accrued expenses	78,016	34,923	58,137	28,372
Others	53	2,159	22	—
	119,670	72,134	82,274	50,826
Set-off within legal tax units and jurisdictions	(24,066)	(13,312)	—	—
Total deferred tax assets	95,604	58,822	82,274	50,826
<b>Deferred tax liabilities:</b>				
Depreciation of fixed assets	(502,606)	(312,350)	—	—
Set-off within legal tax units and jurisdictions	24,066	13,312	—	—
Total deferred tax liabilities	(478,540)	(299,038)	—	—
Net deferred tax (liabilities)/assets	(382,936)	(240,216)	82,274	50,826



*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 23 SHARE CAPITAL

	2006 '000	2005 '000
<b>Registered, issued and paid up capital:</b>		
1,431,028,000 (2005: 1,431,028,000) H shares of RMB1 each	1,431,028	1,431,028
4,590,056,200 (2005: 569,000,000) A shares of RMB1 each	4,590,056	569,000
4,021,056,200 domestic shares of RMB1 each (non-circulating)	—	4,021,056
	<b>6,021,084</b>	<b>6,021,084</b>

All the above classes of shares rank pari passu in all material respects.

In January 2005, the Company was approved by China Securities Regulatory Commission, with Zheng Jian Fa Xing Zi [2005] No. 2, to further issue 765,000,000 RMB ordinary shares with par value of RMB 1 each. As a result, the registered capital of the Company was increased to 6,021,084,200 shares. The RMB ordinary shares issued in 2005 included 196,000,000 unlisted domestic shares. The remaining 569,000,000 A shares were listed on the Shanghai Stock Exchange on 3 February 2005.

Since the implementation of the Share Reform on 1 August 2006, all domestic shares became eligible for listing and circulation on the Shanghai Stock Exchange. However, the 3,850,356,200 original domestic shares held by the original domestic shareholders have a period of restriction for disposal ranging from 1 to 3 years. In addition, the non-circulating shareholders of the Company have promised not to dispose of the shares acquired in the circulating A shares market totalling 43,764,920 shares within 6 months after the completion of the Share Reform. Details of the Share Reform are set out in note 1.

The paid up share capital included RMB3,825,056,200 paid up domestic shares capital which has been verified by Shandong Jining Public Accounting Firm on 18 June 1994 and capital verification report has been issued. The capital verification report was Kuai Shi (Zou) Yan Zi No. 102. The paid up H shares capital of RMB1,431,028,000 has been verified by KPMG Huazhen on 30 August 1999 and capital verification report has been issued. The report number of the capital verification report was KPMG-C-(1999) CV No. 0005. The paid up A shares capital of 569,000,000 and paid up domestic shares capital of RMB196,000,000 have been verified by KPMG Huazhen on 28 January 2005 and capital verification report has been issued. The report number of the capital verification report was KPMG-A-(2005) CR No. 0005.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 24 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	Others	Total
	'000	'000	'000
At 1 January 2005	747,941	7,442	755,383
Addition for the year	1,120,501	21,677	1,142,178
At 31 December 2005	1,868,442	29,119	1,897,561
Addition for the year	—	120,629	120,629
At 31 December 2006	<u>1,868,442</u>	<u>149,748</u>	<u>2,018,190</u>

Share premium mainly 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 government grants transferred from special payables after completion of state-funded projects.

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

	The Group and the Company			
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	'000	'000	'000	'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)	—	—
Profit appropriations	112,189	—	—	112,189
At 31 December 2006	<u>1,453,842</u>	<u>—</u>	<u>68,089</u>	<u>1,521,931</u>

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 24 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 issued by the MOF of the PRC on accounting issues relating to the implementation of the Company Law (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 was 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 was restricted to the provision of employees' collective welfare benefits, for example, construction of staff dormitories, staff canteens and other staff welfare facilities. The fund was non-distributable, other than on the Company's liquidation. The appropriation to the statutory public welfare fund must be made before distribution of dividend to shareholders.

- (iv) The Board of Directors of the Company approved the percentage of profit appropriations for 2005 and 2006 as follows:

	2006	2005
(a) To statutory surplus reserve	<b>10%</b>	10%
(b) To statutory public welfare fund	—	5%

For details of distribution of dividend, please refer to note 25.

- (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).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 25 DIVIDENDS

On 23 March 2007, the Board of Directors recommend the payment of cash dividend of RMB0.062 per share (2005: RMB0.065 per share) to the ordinary shareholders, amounting to approximately RMB373,307,000 (2005: RMB391,370,000). Such cash dividend has not been recognised as a liability at the balance sheet date.

### 26 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	
	2006	2005	2006	2005
	'000	'000	'000	'000
Revenue from sale of electricity	<b>14,835,072</b>	13,034,607	<b>7,752,948</b>	8,020,386
Revenue from sale of heat	<b>295,855</b>	265,790	<b>4,457</b>	1,796
	<b>15,130,927</b>	13,300,397	<b>7,757,405</b>	8,022,182

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 Electric 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:

	2006		2005	
	Total sales	Percentage over sales from principal activities	Total sales	Percentage over sales from principal activities
	'000		'000	
The Group	<b>14,984,565</b>	<b>99.0%</b>	13,215,444	99.4%
The Company	<b>7,757,405</b>	<b>100%</b>	8,022,182	100%

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 27 SALES TAXES AND SURCHARGES

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
City maintenance and construction tax	<b>99,328</b>	85,305	<b>55,096</b>	52,759
Education surcharge	<b>58,391</b>	48,986	<b>31,483</b>	30,148
	<b>157,719</b>	134,291	<b>86,579</b>	82,907

## 28 FINANCIAL EXPENSES

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Interest incurred	<b>1,368,370</b>	773,656	<b>411,127</b>	288,772
Less: Interest capitalised	<b>(610,906)</b>	(189,404)	<b>(121,408)</b>	(29,661)
Net interest expenses	<b>757,464</b>	584,252	<b>289,719</b>	259,111
Interest income	<b>(8,754)</b>	(19,285)	<b>(3,303)</b>	(12,294)
Net exchange gain	<b>(49,162)</b>	(39,984)	<b>(45,459)</b>	(36,601)
Net gain on derivative financial instruments	<b>(7,610)</b>	(11,710)	<b>(7,610)</b>	(11,710)
Total	<b>691,938</b>	513,273	<b>233,347</b>	198,506

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
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### 29 INVESTMENT INCOME

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Long-term equity investment income				
- Accounted for under the cost method	3,140	240	3,140	—
- Accounted for under the equity method	36,843	15,856	463,449	304,700
Amortisation of equity investment difference	(294)	(294)	(18,745)	(28,710)
Gain on disposal of investments	16,156	—	16,156	—
Total	<u>55,845</u>	<u>15,802</u>	<u>464,000</u>	<u>275,990</u>

There was no material restriction on remittance of investment income of the Group and the Company.

### 30 INCOME TAX

Income tax in the income statement represents:

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
<b>Current taxation</b>				
Charge for EIT of the PRC for the year	432,802	436,780	351,246	364,463
<b>Deferred taxation</b>				
Original and reversal of temporary differences	65,624	69,801	(31,448)	(415)
	<u>498,426</u>	<u>506,581</u>	<u>319,798</u>	<u>364,048</u>

For years 2005 and 2006, EIT of the PRC is calculated at applicable rate on taxable profits (note 3). There was no material deferred taxation not recognised by the Group and the Company.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

31 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS

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

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	Cao Peixi
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	Wang Wenqi
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 coal-fired power plant	Subsidiary	Limited liability company	Geng Yuanzhu
Suzhou Company	Suzhou, the PRC	Development of coal-fired power plant	Subsidiary	Limited liability company	Geng Yuanzhu
Lingwu Company	Lingwu, the PRC	Development of coal-fired power plant	Subsidiary	Limited liability company	Geng Yuanzhu

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 31 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (a) Related parties having the ability to exercise control over the Group (continued)

Company name	Registered address	Principal operation	Relationship with the Company	Type of enterprise	Authorised representative
Luding Company	Garze Tibetan, the PRC	Development of hydro power plant	Subsidiary	Limited liability company	Zhong Tonglin
Jiangsu Huadian Binhai Wind Power Company Limited ("Binhai Company")	Yancheng, the PRC	Development of wind power plant	Subsidiary	Limited liability company	Gou Wei
Huadian International Shangdong 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 Shangdong Project Company Limited ("Project Company")	Jinan, the PRC	Management of construction project	Subsidiary	Limited liability company	Geng Yuanzhu
Huadian International Shangdong Information Company Limited ("Information Company")	Jinan, the PRC	Development and maintenance of information system to the Group	Subsidiary	Limited liability company	Zhong Tonglin



(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

**31 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS**  
(continued)

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

Company name	Opening balance	Addition for the year	Closing balance
	'000	'000	'000
China Huadian	12,000,000	—	12,000,000
Guangan Company	1,270,260	125,000	1,395,260
Qingdao Company	380,000	320,000	700,000
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	165,934	220,934
Lingwu Company	—	150,000	150,000
Luding Hydropower Company	—	79,290	79,290
Binhai Wind Power Company	—	10,000	10,000
Materials Company	30,000	20,000	50,000
Qingdao Heat Company	20,000	10,000	30,000
Project Company	3,000	—	3,000
Information Company	—	3,000	3,000
	—	3,000	3,000

## NOTES TO THE FINANCIAL STATEMENTS (continued)

(Prepared under PRC Accounting Standards and Regulations)  
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### 31 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Company name	Opening balance		Addition/(disposal) for the year		Closing balance	
	Shares	%	Shares	%	Shares '000	%
China Huadian	3,011,075	50.01	(50,013)	(0.83)	2,961,062	49.18
Guangan Company	1,016,200	80.00	100,000	—	1,116,200	80.00
Qingdao Company	209,000	55.00	176,000	—	385,000	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	100,000	4.04	405,975	84.45
Tengzhou Company	133,500	54.49	82,500	33.67	216,000	88.16
Xinxiang Company	62,100	90.00	50,000	—	112,100	90.00
Suzhou Company	53,350	97.00	159,972	—	213,322	97.00
Lingwu Company	—	—	97,500	65.00	97,500	65.00
Luding Hydropower Company	—	—	79,290	100.00	79,290	100.00
Binhai Wind Power Company	—	—	10,000	100.00	10,000	100.00
Materials Company	28,200	94.00	21,800	6.00	50,000	100.00
Qingdao Heat Company	11,000	55.00	5,500	—	16,500	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

#### (d) Related parties not having the ability to exercise control over the Group

Major related parties not having the ability to exercise control over the Company up to 31 December 2006 were:

Company name	Relationship with the Company
SITIC	holding 14.11% shareholding in the Company
China Huadian Engineering (Group) Corporation	Controlled by China Huadian
China Huadian Finance	Associate
Huadian Coal	Associate
Ningxia Power Company	Associate

(Prepared under PRC Accounting Standards and Regulations)

(Expressed in Renminbi)

## 31 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.

	Note	2006 '000	2005 '000
Construction and equipment cost	(i)	<b>267,099</b>	17,109
Interest expenses	(ii)	<b>162,861</b>	97,820
Loans borrowed from related party	(ii)	<b>1,898,000</b>	1,293,037
Loans repaid to related party	(ii)	<b>1,092,500</b>	683,037
Service contract	(iii)	<b>26,000</b>	—

- (i) The amount represented construction and equipment cost paid and payables to China Huadian Engineering (Group) Corporation.

In December 2003, Qingdao Company entered into a construction agreement with China Huadian Engineering (Group) Corporation and ALSTOM Power Norway AS in respect of the construction work of a sea water de-sulphur project in Qingdao Company for a consideration of US\$5,790,000.

In November 2005, Zouxian Power Plant and Welfang Company entered into construction agreements with China Huadian Engineering (Group) Corporation in respect of the construction work of waste-water recycling systems for consideration of RMB76,658,000 and RMB50,900,000 respectively.

In April 2005, Xinxiang Company entered into a construction agreement with China Huadian Engineering in respect of construction work of a coal transportation system for a consideration of RMB195,185,000.

In May 2005, Xinxiang Company entered into a purchasing agreement with China Huadian Engineering in respect of the procurement of pipelines for constructions for a consideration of RMB99,987,820.

- (ii) Loans borrowed from SITIC, China Huadian, China Huadian Finance, Huadian Coal and Ningxia Power Company are set out in notes 15 and 21.
- (iii) In 2006, the Company and Huadian Coal entered into an agreement for engagement of Huadian Coal for provision of management and co-ordination services in relation to coal procurement in the PRC. The service fee for the year of 2006 amounted to RMB26,000,000.

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

### **31 RELATED PARTIES AND MATERIAL RELATED PARTY TRANSACTIONS** *(continued)*

- (f) In April 2005, the Company, China Huadian and certain fellow subsidiaries of China Huadian jointly set up a company, Huadian Property in Beijing, the PRC. Huadian Property was established on 8 June 2005 and has registered capital of RMB550,000,000. The Company owns 30% equity interest in Huadian Property with a cost of investment amounting to RMB165,000,000.
- (g) In December 2005, the Company acquired 97% equity interest in Suzhou Company and 90% equity interest in Xinxiang Company from China Huadian for considerations of RMB74,900,000 and RMB90,100,000 respectively.
- (h) In April 2006, the Company injected 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.
- (i) Apart from the loans from related parties mentioned in notes 15 and 21 and other receivables/payables from/to related parties mentioned in notes 6 and 19, the Group did not have any closing balance of other receivables/payables from/to related parties at 31 December 2005 and 2006.
- (j) At 31 December 2006, Zhongning Company provided guarantees to banks for loans granted to Ningxia Power Company amounting to RMB42,500,000.
- (k) At 31 December 2006, Guangan Company provided guarantees to banks for loans granted to Longtan Coal Company amounting to RMB73,400,000.
- (l) In December 2006, the Company injected RMB147,360,000 to China Huadian Finance, a subsidiary of China Huadian, to participate in the capital enlargement of China Huadian Finance. After the completion of the capital enlargement of China Huadian Finance, the Company owns 15% equity interest in China Huadian Finance.
- (m) The Company paid investment deposit to China Huadian to acquire 95% equity interest in Wuhu Company. For details, please refer to note 14.

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

## 32 CAPITAL COMMITMENTS

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

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
Contracted for	<b>9,287,831</b>	12,866,798	<b>4,301,709</b>	6,997,542
Authorised but not contracted for	<b>6,553,676</b>	13,489,193	<b>733,675</b>	6,203,586
	<b>15,841,507</b>	26,355,991	<b>5,035,384</b>	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:

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

## 33 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:

	2006	2005
	'000	'000
Within one year	<b>31,674</b>	33,978
Between one and two years	<b>30,178</b>	30,178
Between two and three years	<b>30,178</b>	30,178
Over three years	<b>533,145</b>	563,323
	<b>625,175</b>	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 and there was no change in annual rental in 2006. The future minimum lease payments in respect of the land is calculated based on the existing annual rental of RMB30,178,000.

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### 34 SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATES

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 31 December 2006 are as follows:

#### (i) Subsidiaries

Company	Registered capital '000	Percentage of equity interests held by the Group and the Company %	Cost of investment '000	Consolidation period	Principal activities
Guangan Company	1,395,260	80	1,137,013	Since 2004	Generation and sale of electricity
Qingdao Company	700,000	55	345,668	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	84.45	405,740	Since 2002	Generation and sale of electricity and heat
Tengzhou Company	245,000	88.16	224,400	Since 2002	Generation and sale of electricity and heat
Xinxiang Company	119,000	90	140,100	Since 2005	Development of coal-fired power plant
Suzhou Company	220,934	97	234,872	Since 2005	Development of coal-fired power plant

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

## 34 SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATES *(continued)*

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 31 December 2006 are as follows: *(continued)*

### (i) Subsidiaries *(continued)*

<u>Company</u>	<u>Registered capital</u> <i>'000</i>	<u>Percentage of equity interests held by the Group and the Company</u> %	<u>Cost of investment</u> <i>'000</i>	<u>Consolidation period</u>	<u>Principal activities</u>
Lingwu Company	150,000	65	97,500	Since 2006	Development of coal-fired power plant
Luding Hydropower Company	79,290	100	79,290	Since 2006	Development of hydro power plant
Binhai Wind Power Company	10,000	100	10,000	Since 2006	Development of wind power plant
Materials Company	50,000	100	38,649	Since 2004	Procurement of materials
Qingdao Heat Company	30,000	55	16,500	Since 2004	Sale of heat
Project Company	3,000	100	3,335	Since 2004	Management of construction project
Information Company	3,000	100	3,000	Since 2006	Development and maintenance of information system to the Group

(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)

### 34 SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATES (continued)

The particulars of subsidiaries, jointly controlled entity and associates of the Company at 31 December 2006 are as follows: (continued)

#### (i) Subsidiaries (continued)

In January 2006 (the "acquisition date"), the Group increased its equity interests 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 obtain 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. Total assets and liabilities as at acquisition date and operating results of Weifang Company for the period from the acquisition date to 31 December 2006 had the following effect on the Group's financial statements:

	'000
<b>Net assets at the acquisition date:</b>	
Current assets	133,059
Long-term equity investment	3,500
Fixed assets	1,759,912
Intangible assets	19,799
Current liabilities	(899,599)
Long-term liabilities	(682,215)
	<hr/>
Net assets	<u>334,456</u>
<b>The effect of operating results for the period from the acquisition date to 31 December 2006 on the Group's financial statements:</b>	
Sales from principal activities	857,539
Profit from principal activities	177,538
Profit before income tax	106,019
Income tax	(27,443)
Net profit	<u>78,576</u>



*(Prepared under PRC Accounting Standards and Regulations)  
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## 34 SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATES *(continued)*

### (ii) Jointly controlled entity

<u>Company</u>	<u>Registered capital</u> <i>'000</i>	<u>Percentage of equity interests held by the Company</u> %	<u>Cost of investment</u> <i>'000</i>	<u>Consolidation period</u>	<u>Principal activities</u>
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 article of 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 TO THE FINANCIAL STATEMENTS (continued)

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(Expressed in Renminbi)

### 34 SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATES (continued)

#### (iii) Associates

Company	Registered capital '000	Percentage of equity interests held by the Group %	Percentage of equity interests held by the Company %	Percentage of equity interests 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	Generation and sales of electricity
Huadian Property	550,000	30	30	—	165,000	Property development
Luzhou Company	600,000	40	40	—	240,000	Development of coal-fired power plant
Huadian Coal	1,560,000	20.19	20.19	—	315,000	Provision of coal procurement service
Zoucheng Lunan	4,333	40	40	—	1,733	Provide service to Zouxian Power Plant
China Huadian Finance	800,000	15	15	—	147,360	Provision of corporate financial service to its group companies
Longtan Coal Company	90,000	36	—	45	40,500	Development of coal mines and sale of coal

(Prepared under PRC Accounting Standards and Regulations)  
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## 35 CONTINGENT LIABILITIES

At 31 December 2006, the Company provided guarantees to banks for loans granted to certain subsidiaries amounting to RMB462,911,000 (2005: RMB876,911,000).

At 31 December 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 RMB94,650,000 (31 December 2005: Nil).

## 36 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	
	2006 '000	2005 '000	2006 '000	2005 '000
<b>Extraordinary gain and loss for the year</b>				
Non-operating income	5,851	17,005	107	1,447
Non-operating expenses	(9,542)	(6,873)	(8,257)	(1,415)
Gain on disposal of investments	16,156	—	16,156	—
Net gain on derivative financial instruments	7,610	11,710	7,610	11,710
	20,075	21,842	15,616	11,742
Less: Tax effect of the above items	(6,948)	(7,208)	(5,153)	(3,875)
Total	<b>13,127</b>	<b>14,634</b>	<b>10,463</b>	<b>7,867</b>

*(Prepared under PRC Accounting Standards and Regulations)  
(Expressed in Renminbi)*

### 37 POST BALANCE SHEET EVENTS

- (a) On 1 January 2007, the Group adopted the Accounting Standards System for Business Enterprises (“New Accounting Standards”) issued by the Ministry of Finance, the PRC on 15 February 2006, and ceased to adopt the existing Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises (“Existing Accounting Standards”). The implementation of the New Accounting Standards by the Group may result in changes in accounting policies and estimates made in accordance with Existing Accounting Standards, and may have an impact on the Group’s financial condition and results of operation.
- (b) On 16 March 2007, the Tenth National People’s Congress (“NPC”) plenary session passed the enterprise income tax law (“New Tax Law”) that imposes a single uniform income tax rate of 25% for most enterprises. The New Tax Law will be effective as of 1 January 2008. The New Tax Law contemplates various transition periods and measures for existing preferential tax policies and empowers the State Council to enact appropriate implementing rules. As a result, the Group currently cannot assess the impact of the New Tax Law on its deferred tax assets and liabilities and the related impact on income statement.
- (c) The Equity Transfer Agreement between the Company and China Huadian in relation to the acquisition of Wuhu Company (see notes 14 and 31(m)) was approved by the relevant authorities of the PRC on 30 December 2006. The Company has settled the remaining consideration of RMB10,160,000 to China Huadian pursuant to the Investment Agreement. As all the pre-requisite conditions of the Investment Agreement has been fulfilled, the acquisition was completed in January 2007. Wuhu Company will be consolidated in the Group’s financial statements.

### 38 SEGMENT REPORTING

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