

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL

The Company is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company as at 31 December 2006 is China Resources (Holdings) Company Limited ("CRH"), a company incorporated in Hong Kong. The directors regard the ultimate holding company as at 31 December 2006 to be China Resources National Corporation ("CRNC"), a company established in the People's Republic of China (the "PRC"). The address of the registered office and principal place of business of the Company is Rooms 2001-2002, 20th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The financial statements are presented in Hong Kong dollars and the functional currency of the Company is Renminbi. The Company uses Hong Kong dollars as its presentation currency because the Company is a public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 18 and 19, respectively.

The Group had net current liabilities as at 31 December 2006 with short-term bank borrowings which could be renewed on an annual basis at the discretion of the Company within limit approved by banks. The directors are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of the financial statements. Hence, the financial statements have been prepared on a going concern basis.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2006.

The Group has commenced considering the potential impact of these standards, interpretations and amendments. The management anticipates the application of these new standards, interpretations and amendments will have no material impact on how the results and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ⁷
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) - INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions ⁶
HK(IFRIC) - INT 12	Service concession arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

⁶ Effective for annual periods beginning on or after 1 March 2007

⁷ Effective for annual periods beginning on or after 1 January 2009

⁸ Effective for annual periods beginning on or after 1 July 2008

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries is recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of subsidiaries or associates represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries or associates at the date of acquisition.

For previously capitalised goodwill arising on acquisitions prior to 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whether there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill (cont'd)

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of subsidiaries or associates for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or associates at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment loss.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet. Capitalised goodwill arising on acquisition of associates is included in the cost of the investment of the relevant associates.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of subsidiaries or associates, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of associates for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the year in which the investment is acquired.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes.

Sales of electricity are recognised when electricity has been delivered.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives from the date on which they are in the manner of intended use and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress represents assets in the course of construction for production, rental or administrative purposes. They are carried at cost, less any identified impairment loss. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories which consist of coal, fuel, spare parts and consumables are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies (cont'd)

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash, amounts due from minority shareholders of subsidiaries/associates/group companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loan and receivable, financial assets at fair value through profit or loss and held-to-maturity investments. The investment in an investee company is classified as an available-for-sale financial asset.

Equity investment does not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, it is measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits which are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities and equity (cont'd)

Financial liabilities

Financial liabilities including trade and other payables, amounts due to an associate/group companies/minority shareholders of subsidiaries, bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily interest rate swap) to hedge its exposure against changes in interest rate. Such derivatives are measured at fair value and is designated as effective cash flow hedging instruments. The effective portion and the ineffective portion of any unrealised gain or loss arising on the changes in fair value of the hedging on the instrument is recognised directly in equity and in the income statement respectively. The cumulated gain or loss associated with the effective portion of the cash flow hedge is removed from equity and is generally "recycled" in the income statement in the same period or periods during which the gain or loss arising from the hedged item is recognised in the income statement.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company, directors of CRH, employees of CRH and its subsidiaries

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Retirement benefit contributions

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

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4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, management had made the following estimations.

Share option benefit expenses

The share option benefit expense is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 36 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss account and share option reserve.

Impairment review of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill as at 31 December 2006 are HK\$213,506,000 arising from acquisitions of subsidiaries. Details of the recoverable amount calculations of goodwill arising from acquisitions of subsidiaries are disclosed in note 38.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investment in an investee company, pledged bank deposits, bank balances and cash, trade and other receivables, trade and other payables, amounts due from associates, amount due to group companies and minority shareholders of subsidiaries and, bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Except for HK\$1,000 million bank borrowings were at floating rates, all remaining bank borrowings and other borrowings were at fixed rate. In order to keep borrowings at fixed rate and to minimise the cash flow interest rate risk, the Group uses floating to fixed interest rate swaps to manage the cash flow interest rate risk exposure associated with the borrowings amounting to HK\$1,000 million issued at floating rates (see note 24 for details). Fixed rate bank and other borrowings expose the Group to fair value interest rate risk. At 31 December 2006, bank borrowings of approximately HK\$15,591 million were also at fixed rates.

Currency risk

The Group does not have significant exposure to foreign currency risk as majority of the Group's operations are in the PRC and transactions are denominated in Renminbi which is the functional currency of the Group. The management considers the Group's exposure to foreign currency risk is minimal.

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Credit risk

THE GROUP

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk for power plants in the PRC power industry is limited to/concentrated on a limited number of power grids. However, the management, having consider the strong financial background and good creditability of the power grids, believes there is no significant credit risk.

THE COMPANY

The Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Company arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount disclosed in note 42 - Contingent liabilities.

The credit risk is limited because the counterparties are subsidiaries with strong financial position and cash flow position.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to certain internal control measures of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group has net current liabilities as at 31 December 2006, which is exposed to liquidity risk. In order to mitigate the liquidity risk, the management obtained sufficient bank facilities at the balance sheet date. In addition, the power plants in the PRC have strong operating cash inflow. In this regard, the directors of the Company consider that the Group's liquidity risk is significantly reduced and are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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6. SEGMENT INFORMATION

Business segments

The Group's principal activities are the development and operation of power stations as a single business segment.

Geographical segments

Substantially all of the Group's assets and liabilities are located in the PRC, other than Hong Kong, and operations for the year were substantially made in the PRC, other than Hong Kong. Accordingly, no geographical segment information for the year is presented.

7. TURNOVER

Turnover represents the net amount received and receivable for the sales of electricity and to a limited extent, the amount received and receivable for heat delivered by thermal power plants, net of sales related taxes during the year.

8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank and other loans:		
- wholly repayable within five years	(349,847)	(387,367)
- not wholly repayable within five years	(429,369)	(192,938)
	(779,216)	(580,305)
Less: Interest capitalised	238,068	199,085
	(541,148)	(381,220)

9. GAIN ON DISPOSAL OF JOINTLY CONTROLLED ENTITY

During the year ended 31 December 2005, the Group's entire interest in Huaneng International Power Development Corporation 華能國際電力有限公司 ("HIPDC") was disposed to third parties for a consideration of HK\$2,452,992,000. On 22 September 2005, the Group entered into an agreement with China Huaneng Group Hong Kong Limited (中國華能集團香港有限公司) ("Huaneng Hong Kong") in relation to the disposal of a 50% interest in the issued share capital of China Resources Power North Achievement Co., Ltd. ("North Achievement"), a wholly owned subsidiary of the Company, and a separate agreement with Bank of China Group Investment Limited ("BOCGI") in relation to the disposal of the remaining 50% interest in the issued share capital of North Achievement. North Achievement owned an indirect and effective 10% interest in HIPDC. Hence, the Group disposed of effective 5% interest in HIPDC to each of Huaneng Hong Kong and BOCGI.

The transaction was completed on 30 September 2005. The resulting gain on disposal was HK\$1,071,081,000 and the share of result of HIPDC for the nine months ended 30 September 2005 was HK\$194,815,000.

For the year ended 31 December 2006

10. TAXATION

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
The Company and its subsidiaries		
- PRC Enterprise Income Tax	2,842	—
- Deferred taxation (note 34)	8,291	11,371
	11,133	11,371

No provision for Hong Kong Profits Tax has been made as the Group had no taxable profit in Hong Kong for both years.

PRC Enterprise Income Tax has been calculated based on the estimated assessable profits in accordance with the relevant tax laws applicable to a subsidiary in the PRC.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In addition, certain of the Company's PRC subsidiaries, entitled to a tax benefit ("Tax Benefit"), which is calculated as 40% of the current year's purchase of PRC produced plant and equipment for production use. The Tax Benefit is, however, limited to the amount of increase in enterprise income tax for the current year in which the plant and equipment are acquired as compared with the tax amount of the previous year. The portion of the Tax Benefit that is not utilised in the current year can be carried forward for future application for a period of not more than seven years.

The taxation charge can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	2,745,098	3,082,114
Less: Share of results of associates	(686,672)	(854,993)
Share of result of jointly controlled entity	—	(194,815)
Profit before taxation attributable to the Company and its subsidiaries	2,058,426	2,032,306
Tax at applicable rate of 18% (2005: 18%)	370,517	365,815
Tax effect of income that is not taxable in determining current year taxable profit	(29,236)	(199,535)
Tax effect of expenses that are not deductible in determining current year taxable profit	34,919	15,859
Effect of tax exemptions granted to PRC subsidiaries	(276,588)	(155,684)
Reduction of tax in respect of Tax Benefits	(97,218)	(16,640)
Effect of different tax rates of subsidiaries	(3,017)	227
Tax effect of tax losses not recognised	8,796	630
Others	2,960	699
Tax expense for the year	11,133	11,371

Note: Tax rate of 18% is adopted for the taxation reconciliation as such tax rate is applicable to most of the Group's operations in the PRC for both years.

For the year ended 31 December 2006

11. PROFIT FOR THE YEAR

	2006 HK\$'000	2005 HK\$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
- Fees	615	518
- Other emoluments	12,296	7,779
- Pension costs	196	124
- Share option benefits expenses	5,274	8,419
	18,381	16,840
Other staff costs	283,099	164,839
Pension costs, excluding directors	56,370	35,316
Share option benefits expense, excluding directors	107,956	97,837
Total staff costs	465,806	314,832
Less: Staff costs included in pre-operating expenses of subsidiaries	(9,959)	(6,210)
	455,847	308,622
Amortisation of prepaid lease payments	17,016	9,333
Auditors' remuneration	3,100	2,304
Depreciation of property, plant and equipment	968,726	578,401
Loss on disposal of property, plant and equipment	32	—
Minimum lease payments under operating leases in respect of:		
- land and buildings	54,838	51,191
- other assets	806	362
Share of tax of associates (included in share of results of associates) (note)	104,220	126,173
Share of tax of jointly controlled entity (included in share of result of jointly controlled entity) (note)	—	61,637
Write-off of pre-operating expenses of subsidiaries	71,817	32,385
and after crediting:		
Recognition of discount on acquisition of an associate (included in share of results of associates)	5,883	40,412
Recognition of discount on acquisition of a subsidiary	46,925	—
Net exchange gain	23,822	—
Interest income	145,860	45,524
Expenses capitalised in construction in progress:		
Other staff costs	85,619	78,306
Pension costs	1,173	5,781
Depreciation	1,659	1,050

Note: PRC Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the associates and jointly controlled entity in the PRC.

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12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Details of directors' remuneration are as follows:

The emoluments paid or payable to each of the twelve (2005: nine) directors were as follows:

For the year ended 31 December 2006

	Song Lin	Wang Shuai Ting	Tang Cheng	Zhang Shen Wen	Wang Xiao Bin	Jiang Wei	Anthony H. Adams	Wu Jing Ru	Chen Ji Min	Ma Chiu Cheung, Andrew	Shen Zhong Min*	Fong Ching, Eddy*	Total 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	70	—	—	—	—	70	126	126	111	7	—	105	615
Other emoluments													
Salaries and other benefits	—	1,951	670	700	1,256	—	—	—	—	—	535	—	5,112
Pension costs	—	72	15	27	61	—	—	—	—	—	21	—	196
Share option benefits expenses	856	928	916	916	874	502	141	141	—	—	—	—	5,274
Bonus (Note)	—	1,072	3,412	700	600	—	—	—	—	—	1,400	—	7,184
Total emoluments	926	4,023	5,013	2,343	2,791	572	267	267	111	7	1,956	105	18,381

For the year ended 31 December 2005

	Song Lin	Wang Shuai Ting	Tang Cheng	Zhang Shen Wen	Jiang Wei	Anthony H. Adams	Wu Jing Ru	Shen Zhong Min*	Fong Ching, Eddy*	Total 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	70	—	—	—	70	126	126	—	126	518
Other emoluments										
Salaries and other benefits	—	1,266	600	595	—	—	—	863	—	3,324
Pension costs	—	58	—	27	—	—	—	39	—	124
Share option benefits expenses	1,198	2,069	1,379	1,379	682	111	111	1,379	111	8,419
Bonus (Note)	—	870	1,744	641	—	—	—	1,200	—	4,455
Total emoluments	1,268	4,263	3,723	2,642	752	237	237	3,481	237	16,840

* Resigned as director during the year ended 31 December 2006.

Note: The bonus is determined having regard to the performance of individuals and market trends.

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12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONT'D)

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals (including four (2005: four) directors, and the remaining (2005: one) employee) for the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	4,964	4,553
Pension costs	170	185
Bonus	8,810	5,035
Share option benefits expenses	3,588	7,585
	17,532	17,358

Emoluments of these individuals were within the following bands:

	2006	2005
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	—	2
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	1
HK\$5,000,001 to HK\$5,500,000	1	—

During the year, no remuneration has been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. No directors have waived any remunerations during the year.

13. RETIREMENT BENEFIT SCHEMES

(a) Hong Kong

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

During the year, the total amounts contributed by the Group to the scheme in Hong Kong and charged to the consolidated income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme are as follows:

	2006 HK\$'000	2005 HK\$'000
Amount contributed and charged to the consolidated income statement	935	771

For the year ended 31 December 2006

13. RETIREMENT BENEFIT SCHEMES (CONT'D)

(b) PRC

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

The total costs (i) charged to the consolidated income statement or (ii) capitalised in construction in progress in respect of the above-mentioned schemes in the PRC during each of the years are as follows:

	2006 HK\$'000	2005 HK\$'000
Amount contributed and charged to the consolidated income statement	55,631	34,669
Amount contributed and capitalised in the construction in progress	1,173	5,781

14. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim dividend paid of HK\$0.04 (2005: HK\$0.03) per share on 3,815,925,000 (2005: 3,809,167,000) shares	152,637	114,275
2005 final dividend paid of HK\$0.10 (2005: 2004 final dividend paid of HK\$0.061) per share on 3,812,349,000 (2005: 3,808,634,000) shares	381,235	232,327
Special dividend paid of HK\$0.06 (2005: nil) per share on 3,812,349,000 shares	228,741	—
	762,613	346,602
Final dividend proposed of HK\$0.14 (2005: HK\$0.10) per share	538,259	381,092
Special dividend proposed of HK\$nil (2005: HK\$0.06) per share	—	228,655
	538,259	609,747

The proposed final dividend for 2006 is based on 3,844,710,000 shares in issue at 23 March 2007 and to be approved by shareholders in general meeting.

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15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	2,364,856	2,858,225
Represented by:		
Profit from ordinary business	2,364,856	1,787,144
Gain on disposal of jointly controlled entity	—	1,071,081
	2,364,856	2,858,225
	Number of ordinary shares	
	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,814,667,934	3,808,876,816
Effect of dilutive potential ordinary shares on share options	120,489,057	34,583,272
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,935,156,991	3,843,460,088
	2006 HK cents	2005 HK cents
Basic earnings per share		
- Profit from ordinary business	61.99	46.92
- Gain on disposal of jointly controlled entity	—	28.12
	61.99	75.04
Diluted earnings per share		
- Profit from ordinary business	60.10	46.50
- Gain on disposal of jointly controlled entity	—	27.87
	60.10	74.37

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Power generating plant and equipment HK\$'000	Motor vehicles, furniture, fixtures, equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 January 2005	1,572,032	4,678,929	51,519	5,906,084	12,208,564
Currency realignment	36,521	108,094	1,061	135,954	281,630
Additions	10,738	1,188,718	39,198	4,651,665	5,890,319
Transfer	995,637	5,420,560	—	(6,416,197)	—
At 31 December 2005	2,614,928	11,396,301	91,778	4,277,506	18,380,513
Currency realignment	127,921	531,428	3,932	210,508	873,789
Acquisition of subsidiaries	857,719	2,923,967	21,127	1,362,136	5,164,949
Additions	108,560	311,391	39,963	4,983,706	5,443,620
Transfer	1,378,056	4,398,093	16,900	(5,793,049)	—
Transfer to prepaid lease payment	(102,287)	—	—	(13,007)	(115,294)
Adjustments	1,075,315	(1,653,099)	—	—	(577,784)
Disposal	—	(420)	(904)	—	(1,324)
At 31 December 2006	6,060,212	17,907,661	172,796	5,027,800	29,168,469
DEPRECIATION					
At 1 January 2005	48,332	170,684	8,878	—	227,894
Currency realignment	2,529	9,621	280	—	12,430
Provided for the year	116,424	451,239	11,788	—	579,451
At 31 December 2005	167,285	631,544	20,946	—	819,775
Currency realignment	6,800	28,880	1,963	—	37,643
Provided for the year	177,149	815,993	19,828	—	1,012,970
Adjustments	61,405	(103,990)	—	—	(42,585)
Transfer to prepaid lease payment	(366)	—	—	—	(366)
Elimination on disposal	—	(214)	(253)	—	(467)
At 31 December 2006	412,273	1,372,213	42,484	—	1,826,970
CARRYING VALUES					
At 31 December 2006	5,647,939	16,535,448	130,312	5,027,800	27,341,499
At 31 December 2005	2,447,643	10,764,757	70,832	4,277,506	17,560,738

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16. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life as follows:

Buildings	18 to 20 years
Power generating plant and equipment	15 to 18 years
Motor vehicles, furniture, fixtures, equipment and others	3 to 10 years

The carrying value of buildings shown above refers to land located outside Hong Kong under medium term leases.

Included in construction in progress is interest capitalised of HK\$164,535,000 (2005: HK\$171,593,000) not yet transferred to the appropriate categories of property, plant and equipment.

	Motor vehicles, furniture, fixtures, equipment and others
	HK\$'000
<hr/>	
THE COMPANY	
COST	
At 1 January 2005	4,689
Additions	871
<hr/>	
At 31 December 2005 and 1 January 2006	5,560
Additions	470
<hr/>	
At 31 December 2006	6,030
<hr/>	
DEPRECIATION	
At 1 January 2005	2,135
Provided for the year	864
<hr/>	
At 31 December 2005 and 1 January 2006	2,999
Provided for the year	873
<hr/>	
At 31 December 2006	3,872
<hr/>	
CARRYING VALUE	
At 31 December 2006	2,158
<hr/>	
At 31 December 2005	2,561
<hr/>	

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments are situated in the PRC and held under medium term leases.

The prepaid lease payments are amortised over the term of the leases.

For the year ended 31 December 2006

18. INVESTMENTS IN/LOANS TO SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares/capital contribution, at cost	4,958,148	4,808,366
Loans to subsidiaries (note)	806,068	1,003,904
	5,764,216	5,812,270

Note: The amounts are unsecured, bear interest at prevailing market rates and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand for the repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

The fair value of the Company's loans to subsidiaries at 31 December 2006 approximates their corresponding carrying value.

Details of the Company's principal subsidiaries as at 31 December 2006 are set out below.

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Leader Best Limited 豐能有限公司	Hong Kong	Ordinary shares - HK\$10,000 Non-voting deferred* shares - HK\$10,000	100	—	Investment holding
Resources Shajiao C Investments Limited 香港潤朗沙角投資有限公司	Hong Kong	Ordinary shares - HK\$9,999 Special share - HK\$1**	—	90	Investment holding
China Resources Power Dengfeng Co., Ltd. 華潤電力登封有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB630,000,000 Paid-up capital - RMB525,019,875	85	—	Operation of a power station
China Resources (Luoyang) Thermal Power Co., Ltd. 洛陽華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB80,000,000	51	—	Operation of a power station

For the year ended 31 December 2006

18. INVESTMENTS IN/LOANS TO SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
China Resources Power (Changshu) Co., Ltd. 華潤電力(常熟)有限公司 (Wholly-Owned Foreign Enterprise)	PRC	Registered and paid-up capital - US\$173,520,000	100	—	Operation of a power station
China Resources Power Hunan Liyujiang Co., Ltd. 湖南華潤電力(鯉魚江)有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB573,660,000	60	—	Operation of a power station
China Resources Power Hubei Co., Ltd. 華潤電力湖北有限公司 (Wholly-Owned Foreign Enterprise) (note a)	PRC	Registered and paid-up capital - US\$112,000,000	100	—	Operation of a power station
China Resources (Jiaozuo) Thermal Power Co., Ltd. 焦作華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB267,540,000 Paid-up capital - RMB194,748,500	—	60	Operation of a power station
China Resources Power Performance Co., Ltd.	BVI	Share - HK\$0.01	100	—	Investment holding
Tangshan China Resources Thermal Power Co., Ltd. 唐山華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB270,490,000 Paid-up capital - RMB236,721,676	—	80	Operation of a power station
China Resources Power Henan Shouyangshan Co., Ltd. 河南華潤電力首陽山有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB1,237,500,000 Paid-up capital - RMB1,138,500,003	—	85	Operation of a power station

For the year ended 31 December 2006

18. INVESTMENTS IN/LOANS TO SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Yixing China Resources Thermal Power Co., Ltd. 宜興華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB201,000,000 Paid-up capital - RMB125,714,801	—	55	Operation of a power station
China Resources Power Hunan Co., Ltd. 華潤電力湖南有限公司 (Wholly-Owned Foreign Enterprises)	PRC	Registered capital - RMB1,361,000,000 Paid-up capital - RMB556,568,372	100	—	Development of a power station
Henan China Resources Power Gu Cheng Co., Ltd. 河南華潤電力古城有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB740,500,000 Paid-up capital - RMB496,240,295	65	—	Operation of a power station
華潤電力(唐山曹妃甸) 有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB38,000,000	—	90	Development of a power station
China Resources Power Project Service Co., Ltd. 華潤力工程服務有限公司 (Wholly-Owned Foreign Enterprises)	PRC	Registered and paid-up capital - HK\$50,000,000	100	—	Power station project consultancy services
CR Power Fuel (Henan) Co., Ltd. 華潤電力燃料(河南)有限公司 (Wholly-Owned Foreign Enterprises)	PRC	Registered and paid-up capital - HK\$35,000,000	—	100	Investment holding

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18. INVESTMENTS IN/LOANS TO SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
郴州華潤煤業有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - US\$29,990,000 Paid-up capital - US\$9,896,700	—	84	Exploration and sale of coal
Shantou Dan Nan Wind Power Co., Ltd. 汕頭丹南風能有限公司 (Sino-Foreign Equity Joint Venture) (note b)	PRC	Registered and paid-up capital - US\$10,000,000	—	55	Operation of a power station
Guangzhou China Resources Thermal Power Co. Ltd. 廣州華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB200,000,000 Paid-up capital - RMB158,000,000	—	70	Development of a power station
China Resources Concord (Beijing) Thermal Power Co. Ltd. 華潤協鑫（北京）熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB247,100,000 Paid-up capital - RMB197,679,920	—	51	Operation of a power station
Fuyang China Resources Power Co., Ltd. 阜陽華潤電力有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB1,259,000,000 Paid-up capital - RMB798,971,692	—	55	Operation of a power station
Yunnan China Resources Power (Honghe) Co., Ltd. 雲南華潤電力（紅河）有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB279,400,000 Paid-up capital - RMB223,484,090	—	70	Development of a power station

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18. INVESTMENTS IN/LOANS TO SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
偃師華潤運輸有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB8,000,000	—	64	Provision of local logistic services
China Resources Power Maintenance Henan Co., Ltd. 華潤電力檢修（河南）有限公司 (Wholly-Owned Foreign Enterprises)	PRC	Registered and paid-up capital - RMB5,000,000	—	75	Power station maintenance service

* The non-voting deferred shares are not entitled to receive notice of or attend or vote at any general meeting nor to any participation in the profits or surplus assets on winding up.

** The special share carries same rights as ordinary shares.

The above table lists the subsidiaries of the Company which in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes:

- On 22 October 2002, the Company acquired with cash consideration a 100% equity interest in China Resources Power Hubei Co., Ltd. ("CRP Hubei") from third parties. Upon expiry of the operating period in 2026, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of CRP Hubei will be distributed to the Group. The power generating related assets and other property, plant and equipment will be revert to Hubei Provincial Government or other authority department without compensation.
- On 23 January 2006, the Group acquired with cash consideration a 55% equity interest in Shantou Dan Nan Wind Power Co., Ltd. ("Dan Nan") from third parties. Upon expiry of the operating period in 2022, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Dan Nan will be distributed to the Group. The power generating related assets and other property, plant and equipment will revert to the minority shareholder without compensation.

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19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Cost of investment in associates - unlisted	2,039,949	1,968,975
Share of post-acquisition profits, net of dividend received	1,543,394	1,854,631
Share of reserve	185,828	66,528
	3,769,171	3,890,134
	THE COMPANY	
	2006 HK\$'000	2005 HK\$'000
Cost of investment in an associate - unlisted	111,829	111,829

Included in the cost of investment in associates is goodwill of HK\$474,541,000 (2005: HK\$492,851,000) arising on acquisition of certain associates. The movement of goodwill is set out below:

	Goodwill HK\$'000
COST	
At 1 January 2005	472,751
Arising on acquisition of an associate	20,100
At 31 December 2005	492,851
Transfer to subsidiaries	(18,310)
At 31 December 2006	474,541

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19. INTERESTS IN ASSOCIATES (CONT'D)

Particulars of associates held by the Group at 31 December 2006 are as follows:

Name of associate	Place of registration	Registered and paid-up capital	Attributable equity interest held by the Group	Principal activities
Guangdong Guanghope Power Co., Ltd. ("Guangdong Guanghope") (note a) 廣東廣合電力有限公司 (Sino-Foreign Co-operative Joint Venture)	PRC	Registered capital - US\$391,600,000 Paid-up capital - US\$241,600,000	36%	Operation of a power station
Hebei Harv Power Generation Company Limited 河北衡豐發電有限責任公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB777,000,000	25%	Operation of a power station
Zhejiang Wenzhou Telluride Power Generating Company Limited ("Wenzhou Telluride") (note b) 浙江溫州特魯萊發電有限責任公司 (Sino-Foreign Co-operative Joint Venture)	PRC	Registered and paid-up capital - RMB796,120,000	40%	Operation of a power station
China Resources (Xuzhou) Electric Power Company Limited ("Xuzhou Power") (note c) 徐州華潤電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB1,058,310,000 Paid-up capital - RMB863,110,000	35%	Operation of a power station
Guangdong Xingning Xingda Power Co., Ltd. 廣東省興寧市興達電力有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB337,500,000	29%	Operation of a power station
Nanjing Chemical Industry Park Heat-Power Co., Ltd. 南京化學工業園熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - US\$21,800,000	25%	Operation of a power station

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES (CONT'D)

Name of associate	Place of registration	Registered and paid-up capital	Attributable equity interest held by the Group	Principal activities
Hengshui Hengxing Power Generation Company Limited 衡水恒興發電有限責任公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB475,000,000	25%	Operation of a power station
Weishan (China Resources) Coal & Power Development Co., Ltd. 微山華潤煤電開發有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB96,000,000 Paid-up capital - RMB8,053,400	33%	Power station technical consultancy services
河南永華能源有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB300,000,000	42%	Exploration and sale of coal

Notes:

(a) Guangdong Guanghope - significant associate

On 23 December 2002, the Company through its wholly-owned subsidiary, China Resources Power Performance Company Limited, acquired for cash consideration from a third party a 82.5% equity interest in Resources Shajiao C Investments Limited ("Resources Shajiao") which holds a 40% interest in Guangdong Guanghope.

Resources Shajiao entered into a joint venture contract and supplemental agreements with Guangdong Province Shajiao (Plant-C) Power Generation Corporation ("Shajiao Power") for the construction, operation and management of the Guangdong Province Shajiao C Power Station in Guangdong Province of the PRC, which are undertaken by Guangdong Guanghope, a co-operative joint venture company established in the PRC. The co-operation period which commenced on 15 June 1992 and will expire in June 2016 which is 20 years after the contract completion date of construction of the power station in June 1996. Upon expiry of the co-operation period, all the remaining assets of Guangdong Guanghope will revert to the PRC partner without compensation.

Resources Shajiao is entitled to a share of 40% of the profit generated by Guangdong Guanghope after the deduction of a special electricity fund to be distributed to Shajiao Power as specified in the joint venture contracts. The special electricity fund is calculated as to 30% of the net profit generated by Guangdong Guanghope for the initial ten years of the co-operation period and as to 60% of the net profit generated by Guangdong Guanghope for the remaining ten years of the co-operation period. No dividend can be declared and paid out by Guangdong Guanghope until all its syndicated borrowings, shareholders' loan and loan related to early generation profits have been repaid, and registered capital has been repatriated. Resources Shajiao is entitled to share the result of Guangdong Guanghope attributable to the Group of an amount of HK\$313,818,000 (2005: HK\$451,044,000) for the year ended 31 December 2006.

In September 2003, 3.9% of the issued share capital of Resources Shajiao (representing 1.56% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US\$10,010,000.

In September 2003, the Group entered into a conditional contract to dispose of 12.5% of the issued share capital of Resources Shajiao for a cash consideration of US\$45,454,545. The agreement was completed on 23 December 2003.

In January 2005, 1.1% of the issued share capital of Resources Shajiao (representing 0.44% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US\$3,000,000.

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(a) Guangdong Guanghope - significant associate (cont'd)

In December 2005, 12.5% of the issued share capital of Resources Shajiao (representing 5% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US\$39,000,000.

The discount on acquisitions amounting to HK\$40,412,000 is recognised in income statement and is included in share of results of associates.

In June 2006, 2.5% of the issued share capital of Resources Shajiao (representing 1% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US\$4,830,000.

The discount on acquisitions amounting to HK\$5,883,000 is recognised in income statement and is included in share of results of associates.

The extracts of the unaudited management accounts prepared under HKFRSs for the years ended 31 December 2006 and 2005 of Guangdong Guanghope, are as follows:

Balance sheet

	2006 RMB'000	2005 RMB'000
Non-current assets	6,983,821	7,750,326
Current assets	2,252,651	1,146,437
Current liabilities	(654,055)	(585,497)
Non-current liabilities	(1,182,327)	(1,201,184)
Shareholders' funds	7,400,090	7,110,082

Income statement

	2006 RMB'000	2005 RMB'000
Turnover	4,764,644	4,755,429
Profit for the year	1,047,346	1,558,526

Cash flow statement

	2006 RMB'000	2005 RMB'000
Net cash from operating activities	2,019,067	2,374,646
Net cash used in investing activities	(38,095)	(385,376)
Net cash used in financing activities	(763,248)	(1,543,095)
Net increase in cash and cash equivalents	1,217,724	446,175

Share of results of Guangdong Guanghope

Pursuant to a legally binding memorandum of understanding entered into among Resources Shajiao, a subsidiary of the Company, Shajiao Power and Guangdong Province Yudean Group Co., Ltd. dated 26 February 2004, the mandatory tariff reduction imposed by the Guangdong Province Pricing Bureau on Guangdong Guanghope as from 1 July 2002 was restored as if there were no tariff reduction and profit distributable to shareholders is to be calculated according to the terms of the operation and offtake agreement dated 18 December 1992 (as amended) between Guangdong Province Guangdong Group Co., Ltd. and Guangdong Guanghope and the joint venture agreement dated 4 June 1992 (as amended) between Shajiao Power and Resources Shajiao to the extent to which the distributable net profits related to Guangdong Guanghope's minimum on grid power output of 10,800,000,000 kWh per year.

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES (CONT'D)*Notes: (cont'd)*

(b) Wenzhou Telluride

The Group owned 100% effective interest in Telluride International Energy Limited Partnership ("Telluride International") which holds 40% interest in Wenzhou Telluride.

Telluride International entered into a joint venture contract with Zhejiang Provincial Electric Power Development Company and Wenzhou Electric Power Investment Company Limited for the construction, operation and management of the Wenzhou Power Station in Zhejiang Province of the PRC, which are undertaken by Wenzhou Telluride, a co-operative joint venture company established in the PRC. The co-operation period shall be approximately 23 years and six months commencing from 25 September 1998. Upon expiry of the co-operation period, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Wenzhou Telluride will be distributed to owners according to respective equity interest ratio and the power generating related assets and other property, plant and equipment will be reverted to the PRC owners without compensation. Telluride International is entitled to share 40% of the operating surplus of Wenzhou Telluride.

At 31 December 2006, Telluride International has pledged its equity interest in Wenzhou Telluride and a bank deposit amounting to HK\$37,337,000 (2005: HK\$37,225,000) to a bank for securing the bank loans granted to Wenzhou Telluride of approximately HK\$307,748,000 (2005: HK\$413,980,000).

The extracts of the unaudited management accounts prepared under HKFRSs for the years ended 31 December 2006 and 2005 of Wenzhou Telluride, are as follows:

Balance sheet

	2006 RMB'000	2005 RMB'000
Non-current assets	2,290,145	2,326,732
Current assets	362,987	310,926
Current liabilities	(356,494)	(197,658)
Non-current liabilities	(880,737)	(1,062,239)
Shareholders' funds	1,415,901	1,377,761

Income statement

	2006 RMB'000	2005 RMB'000
Turnover	1,369,502	1,482,007
Profit for the year	278,138	309,599

Cash flow statement

	2006 RMB'000	2005 RMB'000
Net cash from operating activities	636,681	601,386
Net cash used in investing activities	(88,971)	(33,040)
Net cash used in financing activities	(382,036)	(637,594)
Net increase (decrease) in cash and cash equivalents	165,674	(69,248)

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(c) Xuzhou Power

On 10 September 2003, the Company acquired a 100% equity interest in China Resources Power Excellence Limited, an investment holding company which holds 35% equity interest in Xuzhou Power from CRH in the form of shareholder's loan. Such shareholder's loan was subsequently capitalised on 17 October 2003.

The extracts of unaudited management accounts prepared under HKFRSs for the years ended 31 December 2006 and 2005 of Xuzhou Power are as follows:

Consolidated balance sheet

	2006 RMB'000	2005 RMB'000
Non-current assets	2,770,868	2,877,142
Current assets	708,974	864,908
Current liabilities	(1,316,674)	(1,593,816)
Non-current liabilities	(660,000)	(860,000)
Shareholders' funds	1,503,168	1,288,234

Consolidated income statement

	2006 RMB'000	2005 RMB'000
Turnover	1,941,659	2,181,864
Profit for the year	417,063	467,863

Consolidated cash flow statement

	2006 RMB'000	2005 RMB'000
Net cash from operating activities	852,504	556,105
Net cash used in investing activities	(56,016)	(6,273)
Net cash used in financing activities	(826,151)	(523,003)
Net (decrease) increase in cash and cash equivalents	(29,663)	26,829

(d) The summarised financial information in respect of the Group's remaining associates is set out below:

	2006 RMB'000	2005 RMB'000
Total assets	5,904,007	5,364,943
Total liabilities	2,864,891	2,659,649
Turnover	2,502,698	1,953,517
Profit for the year	510,360	395,245

For the year ended 31 December 2006

20. GOODWILL

	HK\$'000
<u>THE GROUP</u>	
COST	
At 1 January 2005	105,639
Arising on acquisition of additional interest of a subsidiary	2,079
At 31 December 2005	107,718
Transfer from interest in an associate	18,310
Arising on acquisition of subsidiaries	87,478
At 31 December 2006	213,506

For the purpose of impairment review, goodwill set out above is allocated to the cash generating units ("CGUs"), the subsidiaries operating power plants in different province in PRC.

The recoverable amounts of each of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets approved by management using a discount rate of 9%, while the forecast is based on the financial budget which assumes no growth. The value in use calculated by using the discount rate is higher than the carrying amount of the goodwill allocated to the CGUs and accordingly, no impairment loss was considered necessary.

21. INVESTMENT IN INVESTEE COMPANIES

It represents investment in unlisted equity securities issued by two (2005: one) private entity incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that the fair value cannot be measured reliably as there is no active market information available. The directors of the Company considered that no impairment loss is necessary for the investment.

At the balance sheet date, the investment in an investee company is stated at cost.

For the year ended 31 December 2006

22. AMOUNTS DUE FROM ASSOCIATES**THE GROUP**

	2006 HK\$'000	2005 HK\$'000
Loan to an associate		
Non-current (note a)	432,173	124,930
Current (note b)	—	22,131
Dividend receivable from an associate (note c)	—	5,264
Amounts due from associates (note c)	13,848	3,955
	446,021	156,280
Amounts due from associates		
- due over one year	432,173	124,930
- due within one year	13,848	31,350
	446,021	156,280

Notes:

- (a) The non-current loan to an associate includes amounts of HK\$408,524,000 and HK\$23,649,000 which are unsecured, bears interest at 110% of the rate set by People's Bank of China for loan of the same maturity and 6.12% per annum respectively. In the opinion of the directors, the Group will not demand repayment within the next twelve months. Accordingly, it is classified as non-current loan.
- (b) The current loan in 2005 to associate was unsecured, repayable on demand and bore fixed interest at 6.12% per annum.
- (c) The dividend receivable and amounts due from associates are unsecured, non-interest bearing and repayable on demand.

The fair value of the Group's amounts due from associates at 31 December 2006 approximates the corresponding carrying amount.

THE COMPANY

	2006 HK\$'000	2005 HK\$'000
Amount due from an associate	1,011	6,045

The fair value of the Company's amount due from an associate at 31 December 2006 approximates the corresponding carrying value.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$1,666,000 (2005: HK\$499,000) have been pledged to secure short-term bank loans and are therefore classified as current assets. The remaining deposits amounting to HK\$37,337,000 (2005: HK\$37,225,000) have been pledged to secure long-term bank borrowings of an associate. The pledged bank deposits will be released upon the repayment of the relevant bank borrowings.

The bank balances and bank deposits carried an interest rate range from 0.72% to 5.31%. The fair values of bank deposits at 31 December 2006 approximate to the corresponding carrying amounts.

For the year ended 31 December 2006

24. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives under hedge accounting

	THE GROUP AND THE COMPANY	
	2006 HK\$'000	2005 HK\$'000
Cash flow hedges - Interest rate swaps	87	25,813

Cash flow hedges

The Group uses interest rate swaps to minimise its exposure to interest expenses of its floating-rate Hong Kong Dollar bank borrowings by swapping floating interest rates to fixed interest rates. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
HK\$600,000,000	20 May 2010	From HIBOR + 0.39% to 4.18%
HK\$400,000,000	20 May 2010	From HIBOR + 0.39% to 4.10%

During the year ended 31 December 2006, fair value loss of HK\$25,726,000 (2005: fair value gains HK\$25,813,000) from the interest rate swap under cash flow hedge have been deferred in equity and are expected to be released to the income statement when the hedged interest expense is charged to profit or loss.

The above derivatives are measured at fair value, as determined by independent financial institutions.

25. INVENTORIES

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Coal	352,440	215,021
Fuel oil	35,746	10,613
Spare parts and consumables	110,990	65,952
	499,176	291,586

At the balance sheet date, all inventories were stated at cost.

For the year ended 31 December 2006

26. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

THE GROUP

Trade receivables are due within 60 days from the date of billing.

The following is an aged analysis of trade and notes receivables included in trade receivables, other receivables and prepayments at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
0 - 30 days	1,234,477	859,133
31 - 60 days	332,677	155,422
Over 60 days	247,734	203
	1,814,888	1,014,758

The fair value of the Group's trade and other receivables at 31 December 2006 approximates the corresponding carrying amount.

THE COMPANY

The fair value of the Company's other receivables at 31 December 2006 approximates the corresponding carrying amount.

27. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

	2006 HK\$'000	2005 HK\$'000
Loans to minority shareholders of subsidiaries	3,024	81,999
Amount due from a minority shareholder of a subsidiary	—	51,306
	3,024	133,305

The loans to the minority shareholders of subsidiaries amounting to HK\$1,812,000 and HK\$1,212,000 are unsecured, repayable within one year and carry fixed interest at 5.22% per annum and LIBOR plus 0.8878% respectively. The fair value of the loans to minority shareholders of the subsidiaries at 31 December 2006 approximates their corresponding carrying value.

The amount due from a minority shareholder is unsecured, non-interest bearing and fully settled after the balance sheet date. The fair value of the Group's amount due from a minority shareholder at 31 December 2006 approximates its corresponding carrying value.

For the year ended 31 December 2006

28. AMOUNTS DUE FROM GROUP COMPANIES

THE GROUP

	2006 HK\$'000	2005 HK\$'000
Amounts due from related companies	26	21
Amounts due from fellow subsidiaries	47	7,434
Amount due from immediate holding company	—	2,263
	73	9,718

THE COMPANY

	2006 HK\$'000	2005 HK\$'000
Amounts due from related companies	26	21
Amounts due from fellow subsidiaries	47	420
Amount due from immediate holding company	—	1,846
Amounts due from subsidiaries	6,430,112	3,598,400
	6,430,185	3,600,687

The amounts are unsecured, non-interest bearing and repayable within one year. The fair value of the Group's and the Company's amounts due from group companies at 31 December 2006 approximates their corresponding carrying value.

For the year ended 31 December 2006

29. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

THE GROUP

The following is an aged analysis of trade payables included in trade payables, other payables and accruals at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
0 - 30 days	141,489	76,966
31 - 90 days	37,034	6,652
Over 90 days	79,398	5,542
	257,921	89,160

The fair value of the Group's trade and other payables at 31 December 2006 approximates their corresponding carrying amount.

THE COMPANY

The fair value of the Company's other payables as at 31 December 2006 approximates their corresponding carrying amount.

30. AMOUNT DUE TO AN ASSOCIATE

THE GROUP

The amount is unsecured, non-interest bearing and repayable on demand. The fair value of the Group's amount due to an associate at 31 December 2006 approximates its corresponding carrying value.

31. AMOUNTS DUE TO GROUP COMPANIES

THE GROUP

	2006 HK\$'000	2005 HK\$'000
Amounts due to related companies	3,745	—
Amounts due to fellow subsidiaries	869	774
Amount due to immediate holding company	25	—
Amount due to ultimate holding company	95,654	—
	100,293	774

For the year ended 31 December 2006

31. AMOUNTS DUE TO GROUP COMPANIES (CONT'D)

THE COMPANY

	2006 HK\$'000	2005 HK\$'000
Amounts due to fellow subsidiaries	25	—
Amount due to immediate holding company	819	774
Amount due to a subsidiary	92,640	—
	93,484	774

The amounts are unsecured, non-interest bearing and repayable within one year. The fair value of the Group's and the Company's amounts due to group companies at 31 December 2006 approximates their corresponding carrying value.

32. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

The amounts due to minority shareholders of subsidiaries are unsecured, non-interest bearing and repayable within one year. The fair value of the Group's amounts due to minority shareholders of subsidiaries at 31 December 2006 approximates their corresponding carrying value.

For the year ended 31 December 2006

33. BANK AND OTHER BORROWINGS

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Secured bank loans	4,610,630	3,308,915
Unsecured bank loans	6,993,912	4,810,365
Other loans	4,986,456	2,925,987
	16,590,998	11,045,267
Carrying amount repayable:		
Within 1 year	3,993,946	1,983,026
More than 1 year, but not exceeding 2 years	633,487	824,538
More than 2 years, but not exceeding 5 years	2,273,635	2,900,378
More than 5 years	9,689,930	5,337,325
	16,590,998	11,045,267
Less: Amount due within 1 year shown under current liabilities	(3,993,946)	(1,983,026)
Amount due after 1 year	12,597,052	9,062,241
The above bank and other loans are supported by:		
Pledge of assets (note)	4,610,630	3,308,915

Included in bank borrowings amounts of HK\$1,000,000,000 bears interest at HIBOR plus 0.39% and the remaining bank borrowings carry fixed interest at a range from 4.050% to 6.156% per annum.

During the year, the Group raised RMB2,000,000,000 (2005: RMB3,000,000,000) (equivalent to approximately HK\$1,992,800,000 (2005: HK\$2,883,000,000)) loans which are lent by CRNC through a bank in PRC. The issuing expenses and loan arrangement fee paid and payable to CRNC amounted to RMB21,680,000 (2005: RMB31,371,000) and RMB111,000,000 (2005: nil) respectively. The loan bears interest at 4.05% (2005: 5.09%) per annum and is repayable in 2021 (2005: 2015). During the year, total interest incurred is HK\$213,498,000 (2005: HK\$73,495,000).

The fair value of the Group's bank and other borrowings approximates the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

For the year ended 31 December 2006

33. BANK AND OTHER BORROWINGS (CONT'D)**THE COMPANY**

As at 31 December 2006, the bank borrowings of the Company amounted to HK\$1,000,000,000 (2005: HK\$1,000,000,000). It is unsecured and no guarantee is required. It bears interest at HIBOR plus 0.39% and is repayable in 2010.

The fair value of the Company's bank borrowings approximates the carrying amount calculated by discounting the future cash flow at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

The Group and the Company's borrowings that are denominated in currencies other than the functional currency, Renminbi, of the relevant entities are set out below:

	THE GROUP		THE COMPANY
	US\$'000	HK\$'000	HK\$'000
As at 31 December 2006	6,440	1,000,000	1,000,000
As at 31 December 2005	—	1,000,000	1,000,000

Note: Certain bank loans are secured by the Group's land use rights and buildings, and power generating plant and equipment with carrying values of HK\$102,752,000 (2005: HK\$10,147,000) and HK\$3,141,567,000 (2005: HK\$8,863,274,000) respectively.

At 31 December 2006, the interest rate risk of the Group and the Company's borrowing of HK\$1,000,000,000 was hedged using interest rate swap (floating-fixed interest swaps) (see note 24).

34. DEFERRED TAXATION**THE GROUP**

	2006 HK\$'000	2005 HK\$'000
At 1 January	(6,887)	4,648
Currency realignment	(635)	(164)
Charge to income statement for the year (note 10)	(8,291)	(11,371)
At 31 December	(15,813)	(6,887)

The deferred taxation assets and deferred taxation liabilities represent the tax effect of temporary differences arising as a result of the pre-operating expenses written-off and the differences between accounting depreciation and tax depreciation respectively.

For the year ended 31 December 2006

34. DEFERRED TAXATION (CONT'D)**THE GROUP (cont'd)**

The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2006 HK\$'000	2005 HK\$'000
Deferred taxation assets	5,398	5,695
Deferred taxation liabilities	(21,211)	(12,582)
	(15,813)	(6,887)

At 31 December 2006, the Group has unused tax losses of HK\$148,198,000 (2005: HK\$97,935,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

THE COMPANY

At 31 December 2006, the Company has unused tax losses of HK\$142,597,000 (2005: HK\$92,848,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

35. SHARE CAPITAL

	Number of shares		Amount	
	2006 '000	2005 '000	2006 HK\$'000	2005 HK\$'000
Ordinary share of HK\$1.00 each				
Authorised:				
Balance at 1 January and 31 December	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully paid:				
Balance at 1 January	3,810,044	3,808,080	3,810,044	3,808,080
Issues of shares				
- upon exercise of share options	21,118	1,964	21,118	1,964
Balance at 31 December	3,831,162	3,810,044	3,831,162	3,810,044

For the year ended 31 December 2006

36. SHARE OPTION

Pursuant to a resolution in writing passed on 6 October 2003 by the shareholders of the Company, a Pre-IPO Share Option Scheme and a Share Option Scheme have been adopted by the Company.

(a) Pre-IPO Share Option Scheme

On 6 October 2003, the Company granted options to the grantees to subscribe for 167,395,000 shares in the Company at an exercise price of HK\$2.80 per share, upon payment of HK\$1 per grant. Options granted are exercisable within a period of ten years within which there is a total vesting period of five years. 20% of the share options will be allowed to exercise upon each of the first five anniversary dates.

Movement of options under Pre-IPO Share Option Scheme during the years ended 31 December 2005 and 2006 is as follows:

Exercise price HK\$	Number of options									
	Outstanding at	Reclassification during the	Lapsed or cancelled during the	Exercised during the	Outstanding at	Reclassification during the	Lapsed during the	Exercised during the	Outstanding at	
	1.1.2005	year ended 31.12.2005	year ended 31.12.2005	year ended 31.12.2005	31.12.2005	year ended 31.12.2006	year ended 31.12.2006	year ended 31.12.2006	31.12.2006	
Directors of the Company	2.80	17,500,000	(1,000,000)	—	—	16,500,000	2,800,000	(1,800,000)	(3,350,000)	14,150,000
Directors of CRH	2.80	3,600,000	—	—	(470,000)	3,130,000	—	—	(750,000)	2,380,000
Employees of the Company	2.80	100,575,000	—	—	(140,000)	100,435,000	(2,800,000)	(3,856,000)	(12,220,000)	81,559,000
Employees of CRH and its subsidiaries	2.80	44,530,000	1,000,000	(104,000)	(1,354,000)	44,072,000	—	(1,408,000)	(3,958,000)	38,706,000
		166,205,000	—	(104,000)	(1,964,000)	164,137,000	—	(7,064,000)	(20,278,000)	136,795,000
Exercisable at the end of the year						64,428,000				72,997,000

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help to motivate the participants to optimise their performance and efficiency and retain participants whose contributions are important to the long-term growth and profitability of the Group.

For the year ended 31 December 2006

36. SHARE OPTION (CONT'D)

(b) Share Option Scheme

Pursuant to the Share Option Scheme approved by the resolution of the shareholders of the Company dated 6 October 2003, the Board may, at its absolute discretion, offer any employee, director, consultant or advisor of (i) CRH and its subsidiaries; and (ii) the Company, its subsidiaries and associated companies, option to subscribe for the Company's shares, for the promotion of success of the business of the Group. The exercise price of the share option will be determined at the highest of (1) the closing price of the Company's shares on the Stock Exchange on the date of grant of the option; (2) the average closing price of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant; and (3) the nominal value of the shares.

Options granted are exercisable during the period from the vesting date to the last day of the ten-year period after grant date. The share options have vesting periods from one to five years and every 20% will be vested each year.

Movement of options granted under the Share Option Scheme in 2005 and 2006 is as follows:

	Exercise price HK\$	Date of grant	Number of options								
			Outstanding at 1.1.2005	Granted during the year ended 31.12.2005	Lapsed or cancelled during the year ended 31.12.2005	Reclassification		Granted during the year ended 31.12.2006	Lapsed during the year ended 31.12.2006	Exercised during the year ended 31.12.2006	Outstanding at 31.12.2006
						Outstanding at 1.1.2006	during the year ended 31.12.2006				
Directors of CRH and its subsidiaries	3.990	18.3.2005	—	4,400,000	—	4,400,000	—	—	—	—	4,400,000
Directors of the Company	3.990	18.3.2005	—	4,200,000	—	4,200,000	600,000	—	(480,000)	(120,000)	4,200,000
	4.725	18.11.2005	—	—	—	—	600,000	—	(200,000)	—	400,000
Employees of CRH and its subsidiaries	4.250	1.9.2004	4,300,000	—	—	4,300,000	—	—	—	—	4,300,000
	3.990	18.3.2005	—	4,100,000	—	4,100,000	—	—	—	(160,000)	3,940,000
	4.725	18.11.2005	—	9,750,000	—	9,750,000	(600,000)	—	—	—	9,150,000
Employees of the Company	4.250	1.9.2004	23,600,000	—	(400,000)	23,200,000	—	—	(3,640,000)	(360,000)	19,200,000
	3.990	18.3.2005	—	22,300,000	—	22,300,000	(600,000)	—	(1,520,000)	(200,000)	19,980,000
	4.725	18.11.2005	—	52,050,000	—	52,050,000	—	—	(400,000)	—	51,650,000
	7.050	5.9.2006	—	—	—	—	—	27,700,000	(500,000)	—	27,200,000
			27,900,000	96,800,000	(400,000)	124,300,000	—	27,700,000	(6,740,000)	(840,000)	144,420,000
Exercisable at the end of the year						5,500,000					27,544,000
Weighted average exercise price			4.250	4.459	4.250	4.413	N/A	7.050	4.423	4.101	4.920

Total consideration received during the year for the options granted under the Share Option Scheme amounted to HK\$58.

In the current year, an amount of share option expense of HK\$113,230,000 (2005: HK\$106,256,000) has been recognised in the income statement, with a corresponding adjustment made in the Group's share option reserve.

The weighted average closing price of the Company's shares at dates on which the options were exercised during the year was HK\$8.49.

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36. SHARE OPTION (CONT'D)**(b) Share Option Scheme (cont'd)**

The fair value of the options was determined at the date of grant using the Black-Scholes option pricing model, taken into account the terms and conditions upon which the share options were granted.

The following assumptions were used to calculate the fair values of share options granted in both years.

	5.9.2006	18.11.2005	18.3.2005
Weighted average share price	HK\$7.05	HK\$4.72	HK\$3.85
Exercise price	HK\$7.05	HK\$4.725	HK\$3.99
Expected life of options	7.5 years	7.5 years	7.5 years
Expected volatility	55.80%	31.44%	46.21%
Expected dividend yield	1.42%	1.93%	2.23%
Risk free rate	4.03%	4.33%	4.03%
Estimated fair value of option at grant date	HK\$3.79	HK\$1.61	HK\$1.62
Closing share price immediately before date of grant	HK\$6.88	HK\$4.68	HK\$3.88

Notes:

- (i) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over certain periods immediately preceding the grant date.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.
- (iii) As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

37. RESERVES**THE GROUP**

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 76.

General reserve is part of the shareholders' funds and comprises statutory surplus reserve, enterprise expansion fund and reserve fund of subsidiaries, associates and a jointly controlled entity in the PRC. The general reserve shall be used for making up losses, capitalisation into capital and expansion of the operation and production of the respective subsidiaries, associates and jointly controlled entity.

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of subsidiaries acquired pursuant to a group reorganisation for the purpose of the preparation of the Company's share listing on the Stock Exchange.

At 31 December 2006, the retained profits of the Group include HK\$160,667,000 (2005: HK\$471,904,000) retained by associates of the Group.

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37. RESERVES (CONT'D)

	Share premium HK\$'000	Merger reserve HK\$'000	Hedging reserve HK\$'000	Share option reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2005	4,469,257	82,309	—	140,622	157,770	4,849,958
Profit for the year	—	—	—	—	3,170,061	3,170,061
Shares issued upon exercise of share options	3,535	—	—	—	—	3,535
Recognition of share based payments	—	—	—	106,256	—	106,256
Transfer of share option reserves on exercise of share option	2,961	—	—	(2,961)	—	—
Gain on cash flow hedges	—	—	25,813	—	—	25,813
Dividends paid	—	—	—	—	(346,602)	(346,602)
At 31 December 2005	4,475,753	82,309	25,813	243,917	2,981,229	7,809,021
Profit for the year	—	—	—	—	1,477,018	1,477,018
Shares issued upon exercise of share options	39,106	—	—	—	—	39,106
Recognition of share based payments	—	—	—	113,230	—	113,230
Transfer of share option reserves on exercise of share option	32,214	—	—	(32,214)	—	—
Loss on cash flow hedges	—	—	(25,726)	—	—	(25,726)
Dividends paid	—	—	—	—	(762,613)	(762,613)
At 31 December 2006	4,547,073	82,309	87	324,933	3,695,634	8,650,036

The merger reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal amount of the Company's shares issued for the acquisition.

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38. ACQUISITION OF SUBSIDIARIES

In September 2006, the Group acquired 55% equity interest in Fuyang China Resources Power Co., Ltd. (阜陽華潤電力有限公司) at an consideration of approximately HK\$436,480,000. The acquisition has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction and the goodwill arising therefrom are as follows:

	Acquirees' carrying amounts before combination	Fair value
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	3,655,279	3,655,279
Trade and other receivables	318,881	318,881
Inventories	43,186	43,186
Bank and cash balances	61,266	61,266
Trade and other payables	(844,294)	(844,294)
Bank borrowings	(2,355,699)	(2,355,699)
	<u>878,619</u>	<u>878,619</u>
Less: Minority interests		(395,214)
Net assets acquired		483,405
Discount on acquisition		(46,925)
Total consideration, satisfied by cash		<u>436,480</u>
Net cash outflow arising on acquisition		
Cash consideration paid		436,480
Cash and cash equivalents acquired		(61,266)
		<u>375,214</u>

This acquiree contributed approximately HK\$566,075,000 to the Group's turnover and HK\$74,534,000 to the Group's profit for the period between the dates of acquisition and the balance sheet date.

Had the acquisition been completed on 1 January 2006, total group revenue for the year could have been HK\$10,248,238,000, and profit for the year would have been HK\$2,846,474,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

During the year, the Group also acquired 55% equity interest in Shantou Dan Nan Wind Power Co., Ltd. (汕頭丹南風能有限公司), 100% equity interest in Chenzhou Gaotingsi Coal Mine Co., Ltd. (郴州市高亭司礦業有限責任公司), 70% equity interest in Yunnan China Resources Power (Honghe) Co., Ltd. (雲南華潤電力(紅河)有限公司) and a further 26% equity interest in an associate, China Resources Concord (Beijing) Thermal Power Co., Ltd. ("Beijing Thermal") in January 2006, January 2006, September 2006 and March 2006 respectively at an aggregate cash consideration of approximately HK\$254,078,000. Upon the completion of the acquisition of a further 26% equity interest in Beijing Thermal, Beijing Thermal becomes a 51% owned subsidiary of the Company. The transactions have been accounted for using the purchase method of accounting.

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38. ACQUISITION OF SUBSIDIARIES (CONT'D)

The combined net assets acquired in the transactions and the goodwill arising therefrom are as follows:

	Acquirees' carrying amounts before combination	Fair value
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	1,509,670	1,509,670
Prepaid lease payments	6,779	6,779
Trade and other receivables	67,513	67,513
Inventories	518	518
Bank and cash balances	49,467	49,467
Trade and other payables	(168,874)	(168,874)
Bank borrowings	(1,061,295)	(1,061,295)
	<u>403,778</u>	<u>403,778</u>
Less: Minority interests		(177,812)
Net assets acquired		225,966
Transfer from interests in associates		(59,366)
Goodwill		87,478
Total consideration, satisfied by cash		<u>254,078</u>
Net cash outflow arising on acquisition		
Cash consideration paid		254,078
Cash and cash equivalents acquired		(49,467)
		<u>204,611</u>

The goodwill arising on the acquisition of the subsidiaries is attributable to the anticipated future operating synergies from the combination.

These acquirees contributed approximately HK\$155,314,000 to the Group's turnover and HK\$23,930,301 to the Group's profit for the period between the dates of acquisition and the balance sheet date.

Had the acquisition been completed on 1 January 2006, total group revenue for the year could have been HK\$9,740,371,000, and profit for the year would have been HK\$2,730,796,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

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39. MAJOR NON CASH TRANSACTIONS

During the year ended 31 December 2006, one of the minority shareholders of a subsidiary has contributed capital amounting to HK\$71,005,000. The contribution was in the form of property, plant and equipment and other assets and liabilities. Details of the assets and liabilities are as follows:

	HK\$'000
Property, plant and equipment	328,425
Prepaid lease payments	20,675
Bank balance and cash	2,762
Trade and other receivables	35,303
Trade and other payables	(316,160)
Net assets contributed	71,005

40. OPERATING LEASE COMMITMENTS**THE GROUP AND THE COMPANY AS LESSEE**

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006		2005	
	Land and buildings HK\$'000	Other assets HK\$'000	Land and buildings HK\$'000	Other assets HK\$'000
<u>THE GROUP</u>				
Within one year	4,815	717	4,947	175
In the second to fifth year inclusive	6	2,140	3,899	515
Over five years	2	6,943	3	2,171
	4,823	9,800	8,849	2,861

Operating lease payments represent rentals payable by the Group for its office properties and other assets which represented motor vehicles, railway and related facilities. Leases are negotiated for an average term of 2 to 25 years and rentals are fixed.

	2006		2005	
	Land and buildings HK\$'000	Other assets HK\$'000	Land and buildings HK\$'000	Other assets HK\$'000
<u>THE COMPANY</u>				
Within one year	809	—	1,398	—
In the second to fifth year inclusive	—	—	893	—
	809	—	2,291	—

Operating lease payments represent rentals payable by the Company for its office properties. Leases are negotiated and rentals are fixed for an average term of 2 years.

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41. CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
THE GROUP		
Capital expenditure in respect of the acquisition of construction in progress:		
- Authorised but not contracted for	—	19,789
- Contracted for but not provided in the financial statements	2,514,387	7,104,100
	2,514,387	7,123,889
Capital expenditure in respect of the acquisition of investment in an investee company	—	76,880
	2,514,387	7,200,769
THE COMPANY		
Unpaid capital contribution to subsidiaries	1,520,761	1,501,183

42. CONTINGENT LIABILITIES

	2006 HK\$'000	2005 HK\$'000
THE COMPANY		
Guarantees given to banks for credit facilities granted to subsidiaries (to the extent of facilities utilised)	1,364,130	2,385,779

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43. RELATED PARTY TRANSACTIONS

The Company entered into two trademark licence agreements dated 17 October 2003 with CRNC and CRH, respectively, under which the Company was granted irrevocable, royalty free and non-exclusive licences to use certain trade marks and the rights to sub-license the same to any member of the Group in consideration of a nominal amount of HK\$1 each.

A deed of option dated 17 October 2003 was executed by CRH in favour of the Company, under which the Company was granted options, in consideration of a nominal amount of HK\$1, to acquire from CRH its entire (i) 48% interest in Dongguan Houjie Power Company Limited, (ii) 65% interest in Yunnan China Resources Power (Honghe) Co., Ltd. and (iii) 55% interest in Fuyang China Resources Power Co., Ltd. The Company may exercise its rights to acquire each of these power plants within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of each power plant which will be shown in the financial statements of CRH or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which each option is exercised. The Company has exercised the options to acquire 65% interest in Yunnan China Resources Power (Honghe) Co., Ltd. and 55% interest in Fuyang China Resources Power Co., Ltd. during the year.

A deed of option dated 17 October 2003 was executed by CRNC in favour of the Company, under which the Company was granted an option, in consideration of a nominal amount of HK\$1, to acquire all of CRNC's interest in 25% of the entire registered capital of Hengshui Hengxing Power Generation Co., Ltd. ("Hengfeng Phase II"). Subject to the approval of the shareholders, the Company may exercise its right of acquisition within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of Hengfeng Phase II which will be shown in the financial statements of CRNC or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which the option is exercised. The option was exercised and the acquisition of Hengfeng Phase II was completed in January 2005.

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43. RELATED PARTY TRANSACTIONS (CONT'D)

(a) In addition, the Group entered into the following significant transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2006 HK\$'000	2005 HK\$'000
China Resources Property Management Co., Ltd.	Fellow subsidiary	Rental expenses paid	1,794	1,416
China Resources (Shenzhen) Co., Ltd.	Fellow subsidiary	Rental expenses paid	3,054	2,857
Shenzhen China Resources Petroleum Co., Ltd.	Fellow subsidiary	Purchase of fuel, oil	11,936	—
Guangdong Guanghope	Associate	Reimbursement of repair and maintenance fee to Guangdong Guanghope	—	6,222
China Resources Concord (Beijing) Thermal Power Co., Ltd.	Associate	Interest income received	—	906
Xinging Xingda Power Co., Ltd.	Associate	Interest income received	18,281	2,168
CRH	Immediate holding company	Management fee income received	1,000	2,000
		Consideration paid for acquisition of interest in subsidiaries	555,700	—
CRNC	Ultimate holding company	Consideration paid for acquisition of interest in an associate	—	61,315
		Issuing expenses paid for loans lent by CRNC	132,203	31,258
		Interest expense payable in respect of on-lent loans	215,286	73,495
China Resources Power (Jiangsu) Investment Co., Ltd.	Fellow subsidiary	Disposal of interest in investee company	—	6,996

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 12.

Note: Save as the above, the Group also had balances with related parties at the balance sheet date which are set out in notes 22, 27, 28, 30, 31 and 32.

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43. RELATED PARTY TRANSACTIONS (CONT'D)

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CRNC which is controlled by the PRC government. Apart from the transactions with CRNC, CRH, and fellow subsidiaries disclosed in (a) above, the Group also conducts business with other state-controlled entities. During the year, the Group entered into the following transactions with other state-controlled entities in the PRC.

	2006	2005
	HK\$'000	HK\$'000
Sales of electricity	9,674,085	5,927,328
Purchases of fuel		
- coal	3,370,863	1,703,188
- oil	180,268	32,344
Acquisition of property, plant and equipment	9,921	530,660
Acquisition of construction materials	337,384	2,218
Subcontracting cost for		
- construction and renovation	431,804	537,142
- maintenance	20,268	44,355
Drawdown of bank and other borrowings	428,452	338,945
Interest expense of loans paid	515,813	485,440