

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

1. Company Background

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 on 21 March 1997. On 9 September 2003, the Company issued convertible bonds at a nominal value of USD 153.8 million (equals to approximately Rmb 1.273 million) on the Luxembourg Stock Exchange. The Company listed its A Shares on the Shanghai Stock Exchange on 20 December 2006.

The principal activity of the Company and its Subsidiaries and jointly controlled entity (the “Company and its Subsidiaries”) is the generation and sale of electricity power in the PRC.

As at 31 December 2006, the Company owns 25 subsidiaries, 1 jointly controlled entity and 11 associates, for details please refer to Notes 4 and 5 (6).

As at 31 December 2006, the main shareholders and their share of interests in the Company is as follows:

Name of shareholder	Share of interest
China Datang Corporation (“China Datang”)*	34.96%
Beijing Energy Investment (Group) Company	11.86%
Hebei Construction Investment Company	11.86%
Tianjin Jinneng Investment Company (“Tianjin Jinneng”)	10.70%
Other holders of A Shares	5.35%
Holders of H Shares	25.27%
	<hr/>
	100.00%

* The original shareholder was North China Power Group (which has changed its name to North China Grid Company Limited, “NCG”). On 15 January 2004, NCG and China Datang entered into a share transfer agreement, pursuant to which the interest in the Company was transferred to China Datang from NCG without compensation.

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

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements

(1) Basis of preparation

These financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and “Accounting Systems for Business Enterprises” promulgated by the PRC government.

During 2006, 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 Rmb12.08 billion (31 December 2005 – Rmb9.48 billion). As at 31 December 2006, the Company and its Subsidiaries had significant undrawn borrowing facilities amounting to approximately Rmb65.79 billion (31 December 2005 – Rmb63.13 billion) (Note 5(16)(d)). The Company may also be able to refinance and/or restructure certain short-term loans into long-term loans and will 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) Accounting year

The accounting year of the Company and its Subsidiaries starts on 1 January and ends on 31 December.

(3) Recording currency

Except Datang International (Hong Kong) Limited (“Datang Hong Kong”) which uses Hong Kong Dollars (“HKD”) as its recording currency, the Company and its Subsidiaries use the Renminbi (“Rmb”) as their recording currency. These financial statements are prepared in thousands of Rmb.

(4) Basis of accounting and measurement bases

The Company and its Subsidiaries follow the accrual basis of accounting. Assets are initially recorded at actual cost; if they are subsequently impaired, provision for impairment is made accordingly.

(5) Foreign currency translation

Foreign currency transactions are translated into and recorded using Rmb at the exchange rates stipulated by People’s Bank of China (the “stipulated exchange rates”) at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the stipulated exchange rates at the balance sheet date. Exchange differences arising from translations are taken to the profit and loss account, except for those attributable to foreign currency borrowings that have been specifically taken out for the construction of fixed assets, which are capitalised as part of the fixed asset costs. Exchange differences arising in the pre-operating period are recorded as long-term prepaid expenses (Note 2 (15)).

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(Prepared in accordance with PRC Accounting Standard)

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

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(6) Translation of the financial statements originally prepared in a foreign currency

Assets and liabilities of subsidiaries and associates are translated at the stipulated exchange rates at the balance sheet date; export for retained earnings. Equity balances, other than retained earnings, are translated at the stipulated exchange rates at the transaction dates; retained earnings are presented based on the amount disclosed in the translated statement of income appropriation; transactions recorded in the income statement and the statement of income appropriation are translated at the average exchange rates of the year, any exchange differences are presented as foreign currency translation differences in the balance sheet. Cashflows are translated at the average exchange rate for the year. The effect of exchange differences arising from the translation of cash flows is separately presented in the cash flow statement.

(7) Cash and cash equivalents

For the purpose of the cash flow statement, cash refers to cash on hand and all deposits in banks or non-bank financial institutions. Cash equivalents refers to highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Short-term investments

Short-term investments represent short-term entrusted loans due within one year, and comprise of the principal amounts and the interest accrued according to the interest rate stipulated in the loan contract. If the accrued interests can not be collected on the interest payment date, the accrual of interest ceases and the interest already accrued is reversed. If the amount of outstanding loan principal is higher than the recoverable amount, the excess is provided for as an impairment loss. Should there subsequently be an indication that the carrying value after impairment can be recovered, the previous impairment loss is reversed to the extent not that it does not exceed the total of previously recognised impairment losses.

(9) Receivables and provision for bad debts

Receivables comprise accounts receivable and other receivables. The provision method is used to account for potential bad debts identified by the management. Receivables are presented at actual amounts net of provision for bad debts.

Accounts receivable comprises related-party receivables and receivables from non-related parties ("third-party receivables").

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(9) Receivables and provision for bad debts (Cont'd)

The Company and its Subsidiaries make specific provisions for bad debts on an individual basis for related-party receivables and third-party receivables that are distinctively different from any other receivable in recoverability. A general provision is made for the remaining third-party receivables that have not been specifically provided for based on their ageing, using the following percentages:

Ageing	Provision for bad debts as a percentage of receivables
Within 1 year	0%
Between 1 and 3 years	50%
Over 3 years	100%

Where evidence exists that balances cannot be recovered, for example, the debtor has deregistered, liquidated, in the position of negative equity or with insufficient cashflows, bad debts are recognised and the corresponding provision for bad debts is written off.

(10) Inventories

Inventories include fuel used for power generation as well as materials and supplies for repairs and maintenance. Inventories are stated at the lower of cost and net realisable values.

Inventories are recorded at their acquisition cost. Cost of inventories includes the initial cost of purchase and the transporting expenses incurred in bring the materials to their working locations. Inventories are charged to fuel costs or repairs and maintenance when used, or capitalised as part of the fixed asset cost when installed, using the weighted average method.

Provision for inventory obsolescence is calculated based on the amount by which the cost of one unit of inventory exceeds its net realisable value. The net realisable value is determined based on the estimated selling price less the estimated selling expense in the ordinary course of business.

The Company and its Subsidiaries use a perpetual inventory system.

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

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(11) Long-term investments

Long-term investments are investments excluding short-term investments, which comprise equity investments in subsidiaries, jointly controlled entity, associates and other equity investments that the Company intends to hold for more than one year and other debt investments that are not readily convertible into cash or the Company does not intend to liquidate within one year (excluding one year).

(a) *Equity investments*

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% of the voting rights, or otherwise the Company has the power to govern the financial and operating policies and obtain benefits from the operating activities of these investees. Associates generally represent investees in which the Company or its subsidiaries have an interest of between 20% to 50% of the voting rights or otherwise have significant influence over the financial and operating policies of these investees.

Long-term equity investments are recorded at the actual cost paid for acquisition less cash dividends which have been declared but remained unpaid at the time of acquisition. The Company accounts for long-term equity investments in subsidiaries, jointly controlled entity and associates using the equity method. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When applying the equity method for those long-term equity investments acquired prior to 17 March 2003, the difference between the initial cost of investment and the attributable share of the net assets of the investee is amortised using the straight-line method over ten years. When applying the equity method for those long-term equity investments acquired after 17 March 2003, if the initial cost of investment is less than the attributable share of the net assets of the investee, the difference is recorded in capital surplus. If there is an excess of the initial cost of investment over the attributable share of net assets of the investee, the excess is amortised using the straight-line method over a period of not more than 10 years.

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the year is recognised as investment income or an investment loss and the carrying amount of the investments are adjusted accordingly. Cash dividends declared by an investee are accounted for as a reduction of the carrying amount of the investment upon declaration. Under the cost method, investment income is recognised when the investees declare dividends.

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(11) Long-term investments (Cont'd)

(b) Long-term debt investments

Long-term debt investments are recognised at the actual cost less any interest due but unpaid.

(c) Impairment of long-term investments

If the recoverable amount of an investment is lower than the carrying amount as a result of a continuous decline in market value or adverse changes in operating conditions of the investee, the difference between the recoverable amount and the carrying amount of the investment is recognised as a provision for impairment loss. Recoverable amount is the higher of net selling price and value in use. Net selling price is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting disposal costs. Value in use is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its disposal at the end of its useful life.

When there is an indicator that the attributes of an impairment provision recorded in the prior year have changed, contributing to a recoverable amount larger than its carrying amount, the provision for impairment is reversed to the extent of any provision made in prior years.

(12) Fixed assets and depreciation

Fixed assets are tangible assets that are used in power production or held for management purposes, which have useful lives of more than one year and have a relatively high unit price. Effective from 1 January 2001, when construction takes place on land owned by the Company and its Subsidiaries' and such construction is for their own use, the carrying value of the associated land use rights form part of the cost of buildings recorded within fixed assets.

Purchased or constructed fixed assets are initially recorded at cost. Fixed assets obtained upon reorganisation were initially recorded at their appraisal value approved by relevant stated-owned assets administration authorities.

Fixed assets are depreciated using the straight-line method to write off the cost of the assets to their estimated residual value over their remaining estimated useful lives. If the land use rights associated with a building has a longer estimated useful life than that of the building, the excessive amount is included in the residual value. For those fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based on the adjusted carrying amounts over their remaining useful lives.

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2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(12) Fixed assets and depreciation (Cont'd)

The estimated useful lives, estimated residual value and annual depreciation rates of the fixed assets are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Dam	45	0%	2.22%
Buildings	20-50	0%	2.00%-5.00%
Electric utility plant in service	12-45	0%-3%	2.22%-8.08%
Transportation, office equipment and others	4-10	0%-3%	9.70%-25.00%

When fixed assets are sold, transferred, disposed of or damaged, gains or losses on disposals are determined by comparing the proceeds with the carrying amount of the assets, after adjusting for related taxes and expenses, and are included in non-operating income or expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvements and renovation are capitalised when it is probable that the future economic benefits in excess of the original assessment of performance will flow to the Company and its Subsidiaries. Capitalised expenditure arising from major reconstruction, expansion and improvements are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalised expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

Individual fixed assets for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its Subsidiaries will perform an impairment test on such assets. If the carrying amount of such assets is higher than its recoverable amount, the excess is recognised as an impairment loss.

If there is any indication showing that those factors that led to an impairment provision in prior years have changed, and the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent of the impairment recognised in prior years. The carrying amount of the fixed assets upon reversal of the previous impairment will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(13) Construction-in-progress

Construction-in-progress represents fixed assets under construction or installation, which is recorded at the actual cost. Cost comprises construction and other direct costs, original cost of machinery and equipment, installation and those borrowing costs arising from specific borrowings for the purpose of preparing the assets for their intended use. Construction-in-progress is transferred to the fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

For individual construction-in-progress projects for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its Subsidiaries will perform impairment tests on such assets. If the carrying amount of such assets is higher than recoverable amount, the excess is recognised as an impairment loss. If there is any indication showing those factors that led to an impairment provision in prior years have changed and the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent of the accumulated impairment recognised in prior years.

(14) Intangible assets and amortisation

Intangible assets include mainly land use rights, goodwill and resource use rights.

(a) *Land use rights*

Land use rights acquired through payments of land use fees, are initially recorded at cost and amortised using the straight-line method over the land use rights period of 30 to 50 years. Effective from 1 January 2001, when construction takes place on the land and the construction is for the own use of the Company and its Subsidiaries, the carrying amount of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1 January 2001 and being used in construction projects remain presented in intangible assets and are not reclassified.

(b) *Goodwill*

Goodwill arising from the acquisition of power plants is amortised on the straight-line method over the estimated beneficial period that was determined based on the specific circumstances when the acquisition incurred.

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2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(14) Intangible assets and amortisation (Cont'd)

(c) *Resource use rights*

Resource use rights include road and water resource point use rights, which are recorded at actual cost and amortised on the straight-line method over the estimated useful lives.

(d) *Impairment provision of intangible assets*

For individual intangible assets for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its Subsidiaries will perform an impairment test on such assets. If the carrying amount of such assets is higher than its recoverable amount, the excess is recognised as an impairment loss. If there is any indication showing those factors that led to an impairment provision in prior years has changed, and the recoverable amount of the assets has become larger than its carrying amount, the provision for impairment is reversed to the extent of the impairment recognised in prior years. The increased carrying amount of the intangible assets should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior years.

(15) Long-term deferred expenses

Expenses incurred during the Company and its Subsidiaries' pre-operating period are recorded as long-term prepaid expenses and will be expensed in the first month of commercial operations.

(16) Other long-term assets

Other long-term assets are coal mine exploration costs, which are stated as cost and are reduced to their recoverable amounts should an impairment arise.

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(17) Borrowing costs

Borrowing costs, including interest and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalised as costs of the fixed assets when capital expenditures and borrowing costs are incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalisation of borrowing costs ceases when the assets are ready for their intended use. Borrowing costs incurred thereafter are expensed. Capitalisation of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption period is more than 3 months. These costs should be recognised as expenses for the current period until the acquisition or construction is resumed.

Ancillary costs incurred in connection with the arrangement of specific borrowings before the relevant fixed asset being acquired or constructed is ready for its intended use should be capitalised in the period in which they are incurred. Ancillary costs incurred thereafter should be recognised as an expense in the period in which they are incurred.

The capitalised interest for each accounting period is determined by using the weighted average amount of accumulated expenditure incurred in that period for the acquisition or construction of fixed assets and the weighted average capitalisation rate of the borrowings. The amount of interest capitalised during a period shall not exceed the amount of interest incurred during that period.

Interest incurred in connection with other borrowings are expensed as incurred.

(18) Convertible bonds

Convertible bonds in issue are recognised as a liability based on the actual issue price.

Interest expenses arising from the convertible bonds are accrued in each accounting period. Interest expenses and issue costs are capitalised or expenses depending on the usage of the bond proceeds.

Convertible bonds are treated as normal bonds payable before conversion. When bond holders exercise their conversion rights to convert the bonds into stock, the consequent share capital is calculated based on the number of convertible shares and face value of the stock. The difference between the carrying value of convertible bonds and the converted share capital is recorded as capital surplus.

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2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(19) Government grants

Government grants represent the Company and its Subsidiaries' cash receipts from the environmental protection authorities in relation to the specific construction for environmental protection purpose. Upon completion of such projects, the portion of government grants that forms the cost of the relevant assets is transferred to capital surplus.

(20) Dividend distribution

The cash dividends proposed by the Board of Directors during the period between the balance sheet date and the approval of these financial statements are presented as "proposed cash dividends" in shareholders' equity. Cash dividends appropriation is recognised as a liability in the period in which the proposed dividends are approved by the general meeting of shareholders.

(21) Revenue recognition

Revenue from main operations represents amounts earned from electricity sold and transmitted to the respective provincial or regional grid companies or for heat sold to heat companies, net of Value Added Tax ("VAT"). Operating revenue is recognised upon transmission of electricity and heat to the customers.

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 yield.

Subsidies are recognised when received.

(22) Operating leases

Leases of assets where all the risks and rewards incident to ownership of the assets are not in substance transferred to the lessees are classified as operating leases.

Payments made under operating leases are expensed on a straight-line basis over the period of the leases.

2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements (Cont'd)

(23) Employee social security benefits

The Company and its Subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, established and managed by the local government authorities. Except for the above social security benefits, the Company and its Subsidiaries have no other substantial commitments to employees.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Company and its Subsidiaries are calculated based on certain percentages (33% to 47%) of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are capitalised as construction-in-progress or expensed as incurred.

(24) Accounting for income taxes

The Company and its Subsidiaries account for enterprise and local income taxes using the tax payable method. Tax expense is recognised based on current period taxable income and tax rates.

(25) Consolidation of financial statements

The scope of consolidated financial statements includes the Company, subsidiaries and jointly controlled entity. Such consolidated financial statements are prepared in accordance with CaiKuaiZi[1995] No. 11 "Tentative Regulations for Consolidated Financial Statements", "Accounting System for Business Enterprises" and relevant regulations issued by the Ministry of Finance of the PRC (the "MOF").

The revenue, costs and profit of a subsidiary is consolidated from the date on which control is obtained by the Company and cease to be consolidated once the control is lost. All material intercompany balances, transactions and unrealised gains among the Company and its Subsidiaries are eliminated upon consolidation. Minority interests in the consolidated financial statements represent the portion of the shareholders' equity of the subsidiaries that are not owned by the Company.

The Company combines its share of the jointly controlled entity's assets, liabilities, revenue, expenses, profit and cash flows by proportionate consolidation method. Internal transactions are eliminated proportionately.

When the accounting policies adopted by subsidiaries and jointly controlled entity are not consistent with those adopted by the Company and such inconsistency has material impact on the consolidated financial statements, accounting policies of subsidiaries and jointly controlled entity are adjusted to ensure consistency with the policies adopted by the Company.

When preparing consolidated financial statements, the amount of the Company's investments on subsidiaries using equity method should be offset by the Company's share in subsidiaries' equity. Consolidated difference in value caused by such offsetting is separately shown as "Consolidated difference in value" in long-term investments.

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3. Taxation

(1) Enterprise and local income taxes

Taxable income represents the net value of revenue deducted by costs, expenses and other gains and losses, taking into account adjustments made according to tax regulation. Enterprise and local income taxes are assessed based on taxable income and applicable tax rates. For details of the applicable tax rates of the Company and its Subsidiaries, please refer to Note 5 (14).

(2) VAT

The Company and its Subsidiaries are subject to output VAT levied at 17%, except for heat sales subject to output VAT levied at 13% and the electricity sales of Hebei Datang International Huaze Hydropower Development Company Limited (“Huaze Hydropower Company”) and the electricity and industrial water supply sales of Inner Mongolia Datang International Duolun Hydropower Multiple Development Company Limited (“Duolun Hydropower Company”) are levied at 6%.

Except for Huaze Hydropower Company and Duolun Hydropower Company, the Company and its Subsidiaries’ input VAT on purchase of raw materials, fuel and other production materials can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

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4. Subsidiaries And Jointly Controlled Entity

The Company's subsidiaries, jointly controlled entity of the company and its consolidation scope are detailed as follows:

Name of subsidiaries	Place and date of incorporation	Registered capital	Principal activities	Percentage of equity interest held by the Company directly	Investment contributed by the Company	Included in consolidated financial statements
Inner Mongolia Datang International Tuoketuo Power Generation Company Limited ("Tuoketuo Power Company")*	17 November 1995, Hohhot, Inner Mongolia Autonomous Region	1,714,020	Power generation	60%	1,028,414	Yes
Tianjin Datang International Panshan Power Generation Company Limited ("Panshan Power Company")	6 August 1997, Jixian, Tianjin	831,253	Power generation	75%	623,440	Yes
Huaze Hydropower Company	29 July 1998, Fengning, Hebei Province	59,162	Power generation	90.43%	53,500	Yes
Shanxi Datang International Shentou Power Generation Company Limited ("Shentou Power Company")	8 December 1998, Shuozhou, Shanxi Province	748,520	Power generation	60%	449,400	Yes
Shanxi Datang International Yungang Thermal Power Company Limited ("Yungang Thermal Power Company")	14 July 2000, Datong, Shanxi Province	250,000	Power generation, heat supply	80%	200,000	Yes
Yunnan Datang International Honghe Power Generation Company Limited ("Honghe Power Company")	27 April 2001, Kaiyuan, Yunnan Province	414,550	Power generation	70%	290,190	Yes

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4. Subsidiaries And Jointly Controlled Entity (Cont'd)

Name of subsidiaries	Place and date of incorporation	Registered capital	Principal activities	Percentage of equity interest held by the Company directly	Investment contributed by the Company	Included in consolidated financial statements
Gansu Datang International Liancheng Power Generation Company Limited ("Liancheng Power Company")*	18 August 2001, Yongdeng, Gansu Province	98,000	Power generation	55%	151,530	Yes
Hebei Datang International Tangshan Thermal Power Company Limited ("Tangshan Thermal Power Company")	21 February 2002, Tangshan, Hebei Province	380,264	Power generation, heat supply	80%	304,211	Yes
Yunnan Datang International Nalan Hydropower Development Company Limited ("Nalan Hydropower Company")*	30 October 2002, Jinping, Yunnan Province	28,477	Hydropower generation	51%	44,250	Yes
Yunnan Datang International Lixianjiang Hydropower Development Company Limited ("Lixianjiang Hydropower Company")	8 November 2002, Simao, Yunnan Province	260,000	Hydropower generation	70%	182,000	Yes
Shanxi Datang International Yuncheng Power Generation Company Limited ("Yuncheng Power Company")*	28 March 2003, Yuncheng, Shanxi province	99,625	Power generation (under construction)	80%	129,700	Yes
Chongqing Pengshui Hydropower Development Company Limited ("Pengshui Hydropower Company")**	28 August 2003, Pengshui, Chongqing	125,000	Hydropower generation (under construction)	40%	248,900	Yes

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4. Subsidiaries And Jointly Controlled Entity (Cont'd)

Name of subsidiaries	Place and date of incorporation	Registered capital	Principal activities	Percentage of equity interest held by the Company directly	Investment contributed by the Company	Included in consolidated financial statements
Jiangsu Datang International Lvsigang Power Generation Company Limited ("Lvsigang Power Company")*	18 September 2003, Qidong, Jiangsu Province	50,000	Power generation (preconstruction)	90%	119,000	Yes
Guangdong Datang International Chaozhou Power Generation Company Limited ("Chaozhou Power Company")*	15 November 2003, Chaozhou, Guangdong Province	30,000	Power generation	75%	135,000	Yes
Fujian Datang International Ningde Power Generation Company Limited ("Ningde Power Company")*	2 December 2003, Ningde, Fujian Province	250,000	Power generation	51%	188,700	Yes
Datang Hong Kong	3 December 2004, Hong Kong	23,511	Power related consulting services	100%	23,511	Yes
Chongqing Datang International Wulong Hydropower Development Company Limited ("Wulong Hydropower Company")	24 January 2005, Wulong, Chongqing	50,000	Power generation (under construction)	51%	25,500	Yes
Yunnan Datang International Wenshan Hydropower Development Company Limited ("Wenshan Hydropower Company")	8 April 2005, Wenshan, Yunnan Province	60,000	Hydropower generation (under construction)	60%	36,000	Yes
Hebei Datang International Wangtan Power Generation Company Limited ("Wangtan Power Company")	17 January 2006, Tangshan, Hebei Province	450,000	Power generation	70%	315,000	Yes

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4. Subsidiaries And Jointly Controlled Entity (Cont'd)

Name of subsidiaries	Place and date of incorporation	Registered capital	Principal activities	Percentage of equity interest held by the Company directly	Investment contributed by the Company	Included in consolidated financial statements
Chongqing Datang International Shizhu Power Generation Company Limited ("Shizhu Power Company")	13 March 2006, Shizhu, Chongqing	10,000	Power generation (pre construction)	70%	7,000	Yes
Duolun Hydropower Company	28 March 2006, Duolun, Inner Mongolia Autonomous Region	28,520	Hydropower generation, water supply	51%	14,550	Yes
Sichuan Datang International Ganzi Hydropower Development Company Limited ("Ganzi Hydropower Company")	3 July 2006, Ganzi, Sichuan Province	50,000	Hydropower generation (pre construction)	80%	40,000	Yes
Datang International Chemistry Technique Development Company Limited ("Chemistry Technique Development Company")	17 August 2006, Fengtai District, Beijing	50,000	Coal related service	100%	50,000	Yes
Beijing Datang Fuel Company Limited ("Fuel Company")	8 December 2006, Xicheng District, Beijing	80,000	Coal sales, Investment management, Technique service	100%	80,000	Yes
Inner Mongolia Datang International Zhuozi Wind Power Company Limited ("Zhuozi Wind Power Company")	31 December 2006, Zhuozi, Inner Mongolia Autonomous Region	20,000	Wind power (pre construction)	100%	20,000	Yes
					4,759,796	

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4. Subsidiaries And Jointly Controlled Entity (Cont'd)

Name of subsidiaries	Place and date of incorporation	Registered capital	Principal activities	Percentage of equity interest held		Included in consolidated financial statements
				by the Company directly	Investment contributed by the Company	
Hebei Yuzhou Energy Multiple Development Company Limited ("Yuzhou Energy Company") ***	29 September 2005, Yuzhou, Hebei Province	400,000	Railway transportation	50%	200,000	Yes
					<u>200,000</u>	

* The investors of the Company's subsidiaries which are under construction or newly commenced commercial operations make capital injections according to the progress of the construction and total amount of investment incurred for the projects. The proportion of capital injection of the investors is not strictly in line with their share of equity interest before the completion of all capital injections. The registered capital of these subsidiaries will be changed as required in future.

** On 20 July 2006, the Company entered into an agreement with Chongqing Energy Investment Group 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, therefore Chongqing Hydropower Company has been accounted for as a subsidiary of the Company from 20 July 2006.

*** Pursuant to the articles of association of Yuzhou Energy Company, the Company and the other investors have joint control in Yuzhou Energy Company. Hence, it is included in the consolidated financial statements by proportionate consolidation method.

5. Notes to the Consolidated Financial Statements

(1) Cash

	31 December 2006	31 December 2005
Cash	475	586
Bank deposits	<u>4,450,809</u>	<u>1,028,753</u>
	<u>4,451,284</u>	<u>1,029,339</u>

The above represents the balances of cash and cash equivalents.

Notes to the Financial Statements

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(1) Cash (Cont'd)

As at 31 December 2006, cash comprises the following foreign currency balances:

Currency	Original currency amount	Exchange rate	Rmb equivalent
USD	6,051	7.8087	47,251
Rmb	6,849	1.0047	6,881
			<u>54,132</u>

(2) Notes receivable

As at 31 December 2006, all the notes receivable of the Company and its Subsidiaries were bank acceptance notes receivable. There were no pledges or discount on these notes.

(3) Accounts receivable and other receivables

(a) Accounts receivable

	31 December 2006	31 December 2005
Electricity sales receivable	3,260,853	1,386,448
Heat sales receivable	74,801	23,080
Other	1,875	–
	<u>3,337,529</u>	<u>1,409,528</u>

Ageing	31 December 2006			31 December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	3,336,839	99.9%	–	1,409,528	100.0%	–
Over 1 year	690	0.1%	–	–	–	–
	<u>3,337,529</u>	<u>100.0%</u>	<u>–</u>	<u>1,409,528</u>	<u>100.0%</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2006
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(All amounts expressed in thousands of Rmb unless otherwise stated)

5. Notes to the Consolidated Financial Statements (Cont'd)

(3) Accounts receivable and other receivables (Cont'd)

(a) Accounts receivable (Cont'd)

Accounts receivable of the Company and its Subsidiaries mainly include the receivables from NCG, State Grid Company ("SGCC") and other regional or provincial grid companies arising from tariff revenue. The tariff revenue is settled on a monthly basis according to the payment stipulations in the power purchase agreements.

As at 31 December 2006, the five aggregate balance of largest accounts receivable amounted to Rmb 3,055,329,000, representing 91.54% of total accounts receivable.

(b) Other receivables

	31 December 2006	31 December 2005
Other receivables	323,630	291,438
Less: Bad debt provision	<u>(1,835)</u>	<u>(1,833)</u>
	<u>321,795</u>	<u>289,605</u>

Ageing analysis of other receivables and bad debt provision is as follows:

Ageing	31 December 2006			31 December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	123,580	38.2%	(2)	242,096	83.1%	-
Between 1 to 2 years	162,180	50.1%	-	14,400	4.9%	-
Between 2 to 3 years	5,465	1.7%	-	2,621	0.9%	(96)
Over 3 years	<u>32,405</u>	<u>10.0%</u>	<u>(1,833)</u>	<u>32,321</u>	<u>11.1%</u>	<u>(1,737)</u>
	<u>323,630</u>	<u>100.0%</u>	<u>(1,835)</u>	<u>291,438</u>	<u>100.0%</u>	<u>(1,833)</u>

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(3) Accounts receivable and other receivables (Cont'd)

(b) Other receivables (Cont'd)

As at 31 December 2006 and 31 December 2005, there were no other receivables from shareholders who held 5% or more of the equity interest in the Company.

As at 31 December 2006, the aggregate balance of five largest other receivables amounted to Rmb 149,622,000 (31 December 2005: Rmb 71,392,000), representing 46% (31 December 2005: 24%) of total other receivables.

As at 31 December 2006, the Company and its Subsidiaries' other receivables aged over 1 year mainly related to a project guarantee deposit receivable from a local government. There are no pledges or interest due on this deposit. It is repayable upon completion of the relevant project and therefore no bad debt provision has been made on this receivable.

Please refer to Note 7 (6) for details of related party balances.

(4) Advances to suppliers

Ageing	31 December 2006		31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	337,475	87.0%	175,760	86.7%
Between 1-2 year	47,232	12.2%	25,280	12.5%
Between 2-3 year	1,548	0.4%	1,655	0.8%
Over 3 years	1,655	0.4%	-	-
	<u>387,910</u>	<u>100.0%</u>	<u>202,695</u>	<u>100.0%</u>

Advances to suppliers mainly represent prepayments for the purchase of coal. As at 31 December 2006 and 31 December 2005, there were no advances paid to shareholders holding 5% or more of the equity interest in the Company.

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
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5. Notes to the Consolidated Financial Statements (Cont'd)

(5) Inventories

	31 December 2006	31 December 2005
Fuel	391,005	394,605
Spare parts and materials for repairs and maintenance	415,960	298,414
	<u>806,965</u>	<u>693,019</u>

There were no provisions for impairment on inventory as at 31 December 2006 and 31 December 2005.

During the year ended 31 December 2006, the cost of inventories charged to cost of sales and expenses amounted to Rmb10,828,642,000 in 2006 (2005: Rmb7,652,358,000).

(6) Long-term equity investments

	Investment in jointly controlled entity (a)	Other long-term equity investment (b)	Consolidation difference in value (c)	Total
31 December 2005	793,315	306,294	–	1,099,609
Current year additions	260,987	538,149	57,251	856,387
Share of results of investments	14,796	–	–	14,796
Cash dividends declared	(2,017)	–	–	(2,017)
Amortisation of difference between investment cost and share of net assets	–	–	(5,725)	(5,725)
Changes in consolidation scope-Pengshui hydropower company (Note 4)	(248,900)	–	–	(248,900)
Reclassification ((a)(ii))	(69,714)	69,714	–	–
31 December 2006	<u>748,467</u>	<u>914,157</u>	<u>51,526</u>	<u>1,714,150</u>

There were no provisions for impairment of long-term investments as at 31 December 2006 and 31 December 2005.

The long-term investments of the Company and its Subsidiaries are not subject to any restriction on conversion into cash or remittance of investment income.

As at 31 December 2006 and 31 December 2005, total long-term investments accounted for 7.56% and 6.12% of the consolidated net assets, respectively.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(6) Long-term equity investments (Cont'd)

a) Investment in associates

Associate of the Company	Investment period	Percentage of equity interest held				Amount of investment				Accumulated equity movement				Carrying amount		Principal activity	
		31 December 2005	31 December 2006	31 December 2005	31 December 2006	Registered capital	Current year additions	Changes in consolidation scope-Pengshui Hydropower Company (Note 4)	Reclassification (a)(i)	31 December 2006	31 December 2005	Share of current year result	Cash dividends declared	Current year amortisation of difference between investment cost and share of net assets	31 December 2006		31 December 2005
North China Electric Power Research Institute Company Limited ("NCEPRI")	50 years	30%	30%	30,000	-	-	-	-	30,000	34,283	6,175	(1,200)	-	39,258	64,283	69,258	Power related technology services
Beijing Tevin Datang Heat Company Limited ("Datang Tevin")	25 years	49%	49%	84,672	-	-	-	-	84,672	(22,118)	(12,409)	-	-	(34,527)	62,554	50,145	Provision of heat transfer service
Chongqing Pengshui Hydropower Company Hydro-power Development Company Limited ("Pengshui Hydropower Company") ⁽ⁱ⁾	Unlimited duration	40%	40%	150,000	98,900	(246,900)	-	-	-	-	-	-	-	-	150,000	-	-
Ningxia Datang International Daba Power Generation Company Limited ("Daba Power Company") ⁽ⁱ⁾	25 years	45%	45%	18,000	-	-	-	-	18,000	-	-	-	-	-	18,000	18,000	Power generation (pre-construction)
Tongfang Investment Company Limited	50 years	36.35%	36.35%	200,000	-	-	-	-	200,000	6,595	3,415	-	-	10,000	206,595	210,000	Project investment and management
Tongmei Datang Jiashan Coal mine Company Limited ("Jiashan Coal Mine") ⁽ⁱ⁾	Unlimited duration	28%	28%	108,020	-	-	-	-	108,020	-	-	-	-	-	108,020	108,020	Coal mining (Pre-construction)
Tangshan Huaxia Datang Fuel Company Limited	10 years	30%	30%	6,000	-	-	-	-	6,000	959	888	(817)	-	980	6,959	6,980	Fuel trading
China Datang Group Finance Company Limited ("Datang Finance")	Unlimited duration	20%	20%	100,000	-	-	-	-	100,000	-	14,267	-	-	14,267	100,000	114,267	Provision of financial services

For the year ended 31 December 2006

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5. Notes to the Consolidated Financial Statements (Cont'd)

(6) Long-term equity investments (Cont'd)

a) Investment in associates (Cont'd)

Associate of the Company	Percentage of equity interest held			Amount of investment			Accumulated equity movement			Carrying amount		Principal activity	
	Investment period	Registered capital	31 December 2005	31 December 2006	31 December 2005	31 December 2006	Reclassification (€(i))	Share of current year result	Cash dividends declared	Current year amortisation of difference between investment cost and share of net assets	31 December 2005		31 December 2006
Tongmei Datang Tashan Power Generation Company Limited	Unlimited duration	250,000	-	40%	-	64,000	-	-	-	-	-	64,000	Power generation (under-construction)
Fujian Ningde Nuclear Power Company Limited	50 years	200,000	-	49%	-	98,000	-	-	-	-	-	98,000	Nuclear power generation (pre-construction)
Subtotal					648,882	260,900	-	708,882	19,709	12,286	(2,017)	716,401	738,670
Associate of the Company's subsidiaries													
Tongmei Datang Multiple Utilisation Thermal Power Company Limited (Tongmei Thermal Power Company) * (i)	Unlimited duration	20,000	20%	14%	69,714	-	(69,714)	-	-	-	-	69,714	Power generation (under-construction)
Qian'an Datang Thermal Power Company Limited ("Qian'an Power Company") (ii)	Unlimited duration	20,000	36%	36%	7,200	-	-	7,200	-	-	-	7,200	Power generation (under-construction)
Hongda technology Company Limited (iv)	20 years	360	-	35%	-	87	-	87	-	-	-	2,510	Technology service related power generation
Subtotal					76,914	87	(69,714)	7,287	-	2,510	-	76,914	9,797
Total					773,606	260,987	(246,900)	715,979	19,709	14,796	(2,017)	793,315	748,467

* The investors of these companies make capital injections according to the progress of the construction. The proportion of capital injection of the investors is not strictly in line with their share of equity interest before the completion of all capital injections. The registered capital of these subsidiaries will be adjusted as required in future.

(i) Pengshui Hydropower Company has been accounted for as a subsidiary of the Company from 20 July 2006 (Notes 4).

(ii) During 2006, Tongmei Thermal Power Company received additional capital injections from all of its investors other than Yungang Thermal Power Company. Consequently, Yungang Thermal Power Company's share of equity interest decreased from 20% to 14% and it ceased to have the ability to cast significant influence over Tongmei Thermal Power Company. Following the reduction of the share of equity interest the investment in Tongmei Thermal Power Company has been treated as an available-for-sale investment.

(iii) Qian'an Power Company was an associate of Tangshan Thermal Power Company.

(iv) Hongda Technology Company Limited was an associate of Datang Hong Kong.

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For the year ended 31 December 2006

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5. Notes to the Consolidated Financial Statements (Cont'd)

(6) Long-term equity investments (Cont'd)

(b) Other equity investments

As at 31 December 2006, other equity investments are stated at cost and detailed as following:

		Investment period	31 December 2006	31 December 2005
China Continent Property & Casualty Insurance Company Limited ("CCPC")	(i)	Unlimited duration	103,000	103,000
Daqin Railway Company Limited ("Daqin Railway")	(ii)	Unlimited duration	496,149	150,000
Tanggang Railway Company Limited ("Tanggang Railway")	(iii)	53 years	240,000	48,000
Tongmei Thermal Power Company ((a)(ii))		Unlimited duration	69,714	–
Others		30 years-unlimited duration	5,294	5,294
			<u>914,157</u>	<u>306,294</u>

(i) This is a 5.81% unlisted equity investment in CCPC. The principal activity of CCPC is to provide insurance service in the PRC, including property loss insurance, liability insurance, credit insurance and other insurance services.

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

(iii) This represents a 14.97% unlisted equity investment in Tanggang Railway. The principal activity of Tanggang Railway is to provide railway transportation services.

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5. Notes to the Consolidated Financial Statements (Cont'd)

(6) Long-term equity investments (Cont'd)

(b) Other equity investments (Cont'd)

Company name	Share of equity interest		Investment cost		
	31 December 2005	31 December 2006	31 December 2005	Addition	31 December 2006
Daqin Railway	0.98%	1.29%	150,000	346,149	496,149

As at 31 December 2006, based on the closing price quoted from Shanghai Stock Exchange on the last trading day, the market value of the above listed shares approximated Rmb1,356,175,000 (167,429,000 shares).

(c) Consolidation difference in value

Consolidated difference in value arose from the acquisition of Hebei Shayu Railway Company ("Shayu Railway") (Note 5 (27)) by Yuzhou Energy Company, a jointly controlled entity of the Company. The original cost of the difference between the acquisition consideration and the share of the investee's equity is shown as follows:

Name of investee	Original cost	Amortisation period	Accumulated amortisation	31 December 2005	Current year addition	Amortisation	
						charged for the year	31 December 2006
Shayu Railway	57,251	10 years	(5,725)	-	57,251	(5,725)	51,526

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5. Notes to the Consolidated Financial Statements (Cont'd)

(7) Fixed assets and accumulated depreciation

	Dam	Buildings	Electricity utility plants in service	Transportation, office equipment and others	Total
Cost					
31 December 2005	–	1,997,329	40,754,018	880,090	43,631,437
Reclassification	–	894,318	(890,292)	(4,026)	–
Changes in consolidation scope					
– Pengshui Hydropower Company (Note 4)	–	183,669	–	37,244	220,913
Transfers from					
construction-in-progress	852,467	6,319,931	18,450,712	1,073,308	26,696,418
Acquisition (Note 5(26))	–	33,315	–	463,078	496,393
Current year other additions	–	101,840	267,715	89,521	459,076
Current year deductions	–	(7,203)	(9,307)	(15,629)	(32,139)
31 December 2006	<u>852,467</u>	<u>9,523,199</u>	<u>58,572,846</u>	<u>2,523,586</u>	<u>71,472,098</u>
Accumulated depreciation					
31 December 2005	–	(116,925)	(11,629,328)	(382,596)	(12,128,849)
Reclassification	–	(40,176)	40,176	–	–
Changes in consolidation scope					
– Pengshui Hydropower Company (Note 4)	–	(10,543)	–	(5,726)	(16,269)
Acquisition (Note 5(26))	–	(3,627)	–	(25,391)	(29,018)
Current year depreciation	(12,432)	(296,236)	(3,669,811)	(134,514)	(4,112,993)
Current year deductions	–	967	7,580	10,141	18,688
31 December 2006	<u>(12,432)</u>	<u>(466,540)</u>	<u>(15,251,383)</u>	<u>(538,085)</u>	<u>(16,268,441)</u>
Net book value					
31 December 2006	<u>840,035</u>	<u>9,056,659</u>	<u>43,321,463</u>	<u>1,985,503</u>	<u>55,203,657</u>
31 December 2005	<u>–</u>	<u>1,880,404</u>	<u>29,124,690</u>	<u>497,494</u>	<u>31,502,588</u>

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5. Notes to the Consolidated Financial Statements (Cont'd)

(7) Fixed assets and accumulated depreciation (Cont'd)

As at 31 December 2006, the original cost of fully depreciated fixed assets that were still in use amounted to Rmb3,351,422,000 (31 December 2005: Rmb474,984,000).

As at 31 December 2006 and 31 December 2005, there was no indication of impairment of the plant, property and equipment of the Company and its Subsidiaries and therefore no provision for impairment loss was made.

As at 31 December 2006 and 2005, no fixed assets were pledged to secure the Company and its Subsidiaries' borrowings.

(8) Construction materials

	31 December 2006	31 December 2005
Specific materials	250,126	833,065
Specific equipments	467,398	723,480
Prepayment for major equipments	3,683,175	7,244,670
Others	32,883	109,724
	<u>4,433,582</u>	<u>8,910,939</u>

(9) Construction-in-progress

Projects	Budget	31 December 2005	Changes in consolidation scope	Acquisition (Note 5 (26))	Current year additions	Transfers to fixed assets during current year	31 December 2006	Source of financing	The portion of accumulated investments (including construction materials) to total budget
Shentou coal-fired power project	4,729,020	70,367	-	-	254,072	(306,204)	18,235	borrowings from financial institutions and paid-in capital	100%
Honghe coal-fired power project	2,738,630	948,436	-	-	1,410,697	(2,259,726)	99,407	borrowings from financial institutions and paid-in capital	100%

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5. Notes to the Consolidated Financial Statements (Cont'd)

(9) Construction-in-progress (Cont'd)

Projects	Budget	31 December 2005	Changes in consolidation scope	Acquisition (Note 5 (26))	Current year additions	Transfers to fixed assets during current year	31 December 2006	Source of financing	The portion of accumulated investments (including construction materials) to total budget
Lixianjiang hydropower project	10,137,051	2,467,010	-	-	1,520,739	(779,879)	3,207,870	borrowings from financial institutions and paid-in capital	45%
Nalan hydropower project	866,830	675,083	-	-	146,525	(821,412)	196	borrowings from financial institutions and paid-in capital	100%
Ningde coal-fired power project	10,607,300	2,576,116	-	-	3,120,380	(4,881,989)	814,507	borrowings from financial institutions and paid-in capital	55%
Chaozhou coal-fired power project	10,817,000	1,665,423	-	-	3,771,955	(5,062,105)	375,273	borrowings from financial institutions and paid-in capital	52%
TuoketuoIV coal-fired power project	4,690,880	630,401	-	-	2,782,623	-	3,413,024	borrowings from financial institutions and paid-in capital	77%
Wushashan coal-fired power project	9,968,260	3,365,927	-	-	3,662,423	(6,782,120)	246,230	borrowings from financial institutions and paid-in capital	100%
Wangtan coal-fired power project	4,756,640	4,282,983	-	-	329,620	(4,514,168)	98,435	borrowings from financial institutions and paid-in capital	100%

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5. Notes to the Consolidated Financial Statements (Cont'd)

(9) Construction-in-progress (Cont'd)

Projects	Budget	31 December 2005	Changes in consolidation scope	Acquisition (Note 5 (26))	Current year additions	Transfers to fixed assets during current year	31 December 2006	Source of financing	The portion of accumulated investments (including construction materials) to total budget
Yuncheng coal-fired power project	4,850,060	52,455	-	-	872,882	-	925,337	borrowings from financial institutions and paid-in capital	37%
Wenshan hydropower project	2,058,274	101,690	-	-	233,283	-	334,973	borrowings from financial institutions and paid-in capital	17%
Wulong hydropower project	6,903,210	131,451	-	-	466,954	(17,851)	580,554	borrowings from financial institutions and paid-in capital	9%
Pengshui hydropower project	12,150,980	-	2,938,176	-	1,053,486	-	3,991,662	borrowings from financial institutions and paid-in capital	37%
Renovation and others	-	1,572,636	-	3,477	3,445,412	(1,270,964)	3,750,561	borrowings from financial institutions and self financed fund	
		<u>18,539,978</u>	<u>2,938,176</u>	<u>3,477</u>	<u>23,071,051</u>	<u>(26,696,418)</u>	<u>17,856,264</u>		
Including: Capitalised borrowing costs		830,214	203,235	-	666,644	(1,087,669)	612,424		

For the year ended 31 December 2006, the average capitalisation rate was 5.47% per annum (for the year ended 31 December 2005: 4.99%).

As at 31 December 2006 and 31 December 2005, there was no indication of impairment of the construction-in-progress of the Company and its Subsidiaries therefore no provision for impairment loss was made.

Notes to the Financial Statements

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5. Notes to the Consolidated Financial Statements (Cont'd)

(9) Construction-in-progress (Cont'd)

Pursuant to Document No.32 issued by National Development and Reform Commission (“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.

(10) Intangible assets

	Land use rights	Goodwill *	Resource use rights	Others	Total
Cost					
31 December 2005	360,611	57,363	20,000	9,900	447,874
Current year additions	41,523	–	8,646	8,558	58,727
31 December 2006	402,134	57,363	28,646	18,458	506,601
Amortisation					
31 December 2005	(63,863)	(29,394)	(333)	(824)	(94,414)
Current year amortisation	(8,136)	(6,314)	(2,648)	(3,167)	(20,265)
31 December 2006	(71,999)	(35,708)	(2,981)	(3,991)	(114,679)
Net book value					
31 December 2006	330,135	21,655	25,665	14,467	391,922
31 December 2005	296,748	27,969	19,667	9,076	353,460
Remaining amortisation period	23-50 years	5 years	9 years	2-8 years	
Obtained through	Purchase	Acquisition	Purchase	Purchase	

* Goodwill represents the excess of the cost of the Company's acquisition of Zhangjiakou Power Plant Unit 2 acquired in 2000, and will be amortised over 10 years.

As at 31 December 2006 and 31 December 2005, there was no indication of impairment of the intangible assets of the Company and its Subsidiaries therefore no provision for impairment loss was made. No intangible assets were pledged to secure the Company and its Subsidiaries' borrowings.

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5. Notes to the Consolidated Financial Statements (Cont'd)

(11) Short-term loans

	31 December 2006	31 December 2005
Bank loans	8,489,296	5,530,280
Entrusted loans	50,000	–
Other loans	761,200	187,000
	<u>9,300,496</u>	<u>5,717,280</u>

As at 31 December 2006, all the short-term bank loans of the Company and its Subsidiaries were denominated in Rmb, bearing interest rates ranging from 4.70% to 5.67% per annum (31 December 2005: 4.52% to 5.84% per annum). Approximately Rmb 2,217,208,000 and Rmb 178,092,000 (31 December 2005 – Rmb 561,480,000 and 56,000,000) of short-term loans were guaranteed by the Company and the minority shareholders according to their shareholding percentage in the subsidiaries. As at 31 December 2006 loans of Rmb 6,073,996,000 (31 December 2005: Rmb 4,822,800,000) were credit bank loans; loans of Rmb 20,000,000 (2005: Rmb 90,000,000) were pledged with the right to collect of tariffs.

As at 31 December 2006, entrusted loans represent Rmb loans lent by Tianjin Jinneng to Shentou Power Company through Shenzhen Development Bank Tianjin Beichen Branch, with duration of 1 year and bearing interest cost at 5.51% per annum. There are no guarantees or pledges on this loan.

As at 31 December 2006, other short-term loans were credit loans borrowed from Datang Finance, a non-bank financial institution, with no guarantees or pledges, bearing interest rates ranging from 4.86% to 5.51% per annum (31 December 2005: 5.02%).

(12) Notes Payable

All notes payable of the Company and its Subsidiaries were bank acceptance notes.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(13) Accounts and other payable

(a) Accounts payable

	31 December 2006	31 December 2005
Construction costs and deposits payable to contractors	5,366,472	3,234,153
Fuel and material costs payable	1,296,213	806,168
Others	89,536	39,180
	<u>6,752,221</u>	<u>4,079,501</u>

As at 31 December 2006, there was no accounts payable due to any shareholder holding 5% or more of the equity interest in the Company, and there was no significant accounts payable aged over three years.

(b) Other payable

	31 December 2006	31 December 2005
Accrued production costs	137,355	43,867
Payable of acquisition consideration to Duolun County Hydropower Company	50,545	-
Payables of staff housing maintenance funds	44,942	45,428
Cash receipts on behalf for sale of staff quarters	35,868	42,049
Withholding tax	28,867	23,076
Payables of land use rights	24,341	24,341
Payables of social insurance funds	22,458	34,971
Freight payables	11,785	-
Others	88,913	50,513
	<u>445,074</u>	<u>264,245</u>

As at 31 December 2006, other payables aged over 3 years amounting to approximately Rmb 34,844,000 (31 December 2005: Rmb44,239,000) which mainly represented payables in relation to staff housing maintenance funds and cash receipt on behalf for sale of staff quarters.

As at 31 December 2006 and 31 December 2005, there were no other payables due to any shareholders holding 5% or more of the equity interest in the Company except for payables to China Datang of Rmb65,120,000.

Please refer to Note 7 for related party balances.

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
(All amounts expressed in thousands of Rmb unless otherwise stated)

5. Notes to the Consolidated Financial Statements (Cont'd)

(14) Tax payable

	31 December 2006	31 December 2005
Enterprise income tax payable	200,456	128,868
VAT payable	310,302	186,074
Others	35,821	51,666
	<u>546,579</u>	<u>366,608</u>

During the year ended 31 December 2006, except for Tuoketuo Power Company, Liancheng Power Company, Nalan Hydropower Company, Honghe Power Company, Lixianjiang Hydropower Company and Datang Hong Kong, the applicable income tax rate of the Company and its Subsidiaries was 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 enterprise income tax at a preferential rate of 15% from 2001 to 2010. Also 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 entitled to a two year exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first year of commercial operations.

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

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

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

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

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

Datang Hong Kong, as a company registered in Hong Kong, is subject to local income tax levied at 17.5%.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(15) Other current liabilities

As at 31 December 2006, other current liabilities represent short-term bonds issued by the Company on 15 September 2006 at par value. The principal of the bonds was Rmb1,000 million, bearing interest at 3.59% with a maturity date within one year. There are no pledges or guarantees on the bonds.

(16) Long-term loans

		31 December 2006	31 December 2005
Long-term bank loans	(a)	41,490,805	30,012,563
Other long-term loans	(b)	<u>1,725,580</u>	<u>1,691,538</u>
		43,216,385	31,704,101
Less: current portion of long-term loans		<u>(2,942,804)</u>	<u>(2,488,884)</u>
		<u>40,273,581</u>	<u>29,215,217</u>

(a) Long-term bank loans

31 December 2006						
	Foreign currency amount	Exchange rate	Rmb equivalent	Less: Current portion	Total	Interest rate per annum
Credit loans						
– Rmb loans			15,532,402	(424,000)	15,108,402	3.60%-6.156%
Secured loans *						
– Rmb loans			7,142,052	(1,417,650)	5,724,402	3.60%-6.39%
– USD loans	169,538		1,323,871	(374,714)	949,157	
1. Fixed-rate	146,954	7.8087	1,147,518	(327,862)	819,656	4.140%
2. Floating-rate	22,584	7.8087	176,353	(46,852)	129,501	Libor+1.2%
Loans pledged by right of collection of tariff						
– Rmb loans			<u>17,492,480</u>	<u>(625,785)</u>	<u>16,866,695</u>	5.184%-6.156%
Total	<u>169,538</u>		<u>41,490,806</u>	<u>(2,842,149)</u>	<u>38,648,656</u>	

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
(All amounts expressed in thousands of Rmb unless otherwise stated)

5. Notes to the Consolidated Financial Statements (Cont'd)

(16) Long-term loans (Cont'd)

(a) Long-term bank loans (Cont'd)

31 December 2005						
	Foreign currency amount	Exchange rate	Rmb equivalent	Less: Current portion	Total	Interest rate per annum
Credit loans						
– Rmb loans			5,380,000	(414,000)	4,966,000	3.60%-6.12%
Secured loans *						
– Rmb loans			9,429,685	(1,392,550)	8,037,135	3.60%-6.12%
– USD loans	267,525	8.0702	2,158,978	(388,309)	1,770,669	
1. Fixed-rate	188,941	8.0702	1,524,788	(326,229)	1,198,559	4.140%
2. Floating-rate	78,584	8.0702	634,190	(62,080)	572,110	Libor+1.2%
Loans pledged by right of collection of tariff						
– Rmb loans			13,043,900	(190,000)	12,853,900	4.698%-5.508%
Total	267,525		30,012,563	(2,384,859)	27,627,704	

* As at 31 December 2006, long-term bank loans of approximately Rmb5,635,934,000 and Rmb 2,829,989,000 were guaranteed by the Company and the other shareholders of the Company's subsidiaries and jointly controlled entities, respectively (31 December 2005: Rmb 7,531,473,000 and Rmb 3,792,190,000, respectively). Approximately Rmb445,000,000 of long-term bank loans as at 31 December 2006 were guaranteed by NCG. Pursuant to the Entities Transfer Agreement entered into between NCG and China Datang, China Datang will assume all of NCG's obligations in relation to the guarantees provided for by the Company and its Subsidiaries. As at 31 December 2006, the loans guaranteed by NCG had been fully repaid.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(16) Long-term loans (Cont'd)

(b) Other long-term loans

The detailed information of other long-term loans (including current portion) is as follows:

Currency	31 December 2006	31 December 2005
Rmb loans (i)	189,500	–
USD loans (ii)	1,536,080	1,691,538
	1,725,580	1,691,538
Less: Current portion of other long-term loans	(100,655)	(104,025)
	1,624,925	1,587,513

- (i) Rmb loans were borrowed from Datang Finance, a non-finance institution and are all guaranteed by the Company. The interest rate is 5.67% per year.
- (ii) USD loans were borrowed by MOF from the International Bank for Reconstruction and Development (“World Bank”) and were lent on to the Company’s subsidiary, Tuoketuo Power Company, for the construction of an electricity utility plant. These loans were unsecured with duration from 1998 to 2017. These 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 entered into between NCG and MOF, NCG agreed to guarantee 60% of the loan balances borrowed from the Word Bank, 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.

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
(All amounts expressed in thousands of Rmb unless otherwise stated)

5. Notes to the Consolidated Financial Statements (Cont'd)

(16) Long-term loans (Cont'd)

(c) *interest rate swap contract*

To hedge interest rate risks, Tuoketuo power company, the Company's subsidiary, entered into an interest rate swap contract with a financial institutions to swap the floating interest rate of the forementioned other loans in Note (b) (ii) to a fixed interest rate. On 31 December 31 2006, the nominal principal of this interest rate swap contract is USD 200,615,486, with a fixed interest rate and floating interest rate of 5.15% and 5.61%, respectively (according to LIBOR offered by the British Bankers Association on 13 July 2006).

For the year ended 31 December 2006, interest income from this interest rate swap contract was Rmb197,000 (2005: interest expense Rmb31,650,000).

(d) *Undrawn borrowing facilities*

As at 31 December 2006, the company and its Subsidiaries had undrawn facilities, subject to certain conditions, totaling Rmb65,790 million (31 December 2005: Rmb63,133 million).

(17) Convertible bonds

	31 December 2005	Interest accrued in current year	Interest paid in current year	Exchange difference	31 December 2006
Principal	1,241,197	–	–	(40,219)	1,200,978
Interest payable	<u>2,902</u>	<u>8,904</u>	<u>(9,232)</u>	<u>–</u>	<u>2,574</u>
	<u>1,244,099</u>	<u>8,904</u>	<u>(9,232)</u>	<u>(40,219)</u>	<u>1,203,552</u>

On 9 September 2003, the Company issued convertible bond at face value totaling USD153.8 million (equals to Rmb 1,273 million), which will be matured on 9 September 2008 unless redeemed or converted before the maturity date.

The bond holders have the option to convert the bonds into the Company's ordinary shares at the announced conversion price which initially was HKD5.558 per share. On 20 May 2005, the Company changed the conversion price to HKD5.4 per share. The conversion price is subject to an adjustment in certain circumstances with a fixed rate of exchange applicable on conversion of the convertible bonds of HKD7.799 per USD1. At 31 December 2006, no bond holders have converted the bond into the Company's shares.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(17) Convertible bonds (Cont'd)

Convertible bonds carry interest at 0.75% per annum. Starting from 9 March 2004, bond interest is paid in equal installments every six months on 9 March 9 and 9 September of every year.

Subject to certain conditions, on or after 23 September 2006 and prior to 25 August 2008 the Company may redeem the bonds at their principal amount, together with interest accrued to the redemption date, provided that:

(a) the closing market price of the Company's Shares, during 20 consecutive trading days, is at least 130% of the conversion price then in effect. And the closing price of the Company's H Shares translated into USD at the average prevailing rates, for each of 20 consecutive trading days, was at least 130% of the conversion price then in effect on such trading day translated into USD at the rate of HKD7.779 = USD1; or (b) at least 90% of the principal amount of the bonds has already been converted, redeemed or purchased and cancelled.

The bond holders have the right at their option to require the Company (a) to redeem the bonds on 9 September 2006 at their principal amount; or (b) following the occurrence of certain relevant events, to redeem the bonds at their principal amount together with interest accrued to the relevant event put date. No bond holders had required the Company to redeem their bonds by 31 December 2006.

(18) Share capital

The face value per share is Rmb 1.

	31 December 2006 '000 of shares	31 December 2005 '000 of shares
Unlisted shares		
Promoters shares	–	3,732,180
Including: Domestic legal person shares	–	3,732,180
Sub-total of unlisted shares	–	3,732,180
Listed shares		
Domestic shares listed in the PRC	4,232,180	–
Overseas listed shares	1,430,669	1,430,669
Sub-total of listed shares	5,662,849	1,430,669
Total shares	5,662,849	5,162,849

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
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5. Notes to the Consolidated Financial Statements (Cont'd)

(18) Share capital (Cont'd)

On 13 December 2006, the Company issued 500,000,000 Rmb ordinary shares (A Shares). All the share capital raised from this issue of Rmb ordinary shares (A Shares) totaling Rmb500,000,000 has been received by 13 December 2006 and verified by PriceWaterhouseCoopers Zhongtian CPAs Company Limited in the capital verification report "PwC ZT Yan Zi (2006) No. 188.

At 31 December 2006, 4,020,180,000 A Shares had certain timing restrictions on their sales (ranging from 3 months to 36 months since the listing of the Company's A Shares).

(19) Capital surplus

	31 December 2005	Current year additions	Current year deduction	31 December 2006
Share premium (a)	3,653,421	2,778,824	–	6,432,245
Transfer from government grants (b)	6,046	29,175	–	35,221
Others (c)	–	1,670	–	1,670
	<u>3,659,467</u>	<u>2,809,669</u>	<u>–</u>	<u>6,469,136</u>

- (a) Share premium 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 in on 31 December 2004 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 on 13 December 2006.
- (b) Transfer from government grants represents grants received from environmental protection authorities, which is transferred into capital reserve, after related constructions/acquisition assets consequent to the specific projects are finished.
- (c) Other capital reserves mainly represent government refunds on cost of land use right.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(20) Surplus reserves

	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
31 December 2005	1,977,048	559,456	4,981,377	7,517,881
Appropriation to reserves	415,530	–	759,910	1,175,440
Transfer of reserves	559,456	(559,456)	–	–
Monetary housing benefits (Note 5(21)(i))	<u>(37,435)</u>	<u>–</u>	<u>–</u>	<u>(37,435)</u>
31 December 2006	<u>2,914,599</u>	<u>–</u>	<u>5,741,287</u>	<u>8,655,886</u>

Statutory surplus reserve

According to the Company Law of the PRC and the Company and its Subsidiaries' articles of association, the Company and its Subsidiaries are required to appropriate 10% of each year's net profit to the statutory surplus reserve. For the year ended 31 December 2006, the Company and its Subsidiaries appropriated Rmb 415.53 million to the statutory surplus reserve (2005: 357.49 million). When the balance of such a reserve reaches 50% of the company's share capital, any further appropriation is optional. Statutory surplus reserve can be used to offset prior years' losses, and may be converted into share capital. Except for offsetting prior years' losses, the residual balance of statutory surplus reserve should not be less than 25% of share capital after the increase of capital from statutory surplus reserve.

Statutory public welfare fund

Pursuant to the Company Law of the PRC revised on 27 October 2005 and effective from 1 January 2006 and the Company and its Subsidiaries' articles of association, the Company and its Subsidiaries ceased to appropriate net profit to the statutory public welfare fund from 2006. In accordance with the "Notice on Accounting Treatment in Relation to the Implementation of the Company Law" issued by the MOF on 15 March 2006, the balance of the statutory public welfare fund as at 31 December 2005 was transferred into the statutory surplus reserve.

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
(All amounts expressed in thousands of Rmb unless otherwise stated)

5. Notes to the Consolidated Financial Statements (Cont'd)

(20) Surplus reserves (Cont'd)

Discretionary surplus reserve

Appropriation of profit to the discretionary surplus reserve is made in accordance with the recommendation of the Board of Directors and is subject to shareholders' approval at their general meeting. The discretionary surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital after approval by the shareholders 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. 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 at their next general meeting.

(21) Undistributed Profits and Profit Distribution

	For the year ended 31 December 2006	For the year ended 31 December 2005
Undistributed profit at beginning of year	446,916	1,199,359
Less: Adjustment to the undistributed profit at the beginning of year (i)	(83,453)	-
Add: Net profit for the year	<u>2,707,291</u>	<u>2,360,740</u>
Distributable profit at the end of year	3,070,754	3,560,099
Less: Appropriation to statutory surplus reserve (Note 5 (20))	(415,530)	(357,493)
Appropriations to statutory public welfare fund (note 5 (20))	-	(296,783)
Appropriation to discretionary surplus reserve (note 5 (20))	(759,910)	(1,281,777)
Proposed cash dividends (ii)	<u>(1,348,714)</u>	<u>(1,177,130)</u>
Undistributed profits at the end of year	<u>546,600</u>	<u>446,916</u>

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(21) Undistributed Profits and Profit Distribution (Cont'd)

- (i) In 2006, the Company and its Subsidiaries implemented a monetary housing benefit scheme. Pursuant to documents Cai Qi [2000] 295 issued by MOF, payments which represented the monetary subsidies paid to the employees who started work before 31 December 1998 have been directly deducted from retained earnings at the beginning of the year. The consequent negative opening retained earnings are offset by the statutory public welfare fund, statutory surplus reserve, capital surplus and net profits of future years. In 2006, the implementation resulted in a reduction to the opening retained earnings amounting to approximately Rmb83.5 million and to the statutory surplus reserve amounting to Rmb37.4 million.
- (ii) 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. The proposed dividends distribution was approved by the shareholders in their general meeting dated 20 June 2006.

On 30 March 2007, the Board of Directors proposed dividends totalling approximately Rmb1,348,714,000. Based on the total 5,753,555,774 shares issued 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 (Note 11(1)), 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 as 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.

The Company makes its profit appropriation based on the lower of retained earnings as reported in accordance with the Accounting Standards for Business Enterprises and the 'Accounting System for Business Enterprises' and those reported in accordance with International Financial Reporting Standards, after deducting the current year's appropriations to statutory surplus reserves and statutory public welfare fund.

The directors, on March 27 2006, proposed a cash dividend of Rmb 0.228 for every existing ordinary shares amounting to Rmb 1,177,130,000. This proposal was approved by the shareholders at the annual general meeting, dated on 20 June 2006.

Notes to the Financial Statements

For the year ended 31 December 2006
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5. Notes to the Consolidated Financial Statements (Cont'd)

(22) Revenue and costs from main operations

	For the year ended 31 December 2006		For the year ended 31 December 2005	
	Revenue from main operations	Costs of main operations	Revenue from main operations	Costs of main operations
Electricity sales	24,685,461	(17,204,900)	17,892,565	(12,519,460)
Heat sales	122,491	(247,404)	101,824	(200,792)
Others	27,266	(28,263)	—	—
	<u>24,835,218</u>	<u>(17,480,567)</u>	<u>17,994,389</u>	<u>(12,720,252)</u>

According to the power purchase agreement entered into between the Company and its Subsidiaries with the power grid companies, the Company and its Subsidiaries are required to sell their entire net generation of electricity to these grid companies at the tariff approved by the local price bureau.

For the year ended 31 December 2006, most of the Company and its Subsidiaries' on-grid electricity were sold to NCG, the State Grid Company and other provincial or regional grid companies.

For the year ended 31 December 2006, the aggregate revenue from the five largest customers of the Company and its Subsidiaries amounted to Rmb 22,932.9 million, representing 92.34% of the total revenue of the Company and its Subsidiaries.

(23) Financial expenses, net

	For the year ended 31 December 2006	For the year ended 31 December 2005
Interest expense for loans	1,561,549	764,652
Interest expense for convertible bonds	8,905	9,389
Interest for short-term company bonds	10,471	—
Interest rate swap (income)/expense	(197)	31,650
Less: Interest income	(23,113)	(36,736)
Exchange losses	—	29,707
Less: Exchange gain	(148,131)	(134,928)
Others	16,558	5,907
	<u>1,426,042</u>	<u>669,641</u>

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(24) Investment income

	For the year ended 31 December 2006	For the year ended 31 December 2005
Share of profit/(loss) of investees accounted for under equity method	14,796	(1,273)
Dividends declared by investees accounted for under cost method	28,091	43,571
Income on disposal of investment	–	36,285
Amortisation of equity investment differences (Note 5(6)(c))	(5,725)	–
Others	–	1,726
	<u>37,162</u>	<u>80,309</u>

(25) Non-operating income and expenses

	For the year ended 31 December 2006	For the year ended 31 December 2005
Net loss on disposal of fixed assets	1,269	39,177
Donation (Note)	73,702	67,004
Others	28,716	15,415
	<u>103,687</u>	<u>121,596</u>

Note: In 2006, the donations mainly included:

- (i) According to the donation agreement entered between the Company and the Donation Acceptance Administration Centre of Beijing and the Environmental Protection Bureau of Beijing, the Company donated Rmb34 million (2005: Rmb66 million) to the Environmental Protection Bureau of Beijing through the Donation Acceptance Administration Centre of Beijing, to support the treatment of air pollution in Shijingshan District.
- (ii) In 2006, Tuoketuo Power Company donated Rmb30 million to the construction project of a new museum to the Inner Mongolia Museum.
- (iii) In 2006, Shentou Power Company donated Rmb5 million to the government of Shuozhou City as education funds.

Notes to the Financial Statements

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(26) Acquisition

Yuzhou Energy, a jointly controlled entity of the Company, entered into an agreement with Kailuan (Group) Company Limited, Yuzhou Mining Company Limited of Kailun (Group) and Zhangjiakou Construction and Investment Company Limited, pursuant to which Yuzhou Energy acquired 81.27% interest in Hebei Shayu Railway Company Limited (the "Shayu Railway"). This acquisition became effective on 1 January 2006 (the "Effective Date"). As at the Effective Date, the assets and liabilities of the acquiree and cashflows of the acquisition were as follows:

	1 January 2006 (Note)
Current assets	8,650
Fixed assets	470,853
Less: Current liabilities	<u>(194,690)</u>
Net assets	284,813
Net assets acquired (81.27%)	<u>231,468</u>
Premium (i.e. consolidation difference in value)	<u>57,251</u>
Total consideration paid	288,719
Less: Cash inflow from the acquiree	(2,004)
Payment on behalf of the acquiree in 2005	<u>(5,750)</u>
Net cash outflow on acquisition	<u>(280,965)</u>

Note: Since Yuzhou Energy is proportionately consolidated by the Company, all the amounts presented in this table represent 50% of the assets and liabilities of the acquiree and cashflows of the acquisition shown in the separate financial statements of the acquiree and the acquirer.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

5. Notes to the Consolidated Financial Statements (Cont'd)

(26) Acquisition (Cont'd)

The simplified income statement of the acquired company since the Effective Date to 31 December 2006 is as follow:

Revenue from main operation	54,532
Cost of main operations and tax and levies on main operations	<u>(73,591)</u>
Loss from main operation	(19,059)
Total loss	(26,253)
Less: Income taxes	<u>-</u>
Net loss	<u>(26,253)</u>

6. Notes to the Company Only Financial Statements

(1) Accounts receivables and other receivables

(a) Accounts receivable

	31 December 2006	31 December 2005
Receivables from electricity sales	1,342,348	623,552
Receivables from heat sales	<u>44,457</u>	<u>10,117</u>
	<u>1,386,805</u>	<u>633,669</u>

Accounts receivable of the Company mainly represented the receivables from NCG for tariff revenue. 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 receivable were aged within one year.

As at 31 December 2006, the aggregate balance of five largest accounts receivable of the Company amounted to Rmb1,386.8 million, representing 100% of total accounts receivable.

Notes to the Financial Statements

For the year ended 31 December 2006
(Prepared in accordance with PRC Accounting Standard)
(All amounts expressed in thousands of Rmb unless otherwise stated)

6. Notes to the Company Only Financial Statements (Cont'd)

(1) Accounts receivables and other receivables (Cont'd)

(b) Other receivables

	31 December 2006	31 December 2005
Other receivables	252,880	181,969
Less: bad debt provision	<u>(1,833)</u>	<u>(1,833)</u>
	<u>251,047</u>	<u>180,136</u>

The aging analysis of other receivables and bad debt provision is as follows:

Ageing	31 December 2006			31 December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	109,258	43%	-	139,646	77%	-
Between 1-2 years	126,620	50%	-	7,890	4%	-
Between 2-3 years	3,762	2%	-	2,484	1%	(96)
Over 3 years	13,240	5%	(1,833)	31,949	18%	(1,737)
	<u>252,880</u>	<u>100%</u>	<u>(1,833)</u>	<u>181,969</u>	<u>100%</u>	<u>(1,833)</u>

As at 31 December 2006, there were no other receivables from shareholders holding 5% or more of the equity interest in the Company (31 December 2005: Nil)

As at 31 December 2006, the aggregate balance of five largest other receivables of the Company amounted to Rmb138,397,000 (31 December 2005: Rmb47,635,000), representing 55% (31 December 2005: 26%) of total other receivables.

As at 31 December 2006, other receivables aged over one year mainly represent a project guarantee deposit receivable from a local government. There are no pledges or interest due in respect of this deposit. It is repayable upon completion of the relevant project, therefore no bad debt provision has been made for this receivable by the Company.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

6. Notes to the Company Only Financial Statements (Cont'd)

(2) Short-term investment

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.

(3) Long-term Equity Investments

	Investments in subsidiaries (a)	Investments in jointly controlled entities (b)	Investments in associates (c)	Other investments (c)	Total
Investment cost					
31 December 2005	3,518,426	50,000	696,692	301,900	4,567,018
Current year additions	992,470	150,000	260,900	538,149	1,941,519
Adjustment in consolidation scope-Pengshui Hydropower Company (Note 4)	248,900	-	(248,900)	-	-
31 December 2006	4,759,796	200,000	708,692	840,049	6,508,537
Accumulated equity movement					
31 December 2005	1,377,669	-	19,709	-	1,397,378
Share of results of investees	1,349,224	(20,935)	12,286	-	1,340,575
Reduction of equity recognised on subsidiaries' payment of one-off monetary housing subsidies	(104,794)	-	-	-	(104,794)
Adjustment on provision for equity investment	29,738	-	-	-	29,738
Dividends declared	(1,030,021)	-	(2,017)	-	(1,032,038)
31 December 2006	1,621,816	(20,935)	29,978	-	1,630,859
Carrying value					
31 December 2006	6,381,612	179,065	738,670	840,049	8,139,396
31 December 2005	4,896,095	50,000	716,401	301,900	5,964,396

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

6. Notes to the Company Only Financial Statements (Cont'd)

(3) Long-term Equity Investments (Cont'd)

(a) Subsidiaries

Name	Attributable interest in registered capital		Investment cost				Accumulated equity movement					Carrying value		
	31 December 2005	31 December 2006	31 December 2005	Current year additions	Company (note4)	31 December 2006	31 December 2005	Reduction of equity recognised on subsidiaries' payment of one-off monetary housing subsidies	Net profit adjusted on equity method	Cash dividend declared by investees	Adjustments on provision for equity investments	31 December 2006	31 December 2005	31 December 2006
Tuoketuo power company	60.00%	60.00%	1,028,414	-	-	1,028,414	859,732	(38,139)	924,632	(659,351)	59	1,086,933	1,888,146	2,115,347
Panshan power company	75.00%	75.00%	623,440	-	-	623,440	300,734	-	252,727	(206,319)	-	347,142	924,174	970,582
Huaze hydropower company	90.43%	90.43%	53,500	-	-	53,500	8,948	-	2,381	-	-	11,329	62,448	64,829
Shentou power company	60.00%	60.00%	448,920	480	-	449,400	40,037	-	100,022	(34,032)	-	106,027	488,957	555,427
Yungang thermal company	80.00%	80.00%	200,000	-	-	200,000	19,480	-	27,842	(12,410)	-	34,912	219,480	234,912
Honghe power company	70.00%	70.00%	77,680	212,510	-	290,190	-	-	6,130	-	-	6,130	77,680	296,320
Liancheng power company	55.00%	55.00%	151,530	-	-	151,530	20,909	-	21,672	(17,773)	-	24,808	172,439	176,338
Tangshan thermal company	80.00%	80.00%	304,211	-	-	304,211	127,761	-	112,228	(100,136)	29,112	168,965	431,972	473,176
Nalan hydropower company	51.00%	51.00%	14,520	29,730	-	44,250	-	-	8,164	-	-	8,164	14,520	52,414
Lixianjiang hydropower company	70.00%	70.00%	70,000	112,000	-	182,000	-	-	2,690	-	-	2,690	70,000	184,690
Yuncheng power company	80.00%	80.00%	79,700	50,000	-	129,700	-	(7,410)	-	-	-	(7,410)	79,700	122,290
Pengshui hydropower company	40%**	40%**	-	-	248,900	248,900	-	(1,616)	-	-	-	(1,616)	-	247,284
Lusigang power company	90.00%	90.00%	119,000	-	-	119,000	-	(4,785)	-	-	-	(4,785)	119,000	114,215
Chaozhou power company	75.00%	75.00%	135,000	-	-	135,000	-	(14,536)	2,911	-	-	(11,625)	135,000	123,375
Ningde power company	51.00%	51.00%	127,500	61,200	-	188,700	-	(13,582)	(1,072)	-	4	(14,650)	127,500	174,050
Datang Hongkong	100.00%	100.00%	23,511	-	-	23,511	68	-	3,452	-	-	3,520	23,579	27,031
Wulong hydropower company	51.00%	51.00%	25,500	-	-	25,500	-	(953)	-	-	-	(953)	25,500	24,547
Wenshan hydropower company	60.00%	60.00%	36,000	-	-	36,000	-	-	-	-	-	-	36,000	36,000
Wangtan power company	-	70.00%	-	315,000	-	315,000	-	(23,188)	(110,396)	-	-	(133,584)	-	181,416
Shizhu power company	-	70.00%	-	7,000	-	7,000	-	(585)	-	-	-	(585)	-	6,415
Duolun hydropower company	-	51.00%	-	14,550	-	14,550	-	-	(4,031)	-	563	(3,468)	-	11,082
Ganzi hydropower company	-	80.00%	-	40,000	-	40,000	-	-	-	-	-	-	-	40,000
Chemistry Technique Development Company	-	100.00%	-	50,000	-	50,000	-	-	(217)	-	-	(217)	-	49,783
Fuel company	-	100.00%	-	80,000	-	80,000	-	-	89	-	-	89	-	80,089
Zhuozi wind power company	-	100.00%	-	20,000	-	20,000	-	-	-	-	-	-	-	20,000
Total			3,518,426	992,470	248,900	4,759,796	1,377,669	(104,794)	1,349,224	(1,030,021)	29,738	1,621,816	4,896,095	6,381,612

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For the year ended 31 December 2006

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

6. Notes to the Company Only Financial Statements (Cont'd)

(3) Long-term Equity Investments (Cont'd)

(b) Details of the jointly controlled entity please refer to Note 4

(c) Details of associates and other equity investments please refer to Note 5(6).

There are no significant differences in the accounting policies adopted by the investees and the Company and there are no restrictions on conversion into cash or remittance of investment income.

As at 31 December 2006 and 31 December 2005, total long-term equity investments and debt investment of the Company accounted for 37.34% and 33.20% of the net assets, respectively.

(4) Long-term debt investments

On 30 September 2006, the Company provided a loan amounting to USD 50 million to Shentou Power Company through the Bank of China, bearing interest at 6-month LIBOR plus 1% with duration of 89 months. 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.

(5) Revenue from main operations and costs of main operations

	For the year ended 31 December 2006		For the year ended 31 December 2005	
	Revenue from main operations	Costs of main operations	Revenue from main operations	Costs of main operations
Electricity sales	10,343,926	(7,582,139)	8,801,253	(6,606,898)
Heat sales	43,767	(92,282)	34,833	(74,092)
	<u>10,387,693</u>	<u>7,673,421</u>	<u>8,836,086</u>	<u>6,680,990</u>

For the year ended 31 December 2006, the aggregate revenue from the five largest customers of the Company amounted to Rmb 10,387.7 million, representing 100% of the total revenue.

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For the year ended 31 December 2006
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6. Notes to the Company Only Financial Statements (Cont'd)

(6) Investment income

	For the year ended 31 December 2006	For the year ended 31 December 2005
Share of profit of investees accounted for under the equity method	1,340,575	1,212,180
Dividends declared by investees accounted for under the cost method	28,052	43,571
Profit on disposal of investment	-	36,285
Interest income from entrusted loans	22,831	-
Other	-	1,726
	<u>1,391,458</u>	<u>1,293,762</u>

7. Related Party Relationships and Transactions

(1) Related parties that control the Company or are controlled by the Company

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Tuoketuo Power Company	Hohhot, Inner Mongolia Autonomous Region	Power generation	A subsidiary of the Company	Limited liability company	An Hongguang
Panshan Power Company	Jixian, Tianjin	Power generation	A subsidiary of the Company	Limited liability company	Yang Hongming
Huaze Hydropower Company	Fengning, Hebei Province	Hydropower generation	A subsidiary of the Company	Limited liability company	Fang Zhanling
Shentou Power Company	Shuozhou, Shanxi Province	Power generation	A subsidiary of the Company	Limited liability company	Wang Xianzhou
Yungang Thermal Power Company	Datong, Shanxi Province	Power generation	A subsidiary of the Company	Limited liability company	Yu Libin

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For the year ended 31 December 2006

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

7. Related Party Relationships and Transactions (Cont'd)

(1) Related parties that control the Company or are controlled by the Company (Cont'd)

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Honghe Power Company	Kaiyuan, Yunnan Province	Power generation	A subsidiary of the Company	Limited liability company	Qiu Ling
Liancheng Power Company	Yongdeng, Gansu Province	Power generation	A subsidiary of the Company	Limited liability company	Qiu Ling
Tangshan Thermal Power Company	Tanshan, Hebei Province	Power generation	A subsidiary of the Company	Limited liability company	Wang Xianzhou
Nalan Hydropower Company	Jinping, Yunnan Province	Hydropower generation (under construction)	A subsidiary of the Company	Limited liability company	Zhang Yi
Lixianjiang Hydropower Company	Simao, Yunnan Province	Hydropower generation (under construction)	A subsidiary of the Company	Limited liability company	Zhang Yi
Yuncheng Power Company	Yuncheng, Shanxi province	Power generation (under construction)	A subsidiary of the Company	Limited liability company	Qiu Ling
Pengshui Hydropower Company	Pengshui, Chongqing	Hydropower generation (under construction)	A subsidiary of the Company	Limited liability company	Liu Lizhi
Lusigang Power Company	Qidong, Jiangsu Province	Power generation (under construction)	A subsidiary of the Company	Limited liability company	Liu Lizhi
Chaozhou Power Company	Chaozhou, Guangdong Province	Power generation	A subsidiary of the Company	Limited liability company	Wei Yuan
Ningde Power Company	Ningde, Fujian Province	Power generation	A subsidiary of the Company	Limited liability company	Yang Hongming
Datang International (Hong Kong) Limited	Hong Kong	Power related consulting services	A subsidiary of the Company	Limited liability company	Wei Yuan

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7. Related Party Relationships and Transactions (Cont'd)

(1) Related parties that control the Company or are controlled by the Company (Cont'd)

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Wulong Hydropower Company	Wulong, Chongqing	Hydropower generation (under construction)	A subsidiary of the Company	Limited liability company	Liu Lizhi
Wenshan Hydropower Company	Wenshan, Yunnan Province	Hydropower generation (under construction)	A subsidiary of the Company	Limited liability company	Qiu Ling
Wangtan Power Company	Tangshan, Hebei Province	Power generation	A subsidiary of the Company	Limited liability company	An Hongguang
Shizhu Power Company	Shizhu, Chongqing Province	Power generation (Pre-construction)	A subsidiary of the Company	Limited liability company	Liu Lizhi
Duolun Hydropower Company	Duolun, Inner Mongolia Autonomous Region	Hydropower generation	A subsidiary of the Company	Limited liability company	Liu Lizhi
Ganzi Hydropower Company	Ganzi, Sichuan Province	Hydropower generation (pre-construction)	A subsidiary of the Company	Limited liability company	Liu Lizhi
Chemistry Technique Development Company	Fengtai District, Beijing	Coal related service	A subsidiary of the Company	Limited liability company	Liu Lizi
Fuel Company	Xicheng District, Beijing	Coal sales, Investment management, Technique service	A subsidiary of the Company	Limited liability company	Yang Hongming
Zhuozi Wind Power Company	Zhuozi, Inner Mongolia Autonomous Region	Wind Power generation (pre-construction)	A subsidiary of the Company	Limited liability company	Zhu Pingli

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For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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7. Related Party Relationships and Transactions (Cont'd)

(2) Registered capital of related parties that control the Company or are controlled by the company and respective changes

Name	Currency	For the year ended 31 December 2005	Current year additions	For the year ended 31 December 2006
Tuoketuo Power Company	Rmb	1,614,020	100,000	1,714,020
Panshan Power Company	Rmb	831,253	–	831,253
Huaze Hydropower Company	Rmb	59,162	–	59,162
Shentou Power Company	Rmb	748,520	–	748,520
Yungang Thermal Power Company	Rmb	250,000	–	250,000
Honghe Power Company	Rmb	109,157	305,393	414,550
Liancheng Power Company	Rmb	98,000	–	98,000
Tangshan Thermal Power Company	Rmb	380,264	–	380,264
Nalan Hydropower Company	Rmb	28,477	–	28,477
Lixianjiang Hydropower Company	Rmb	60,000	200,000	260,000
Yuncheng Power Company	Rmb	10,000	89,625	99,625
Pengshui Hydropower Company	Rmb	125,000	–	125,000
Lusigang Power Company	Rmb	50,000	–	50,000
Chaozhou Power Company	Rmb	30,000	–	30,000
Ningde Power Company	Rmb	50,000	200,000	250,000
Datang International (Hong Kong) Limited	Rmb	23,511	–	23,511
Wulong Hydropower Company	Rmb	50,000	–	50,000

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For the year ended 31 December 2006
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7. Related Party Relationships and Transactions (Cont'd)

(2) Registered capital of related parties that control the Company or are controlled by the company and respective changes (Cont'd)

Name	Currency	For the year ended 31 December 2005	Current year additions	For the year ended 31 December 2006
Wenshan Hydropower Company	Rmb	60,000	–	60,000
Wangtan Power Company	Rmb	–	450,000	450,000
Shizhu Power Company	Rmb	–	10,000	10,000
Duolun Hydropower Company	Rmb	–	28,520	28,520
Ganzi Hydropower Company	Rmb	–	50,000	50,000
Chemistry Technique Development Company	Rmb	–	50,000	50,000
Fuel Company	Rmb	–	80,000	80,000
Zhuozi Wind Power Company	Rmb	–	20,000	20,000

(3) Equity shares and changes in equity shares held by parties/by the Company that control the Company or are controlled by the Company

Name	31 December 2005		Current Year Addition		31 December 2006	
	Amount	%	Amount	%	Amount	%
Tuoketuo Power Company	1,028,414	60%	–	–	1,028,414	60%
Panshan Power Company	623,440	75%	–	–	623,440	75%
Huaze Hydropower Company	53,500	90.43%	–	–	53,500	90.43%
Shentou Power Company	448,920	60%	480	–	449,400	60%
Yungang Thermal Power Company	200,000	80%	–	–	200,000	80%
Honghe Power Company	77,680	70%	212,510	–	290,190	70%
Liancheng Power Company	151,530	55%	–	–	151,530	55%

Notes to the Financial Statements

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

7. Related Party Relationships and Transactions (Cont'd)

(3) Equity shares and changes in equity shares held by parties/by the Company that control the Company or are controlled by the Company (Cont'd)

Name	31 December 2005		Current Year Addition		31 December 2006	
	Amount	%	Amount	%	Amount	%
Tangshan Thermal Power Company	304,211	80%	–	–	304,211	80%
Nalan Hydropower Company	14,520	51%	29,730	–	44,250	51%
Lixianjiang Hydropower Company	70,000	70%	112,000	–	182,000	70%
Yuncheng Power Company	79,700	80%	50,000	–	129,700	80%
Pengshui Hydropower Company	150,000	40%	98,900	–	248,900	40%
Lusigang Power Company	119,000	90%	–	–	119,000	90%
Chaozhou Power Company	135,000	75%	–	–	135,000	75%
Ningde Power Company	127,500	51%	61,200	–	188,700	51%
Datang Hong Kong	23,511	100%	–	–	23,511	100%
Wulong Hydropower Company	25,500	51%	–	–	25,500	51%
Wenshan Hydropower Company	36,000	60%	–	–	36,000	60%
Wangtan Power Company	–	–	315,000	70%	315,000	70%
Shizhu Powen Company	–	–	7,000	70%	7,000	70%
Duolun Hydropower Company	–	–	14,550	51%	14,550	51%
Ganzi Hydropower Company	–	–	40,000	80%	40,000	80%
Chemistry Technique Development Company	–	–	50,000	100%	50,000	100%
Fuel Company	–	–	80,000	100%	80,000	100%
Zhuozi Wind Power Company	–	–	20,000	100%	20,000	100%

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7. Related Party Relationships and Transactions (Cont'd)

(4) Nature of related parties that do not control/are not controlled by the Company

Name of related parties	Relationship with the Company
China Datang	Substantial Shareholder
Tianjin Jinneng	Shareholder
NCEPR	Associate
Datang Texin	Associate
Daba Power Company	Associate
Tashan Coal Mine	Associate
Datang Finance	Associate

(5) Related party transactions of the Company and its Subsidiaries:

	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	–

(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. As at 31 December 2006, the amount of payable to China was 57,892,000 (31 December 2005 Nil), which was included in other payables.

(b) The Company has leased buildings of 141,671 square metres from China Datang for an annual rental rate of approximately Rmb 7,228,000 in 2006 (2005-Rmb7,228,000). As at 31 December 2006, the amount payable to China Datang was 7,228,000 (31 December 2005: Nil), which was included in other payables.

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7. Related Party Relationships and Transactions (Cont'd)

(5) Related party transactions of the Company and its Subsidiaries: (Cont'd)

- (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. As at 31 December 2006, the amount of payable to NVEPR was 7,542,000 (31 December 2005: 799,000), which was included in account payable.
- (d) The Company sold heat to Datang Texin at the prices approved by Beijing Price Bureau. As at 31 December 2006, the amount of receivable from Datang Texin was Rmb44,456,000 (31 December 2005: Rmb10,117,000), which was included in accounts receivable.
- (e) In 2006, 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 is no balance due to China Datang (31 December 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 5 (11) and (16), as at 31 December 2006, the Company and its Subsidiaries had short-term loans payable to Datang Finance totalling approximately Rmb761.2 million (31 December 2005: Rmb187 million), long-term loans totalling approximately Rmb189.5 million (31 December 2005: Nil).
- (i) As discussed in note 5(11), 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).
- (j) As discussed in Note 5(11) & (16) above, NCG and the minority shareholders of the Company's subsidiaries provided guarantees for the Company and its Subsidiaries' loans totalling approximately Rmb 3,930 million as at 31 December 2006 (31 December 2005-Rmb5,308 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 (Note 5(16)).

Notes to the Financial Statements

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7. Related Party Relationships and Transactions (Cont'd)

(5) Related party transactions of the Company and its Subsidiaries: (Cont'd)

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

(6) Accounts receivable from and payable to related parties

	31 December 2006		31 December 2005	
	Amount	Percentage attributable to related balance	Amount	Percentage attributable to related balance
Accounts receivable	44,456	1.33%	10,117	0.72%
Datang Texin				
Accounts payable	7,542	0.11%	799	0.02%
NCEPR				
Other payable	65,120	14.63%	–	–
China Datang				

8. Contingent Liability

Other than the guarantees in respect of associates disclosed in Note 7(5)(k), the Company had no other significant contingent liabilities.

9. Commitments

(a) Capital commitments

As at 31 December 2006, the Company and its Subsidiaries had capital commitments related to investments in subsidiaries and associates amounting to Rmb 12,906 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 which have been contracted for as at 31 December 2006 but do not need to be provided for in the balance sheet were Rmb 21,972 million (31 December 2005: Rmb22,229 million). A substantial portion of the above capital commitments is in relation to a coal mining project for which the Company and its Subsidiaries has 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.

Notes to the Financial Statements

For the year ended 31 December 2006

(Prepared in accordance with PRC Accounting Standard)

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

9. Commitments (Cont'd)

(b) Operating lease commitments

The future aggregate minimum lease payments due under non-cancelable operating lease commitments extending to November 2016 in relation to buildings were as follows:

	31 December 2006	31 December 2005
Within 1 year	10,372	13,505
1 to 2 years	7,228	10,361
2 to 3 years	7,228	7,217
Over 3 years	50,596	57,736
	<u>75,424</u>	<u>88,819</u>

10. Net Profit after Deducting Non-recurring Items

	For the year ended 31 December 2006	For the year ended 31 December 2005
Net profit	2,707,291	2,360,740
Add (Less): Non-recurring items		
– Loss on disposal of fixed assets and long-term investment	1,269	2,892
– Subsidy income	(2,865)	(2,919)
– Non-operating income	(11,724)	(42,160)
– Non-operating expenses	102,418	82,419
Tax impact on non-recurring items	(29,402)	(15,203)
Net profit after deducting non-recurring items	<u>2,766,987</u>	<u>2,385,769</u>

11. Subsequent Event

- (1) 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.
- (2) On 30 March 2007, the Board of Directors proposed dividends amounting totalling approximately Rmb1,348,713,594. 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 to 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 as 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.
- (3) 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 will account 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.
- (4) 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.
- (5) 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.