Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(All amounts expressed in thousands of Rmb unless otherwise stated)

1. Organisation and Operations

Datang International Power Generation Co., Ltd. (the "Company") was incorporated in Beijing, the People's Republic of China (the "PRC"), on 13 December 1994 as a joint stock limited company. The Company listed its H Shares on the Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21 March 1997 and was registered as a sino-foreign joint venture on 13 May 1998. On 20 December 2006, the Company listed its A Shares on the Shanghai Stock Exchange.

The principal activity of the Company and its subsidiaries and jointly controlled entity (the "Company and its Subsidiaries") is power generation and power plant development in the PRC. Substantially all of the businesses of the Company and its Subsidiaries are conducted within one industry segment.

The directors consider that the significant shareholder of the Company is China Datang Corporation ("China Datang"), which is incorporated in the PRC and does not produce financial statements available for public use.

2. Summary of Significant Accounting Polices

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

(a) Basis of preparation

The financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company and its Subsidiaries. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

A significant portion of the Company and its Subsidiaries' funding requirements for capital expenditure was satisfied by short-term borrowings. Consequently, as at 31 December 2006, the Company and its Subsidiaries had a negative working capital balance of approximately Rmb12,104 million (31 December 2005 – Rmb9,433 million). The Company and its Subsidiaries had significant undrawn borrowing facilities, subject to certain conditions, amounting to approximately Rmb65,791 million (31 December 2005 – Rmb63,133 million) (Note 34(c)) and may refinance and/or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The directors of the Company and its Subsidiaries are of the opinion that the Company and its Subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these financial statements on a going concern basis.

2. Summary of Significant Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

Standards, interpretations and amendments to published standards effective in 2006 and relevant to the operations of the Company and its Subsidiaries

- IFRIC Interpretation 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC Interpretation 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the "asset"); and (ii) the arrangement conveys a right to use the asset. Based on management's assessment, there was no material impact from the adoption of IFRIC Interpretation 4 to the financial statements of the Company and its Subsidiaries.

  IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006): IFRS 6 introduces the recognition, measurement and disclosure requirement of exploration for and evaluation of mineral resources. IFRS 6 specifies the circumstances in which entities that recognise exploration and evaluation assets should test for impairment. Since the exploration and evaluation activities of coal mines currently undertaken by the Company and its Subsidiaries are not significant, management considered no material impact from implementation of IFRS 6 on the financial statements of the Company and its Subsidiaries.

Standards, interpretations and amendments to published standards not yet effective and relevant to the operations of the Company and its Subsidiaries

Certain new standards, interpretations and amendments to published standards have been published, that are relevant to the operations of the Company and its Subsidiaries, but not yet effective and have not been early adopted are as follows:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company and its Subsidiaries assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company and its Subsidiaries will apply IFRS 7 and the amendment to IAS 1 from 1 January 2007.

2. Summary of Significant Accounting Policies (Cont'd)

(a) Basis of preparation (Cont'd)

- IFRS 8, Operating Segments (effective from annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, Segment Reporting, and specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. This standard also sets out requirements for related disclosures about products and services, geographical areas and major customers. Management is currently assessing the impact of this IFRS on the accounting policies of the Company and its subsidiaries.

- IFRIC Interpretation 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management considered there will be no significant impact from adopting IFRIC Interpretation 10 on the financial statements of the Company and its Subsidiaries. The Company and its Subsidiaries will apply IFRIC Interpretation 10 from 1 January 2007.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries and jointly controlled entity made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Company and its Subsidiaries have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and its Subsidiaries and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities assumed at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note 2(e)(i) for the accounting policy on goodwill. If the cost of acquisition is less than the fair value of the share of the Company and its Subsidiaries on the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2. Summary of Significant Accounting Policies (Cont'd)

(b) Consolidation (Cont'd)

(i) Subsidiaries (Cont'd)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company and its Subsidiaries.

In the Company's separate financial statements, investments in subsidiaries are stated at costs less any accumulated impairment loss. The results of subsidiaries are accounted for by the Company on the bases of dividends received and receivable.

(ii) Transactions with minority interests

The Company and its Subsidiaries apply a policy of treating transactions with minority interests as transactions with parties external to the Company and its Subsidiaries. Disposals to minority interests result in gains and losses for the Company and its Subsidiaries that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Joint ventures

The Company and its Subsidiaries' interest in a jointly controlled entity is accounted for by proportionate consolidation. The Company and its Subsidiaries combine its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company and its Subsidiaries' financial statements. The Company and its Subsidiaries recognise the portion of gains or losses on the sale of assets by the Company and its Subsidiaries to the joint venture that it is attributable to the other venturers. The Company and its Subsidiaries do not recognise its share of profits or losses from the joint venture that result from the Company and its Subsidiaries' purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's separate financial statements, investment in a jointly controlled entity is stated at cost less any accumulated impairments loss. The results of the jointly controlled entity are accounted for by the Company on the bases of dividends received and receivable.

2. Summary of Significant Accounting Policies (Cont'd)

(b) Consolidation (Cont'd)

(iv) Associates

Associates are all entities over which the Company and its Subsidiaries have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under this method, the Company and its Subsidiaries' share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. The Company and its Subsidiaries' investments in associates include goodwill (net of accumulated impairment loss) on acquisition. When the Company and its Subsidiaries' share of losses in an associate equals or exceeds their interest in the associate, the Company and its Subsidiaries do not recognise further losses, unless the Company and its Subsidiaries have incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Company and its Subsidiaries and their associates are eliminated to the extent of the Company and its Subsidiaries' interests in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company and its Subsidiaries.

In the Company's separate financial statements, investments in associates are stated at cost less any accumulated impairment loss. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity of the Company and its Subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the functional and presentation currency of the Company.

(ii) Transactions and balances

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

2. Summary of Significant Accounting Policies (Cont'd)

(c) Foreign currency translation (Cont'd)

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(d) Property, plant and equipment

Property, plant and equipment, apart from construction-in-progress, are stated at historical cost less accumulated depreciation and accumulated impairment loss. The initial cost comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Construction-in-progress represents plants and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery, prepayments for the equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and ready for its intended use when they are transferred to the relevant asset categories.

2. Summary of Significant Accounting Policies (Cont'd)

(d) Property, plant and equipment (Cont'd)

Depreciation is calculated using the straight-line method to allocate their residual values over their estimated useful lives, as follows:

Dam	45 years
Buildings	20-50 years
Electricity utility plants in service:	
Coal-fired electricity utility plants	12-30 years
Hydro electricity utility plants	12-45 years
Transportation facilities, computer and others	4-10 years

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at end balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and its Subsidiaries and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2(g)).

Gains and losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included in the income statement.

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the Company and its Subsidiaries on the net identifiable assets acquired at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Resource use rights

Resource use rights are shown at historical cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives (10 years).

2. Summary of Significant Accounting Policies (Cont'd)

(f) Other long-term assets

Other long-term assets are coal mine exploration costs, which are stated at cost and are reduced to the recoverable amounts should impairment occur.

(g) Impairment of investment in subsidiaries, associates, jointly controlled entity and non-financial assets

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

(h) Financial assets

The Company and its Subsidiaries classified their financial assets into the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'notes receivable', 'accounts receivable', 'other receivables', 'other current assets' and 'other long-term receivables' in the balance sheet.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. Summary of Significant Accounting Policies (Cont'd)

(h) Financial assets (Cont'd)

(iii) Recognition and derecognition of financial assets

Regular purchases and sales of investments are recognised on trade date-the date on which the Company and its Subsidiaries commit to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company and its Subsidiaries have transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale investments are recognised in equity. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other operating costs'. Dividends on available-for-sale equity instruments are recognised in the income statement when the right of the Company and its Subsidiaries to receive payments is established.

The fair values of quoted investments are based on current bid price. If the market for a financial asset is not active (and for unlisted securities), the Company and its Subsidiaries establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Investments in equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

The Company and its Subsidiaries assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment loss of the available-for-sale financial investments recorded at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed. Impairment testing of receivables is described in Note 2(j).

2. Summary of Significant Accounting Policies (Cont'd)

(h) Financial assets (Cont'd)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed to fuel costs or other relevant operating expenses when used, or capitalised to property, plant and equipment when installed, as appropriate, using moving weighted average method. Cost of inventories includes direct material cost and transportation expenses incurred in bringing the materials and supplies to the working locations. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company and its Subsidiaries will not be able to collect all amounts due according to the original terms of receivables. Impairment loss is measured as the difference between the carrying amount of receivables and the net realisable value.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and financial institution and other short-term highly liquid investments with original maturities of three months or less.

(l) Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Company and its Subsidiaries have contractual or an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Borrowing costs

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

2. Summary of Significant Accounting Policies (Cont'd)

(n) Taxation

(i) Value-added tax ("VAT")

Under the relevant PRC tax laws, the Company and its Subsidiaries are subject to VAT. The Company and its Subsidiaries are subject to output VAT levied at 17% of the Company and its Subsidiaries' operating revenue, except for the output VAT of heat sales levied at 13% and the sales of Hebei Datang International Huaze Hydropowder Development Company Limited ("Huaze Hydropowder Company") and Inner Mongolia Datang International Duolun Hydropower Multiple Development Company Limited ("Duolun Hydropower Company") levied at 6%. The input VAT can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because VAT is tax on the customer and the Company and its Subsidiaries collect such tax from the customers and pay such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenue or operating expenses.

(ii) Income tax expense

According to the relevant income tax law, Sino-foreign enterprises are, in general, subject to statutory income tax of 33% (30% of Enterprises Income Tax and 3% of local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by State Tax Bureau, a lower tax rate would be applied.

Certain power plants are exempted from income tax for two years starting from the year of commercial operation, followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

The statutory income tax is assessed on an individual entity basis, based on each of their results of operations. The commencement dates of the tax holiday period of each power plant are individually determined.

The income tax charges are based on assessable profit for the year and after considering deferred taxation.

(iii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2. Summary of Significant Accounting Policies (Cont'd)

(o) Deferred income

Grants from the government are recognised as deferred income at their fair value when there is reasonable assurance that the grants will be received and the Company and its Subsidiaries will comply with all attached conditions.

Government grants relating to the construction and purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(p) Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(q) Derivative financial instruments

Derivatives are initially recognised at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

Derivative financial instruments that do not qualify for hedge accounting are classified as held-for-trading and carried at fair value, with changes in fair value included in the income statements. Trading derivatives are classified as a current asset or liability.

(r) Revenue and income recognition

Revenue and income are recognised when it is probable that the economic benefits associated with a transaction will flow to the Company and its Subsidiaries and the revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and on the following bases:

(i) Operating revenue

Substantially all operating revenue represents the amount of tariffs billed for electricity generated and transmitted to the respective regional or provincial power companies. Operating revenue is recognised upon transmission of electricity and heat to the customers.

(ii) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on a time proportion basis taking into account deposit balances and the effective interest method.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. Summary of Significant Accounting Policies (Cont'd)

(s) Employee benefits

(i) Pension and other social obligations

The Company and its Subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the municipalities and provinces in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Company and its Subsidiaries pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due.

(ii) Staff housing benefits

The Company provides housing to its employees at preferential prices. The difference between the selling price and the cost of housing is considered a housing benefit to the employees and is amortised on a straight-line basis over the estimated average service lives of the relevant employees and included in wages and staff welfare expenses.

In 2005 and 2006, the Company and some of its subsidiaries also started to provide monetary housing subsidies to their employees. These subsidies are considered housing benefits and are amortised on a straight-line basis over the estimated service lives of the relevant employees and included in wages and staff welfare expenses.

Apart from the housing benefits and subsidies, the Company and its Subsidiaries also contribute to the state-prescribed housing fund. Such costs are charged to the income statement as incurred.

(t) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(u) Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2. Summary of Significant Accounting Policies (Cont'd)

(v) Dividends distribution

Dividend distribution is recorded as a liability in the financial statements of the Company and its Subsidiaries in the period in which they are approved by the shareholders of the Company and its Subsidiaries.

(w) Financial guarantee contracts

The Company issues financial guarantee contracts that transfer significant insurance risk. Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holders for losses they incur because specified debtors fail to make payments when due in accordance with the original or modified terms of debt instruments.

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and related administrative expenses are used. Any deficiency is immediately charged to the income statement and by subsequently establishing a provision for losses arising from these tests.

(x) Contingencies

Contingent liabilities are recognised in the financial statements when it is probable that a liability will be recognised. Where no provision is recorded, they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements unless virtually certain but disclosed when an inflow of economic benefits is probable.

(y) Subsequent events

Post-year-end events that provide additional information about the Company and its Subsidiaries' position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Financial Risk Management

(a) Financial risk factors

The activities of the Company and its Subsidiaries expose them to a variety of financial risks including cash flow and fair value interest rate risk, foreign exchange risk, credit risk and liquidity risk.

(i) Cash flow and fair value interest rate risk

As the Company and its Subsidiaries have no significant interest-bearing assets, the income and operating cash flows of the Company and its Subsidiaries are substantially independent of changes in market interest rates.

The Company and its Subsidiaries' interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company and its Subsidiaries to cash flow interest rate risk. Bonds and loans issued at fixed rates expose the Company and its Subsidiaries to fair value interest rate risk. The Company and its Subsidiaries manage its cash flow interest rate risk by using "pay-fixed-receive-floating" interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The amounts of borrowings at fixed rates and variable rates are disclosed in Note 19.

(ii) Foreign exchange risk

The businesses of the Company and its Subsidiaries are principally conducted in Rmb, except that purchases and financing of certain electricity utility plant equipment are denominated in United States dollars (USD). Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars (HKD). As at 31 December 2006, substantially all of the Company and its Subsidiaries' assets and liabilities were denominated in Rmb except for cash and bank deposits of approximately Rmb54 million (31 December 2005 – Rmb432 million), long-term loans of approximately Rmb2,860 million (31 December 2005 – Rmb3,851 million) and a convertible bond of approximately Rmb1,112 million (31 December 2005 – Rmb1,099 million), which were denominated in foreign currencies, principally in USD and HKD. The fluctuation of the exchange rates of Rmb against foreign currencies could affect the Company and its Subsidiaries' results of operation.

3. Financial Risk Management (Cont'd)

(a) Financial risk factors (Cont'd)

(iii) Credit risk

Significant portion of the cash and cash equivalents of the Company and its Subsidiaries, are deposited with certain large state-owned banks of the PRC.

The Company and its subsidiaries sell electricity generated to their sole customers, the power grid companies of the respective provinces or regions where the power plants operate.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The directors consider that the maximum exposure is reflected by the amount of banks and accounts receivable and other current assets, net of provisions for impairment recognised at the balance sheet date.

(iv) Liquidity risk

The Company and its Subsidiaries' policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet their commitments regarding construction of power plants. The amount of undrawn borrowing credit facilities at the balance sheet date is disclosed in Note 34(c).

(b) Risk related to financial guarantee provided to subsidiaries, associates and jointly controlled entity

The Company issues financial guarantee contracts to its subsidiaries, associates and jointly controlled entity for their borrowings from banks for business development. The risk under any one financial guarantee contract is the possibility that the insured event (default of a specified debtor) occurs and the uncertainty of the amount of the resulting claims.

Experience shows credit risks from specified debtors are relatively remote. The Company maintains a close watch on the financial position and liquidity of the subsidiaries, associates and jointly controlled entity for which financial guarantees have been granted in order to mitigate such risks. The Company and its Subsidiaries take all reasonable steps to ensure that they have appropriate information regarding their claim exposures. Critical accounting estimates and details of financial guarantee contracts are disclosed in Note 4(c) and Note 37, respectively.

3. Financial Risk Management (Cont'd)

(c) Fair value estimation

The carrying amounts of the Company and its Subsidiaries' cash and cash equivalents, receivables, other current assets, accounts payable and accrued liabilities and short-term loans approximate their fair values because of the short maturity of these instruments.

Available-for-sale investments are measured at fair value based on their quoted market price in an active market and if there is no quoted market price in an active market and their fair value cannot be reliably measured, they are measured at cost less any provision for impairment (see Note 9).

The fair value of long-term loans, including current portions, of approximately Rmb43,189 million (31 December 2005 – Rmb31,750 million) as at 31 December 2006, have been estimated by applying a discounted cash flow approach using interest rates available for comparable instruments. As at the same date, the book value of these liabilities was approximately Rmb43,216 million (31 December 2005 – Rmb31,704 million).

Fair value estimates are made at a specific point of time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company and its Subsidiaries make accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income tax

Estimation of future income taxes requires projection of tax rates expected to be in effect in years in which tax benefits will be realised. Changes to the amount and timing of tax rates in future years can impact the amount of income tax expense or recovery recognised in an accounting period. The realisation of future income tax asset is dependent on the Company and its Subsidiaries' ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates would result in adjustment to the value of future income tax assets and liabilities that could have a significant effect on earnings.

4. Critical Accounting Estimates and Judgements (Cont'd)

(b) Useful lives of property, plant and equipment

The directors of the Company and its Subsidiaries determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on projected wear and tear incurred during power generation. It could change significantly as a result of technical innovations on power generators. Management will adjust the depreciation charge where useful lives vary with previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

(c) The ultimate liabilities arising from claims under financial guarantee contracts

The estimation of the ultimate liabilities arising from claims made under financial guarantee contracts is a critical accounting estimate of the Company and its Subsidiaries. The financial positions and liquidity of the subsidiaries, associates and jointly controlled entity for which financial guarantees have been granted represented the major factor to be accounted for in the liability adequacy tests. Based on historical experience, the directors believe that the liabilities for financial guarantee contracts carried at year end are adequate. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of insurance liabilities currently stated in the balance sheets. Details of the Company's financial guarantee contracts are disclosed in Note 37.

(d) Carrying value of investments

The carrying value of investments is reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. An impairment loss is recognised for the amounts by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Estimating the recoverable amounts of assets include various assumptions, where future events may not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the amount of investment in associates and available-for-sale investments.

4. Critical Accounting Estimates and Judgements (Cont'd)

(e) Fair value of derivative financial instrument

The fair value of derivative financial instrument is the current bid price and, for an asset to be acquired or liability held, the asking price. If the market for an instrument is not active, fair value is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Deviations of future cash flows would result in an adjustment to the value of the derivative financial instrument that could have a significant effect on the assets or liabilities arising from the swap arrangement (Note 23).

(f) Restraint in construction of new power plants

The estimation of the ultimate approval from National Development and Reform Commission ("NDRC") on certain of the Company and its Subsidiaries' power plants construction projects is a critical estimate and judgment of the directors. Such estimate and judgment are based on initial approval documents received as well as their understanding of the projects. Based on historical experience, the directors believe that the Company and its Subsidiaries will receive final approval from NDRC on the related power plant projects. Deviation from the estimate and judgment could result in significant adjustment to the value of the property, plant and equipment.

(All amounts expressed in thousands of Rmb unless otherwise stated)

5. Property, Plant and Equipment

	Company and its Subsidiaries					
	Dam	Buildings	Electricity utility plants in service	Transportation facilities, computer and others	Construction-in-progress	Total
Cost						
At 1 January 2005	–	870,217	31,941,821	716,318	18,328,745	51,857,101
Reclassification	–	10,393	(45,947)	35,554	–	–
Transfer in/(out)	–	990,476	8,948,093	60,045	(9,998,614)	–
Additions	–	23,118	75,820	79,159	19,532,343	19,710,440
Disposals	–	(2,466)	(150,865)	(10,985)	(210,615)	(374,931)
At 31 December 2005	–	1,891,738	40,768,922	880,091	27,651,859	71,192,610
Transfer in/(out)	852,467	5,710,340	19,279,965	1,069,282	(26,912,054)	–
Additions	–	76,187	259,883	87,138	17,936,707	18,359,915
Disposals	–	(7,203)	(9,307)	(15,629)	–	(32,139)
Acquisition of a subsidiary (Note 35)	–	29,687	–	495,973	3,477	529,137
Adjustment in consolidation scope (a)	–	183,669	–	37,244	3,604,453	3,825,366
At 31 December 2006	852,467	7,884,418	60,299,463	2,554,099	22,284,442	93,874,889
Accumulated depreciation						
At 1 January 2005	–	133,056	9,145,378	305,836	–	9,584,270
Reclassification	–	531	(1,669)	1,138	–	–
Charge for the year	–	57,378	2,638,171	86,922	–	2,782,471
Written back on disposals	–	(356)	(111,763)	(10,122)	–	(122,241)
At 31 December 2005	–	190,609	11,670,117	383,774	–	12,244,500
Charge for the year	12,432	283,473	3,696,480	134,457	–	4,126,842
Written back on disposals	–	(967)	(7,580)	(10,141)	–	(18,688)
Adjustment in consolidation scope (a)	–	10,543	–	5,726	–	16,269
At 31 December 2006	12,432	483,658	15,359,017	513,816	–	16,368,923
Net book value						
At 31 December 2006	840,035	7,400,760	44,940,446	2,040,283	22,284,442	77,505,966
At 31 December 2005	–	1,701,129	29,098,805	496,317	27,651,859	58,948,110
At 1 January 2005	–	737,161	22,796,443	410,482	18,328,745	42,272,831

(All amounts expressed in thousands of Rmb unless otherwise stated)

5 Property, Plant and Equipment (Cont'd)

Note a: On 20 July 2006, the Company entered into an agreement with one of the shareholders of Chongqing Datang International Pengshui Hydropower Development Company Limited ("Pengshui Hydropower Company") who owns 12% of the equity interest of Pengshui Hydropower Company. Pursuant to this agreement, the Company obtained effective control over the determination of financial and operating policies in Pengshui Hydropower Company. Hence, Pengshui Hydropower Company has been accounted for as a subsidiary of the Company from 20 July 2006.

			Company		
	Buildings	Electricity utility plants in service	Transportation facilities, computer and others	Construction-in-progress	Total
Cost					
At 1 January 2005	716,234	15,035,508	456,590	6,123,149	22,331,481
Transfer in/(out)	180,345	780,879	13,462	(974,686)	–
Additions	–	2,138	40,326	7,891,492	7,933,956
Disposals	(158)	(142,646)	(8,990)	(210,615)	(362,409)
At 31 December 2005	896,421	15,675,879	501,388	12,829,340	29,903,028
Sold to a subsidiary	–	(384)	(19,818)	(4,729,194)	(4,749,396)
Transfer in/(out)	1,566,341	5,862,382	16,043	(7,444,766)	–
Additions	2,454	251,273	47,071	6,562,018	6,862,816
Disposals	–	(9,307)	(14,671)	(10,665)	(34,643)
As 31 December 2006	2,465,216	21,779,843	530,013	7,206,733	31,981,805
Accumulated depreciation					
At 1 January 2005	120,220	7,476,687	250,137	–	7,847,044
Charge for the year	11,317	1,104,144	44,680	–	1,160,141
Written back on disposals	(158)	(110,435)	(8,835)	–	(119,428)
At 31 December 2005	131,379	8,470,396	285,982	–	8,887,757
Sold to a subsidiary	–	(7)	(2,312)	–	(2,319)
Charge for the year	80,851	1,245,636	43,571	–	1,370,058
Written back on disposals	–	(7,580)	(9,212)	–	(16,792)
As 31 December 2006	212,230	9,708,445	318,029	–	10,238,704
Net book value					
At 31 December 2006	2,252,986	12,071,398	211,984	7,206,733	21,743,101
At 31 December 2005	765,042	7,205,483	215,406	12,829,340	21,015,271
At 1 January 2005	596,014	7,558,821	206,453	6,123,149	14,484,437

(All amounts expressed in thousands of Rmb unless otherwise stated)

5 Property, Plant and Equipment (Cont'd)

Interest expense of approximately Rmb1,014 million (2005 – approximately Rmb893 million) arising from borrowings entered into for the construction of power plants were capitalised during the year and are included in 'Additions' in property plant and equipment. Capitalisation rates ranging from 3.60% to 6.16% (2005 – 3.60% to 6.12%) per annum were used, representing the interest expense of the loans used to finance the projects.

Pursuant to Document No. 32 issued by NDRC in November 2004, the State government has tightened its control over the construction of power plants that have not received the relevant government approvals. The directors of the Company and its subsidiaries have assessed the approval requirements of Document No. 32 and are of the opinion that their power plants under construction that are affected by Document No. 32 will ultimately obtain approval from NDRC.

As at 31 December 2006 and 2005, no plant, property and equipment was pledged to secure the Company and its Subsidiaries' borrowings.

6. Investments in Subsidiaries

	Company	
	2006	2005
Beginning of year	**3,518,426**	3,169,615
Adjustment in consolidation scope (Note 5(a))	**248,900**	–
Additional investments	**992,470**	358,811
Withdraw investments	**–**	(10,000)
End of year	**4,759,796**	3,518,426

(All amounts expressed in thousands of Rmb unless otherwise stated)

6. Investments in Subsidiaries (Cont'd)

As at 31 December 2006, the Company directly holds equity interests in the following subsidiaries, all of which are unlisted and limited liability companies established and operated in the PRC:

Company name	Date of establishment	Registered capital	Attributable interest	Principal activities
Inner Mongolia Datang International Tuoketuo Power Generation Company Limited ("Tuoketuo Power Company")	17 November 1995	1,714,020	60%	Power generation
Tianjin Datang International Panshan Power Generation Company Limited ("Panshan Power Company")	6 August 1997	831,250	75%	Power generation
Hebei Datang International Huaze Hydropower Development Company Limited ("Huaze Hydropower Company")	29 July 1998	59,160	90.43%	Hydropower generation
Shanxi Datang International Shentou Power Generation Company Limited ("Shentou Power Company")	8 December 1998	748,520	60%	Power generation
Shanxi Datang International Yungang Thermal Power Company Limited ("Yungang Thermal Power Company")	14 July 2000	250,000	80%	Power generation
Yunnan Datang International Honghe Power Generation Company Limited ("Honghe Power Company")	27 April 2001	414,550	70%	Power generation
Gansu Datang International Liancheng Power Generation Company Limited ("Liancheng Power Company")	18 August 2001	98,000	55%	Power generation
Hebei Datang International Tangshan Thermal Power Company Limited ("Tangshan Thermal Power Company")	21 February 2002	380,264	80%	Power generation
Yunnan Datang International Nalan Hydropower Development Company Limited ("Nalan Hydropower Company")	30 October 2002	28,470	51%	Hydropower generation (under construction)

(All amounts expressed in thousands of Rmb unless otherwise stated)

6. Investments in Subsidiaries (Cont'd)

Company name	Date of establishment	Registered capital	Attributable interest	Principal activities
Yunnan Datang International Lixianjiang Hydropower Development Company Limited ("Lixianjiang Hydropower Company")	8 November 2002	260,000	70%	Hydropower generation (under construction)
Shanxi Datang International Yuncheng Power Generation Company Limited ("Yuncheng Power Company")	28 March 2003	99,625	80%	Power generation (under construction)
Pengshui Hydropower Company (Note 5 (a))	28 August 2003	125,000	40%	Hydropower generation (under construction)
Jiangsu Datang International Lusigang Power Generation Company Limited ("Lusigang Power Company")	18 September 2003	50,000	90%	Power generation (under construction)
Guangdong Datang International Chaozhou Power Generation Company Limited ("Chaozhou Power Company")	15 November 2003	30,000	75%	Power generation
Fujian Datang International Ningde Power Generation Company Limited ("Ningde Power Company")	2 December 2003	250,000	51%	Power generation
Datang International (Hong Kong) Limited ("Datang Hong Kong")	3 December 2004	23,511	100%	Power related consulting services
Chongqing Datang International Wulong Hydropower Development Company Limited ("Wulong Hydropower Company")	24 January 2005	50,000	51%	Hydropower generation (under construction)

(All amounts expressed in thousands of Rmb unless otherwise stated)

6. Investments in Subsidiaries (Cont'd)

Company name	Date of establishment	Registered capital	Attributable interest	Principal activities
Yunnan Datang International Wenshan Hydropower Development Company Limited ("Wenshan Hydropower Company")	8 April 2005	60,000	60%	Hydropower generation (under construction)
Hebei Datang International Wangtan Power Generation Company Limited	17 January 2006	450,000	70%	Power generation
Chongqing Datang International Shizhu Power Generation Company Limited	13 March 2006	10,000	70%	Power generation (pre-construction)
Duolun Hydropower Company	28 March 2006	28,520	51%	Hydropower generation, water supply
Sichuan Datang International Ganzi Hydropower Development Company Limited ("Ganzi Hydropower Company")	3 July 2006	50,000	80%	Hydropower generation (pre-construction)
Datang International Chemistry Technique Development Company Limited ("Chemistry Technique Development Company")	17 August 2006	50,000	100%	Coal related service
Beijing Datang Fuel Company Limited ("Fuel Company")	8 December 2006	80,000	100%	Coal sales, Investment management, technical service
Inner Mongolia Datang International Zhuozi Wind Power Company Limited ("Zhuozi Wind Power Company")	21 December 2006	20,000	100%	Wind Power generation (pre-construction)

(All amounts expressed in thousands of Rmb unless otherwise stated)

7. Investment in a Jointly Controlled Entity

As at 31 December 2006, the Company directly held equity interests in the following jointly controlled entity, which is unlisted and is a limited liability company established and operated in the PRC:

Company name	Date of establishment	Registered capital	Attributable interest	Principal activities
Hebei Yuzhou Energy Multiple Development Company Limited ("Yuzhou Energy")	29 September 2005	400,000	50%	Power generation (pre-construction) and investment in a railway company

The following amounts represent the Company's 50% share of the assets and liabilities of the joint venture. They are included in the consolidated balance sheet.

	31 December 2006	31 December 2005
Assets:		
Non-current assets	**547,620**	15,876
Current assets	**7,969**	34,169
	555,589	50,045
Liabilities:		
Non-current liabilities	**176,500**	–
Current liabilities	**132,496**	45
	308,996	45
Net assets	**246,593**	50,000
Proportionate interests in joint venture's commitments	**–**	6,864

As at 31 December 2006, the Company had provided guarantees for loans to the jointly controlled entity according to the Company's shareholding percentage therein, totalling approximately Rmb292 million (31 December 2006 – Rmb65 million).

(All amounts expressed in thousands of Rmb unless otherwise stated)

8. Investments in Associates

	Company and its Subsidiaries	
	2006	2005
Beginning of year	**793,316**	514,415
Additional investments	**260,987**	281,914
Share of results after tax	**9,458**	(1,273)
Share of fair value gains, net of tax	**114,291**	–
Dividends	**(2,017)**	(1,740)
Adjustment in consolidation scope (Note 5(a))	**(248,900)**	–
Other scope changes *	**(69,714)**	–
End of year	**857,421**	793,316

* At 31 December 2005, Tongmei Datang Multiple Utilisation Thermal Power Company Limited ("Tongmei Thermal Power Company") was an associate of Yungang Thermal Power Company, a subsidiary of the Company. During 2006, Tongmei Thermal Power Company received additional capital injection from its investors except for Yungang Thermal Power Company. Consequently, Yungang Thermal Power Company's share of equity interest decreased from 20% to 14% and ceased to have the ability to cast significant influence over Tongmei Thermal Power Company and the investment in Tongmei Thermal Power Company has since been treated as an available-for-sale investment thereafter.

	Company	
	2006	2005
Beginning of year	**696,692**	487,692
Additional investments	**260,900**	209,000
Adjustment in consolidation scope (Note 5(a))	**(248,900)**	–
End of year	**708,692**	696,692

The additions in 2006 mainly represented the Company's investments in various power plant projects and entities in other industries.

(All amounts expressed in thousands of Rmb unless otherwise stated)

8. Investments in Associates (Cont'd)

The gross amounts of results, assets and liabilities of the associates of the Company and its Subsidiaries are as follows:

	2006	2005
Assets	**12,012,663**	12,000,043
Liabilities	**(10,041,697)**	(9,228,416)
Operating revenue	**880,537**	424,346
Accumulated deficit attributable to equity holders of the associates	**(17,452)**	(50,998)

As at 31 December 2006, the Company holds equity interests in the following associates, all of which are unlisted and are limited liability companies established and operated in the PRC except Hongda Technology Company Limited is operated in Vietnam:

Company name	Date of establishment	Registered capital	Attributable interest	Principal activities
China Datang Group Finance Company Limited ("Datang Finance")	28 November 1984	500,000	20%	Provision of financial services
North China Electric Power Research Institute Company Limited ("NCEPR")	7 December 2000	100,000	30%	Power related technology services
Beijing Texin Datang Heat Company Limited ("Datang Texin")	27 April 2002	172,800	49%	Provision of heat transfer service
Ningxia Datang International Daba Power Generation Company Limited ("Daba Power Company")	31 October 2003	40,000	45%	Power generation (pre-construction)
Tongfang Investment Company Limited	16 June 2004	550,000	36.36%	Project investment and management
Tongmei Datang Tashan Coal Mine Company Limited ("Tashan Coal Mine")	15 July 2004	385,790	28%	Coal mining

(All amounts expressed in thousands of Rmb unless otherwise stated)

8. Investments in Associates (Cont'd)

Company name	Date of establishment	Registered capital	Attributable interest	Principal activities
Tangshan Huaxia Datang Power Fuel Company Limited	10 August 2004	20,000	30%	Fuel trading
Qian'an Datang Thermal Power Company Limited ("Qian'an Power Company")**	15 November 2005	20,000	36%	Power generation (pre-construction)
Fujian Ningde Nuclear Power Company Limited	23 March 2006	200,000	49%	Nuclear power generation (pre-construction)
Tongmei Datang Tashan Power Generation Company Limited	10 October 2006	160,000	40%	Power generation (under construction)
Hongda Technology Company Limited***	26 September 2002	347	35%	Technology service related power generation

** As at 31 December 2006, Qian'an Power Company was an associate of Tangshan Thermal Power Company.

*** As at 31 December 2006, Hongda Technology Company Limited was an associate of Datang Hong Kong.

(All amounts expressed in thousands of Rmb unless otherwise stated)

9. Available-for-sale Investments

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Beginning of the year	**306,294**	336,700	**301,900**	336,700
Additional investments	**538,150**	52,524	**538,150**	48,130
Revaluation surplus	**860,026**	–	**860,026**	–
Other scope changes (Note 8*)	**69,714**	–	**–**	–
Reduction (f)	**–**	(82,930)	**–**	(82,930)
End of the year	**1,774,184**	306,294	**1,700,076**	301,900

Company and its Subsidiaries	At 31 December 2005	Addition	Revaluation surplus	Other scope changes (Note 8*)	At 31 December 2006
China Continent Property & Casualty Insurance Company Ltd. ("CCPC") (a)	103,000	–	–	–	103,000
Daqin Railway Company Limited ("Daqin Railway") (b)	150,000	346,150	860,026	–	1,356,176
Tanggang Railway Company Limited ("Tanggang Railway") (c)	48,000	192,000	–	–	240,000
Tongmei Thermal Power Company (d)	–	–	–	69,714	69,714
Communication Bank Tangshan Branch (e)	4,094	–	–	–	4,094
Zhongneng Electricity Fuel United Company Limited	900	–	–	–	900
Zhangjiakou Northern Power Company Limited (e)	300	–	–	–	300
Total	306,294	538,150	860,026	69,714	1,774,184

9. Available-for-sale Investments (Cont'd)

(a) This is a 5.81% unlisted equity investment in CCPC (31 December 2005: 10%). CCPC is a financial institution providing property insurance services.

(b) This represents a 1.29% equity interest in Daqin Railway (31 December 2005: 0.98%). The principal activity of Daqin Railway is to provide railway transportation services. Daqin Railway issued its A share in Shanghai Stock Exchange on 1 August 2006, and as at 31 December 2006, its share price was Rmb8.1 per share.

(c) This represents a 14.97% unlisted equity investment in Tanggang Railway (31 December 2005: 13.97%). The principal activity of Tanggang Railway is to provide railway transportation services.

(d) This represents a 14% unlisted equity investment in Tongmei Thermal Power Company (Note 8). The principal activity of Tongmei Thermal Power Company is power generation.

(e) The investments in these two companies are available-for-sale investments held by Tangshan Thermal Power Company, a subsidiary of the Company.

(f) The reduction in 2005 mainly represented the disposal of a 16% unlisted equity investment in NCPG Finance Company Ltd.

(g) Except for the investment in Daqin Railway, all other investments do not have quoted market prices in an active market. Based on the limited forecast financial information regarding these investments available to the Company and its Subsidiaries, the directors are of the opinion that there are no appropriate methods to reliably measure their fair values. Accordingly, these investments are stated at cost and are subject to review for impairment loss.

There were no provisions for impairment on available-for-sale investments for the years ended 31 December 2006 and 2005.

10. Deferred Housing Benefits

Pursuant to the "Proposal on Further Reform of Housing Policy in Urban Areas" of the State and the implementation schemes for staff quarters issued by the relevant provincial and municipal governments, the Company implemented a scheme for selling staff quarters in 1999. Under the scheme, the Company provides housing benefits to its staff to buy staff quarters from the Company at preferential prices. The offer price is calculated based on their length of service and position pursuant to the prevailing local regulations. The deferred housing benefits represent the difference between the net book value of the staff quarters sold and the proceeds collected from the employees, and are amortised over the remaining average service life of the relevant employees.

(All amounts expressed in thousands of Rmb unless otherwise stated)

10. Deferred Housing Benefits (Cont'd)

In 2005 and 2006, the Company and some of its subsidiaries carried out another housing benefit scheme – "Monetary Housing Benefit Scheme" in accordance with the approval from Housing Reform Office of the local government. Under the Monetary Housing Benefit Scheme, the Company and its Subsidiaries will provide monetary housing subsidies to those employees whose houses do not meet the standard they should have enjoyed based on the duration of service and their posts and ranks. The subsidy payment amounted to approximately Rmb180,120,000 in 2006 (2005: Rmb95,700,000) and is amortised over the remaining service life of the relevant employees, effectively being the shorter of a 10-year period or the residual service period prior to their retirements.

	Company and its Subsidiaries	
	2006	2005
Cost		
Beginning of year	**438,537**	342,837
Addition	**180,120**	95,700
End of year	**618,657**	438,537
Accumulated amortisation		
Beginning of year	**(250,070)**	(193,452)
Charge for the year	**(68,355)**	(56,618)
End of year	**(318,425)**	(250,070)
Net book value		
End of year	**300,232**	188,467
Beginning of year	**188,467**	149,385

	Company	
	2006	2005
Cost		
Beginning of year	**438,537**	342,837
Addition	**16,093**	95,700
End of year	**454,630**	438,537
Accumulated amortisation		
Beginning of year	**(250,070)**	(193,452)
Charge for the year	**(50,780)**	(56,618)
End of year	**(300,850)**	(250,070)
Net book value		
End of year	**153,780**	188,467
Beginning of year	**188,467**	149,385

(All amounts expressed in thousands of Rmb unless otherwise stated)

11. Intangible Assets

	Company and its Subsidiaries				Company
	Goodwill	Resource use rights	Others	Total	Goodwill
At 1 January 2005					
Cost	33,561	–	–	33,561	33,561
Accumulated amortisation	–	–	–	–	–
Net book amount	33,561	–	–	33,561	33,561
Year ended 31 December 2005					
Beginning of year	33,561	–	–	33,561	33,561
Additions	–	20,000	9,900	29,900	–
Amortisation for the year	–	(333)	(824)	(1,157)	–
End of year	33,561	19,667	9,076	62,304	33,561
At 31 December 2005					
Cost	33,561	20,000	9,900	63,461	33,561
Accumulated amortisation	–	(333)	(824)	(1,157)	–
Net book amount	33,561	19,667	9,076	62,304	33,561
Year ended 31 December 2006					
Beginning of year	33,561	19,667	9,076	62,304	33,561
Additions	9,883	8,646	8,558	27,087	–
Amortisation for the year	–	(2,648)	(3,167)	(5,815)	–
End of year	43,444	25,665	14,467	83,576	33,561
At 31 December 2006					
Cost	43,444	28,646	18,458	90,548	33,561
Accumulated amortisation	–	(2,981)	(3,991)	(6,972)	–
Net book amount	43,444	25,665	14,467	83,576	33,561

Goodwill represents the excess of the cost of the Company's acquisition of Zhang Jia Kou Power Plant Unit 2 acquired in 2000 and Yuzhou Energy's acquisition of Shayu Railway Company, over the fair value of the acquired shares on the respective net identifiable assets. The directors believe that there is no impairment of the goodwill.

(All amounts expressed in thousands of Rmb unless otherwise stated)

12. Other Long Term Receivables

	Company
	2006
Entrusted loan receivable from a subsidiary	**375,562**

On 30 September 2006, the Company provided a loan amounting to USD 50 million to Shentou Power Company through Bank of China, bearing interest at 6-month LIBOR plus 1% with a duration of 89 months. There are no pledges or guarantees on the loan. As at 31 December 2006, the balance was approximately Rmb375,562,000, comprising of a principal balance of Rmb374,818,000 and an interest receivable balance of Rmb744,000.

13. Inventories

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Fuel	**391,005**	394,605	**108,006**	174,694
Spare parts and consumable supplies	**415,960**	298,414	**169,647**	105,020
	806,965	693,019	**277,653**	279,714

As at 31 December 2006 and 2005, all inventories were carried at cost.

14. Other Current Assets

	Company
	2006
Entrusted loan receivable from subsidiaries	**1,001,589**

On 18 September 2006, the Company provided a one-year loan amounting to Rmb400 million to Tuoketuo Power Company and Rmb600 million to Ningde Power Company, both bearing interest at 5.2% per annum through Datang Finance. As at 31 December 2006, the balance was approximately Rmb1,001,589,000 comprising of a principal balance of Rmb1,000,000,000 and an interest receivable balance of Rmb1,589,000. There are no pledges or guarantees on these loans.

(All amounts expressed in thousands of Rmb unless otherwise stated)

15. Accounts Receivable

Accounts receivable of the Company and its Subsidiaries mainly represent the receivables from the respective regional or provincial grid companies for tariff revenue. These receivables are unsecured and non-interest bearing. The tariff revenue is settled on a monthly basis according to the payment provisions in the power purchase agreements. As at 31 December 2006 and 2005, all tariff revenues receivables from the respective grid companies were aged within three months, and no doubtful debt provisions were considered necessary.

16. Cash and Cash Equivalents

	Company and its Subsidiaries		**Company**	
	2006	2005	**2006**	2005
Bank deposits	**4,450,799**	1,028,403	**4,104,810**	781,774
Deposits with Datang Finance	**10**	350	**2**	323
Cash on hand	**475**	586	**175**	340
	4,451,284	1,029,339	**4,104,987**	782,437

The effective interest rates on the Rmb and foreign cash deposits were 0.72% to 1.44% per annum (2005 – 0.72% per annum) and 1.00% to 5.15% per annum (2005 – 0.0001% to 4.22% per annum), respectively. These deposits have an average maturity of 18 days (2005 – 10 days).

17. Share Capital

As at 31 December 2006, the authorised share capital of the Company was Rmb5,662,849,000, divided into 5,662,849,000 shares of Rmb1 each. The movement of issued and fully paid up share capital of the Company during the year ended 31 December 2006 was as follows:

	2005	Addition/ (deduction)		**2006**	
	Number of shares '000	Number of shares '000	**Number of shares '000**	**Share capital '000**	**Share interest %**
Domestic shares in form of legal person shares	3,732,180	(3,732,180)	**–**	**–**	**–**
A Shares	–	4,232,180	**4,232,180**	**4,232,180**	**74.74%**
H Shares	1,430,669	–	**1,430,669**	**1,430,669**	**25.26%**
	5,162,849	500,000	**5,662,849**	**5,662,849**	**100.00%**

17. Share Capital (Cont'd)

H Shares were listed on The Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited on 21 March 1997.

On 13 December 2006, the Company issued 500,000,000 domestic shares and received a cash proceeds of Rmb3,278,824,335. On 20 December 2006, all of the Company's domestic shares were listed on the Shanghai Stock Exchange as A Shares. At 31 December 2006, 4,020,180,000 A Shares had certain timing restriction on their sales.

A Shares and H Shares rank pari passu with each other and in particular will rank in full for all dividends or distributions declared and paid.

18. Reserves

(a) Capital reserve

Capital reserve mainly represents the difference between the nominal amount of the domestic shares issued and the fair value of the net assets injected into the Company during its formation and also proceeds from the issue of H Shares and A shares in excess of their par value, net of expenses related to the issuance of the shares in 1997 and 2006. This reserve is non-distributable.

(b) Statutory surplus reserve

In accordance with the relevant laws and regulations of the PRC and the Company and its Subsidiaries' articles of association, the Company and its Subsidiaries are required to appropriate 10% of its net profit, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the Company's share capital, any further appropriation is optional.

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such an issue is not less than 25% of share capital. The statutory surplus reserve is non-distributable.

(c) Statutory public welfare fund

In accordance with the Company and its Subsidiaries' articles of association, 5%-10% of its net profit is to be appropriated to a statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company and its Subsidiaries' employees such as construction of canteen and other staff welfare facilities. Titles of these capital items remain with the Company and its Subsidiaries. This fund is non-distributable other than in liquidation.

18. Reserves (Cont'd)

(c) Statutory public welfare fund (Cont'd)

Pursuant to the revised Company Law of the PRC, effective from 1 January 2006, statutory public welfare fund was abolished and accordingly, the Company transferred the balance of statutory public welfare fund of approximately Rmb559,456,000 to statutory surplus reserve.

(d) Discretionary surplus reserve

In accordance with the Company and its Subsidiaries' articles of association, the appropriation of profit to the discretionary surplus reserve and its utilisation are made in accordance with the recommendation of the Board of Directors and is subject to shareholders' approval at their general meeting.

On 30 March 2007, the Board of Directors proposed an appropriation of profit of approximately Rmb1,020,774,000 to the discretionary surplus reserve for the year ended 31 December 2006. The proposed profit appropriation is subject to the shareholders' approval in their next general meeting.

On 27 March 2006, the Board of Directors proposed an appropriation of profit of approximately Rmb759,910,000 to the discretionary surplus reserve for the year ended 31 December 2005. The proposed profit appropriation was approved by the shareholders in their general meeting dated on 20 June 2006.

The discretionary surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them. The discretionary surplus reserve is distributable.

(e) Restricted reserve

Pursuant to documents Cai Qi [2000] 295, Cai Qi [2000] 878 and Cai Kuai [2001] 5 issued by Ministry of Finance ("MOF"), deferred housing benefits that were approved by the government, before the effective date of Cai Qi [2005] 295, i.e. 6 September 2000, should be directly deducted from shareholders' equity starting from 2001. Accordingly, approximately Rmb258,881,000 which represented the deferred housing benefits balance in relation to staff quarters sold and approved by the government before September 2000 has been directly deducted from the statutory public welfare fund under PRC accounting standards and regulations ("PRC GAAP"). Consequent to the monetary housing benefit scheme implemented by the Company and its Subsidiaries in 2005 and 2006, payments which represented the monetary subsidies paid to the employees who started work before 31 December 1998, amounting to Rmb95,700,000 and Rmb180,120,000 in 2005 and 2006 respectively, have been directly deducted from retained earnings, statutory public welfare fund and the statutory surplus reserve under PRC GAAP.

18. Reserves (Cont'd)

(e) Restricted reserve (Cont'd)

For financial statements prepared in accordance with IFRS, the deferred housing benefits are amortised over the estimated average service lives of the relevant employees (Note 10). To reflect the reduction of the retained earnings, the statutory public welfare fund and the statuary surplus reserve made under PRC GAAP, an amount equivalent to the corresponding deferred housing benefits balance was transferred from retained earnings, the statutory public welfare fund and statutory surplus reserve to a restricted reserve specifically set up for this purpose under IFRS. Upon amortisation of the deferred housing benefits, an amount equivalent to the amortisation for the period is transferred from the restricted reserve to retained earnings. For the year ended 31 December 2006, approximately Rmb37,435,000 had been transferred from statutory surplus reserve to restricted reserve and approximately Rmb26,409,000 had been transferred from retained earnings to restricted reserve (2005 – approximately Rmb51,631,000 had been transferred from restricted reserve to retained earnings).

(f) Other reserve

Other reserve comprised of the value of the equity conversion component of the convertible bonds issued on 9 September 2003 (Note 21) and the variance in the fair value revaluation of the available-for-sale investment in Daqin Railway (Note 9), net of deferred income tax.

The value of the equity component was determined on the issue of the bonds and does not change in subsequent periods. The fair value of investment in Daqin Railway is determined based on the quoted market price of its A Share on the last trading date of 2006.

(g) Basis for profit appropriations

In accordance with document Cai Kuai Zi [1995] 31 issued by MOF, appropriations to statutory reserves are to be determined based on the financial statements prepared in accordance with the PRC GAAP.

In addition, in accordance with the Company's articles of association, the Company declares dividends based on the lower of retained earnings as reported in accordance with PRC GAAP and those reported in accordance with IFRS after deducting current year's appropriations to other reserves. As at 31 December 2006, the amount of retained earnings as determined under IFRS was more than that determined under PRC GAAP by approximately Rmb185 million (As at 31 December 2005, the amount of retained earnings as determined under IFRS was less than that determined under PRC GAAP by approximately Rmb10 million).

The profit attributable to shareholders for the year ended 31 December 2006 includes a profit of approximately Rmb2,456,206,000 (2005 – Rmb2,357,547,000) that has been dealt with in the accounts of the Company.

(All amounts expressed in thousands of Rmb unless otherwise stated)

19. Long-term Loans

Long-term loans include the long-term bank loans and other long-term loans as follows:

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Long-term bank loans (a)	**41,490,805**	30,012,563	**8,000,000**	5,645,000
Other long-term loans (b)	**1,725,580**	1,691,538	**–**	–
	43,216,385	31,704,101	**8,000,000**	5,645,000
Less: Amounts due within one year included under current liabilities	**(2,942,804)**	(2,488,884)	**–**	(614,000)
	40,273,581	29,215,217	**8,000,000**	5,031,000

(a) Long-term bank loans

As at 31 December 2006, approximately Rmb1,324 million (31 December 2005 – Rmb2,159 million) and Rmb40,167 million (31 December 2005 – Rmb27,854 million) of the long-term bank loans were denominated in USD and Rmb, respectively. Except for approximately Rmb17,492 million (31 December 2005 – Rmb13,044 million) long-term bank loans pledged by right of collection of tariff, all long-term bank loans were unsecured and bore interest at rates ranging from 3.60% to 6.39% (2005 – 3.60% to 6.12%) per annum. Approximately Rmb2,830 million (31 December 2005 – Rmb3,792 million) of the loans of the subsidiaries were guaranteed by the minority shareholders according to their shareholding percentage in the subsidiaries.

The long-term bank loans were drawn to finance the construction of electricity utility plants. The maturity of these loans was as follows:

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Amounts repayable				
Within one year	**2,842,149**	2,384,860	**–**	614,000
Between one and two years	**3,406,069**	3,394,798	**645,000**	659,000
Between two and five years	**13,291,658**	9,715,003	**1,690,000**	1,817,000
Over five years	**21,950,929**	14,517,902	**5,665,000**	2,555,000
	41,490,805	30,012,563	**8,000,000**	5,645,000

(All amounts expressed in thousands of Rmb unless otherwise stated)

19. Long-term Loans (Cont'd)

(b) Other long-term loans

As at 31 December 2006, approximately Rmb1,536 million (31 December 2005 – Rmb1,692 million) of other long-term loans were borrowed by MOF from International Bank for Reconstruction and Development ("World Bank") and on-lent to the Company's subsidiary, Tuoketuo Power Company, for the construction of electricity utility plant, and Rmb190 million (31 December 2005 – Nil) of other long-term loans were borrowed from Datang Finance and on-lent to the Company's subsidiary, Lusigang Power Company, for the construction of electricity utility plants. The maturity of these loans was as follows:

	Company and its Subsidiaries	
	2006	2005
Amounts repayable		
Within one year	**100,655**	104,024
Between one and two years	**303,913**	110,236
Between two and five years	**366,355**	371,731
Over five years	**954,657**	1,105,547
	1,725,580	1,691,538

As at 31 December 2006, approximately Rmb1,536 million (31 December 2005 – Rmb1,692 million) of other long-term loans were denominated in USD and the rest of the other long-term loans were all denominated in Rmb. The other long-term loans bore interest at the rate of LIBOR Base Rate plus LIBOR Total Spread as defined in the loan agreement between MOF and World Bank, which approximated 3.99% to 5.75% per annum during the year ended 31 December 2006 (2005-2.03% to 3.99% per annum). In accordance with a guarantee agreement between North China Grid Company ("NCG") and MOF, NCG agreed to guarantee 60% of the loan balances borrowed from World Bank (Note 30(ii)(i)). As at 31 December 2006, approximately Rmb922 million (31 December 2005-Rmb1,015 million) of the loans were guaranteed by NCG, while the Company provided a counter-guarantee to NCG in respect of this same amount. According to the agreement entered into between NCG and China Datang, China Datang will guarantee the loans in place of NCG. However, the legal procedures to complete the transfer of guarantee are still in process as at 31 December 2006.

(All amounts expressed in thousands of Rmb unless otherwise stated)

20. Short-term Loans

Short-term loans, as summarised below, were drawn by the Company and its Subsidiaries for the construction of electricity utility plants:

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Short-term bank loans	**8,489,296**	5,530,280	**2,100,000**	2,000,000
Short-term loan from Datang Finance	**761,200**	187,000	**–**	–
Short-term loan from Tianjin Jinneng Investment Company ("Tianjin Jinneng")	**50,000**	–	**–**	–
	9,300,496	5,717,280	**2,100,000**	2,000,000

As at 31 December 2006, all short-term loans were denominated in Rmb, unsecured and bore interest at rates ranging from 4.70% to 5.67% (2005 – 4.52% to 5.84%) per annum. Approximately Rmb178 million (2005 – Rmb56 million) of short-term loans were guaranteed by the minority shareholders according to their shareholding percentage in the subsidiaries.

21. Convertible bonds

On 9 September 2003, the Company issued USD153,800,000, 0.75% convertible bond at a nominal value of USD153,800,000. The bonds will mature in 5 years from the issue date at their nominal value of USD153,800,000 unless converted into the Company's ordinary shares at the holder's option at the announced conversion price, which initially was HKD5.558 per share. On 20 May 2005, the Company adjusted the conversion price to HKD5.4 per share. The conversion price is subject to adjustment in certain circumstances with a fixed rate of exchange applicable on conversion of the convertible bonds of HKD7.799 per USD1.

The fair value of the liability component and the equity conversion component were determined on the issue of the bonds. The fair value of the liability component was calculated using a market interest rate for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion component, is included in equity in other reserve, net of deferred income tax.

In subsequent periods, the liability component continues to be presented on the amortised cost basis, until extinguished on conversion or maturity of the bonds. The equity component is determined on the issue of the bond and is not changed in subsequent periods.

(All amounts expressed in thousands of Rmb unless otherwise stated)

21. Convertible Bonds (Cont'd)

The convertible bonds recognised in the balance sheet as at 31 December 2006 were as follows:

	Company and its Subsidiaries	
	2006	2005
Liability component at beginning of the year	**1,098,758**	1,078,027
Interest expense	**57,649**	57,671
Interest payments	**(9,233)**	(9,443)
Exchange rate adjustment	**(35,364)**	(27,497)
Liability component at end of the year	**1,111,810**	1,098,758

The carrying amount of the liability component as at 31 December 2006 of the convertible bonds approximated its fair value.

Interest expense on the bonds is calculated on the effective yield basis of 5.51% (2005 – 5.51%) per annum by applying the effective interest rate for an equivalent non-convertible bonds to the liability component of the convertible bond after considering the effect of issuance cost.

22. Deferred Income

The Company and its Subsidiaries received government grants from local environmental protection authorities for undertaking approved environmental protection projects. Amortisation of deferred income for the year amounted to Rmb497,144 (2005: Nil).

(All amounts expressed in thousands of Rmb unless otherwise stated)

23. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprised:

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Construction costs and deposits payable to contractors	**5,393,189**	3,231,715	**1,109,027**	1,083,040
Fuel and material costs payable	**1,500,801**	927,648	**578,692**	511,109
Salary and welfare payable	**147,078**	93,669	**88,846**	79,950
Interest rate swap liability	**12,766**	69,079	**–**	–
Interest payable	**137,480**	62,780	**27,957**	12,653
Assets acquisition payable	**50,546**	–	**–**	–
Others	**406,589**	173,665	**243,089**	98,392
	7,648,449	4,558,556	**2,047,611**	1,785,144

As at 31 December 2006, other than certain deposits for construction which were aged between two and three years, substantially all accounts payable were aged within one year.

As at 31 December 2006, the notional principal amount of the outstanding interest rate swap contract of Tuoketuo Power Company was USD200,615,486 (31 December 2005 – USD219,675,000), and the fixed rate and floating rate were 5.15% (31 December 2005 – 5.15%) and 5.61% (31 December 2005 – 3.82%) (LIBOR offered by British Bankers' Association on 13 July 2006), respectively.

24. Other Current Liabilities

	Company and its Subsidiaries	Company
	2006	**2006**
Short-term bonds	1,000,000	1,000,000

Other current liabilities represented short-term bonds issued by the Company on 15 September 2006 at par value with an interest at 3.59% per annum and a maturity date within one year. There are no pledges or guarantees on the bonds.

25. Employee Benefits

Retirement benefits

The Company and its Subsidiaries are required to make specific contributions to the state-sponsored retirement plan at a rate of 18%-20% (2005 – 20%) of the specified salaries of the PRC employees. The PRC government is responsible for the pension liability to the retired employees. The employees of the Company and its Subsidiaries are entitled to a monthly pension upon their retirements.

In addition, the Company and its Subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees of the Company and its Subsidiaries have to make a specified contribution based on the number of working years of the employees. The Company and its Subsidiaries are required to make a contribution equal to 2 times of the staff's contributions. Moreover, the Company and its Subsidiaries may, at their discretion, provide additional contributions to the retirement fund depending on the operating results of the year. The employees will receive the total contributions, and any returns thereon, upon retirement.

The total retirement cost incurred by the Company and its Subsidiaries during the year ended 31 December 2006 pursuant to these arrangements amounted to approximately Rmb109,371,000 (2005 – Rmb130,315,000).

Housing benefits

Apart from the housing benefits and monetary subsidies (Note 10), in accordance with the PRC housing reform regulations, the Company and its Subsidiaries are required to make contributions to the state-sponsored housing fund at rate ranging from 10% to 20% (2005 – 10% to 20%) of the specified salary amounts of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company and its Subsidiaries' contributions out of their salaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Company and its Subsidiaries have no further obligations for housing benefits beyond the above contributions made. For the year ended 31 December 2006, the Company and its Subsidiaries provided approximately Rmb87,610,000 (2005 – Rmb74,696,000) to the fund.

(All amounts expressed in thousands of Rmb unless otherwise stated)

26. Operating Revenue

	Company and its Subsidiaries	
	2006	2005
Electricity	**24,685,461**	17,892,565
Heat	**122,491**	101,824
Others	**27,266**	–
	24,835,218	17,994,389

Pursuant to the Power Purchase Agreements entered into between the Company and its Subsidiaries and State Grid Corporation of China ("SGCC") and the regional or provincial grid companies, the Company and its Subsidiaries are required to sell their entire net generation of electricity to these grid companies at an approved tariff rate. For the years ended 31 December 2006 and 2005, all of the electricity generated by the Company and its Subsidiaries was sold to SGCC and regional or provincial grid companies.

27. Operating Profit

Operating profit was determined after charging (crediting) the following:

	2006	2005
Loss on disposals of property, plant and equipment	**1,269**	39,177
Personnel expenses		
– Wages	**796,662**	716,376
– Retirement benefits	**105,808**	126,456
– Staff housing benefits	**151,606**	128,271
– Other staff costs	**182,404**	221,582
Depreciation	**4,126,842**	2,782,471
– Capitalised as construction-in-progress	**17,571**	13,534
– Included as operating expenses	**4,107,630**	2,767,528
– Included as other operating expenses	**1,641**	1,409
Auditors' remuneration	**13,044**	6,000
Cost of inventories		
– Fuel	**10,663,815**	7,531,789
– Spare parts and consumable supplies	**164,827**	120,569
Operating lease		
– Buildings	**13,516**	17,597
Dividend income	**(28,091)**	(45,298)
Donation	**73,702**	66,000
Gain on disposal of available-for-sale investment	**–**	(36,285)

(All amounts expressed in thousands of Rmb unless otherwise stated)

28. Finance Costs

	2006	2005
Interest expense on:		
Short-term bank loans	**364,060**	398,236
Short-term loans from Datang Finance	**44,793**	34,773
Long-term bank loans		
– wholly repayable within five years	**173,200**	167,353
– repayable beyond five years	**1,784,640**	900,891
Other long-term loans		
– wholly repayable within five years	**5,122**	–
– repayable beyond five years	**84,512**	125,529
Convertible bonds	**57,649**	57,671
	2,513,976	1,684,453
Less: amount capitalised in property, plant and equipment	**(1,014,377)**	(893,358)
	1,499,599	791,095
Exchange gain, net	**(144,489)**	(97,285)
Fair value gain on an interest rate swap *	**(23,647)**	(18,316)
Other	**27,250**	–
	1,358,713	675,494

* To hedge against its interest rate risk on long-term loans, Tuoketuo Power Company has entered into an interest rate swap, which is carried at fair value. However, since the swap does not qualify as an effective hedge under IAS 39, the change in its fair value is included in the income statement.

(All amounts expressed in thousands of Rmb unless otherwise stated)

29. Taxation

	2006	2005
Current income tax	**1,119,547**	859,880
Deferred income tax	**(38,291)**	(46,586)
Tax charge	**1,081,256**	813,294

The statutory income tax is assessed on an individual entity basis, based on the results of operations of each of the Company and its Subsidiaries. The commencement dates of the tax holiday period of each power plant are individually determined. The income tax charges are based on assessable profit for the year and after considering deferred taxation. Except for Tuoketuo Power Company, Liancheng Power Company, Honghe Power Company, Lixianjiang Hydropower Company, Nalan Hydropower Company and Datang Hong Kong, the applicable PRC enterprise income tax rate for the Company and its Subsidiaries is 33%.

Pursuant to document Guo Ban Fa [2001] 73 issued by State Council of PRC and document Cai Shui [2001] 202 issued by the State Administration of Taxation of PRC, Tuoketuo Power Company, Liancheng Power Company, Honghe Power Company, Lixianjiang Hydropower Company and Nalan Hydropower Company, being enterprises set up in the western area of the PRC and engaged in a business encouraged by the government, have been granted a tax concession to pay PRC income tax at a preferential rate of 15% from 2001 to 2010.

As newly set up domestic invested enterprises engaged in power generation in the western area of the PRC, Tuoketuo Power Company, Liancheng Power Company and Nalan Hydropower Company are exempted from PRC enterprise income tax during the first and second years of operation and have been granted a tax concession to pay PRC enterprise income tax at 50% of the preferential rate from the third to fifth year of operation.

Tuoketuo Power Company started commercial operation in 2003. The applicable PRC enterprise income tax rates approved by the local tax authority in 2005 and 2006 are 0% and 7.5% respectively.

Liancheng Power Company started commercial operation in 2005. The applicable PRC enterprise income tax rate approved by the local tax authority in 2005 and 2006 are 0%.

Nalan Power Company started commercial operation in 2006. The applicable PRC enterprise income tax rate approved by the local tax authority in 2006 is 0%.

Honghe Power Company started commercial operation in 2006. The applicable PRC enterprise income tax rate approved by the local tax authority in 2006 is 15%.

Lixianjiang Power Company started commercial operation in 2006. The applicable PRC enterprise income tax rate approved by the local tax authority in 2006 is 15%.

Datang Hong Kong's enterprise income tax rate is 17.5%.

(All amounts expressed in thousands of Rmb unless otherwise stated)

29. Taxation (Cont'd)

(a) The taxation of the Company and its Subsidiaries differs from the theoretical amount that would arise by the statutory tax rate in the PRC. The reconciliation is shown as follows:

	2006	2005
Profit before taxation	**4,663,609**	3,862,924
Tax computed at the statutory tax rate of 33%	**1,538,991**	1,274,765
(Deduct)/Add: Tax effect of additionally deductible items and non deductible items, net	**(13,536)**	11,832
Less: Preferential tax rate impact on the income of subsidiaries	**(444,199)**	(473,303)
Tax charge	**1,081,256**	813,294

(b) The movement of deferred income tax assets during the year is as follows:

	Company and its Subsidiaries					
	2006					2005
	Preliminary expenses	**Depreciation**	**Fair value of an interest rate swap**	**Deductible operating loss**	**Total**	Total
Beginning of year	**58,436**	**35,135**	**21,777**	**3,955**	**119,303**	75,547
Charged/(Credited) to income statement	**(23,988)**	**–**	**(2,412)**	**50,066**	**23,666**	43,756
End of year	**34,448**	**35,135**	**19,365**	**54,021**	**142,969**	119,303

	Company	
	2006	2005
Preliminary expenses		
Beginning of year	**19,604**	4,859
(Credited)/Charged to income statement	**(19,604)**	14,745
End of year	**–**	19,604

(All amounts expressed in thousands of Rmb unless otherwise stated)

29. Taxation (Cont'd)

(c) The movement in deferred income tax liabilities during the year is as follows:

Company and its Subsidiaries

	2006					2005
	Deferred housing benefits	**Capitalised borrowing costs**	**Convertible bond**	**Fair value gain in equity**	**Total**	Total
Beginning of year	**4,104**	**100,432**	**47,962**	**–**	**152,498**	155,328
Charged/(Credited) to income statement	**(607)**	**3,670**	**(17,688)**	**–**	**(14,625)**	(2,830)
Charged to equity	**–**	**–**	**–**	**283,809**	**283,809**	
End of year	**3,497**	**104,102**	**30,274**	**283,809**	**421,682**	152,398

Company

	2006					2005
	Deferred housing benefits	**Capitalised borrowing costs**	**Convertible bond**	**Fair value gain in equity**	**Total**	Total
Beginning of year	**4,104**	**66,247**	**47,962**	**–**	**118,313**	118,177
Charged/(Credited) to income statement	**(129)**	**6,800**	**(17,688)**	**–**	**(11,017)**	136
Charged to equity	**–**	**–**	**–**	**283,809**	**283,809**	
End of year	**3,975**	**73,047**	**30,274**	**283,809**	**391,105**	118,313

(All amounts expressed in thousands of Rmb unless otherwise stated)

29. Taxation (Cont'd)

The amount of deferred income tax assets and deferred income tax liabilities shown in the consolidated balance sheets include the following:

	Company and its Subsidiaries	
	2006	2005
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**85,550**	66,537
– Deferred income tax assets to be recovered within 12 months	**57,419**	52,766
	142,969	119,303
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**400,654**	126,824
– Deferred income tax liabilities to be settled within 12 months	**21,028**	25,674
	421,682	152,498

The amount of deferred income tax assets and deferred income tax liabilities shown in the company balance sheets include the following:

	Company	
	2006	2005
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**–**	–
– Deferred income tax assets to be recovered within 12 months	**–**	19,604
	–	19,604
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**370,965**	22,547
– Deferred income tax liabilities to be settled within 12 months	**20,140**	95,766
	391,105	118,313

(All amounts expressed in thousands of Rmb unless otherwise stated)

30. Related Party Transactions

(i) The related parties of the Company and its Subsidiaries are as follows:

Names of related parties	**Nature of relationship**
Related parties in which the Company has no equity interest	
China Datang	Substantial Shareholder
Tianjin Jinneng	Shareholder
Beijing Energy Investment Company	Shareholder
Hebei Construction Investment Company	Shareholder
Other State-owned Enterprises	Related parties of the Company
Related parties in which the Company has equity interest	
NCEPR	Associate
Datang Texin	Associate
Daba Power Company	Associate
Tashan Coal Mine	Associate
Datang Finance	Associate

(ii) The following is a summary of the major related party transactions undertaken by the Company and its Subsidiaries during the year:

	Note	**2006**	2005
Ash disposal fee to China Datang	(a)	**57,892**	57,892
Rental fee to China Datang	(b)	**7,228**	7,228
Technical supervision, assistance and testing service fee to NCEPR	(c)	**53,626**	49,174
Heat revenue from Datang Texin	(d)	**43,767**	34,833
Fuel management fee to China Datang	(e)	**5,151**	5,229
Sales of a project to China Datang	(f)	**–**	210,615
Acquisition of Tangshan Power Plant from China Datang	(g)	**–**	157,000
Interest expense to Datang Finance	(h)	**49,915**	263
Interest expense to Tianjin Jinneng	(i)	**99**	–

30. Related Party Transactions (Cont'd)

(ii) The following is a summary of the major related party transactions undertaken by the Company and its Subsidiaries during the year: (Cont'd)

(a) The ash disposal fee was determined based on ash disposal operating costs, taxes, depreciation of ash yards and a profit margin at 5% to 10% of the total costs incurred by China Datang.

(b) The Company has leased buildings of 141,671 (2005 – 141,671) square metres from China Datang for an annual rental rate of approximately Rmb7 million in 2006 (2005 – Rmb7 million).

(c) NCEPR provides technical supervision, assistance and testing services to the Company and its Subsidiaries in relation to the power generation equipment and facilities. Pursuant to the Technical Supervision Services Contract, such services are charged at a pre-determined rate based on the installed capacity of the Company and its Subsidiaries.

(d) Part of the Company's sales of heat for the year was made to Datang Texin. As at 31 December 2006, the balance due from Datang Texin amounted to Rmb44,456,000 (2005 – Rmb10,117,000), and was unsecured, non-interest bearing and included in accounts receivable.

(e) During 2006 and 2005, China Datang provided fuel management and developing services to the Company. These services were charged at Rmb0.30 (2005 – Rmb0.30) per ton of coal purchased. As at 31 December 2006, there was no balance due to China Datang (2005 – Nil).

(f) Based on the agreement signed with China Datang on 24 August 2005, the Company transferred an office project to China Datang. The transfer price was approximately Rmb210,615,000, which represented the costs incurred by the Company in this project.

(g) In 2004, Tangshan Thermal Power Company, a subsidiary of the Company and China Datang entered into an agreement under which Tangshan Thermal Power Company agreed to acquire the net assets of Tangshan Power Plant from China Datang. After obtaining all necessary government approvals on the transaction and the payment of the consideration of Rmb157 million, the above acquisition became effective on 20 June 2005.

(h) As discussed in Note 19(b) & 20, as at 31 December 2006, the Company and its Subsidiaries had a loan payable to Datang Finance totalling approximately Rmb951 million (31 December 2005-Rmb187 million).

(i) As discussed in Note 20, as at 31 December 2006, Tianjin Jinneng provided a loan of Rmb50,000,000 to Shentou Power Company, the Company's subsidiary, through Shenzhen Development Bank Tianjin Beichen Branch (2005: Nil).

30. Related Party Transactions (Cont'd)

(ii) The following is a summary of the major related party transactions undertaken by the Company and its Subsidiaries during the year: (Cont'd)

(j) As discussed in Note 19 (b) above, NCG had provided guarantees to the Company and its Subsidiaries' loans totalling approximately Rmb 922 million as at 31 December 2006 (31 December 2005 – Rmb1,460 million). Pursuant to the Entities Transfer Agreement, China Datang will assume all of NCG's obligations in relation to the guarantees provided for by the Company and its Subsidiaries. The legal procedures of this arrangement were still in process as at 31 December 2006.

(k) As at 31 December 2006, the Company had provided guarantees for loans to its associates, Datang Texin, Daba Power Company, Tashan Coal Mine and Tashan Power Generation according to the Company's shareholding percentage in its associates totalling approximately Rmb1,085 million (31 December 2005 – Rmb905 million).

(l) The PRC government controls a significant portion of the assets and a substantial number of entities in the PRC. The PRC government is the Company's ultimate controlling party. Apart from the transactions disclosed above, the Company and its Subsidiaries also conduct a majority of its business with state-controlled entities.

Many state-controlled entities have a multi-layered and complicated corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that the Company and its Subsidiaries have provided meaningful disclosure of related party transactions, with inclusion of the following disclosures of material transactions and balances with other state-controlled entities.

(All amounts expressed in thousands of Rmb unless otherwise stated)

30. Related Party Transactions (Cont'd)

(ii) The following is a summary of the major related party transactions undertaken by the Company and its Subsidiaries during the year: (Cont'd)

	2006	2005
Transactions with other state-controlled entities		
Sales of electricity	**24,685,461**	17,892,564
Sales of heat	**122,491**	101,825
Interest income from state-owned banks/non-bank financial institution	**24,674**	40,051
Interest expense on loans borrowed from state-owned banks/ non-bank financial institution	**2,321,801**	1,626,519
Purchases of property, plant and equipment (including construction-in-progress)	**23,452,082**	14,004,560
Purchases of fuel	**8,906,505**	5,962,917
Purchases of spare parts and consumable supplies	**209,587**	497,662
Drawdown of short-term loans from state-owned banks/ non-bank financial institution	**16,909,037**	13,969,896
Repayments of short-term loans from state-owned banks/ non-bank financial institution	**13,592,821**	14,419,176
Drawdown of long-term loans borrowed from state-owned banks/non-bank financial institution	**17,174,776**	16,813,938
Repayments of long-term loans borrowed from state-owned banks/non-bank financial institution	**7,828,064**	4,162,392
Other charges		
– Repairs and maintenance services	**285,731**	93,100
– Transportation expenses	**46,274**	900,837

(All amounts expressed in thousands of Rmb unless otherwise stated)

30. Related Party Transactions (Cont'd)

(ii) The following is a summary of the major related party transactions undertaken by the Company and its Subsidiaries during the year: (Cont'd)

Assets and liabilities with other state-controlled entities

	2006		2005	
	Company and its Subsidiaries	**Company**	Company and its Subsidiaries	Company
Short-term bank deposits and cash at bank in state-owned banks/ non-bank financial institution	**4,450,799**	**4,104,810**	1,028,403	781,774
Prepayments for purchase of property, plant and equipment	**1,239,915**	**1,031,587**	53,103	47,690
Accounts payable for purchase of fuel	**635,286**	**296,849**	670,281	383,507
Accounts payable for purchase of spare parts and consumable supplies	**94,968**	**19,897**	190,997	81,350
Accounts payable for purchase of property, plant and equipment	**510,033**	**68,823**	581,653	417,667
Balance of short-term loans borrowed from state-owned banks/non-bank financial institution	**9,250,496**	**2,100,000**	5,530,280	2,000,000
Balance of long-term loans borrowed from state-owned banks/non-bank financial institution (including current portion)	**41,680,305**	**8,000,000**	30,012,563	5,645,000

	2006	2005
Guaranteed loans		
Loans guaranteed by		
– NCG	**921,648**	1,459,923
– Other state-controlled entities	**3,008,081**	3,848,190

(All amounts expressed in thousands of Rmb unless otherwise stated)

30. Related Party Transactions (Cont'd)

(iii) Key Management Compensation

	2006	2005
Basic salaries and allowances	**693**	869
Bonus	**1,834**	1,678
Retirement benefits	**215**	259
Other benefits	**1,232**	875

(All amounts expressed in thousands of Rmb unless otherwise stated)

31. Directors', Senior Managements' and Supervisors' Emoluments

(a) Details of directors' and supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2006 is set out below:

Directors and Supervisors	Fees	Basic Salaries and Allowances	Bonus	Retirement benefits	Others	Total
Directors:						
Zhai Ruoyu	–	–	–	–	–	–
Zhang Yi	–	173	384	46	348	951
Yang Hongming	–	158	367	43	313	881
Hu Shengmu	–	–	–	–	–	–
Fang Qinghai	–	–	–	–	–	–
Liu Hiaxia	–	–	–	–	–	–
Guan Tiangang	–	–	–	–	–	–
Su Tiegang	–	–	–	–	–	–
Ye Yonghui	–	–	–	–	–	–
Tong Yunshang	–	–	–	–	–	–
Xie Songlin	–	–	–	–	–	–
Xu Daping	–	–	–	–	–	–
Yu Changchun	–	–	–	–	–	–
Liu Chaoan	–	–	–	–	–	–
Xia Qing	–	–	–	–	–	–
Sub-total	–	331	751	89	661	1,832
Supervisors:						
Zhang Jie	–	158	367	43	208	776
Zhang Wantuo	–	–	–	–	–	–
Fu Guoqiang	–	–	–	–	–	–
Shi Xiaofan	–	155	342	42	263	802
Sub-total	–	313	709	85	471	1,578
Total	–	644	1,460	174	1,132	3,410

(All amounts expressed in thousands of Rmb unless otherwise stated)

31. Directors', Senior Managements' and Supervisors' Emoluments (Cont'd)

(a) Details of directors' and supervisors' emoluments (Cont'd)

The remuneration of every Director and Supervisor for the year ended 31 December 2005 is set out below:

Directors and Supervisors	Fees	Basic Salaries and Allowances	Bonus	Retirement benefits	Others	Total
Directors:						
Zhai Ruoyu	–	–	–	–	–	–
Zhang Yi	–	190	345	54	207	796
Yang Hongming	–	174	329	52	190	745
Hu Shengmu	–	–	–	–	–	–
Fang Qinghai	–	–	–	–	–	–
Liu Hiaxia	–	–	–	–	–	–
Guan Tiangang	–	–	–	–	–	–
Su Tiegang	–	–	–	–	–	–
Ye Yonghui	–	–	–	–	–	–
Tong Yunshang	–	–	–	–	–	–
Xie Songlin	–	–	–	–	–	–
Xu Daping	–	–	–	–	–	–
Yu Changchun	–	–	–	–	–	–
Liu Chaoan	–	–	–	–	–	–
Xia Qing	–	–	–	–	–	–
Sub-total	–	364	674	106	397	1,541
Supervisors:						
Zhang Jie	–	174	329	52	173	728
Zhang Wantuo	–	–	–	–	–	–
Fu Guoqiang	–	–	–	–	–	–
Shi Xiaofan	–	154	295	51	151	651
Sub-total	–	328	624	103	324	1,379
Total	–	692	1,298	209	721	2,920

There is no special bonus for directors and supervisors for the year ended 31 December 2006 (2005 – Nil).

No director or supervisor had waived or agreed to waive any emoluments for the year ended 31 December 2006 (2005 – Nil).

(All amounts expressed in thousands of Rmb unless otherwise stated)

31. Directors', Senior Managements' and Supervisors' Emoluments (Cont'd)

(b) Details of emoluments paid to the five highest paid individuals including directors and senior management

The five individuals whose emoluments were the highest for the year include two (2005: two) directors. The emoluments of the five individuals whose emoluments were the highest are as followings:

	2006	2005
Basic salaries and allowances	**802**	886
Bonus	**1,827**	1,662
Retirement benefits	**216**	261
Other benefits	**1,370**	1,110

For the years ended 31 December 2006 and 2005, no emoluments were paid to directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

For the years ended 31 December 2006 and 2005, the annual emoluments paid to each of the directors, supervisors and the five highest paid individuals did not exceed HKD1,000,000.

32. Dividends

On 30 March 2007, the Board of Directors proposed dividends amounted totalling approximately Rmb1,348,714,000. Based on the total 5,753,555,774 shares as at 30 March 2007 (as at 31 December 2006, the authorised share capital of the Company was divided into 5,662,849,000 shares, and during the period from 1 January 2007 to the date of 30 March 2007, some holders of the convertible bonds exercised their conversion rights and increased the number of H shares of the Company by 90,706,774 shares), the proposed dividend per share approximates Rmb0.234. In addition, the Board of Directors proposed a share capital expansion by issuing 10 bonus shares for every 10 shares held, based on the total number of registered shares at 30 March 2007 of 5,753,555,774 shares, and to transfer Rmb5,753,555,774 from capital surplus into share capital. This proposed dividend is subject to the approval of the shareholders at the annual general meeting.

On 27 March 2006, the Board of Directors proposed a dividend of Rmb0.228 per share, totalling approximately Rmb1,177,130,000 for the year ended 31 December 2005. These proposals are subject to approval by the shareholders in their general meeting dated 20 June 2006.

(All amounts expressed in thousands of Rmb unless otherwise stated)

33. Earnings Per Share And Dividend Per Share

The calculation of basic earnings per share for the year ended 31 December 2006 was based on the profit attributable to equity holders of the Company of approximately Rmb2,777,781,000 (2005 – Rmb2,351,056,000) and on the weighted average number of 5,187,507,000 shares (2005 – 5,162,849,000 shares) in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expenses less the tax effect.

	2006	2005
Profit attributable to equity holders of Company (Rmb ’000)	**2,777,781**	2,351,056
Interest expense on convertible bonds (net of tax) (Rmb ’000)	**38,625**	38,639
Profit used to determine diluted earnings per share (Rmb ’000)	**2,816,406**	2,389,695
Weighted average number of ordinary shares in issue (shares in thousand)	**5,187,507**	5,162,849
Adjustments for assumed conversion of convertible debt (shares in thousand) *	**222,127**	222,127
Weighted average number of ordinary shares for diluted earnings per share (shares in thousand)	**5,409,634**	5,384,976
Diluted earnings per share (Rmb)*	**0.52**	0.44

* As at 31 December 2006 and 2005, the conversion price was HKD5.4 per share.

Proposed dividends per share for the year ended 31 December 2006 were calculated based on the proposed dividends of approximately Rmb 1,348,714,000 (2005 – Rmb1,177,130,000) divided by the number of 5,753,555,774 shares in issue as at 30 March 2007 (Note 32)(31 December 2006 – 5,662,849,000 shares, 31 December 2005 – 5,162,849,000 shares).

(All amounts expressed in thousands of Rmb unless otherwise stated)

34. Notes To Statement Of Cash Flows

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

	2006	2005
Profit before taxation	**4,663,609**	3,862,924
Adjustments for:		
Depreciation of property, plant and equipment	**4,109,271**	2,768,937
Amortization land use right	**9,471**	5,160
Fair value gain on an interest rate swap	**(23,647)**	(18,316)
Amortisation of goodwill	**–**	–
Amortisation of staff housing benefits	**68,355**	56,618
Loss on disposals of property, plant and equipment	**1,269**	39,177
Gain on disposals of available-for-sale investments	**–**	(36,285)
Deferred expense	**(1,325)**	–
Interest income	**(24,674)**	(40,051)
Interest expenses	**1,499,599**	791,095
Exchange gain	**(144,489)**	(97,285)
Dividend income	**(28,091)**	(45,298)
Share of loss from associates	**(9,458)**	1,273
Operating profit before working capital changes	**10,119,890**	7,287,949
Increase in current assets:		
Inventories	**(146,168)**	(302,052)
Other receivables and current assets	**(356,541)**	(73,364)
Accounts receivable	**(2,037,781)**	(93,910)
Notes receivable	**63,303**	(64,829)
Increase/(decrease) in current liabilities:	**–**	–
Accounts payable and accrued liabilities	**756,103**	267,538
Taxes payable	**107,937**	(230,892)
Cash provided by operations	**8,506,743**	6,790,440

(b) Significant non-cash transactions

The Company and its Subsidiaries incurred additional payables of approximately Rmb2,133 million to contractors and equipment suppliers for construction-in-progress for the year ended 31 December 2006 (2005 – Rmb941 million).

(All amounts expressed in thousands of Rmb unless otherwise stated)

34. Notes To Statement Of Cash Flows (Cont'd)

(c) Undrawn borrowing facilities

The undrawn borrowing facilities in Rmb and USD available to settle the Company's capital commitments for investments in subsidiaries and associates and construction of electricity utility plants as at 31 December 2006, subject to certain conditions, were as follows.

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Expiring within one year	**19,216,590**	30,792,800	**19,216,590**	30,779,800
Expiring beyond one year	**46,574,682**	32,340,070	**46,574,682**	32,340,070
	65,791,272	63,132,870	**65,791,272**	63,119,870

35. Acquisition Of Shayu Railway Company

	Acquiree's carrying value*	Fair value*
Cash and cash equivalents	2,004	2,004
Inventories and other current assets	6,646	6,646
Property, plant and equipment	470,853	529,138
Accounts payable and accrued liabilities	(194,690)	(194,690)
Net assets	284,813	343,098
Minority interests	(53,346)	(64,262)
Net assets acquired	231,467	278,836
Add: Goodwill		9,883
Total consideration paid		288,719
Less: Cash inflow from the acquiree		(2,004)
Payment on behalf of the acquiree in 2005		(5,750)
Net cash outflow on acquisition		280,965

* Since Yuzhou Energy is proportionately consolidated by the Company, all the amounts presented in this table represent 50% of the amounts recorded in Yuzhou Energy's financial statements. Yuzhou Energy entered into agreements with Kailuan (Group) Company Limited, Yuzhou Mining Company Limited and Zhangjiakou Construction and Investment Company Limited, under which Yuzhou Energy acquired 81.27% interest in Shayu Railway Company, with a total consideration of Rmb577 million. This acquisition became effective on 1 January 2006.

(All amounts expressed in thousands of Rmb unless otherwise stated)

36. Commitments

(a) Capital commitments

As at 31 December 2006, the Company had capital commitments related to investments in subsidiaries and associates amounted to Rmb12,906 million (31 December 2005 – Rmb7,084 million). In addition, capital commitments of the Company and its Subsidiaries in relation to the development, construction and renovation projects not provided for in the balance sheets were as follows:

	Company and its Subsidiaries		Company	
	2006	2005	**2006**	2005
Authorised and contracted for	**21,972,218**	22,229,222	**9,502,768**	4,503,082
Authorised but not contracted for	**19,484,254**	6,796,540	**–**	1,361,598
	41,456,472	29,025,762	**9,502,768**	5,864,680

A substantial portion of the above capital commitment is in relation to a coal mining project for which the Company and its Subsidiaries have not yet obtained the relevant mining license. If the mining license is not obtained at the end of the exploration work, there will be no capital commitment.

(b) Operating lease commitments

Operating lease commitments extending to November 2016 in relation to buildings were as follows:

	Company and its Subsidiaries	
	2006	2005
Within one year	**10,372**	13,505
Between one to five years	**28,912**	32,012
Over five years	**28,912**	43,302
	68,196	88,819

(All amounts expressed in thousands of Rmb unless otherwise stated)

37. Financial Guarantees

	Company and its Subsidiaries As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
Guarantees for loan facilities				
– granted to associates	**1,084,850**	905,350	**1,084,850**	905,350
– granted to a jointly controlled entity	**–**	–	**291,500**	65,000
– granted to subsidiaries	**–**	–	**7,751,141**	7,352,953
	1,084,850	905,350	**9,127,491**	8,323,303

Based on historical experience, no claims have been made against the Company and its Subsidiaries since the dates of granting the financial guarantees described above.

38. Subsequent Event

(a) During the period from 1 January 2007 to the date of this report, some holders of the convertible bonds have exercised their conversion rights and increased the number of H Shares of the Company by 90,706,774 shares.

(b) The Company entered into an Investment Agreement with Beijing Energy Investment (Group) Company Limited (later replaced by Beijing Jingneng International Energy Company Limited), China Datang Corporation, and Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited to establish Inner Mongolia Datang International Tuoketuo No.2 Power Generation Company Limited for the purposes of planning, constructing and operating the Tuoketuo Power Plant Project. The total investment amount of the Tuoketuo Power Plant Project is approximately RMB10,193,530,000, subject to the final approval by the relevant government authorities in the PRC. The final registered capital of Tuoketuo No. 2 Power Co. will account for approximately 20% of the total investment amount of the project, i.e. approximately Rmb2,038,710,000. According to the share of equity to be held by the Company, the Company will inject capital in the form of cash which accounted for 40% of the final registered capital. As at the reporting date, the Company has invested Rmb40 million in Inner Mongolia Datang International Tuoketuo No.2 Power Generation Company Limited.

(c) On 6 March 2007, the Company entered into a share transfer agreement with Inner Mongolia Huineng Coal and Power Group Company (“Inner Mongolia Huineng”) to acquire 40% of the equity interest in Inner Mongolia Huineng Datang Changtan Coal Company Limited. The total consideration is Rmb1,020 million. As at the reporting date, no payment has been made by the Company.

38. Subsequent Event (Cont'd)

(d) On 16 March 2007, the National People's Congress approved the *Corporate Income Tax Law of the People's Republic of China* (the new "CIT Law"), The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.

39. Additional Financial Information

As at 31 December 2006, net current liabilities and total assets less current liabilities of the Company and its Subsidiaries amounted to approximately Rmb12,104 million (31 December 2005 – Rmb9,433 million) and Rmb69,281 million (31 December 2005 – Rmb51,413 million), respectively.

40. Reclassification

Certain comparative figures have been reclassified to confirm to the current year presentation.