China Power International Development Limited
中國電力國際發展有限公司

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code : 2380)

annual report 06

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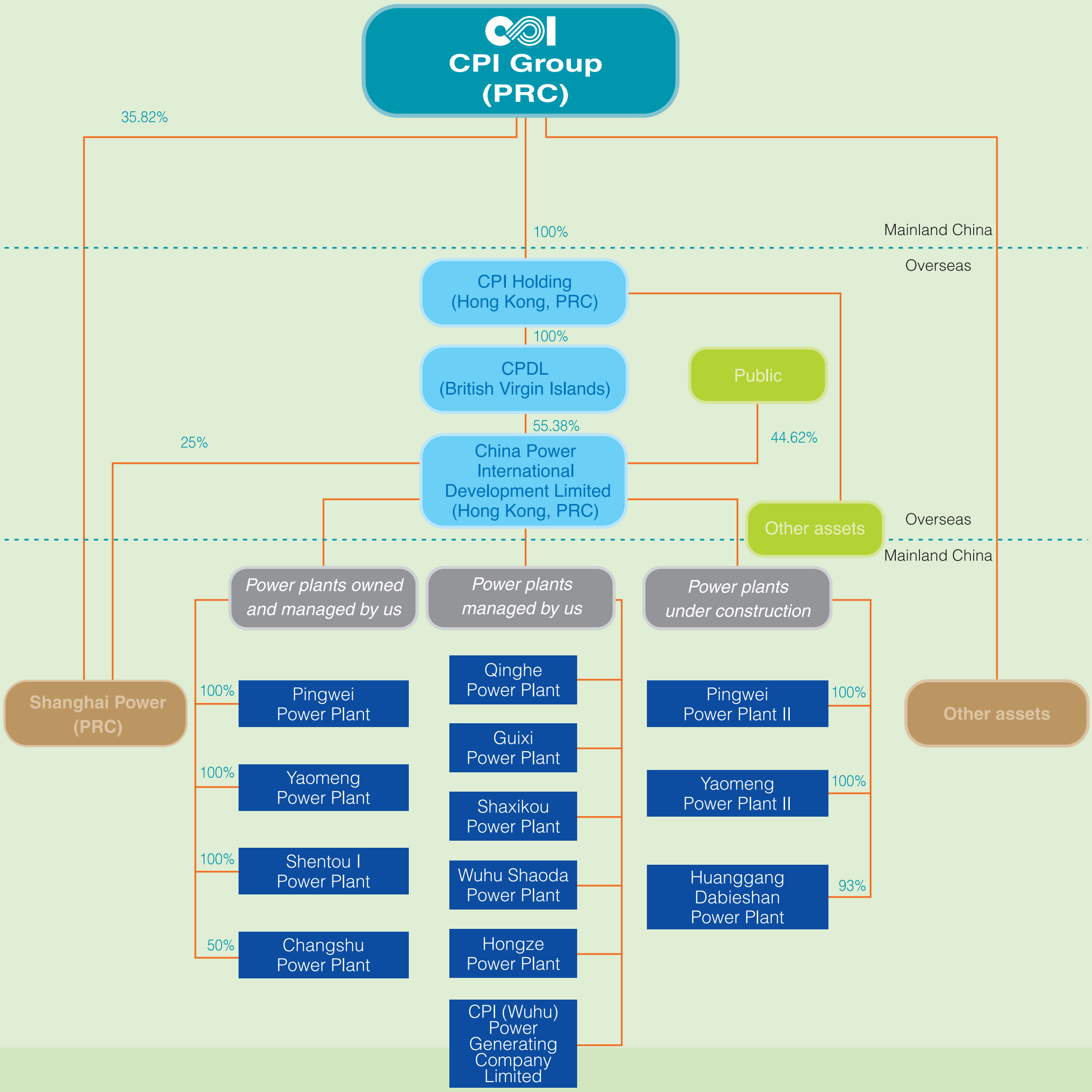
2006 Financial Highlights

	RMB
Earnings per share	
Basic	0.22
Diluted	0.22
Turnover	5,202,934,000
Profit attributable to equity holders of the Company	702,767,000
Shareholders' equity	9,079,215,000
Total assets	17,130,047,000
Cash and cash equivalents	1,446,928,000
Total borrowings	6,790,999,000
Gross generation (GWh)	24,065,245*
Gross generation for the associated company (GWh)	6,565,590
Net generation (GWh)	22,262,463*
Net generation for the associated company (GWh)	6,226,880

* *not including the associated company*

Group Structure



China Power International Development Limited (the "Company" or "China Power") was incorporated in Hong Kong with limited liability under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) on 24 March 2004 and is the flagship company of CPI Group, one of the five leading national power-generating groups in the People's Republic of China (the "PRC" or "China").

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 15 October 2004. The stock code is 2380.

Being the only overseas incorporated and listed company among the five national power-generating groups, the Company's principal business is to develop, construct, own, operate and manage large power plants in the PRC.

At present, the Company and its subsidiaries (the "Group" or "We") own and operate the following power plants: Pingwei Power Plant (100% ownership), Yaomeng Power Plant (100% ownership), Shentou I Power Plant (100% ownership) and Changshu Power Plant (50% ownership), which have a total installed capacity of 4,870 MW. The Company's attributable installed capacity in these power plants is 4,255 MW.

The Company also holds shares of Shanghai Power (25% ownership). Shanghai Power is a power company, the shares of which are listed on the Shanghai Stock Exchange. The Company is its second largest shareholder after CPI Group. As at 31 December 2006, Shanghai Power's attributable installed capacity is 4,371 MW, while ours is 1,093 MW.

As at 31 December 2006, the Company's total attributable installed capacity is 5,348 MW.

The Company also manages six other power plants on behalf of CPI Group and CPI Holding, namely, Qinghe Power Plant (1,200MW), Guixi Power Plant (500MW), Shaxikou Power Plant (300MW), Wuhu Shaoda Power Plant (250MW), CPI (Wuhu) Power Generating Company Limited (250MW) and Hongze Power Plant (30MW), which have a total installed capacity of 2,530 MW.

In addition, the total installed capacity of our three power plants which have been approved by the National Development and Reform Commission ("NDRC") of the PRC and are under construction, namely Pingwei Power Plant II (100% ownership), Yaomeng Power Plant II (100% ownership) and Huanggang Dabieshan Power Plant (93% ownership) will be 3,600 MW, of which our attributable installed capacity will be 3,516 MW.

OUR PARENT COMPANY – CPI GROUP

We are ultimately owned by CPI Group, which is one of the five national power-generating groups in China created pursuant to the restructuring of the power industry of the PRC in 2002. The power plants of CPI Group span 24 provinces, municipalities and autonomous regions with a total installed capacity of approximately 35 GW. As the flagship company of CPI Group, the Company is the only company within CPI Group with a mandate to develop, construct, operate and manage power plants across the PRC.

LOCATION OF POWER PLANTS

Pingwei Power Plant

Yaomeng Power Plant

Changshu Power Plant

Qinghe Power Plant

Shentou I Power Plant

Guixi Power Plant

Shaxikou Power Plant

Wuhu Shaoda Power Plant

Hongze Power Plant

Corporate Information

Chairman of the Board:	Wang Binghua
Vice-Chairman of the Board and Chief Executive Officer:	Li Xiaolin
Executive Director and Executive Vice President:	Hu Jiandong
Non-Executive Director:	Gao Guangfu
Independent Non-Executive Directors:	Kwong Che Keung, Gordon Li Fang Tsui Yiu Wa, Alec
Qualified Accountant:	Hui Ka Chun (CPA, FCCA)
Company Secretary:	Tse Hiu Tung, Sheldon
Auditors:	PricewaterhouseCoopers
Legal Advisers:	Arculli Fong & Ng in association with King & Wood, PRC Lawyers
Registered Office:	Suite 6301, 63/F., Central Plaza 18 Harbour Road Wanchai, Hong Kong
Head Office and Principal Place of Business in Hong Kong:	Suite 6301, 63/F., Central Plaza 18 Harbour Road Wanchai, Hong Kong
Share Registrar and Transfer Office:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Company Website:	www.chinapower.hk
Stock Code:	2380

MAJOR CORPORATE EVENTS IN THE FIRST HALF OF THE YEAR

January	China Power announced that the gross generation for 2005 recorded a growth of 28.27%.
March	China Power held its 2005 Annual Results Presentation in Hong Kong and announced that its net profit recorded a growth of 4.1%.
April	Annual General Meeting of China Power was held in Hong Kong.
	China Power announced that its gross generation for the first quarter of 2006 recorded 6,071,831 MWh.

MAJOR CORPORATE EVENTS IN THE SECOND HALF OF THE YEAR

July	China Power announced that the on-grid tariff (value-added tax included) of Yaomeng Power Plant, Pingwei Power Plant, Shentou Power Plant, its wholly-owned power plants, and Changshu Power Plant, its associated company, increased by RMB20.2/MWh, RMB8/MWh, RMB29.4/MWh and RMB29.0/MWh respectively.
	China Power announced that gross generation for the first half of 2006 recorded 11,884,930 MWh.
August	China Power held its 2006 Interim Results Presentation in Hong Kong and announced that its net profit recorded RMB306,631,000.

September	China Power announced that it entered into a supplemental management agreement and a property lease agreement with CPI Group and CPI Holding to make changes to the list of managed power plants and the service fee accordingly.
October	China Power announced that gross generation for the first three quarters of 2006 recorded an increase of 32.02% when compared with the same period of 2005.
November	China Power announced that China Power and CPI Group entered into an acquisition agreement for the acquisition of 25% equity interest of Shanghai Power owned by CPI Group.
	China Power announced that it placed 470,000,000 placement shares to independent placees at a placing price of HK$3.7 for each placement share, with net proceeds from such placement of approximately HK$1.7 billion.
December	China Power announced that Pingwei Power Plant II and Yaomeng Power Plant II, its wholly-owned subsidiaries, respectively entered into a purchase agreement with Beijing China Power Environmental Engineering Company Limited, a subsidiary of CPI Holding. Such agreements constitute continuing connected transactions of China Power.
	China Power announced that the acquisition of 25% equity interest of Shanghai Power is completed.

We strive to provide stable and reliable power supply.

CHINA POWER International Development Limited, together with its subsidiaries and associated companies, have over the years accumulated extensive experience in developing, constructing, operating and managing power plants, and have built up a good reputation in the power industry and capital markets. With the steady growth of the national economy in China, the demand for electricity will remain strong and the market competition will continuously be improved. We will follow our objectives and strategies to leverage on the benefits of a centralized management of power plants, and add value to our existing assets and achieve the rapid development of the Company through acquisitions and constructions of power plants. We are confident of the prospects of the Group and we will strive to develop the Group into a prominent corporation in the power industry in China, thereby creating and enhancing shareholder value.

To all shareholders:

With the trust and support from our shareholders and all parties involved, China Power further developed its strategy in the year through asset acquisitions and refined management. Continuous improvement in management contributed in the stable gain of our results, bringing us a good momentum of growth for the future.

1. Review of 2006

During this year, we weathered numerous operational risks in both the domestic and overseas markets. Profit attributable to equity holders of the Company amounted to RMB702,767,000 for the year.

2006 was the first "Year of Refined Management" for China Power. Pursuant to which we focused on various aspects like asset management, production safety, environmental protection, internal control and performance management, etc. We have also revised our authorization management manual and management system and commenced assessment on risk management and energy conservation. Our standards on safety, health, environmental protection and equipment are continually being improved by our efforts. Furthermore, we have improved our system of performance assessment. Through these measures, we aim at value creation to continuously increase our market value.

China Power was successful on acquisitions in the past year. Among these, the acquisition of 25% equity interest in Shanghai Power increased China Power's attributable installed capacity by more than 25%, reaching 5,348 MW, which is a major step in the development strategy for China Power.

At the same time, the construction of six generation units of 600 MW run smoothly with safety, quality, cost and progress under control.

Over the year, we have reaped fruitful results on establishing corporate culture. "Still water runs deep" is our district corporate culture which represents our core values of "responsibility, honesty, wisdom and value" and because of its originality, thoughtfulness and clarity, this culture is widely accepted by employees, industry experts and society alike.

2. Outlook for 2007

In the coming year, we will strive to increase the value of the Company as our main focus by capitalizing on new tasks ahead. Under the leadership of the Board, we will reinforce our development strategies, further optimize our capital structure, strengthen refined management and enhance efficiency, thus continuing the Company's rapid and healthy development.

In particular, special focus will be given to the following eight areas:

First, according to the basic principles set out in the framework of power industry development strategy to devise company development strategies and strengthen their implementation through scientific and effective system of strategic management.

Second, focus on acquisitions and greenfield projects to achieve organic growth. We are building six generation units of 600MW and ensure that all the units will put into operation as scheduled. Besides, we will actively pursue strategic alliance and seek opportunity to acquire quality assets that suit our strategic needs.

Third, be responsive to changes in the electricity market to boost operational results. We will establish a practical and effective system of safety, health and environmental protection to maintain production safety. In addition, we will strengthen the technical upgrades in respect to energy conservation and environmental protection, carry out environmental-friendly projects such as desulphurization and upgrade the circulation systems of generating units, particularly units of 200MW or more. Under these measures, the economy of scale and overall competitiveness of the power plants can be enhanced continuously.

Fourth, build a scientific system of performance assessment conforming to our corporate values, focusing on new financial assessment system which will be based on factors such as profitability, asset quality, liability risk and growth potential, etc.

Fifth, go on to build up internal control system. Following our risk management plan, we will issue the Corporate Governance Report and initiate internal control measures to ensure the continual improvement of the Company's overall risk management standard.

Sixth, accelerate the establishment of information system to improve the Company's standard and efficiency of management. We will promote the development of application systems, continuously upgrade the information management system for power generation and complete the construction of the real-time data center.

Seventh, commit to build a harmonious corporate culture of "still water runs deep". We will adopt "responsibility, honesty, wisdom and value" as our core values, integrate them to the finest detail and endeavor to increase the value of the Company and our employees in the long run.

Eighth, strengthen our talent team, cultivate an outstanding team. We will refine our recruitment and training mechanism and leverage on performance assessment, which help nurture talented management personnel, technological backbone and employees for China Power.

In 2007, we will take opportunity for development, build up team spirit and continuously streamline our business to achieve better results, increase our corporate value, pursue sustainable development and the most importantly, with returns to shareholders and society.

Li Xiaolin
Vice Chairman and Chief Executive Officer
China Power International Development Limited

16 March 2007

Embarking on Shanghai's power market, sharing Shanghai Power's momentum of growth

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

LI Xiaolin, 45, has been vice-chairman of the Board, an executive Director and chief executive officer of the Company since March 2004 and has been fully responsible for the Company's Investment and Risk Control Committee since August 2004. Ms. Li is a senior engineer. She graduated from Tsinghua University with a Master of Engineering degree in power system and automation. She was also a visiting scholar at the Sloan Business School of Massachusetts Institute of Technology in the United States. She also acts as the vice president of CPI Group, vice-chairman, executive director and president of CPI Holding and director of Companhia de Electricidade de Macau. She served in positions including head of International Economic and Trade Division of the Ministry of Electric Power Industry and associate head of the International Economic and Trade Division of the Ministry of Energy.

HU Jiandong, 43, has been an executive Director and executive vice president of the Company since March 2004 and a member of the investment and risk control committee of the Company since August 2004. Mr. Hu is a senior engineer. He graduated from Huazhong College of Technology with a Bachelor of Engineering degree in hydro-power station automation and received a Master of Economics degree in corporation management from Fudan University in 1993. Mr. Hu is also an executive director and vice president of CPI Holding. He served in positions including director and vice president of Guangxi Power Company Limited and vice president of Guangxi Power Industry Bureau.

NON-EXECUTIVE DIRECTORS

WANG Binghua, 52, has been the chairman of the Board and a non-executive Director of the Company since March 2004 and the chairman of the Investment and Risk Control Committee of the Company since August 2004. Mr. Wang is a senior engineer at the professor level. He graduated from Wuhan University of Water and Power Resources with a Master of Engineering degree in power system and automation. Mr. Wang also acts as the president of CPI Group and chairman of the board of CPI Holding. He served in positions including vice president of China National Nuclear Corporation and head of the Power Generation and Transportation Department of the State Power Corporation.

GAO Guangfu, 44, has been a non-executive Director of the Company since March 2004 and a member of the investment and risk control committee of the Company since August 2004. Mr. Gao is a senior accountant. He graduated from Zhongnan University of Finance and Commerce with a postgraduate degree. He was also a visiting scholar at the Energy Economic and Policy Institute of the National Scientific Research Center of France. Mr. Gao also acts as the manager of Finance and Property Ownership Management Department of CPI Group and non-executive director of CPI Holding. He served in positions including deputy manager of Finance and Property Ownership Management Department of the State Power Corporation and associate head of Price Department of the Economic Adjustment Division of the Ministry of Electric Power Industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KWONG Che Keung, Gordon, 57, has been an independent non-executive Director of the Company and a member of the compensation and nomination committee of the Company since August 2004. Mr. Kwong is also an independent non-executive director of a number of companies listed on the Hong Kong Stock Exchange, namely Cosco International Holding Limited, Tianjin Development Holding Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Tom Online Inc., Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited, etc. From 1984 to 1998, Mr. Kwong was a partner of Pricewaterhouse and was a council member of Hong Kong Stock Exchange from 1992 to 1997. He has a Bachelor of Social Science degree from University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales.

Directors and Senior Management Profiles

TSUI Yiu Wa, Alec, 58, has been an independent non-executive Director of the Company since March 2004 and a member of the audit committee and the compensation and nomination committee of the Company since August 2004. He graduated from the University of Tennessee in the United States with a Bachelor of Science degree in industrial engineering and a Master of Engineering degree in industrial engineering and completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University in 1993. Mr. Tsui also acts as the chief executive of WAG Financial Services Group Limited and an independent non-executive director of a number of listed companies in Hong Kong. He has substantial experience in the operations of listed companies in Hong Kong. He served in positions including executive director and chief executive of the Hong Kong Stock Exchange, chief operating officer of the Hong Kong Exchanges and Clearing Limited and chief executive officer of the Regent Pacific Group.

LI Fang, 45, has been an independent non-executive Director of the Company since March 2004 and a chairman of the compensation and nomination committee of the Company and a member of the audit committee of the Company since August 2004. He graduated from Beijing University of Science and Technology with a Bachelor of Engineering degree and received his juris doctor degree from the School of Law of Arizona State University in the United States in 1995. Mr. Li is the chairman of Beijing Mainstreets Investment Group Corporation. He is also a council member of the China Reform Forum. Mr. Li has extensive experience in business management and corporate finance. He was an executive director of Goldman Sachs (Asia) L.L.C. and a lawyer with David Polk and Wardwell.

SENIOR MANAGEMENT

GU Dake, 52, has been the executive vice president of the Company since March 2004. Mr. Gu is a senior engineer. He graduated from Northeast China Institute of Electric Power Engineering with a Bachelor degree in thermal power. Mr. Gu also acts as the executive director, vice president and chief engineer of CPI Holding and chairman of the board of Yaomeng Power Plant, Yaomen Power Plant II, Shentou I Power Plat and chairman and general manager of China Power International Maintenance Engineering Co., Ltd. He served in positions including chief vice president and chief engineer of Beijing Guohua Power Limited and vice president and director of CLP Guohua Corporation.

WANG Zhiying, 49, has been the executive vice president of the Company since March 2004. Mr. Wang is a senior engineer at the professor level. He graduated from the Northeast China Institute of Electric Power Engineering with a Bachelor of Engineering degree in power system and relaying protection. Mr. Wang also acts as the vice president of CPI Holding, chairman of the board of Pingwei Power Plant, Pingwei Power Plant II, Huanggang Debeishan Power Plant and Huaxi Power Company Limited. He served in positions including departmental manager, deputy chief engineering and chief engineer of CPI Holding and deputy manager of the Production Coordination Department and a researcher of Integrated Department of the Ministry of Electric Power Industry.

ZHAO Yazhou, 47, has been the executive vice president of the Company since March 2004. Mr. Zhao is a senior accountant. He studied technological economics at the postgraduate level at the Harbin Institute of Technology and completed training courses for the chief accountants of major enterprises of State Power Company at the National Accounting Institute. Mr. Zhao also acts as vice president and chief financial controller of CPI Holding and chairman of the board of Qinghe Power Plant, Liaoning Qinghe Power Maintenance Company Limited and Chang Shu Power Plant. He served in positions including deputy chief accountant and manager of finance department of CPI Holding and head of the finance department of Heilongjiang Provincial Power Bureau.

ZHAO Xinyan, 44, has been the vice president of the Company since March 2004. Mr. Zhao is a senior engineer. He graduated from Chongqing University with a Bachelor of Engineering degree in materials engineering. He also acts as an assistant to the president of CPI Holding, chairman of the board of Wuhu Shaodao Power Plant, China Power International (Wuhu) Company Limited and Hongze Power Plant, vice chairman of the board of Changshu Power Plant, director of Wuhu Power Generating Company Limited and CPI-Western Power Holdings Ltd. He has served as manager in various departments of CPI Holding.

Directors and Senior Management Profiles

WANG Zichao, 36, has been the vice president of the Company since March 2004. Mr. Wang is a senior engineer. He graduated from North China Electric Power University with a Master of Engineering degree in power system and automation. He also acts as an assistant to the president of CPI Holding, chairman of the board of Wuhu Power Generating Company Limited, director of Pingwei Power Plant, Changshu Power Plant, Pingwei Power Plant II, Wuhu Shaoda Power Plant and China Power International (Wuhu) Company Limited. Mr. Wang served as manager in various departments of CPI Holding.

LIU Genyu, 43, is the vice president of the Company. Mr. Liu is a senior engineer. He graduated from Tsinghua University with a degree of Executive Master of Business and Administration (EMBA). He is also an assistant to the president of CPI Holding. He also served in positions including vice president of Chongqing Jiulong Power Company Limited and lecturer of Harbin Power Vocation Technology College.

LIU Feng, 35, is the vice president of the Company. He graduated from the Inner Mongolia Engineering College with a degree in thermal power. He also holds a Bachelor degree in English literature from the Capital Normal University and a Master Degree in Economics from the Central University of Finance and Economics. He also acts as an assistant to the president of CPI Holding. Mr. Liu also served as a professional engineer for North China Electric Design Institute, and manager in various departments of CPI Holding.

XU Lihong, 40, is the vice president for the Company. Ms. Xu is a senior accountant. She holds an economic degree from the Changsha University of Electric Power and a Master's degree in Business Administration in Northeast China University. She also acts as the deputy chief accountant for CPI Holding. Ms. Xu also served as a principal staff member of Huazhong Electric Industry Management Bureau (華中電業管理局) and State Power Corporation of China (國家電力公司), a deputy director of Power Department under the State Economic and Trade Commission, as well as manager in various departments of CPI Holding.

COMPANY SECRETARY

Dr. TSE Hiu Tung, Sheldon, 42, has been the company secretary of the Company since March 2004. He is admitted to practise law in Hong Kong, England and Wales and the PRC. Dr. Tse graduated with a Bachelor of Laws from Zhongshan University and a Master of Laws and a Doctor of Philosophy in Law from the University of London in the United Kingdom. Dr. Tse is a partner of the law firm Arculli Fong & Ng (in association with King & Wood, PRC Lawyers), the legal adviser on Hong Kong law to the Company. Dr. Tse is a member of the arbitrators' panel of the Guangzhou Arbitration Commission an a member of the Hong Kong Security Institute.

QUALIFIED ACCOUNTANT

HUI Ka Chun, 35, has been the qualified accountant of the Company since June 2006. Mr. Hui is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (First Class Honours) Degree in Accountancy from the Hong Kong Polytechnic University, and has over 12 years experience in auditing, accounting and financial management in Hong Kong and the PRC.

Leaving the green water and blue sky
for our next generations,
while providing brightness and power
to the towns and villages in China

OVERVIEW

The Company was incorporated in Hong Kong with limited liability under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) on 24 March 2004. The Company is the flagship company of China Power Investment Corporation and is currently the only overseas incorporated and listed company among the five national power-generating groups in the People's Republic of China (the "PRC" or "China"). The Group's business is to develop, construct, own, operate and manage large power plants in the PRC.

As at 31 December 2006, the Company wholly owns 3 operating power plants, namely Pingwei Power Plant, Yaomeng Power Plant and Shentou I Power Plant; and holds stakes in an associated power plant, Changshu Power Plant, and a power generating company listed on the Shanghai Stock Exchange, Shanghai Power. The Company's attributable installed capacity in these thermal power plants is 5,348 MW. The Company also owns 3 thermal power plants under construction, namely Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant, with total installed capacity of 3,600 MW, of which 3,516 MW was our attributable installed capacity. In addition, the Company has been entrusted to manage 6 power plants. The electricity generated by the Group's power plants is primarily supplied to Eastern China Power Grid, Central China Power Grid and Northern China Power Grid.

BUSINESS REVIEW FOR 2006

OPERATING ENVIRONEMT

For the year 2006, China has achieved a good start under the 11th 5-Year Plan. With effective macroeconomic control policies and continued progress in the reform and opening-up policy, a number of positive adjustments have been made to the industry structure in support of improvement on operating environment and social economic development. Infrastructure industries such as energy and transportation were further improved. Tight supply in coal, electricity, oil and transportation was also substantially alleviated. Further action has been carried out to reduce energy consumption and pollutant emissions while considerable efforts have been made for environmental protection and ecology improvement. The national economy was on an accelerating growth track with stronger momentum driven by improved cost-effectiveness, relatively low commodity prices, more stable operation, greater benefits and stronger support. The annual gross domestic product exceeded RMB20 trillion, representing an increase of approximately 10.7% from the previous year. Supported by the steady and continued growth of the PRC economy, the domestic power sector maintained rapid growth. In 2006, total domestic electricity consumption amounted to approximately 2,824,800 GWh, representing a year-on-year increase of approximately 14.0%. The domestic power output was approximately 2,834,400 GWh, representing a year-on-year increase of approximately 13.5%, of which approximately 2,357,300 GWh was coal-fired power output, amounted to approximately 83.17% of total power output, with a year-on-year increase of approximately 15.3%. Electricity generated by the Group's power plants was mainly supplied to Eastern China Power Grid, Central China Power Grid and Northern China Power Grid. Net generation of which recorded a year-on-year increase of approximately 15.21%, 15.23% and 14.12% respectively.

The steady development of the PRC economy and the surging electricity demand created a favorable environment for the business development and operation of the Group. With the commencement of new power projects alternate the tight situation in supply and demand for electricity, resulting in a significant decrease in utilization hours of power plants compared to that of 2005. As at the end of 2006, the total installed capacity of the whole nation amounted to approximately 622,000 MW, increased by approximately 20.3% as compared with last year. The average accumulated utilization hours were approximately 5,221 hours, decreased by approximately 203 hours as compared with last year. In addition, rising fuel costs driven by higher coal prices exerted pressure on the operation of the Group.

ASSET ACQUISITION

In 2006, the Company completed the acquisition of 25% interest in Shanghai Power. Upon completion of share transfer, the Company holds 390,876,250 shares in Shanghai Power, and becomes the second largest shareholder of Shanghai Power. After the arm's length negotiations between the Company and China Power Investment Corporation, the consideration for the acquisition was determined to be RMB4.26 per share, and the total consideration was RMB1,665,132,825. The consideration and the terms of the acquisition agreement were fair and reasonable, on normal commercial terms and were in the interests of the shareholders of the Company as a whole.

Shanghai Power is the largest electricity supplier in Shanghai and has extended its business to other areas in Eastern China in recent years. This acquisition can expand the Group's operation scale, enhance future operation capacity and results and facilitate the Group's entry into the new power market in Shanghai.

POWER PLANTS UNDER CONSTRUCTION

In 2006, the construction of the Group's new power plants was in smooth progress. The funds required for the construction projects were injected as scheduled. With their solid efforts in accomplishing on site work such as foundation works and installation of equipments, the construction management team and workers endeavored to overcome the adverse factors such as the late delivery of some equipments, so as to ensure progress of the power plants under construction was proceeded as planned.

- Construction Progress of New Power Plants

  Pingwei Power Plant II: The project is under smooth progress. Two power generation units are scheduled to commence operation in the second and the third quarters of 2007 respectively.

  Yaomeng Power Plant II: The project is under smooth progress. Two power generation units are scheduled to commence operation in the first and the second quarters of 2008 respectively.

  Huanggang Dabieshan Power Plant: The project is under smooth progress. Two power generation units are scheduled to commence operation in the third and the fourth quarters of 2008 respectively.

In 2006, the Group successfully sought government support for favourable tax policy on import duty and value-added tax concession or exemption for imported equipment as well as value-added tax rebate for domestic equipment in respect of the new power plant projects.

INCREASE IN TARIFF

In 2006, the PRC Government decided to increase on-grid tariff, with effect from 30 June 2006. The Group achieved reasonable tariff increase in this adjustment, and the tariffs (VAT included) of Pingwei Power Plant, Yaomeng Power Plant, Shentou I Power Plant and Changshu Power Plant increased by approximately 2.51%, 6.94%, 15.08% and 8.15% respectively. The Group made zealous endeavors and arrangement with detailed plan and cooperation with various parties to ensure the implementation of the tariff adjustment, which in turn generated significant increase in revenue.

POWER GENERATION

Attributable installed capacity of the Company as at 31 December 2006 was 5,348 MW. Gross generation of the Group (excluding the associated company) for 2006 was approximately 24,065,245 MWh, increased by approximately 19.47% from the previous year. Net generation of the Group (excluding the associated company) for the year was approximately 22,262,463 MWh, increased by approximately 19.04% from the previous year.

The increase in the Group's power generation as compared with last year was mainly attributable to:

- increase in demand for electricity in the areas where our power plants are situated;
- increase in gross generation of the Group for the first half of 2006 as a result of the acquisition of Shentou I Power Plant in 2005;
- improvement of power generation structure and increase in equipment utilization hours by strengthening power marketing, conducting power market research and leveraging on its competitive edges; and
- improvement of production safety, management and control of unscheduled outages and supply of thermal coal. As a result, unscheduled outages were significantly reduced and long operating cycles of generation units were ensured.

OPERATION DATA OF THE GROUP'S POWER PLANTS

Operating conditions of the Group's major power plants during 2006 were as follows:

PINGWEI POWER PLANT

Pingwei Power Plant has an installed capacity of 1,230 MW, and its gross generation and net generation are approximately 7,896,080 MWh and 7,543,730 MWh respectively.

The following table sets out certain operation data of Pingwei Power Plant for each of the two years ended 31 December 2006 and 2005:

	For the year ended 31 December	
	2006	2005
Installed capacity (MW)	**1,230**	1,230
Average utilization hours (hours)	**6,420**	6,701
Gross generation (MWh)	**7,896,080**	8,241,790
Net generation (MWh)	**7,543,730**	7,885,870
Net coal consumption rate (grams/kWh)	**329**	332

YAOMENG POWER PLANT

Yaomeng Power Plant has an installed capacity of 1,210 MW, and its gross generation and net generation are approximately 7,704,272 MWh and 7,081,335 MWh respectively.

The following table sets out certain operation data of Yaomeng Power Plant for each of the two years ended 31 December 2006 and 2005:

	For the year ended 31 December	
	2006	2005
Installed capacity (MW)	**1,210**	1,210
Average utilization hours (hours)	**6,367**	6,354
Gross generation (MWh)	**7,704,272**	7,688,883
Net generation (MWh)	**7,081,335**	7,043,766
Net coal consumption rate (grams/kWh)	**340**	343

SHENTOU I POWER PLANT

Shentou I Power Plant has an installed capacity of 1,200 MW, and its gross generation and net generation are approximately 8,464,893 MWh and 7,637,398 MWh respectively. The results of Shentou I Power Plant were consolidated with the Group's results since 1 July 2005.

The following table sets out certain operation data of Shentou I Power Plant for the year ended 31 December 2006 and for the period from 1 July 2005 to 31 December 2005:

	For the year ended 31 December 2006	For the period from 1 July to 31 December 2005
Installed capacity (MW)	**1,200**	1,200
Average utilization hours (hours)	**7,054**	3,511
Gross generation (MWh)	**8,464,893**	4,213,110
Net generation (MWh)	**7,637,398**	3,771,359
Net coal consumption rate (grams/kWh)	**376**	377

CHANGSHU POWER PLANT

Changshu Power Plant has an installed capacity of 1,230 MW, and its gross generation and net generation are approximately 6,565,590 MWh and 6,226,880 MWh respectively.

The following table sets out certain operation data of Changshu Power Plant for each of the two years ended 31 December 2006 and 2005:

	For the year ended 31 December	
	2006	2005
Installed capacity (MW)	**1,230**	1,230
Average utilization hours (hours)	**5,338**	6,660
Gross generation (MWh)	**6,565,590**	7,514,500
Net generation (MWh)	**6,226,880**	7,132,140
Net coal consumption rate (grams/kWh)	**341**	343

OPERATING RESULTS

Turnover

The Group recorded turnover of approximately RMB5,202,934,000 in 2006 compared with RMB4,361,718,000 of the previous year, representing an increase of approximately 19.3%. The acquisition of Shentou I Power Plant resulted in an increase in turnover of approximately RMB609,326,000 for the first half of the year. A reasonable increase in average on-grid tariff contributed an increase of turnover by approximately RMB253,087,000. The changes of tariff structure for different on-grid generation levels resulted in a reduction of the turnover of approximately RMB21,197,000.

Other Income

In 2006, the Group's other income was approximately RMB75,214,000, decreased by approximately 1.0% as compared with RMB76,002,000 of the previous year. The fees received for managing power plants reduced by approximately RMB335,000 while rental income increased by approximately RMB628,000. Interest income decreased by approximately RMB1,081,000 because of the reduction of cash balance.

Fuel Costs

Fuel costs were a major component of the Group's operating costs. In 2006, the fuel costs of the Group were approximately RMB3,075,001,000, accounting for approximately 69.2% of the total operating costs. Fuel costs surged by approximately 15.9% compared with RMB2,652,216,000 of the previous year. The acquisition of Shentou I Power Plant resulted in an increase in fuel costs of approximately RMB387,642,000 for the first half of the year. Aside from the above, the fuel costs increased by approximately RMB73,469,000 due to rising average coal prices. The Group strengthened its operation management and hence reduced coal consumption rate, which contributed to a reduction of coal cost of approximately RMB38,326,000.

In 2006, the Group's unit fuel costs were approximately RMB138/MWh, representing a year-on-year drop of approximately 2.6%.

Depreciation

The Group's depreciation amounted to approximately RMB376,206,000 in 2006, representing an increase of approximately 17.4% compared with approximately RMB320,488,000 of the previous year. The increase in depreciation of approximately RMB48,136,000 for the first half of the year was attributable to the acquisition of Shentou I Power Plant last year. With the increase of property, plant and equipment, depreciation has increased by approximately RMB7,582,000.

Staff Costs

The Group recorded staff costs of approximately RMB354,908,000 in 2006, representing an increase of approximately 12.6% compared with RMB315,112,000 of the previous year. The increase in staff costs of approximately RMB29,522,000 for the first half of the year was attributable to the acquisition of the Shentou I Power Plant last year. Staff costs reduced by approximately RMB10,401,000 due to a reduced number of staff. The distribution of bonus and welfare fund also increased staff costs by approximately RMB20,675,000.

Repairs and Maintenance

The Group recorded repairs and maintenance expenses of approximately RMB265,868,000 in 2006, representing an increase of approximately 44.2% compared with RMB184,436,000 of the previous year. The acquisition of Shentou I Power Plant last year has enlarged the asset scale, causing an increase in repairs and maintenance costs of approximately RMB52,455,000. The increase in repairs and maintenance costs of approximately RMB28,977,000 was mainly attributable to the increased cost and increased items of the arrangement of repairs and maintenance for existing units.

Consumables

In 2006, the Group's consumables amounted to approximately RMB67,863,000 increased by 7.1% as compared with RMB63,357,000 of the previous year. The acquisition of Shentou I Power Plant resulted in an increase in consumables of approximately RMB16,091,000. We have enhanced our consumables management in the power plants owned by us and we recorded a reduction of approximately RMB11,585,000 in consumables.

Other Gains

Other gains of the Group amounted to approximately RMB87,370,000 in 2006, representing an increase of approximately RMB19,011,000, with an increase rate of approximately 27.8%, from RMB68,359,000 of the previous year. Among those, there was a write-back of previous revaluation deficit on property, plant and equipment of approximately RMB79,674,000. The amortization of deferred income increased by approximately RMB947,000. The increase in other gains for the year was offset by the decrease due to less write-back of provision for receivables of approximately RMB61,610,000.

Other Operating Expenses

Other operating expenses of the Group amounted to approximately RMB388,083,000 in 2006, representing an increase of approximately RMB156,695,000, with an increase rate of approximately 67.7% as compared with RMB231,388,000 of the previous year, of which an increase of approximately RMB45,548,000 for the first half of the year was mainly attributable to the acquisition of Shentou I Power Plant. An increase of approximately RMB25,080,000 in other operating expenses was attributable to the increase in emission discharge and water fee. The increase in other operating expenses of approximately RMB13,873,000 was attributable to the increase in cost caused by the accelerating progress of power plant construction projects. The increase in other operating expenses of approximately RMB18,143,000 was due to the revaluation deficits on property, plant and equipment. Other expenses increased by approximately RMB54,051,000 due to rise in miscellaneous expenses.

Operating Profit

Operating profit of the Group in 2006 amounted to approximately RMB837,589,000, representing an increase of approximately 13.3% compared with RMB739,082,000 of the previous year.

Finance Costs

Finance costs of the Group in 2006 amounted to approximately RMB133,489,000, representing an increase of approximately 13.2% as compared with RMB117,905,000 of the previous year, of which an increase of approximately RMB13,504,000 was attributable to the acquisition of Shentou I Power Plant. The decrease in borrowings for operations of other power plants leading to a saving in finance cost and the increase in foreign exchange losses were approximately RMB2,225,000 and RMB4,305,000 respectively.

Share of profit of an associated company

Share of profit of an associated company in 2006 was approximately RMB102,053,000, representing a decrease of approximately 16.7% as compared with RMB122,480,000 of the previous year. In Jiangsu Province, where Changshu Power Plant is located, significant increase in installed capacity of newly added power plants, the decrease in utilisation hours of the plants, the decrease in on-grid generation and hence turnover, the tight supply of coal in Jiangsu, increase in fuel cost have contributed to the reduction of profit after taxation for Changshu Power Plant.

Taxation

Taxation of the Group in 2006 was approximately RMB104,478,000, increased by approximately 26.7% as compared with RMB82,448,000 of the previous year. The increase in expenses in taxation was mainly attributable to the increase in the profit before taxation of our subsidiaries and the deferred tax arising from the revaluation deficits on property, plant and equipment.

Profit Attributable to Equity Holders of the Company

In 2006, the profit attributable to equity holders of the Company was approximately RMB702,767,000, increased by approximately 6.2% as compared to RMB661,904,000 of the previous year.

Segment information

The Group's principal activities are the generation and sale of electricity, and the development of power plants as a single business segment. Substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC except that certain cash and bank balances equivalent to approximately RMB476 million were deposited in certain banks in Hong Kong at 31 December 2006 (2005: approximately RMB1,471 million).

LIQUIDITY, FINANCIAL RESOURCES AND BORROWINGS

As at 31 December 2006, cash and cash equivalents of the Group were approximately RMB1,446,928,000. The Group derived its funds mainly from bank borrowings, issue of shares, cash inflow from operating activities and dividends from the associated company, which amounted to approximately RMB3,669,500,000, RMB1,757,389,000, RMB1,367,538,000 and RMB75,962,000 respectively.

PLACING SHARES FOR RAISING CAPITALS

Pursuant to a placing, underwriting and subscription agreement dated 9 November 2006, China Power Development Limited, the controlling shareholder of the Company sold 470,000,000 existing shares of the Company at the placing price of HK$3.70 per share. Pursuant to the placing, underwriting and subscription agreement, the Company then issued 470,000,000 new shares to CPDL at the subscription price of HK$3.70 per share. The net proceeds received by the Company from the subscription amounted to approximately HK$1,704,000,000. The new shares represented approximately 14.99% of the Company's issued capital before the subscription and approximately 13.04% of its issued capital as enlarged by the subscription.

DEBTS

Set out below are details of the loans and borrowings of the Group for the years ended 31 December 2006 and 2005:

	2006	2005
	RMB'000	RMB'000
Short-term bank borrowings	**1,330,000**	389,500
Short-term other borrowings	**98,000**	98,000
Short-term loan from CPIF	**140,000**	—
Current portion of long-term bank borrowings	**996,000**	400,000
Long-term bank borrowings maturing in 1-2 years	**651,000**	951,000
Long-term bank borrowings maturing in 3-5 years	**93,000**	464,000
Long-term bank maturing over 5 years	**3,068,000**	1,298,500
Long-term payable to CPIF	**395,562**	393,110
Long-term payable to SEPC	**19,437**	19,979
	6,790,999	4,014,089

The interest rates on the Group's loans, which currently range from 3.6% to 6.2%, are subject to adjustment in accordance with the relevant regulations of the People's Bank of China.

Our debt to equity ratio as at 31 December 2006 and 2005 were approximately 74.80% and 58.96% respectively.

On 31 May 2004, Pingwei Power Plant II, Yaomeng Power Plant II and Huanggang Dabieshan Power Plant entered into syndicate loan agreements with a number of banks to obtain loan facilities amounting to approximately RMB11,400,000,000 in aggregate in order to finance the power plants under construction.

CAPITAL EXPENDITURES

In 2006, capital expenditures of the Group were primarily attributable to technical upgrade projects for operational units, construction of power plants and acquisition of 25% equity interest in Shanghai Power.

FOR TECHNICAL UPGRADES

In order to reduce energy consumption, to improve the safety and reliability, and to become more environment-friendly and more efficient, the Group and the associated company of the Company carried out reasonable technical upgrades for existing units as planned. In 2006, the Group spent approximately RMB342,200,000 for technical upgrades.

FOR POWER PLANTS UNDER CONSTRUCTION

Pingwei Power Plant II: Actual investment for completing the project in 2006 was approximately RMB1,643,370,000.

Yaomeng Power Plant II: Actual investment for completing the project in 2006 was approximately RMB1,474,797,000.

Huanggang Dabieshan Power Plant: Actual investment for completing the project in 2006 was approximately RMB1,171,202,000.

FOR ACQUISITION

In 2006, the Group has acquired 25% interest in Shanghai Power for a consideration of RMB1,665,132,825.

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING ("IPO") OF THE COMPANY

The shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since 15 October 2004. The proceeds from the Company's IPO were used for capital injection of the power plants under construction, acquisition of assets and as general working capital.

The Company's proceeds from the IPO were used up as at 31 December 2006.

The following table sets out details on the use of net proceeds from the IPO of the Company during the year:

	RMB'000
General operating expenses	49,695
Acquisition of assets (Shanghai Power)	558,372
Power plants under construction	758,895
Total	1,366,962

RISK MANAGEMENT

Subject to changes in various aspects such as the macro economy, demand and supply of the electricity in the market and the supply of energy resources and raw materials as well as fluctuation in exchange rate and interest rate, the business development of the Group is exposed to certain operation risks and finance risks.

The Group currently does not use any derivative instruments to manage exposures to foreign currency and interest rate risks. Still, we strive to seeking management method to monitor these risks and minimize the effects on our profit and interest arising from fluctuation in foreign exchange rate, interest rate and tariffs.

Based on a well-prepared risk management concept, the Group has implemented all-rounded risk management. Specific department for risk management has been set up and risk management has been put under regular management. At the same time, the Group continues to strengthen its internal control and standardize its workflow. Together with regular exercise of risk management assessments, the Group has developed risk management measures according to the assessment results based on the quantitative methods. The Group has also carried out its responsibility, responsed in time, realized strict internal control, and enhanced the ability of execution of policies, promoted standardized working process with a view to minimizing every risk.

FOREIGN EXCHANGE RATE RISK

The Group experienced spectacular development in business in the PRC. The Group collected most of its revenue in Renminbi, part of which had to be converted into foreign currencies for dividend distribution to the shareholders of the Company or as working capital. As a result, the foreign currency transaction volumes inside and outside the country as well as the stock of foreign currency were relatively large. Therefore, we had to face certain risk exposure to foreign exchange fluctuations. Depreciation or enhancement of the translation of US dollars and HK dollars into RMB may positively or negatively affect the value of the Group's financial situations, operation results and any dividend declared upon translation or conversion into Hong Kong dollars.

PLEDGE OF ASSETS

As at 31 December 2006, a wholly-owned subsidiary of the Group pledged its machinery with a net book value of approximately RMB727,000,000 to a bank to secure bank loan granted to it in the amount of approximately RMB493,000,000.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2006, the Group and its associated company had a total of 7,643 full-time employees.

The Group determined the emoluments of its directors and employees based on their respective performance, working experiences, duties and the prevailing market rates. The Group also implemented incentive policy linking emoluments with performances.

The Group provided appropriate emoluments and benefits to all employees of its operating power plants pursuant to the labour laws and regulations of the PRC.

The Group has set up a mandatory provident fund scheme and made fixed contribution for our employees in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong).

The Company has set up a share option scheme for the Group's senior management and key employees and to motivate and attract high-calibre employees.

The Group has dynamically developed itself into a self-learning corporation. In order to address the Company's increasing demand for high-calibre employees, we continue to provide training on expertise such as specialized technology, marketing and management to our employees pursuant to their personalities and duties.

Outlook and Prospects for 2007

It is expected that the PRC's economy will continue to grow steadily in 2007 and the electricity consumption will continue to have a rapid increase. The rapid surge in the demand of electricity will bring opportunities to the Group to expand its power generation capacity.

In 2006, the acquisition of 25% equity interest in Shanghai Power by the Group established a new platform for the Group's further expansion in Eastern China power market, enlarged the Group's profit base and strengthened the Group's ability for risk management and sustainable development.

The Group will continue to strengthen the construction of new power plants so as to ensure the quality, commissioning and costs are in line with the schedule, and to guarantee that the two power generation units with highly efficient, large scale and low energy consumption in Pingwei Power Plant II will commence commercial operation, so as to strive for the further enhancement of electricity generation and income level.

The further rise in on-grid tariff approved by the NDRC in 2006 will be fully implemented in 2007, so that the Group and its associated companies will enjoy reasonable compensation on higher fuel costs.

The Group will closely monitor the changes in the power market and be responsive to future competitions in the regional markets.

The Group will continue to attain business expansion and explore suitable investment opportunities, so as to increase profitability and value for the shareholders.

The Group will continue to focus on environmental protection and social welfare in order to actively fufil social responsibility and to show good corporate image.

The Group will actively cultivate the corporate culture characterised as "Still water runs deep" and endeavor to build up a harmonious organization.

The key objectives of the Group for 2007 are as follows:

1. To implement the scientific and effective strategic management system, ensure the implementation of strategies, speed up mergers and acquisitions and the construction of new power plants so as to achieve sustainable, healthy and rapid development.

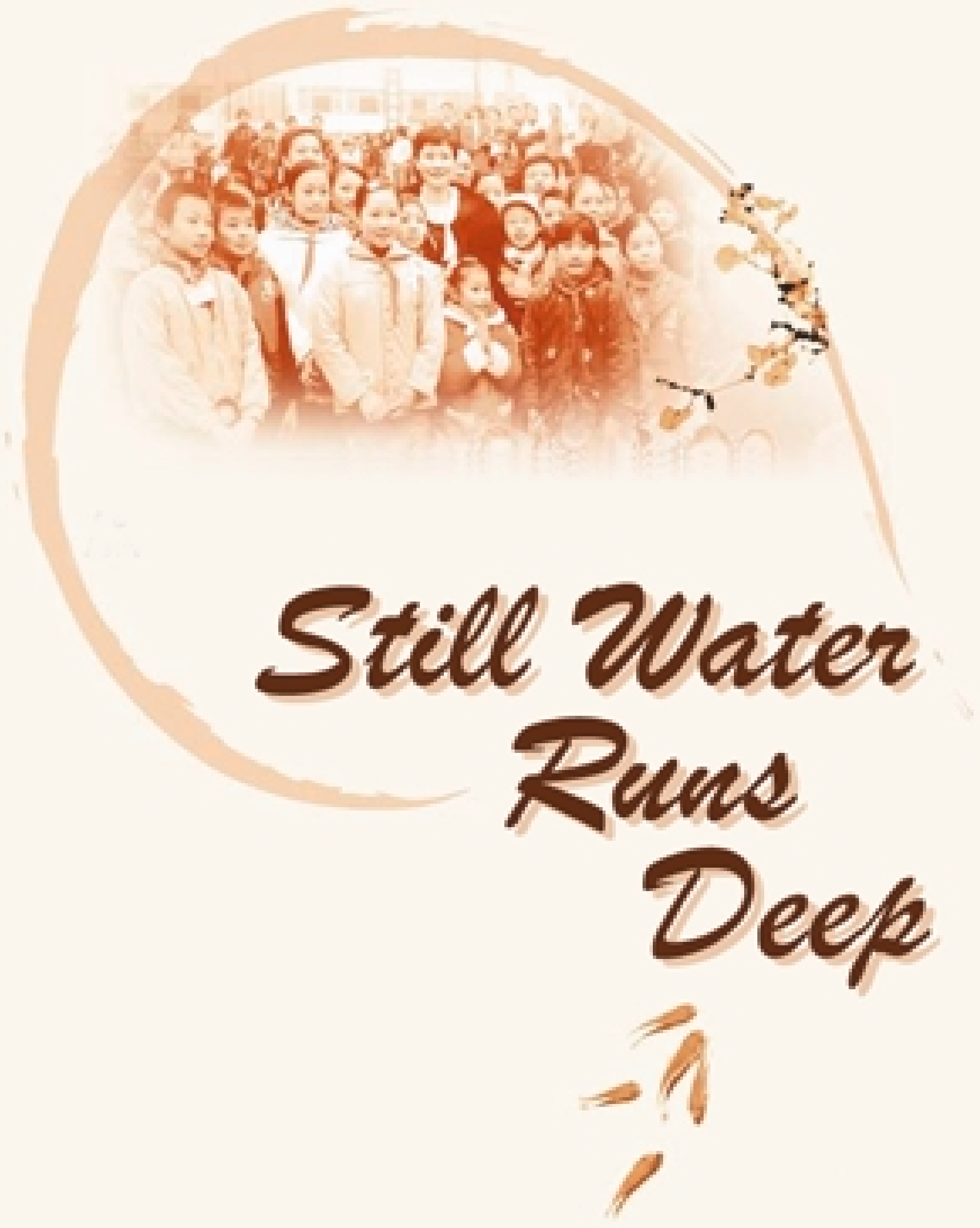
2. To strengthen safety production management, upgrade the operation quality of our equipments to generate power as much as possible.

3. To restructure management process and strengthen fuel procurement management so as to ensure a stable coal supply.

4. To initiate various activities in the "Year of Refined Management," strengthen our existing inventory management, improve operational efficiency and profitability so as to enhance shareholder value.

5. To reinforce people-oriented policy by enhancing staff training and performance assessment so as to build up a great team.

Responsibility, Honesty,
Wisdom and Value



CORPORATE GOVERNANCE

As a company incorporated and listed in Hong Kong, the Company strives to raise the standard of corporate governance. This reflects the commitment of the Board of Directors and senior management on abiding by the standards of corporate governance, as well as our willingness to maintain transparency and accountability on the management and approach of the Company.

MANAGEMENT STRUCTURE

The management structure of the Company is as follows:

Our management structure comprises of one focal point that includes the shareholders' meeting, the Board and the Management Committee and other six units, under which every unit plays an important role in achieving our goal of excellence in corporate governance of the Company.

COPERATE GOVERNANCE REPORT

The Company has strictly complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules in 2006, save for deviations from Code A.4.

The Corporate Governance Report of the Company during the year is set out below:

BOARD OF DIRECTORS

The Board is the highest decision-making and managing body of the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as business strategies and budgets, major investments as well as mergers and acquisitions. In addition, the Directors have acknowledged that the principal responsibilities of the Board also include preparation of accounts, as well as approving the result announcements and other announcement concerning operation conditions of the Company to be published to the public on a regular basis.

COMPOSITION OF THE BOARD

The Board comprises Mr. Wang Binghua, non-executive chairman of the Board, Ms. Li Xiaolin, vice-chairman of the Board, executive Director and chief executive officer, Mr. Hu Jiangdong, executive Director and the executive vice president, Mr. Gao Guangfu, non-executive Director, and three independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec. Profiles of the Directors are set out in the section headed “Directors and Senior Management Profiles” of this annual report.

Members of the Board have suitable and relevant experience, capabilities, and skills. Details are set out in the section headed “Directors and Senior Management Profiles” of this annual report.

The Board includes experts and scholars in electric power technology and management, as well as finance and law. They are not only experienced, but also have progressive thinking. More than one-third of our Board members are independent non-executive directors who can help the Board to make more effective independent judgement. The non-executive Directors (including the independent non-executive directors) who form the majority of the Board of the Company possess diverse expertise. As such, they are able to make decisions in an objective and professional manner, to assist the management team in formulating the Company’s development strategies, and to ensure that the preparation of financial and other mandatory reports by the Board are in strict adherence to appropriate standards in order to protect the interests of the shareholders and the Company. The Board has received annual confirmation of independence from each of the independent non-executive Directors and believed that, as at the date of this annual report, they were independent of the Company in accordance with the relevant requirement of the Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("Code of Conduct"), the terms of which are not less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2006.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

For the financial year ended 31 December 2006, the positions of the Chairman of the Board and the chief executive officer were served by Mr. Wang Binghua and Ms. Li Xiaolin respectively. The segregation of duties ensures a clear division between the chairman's responsibility to manage the Board and the chief executive officer's responsibility to manage the operations of the Company.

TERM OF OFFICE OF THE DIRECTORS

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to retirement by rotation and re-election. Code A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles"). In addition, as provided in the Articles of the Company, the executive Director who is also the chief executive officer of the Company shall not be subject to retirement by rotation, while all the other Directors will be subject to retirement at every annual general meeting after the annual general meeting in 2007.

In order to achieve full compliance with the Code, the Company will ensure that all directors (with the exception of the executive Director who is also the chief executive officer of the Company) are subject to retirement by rotation and re-election at least once every three years.

The Company is of the view that the position of the chief executive officer is indispensable to the operations of the Company and the provision in the Articles excluding the chief executive officer from the requirement of retirement by rotation reflects the indispensable nature of such position with a view to minimizing disruption to the operations of the Company.

AVAILABILITY AND ACCESS OF THE INFORMATION OF THE BOARD MEETING

The Board held several regular meetings during the year. Before each Board meeting, sufficient notice of meeting was sent to each Director of the Company to promote better attendance of the Directors. To ensure a thorough understanding of the proposed matters by the Directors, the Company will provide the Directors with complete and reliable written reports in a reasonable period of time and the management or professionals will answer enquiries from the Directors at any time. The Board held five meetings during 2006 (average attendance was 100%). Minutes of the meetings are kept by the Company's secretary, and the Board and committee members may inspect the documents and minutes of the Board and the committees at anytime.

COMMITTEES UNDER THE BOARD

Currently, the Board has set up three Committees, namely Audit Committee, Compensation and Nomination Committee, as well as Investment and Risk Control Committee to implement internal control and supervision on each relevant aspect of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 24 August 2004 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code which became effective on 31 December 2004. The primary duties of the Audit Committee are to review and monitor the financial reporting process and internal control systems of the Company and to make recommendations to the Board.

The Audit Committee comprises of three members, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Kwong Che Keung, Gordon. For the purpose of reinforcing their independence, all members of the Audit Committee possess appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held two meetings during 2006 (average attendance was 100%). The committee together with the senior management, internal and independent auditors of the Company reviewed the internal and independent audit results, the accounting standards and practices adopted by the Group and discussed matters relating to audit, internal control system and financial reporting (including recommendations to the Board on approval of annual results for 2005 and interim results for 2006).

COMPENSATION AND NOMINATION COMMITTEE

The Company established the Compensation and Nomination Committee on 24 August 2004. Its primary duties are to evaluate the performance of the Directors and senior management staff and to determine the specific compensation packages for all executive Directors, including benefits in kind, pension benefit, and compensation for lost of office or upon appointment, to make recommendations on the remuneration of non-executive Directors and to make recommendations in respect of the appointment and removal of members of the Board according to criteria such as educational background and work experience. The remuneration of the Directors approved by the shareholders are determined by the Board with reference to their experience, performance, duties and market conditions.

The Compensation and Nomination Committee comprises three members, namely Mr. Li Fang, Mr. Kwong Che Keung, Gordon, and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The committee is chaired by Mr. Li Fang.

The Compensation and Nomination Committee held one meeting during 2006 (average attendance was 100%) to review and make recommendations in respect of the the Directors' remuneration in 2005 and the overall package for Directors, senior management and staff in 2006.

INVESTMENT AND RISK CONTROL COMMITTEE

The Company established the Investment and Risk Control Committee on 24 August 2004. Its primary duties are to formulate our overall development plans and investment decision-making procedures, monitor the implementation of our strategic plans, provide trainings to the Board with regard to the strategies of the Company and assist the senior management in managing our internal and external risks.

The Investment and Risk Control Committee comprises four members, namely Mr. Wang Binghua, Ms. Li Xiaolin, Mr. Hu Jiandong and Mr. Gao Guangfu. The committee is chaired by Mr. Gao Guangfu. We are of the view that the two non-executive Directors, namely Mr. Wang Binghua and Mr. Gao Guangfu, will be able to discharge their duties in the committee effectively as:

- They possess extensive experience and knowledge in the power industry in the PRC, particularly in operation and management of power business. They are able to provide market expertise and advice to the Board;
- The Investment and Risk Control Committee will arrange for regular committee meetings and the senior management of the Company will provide periodic reports to the committee members to keep them informed of the latest operating conditions of the Company. In addition, the Company will also inform each committee member individually of any urgent matters; and
- the two executive Directors, namely Ms. Li Xiaolin and Mr. Hu Jiandong, will from time to time bring any relevant matters of the Company's business to the attention of all the committee members to ensure that the duties of the committee will be properly discharged.

The Investment and Risk Control Committee held one meeting during 2006 to review relevant significant acquisitions (average attendance was 100%) .

Details of Directors' attendance at the Board meetings and meetings of Board committees held in 2006 are set out in the following table:

Directors	Board Meeting	Audit Committee	Compensation and Nomination Committee	Investment and Risk Control Committee
	Attendance/Number of Meetings			
Executive Directors				
Li Xiaolin *(Vice-chairman of the Board and chief executive officer)*	5/5	—	—	1/1
Hu Jiandong *(Executive vice president)*	5/5	—	—	1/1
Non-executive Directors				
Wang Binghua *(Chairman of the Board)*	5/5	—	—	1/1
Gao Guangfu	5/5	—	—	1/1
Independent Non-executive Directors				
Kwong Che Keung, Gordon	5/5	2/2	1/1	—
Li Fang	5/5	2/2	1/1	—
Tsui Yiu Wa, Alec	5/5	2/2	1/1	—

ACCOUNTABILITY AND AUDITING

During the interim and annual Board meetings, the Board received feedback from the management in regard to the Company's production, operating and financial situations, which helped us better understand and assess the Company's performance and position. Aside from making comprehensive and due analysis and evaluation on the Company's production, operational and financial situation, the management also reviewed the Company's future development goals.

The management has provided sufficient information and explanations to the Board, allowing the Board to make an informed assessment on the financial data and other information submitted to them. The Board also has the opportunity to request further detailed information from the Company which will comply with such request accordingly. The Company will hold meetings with the auditors on regular basis for making suggestions and inquiries.

The Board acknowledges its responsibility in preparing accounts. The auditors' report states the auditors' reporting responsibilities.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the Company has reviewed the performance of PricewaterhouseCoopers as the Company's auditors (the "Auditors") and is considering their reappointment. For the year ended 31 December 2006, the remuneration payable to the Auditors amounted to approximately HK$3,740,000, while the fees for non-auditing services, including the review of interim reports and other services in connection with the acquisition of Shanghai Power, amounted to approximately HK$7,050,000 in aggregate.

INTERNAL CONTROL SYSTEM

The Board put particular emphasis on risk management and strengthening internal monitoring system. In respect of organizational structure, the Company has established the Investment and Risk Control Committee, the Compensation and Nomination Committee and the Audit Committee. The principles of the internal control framework are: to strengthen the Company's internal monitoring and control in accordance with the requirements of the Hong Kong Stock Exchange, continuously improve the Company's management structure, build up integrity corporate culture, establish an effective control system, continuously assess the competence of the internal control system and the efficiency of the management through auditing, investigations on conflicts of interests and internal assessment and etc. The department will remind the management on risks and ensure the smooth running of the control system.

The Company established the Internal Control Department, which is crucial to the Company's internal controls which have been included as part of the Company's development strategy. Committed to creating a good internal control environment, the Internal Control Department provides internal control assessment report to the Chief Executive Officer on a regular or random basis. It also regularly reports to the Audit Committee and the Board on internal control affairs. To minimize risk faced by the Company, the department evaluates and reviews the Company's internal control process, providing a solid foundation for building up an effective internal control system.

In respect of system establishment, the Company has appointed a management consulting company for the assessment of its internal control system. The assessment began with our business process analysis for risk assessment. By making comparison with leading exemplars and models, the consultant assessed the completeness, rationality, effectiveness of the internal control structure and system of the Company and its wholly-owned holding companies while introducing recommendations for improvements. In accordance with the management consultant's recommendations, the Company has initiated a broad discussion on its management structure, business scopes and philosophy for enhancing our standard of knowledge on system establishment and implementing optimization initiatives. As such, the Company's system modification was carried out in full swing. A total of 210 systems were modified, covering all of the Company's business operation and reinforcing its internal control system.

As for internal auditing, the Company has strengthened its efforts on internal audit items such as non-production energy consumption, budget management, fuel management, and performance assessment this year under its integrated management focuses. With enhanced effectiveness of the internal audit function, internal audit was conducted for the independent and objective supervision and assessment on the adequacy and effectiveness of the operation of the internal control system.

The Company has linked its risk management to internal control. By taking the risk management framework requirements of the Committee of Sponsoring Organizations of the Treadway Commission risk management framework and risk management guidelines set out by the Hong Kong Association of Certified Public Accountants into full account, the Company was able to make prompt efforts necessary for internal control and took a proactive approach in developing risk management. Having considered our operation as a listed company, we have fully revised risk management regulations, restricting the Company's risk scale, and divided into our risk exposure into 128 categories. Furthermore, we have set comprehensive procedures and interface for risk management and required situation on risk management to be reported to our senior management and the Board.

COMMUNICATION WITH SHAREHOLDERS

Apart from reporting to the shareholders and investors on its operation and financial conditions semi-annually and annually, the Company also discloses regularly the key operating data such as electricity generation so that the investors have a better understanding about the operation of the Company.

The Company also holds regular press conferences and meetings with financial analysts and investors, during which the Company's management will directly provide relevant information and data to the media, financial analysts, fund managers and investors, as well as answer their enquiries in a prompt, complete and accurate manner. The Company's website is updated continuously, providing up-to-date information regarding every scope of the Company to investors and the public.

The Company features the Capital Markets and Investor Relations Department, which takes charge of the Company's relationship with investors relations by providing information and services to investors, promptly replying to their enquiries, and maintaining channels of active and timely communications with them.

ENVIRONMENTAL PROTECTION CONCEPT

"Providing green energy and serving our community" has always been China Power's corporate mission. As one of the leading independent power producers in the PRC, we are dedicated to providing economical, clean and reliable power for the society with a view to building up a resource-saving and environmental-friendly enterprise.

The Board and the management of China Power, as always, put great emphasis on environmental protection as well as green energy development and utilization to maintain a harmonious development between the enterprise and the environment. Based on our principle of "less energy consumption, low emission and high efficiency", we have delivered our environmental conservation standard to our subsidiaries as one of the key criteria determining operation performance. It is also our commitment to upgrade our energy efficiency management and build up the value-added concept for the sustainable development.

ENVIRONMENTAL PROTECTION MANAGEMENT SYSTEM

The Group has taken the environmental protection merits of the generation units into full consideration from engineering design to operation. Meanwhile, we have also carried out environmental protection management for the entire lifespan of our assets. The Group has standardized our environmental protection projects with an emphasis on pre-emptive measure. We have endeavoured to achieve energy saving and recycling in each production process under the ever-enhancing management benchmark of the entire operation.

In addition to incorporating the existing rules, regulations and standardized system, we have also established a China Power specific environmental protection management system in 2006, covering environmental protection management on risks, code of practice and attitudes of staff, facility management, operating results and etc. Trial operation of the system will be launched and promoted in our subsidiary power plants in 2007. With the establishment of this system, continuous enhancement in corporate environmental protection management will be achieved and our management goals of low pollutant emission, low energy consumption and low environmental risk will be realized.

ENVIRONMENTAL PROJECTS

Reduction in sewage and air pollutant emission was achieved through a number of our environmental protection and energy saving projects in 2006. In 2007, we will continue our efforts to lower coal consumption of our generation units and elevate environmental protection and energy consumption standards with a series of improvement projects.

- **DESULPHURIZATION PROJECTS**

  The operation of the desulphurization facilities of Changshu Power Plant's Unit 3 commenced in October 2006 while the desulphurization project of Unit 4 will be completed by the end of March 2007. The feasibility study report on the construction of the desulphurization facilities of Unit 1 and Unit 2 was submitted for approval.

  The construction contracts of the desulphurization facilities of Pingwei Power Plant and Yaomeng Power Plant were entered into by the end of 2006, and the construction will commence in 2007.

  The feasibility study report on the construction of the desulphurization facilities of Shentou I Power Plant has been approved and the construction will commence in 2007.

It is expected the national emission standards of flue and gas and sulphur dioxide will be fulfilled, and the desulphurization efficiency will reach at a rate not less than 95% for all the above desulphurization projects.

- **OTHER ENVIRONMENTAL PROTECTION PROJECTS**

The forestation project of prior ash disposal site of Shentou I Power Plant was completed in 2006, which facilitated a zero ash sluicing water while reducing the emission of pollutant water by approximately 2,000,000 tons.

The feasibility study report on the disposal and recycling project of sewage of Shentou I Power Plant has been approved and its operation will commence in 2007. It is expected that the sewage discharge will be reduced by approximately 13,000,000 tons accordingly.

Ventilation and capacity expansion work and transformation of a low-nitrogen burning system of Changshu Power Plant's Unit 1 will be implemented in 2007. It is expected the project will greatly reduce coal consumption of power generation units as well as emission of nitrogen oxide.

- **DISCHARGE FEE PAYMENT**

For the year 2006, the total discharge fees paid by our power plants, including RMB25,200,000 of Changshu Power Plant, amounted to approximately RMB107,310,000, representing a more significant increase as compared to last year. The increase was mainly attributable to the implementation of new PRC regulations on discharge fees effective from 1 July 2003, and the fact that Shentou I Power Plant has been one of our subsidiaries since the second half of 2005. However, with the implementation of the desulphurization facilities and transformation of a low-nitrogen burning system, the discharge fees of Changshu Power Plant reduced to some extent as compared to last year.

- **PRIVILEGED FUND FROM TREASURY BONDS AND SPECIFIC ENVIRONMENTAL PROTECTION FUND**

The Group and its associated companies have strived for privileged fund from treasury bonds and specific environmental protection fund to implement its environmental protection and enhancement plan in accordance with the relevant environmental conservation requirements of the PRC. Shentou I Power Plant was granted national debts of RMB14,900,000 from the State Development and Reform Committee for sewage control while Changshu Power Plant was granted a specified environmental protection fund of RMB11,600,000 for the construction of desulphurization facilities.

REDUCING GREENHOUSE GAS EMISSION

Global warming has become an increasingly hot issue with international concerns. As a power generation enterprise primarily fuelled by coal, China Power not only keeps close watch on global climate changes, but also takes an active control measures for our impacts on climatic changes. Our exploration and research on the control of greenhouse gas emission, such as sulphur dioxide and nitrogen oxide, have made certain progress and achievements.

We have strived to control matters such as coal consumption and greenhouse gas emission via operating management enhancement and technical upgrades. In 2006, coal consumption used in power generating was decreased by 1.66 grams/kWh as compared to last year while emission of carbon dioxide and nitrogen oxide were decreased by approximately 13,000 tons and 800 tons respectively. In 2007 and 2008, the operation of six of our 600 MW super-critical generation units will be commenced, which will substantially lower the energy consumption level, improve the efficiency of the generation units and effectively reduce emissions of pollutant.

Investor Relations

The Company, the Board and the management deeply acknowledge that investor relations constitute a strategic management activity to enhance understanding between the investors and the Company, to upgrade the level of corporate governance, transparency and strategic credibility as well as to create values for shareholders.

Besides endeavors to optimize, operations, development and acquisitions, the management attaches great importance to the investors, securities analysts and financial media. By way of road-shows, results presentations, general meetings, one-on-one meetings, investor meetings, teleconferences, site visits and etc, the management strives to maintain excellent communications with all relevant external parties who are concerned about operations and development of the Company. The Directors of the Board and the chief executive officer of the Company also participate in the aforementioned activities regularly, keeping in good contact with the investors.

Such communication is a two-way process. While we duly report our operational development and updated information on the industry, the Company also open-mindedly absorbs opinions or advice from all external parties, including its shareholders. Based on such opinions and advice, we promptly improve our operations and adjust strategies for acquisitions and development.

In 2006, the Company held three meetings with analysts (on annual results, interim results and acquisition of Shanghai Power, one of which was a global teleconference) and two general meetings. To facilitate the issue of our annual results and interim results and the acquisitions, we launched several global road show campaigns in Hong Kong, Singapore, Europe, the US and Japan. In addition, we also attended investor meetings organized by international Investment Banks. Besides regular visits by the investors, the Company conducted over a hundred of one-on-one meetings or small group meetings with dozens of institutional investors in 2006, ensuring effective communication with securities analysts, investors and financial media.

In 2007, the Company will further improve investor relations with our commitment to provide services for investors, securities analysts and financial journalists. The Company will implement a scheme of “Improving Investor Relations Response” with the aim to ensure three “immediate responses”: an immediate response to disclose information that various types of investors concern about, such as on power generation, commencing operations of new generation units, investments in and acquisitions of new projects; an immediate response to handle enquiries from the investors, securities analysts and financial journalists; and an immediate response to direct various opinions or advice from the investors to the management and the Board of the Company.

1. WHAT IS THE COMPANY's DEVELOPMENT STRATEGY? WILL THE COMPANY CONSIDER EXPLORING NEW MARKETS OF RENEWABLE ENERGY OR NUCLEAR ENERGY? IS THERE ANY PLAN TO ACQUIRE OR DEVELOP HYDRO ELECTRICITY PROJECTS?

Since its IPO, the Company has adopted a clear and well-defined development strategy: to maintain the steady and healthy growth of the Company through acquisition or construction of coal-fired or hydro power plants in the developed coastal areas or areas with abundant resources capitalizing on the strong support of CPI Group/CPI Holding.

The strategic positions and focuses of China Power, CPI Holding and CPI Group are distinctive. CPI Group emphasize its development on the establishment of a large-scale electricity generation production base and an integrated energy assets base, characterized by its focus on the nuclear power development. CPI Holding, on the other hand, undertakes the role of enterprise incubator, with a focus on backing up China Power in the development of coal fired or hydro power plants, developing renewable energy and investing in businesses such as transmission and distribution of electricity.

According to the aforementioned strategic divisions and positioning, and having taken into consideration shareholders' interests and the unique business nature of renewable energy and nuclear power, China Power is keeping an eye on the opportunities of developing renewable energy or embarking on nuclear power generation. However, China Power is currently focusing on developing coal fired or hydro power plants.

2. WITH THE COMMENCEMENT OF THE OPERATION OF MANY NEW GENERATING UNITS, THE SUPPLY AND DEMAND FOR ELECTRICITY IN MAINLAND CHINA HAS BEEN SIGNIFICANTLY IMPROVED AND CERTAIN AREAS ARE EVEN IN FACE OF OVER-SUPPLY. HOW MANY ESTIMATED UTILIZATION HOURS OF ELECTRICITY WILL BE ACHIEVED BY THE COMPANY IN 2007? WHAT MEASURES WILL THE COMPANY TAKE TO DEAL WITH THE OVERSUPPLY?

According to the preliminary statistics by the China Electricity Council, as at the end of 2006, the total installed capacity of China was 622 GW. However, the total installed capacity per capita was less than 0.5 KW, far less than the average of 1 KW for developed countries. For 2006, the electricity consumption per capita of China was less than 2,200 kWh, which was also far less than the world average.

Thus, there is still huge room for long-term development of China's electricity generating capacity. With more units going into productions in the couple of years to come, the supply of electricity will be significantly improved in China and reserve margin will gradually increase to a reasonable level. The utilization rates of power companies will also reduce to a normal level. Based on the current situation, we estimate that the reduction of our utilization rate will be moderate.

We will take the following measures to raise our electricity production: (1) to build up the concept of "Every watt Counts"; (2) to capitalize on low tariff advantage; (3) to properly schedule maintenance and to strengthen production management; (4) to improve the coordination and communication with power grids and despatching authorities; and (5) to adopt an incentive system to promote electricity generation.

3. WHAT IS THE REASON FOR A LOWER THAN AVERAGE TARIFF OF THE POWER PLANTS OF CHINA POWER? WOULD IT AFFECT THE FUTURE DEVELOPMENT OF CHINA POWER?

The average tariff of China Power is lower than that of its peers in the industry. The on-grid tariffs of our three operating power plants are lower than the benchmark tariff for new units in their respective province. In particular, the tariff of Shentou I Power Plant, Pingwei Power Plant and Yaomeng Power Plant is 20%, 10% and 9.4% lower than the provincial benchmark tariffs respectively.

The lower tariff of China Power is a legacy of its predecessors. Pingwei Power Plant, Yaomeng Power Plant and Shentou I Power Plant were cost centers or parts of their local provincial electricity bureaus or provincial electricity companies and did not have their own tariffs. Upon their de-mergers, the government adopted a tariff system for these power plants on the basis of "cost + reasonable profit + tax". As they are mine-mouth power plants and have been in operations for years upon de-merger, the lower tariff reflects their relatively low costs.

In March 2005, the NDRC announced the "Provisional Measures for the Administration of the On-Grid Tariff" which requires the "gradual unification of tariffs of power plants". On such basis, the tariffs of the power plants of the Company had been raised during the last two years and their respective increase was higher than their provincial averages.

Currently, the Chinese Government is promoting the power pooling scheme. The Company believes that its lower tariff will have a competitive advantage which will be reflected in either relatively high utilization hours or favourable tariff adjustment, or both.

4. WHAT IS YOUR VIEW ON THE FUTURE SUPPLY AND PRICE OF COAL? WHAT IS THE PERCENTAGE AND PRICE OF CONTRACTED COAL IN 2007?

In January 2007, the NDRC issued the "Eleventh Five-Year Plan for the Development of Coal Industry". It forecasts that by 2010, the overall annual demand and supply of coal will both reach 2.6 billion tons. It also forecasted that during the period of the "Eleventh Five-Year Plan," output of coal will increase by over 360 million tons. Having considered factors such as the austerity measures, economic reform, technology improvement, energy conservation, improvement in railway transportation, more import and less export of coal, it is estimated that during the period of the "Eleventh Five-Year Plan", the supply and demand of coal will be improved and the price of coal will remain stable.

Due to higher production cost and other factors, there will be a general increase in coal price in 2007 in China. It is expected that the price of coal for power generation will be increased by approximately RMB30 per ton. According to our contracts, the prices of contracted coal increase by RMB10 to RMB35 per ton. The Company estimates that contracted coal accounts for about 85% of the total demand for coal.

The Company will strengthen the management of coal procurement to try to purchase coal of higher quality and to reduce the consumption of coal as well as to minimize the increase of fuel cost.

5. WHAT IS THE TAX RATE FOR CHINA POWER AT PRESENT? HOW WOULD IT AFFECT THE COMPANY IF THE CHINESE GOVERNMENT UNIFORMS THE INCOME TAX FOR DOMESTIC AND FOREIGN ENTERPRISES?

Among the four power plants of China Power under operations, the preferential tax policy of "Two years free and three years half" previously granted to Pingwei Power Plant, Yaomeng Power Plant and Changshu Power Plant expired in 2005. The current income tax rate applicable to foreign investment enterprises engaged in energy, transportation or infrastructures is 15%. Shentou I Power Plant is still enjoying the preferential period of half rate, with the applicable tax rate of 7.5%.

The new Income Tax Act was approved by the PRC government. The Act will provide a 5-year transitional period for the tax benefits enjoyed by established foreign enterprises. In the long run, an increase in applicable tax rate will affect our operation to a certain extent. In the short-to-medium run, however, the impact is expected to be insignificant attributable to the arrangement of the transitional period.

The Company puts great emphasis on how the changes in the income tax policy of the PRC government affect our operations. To minimize the impacts of such tax rate changes on our operations, we will continue strengthening our management and cost control, and capitalizing on the tax benefit policies during the transitional period. On the other hand, our future acquisitions and new projects will take the new income tax policy into account and make appropriate adjustments to our strategies in order to maximize shareholders' value.

6. WHAT IS THE COMPANY'S DIVIDEND POLICY? WOULD IT INCREASE THE DIVIDEND PAYOUT RATIO?

The Company formulates its dividend policy upon having fully taken into account various factors such as our cash flow, development needs and dividend payout ratio of peer groups. China Power's dividend payout ratio in 2005 and 2006 were 37.5% and 41.0%, respectively.

We believe that this dividend payout level is appropriate. From now on, apart from our commitment of a dividend payout ratio of not less than 25%, we will also take the above factors into full consideration when formulating our dividend policy. We have reasons to believe that it is unlikely the dividend payout ratio would decrease in the short-to-medium term.

The Directors have pleasure in presenting to our shareholders their report together with the audited accounts of the Group for the year ended 31 December 2006 (the "Accounts").

PRINCIPAL ACTIVITIES

The principal activity of the Group is to develop, construct, own, operate and manage large power plants in China. Particulars of the Company's principal subsidiaries are shown under Note 20 to the Accounts.

RESULTS AND DISTRIBUTION

The results of the Group for the Year are set out in the Consolidated Profit and Loss Account on page 74. The Board has recommended to pay a final dividend of RMB0.08 per share for the year ended 31 December 2006, with a total amount of approximately RMB288,408,000.

PROPERTY, PLANT AND EQUIPMENT

During the Year, the Group acquired property, plant and equipment of approximately RMB2,908,944,000, mainly representing general power assets. Details of the movements in property, plant and equipment of the Group and the Company during the Year are set out in Note 16 to the Accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in Note 27 to the Accounts.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in Note 28 to the Accounts.

DISTRIBUTABLE RESERVE

According to Section 79B of the Companies Ordinance, as at 31 December 2006, the distributable reserve of the Company amounted to RMB720,730,000 (2005: RMB690,726,000).

DIRECTORS

The present Directors of the Company are set out in the section headed "Corporate information" in this annual report. Biographical details of the Directors are set out in the section headed "Directors and senior management profiles" in this annual report, and details of Directors' emoluments are set out in Note 15 to the Accounts.

At the forthcoming Annual General Meeting, Mr. Hu Jiandong will vacate from his office in accordance with Rule A.4.2 of Appendix 14 of the Listing Rules and he, being eligible, offers himself for re-appointment. If Mr. Hu is re-elected, he will not enter into any service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

As at 31 December 2006, none of the Directors had a service contract with the Company or any subsidiaries which was not determinable by the employing company within one year without payment of compensation other than statutory compensation.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence. The Company considers all of its independent non-executive Directors independent.

SHARE OPTION SCHEMES

The Company has two share option schemes, namely the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") as follows:

(A) PRE-IPO SHARE OPTION SCHEME

The Company has conditionally approved and adopted the Pre-IPO Share Option Scheme on 24 August 2004. The purposes of the Pre-IPO Share Option Scheme are to attract and retain high-calibre personnel who have contributed to the Company's long-term development and profitability and to motivate them to higher levels of performance by providing them with the opportunity to acquire equity in the Company.

The Pre-IPO Share Option Scheme ended on the date on which dealings in the shares commenced on the Hong Kong Stock Exchange (i.e. 15 October 2004). No further options may be granted after that date but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect.

As at the date of this annual report, a total of 11,414,100 shares (representing approximately 0.32% of the existing issued share capital of the Company) may be issued by the Company if all options which had been granted under the Pre-IPO Share Option Scheme have been exercised.

Save that the exercise price per share is subject to the options granted under the Pre-IPO Share Option Scheme being the issue price per share under the IPO of the Company, the principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme. Grantees under the Pre-IPO Share Option Scheme were required to pay HK$1.00 to the Company as the nominal consideration of each option granted.

Each option has a 10-year exercise period within which there is a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the offer date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

The Company has used the Black-Scholes option pricing model (the “Model”) to value the Pre-IPO Share Options during the Year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. As such, the fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the valuation model used.

The Pre-IPO Share Options were granted on 18 September 2004 to the Directors and senior management of the Company and on 11 October 2004 to certain other employees of the Company. The fair value of the Pre-IPO Share Options determined at the dates of grant using the Model were HK$9,875,200 and HK$4,006,000 respectively. Such value has been expensed regressively through the Group’s profit and loss account over the four-year vesting period of the Pre-IPO Share Options commencing from the year ended 31 December 2004.

Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2006 are as follows:

		Number of Shares subject to Options						
Grantee and Position	**Date of grant**	**As at 1 January 2006**	**Granted during the year**	**Lapsed or cancelled during the year**	**Exercised during the year**	**Outstanding as at 31 December 2006**	**Exercise period**	**Exercise price per shares (HK$)**
WANG Binghua *Chairman of the Board and Non-Executive Director*	18 September 2004	1,495,400	—	—	—	1,495,400	17 September 2014	2.53
LI Xiaolin *Vice-Chairman of the Board, Executive Director and Chief Executive Officer*	18 September 2004	1,661,500	—	—	—	1,661,500	17 September 2014	2.53
HU Jiandong *Executive Director and Executive Vice President*	18 September 2004	996,900	—	—	—	996,900	17 September 2014	2.53
GAO Guangfu *Non-Executive Director*	18 September 2004	207,700	—	—	—	207,700	17 September 2014	2.53
GU Dake *Executive Vice President*	18 September 2004	872,300	—	—	—	872,300	17 September 2014	2.53
WANG Zhiying *Executive Vice President*	18 September 2004	872,300	—	—	—	872,300	17 September 2014	2.53
ZHAO Yazhou *Executive Vice President*	18 September 2004	872,300	—	—	—	872,300	17 September 2014	2.53
IO Cheok Kei, Rudy *(Note)*	18 September 2004	415,400	—	311,550	103,850	—	17 September 2014	2.53
ZHAO Xinyan *Vice President*	18 September 2004	540,000	—	—	—	540,000	17 September 2014	2.53

Grantee and Position	Date of grant	Number of Shares subject to Options: As at 1 January 2006	Granted during the year	Lapsed or cancelled during the year	Exercised during the year	Outstanding as at 31 December 2006	Exercise period	Exercise price per shares (HK$)
WANG Zichao *Vice President*	18 September 2004	540,000	—	—	—	540,000	17 September 2014	2.53
TSE Hiu Tung, Sheldon *Company Secretary*	18 September 2004	207,700	—	—	—	207,700	17 September 2014	2.53
Other employees	11 October 2004	3,553,000	—	—	—	3,553,000	10 October 2014	2.53

Note: Mr. Io Cheok Kei exercised his share options to subscribe for a total of 103,850 shares of the Company on 21 and 22 August 2006. The share price of the Company on the trading day immediately before his exercise of options was HK$2.8. Mr. Io ceased to be the Company's employee since 1 May 2006. The vested Pre-IPO share options were exercised before 31 August 2006 and Pre-IPO options not being vested were lapsed upon his resignation.

(B) SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved and adopted by a resolution in writing passed by the Company's shareholders on 24 August 2004. The purposes of the Share Option Scheme are to attract and retain high-calibre personnel to provide them with the opportunity to acquire equity in the Company and to motivate them to higher levels of performance.

The Board may, at its absolute discretion, offer any employees, Directors (including executive and non-executive Directors other than independent non-executive Directors), chief executive and members of the management of the Company and the Group (the "Eligible Person") options. Upon acceptance of the offer of an option, the grantee shall pay HK$1.00 to the Company as a nominal consideration for each option granted.

No option has been granted by the Company under the Share Option Scheme. As at the date of issue of this annual report, the total number of shares in respect of which options may be granted under the Share Option Scheme was 288,077,050, representing approximately 7.99% of the existing issued share capital of the Company.

Except with the approval of the Company's independent shareholders at the general meeting, the total number of shares issued and to be issued upon the exercise of the options granted or to be granted to each Eligible Person under the Share Option Scheme and other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Company's shares in issue.

The exercise price per share subject to the options granted under the Share Option Scheme shall be determined by the Board but shall be not less than the greatest of:

(a) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date, which must be a business day, of the written offer of the option (the "Offer Date");

(b) the average closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date; and

(c) the nominal value of the shares.

In the event of a capitalization issue, rights issue, sub-division or consolidation of the shares or reduction of the capital of the Company whilst any option remains exercisable, the Company shall make such corresponding adjustments to the exercise price per share for the outstanding options.

An option may be exercised at any time during a period to be notified by the Board to each grantee, such period not to exceed ten years from the Offer Date of the relevant option. Options granted under the Share Option Scheme will have a total vesting period of four years. Commencing from the first, second, third and fourth anniversaries of the Offer Date of an option, the relevant grantee may exercise up to 25%, 50%, 75% and 100% respectively of the shares comprised in his or her option subject to any early vesting of options described in the following paragraphs.

(1) RIGHTS ON A GENERAL OFFER

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in similar manner) is made to the Company's shareholders, the Company shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantees shall be entitled to exercise the option in full (to the extent not already exercised) within 14 days after the date on which such general offer becomes or is declared unconditional.

(2) RIGHTS ON SCHEMES OF COMPROMISE OR ARRANGEMENT

If, pursuant to the Companies Ordinance, a compromise or arrangement between the Company and its shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it dispatches to each shareholder or creditor of the Company a notice summoning a meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his/her options in whole or in part prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

(3) RIGHTS ON A VOLUNTARY WINDING-UP

In the event of an effective resolution being passed for the voluntary winding-up of the Company or an order of the court is made for the winding-up of the Company, the Company shall give notice thereof ("winding-up notice") to all grantees on the same day as such resolution is passed or order is made. The grantee may by notice in writing to the Company within 21 days after the date of the winding-up notice elect to be treated as if the option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the grantee's notice, such notice to be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation pari passu with the Company's shareholders such sum as would have been received in respect of the Shares the subject of such election.

Unless otherwise terminated by the Board or the shareholders of the Company in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from 24 August 2004.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2006, save as disclosed below, none of the Directors or the Company's chief executive officer has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO") which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Name	Capacity	Name of company in which interests are held	Date of grant	Number of underlying shares interested under physically settled equity derivatives	Percentage of issued share capital of the Company (%)	Long/Short position
WANG Binghua	Beneficial owner	the Company	18 September 2004	1,495,400	0.04	Long
LI Xiaolin	Beneficial owner	the Company	18 September 2004	1,661,500	0.05	Long
HU Jiandong	Beneficial owner	the Company	18 September 2004	996,900	0.03	Long
GAO Guangfu	Beneficial owner	the Company	18 September 2004	207,700	0.01	Long

Notes:

(1) The interests of the above Directors in the underlying shares of the Company represent the options granted to them under the Pre-IPO Share Option Scheme by the Company.

(2) None of the above Directors has any interests in the Company's securities (except for interests held under equity derivatives).

DIRECTOR'S INTEREST IN CONTRACTS

There is no contract of significance in which the Company, its subsidiaries, holding company or associated company was a party, and in which any Director of the Company had a material interest, subsisted at any time during the Year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2006, save as disclosed below, no person, not being a Director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which should be recorded in the register kept under Section 336 of the SFO.

Name	Capacity	Number of shares in which interested other than under equity derivatives[3]	Percentage of issued share capital of the Company (%)	Long/Short position
CPDL	Beneficial owner	1,996,500,000	55.38	Long
CPI Holding[1]	Interest of a controlled corporation	1,996,500,000	55.38	Long
CPI Group[2]	Interest of a controlled corporation	1,996,500,000	55.38	Long

Notes:

(1) CPI Holding is the beneficial owner of the entire issued share capital of CPDL and therefore CPI Holding is deemed to be interested in the Shares owned by CPDL for the purposes of the SFO.

(2) CPI Group is the beneficial owner of the entire issued share capital of CPI Holding and therefore CPI Group is deemed to be interested in the Shares owned by CPDL for the purposes of the SFO.

(3) The above shareholders of the Company do not have any interest in the equity derivatives of the Company.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP

CONNECTED TRANSACTIONS

(A) SHANGHAI POWER ACQUISITION AGREEMENT

The Company entered into an option deed in respect of Shanghai Power (the "Shanghai Power Option Deed") with CPI Group on 27 August 2004, pursuant to which the Company was granted an option to acquire an equity interest in Shanghai Power up to 25%. The option is exercisable within 3 years from 29 October 2004.

The Company exercised the call option under the Shanghai Power Option Deed and entered into an acquisition agreement ("Acquisition Agreement") with CPI Group on 2 November 2006, pursuant to which the Company conditionally agreed to acquire and CPI Group conditionally agreed to sell 390,876,250 Shares ("Sale Shares"), representing 25% of the total issued share capital of Shanghai Power as at the date of the Acquisition Agreement. The Company convened an extraordinary general meeting on 6 December 2006 and passed an ordinary resolution to approve the Acquisition Agreement.

The Sale Shares are subject to the undertaking given by CPI Group for the purpose of the equity division reform scheme of Shanghai Power, which took effect on 25 November 2005. CPI Group has undertaken with the holders of the A shares of Shanghai Power that: (i) during a period of 12 months commencing from the effective date of the reform scheme (the "Prohibited Period"), none of the Shanghai Power Shares held by CPI Group (including the Sale Shares) will be traded on the Shanghai Stock Exchange or otherwise transferred (except for the transfer pursuant to the exercise of the call option under the Shanghai Power Option Deed by the Company); the Shanghai Power Shares disposed of by CPI Group on the Shanghai Stock Exchange will not in aggregate exceed 5% of the total issued share capital of Shanghai Power during a period of 12 months from the expiry of the Prohibited Period, or exceed 10% of its total issued share capital during a period of 24 months from the expiry of the Prohibited Period; and (ii) during a period of 12 months from the expiry of the Prohibited Period, the consideration for disposing of the Shanghai Power Shares on the Shanghai Stock Exchange will not be less than RMB6 per share (provided that during the said period if any event occurs, such as declaration of dividends, issue of bonus shares and capitalisation of reserves, which shall have an effect on the price of Shanghai Power Shares, such minimum disposal price will be adjusted accordingly). In addition, under PRC laws and regulations, the Company may not transfer the Sale Shares within 3 years after acquiring such shares.

The consideration for the sale of the Sale Shares was RMB4.26 per share. The total consideration was RMB1,665,132,825, which was based on the net asset value per share of Shanghai Power of RMB3.927 as at 30 June 2006 and represents a discount of approximately 4.1% of the closing price of the A shares of Shanghai Power of RMB4.44 per share on 2 November 2006. The said acquisition was financed from proceeds from its initial public offering in 2004, the Company's working capital and external financing.

As CPI Group is the ultimate controlling shareholder of the Company, the Acquisition Agreement constitutes a connected transaction of the Company pursuant to Listing Rule.

CONTINUING CONNECTED TRANSACTIONS

(A) MANAGEMENT AGREEMENT

The Company entered into a management agreement (the "Management Agreement") dated 27 August 2004 with CPI Group and CPI Holding in respect of the management of Qinghe Power Plant, Shentou I Power Plant, Guixi Power Plant, Shaxikou Power Plant, Wuhu Shaoda Power Plant and Hongze Power Plant for a term of three years in return for a service fee.

The service fee payable by CPI Group and CPI Holding to the Company under the Management Agreement consists of the following three components:

- costs (including set-up, operational and other recurrent items to be incurred by the Company in managing the power plants) (the "Management Costs");
- a premium to cover estimated risks set at 15% of the Management Costs; and
- a profit/loss margin which is an incentive/penalty calculated by reference to the confirmed results of the power plants under management but which shall not exceed 15% of the Management Costs.

The first two components of the service fee are payable monthly in arrears. The profit/loss margin component is payable based on the annual evaluation of performance of the management but no later than 90 days after the end of each year.

The service fee, excluding the profit/loss margin component, payable by CPI Group and CPI Holding may be adjusted according to changes in total installed capacity of the power plants under management. In addition, the service fee may be adjusted annually by reference to the following factors:

- the inflation rate of the previous year as published by the National Bureau of Statistics of China;
- the average percentage increase in salaries of the Company's employees as approved by the Board; and
- any change in the scope or nature of the management services.

Upon its expiry, the Management Agreement is renewable with the consent of the parties thereto.

Both CPI Group and CPI Holding are the controlling shareholders of the Company and the transactions under the Management Agreement therefore constitute continuing connected transactions of the Group under the Listing Rules.

(B) SUPPLEMENTAL MANAGEMENT AGREEMENT

The Company entered into a supplemental management agreement ("Supplemental Management Agreement") on 1 September 2006 with CPI Group and CPI Holding to amend certain terms of the Management Agreement.

Pursuant to the Supplemental Management Agreement, the parties agreed to amend the Management Agreement by adding CPI Wuhu Power Plant and deleting Shentou I Power Plant from the list of its managed power plants and adjust the service fee payable to the Company in accordance with the formula provided therein due to an adjustment to the total installed capacity of the managed power plants. The formula for adjustment is as follows:

$$\text{New monthly service fee} = \text{Service fee for the previous month} \times \frac{\text{Total installed capacity of the managed power plants after adjustment}}{\text{Total installed capacity of the managed power plants before adjustment}}$$

The total installed capacity of the managed power plants as at the date of the Management Agreement was 3,465MW. Due to (1) the acquisition by the Company of Shentou I Power Plant (with installed capacity of 1200MW) in 2005, (2) the increase of installed capacity Hongze Power Plant by 15MW from previously 15MW, and (3) the addition of CPI Wuhu Power Plant (having an installed capacity of 250MW) to the list of the managed power plants, the current total installed capacity of the managed power plants is 2,530MW. The installed capacity of the six managed power plants are: Qinghe Power Plant (1,200MW), Guixi Power Plant (500MW), Shaxikou Power Plant (300MW), Wuhu Shaoda Power Plant (250MW), CPI Wuhu Power Plant (250MW) and Hongze Power Plant (30MW). Under the Supplemental Management Agreement, the service fee (excluding the profit/loss margin component) is adjusted accordingly to RMB10,074,000 per annum or RMB839,500 per month and the list of the managed power plants as set out in the Management Agreement is amended in accordance with the changes set out above.

The service fee for the year ended 31 December 2006 was RMB14,196,000 pursuant to the Management Agreement and the amendments under the Supplemental Management Agreement whilst the expected annual value for the year ending 31 December 2007 will not exceed RMB11,388,000.

CPI Group is the ultimate controlling shareholder of the Company and CPI Holding is a wholly owned subsidiary of CPI Group. As such, CPI Group and CPI Holding are connected persons of the Company as defined in the Listing Rules. Accordingly, the Supplemental Management Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

(C) LAND LEASE AGREEMENTS

Each of Pingwei Power Plant and Yaomeng Power Plant entered into a land lease agreement with CPI Group on 27 August 2004 (the "Land Lease Agreements") to lease from CPI Group the land on which they are respectively situated. The Land Lease Agreement with Yaomeng Power Plant was later supplemented on 24 September 2004. The basic terms of the above two Land Lease Agreements are as follows:

	Area of leased land	**Annual rent**	**Commencement date**	**Lease expiry date**
	sq. m.	**RMB**		
Pingwei Land Lease Agreement	4,438,189	6,980,000	1 August 2004	16 September 2019 (being the expiry date of the term of operation of Pingwei Power Plant)
Yaomeng Land Lease Agreement	2,887,772	5,330,000	1 August 2004	26 August 2019 (being the expiry date of the term of operation of Yaomeng Power Plant)

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the Land Lease Agreements constitute continuing connected transactions of the Group under the Listing Rules.

(D) SERVICE AGREEMENTS

Tianze Development Limited, a wholly owned subsidiary of the Company, entered into a series of service agreements (the "Service Agreements") with certain wholly owned subsidiaries of the CPI Group on 9 June 2005 to ensure the sustained operation of Shentou I Power Plant. The Service Agreements will expire on 31 December 2007 and the relevant terms are summarised below:

	Annual Cap (RMB millions)			
Service Agreement	**2005**	**2006**	**2007**	**Basis of determination of the annual cap**
Technical Repair and Maintenance Framework Agreement	68	68	68	The annual caps are determined by the Company after taking into account repair and maintenance plans determined based on the age, condition and repair and maintenance needs of each power generation unit and equipment, the expected time costs of expertise labour required, the complexity of the repair and maintenance works involved, and/or market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.
Fuel and Chemical Processing Services Framework Agreement	24	24	24	The annual caps are determined by the Company after taking into account Shentou I Power Plant's expected coal consumption with reference to the expected power generation level, its requirements for fuel and chemical processing services and/or market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.
Non-power Generation Facilities Maintenance Framework Agreement	39	39	39	The annual caps are determined with reference to the age, condition and repair and maintenance requirements of each facility and equipment, the expected time costs of labour required, and/or the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.

Service Agreement	Annual Cap (RMB millions) 2005	2006	2007	Basis of determination of the annual cap
Composite Ancillary Services Framework Agreement	19	19	19	The annual caps are determined with reference to Shentou I Power Plant's requirements for ancillary services and/or the market prices (or in the case where market prices are not ascertainable, the estimated costs) for the procurement of similar services from third party service providers plus a buffer to take into account any unexpected factors.

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the Service Agreements constitute continuing connected transactions of the Group under the Listing Rules.

(E) LAND USE RIGHT LEASE AGREEMENT

On 9 June 2005, Tianze Development Limited entered into a land use right lease agreement (the "Land Use Right Lease Agreement") with CPI Group regarding the lease from CPI Group of a land with an area of approximately 2,925,019.15 sq. m. for a term of 20 years commencing from 1 July 2005. The annual rent for the period up to 31 December 2007 is fixed at RMB4,940,000. The rental amount is subject to review by the parties with reference to an independent valuation upon expiry of the said period.

Shentou I Power Plant is situated on a parcel of land allocated by the State to CPI Group. Accordingly, it is essential to entering into the Land Use Right Lease Agreement to ensure that Shentou I Power Plant is entitled to continue its operation on the land.

CPI Group is the ultimate controlling shareholder of the Company. Accordingly, the Land Use Right Licensing Contract constitutes a continuing connected transaction of the Group under the Listing Rules.

(F) PROPERTY LEASE AGREEMENT

The Company entered into a property lease agreement (the "Property Lease Agreement") on 1 September 2006 with CPI Holding in which the premises being rented are used as an office of the Company. The terms of the Property Lease Agreement are set out as below:

Address	Area	Use	Annual Rent	Lease Term
Premises situated on 7th , 8th, 9th, 11th to 13th Floors, East Building, Huihuang Shidai Plaza, 56 North West Fourth Ring Road, Haidian District, Beijing, PRC	6,800 square metres	Office	US$1,468,800 or US$18 per square metre per month	1 September 2006 to 31 August 2009

CPI Holding is a wholly owned subsidiary of CPI Group and CPI Group is the ultimate controlling shareholder of the Company. As such, CPI Group and CPI Holding are connected persons of the Company as defined in the Listing Rules. Accordingly, the Property Lease Agreement constitutes a continuing connected transaction of the Company under the Listing Rules.

(G) PURCHASE AGREEMENTS

On 21 December 2006, each of Pingwei Power Plant II and Yaomeng Power Plant II has entered into the Pingwei Purchase Agreement ("Pingwei Purchase Agreement") and Yaomeng Purchase Agreement ("Yaomeng Purchase Agreement") (Pingwei Purchase Agreement and Yaomeng Purchase Agreement collectively the "Purchase Agreements") with the Beijing China Power Environmental Engineering Company Limited* ("Supplier") respectively pursuant to which each of Pingwei Power Plant II and Yaomeng Power Plant II agrees to purchase from the Supplier the limestone power for desulphurization (the "Materials").

1. PINGWEI PURCHASE AGREEMENT

Under the Pingwei Purchase Agreement, Pingwei Power Plant II agrees to purchase from the Supplier the materials for a term commencing from 15 January 2007 and ending on 31 December 2009.

The purchase price of the Materials is calculated on a cost plus profit basis and shall be determined by the parties each year by reference to the market condition and costs of production. It is agreed that for the year ending 15 January 2008, the purchase price of the Materials shall be RMB265 per ton which is determined based on a cost plus a not more than 15% gross profit margin and for the remaining term of the Pingwei Purchase Agreement, the purchase price of the Materials shall not exceed an amount equal to a cost plus a not more than 10% gross profit margin. The total purchase price under the Pingwei Purchase Agreement for each of the two years ending 15 January 2008 and 2009 shall not exceed RMB18,500,000 and the total purchase price for the period from 16 January 2009 to 31 December 2009 shall not exceed RMB18,500,000. It is anticipated that the annual cap for each of the three financial years ending 31 December 2009 is RMB18,500,000.

2. YAOMENG PURCHASE AGREEMENT

Under the Yaomeng Purchase Agreement, Yaomeng Power Plant II agrees to purchase from the Supplier the materials for a term commencing from 10 September 2007 and ending on 31 December 2009.

The purchase price of the Materials is calculated on a cost plus profit basis and shall be determined by the parties each year by reference to the market condition and costs of production. It is agreed that for the year ending 10 September 2008, the purchase price of the Materials shall be RMB265 per ton which is determined based on a cost plus a not more than 15% gross profit margin and for the remaining term of the Yaomeng Purchase Agreement, the purchase price of the Materials shall not exceed an amount equal to a cost plus a not more than 10% gross profit margin. The total purchase price under the Yaomeng Purchase Agreement for each of the two years ending 10 September 2008 and 2009 shall not exceed RMB20,000,000 and the total purchase price for the period from 11 September 2009 to 31 December 2009 shall not exceed RMB20,000,000. It is anticipated that the annual cap for each of the three financial years ending 31 December 2009 is RMB20,000,000.

Since the Supplier is a subsidiary of the CPI Holding and is held by CPI Holding and its wholly owned subsidiary as to 60%, and CPI Holding wholly owns CPDL which is a substantial shareholder of the Company, the Supplier is a connected person of the Company under the Listing Rules. The Purchase Agreements constitute continuing connected transactions of the Group.

The Directors (including the independent non-executive Directors) of the Company confirm that during the Year, the continuing connected transactions under Management Agreement, Supplemental Management Agreement, Land Lease Agreements, Service Agreements, Land Use Right Lease Agreement, Property Lease Agreement and Purchase Agreements set out above were carried out in the ordinary course of business of the Group, on normal commercial terms, in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Company and its shareholders as a whole.

The auditors of the Company have reviewed the relevant transactions and have confirmed in a letter to the Directors stating that:

i) the transactions have been approved by the Board;

ii) the transactions were entered into in accordance with the relevant agreements and documents governing such transactions; and

iii) the aggregate values of the transactions did not exceed the relevant upper limits applicable to such transactions approved by the Hong Kong Stock Exchange.

The Company has obtained from the Hong Kong Stock Exchange waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Listing Rules for the Management Agreement and Land Lease Agreements which is valid until 31 December 2006. The Company has complied with the other relevant requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, no contracts of significance to which any of the Company, its subsidiaries, holding company or associated companies was a party subsisted at any time during the Year or at the end of the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Sales as disclosed below, neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Year.

PLACING OF SHARES

On 9 November 2006, CPDL, a controlling shareholder of the Company, placed 470,000,000 ordinary shares of the Company ("Placing") to relevant placees at a placing price of HK$3.7 per share ("Placing Price"). Following the completion of the Placing, the Company issued 470,000,000 new ordinary shares ("New Shares") to CPDL at a price of HK$3.7 per share (the "Subscription"). The placees concerned are professional investors or other investors who are not connected persons of the Company.

New Shares represented approximately 14.99% of the issued share capital of the Company immediately prior to the Subscription and represented 13.04% of the issued share capital of the Company enlarged by the issue of 470,000,000 New Shares in accordance with the Subscription. The issue price of the New Shares is HK$3.7 per share. The total net proceeds of the Company after reduction from expenses amounted to approximately HK$1.7billion. The Company has completed the issue of 470,000,000 new ordinary shares to CPDL on 27 November 2006.

The Board considers that the Placing and Subscription represent good opportunities to raise further funds for the Company, while at the same time broadening its shareholder and capital base. The Company intends to apply the proceeds for acquisition and development of new power plant projects.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 91.5% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 41.9% of the Group's total purchases.

For the year ended 31 December 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 100.0% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 39.5% of the Group's total turnover.

At no time during the Year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

PUBLIC FLOAT

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being 25% of the issued share capital of the Company as required under the Listing Rules.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offered themselves for re-appointment.

On behalf of the Board
China Power International Development Limited

Li Xiaolin
Vice Chairman and Chief Executive Officer

Hong Kong, 16 March 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of China Power International Development Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 74 to 136, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 16 March 2007

Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Turnover	5	**5,202,934**	4,361,718
Other income	6	**75,214**	76,002
Fuel costs		**(3,075,001)**	(2,652,216)
Depreciation		**(376,206)**	(320,488)
Staff costs	11	**(354,908)**	(315,112)
Repairs and maintenance		**(265,868)**	(184,436)
Consumables		**(67,863)**	(63,357)
Other gains	7	**87,370**	68,359
Other operating expenses		**(388,083)**	(231,388)
Operating profit	8	**837,589**	739,082
Finance costs	9	**(133,489)**	(117,905)
Share of profit of an associated company		**102,053**	122,480
Profit before taxation		**806,153**	743,657
Taxation	10	**(104,478)**	(82,448)
Profit for the year		**701,675**	661,209
Attributable to:			
Equity holders of the Company		**702,767**	661,904
Minority interests		**(1,092)**	(695)
		701,675	661,209
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	13	**0.22**	0.21
– diluted	13	**0.22**	0.21
Dividends	14	**288,408**	247,665

Consolidated Balance Sheet

As at 31 December 2006

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**8,206,774**	5,343,209
Prepayment for construction of power plants	17	**3,374,073**	1,845,647
Leasehold land prepayments	18	**18,518**	18,904
Goodwill	19	**166,939**	166,939
Interest in an associated company	21	**850,675**	835,860
Prepayment for acquisition of an associated company	22	**1,665,133**	—
Other long-term prepayments		**28,980**	—
Deferred income tax assets	35	**—**	12,893
		14,311,092	8,223,452
Current assets			
Inventories	23	**287,142**	265,871
Accounts receivable	24	**860,804**	803,779
Prepayments, deposits and other receivables		**112,251**	143,234
Amount due from an intermediate holding company	25	**1,638**	8,308
Amount due from a fellow subsidiary	25	**11,441**	—
Dividends receivable from an associated company		**98,751**	75,962
Cash and cash equivalents	26	**1,446,928**	2,187,943
		2,818,955	3,485,097
Total assets		**17,130,047**	11,708,549

As at 31 December 2006

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	27	**3,798,104**	3,323,100
Reserves	28	**5,281,111**	3,485,289
		9,079,215	6,808,389
Minority interests		**25,826**	11,044
Total equity		**9,105,041**	6,819,433
LIABILITIES			
Non-current liabilities			
Deferred income		**158,156**	43,129
Long-term bank borrowings	29	**3,812,000**	2,713,500
Long-term payable to CPI Financial Company ("CPIF")	30	**395,562**	393,110
Long-term payable to Shanxi Electric Power Corporation ("SEPC")	31	**19,437**	19,979
Deferred income tax liabilities	35	**10,907**	—
		4,396,062	3,169,718
Current liabilities			
Accounts payable	32	**240,244**	286,644
Construction cost payable		**422,613**	165,735
Other payables and accrued charges	33	**304,520**	267,403
Amount due to ultimate holding company	34	**68,889**	91,665
Amount due to a fellow subsidiary	25	**3,279**	—
Current portion of long-term bank borrowings	29	**996,000**	400,000
Short-term bank and other borrowings	29	**1,428,000**	487,500
Short-term loan from CPIF	30	**140,000**	—
Taxation payable		**25,399**	20,451
		3,628,944	1,719,398
Total liabilities		**8,025,006**	4,889,116
Total equity and liabilities		**17,130,047**	11,708,549
Net current (liabilities)/assets		**(809,989)**	1,765,699
Total assets less current liabilities		**13,501,103**	9,989,151

Li Xiaolin
Director

Hu Jiandong
Director

Balance Sheet

As at 31 December 2006

	Note	As at 31 December 2006 RMB'000	 2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**5,086**	5,303
Investments in subsidiaries	20	**3,623,450**	2,864,555
Interest in an associated company	21	**552,500**	552,500
Prepayment for acquisition of an associated company	22	**1,665,133**	—
		5,846,169	3,422,358
Current assets			
Prepayments, deposits and other receivables		**8,327**	7,987
Amount due from an intermediate holding company	25	**1,638**	8,308
Dividends receivable		**768,386**	429,345
Cash and cash equivalents	26	**1,183,413**	1,753,248
		1,961,764	2,198,888
Total assets		**7,807,933**	5,621,246
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	27	**3,798,104**	3,323,100
Reserves	28	**3,992,520**	2,271,208
		7,790,624	5,594,308
LIABILITIES			
Current liabilities			
Other payables and accrued charges	33	**17,309**	24,442
Amount due to ultimate holding company	34	**—**	2,496
Total liabilities		**17,309**	26,938
Total equity and liabilities		**7,807,933**	5,621,246
Net current assets		**1,944,455**	2,171,950
Total assets less current liabilities		**7,790,624**	5,594,308

Li Xiaolin
Director

Hu Jiandong
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2006

	Attributable to equity holders of the Company				
	Share capital (Note 27)	**Other reserves (Note 28)**	**Accumulated losses (Note 28)**	**Minority interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	3,323,100	4,745,278	(1,259,989)	11,044	6,819,433
Profit for the year	—	—	702,767	(1,092)	701,675
Issuance of new shares					
– Placing of shares	474,897	1,282,223	—	—	1,757,120
– Exercise of share options	107	39	123	—	269
Share issuance expenses	—	(35,425)	—	—	(35,425)
Employee share option benefits	—	1,274	—	—	1,274
Net revaluation surplus of property, plant and equipment					
– Group	—	95,260	—	—	95,260
– An associated company	—	13,545	—	—	13,545
Deferred tax on net revaluation surplus of property, plant and equipment					
– Group	—	(14,287)	—	—	(14,287)
– An associated company	—	(2,032)	—	—	(2,032)
2005 final dividend	—	—	(247,665)	—	(247,665)
Contribution from minority shareholders of a subsidiary	—	—	—	15,874	15,874
Balance at 31 December 2006	3,798,104	6,085,875	(804,764)	25,826	9,105,041
Balance at 1 January 2005	3,323,100	4,740,993	(1,838,815)	2,726	6,228,004
Profit for the year	—	—	661,904	(695)	661,209
Employee share option benefits	—	4,285	—	—	4,285
2004 final dividend	—	—	(83,078)	—	(83,078)
Contribution from minority shareholders of a subsidiary	—	—	—	9,013	9,013
Balance at 31 December 2005	3,323,100	4,745,278	(1,259,989)	11,044	6,819,433

Consolidated Cash Flow Statement

For the Year Ended 31 December 2006

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	**1,367,538**	833,337
Interest paid		**(269,595)**	(133,649)
PRC income tax paid		**(90,017)**	(92,696)
Net cash generated from operating activities		**1,007,926**	606,992
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	37	**(15,941)**	(567,891)
Prepayment for acquisition of an associated company	22	**(1,665,133)**	—
Purchase of property, plant and equipment		**(2,908,944)**	(1,027,604)
Prepayment for construction of power plants		**(1,528,426)**	(1,231,521)
Proceeds from disposal of property, plant and equipment		**1,421**	1,333
Cost incurred for disposal of property, plant and equipment		**—**	(631)
Increase in other long-term prepayments		**(28,980)**	—
Dividend received		**75,962**	93,058
Interest received		**56,469**	52,580
Net cash used in investing activities		**(6,013,572)**	(2,680,676)
Cash flows from financing activities			
Drawdown of bank and other borrowings	36(b)	**3,529,500**	2,311,324
Drawdown of short-term loan from CPIF		**140,000**	—
Repayment of bank borrowings	36(b)	**(894,500)**	(825,500)
Repayment of long-term payable to SEPC		**(542)**	(2,187)
Profit distributions to owner		**—**	(212,169)
Dividend paid		**(247,665)**	(83,078)
Contributions from minority shareholders of a subsidiary		**15,874**	9,013
Issuance of new shares		**1,757,389**	—
Share issuance expenses		**(35,425)**	—
Net cash generated from financing activities		**4,264,631**	1,197,403
Net decrease in cash and cash equivalents		**(741,015)**	(876,281)
Cash and cash equivalents at 1 January		**2,187,943**	3,064,224
Cash and cash equivalents at 31 December	26	**1,446,928**	2,187,943

1 GENERAL INFORMATION

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 BASIS OF PREPARATION *(CONTINUED)*

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 CONSOLIDATION

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

(a) Subsidiaries

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 CONSOLIDATION *(CONTINUED)*

(b) Associated company

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

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

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

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

2.3 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 FOREIGN CURRENCY TRANSLATION *(CONTINUED)*

(c) Group companies

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

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

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

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

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

2.4 PROPERTY, PLANT AND EQUIPMENT

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

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

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

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

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

2.5 CONSTRUCTION IN PROGRESS

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 LEASEHOLD LAND PREPAYMENTS

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

2.7 GOODWILL

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 INVENTORIES

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

2.10 ACCOUNTS AND OTHER RECEIVABLES

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

2.11 CASH AND CASH EQUIVALENTS

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

2.12 BORROWINGS

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 DEFERRED INCOME TAX

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

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

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

2.14 EMPLOYEE BENEFITS

(a) Pension obligations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Share-based compensation

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

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

2.15 PROVISIONS

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

2.16 DEFERRED INCOME

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

2.17 OPERATING LEASE

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

2.18 BORROWING COSTS

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.19 REVENUE RECOGNITION

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

Management fee income is recognised when services are rendered.

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

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

2.20 DIVIDEND DISTRIBUTION

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

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

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

(a) Foreign exchange risk

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

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

(b) Credit risk

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

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 FINANCIAL RISK FACTORS *(CONTINUED)*

(c) Liquidity risk

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

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

(d) Cash flow and fair value interest rate risk

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

3.2 FAIR VALUE ESTIMATION

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) PROPERTY, PLANT AND EQUIPMENT CARRIED AT VALUATION

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

(ii) USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

(iii) IMPAIRMENT OF ASSETS

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(iv) INCOME TAXES

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

5 TURNOVER, REVENUES AND SEGMENT INFORMATION

Revenue recognised during the year is as follows:

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

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

SEGMENT INFORMATION

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

6 OTHER INCOME

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

7 OTHER GAINS

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

8 OPERATING PROFIT

Operating profit is stated after charging the following:

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

9 FINANCE COSTS

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

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

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

10 TAXATION

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

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

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

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

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

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

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

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

11 STAFF COSTS

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

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

13 EARNINGS PER SHARE

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

14 DIVIDENDS

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

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

15 EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) DIRECTORS' EMOLUMENTS

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

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

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

(a) DIRECTORS' EMOLUMENTS *(CONTINUED)*

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

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

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

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

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

(b) FIVE HIGHEST PAID INDIVIDUALS

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

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

The emoluments fell within the following bands:

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

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

16 PROPERTY, PLANT AND EQUIPMENT

(a) GROUP

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

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) GROUP *(CONTINUED)*

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

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) GROUP *(CONTINUED)*

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

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

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

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

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(b) COMPANY

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

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

17 PREPAYMENT FOR CONSTRUCTION OF POWER PLANTS

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

18 LEASEHOLD LAND PREPAYMENTS

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

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

19 GOODWILL

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

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

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

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

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

20 INVESTMENTS IN SUBSIDIARIES

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

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

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

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

21 INTEREST IN AN ASSOCIATED COMPANY

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

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

21 INTEREST IN AN ASSOCIATED COMPANY *(CONTINUED)*

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

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

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

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

22 PREPAYMENT FOR ACQUISITION OF AN ASSOCIATED COMPANY

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

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

23 INVENTORIES

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

24 ACCOUNTS RECEIVABLE

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

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

Note:

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

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

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

25 BALANCES WITH AN INTERMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

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

26 CASH AND CASH EQUIVALENTS

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

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

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

27 SHARE CAPITAL

(a) AUTHORISED AND ISSUED CAPITAL

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

Note:

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

27 SHARE CAPITAL *(CONTINUED)*

(b) SHARE OPTION SCHEMES

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

(i) Share Option Scheme

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

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

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

27 SHARE CAPITAL *(CONTINUED)*

(b) SHARE OPTION SCHEMES *(CONTINUED)*

(ii) Pre-IPO Share Option Scheme

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

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

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

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

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

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

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

27 SHARE CAPITAL *(CONTINUED)*

(b) SHARE OPTION SCHEMES *(CONTINUED)*

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

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

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

Note:

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

28 RESERVES

GROUP

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

Note:

(i) Merger reserve

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

28 RESERVES *(CONTINUED)*

Note:

(ii) Capital reserve

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

(iii) Statutory reserves

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

(iv) Accumulated losses

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

COMPANY

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

29 BORROWINGS

Bank and other borrowings are analysed as follows:

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

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

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

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

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

29 BORROWINGS *(CONTINUED)*

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

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

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

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

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

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

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

Note:

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

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

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

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

31 LONG-TERM PAYABLE TO SEPC

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

32 ACCOUNTS PAYABLE

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

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

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

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

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

33 OTHER PAYABLES AND ACCRUED CHARGES

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

34 AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

35 DEFERRED INCOME TAX

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

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

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

Deferred tax liabilities:

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

35 DEFERRED INCOME TAX *(CONTINUED)*

Deferred tax assets:

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

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

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

35 DEFERRED INCOME TAX *(CONTINUED)*

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

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

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

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

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

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

37 BUSINESS COMBINATIONS

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

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

Details of net assets acquired and goodwill were as follows:

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

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

37 BUSINESS COMBINATIONS *(CONTINUED)*

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

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

38 COMMITMENTS

(a) CAPITAL COMMITMENTS

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

(b) COMMITMENTS UNDER OPERATING LEASES

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

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

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

38 COMMITMENTS *(CONTINUED)*

(c) FUTURE OPERATING LEASE ARRANGEMENTS

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

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

39 RELATED PARTY TRANSACTIONS

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

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

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

(i) REVENUES

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

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

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(ii) EXPENSES

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

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

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

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

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

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

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

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(iii) KEY MANAGEMENT COMPENSATION

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

(iv) YEAR-END BALANCES WITH RELATED PARTIES

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

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

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

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

39 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(v) OTHERS

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

40 APPROVAL OF ACCOUNTS

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

	2006	2005	2004	2003	2002
			(Restated)		
	RMB million	RMB million	RMB million	RMB million	RMB million
Turnover	**5,202.9**	4,361.7	3,352.0	2,915.4	2,581.6
Profit before taxation	**806.2**	743.6	681.6	655.0	564.9
Taxation	**(104.5)**	(82.4)	(46.4)	(49.8)	(38.9)
Profit for the year	**701.7**	661.2	635.2	605.2	526.0
Attributable to:					
Equity holders of the Company	**702.8**	661.9	635.8	605.2	526.0
Minority interests	**(1.1)**	(0.7)	(0.6)	—	—
Profit for the year	**701.7**	661.2	635.2	605.2	526.0
Total non-current assets	**14,311.1**	8,223.4	5,003.6	4,361.5	4,609.5
Total current assets	**2,818.9**	3,485.1	4,046.0	889.0	638.6
Total assets	**17,130.0**	11,708.5	9,049.6	5,250.5	5,248.1
Total current liabilities	**3,628.9**	1,719.4	1,668.6	754.3	546.5
Total non-current liabilities	**4,396.1**	3,169.7	1,153.0	1,093.0	1,408.0
Net assets	**9,105.0**	6,819.4	6,228.0	3,403.2	3,293.6
Equity attributable to equity holders of the Company	**9,079.2**	6,808.4	6,225.3	3,403.2	3,293.6
Minority interests	**25.8**	11.0	2.7	—	—
Total equity	**9,105.0**	6,819.4	6,228.0	3,403.2	3,293.6
Attributable installed capacity (MW)	**5,348**	4,255	3,010	3,010	3,010
Gross generation (MWh)	**24,065,245**	20,143,783	15,703,628	14,850,874	13,519,558
Net generation (MWh)	**22,262,463**	18,700,995	14,736,981	13,928,806	12,617,695
Average utilization hours	**6,611**	6,529	6,516	6,162	5,609
Net coal consumption rate (grams/kWh)	**348.6**	345.3	342.3	342.2	345.7

Note: The Company was incorporated and registered in Hong Kong on 24 March 2004 and became the holding company of the Group as a result of a group reorganization on 1 September 2004. The summary has been presented on the basis that the company had been the holding company of the Group from the beginning of the earliest period presented.

Technical Glossary and Definitions

"auxiliary power"	electricity consumed by a power plant in the course of generation
"average utilization hours"	for a specified period, the amount of electricity produced in such period (in MWh) divided by the average capacity in such period
"Board"	the board of Directors of the Company
"Changshu Power Plant"	江蘇常熟發電有限公司 (Jiangsu Changshu Electric Power Generating Company Limited*)
"CPDL"	China Power Development Limited（中國電力發展有限公司*）
"CPI Group"	中國電力投資集團公司 (China Power Investment Corporation*)
"CPIF"	中電投財務有限公司 (CPI Financial Company*)
"CP Equipment Project Company"	中國電能成套設備有限公司 (China Power Equipment Project Co., Ltd*), a limited liability company incorporated in the PRC which is owned by CPI Group as to approximately 77.7%
"CPI Management Company"	中國電力投資集團公司工程建設管理分公司 (China Power Investment Corporation Construction Project Management Branch Company*), a branch company of CPI Group
"CPI Holding"	中國電力國際有限公司 (China Power International Holding Limited)
"Director(s)"	director(s) of the Company
"gross generation"	for a specified period, the total amount of electrical power produced by a power plant in that period including auxiliary power
"Guixi Power Plant"	江西貴溪火力發電廠 (Jiangxi Guixi Coal-Fired Power Plant*)
"GW"	gigawatt, one million kilowatts
"GWh"	gigawatt-hour, one million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants
"Hongze Power Plant"	中電洪澤熱電有限公司 (Zhongdian Hongze Thermal Company Limited*)

"Huanggang Dabieshan Power Plant"	黃岡大別山發電有限責任公司 (Huanggang Dabieshan Power Company Limited*).
"installed capacity"	the manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW
"kWh"	kilowatt-hour, a standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
"MW"	megawatt, one million watts. The installed capacity of a power plant is generally expressed in MW
"MWh"	megawatt-hour, one thousand kWh
"Net coal consumption rate"	average consumption of standard coal for supplying 1 kWh power (deducting self-used power)
"Pingwei Power Plant"	安徽淮南平圩發電有限責任公司 (Anhui Huainan Pingwei Electric Power Generating Company Limited*)
"Pingwei Power Plant II"	淮南平圩第二發電有限責任公司 (Huainan Pingwei No.2 Electrical Power Co., Ltd.*)
"net generation"	the actual amount of electricity sold by a power plant in a particular period of time, which equals gross generation less auxiliary power and losses incurred during the transmission from the power plant to the power grid
"Qinghe Power Plant"	遼寧清河發電有限責任公司(Liaoning Qinghe Electric Power Generating Company Limited*)
"Shanghai Power"	上海電力股份有限公司 (Shanghai Electric Power Co., Ltd.*)
"Shaxikou Power Plant"	福建沙溪口水力發電廠 (Fujian Shaxikou Hydro-Power Plant*)
"Shentou I Power Plant"	山西神頭發電有限責任公司 (Shanxi Shentou Power Generating Company Limited*)
"standard coal"	coal with an energy content of 7,000 kilocalories per kilogram
"super-critical"	a thermodynamic expression describing the state of a substance where there is no clear distinction between the liquid and the gaseous phase. Water reaches this state at a pressure above 22.1 megapascals (MPa)

"Wuhu Shaoda Power Plant"	蕪湖兆達電力開發有限公司 (Wuhu Shaoda Power Development Company Limited*)
"Yaomeng Power Plant"	平頂山姚孟發電有限責任公司 (Pingdingshan Yaomeng Power Generating Company Limited*)
"Yaomeng Power Plant II"	平頂山姚孟第二發電有限公司 (Pingdingshan Yaomeng No.2 Power Co., Ltd.*)

* *For identification purposes only*

RESULTS

The financial results of the Company for the year ended 31 December 2006 was published on 16 March 2007 (Friday).

ANNUAL REPORTS

The 2006 Annual Report of the Company will be made available on our website www.chinapower.hk on 2 April 2007 (Monday) and will be despatched to our shareholders on 2 April 2007 (Monday).

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 27 April 2007 (Friday) at 11:00 a.m. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 2 April 2007 (Monday).

The register of members will be closed from 23 April 2007 (Monday) to 27 April 2007 (Friday) (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved at the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Share Registrar of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 20 April 2007 (Friday).

LISTING

The Company's shares are listed on the Main Board of the Hong Kong Stock Exchange. The stock code is 2380.

SHAREHOLDERS' ENQUIRIES

For enquiries about share transfer and registration, please contact the share registrar of the Company:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel.: (852) 2862 8628
Fax: (852) 2865 0990

For enquiries from investors and analysts, please contact:

Mr. Zhao Xinyan	or	Mr. Shou Rufeng
Vice President		*Investor relations*

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