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HUANENG POWER INTERNATIONAL INC  
Form 6-K  
August 24, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of August, 2005

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F  
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(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No   
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(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_. )

N/A

Huaneng Power International, Inc.  
West Wing, Building C, Tianyin Mansion  
No. 2C Fuxingmennan Street  
Xicheng District  
Beijing, 100031 PRC

This Form 6-K consists of:

2005 Interim Report of Huaneng Power International, Inc. (the "Registrant"), made by the Registrant in English on August 22, 2005.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the under-signed, thereunto duly authorized.

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HUANENG POWER INTERNATIONAL, INC.

By /s/ Huang Long  
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Name: Huang Long

Title: Director

Date: August 22, 2005

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### INTERIM RESULTS

The Board of Directors of Huaneng Power International, Inc. (the "Company") announces the unaudited operating results for the six months period ended 30th June, 2005 (the "Accounting Period") and a comparison with the operating results for the same period of 2004. For the six months period ended 30th June, 2005, the Company recorded a net operating revenue of Rmb18.800 billion and a net profit attributable to the equity holders of the Company of Rmb1.679 billion, representing an increase of 45.02% and a decrease of 32.32% respectively as compared to the same period of 2004. Earnings per share was Rmb0.14 and net asset value per share (excluding minority interest) was Rmb3.00.

In the first half year, the Company still achieved good performance on its safe operation, and its generation and sales still maintained high growth. However, since the unit fuel cost increased substantially as a result of continued rises of coal prices and decline in coal quality, the Company's profit decreased substantially. Please refer to the unaudited financial information below for details of the operating results.

### BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

During the first half of 2005, the Company's management and all the staff worked hard together in seizing the opportunities of rapid growth in power consumption brought about by the rapid and steady growth of the national economy. The challenges from the rise of coal prices and the decline of coal quality were dealt with in a conscientious manner. Facing increasing competition in the power market, the management and all staff of the Company strived to do their utmost, thereby having overcome the difficulties and completed the tasks set for the first half of 2005. The Company achieved good progress in terms of safe generation, project construction, operation management and preparation work of projects. The Company continued to expand, and as at 30 June, 2005, the Company's power generation capacity on an equity basis amounted to 21,653MW.

#### Power Generation

During the first half of this year, the power plants of the Company achieved power generation totalling 71.843 billion kWh on a consolidated basis, representing an increase of 47.1% over the same period last year. The growth of power generation was mainly attributable to power generation contributed by Luohuang Power Plant, Yueyang Power Plant, Yingkou Power Plant and Jinggangshan Power Plant acquired in July, 2004 and Pingliang Power Plant and Sichuan Hydro Power acquired in January, 2005, and by the stable generation capacity created by the six new generating units of Yushe Power Plant, Qinbei Power Plant and Huaiyin Power Plant. On the other hand, continued growth of power demand in the regions where the Company's power plants are located and sound and stable operation of its generating units also provided the conditions for the Company to boost its power generation.

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The overall performance of the Company's safe operation improved when compared to the same period last year. Maintenance plans were conducted regularly and various index parameters of the generating units remained at relatively good levels, thus creating conditions for boosting power generation.

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### Cost Controls

During the first half of 2005, the previously tight supply of thermal coal has been eased. However, continued high coal prices, declining coal quality and increase in marine and railway transportation charges had brought about significant impact on the generation and operation of the Company to various degrees. Despite the relatively significant increase in power generation from new generating units as compared to the same period last year and the Company's implementation of various measures on cost controls, the increase in power generation costs brought about by the rise in coal prices could not be relieved. The unit fuel cost of the Company for the first half of the year increased by 22% when compared to the same period last year. Facing such unfavourable conditions, the Company proactively undertook relevant measures to expand major coal supply channels, to adjust the coal supply structure and to contain purchase prices whilst enhancing the settlement rate of major coal contracts. To a certain extent, the adverse effect brought about by the increase in coal prices upon the Company was minimized, under the premises that safe generation and coal consumption was ensured.

### Project Development and Construction

The Company made smooth progress on its infrastructure construction and preparation work of its power projects.

- (1) 2 x 330MW coal-fired generating units of Huaiyin Power Plant and two hydroelectric power stations of Jialingjiang Qingju and Fujiang Ziyili under Sichuan Hydro Power commenced commercial operation during the first half of the year, adding new power generation capacity on an equity basis amounting to 539MW.
- (2) The Shanghai Combined-Cycle-Gas-Turbine project has been confirmed by and registered with the State.
- (3) The projects-under-construction and other planned projects of the Company progressed smoothly.

### Asset Acquisition

On 26th May, 2005, the Company entered into a transfer agreement with Jiangsu Yueda Investment Company Limited ("Jiangsu Yueda"). Pursuant to the transfer agreement, the Company agreed to acquire 26.36% equity interest in Huaiyin Power Plant Phase I (2 x 220MW coal-fired generating units) from Jiangsu Yueda for RMB200.6 million (pursuant to the acquisition agreement, should there be any appropriation or distribution of dividends declared before the effective acquisition date, consideration should be deducted simultaneously. Hence, dividends declared before effective acquisition date of RMB19.4 million was deducted from the consideration of RMB220 million), and on 28th June 2005 the Company paid the consideration by using cash. After completion of the transaction, the Company owns 90% equity interest in Huaiyin Power Plant Phase I which has increased the Company's power generation capacity on an equity basis by 116MW. The remaining 10% equity interest is owned by Jiangsu Power Development Company Limited.

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### PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the second half of year 2005, the national economy will continue to maintain steady and rapid development which will bring about stable and rapid growth in power demand, thus providing favourable market conditions for the Company to continue a steady increase in power generation; the "Coal-electricity price linkage mechanism" adopted by the State brought about an increase in the Company's settlement tariff levels, which could reduce the negative impact of surges in coal prices on the generation and operation of the Company. Currently, the problem of coal supply has aroused great concern of the relevant government departments while a series of new policies and measures has been issued. Gradually as a result of the State's macro-economic control measures, the problem of coal shortage has been alleviated and the average inventory has increased. The Company is confident that it will capitalize on the favourable conditions in the coal market in the second half year to enhance the contract settlement rate, improve the coal quality, proactively explore new sources of coal supply, and reduce transportation costs. The Company will keep a close eye on the international market and by ensuring an effective and timely supply of fuel, it will endeavour to reduce fuel costs and to complete various tasks set for the year.

The main tasks for the second half of the year include:

1. to ensure safe operation of all power plants and to strive to increase power generation;
2. to strengthen fuel cost control and contain the range of increase of unit fuel costs;
3. to reinforce sales and marketing and cost control efforts, to ensure an increase in revenue and a reduction in expenses, and to strive to raise the average settlement tariff level;
4. to ensure the high-quality commencement of 1 x 600MW coal-fired generating unit at Shantou Power Plant Phase II and 1 x 600MW coal-fired generating unit at Taicang Power Plant Phase II at the end of the year, and to continue to actively carry out preparation work of other proposed projects.

### OPERATING RESULTS

#### Comparison and Analysis of Operating Results

Comparison of operating results of the first half of 2005 vs those of the first half of 2004:

#### SUMMARY

Compared to the same period last year, power generation and operating revenue increased substantially because of the expansion of the Company's operating scale as a result of newly acquired power plants and new generating units. However, due to continuous increase in coal prices, gross profit of the Company and its subsidiaries decreased significantly. The net profit decreased by 32.32% when compared to the same period last year.

#### Net operating revenue

For the first half of 2005, consolidated net operating revenue of the Company

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and its subsidiaries was RMB18.800 billion, representing an increase of 45.02% from RMB12.964 billion in the same period last year.

The increase in net operating revenue was attributable to the newly acquired power plants, new generating units and the increase in the average settlement tariff rates of the remaining power plants that existed on or before 30th June, 2004 (the "existing power plants"). During the period from July, 2004 to June, 2005, the Company acquired Liaoning Yingkou Power Plant (100% equity interest), Jiangxi Jinggangshan Power Plant (100% equity interest), Hunan Yueyang Power Plant (55% equity interest), Chongqing Luohuang Power Plant and Jiangbei Power Plant (both 60% equity interests), Hebei Hanfeng Power Plant (40% equity interest), Gansu Pingliang Power Plant (65% equity interest) and Sichuan Hydropower (60% equity interest). Furthermore, Henan Qinbei Power Plant (55% equity interest), Shanxi Yushe Phase II (60% equity interest), Jiangsu Huaiyin Phase II (63.64% equity interest) and the two hydro power stations (Fujiang Ziyili Power Plant and Jialingjiang Qingju Power Station) owned by Sichuan Hydropower (60% equity interest) came into commercial operation. The acquisition of power plants, the commercial operation of new generating units and the increase of the average settlement tariff rates of the existing power plants as a result of the coal-electricity price linkage mechanism have led to increases of consolidated net operating revenue by RMB3.908 billion, RMB1.557 billion and RMB489 million respectively. The slight decrease in sale volume of existing power plants led to a decrease of the consolidated net operating revenue by RMB118 million.

### Operating expenses

For the first half of 2005, total operating expenses of the Company and its subsidiaries were approximately RMB16.132 billion, representing an increase of approximately 65.10% from RMB9.771 billion in the same period last year.

The increase of operating expenses was attributable to the newly acquired power plants, new generating units that came into operations and the increase in fuel costs. The acquisition of power plants and the commercial operation of new generating units led to increases of total operating expenses of RMB3.148 billion and RMB1.404 billion respectively. Without taking into account the impact of acquisition and the new generating units, operating expenses increased by RMB1.809 billion compared to the same period last year.

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### Fuel costs

Fuel costs constituted the major operating costs of the Company and its subsidiaries. In the first half of 2005, fuel costs amounted to approximately RMB10.354 billion, representing an increase of approximately 71.80% from approximately RMB6.027 billion in the same period last year. The increase in fuel costs was mainly due to the expansion of the Company's operating scale and the rise of fuel prices. Newly acquired power plants and new generating units caused increases of approximately RMB1.708 billion and RMB981 million of fuel costs respectively. The rise of fuel price led to an increase of fuel costs for existing power plants by approximately RMB1.693 billion. As power generation of existing power plants decreased slightly, their fuel costs decreased by RMB55 million.

As the average unit price of natural coal was RMB339.43 per tonne, representing an increase of 16.96% from approximately RMB290.22 in the same period last year, the unit fuel costs reached RMB158.63MWh, representing an increase of 21.98%.

### Depreciation

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Depreciation expenses of the Company and its subsidiaries for the first half of 2005 amounted to RMB3.174 billion, representing an increase of approximately 49.42% from RMB2.124 billion in the same period last year. The increase of depreciation expenses was mainly due to the newly acquired power plants and the new generating units that came into commercial operations. The newly acquired power plants and the new generating units brought about increases of depreciation expenses by approximately RMB867 million and RMB232 million respectively.

### Labor costs

Labor costs of the Company and its subsidiaries amounted to approximately RMB1.130 billion in the first half of 2005, representing an increase of approximately RMB331 million from approximately RMB799 million in the same period last year. Among the increase, the newly acquired power plants and the new generating units caused increases of labour costs by approximately RMB208 million and RMB56 million respectively.

### Other operating expenses

Other operating expenses of the Company and its subsidiaries amounted to approximately RMB797 million in the first half of 2005, representing an increase of approximately RMB492 million from approximately RMB305 million in the same period last year. Among the increase, newly acquired power plants and the new generating units caused increases of other operating expenses by approximately RMB195 million and RMB95 million respectively.

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### Financial expenses, net

The net financial expenses of the Company and its subsidiaries totaled approximately RMB605 million in the first half of 2005, representing an increase of approximately 166.85% from approximately RMB227 million in the same period last year. The financial expenses of the newly acquired power plants and the new generating units amounted to approximately RMB179 million (among which, the depreciation of Euro in the first half of 2005 brought about an exchange gain of approximately RMB101 million to Luohuang Power Plant) and RMB134 million respectively. The financing for acquisitions led to an increase of approximately RMB120 million of financial expenses while the financial expenses for existing power plants decreased by approximately RMB55 million.

### Share of profit of associates

The share of profit of associates of the Company and its subsidiaries in the first half of 2005 amounted to approximately RMB239 million, including investment income from Shenzhen Energy Group ("SEG"), Hanfeng Power Company and Rizhao Power Company of approximately RMB112 million, RMB100 million, RMB25 million respectively.

### Income tax expenses

There was no change in the preferential income tax treatment applied to the Company and its subsidiaries. During the first half of 2005, the income tax of the Company and its subsidiaries amounted to RMB349 million, representing a decrease of 30.62% from approximately RMB503 million in the first half year of 2004. The main reason for such a decrease was the decrease of the profitability of the Company.

### Net profit (excluding minority interest)

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The consolidated net profit of the Company and its subsidiaries in the first half of 2005 was RMB1.679 billion, representing a decrease of approximately 32.32% from RMB2.481 billion in the first half of 2004. The main reason for the decrease of net profit was due to the substantial increase of the operating costs of the Company and its subsidiaries in the first half of 2005. Although the expansion of the Company's operating scale in the first half of 2005 contributed to a substantial increase in net operating revenue of the Company and its subsidiaries compared with the same period last year, the increase in net operating revenue could not offset the increases of the operating costs due to the rise of fuel costs and depreciation expenses.

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### Comparison of financial positions

As at 30th June, 2005, total assets of the Company and its subsidiaries amounted to approximately RMB92.426 billion, which represented an increase of approximately 26.99% from approximately RMB72.780 billion last year. Non-current assets increased by approximately 26.53% to approximately RMB79.871 billion while current assets increased by approximately 30.06% to approximately RMB12.555 billion. Acquisitions and capital expenditure on construction projects primarily accounted for the increases in total assets and non-current assets with the additional total assets being obtained through acquisitions in the current period amounting to approximately RMB14.169 billion, including non-current assets of RMB12.637 billion.

Total capital expenditure (primarily spending on construction and renovation projects), amounted to approximately RMB5.731 billion, with its main source of financing being from bank borrowings.

### Comparison of key financial ratios

| Item                         | The Company and its subsidiaries<br>30th June, 2005 | 31st December 2005                                |
|------------------------------|---|---|
|                              |   | -----   |
| Debt to equity ratio         | 1.40  |   |
| Current ratio                | 0.54  |   |
| Quick ratio                  | 0.43  |   |
|                              |   | -----   |
|                              | For the<br>six months ended<br>30th June, 2005      | For the<br>six months ended<br>31st December 2005 |
|                              |   | -----   |
| Multiples of interest earned | 3.18  |   |

### Calculation formula of the financial ratios:

Debt to equity ratio = Balance of liabilities at the end of the period / Balance of shareholders' equity (excluding minority interest) at the end of the period

Current ratio = Balance of current assets at the end of the period / Balance of liabilities at the end of the period



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|                              |   |  |
|------------------------------|---|--|
| Quick ratio                  | = | (balance of current assets at the end of the period less inventories at the end of the period)/balance of current liabilities at the end of the period |
| Multiples of interest earned | = | (profit before tax + interest expenses)/interest expenses on capitalized interest  |

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The current ratio and quick ratio of the Company and its subsidiaries decreased compared to last year mainly due to increased capital expenditure and the cash consideration paid during acquisitions. These factors contributed to an increase in current liabilities.

The debt to equity ratio of the Company and its subsidiaries increased significantly primarily because of the increase in current liabilities and long-term loans.

The multiples of interest earned of the Company and its subsidiaries decreased from that of the same period last year mainly due to an increase in interest expenses (including capitalized interest) on loans borrowed to finance construction as well as reduced profitability.

During the first half of 2005, a significant portion of funding requirements of the Company and its subsidiaries for capital expenditure was met by short-term borrowings. The Company and its subsidiaries have used low-interest short-term borrowings to replace the high-interest long-term loans in order to minimize interest expenses. Consequently, as at 30th June, 2005, the Company and its subsidiaries had net current liabilities of approximately RMB10.552 billion. Based on the successful financing history of the Company and its subsidiaries, the significant amount of undrawn banking facilities available to the Company and the support of operating results, the Company and its subsidiaries believe that it is able to meet their liabilities as and when they fall due, and that they will be able to obtain long-term loans so as to meet the capital required for operations.

### Liquidity and Cash Resources

#### Liquidity

|  | For the six months ended |             |
|--|--------------------------|-------------|
|  | 30th June,               |             |
|  | 2005                     | 2004        |
|  | RMB billion              | RMB billion |
|  | -----                    |             |
| Net cash provided by operating activities      | 1.972                    | 3.823       |
| Net cash used in investing activities          | (7.065)                  | (3.883)     |
| Net cash provided by financing activities      | 5.522                    | 2.452       |
|  | -----                    |             |
| Net increase in cash and cash equivalents      | 0.429                    | 2.392       |
| Cash and cash equivalents, beginning of period | 2.296                    | 4.129       |
|  | -----                    |             |

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|  |       |       |
|--|-------|-------|
| Cash and cash equivalents, end of period | 2.725 | 6.521 |
|  | ===== | ===== |

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The net cash provided by operating activities amounted to RMB1.972 billion in the first half of 2005 which was lower than that of last year. This was mainly due to the significant increase in fuel costs which led to the cash generated from operations less than the cash paid for the operations. It is anticipated that the net cash provided by operating activities remains the main source of cash for the Company and its subsidiaries.

Net cash used in investing activities mainly consisted of capital expenditure for the construction projects and cash paid for acquisitions of power plants.

Net cash flows from financing activities consisted mainly of repayments of loans, dividend payments and new financing projects. In the first half of 2005, the Company repaid RMB8.852 billion of loans, paid off RMB3.184 billion of dividends but took out new loans of RMB12.674 billion and issued short-term bonds of RMB4.862 billion.

Capital expenditure and cash resources

Capital expenditure

Capital expenditure on acquisitions

In January, 2005, the Company paid a cash consideration of approximately RMB2.025 billion to acquire a 65% equity interest in the Gansu Huaneng Pingliang Power Generation Limited Liability Company ("Pingliang Power Company") and a 60% equity interest in Sichuan Huaneng Hydropower Development Corporation, Ltd. ("Sichuan Hydropower"). The acquisitions enabled the Company to achieve the marketing development strategy of "consolidating positions in the coastal regions, expanding into Central China and entering West China". This is also one of the milestones of the Company in realizing the development strategy of "combining hydro and coal-fired power", and represents a continuation of the established strategy of a balance between development and acquisitions.

In June, 2005, the Company paid a cash consideration of RMB200.6 million to Jiangsu Yueda to acquire a 26.36% equity interest in Huaiyin Power Plant Phase I. Upon the completion of the acquisition, the Company's interest in Huaiyin Power Plant Phase I increased to 90%, with an increase of generation capacity of 116MW on an equity basis.

Capital expenditure on construction and renovation

The capital expenditure of the Company and its subsidiaries in the first half of 2005 amounted to approximately RMB5.731 billion, including RMB5.425 billion for construction projects and RMB306 million for renovation projects.

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Capital expenditure on construction mainly included RMB994 million for Yuhuan project, RMB890 million for Taicang Phase II project, RMB678 million for Sichuan Hydropower, RMB459 million for Shantou Coal-fired project, RMB388 million for Shanghai Combined-Cycle project, RMB346 million for Luohuang expansion project, RMB338 million for Huaiyin expansion project, RMB323 million for Yueyang expansion project, RMB257 million for Xindian expansion project, RMB254 million

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for Yingkou project, RMB167 million for Qinbei project, RMB151 million for Yushe Phase II project and construction projects for other power plants.

Capital expenditure on renovation included RMB244 million for Shidongkou First Power Plant, as well as RMB62 million of routine renovation expenditure for other power plants.

The above capital expenditure items were mainly financed by long-term borrowings and cash from operations.

The Company and its subsidiaries will continue to incur significant capital expenditure in the forthcoming years. The Company will actively monitor the progress of its projects in accordance with commercially viable principles. The Company will also proactively develop its planned projects so as to lay foundation for the Company's long-term development. The Company expects to finance such projects through internal funding, bank borrowings and cash flows provided by operating activities.

Cash resources and anticipated financing costs

The Company expects the cash resources for capital expenditure for construction and acquisitions to be principally financed by internal funds, cash flows from operating activities and future debt financing.

Through years of successful operations, the market image and "brand" of the Company have continuously enhanced. Standard & Poor's upgraded the credit rating on the Company to BBB+, outlook of the rating was stable in February, 2004. Good operating results and good credit status grant the Company strong financing capabilities. As at 30th June, 2005, the Company and its subsidiaries had available unsecured borrowing facilities from banks of approximately RMB31 billion (included in the undrawn borrowing facilities are medium to long-term loan facilities of RMB20 billion subject to application and approval procedures). The Company and its subsidiaries has utilized approximately RMB2 billion up to 30th June, 2005. These unsecured borrowing facilities provide the Company and its subsidiaries with a sufficient level of available cash and raise the level of liquidity and repayment capabilities of the Company and its subsidiaries effectively.

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On 27th May, 2005, the Company completed the issue of RMB5 billion short-term bonds successfully. The issued amount of the first stage of the bonds was RMB4.5 billion with a maturity period of 365 days. The nominal value of the bonds was RMB100 and the issued price was RMB97.16. The effective interest rate was 3.40%. The issued amount of the second stage of the bonds was RMB500 million with a maturity period of nine months. The nominal value was RMB100 and the issued price was RMB98. The effective interest rate was 3.31%. The issuances of short-term bonds provided the Company with new channels to obtain short-term financing, thus effectively lowering the overall cost of capital of the Company and supporting the stability of the Company's production and expansion of the Company's operating scale with sufficient and low cost of capital.

As at 30th June, 2005, the total interest bearing loans of the Company and its subsidiaries amounted to RMB42.5 billion, including RMB15.923 billion borrowings matured in one year. The interest bearing loans included foreign currency borrowings amounting to RMB7 billion, including US dollar of 744 million, Euro of 74 million and Japanese Yen of 1.429 billion. Approximately US\$109 million and Japanese Yen of 238 million of foreign currency borrowings will mature in one year. Including in foreign currency borrowings, fixed rate and floating rate loans accounted for RMB6.234 billion and RMB773 million or 89% and 11% of total foreign currency borrowings respectively. The average fixed rate and floating

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rate loans approximated 5.68% and LIBOR+0.17% per annum respectively.

The long-term borrowings of the Company and its subsidiaries were mainly fixed rate loans (annual interest rates ranged from 2.28% to 6.12%). As at 30th June, 2005, pursuant to the relevant agreements, the balances of the floating rate loans of the Company and its subsidiaries were approximately US\$80 million (annual interest rates ranged from LIBOR+0.075% to LIBOR+0.43%) and Japanese Yen 1.429 billion (annual interest rate of LIBOR+0.3%).

The repayment capability of the Company and its subsidiaries remains strong after acquisitions of a 65% equity interest in Pingliang Power Company and a 60% equity interest in Sichuan Hydropower in January, 2005 and a 26.36% equity interest of Phase I of Huaiyin Power Plant in June, 2005.

### Other financing requirements

The objective of the Company is to bring long-term, stable and growing returns to the shareholders. In line with this objective, the Company follows a proactive, stable and balanced dividend policy. In 2005, in accordance with the dividend distribution plan approved by the shareholders, the Company paid a cash dividend of approximately RMB3.014 billion for the year of 2004.

### Performance of Significant Investments and their Prospects

On 22nd April, 2003, the Company acquired a 25% equity interest in SEG with a cash consideration of approximately RMB2.39 billion. This investment brought to the Company and its subsidiaries a net profit of approximately RMB112 million in the first half of 2005 recorded under International Financial Reporting Standards ("IFRS"). SEG is the largest power generation supplier in Shenzhen and its power plants are located in one of the prosperous provinces - Guangdong Province. With strong demand for electricity in that region, such an investment is expected to bring stable returns to the Company in the future.

In July, 2004, the Company acquired a 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company") with a cash consideration of approximately RMB1.375 billion. This investment brought to the Company and its subsidiaries a net profit of approximately RMB100 million in the first half of 2005 recorded under IFRS. Hanfeng Power Company is located in Hebei Province in Northern China and there is strong demand for electricity in that region. Through this acquisition, the Company and its subsidiaries expect this investment will contribute stable returns in the future.

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### Employee Benefits

As at 30th June, 2005, the Company and its subsidiaries had 22,883 employees. For the first half of 2005, total staff costs incurred amounted to approximately RMB1.130 billion. During the Accounting Period, there is no significant change to the Company's remuneration policy and training plan.

### Related Party Transactions

The Company and its subsidiaries entered into various transactions with China Huaneng Group Corporation ("Huaneng Group"), Huaneng International Power Development Corporation ("HIPDC") and their affiliates during daily operations, including operating leases on land use rights and property, electricity transmission and fuel purchases and transportation, etc. Such transactions were for daily operations at prices no different from transactions conducted with other third parties and did not have significant impact on the business and operations of the Company and its subsidiaries. Huaneng Group, HIPDC and the

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minority shareholders of subsidiaries of the Company have also committed or agreed through contracts to provide guarantees on certain loans of the Company and its subsidiaries.

In addition, pursuant to relevant agreements, the Company rendered management services to those power plants owned by Huaneng Group and HIPDC at a standard fee covering its costs and a reasonable profit. For the first half of 2005, such transactions amounted to approximately RMB18.5652 million which was below 0.1% of net operating revenue. Pursuant to another relevant agreement, Huaneng Group rendered power plant management services (Sichuan Hydropower) to the Company at an annual standard fee of approximately RMB2.2401 million covering its costs and a reasonable profit.

In accordance with the transfer agreement entered into between the Company and Huaneng Group in October, 2004, the Company acquired a 60% equity interest in Sichuan Hydropower and a 65% equity interest in Pingliang Power Company, both owned by Huaneng Group, at a total consideration of RMB2.025 billion in January, 2005. In addition, the Company acquired an additional 26.36% equity interest in Huaiyin I Power Company from Jiangsu Yueda for a cash consideration of RMB200.6 million in June, 2005.

Please refer to Note 19 to the unaudited condensed consolidated interim financial statements prepared under IFRS for details of related party transactions.

### Guarantees on Loans

As at 30th June, 2005, the Company provided guarantees on long-term bank borrowings of certain subsidiaries and an associate totalling approximately RMB1.735 billion. These included guarantees granted to Qinbei Power Company, Yushe Power Company and Rizhao Power Company amounting to RMB740 million, RMB702 million and RMB293 million respectively. The Company and its subsidiaries had no contingent liabilities other than those described above. The Company is of the view that the above guarantees do not have any significant financial impact on the operations of the Company and its subsidiaries.

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### Pledged Assets

As at 30th June, 2005, Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company, Sichuan Huaneng Kangding Hydropower Limited Liability Company and Sichuan Huaneng Mingtai Hydropower Limited Liability Company which were held by the Company's subsidiary, Sichuan Hydropower, pledged certain of their fixed assets with net book values of RMB612 million, RMB28 million and RMB72 million as at 30th June, 2005 respectively to obtain bank loans of RMB267 million, RMB20 million and RMB60 million respectively.

### Impact of the Adjustment of Rmb Exchange Rate

On 21st July, 2005, The People's Bank of China adjusted the exchange rate of RMB to US\$ from 8.2765 to 8.1100. As the US dollar liabilities of the Company and its subsidiaries outweighed their US dollar assets, the Company and its subsidiaries expect the appreciation of RMB will bring positive effect to the Company and its subsidiaries. In the event that the exchange rate of RMB to US\$ is maintained at RMB8.11 to US\$1.00 for the second half of 2005, this would bring an exchange gain of approximately RMB123 million upon the translation of US dollar liabilities of approximately US\$758 million and US dollar deposits of approximately US\$20 million as at 30th June, 2005.

### SHARE CAPITAL STRUCTURE

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As at 30th June, 2005, the entire issued share capital of the Company amounted to 12,055,383,440 shares, of which 9,000,000,000 shares were domestic shares, representing 74.67% of the entire issued share capital, and 3,055,383,440 shares were foreign shares, representing 25.34% of the entire issued share capital. In respect of domestic shares, Huaneng International Power Development Corporation owns a total of 5,197,680,000 shares, representing 43.12% of the entire issued share capital of the Company. Other domestic shareholders hold a total of 3,802,320,000 shares, representing 31.55% of the entire issued share capital of the Company.

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not sell any other types of securities and did not purchase or redeem its own shares or other securities in the first half of 2005.

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### SHAREHOLDING STRUCTURE

As at 30th June, 2005, the shareholding position of the Company was as follows:

|  | Total<br>Shareholdings<br>(in `000) |
|--|-------------------------------------|
| <hr style="border-top: 1px dashed black;"/>                  |                                     |
| Domestic Shares  |                                     |
| Huaneng International Power Development Corporation          | 5,197,680                           |
| Hebei Provincial Construction Investment Company             | 904,500                             |
| Jiangsu Provincial International Trust & Investment Company  | 624,750                             |
| Fujian International Trust & Investment Company Limited*     | 561,700                             |
| Liaoning Energy Investment (Group) Limited Liability Company | 459,370                             |
| Dalian Municipal Construction Investment Company             | 452,250                             |
| Nantong Investment Management Centre                         | 135,750                             |
| Minxin Group Limited Company*                                | 108,000                             |
| Shantou Electric Power Development Company                   | 38,000                              |
| Dandong Energy Investment Development Centre                 | 13,000                              |
| Guangdong Shantou City Power Development Company             | 5,000                               |
| Public Shares  | 500,000                             |
| <hr style="border-top: 1px dashed black;"/>                  |                                     |
| Sub-total  | 9,000,000                           |
| Overseas Listed Foreign Shares                               | 3,055,383.44                        |
| <hr style="border-top: 1px dashed black;"/>                  |                                     |
| TOTAL  | 12,055,383.44                       |
| <hr style="border-top: 3px double black;"/>                  |                                     |

\* Fujian International Trust & Investment Company Limited transferred its 108,000,000 legal person shares of the Company to Minxin Group Limited Company on the date of completion, i.e. 15th June, 2005.

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As at 30th June, 2005, so far as the Directors, chief executive officer and Supervisors of the Company are aware, each of the following persons, not being a Director, chief executive officer or Supervisor of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance ("SFO"):

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Shares held/Approximate Shareholding Percentage

| Name of shareholder  | Shares          | Number of<br>shares held | Interest<br>Approximate<br>percentage of<br>shareholding in<br>the Company's<br>total issued<br>share capital | Approximate<br>percentage of<br>shareholding in<br>the Company's<br>total issued<br>domestic shares |
|--|-----------------|--------------------------|---|---|
| Huaneng International Power Development Corporation (Note 1) | domestic shares | 5,197,680,000            | 43.12%  | 57.8%   |
| Hebei Provincial Construction Investment Company             | domestic shares | 904,500,000              | 7.50%   | 10.1%   |
| Jiangsu Provincial International Trust & Investment Company  | domestic shares | 624,750,000              | 5.18%   | 6.9%  |
| Fujian International Trust & Investment Company              | domestic shares | 561,700,000              | 4.66%   | 6.2%  |
| Liaoning Energy Investment (Group) Limited Liability Company | domestic shares | 459,370,000              | 3.81%   | 5.1%  |
| Dalian Municipal Construction Investment Company             | domestic shares | 452,250,000              | 3.75%   | 5%  |
| The Hongkong and Shanghai Banking Corporation Ltd. (Note 2)  | H shares        | 753,634,908              | 6.25%   | -   |
| Standard Chartered Bank (Hong Kong) Limited (Note 2)         | H shares        | 365,428,129              | 3.03%   | -   |
| Citibank N.A. (Note 2)                                       | H shares        | 255,876,765              | 2.12%   | -   |
| UBS Securities Hong Kong Ltd. (Note 2)                       | H shares        | 173,251,372              | 1.44%   | -   |

Note 1: As at 30th June, 2005, Huaneng Group holds 51.98% of the equity interest in Huaneng International Power Development Corporation.

Note 2: Such H shares were held through HKSCC Nominees Limited.

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Save as disclosed above and so far as the Directors, chief executive officer and Supervisors of the Company are aware, as at 30th June, 2005, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the Hong

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Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company.

### DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

As at 30th June, 2005, none of the Directors, chief executive officer or Supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required 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 interest and short position which any such Director, chief executive officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise 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 as contained in Appendix 10 to the Listing Rules.

### DIVIDENDS

It was resolved by the Board of Directors not to distribute interim dividends for 2005.

### MAJOR EVENTS

1. On 26th May, 2005, the Company entered into a transfer agreement with Jiangsu Yueda, pursuant to which the Company agreed to acquire 26.36% equity interest in Huaiyin Power Plant Phase I (1 x 220MW coal-fired generating unit) at a consideration of RMB200.6 million which was paid by the Company with cash on 28th June, 2005. Upon completion of the acquisition, the Company holds 90% equity interest in Huaiyin Power Plant Phase I. The remaining 10% equity interest of Huaiyin Power Plant Phase I is held by Jiangsu Power Development Company Limited.
2. The term of the fourth session of the board of directors expired. As approved at the meeting of the Supervisory Committee held on 14th March, 2005, the board meeting held on 15th March, 2005, and the annual general meeting held on 11th May, 2005, the fifth session of the board of directors includes 15 members, namely Mr. Li Xiaopeng, Mr. Huang Yongda, Mr. Wang Xiaosong, Mr. Na Xizhi, Mr. Huang Long, Mr. Wu Dawei, Mr. Shan Qunying, Mr. Yang Shengming, Mr. Xu Zujian, Mr. Liu Shuyuan, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning. The fifth session of the Supervisory Committee consists of 6 members, namely, Mr. Ye Daji, Ms. Yu Ying, Mr. Shen Weibing, Mr. Shen Zongmin, Ms. Zou Cui and Mr. Wang Zhaobin.

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Five members of the fourth session of the Board of Directors, namely Mr. Ye Daji, Mr. Huang Jinkai, Mr. Liu Jinlong, Mr. Gao Zongze and Mr. Zheng Jianchao were not re-appointed as members of the new session of the Board of Directors. Four members of the fourth session of the Supervisory Committee, namely, Mr. Wei Yunpeng, Mr. Li Yonglin, Mr. Pan Jianmin and Mr. Zhao Xisheng were not re-appointed as members of the new session of the Supervisory Committee.

3. At the board meeting held on 15th March, 2005, it was resolved to approve the appointment of Mr. Li Shiqi as Vice President of the Company, the



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resignations of Mr. Wu Dawei from the position of Vice President and of Mr. Li Shiqi from the position of Chief Economic Engineer.

### CORPORATE GOVERNANCE

Pursuant to the relevant requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited and with reference to the provisions in Appendix 23 of the Listing Rules, the following sets out the status of corporate governance of the Company for this year:

#### Corporate Governance Practices

The Board is of the view that other than Article C.2.1 of the Code of Corporate Governance Practices ("the Code") in Appendix 14 which has yet to be reinforced, the Company has complied with the provisions of the Code in a comprehensive manner. The Articles of Association of the Company have fully covered the principles set out in the Code. Moreover, the Company has established a regulated and highly effective governance system comprising the Board of Directors, the Supervisory Committee and the President. Four special committees, namely the Strategy Committee, the Audit Committee, the Nomination Committee, and the Remuneration and Appraisal Committee have been established under the Board of Directors assisting in handling various affairs of the Board of Directors. The Company has also established the Board of Directors Office responsible for day-to-day matters of the Board of Directors.

As regards the internal control matters contained in Article C.2.1 of the Code, the Company has formulated a new overall internal control system and the same has been approved at the Chairman's Working Meeting. The new system will be implemented in the second half of this year and the corporate governance of the Company will be further enhanced.

#### Securities Transactions by Directors

As the Company is listed in three places, the Company has strictly complied with the relevant restrictive provisions imposed by the US, Hong Kong and PRC regulatory organs in relation to securities transactions by directors and has consistently upheld the principle of complying with the most stringent provisions, that is performing according to the strictest restrictions of the three places. At present, specific enquiries have been made on all the directors of the Company and it has been confirmed that all of the directors do not hold any shares of the Company.

The Company has adopted the required standards set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listing Companies of the Listing Rules. The Directors have complied with such code of conduct throughout the Accounting Period.

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#### Board of Directors

The Board of Directors of the Company comprised 15 members. Mr. Li Xiaopeng acts as Chairman of the Board of Directors, whereas Mr. Huang Yongda and Mr. Wang Xiaosong act as Vice Chairmen of the Board of Directors. Mr. Li Xiaopeng, Mr. Huang Yongda, Mr. Na Xizhi and Mr. Huang Long are executive directors of the Company. Other non-executive directors are: Mr. Wang Xiaosong, Mr. Wu Dawei, Mr. Shan Qunying, Mr. Yang Shengming (whose resignation took effect on 9th August, 2005), Mr. Xu Zujian and Mr. Liu Shuyuan. The Company has five independent non-executive directors representing one-third of the members of the Board of Directors, namely Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning.

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The Company has convened three board meetings during the first half of the year and all directors have attended the meetings.

The Articles of Association contain detailed descriptions of the responsibilities and operation procedures of the Board of Directors (please refer to the Articles of Association for details). The Board of Directors of the Company holds meetings regularly, listens to the operating results reports of the Company and makes decisions. Significant operating decisions of the Company have to be discussed and passed at the Board of Directors meetings, whereas ad hoc meetings may be convened. Board meetings include regular meetings and ad hoc meetings. Regular board meetings include: the annual meeting, the half-yearly meeting, first quarterly meeting and third quarterly meeting.

Besides regular and ad hoc meetings, the Board of Directors obtains adequate information from the Chairman's Working Meetings in a timely manner in order to monitor the objectives and strategies of the management, financial conditions and operating results of the Company and the provisions of significant agreements. The Chairman's Working Meetings carry out the responsibilities on behalf of the Board of Directors as the Board of Directors' meetings are adjourned.

The Chairman's Working Meetings are held irregularly, attended by the Chairman, Vice Chairmen, Secretary to the Board of Directors, President, the relevant senior management personnel and personnel of relevant departments who will listen to the reports on the operation conditions of the Company and make relevant decisions. The meetings would cover the following issues: (1) examining proposals on establishing or cancelling development and construction projects; (2) examining proposals of the President in relation to the appointment, removal and transfer of managers of various departments of the Company and managers of agencies; (3) examining plans on the use of substantial funds; (4) examining proposals on the establishment or cancellation of branch companies or branch organs; (5) examining other particularly important issues.

The Chairman of the Company, on behalf of the Board of Directors, enters into an authorized management letter with the President of the Company specifying the powers and responsibilities of the Board of Directors and the management. The management of the Company makes a comprehensive report on the handling of authorizations each year.

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### Chairman and President

At the Board of Directors, the Chairman and the President are separate functions. Mr. Li Xiaopeng acts as the Chairman of the Board of Directors and Mr. Huang Yongda acts as the President of the Company.

### Non-executive Directors

Pursuant to the stipulations of the Articles of Association of the Company, each term of office of the members of the Board of Directors of the Company shall not exceed three years (inclusive) and members of the Board of Directors may be eligible for re-election. However, according to the relevant requirements of the China Securities Regulatory Commission, the term of office of independent non-executive directors shall not exceed six years (inclusive).

### Directors' Remunerations

Pursuant to the relevant stipulations of the relevant laws of the State and the Articles of Association, the Board of Directors of the Company has established a

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Remuneration and Appraisal Committee mainly responsible for reviewing the appraisal standards for directors and senior management personnel of the Company; conducting appraisals and making proposals; and reviewing and examining the remuneration policies and plans for directors and senior management personnel of the Company. The Remuneration and Appraisal Committee is accountable to the Board of Directors.

The establishment of the fifth session of the Remuneration and Appraisal Committee was approved at the first meeting of the fifth session of the Board of Directors on 11th May, 2005. The Remuneration and Appraisal Committee comprises seven directors, namely Mr. Liu Jipeng, Mr. Na Xizhi, Mr. Xu Zujian, Mr. Liu Shuyuan, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Wu Yusheng, among whom Mr. Liu Jipeng, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Wu Yusheng are independent non-executive directors. Mr. Liu Jipeng acts as the Chief Member of the Remuneration and Appraisal Committee.

Currently, the Company has formulated the Detailed Rules on the Work of the Remuneration and Appraisal Committee which has been approved by the Board of Directors for implementation. The fourth session of the Remuneration and Appraisal Committee convened a meeting on 14th March, 2005, at which, with the attendance of all committee members, the proposal for the total salary expenses for 2005 was approved. A report was then made to the Company's Board of Directors.

### Nominations of Directors

Pursuant to the relevant stipulations of the relevant laws of the State and the Articles of Association of the Company, the Board of Directors of the Company has established a Nomination Committee mainly responsible for reviewing the standards and procedures for selecting candidates for directors and senior management personnel according to the operational management requirements of the Company and putting forward proposals to the Board of Directors; selecting qualified candidates for directors and senior management personnel; and examining the candidates for directors and senior management personnel and putting forward proposals.

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The establishment of the Nomination Committee was approved at the first meeting of the fifth session of the Board of Directors on 11th May, 2005. The Nomination Committee comprises seven directors, namely Mr. Qian Zhongwei, Mr. Huang Long, Mr. Shan Qunying, Mr. Yang Shengming, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning, among whom Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning are independent non-executive directors. Mr. Qian Zhongwei acts as the Chief Member of the Nomination Committee.

Currently, the Company has formulated the Detailed Rules on the Work of the Nomination Committee which has been approved by the Board of Directors for implementation. All members had attended the committee's meeting on 14th March, 2005, at which Mr. Qu Xiaojun, general manager of Human Resources Department reported the details regarding the proposals on change of session of directors and on change of senior management. The members unanimously agreed to the proposals regarding the candidates for the fifth session of the Board of Directors and the change of senior management. A report was then submitted to the Board.

### Auditors' Remuneration

The auditors' appointed by the Company for the year of 2005 were PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company, as the international auditors and the PRC auditors of the Company,

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respectively. Total auditors' remunerations for the six months ended 30th June, 2005 amounted to approximately RMB8.223 million.

### Audit Committee

Pursuant to the requirements of the regulatory organs of the places where the Company is listed and the relevant stipulations of the Articles of Association, the Board of Directors of the Company has established the Audit Committee which shall be mainly responsible for:

- (1) making proposals to appoint or change external audit organs;
- (2) examining and monitoring the internal audit system of the Company and its implementation;
- (3) communicating between internal and external audit parties;
- (4) examining the financial information of the Company and its disclosures;
- (5) other matters required by the Board of Directors of the Company.

The establishment of the Audit Committee of the fifth session of Board of Directors was approved at the first meeting of the fifth session of the Board of Directors held on 11th May 2005. Members of the Audit Committee comprises five independent non-executive directors, namely Mr. Xia Donglin, Mr. Qian Zhongwei, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning. Mr. Xia Donglin acts as the Chief Member of the Audit Committee.

The Audit Committee has held two meetings in the first half of 2005 examining the working report of 2004 and the working plan for audit in 2005, both prepared by the Company's audit department, and the report regarding the audit work of 2004 made by the Company's auditors. The committee also considered and examined the financial statements of 2004, the financial budgets for 2005, the profit distribution plan for 2004, the proposal regarding appointment of auditors for 2005, the proposal regarding general matters of auditors in 2005, and the financial statements for the first quarter of 2005, etc. Reports were submitted to the Board of Directors.

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On 8th August, 2005, the Audit Committee has conducted a meeting to review both the interim announcement and interim report for the first half of 2005.

Currently, the Company has formulated the Detailed Rules on the Work of the Audit Committee which have been approved by the Board of Directors for implementation. The new internal control management system has recently been approved by the Chairman's Working Meeting. Major amendments will be made to the Detailed Rules on the Work of the Audit Committee. Accordingly, the Audit Committee will launch a comprehensive examination on the internal control management system of the Company in the second half of the year.

### Shareholding Interests of Senior Management Personnel

The senior management personnel of the Company does not hold any shares of the Company.

### Investor Relations

Facing the operational pressure resulting from the rise of fuel costs in the first half of 2005, the Company has made timely and accurate disclosures through various communication channels. In order to let the investors be fully aware of

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the Company's operations, financial status and strategies, the Company strived to ensure an unimpeded communication channel for carrying out open and transparent disclosure of information, with a view to building investor confidence in the Company's future and also enhancing the Company's reputation and image in the capital market.

### Internal Control

The new internal control management system has been recently approved by the Chairman's Working Meeting. The Company will undertake a stricter and more regulated internal control management system in the second half of the year.

### Management's Functions

The division of functions between the Board of Directors and the management are set out in the Company's Articles of Association.

### LEGAL PROCEEDINGS

As at 30th June, 2005, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Company is aware of.

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### DOCUMENTS FOR INSPECTION

The interim report for the first half of 2005 of the Company containing all the information required by the Listing Rules will be published on the Hong Kong Stock Exchange's website. The Company will also file the interim report in Form 6-K with the US Securities and Exchange Commission. Copies of the interim report for 2005 will be available at the following addresses and website:

#### PRC

Huaneng Power International, Inc.  
West Wing, Building C  
Tianyin Mansion  
2C Fuxingmennan Street  
Xicheng District  
Beijing  
People's Republic of China

Telephone Number: (8610) 6649 1999  
Fax Number: (8610) 6649 1860  
Postal code: 100031

#### Hong Kong

Rikes Communications Limited  
Room 1312, Wing On Centre  
111 Connaught Road Central  
Hong Kong

Telephone No: (852) 2520 2201  
Fax No: (852) 2520 2241

#### Website of the Company

<http://www.hpi.com.cn>

By Order of the Board  
Li Xiaopeng  
Chairman

The directors of the Company are:

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Li Xiaopeng (Executive director)  
 Huang Yongda (Executive director)  
 Wang Xiaosong (Non-executive director)  
 Na Xizhi (Executive director)  
 Huang Long (Executive director)  
 Wu Dawei (Non-executive director)  
 Shan Qunying (Non-executive director)  
 Xu Zujian (Non-executive director)  
 Liu Shuyuan (Non-executive director)

Qian Zhongwei  
 (Independent non-executive director)  
 Xia Donglin  
 (Independent non-executive director)  
 Liu Jipeng  
 (Independent non-executive director)  
 Wu Yusheng  
 (Independent non-executive director)  
 Yu Ning  
 (Independent non-executive director)

Beijing, the PRC  
 9th August, 2005

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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED)  
 AS AT 30TH JUNE, 2005  
 (Prepared in accordance with International Financial Reporting Standards)  
 (Amounts expressed in thousands of Rmb)

|                                    | Note | 30th June,<br>2005 |
|------------------------------------|------|--------------------|
| <b>ASSETS</b>                      |      |                    |
| Non-current assets                 |      |                    |
| Property, plant and equipment, net | 5    | 72,457,443         |
| Investments in associates          |      | 4,297,427          |
| Available-for-sale investment      |      | 254,990            |
| Land use rights                    |      | 1,698,673          |
| Other non-current assets           |      | 357,750            |
| Deferred income tax assets         |      | 133,298            |
| Goodwill                           | 2, 3 | 671,293            |
| Less: Negative goodwill            | 2    | -                  |
|                                    |      | -----              |
| Total non-current assets           |      | 79,870,874         |
|                                    |      | -----              |
| Current assets                     |      |                    |
| Inventories, net                   |      | 2,538,944          |
| Other receivables and assets, net  |      | 1,161,587          |
| Accounts receivable, net           | 6    | 5,897,415          |
| Due from Huaneng Group             | 19   | 8,461              |
| Due from other related parties     | 19   | 16,357             |
| Restricted cash                    |      | 200,281            |
| Temporary cash investments         |      | 7,641              |
| Cash and cash equivalents          |      | 2,724,723          |
|                                    |      | -----              |
| Total current assets               |      | 12,555,409         |
|                                    |      | -----              |

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Total assets 92,426,283

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|  | Note  | 30th June,<br>2005 | 3 |
|--|-------|--------------------|---|
| <b>EQUITY AND LIABILITIES</b>  |       |                    |   |
| Capital and reserves attributable to the Company's equity holders  |       |                    |   |
| 8,500,000,000 (2004: 8,500,000,000) Domestic Shares, par value of Rmb1.00 each, in form of legal person shares |       | 8,500,000          |   |
| 500,000,000 (2004: 500,000,000) A shares, par value of Rmb1.00 each  |       | 500,000            |   |
| 3,055,383,440 (2004: 3,055,383,440) Overseas Listed Foreign Shares, par value of Rmb1.00 each                  |       | 3,055,383          |   |
| Additional paid-in capital   |       | 8,972,184          |   |
| Dedicated capital  |       | 4,065,970          |   |
| Retained earnings  |       |                    |   |
| Proposed dividend  |       | -                  |   |
| Others   |       | 11,098,508         |   |
|  |       | -----              |   |
|  |       | 36,192,045         |   |
| Minority interests   |       | 5,434,898          |   |
|  |       | -----              |   |
| Total equity   |       | 41,626,943         |   |
|  |       | -----              |   |
| Non-current liabilities  |       |                    |   |
| Long-term loans from a shareholder   | 11,19 | 800,000            |   |
| Long-term bank loans   | 11    | 24,986,539         |   |
| Other long-term loans  | 11,19 | 767,143            |   |
| Deferred income tax liabilities  |       | 1,124,071          |   |
| Other non-current liabilities  |       | 14,500             |   |
|  |       | -----              |   |
| Total non-current liabilities  |       | 27,692,253         |   |
|  |       | -----              |   |

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| Note | 30th June,<br>2005 | 3 |
|------|--------------------|---|
|------|--------------------|---|

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|  |       |            |
|--|-------|------------|
| Current liabilities                              |       |            |
| Accounts payable and other liabilities           | 8     | 6,028,188  |
| Dividends payable to shareholders of the Company |       | -          |
| Taxes payables                                   |       | 748,430    |
| Due to Huaneng Group                             | 19    | 63,939     |
| Due to HIPDC                                     | 19    | 51,044     |
| Due to an associate                              | 19    | 3,655      |
| Due to other related parties                     | 19    | 78,535     |
| Staff welfare and bonus payables                 |       | 210,613    |
| Short-term bonds                                 | 9     | 4,856,433  |
| Short-term loans                                 | 10    | 8,675,300  |
| Current portion of long-term bank loans          | 11    | 1,964,677  |
| Current portion of other long-term loans         | 11,19 | 426,273    |
|  |       | -----      |
| Total current liabilities                        |       | 23,107,087 |
|  |       | -----      |
| Total equity and liabilities                     |       | 92,426,283 |
|  |       | =====      |

The notes on pages 30 to 60 are an integral part of these unaudited condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME (UNAUDITED)  
 FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
 (Prepared in accordance with International Financial Reporting Standards)  
 (Amounts expressed in thousands of Rmb, except per share data)

|                          | Note | For the six months<br>2005 |
|--------------------------|------|----------------------------|
|                          |      | -----                      |
| Operating revenue, net   |      | 18,800,474                 |
|                          |      | -----                      |
| Operating expenses:      |      |                            |
| Fuel                     |      | (10,353,644)               |
| Maintenance              |      | (606,883)                  |
| Depreciation             |      | (3,174,402)                |
| Labor                    |      | (1,129,565)                |
| Service fees to HIPDC    |      | (70,493)                   |
| Others                   |      | (797,341)                  |
|                          |      | -----                      |
| Total operating expenses |      | (16,132,328)               |
|                          |      | -----                      |
| Profit from operations   |      | 2,668,146                  |
|                          |      | -----                      |



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|  |    |           |
|--|----|-----------|
| Interest income  |    | 25,196    |
| Interest expenses  |    | (723,260) |
| Bank charges and exchange losses, net  |    | 93,144    |
|  |    | -----     |
| Total financial expenses   |    | (604,920) |
|  |    | -----     |
| Share of profit of associates  |    | 238,741   |
| Gain from disposal of investments  |    | -         |
| Other income, net  | 13 | 38,311    |
|  |    | -----     |
| Profit before tax  | 14 | 2,340,278 |
| Income tax expenses  | 15 | (348,774) |
|  |    | -----     |
| Profit for the period  |    | 1,991,504 |
|  |    | -----     |
| Attributable to:   |    |           |
| Equity holders of the Company  |    | 1,679,253 |
| Minority interest  |    | 312,251   |
|  |    | -----     |
|  |    | 1,991,504 |
|  |    | =====     |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in Rmb per share) |    |           |
| - basic  | 17 | 0.14      |
|  |    | =====     |
| - diluted  |    | N/A       |
|  |    | =====     |

The notes on pages 30 to 60 are an integral part of these unaudited condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
(Prepared in accordance with International Financial Reporting Standards)  
(Amounts expressed in thousands of Rmb)

|  | Attributable to equity holders of the Company |                            |                   |                                       |                   |
|--|---|----------------------------|-------------------|---------------------------------------|-------------------|
|  | Share capital                                 | Additional paid-in capital | Dedicated capital | Equity component of convertible notes | Retained earnings |
|  | -----   |                            |                   |                                       |                   |

Balance as at 1st January, 2005,

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|                                     |            |             |             |       |         |
|-------------------------------------|------------|-------------|-------------|-------|---------|
| as previously reported as equity    | 12,055,383 | 8,972,184   | 4,065,970   | -     | 11,171, |
| Balance as at 1st January, 2005,    |            |             |             |       |         |
| as previously separately reported   |            |             |             |       |         |
| as minority interest                | -          | -           | -           | -     |         |
| Effect of changes in accounting     |            |             |             |       |         |
| policy (Note 2)                     | -          | -           | -           | -     | 1,261,  |
| -----                               |            |             |             |       |         |
| Balance as at 1st January, 2005,    |            |             |             |       |         |
| as restated                         | 12,055,383 | 8,972,184   | 4,065,970   | -     | 12,433, |
| Acquisitions (Note 3)               | -          | -           | -           | -     |         |
| Capital injection from minority     |            |             |             |       |         |
| shareholders of subsidiaries        | -          | -           | -           | -     |         |
| Dividends relating to 2004          | -          | -           | -           | -     | (3,013, |
| Net profit for the six months ended |            |             |             |       |         |
| 30th June, 2005                     | -          | -           | -           | -     | 1,679,  |
| -----                               |            |             |             |       |         |
| Balance as at 30th June, 2005       | 12,055,383 | 8,972,184   | 4,065,970   | -     | 11,098, |
| =====                               |            |             |             |       |         |
| Balance as at 1st January, 2004     | 6,027,671  | 10,780,133  | 4,328,423   | 255   | 12,818, |
| Balance as at 1st January, 2004,    |            |             |             |       |         |
| as previously separately reported   |            |             |             |       |         |
| as minority interest                | -          | -           | -           | -     |         |
| -----                               |            |             |             |       |         |
| Balance as at 1st January, 2004,    |            |             |             |       |         |
| as restated                         | 6,027,671  | 10,780,133  | 4,328,423   | 255   | 12,818, |
| Capital injection from minority     |            |             |             |       |         |
| shareholders of subsidiaries        | -          | -           | -           | -     |         |
| Dividends relating to 2003          | -          | -           | -           | -     | (3,013, |
| Ordinary shares split               | 6,027,671  | (1,808,301) | (1,205,534) | -     | (3,013, |
| Net profit for the six months ended |            |             |             |       |         |
| 30th June, 2004                     | -          | -           | -           | -     | 2,481,  |
| Conversion of convertible notes to  |            |             |             |       |         |
| share capital and redemption of     |            |             |             |       |         |
| convertible notes                   | 21         | 359         | -           | (255) |         |
| -----                               |            |             |             |       |         |
| Balance as at 30th June, 2004       | 12,055,363 | 8,972,191   | 3,122,889   | -     | 9,272,  |
| =====                               |            |             |             |       |         |

The notes on pages 30 to 60 are an integral part of these unaudited condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
(Prepared in accordance with International Financial Reporting Standards)  
(Amounts expressed in thousands of Rmb)

For the six month

Note

2005

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|  |    |             |
|--|----|-------------|
| Net cash provided by operating activities      |    | 1,971,538   |
| Net cash used in investing activities          | 18 | (7,064,748) |
| Net cash provided by financing activities      | 18 | 5,522,402   |
|  |    | -----       |
| Net increase in cash and cash equivalents      |    | 429,192     |
| Cash and cash equivalents, beginning of period |    | 2,295,531   |
|  |    | -----       |
| Cash and cash equivalents, end of period       |    | 2,724,723   |
|  |    | =====       |

The notes on pages 30 to 60 are an integral part of these unaudited condensed consolidated interim financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
 (Prepared in accordance with International Financial Reporting Standards)  
 (Amounts expressed in thousands of Rmb unless otherwise stated)

### 1. Company Organization and Principal Activities

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on 30th June, 1994. The Company and its subsidiaries are principally engaged in the generation and sale of electric power to the respective regional or provincial grid companies in the PRC.

The directors consider that the parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group Corporation ("Huaneng Group"), respectively. Both companies are incorporated in the PRC. Neither Huaneng Group nor HIPDC produced financial statements available for public use.

### 2. Principal Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board ("IASB") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the 2004 annual financial statements.

During 2005, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as at 30th June, 2005, the Company and its subsidiaries have a negative working capital balance of approximately Rmb10.552 billion. The Company and its subsidiaries have significant undrawn available banking facilities amounting to approximately Rmb29 billion (31st December, 2004: approximately Rmb28 billion) and may refinance and / or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The directors of the Company and its subsidiaries are of the

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opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these unaudited condensed consolidated interim financial statements on a going concern basis.

The principal accounting policies applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual financial statements as at and for the year ended 31st December, 2004 except that the Company and its subsidiaries have adopted the revised and new IASs and International Financial Reporting Standards ("IFRSs") issued by IASB and International Financial Reporting Interpretations Committee Interpretation ("IFRIC Interpretation") issued by International Financial Reporting Interpretations Committee ("IFRIC") which are effective for accounting period commencing on or after 1st January, 2005.

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### 2. Principal Accounting Policies (Cont'd)

The list of the new / revised IASs, IFRSs and IFRIC Interpretation which are relevant to the operation of the Company and its subsidiaries is as follows. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

|                        |  |
|------------------------|--|
| IAS 1                  | Presentation of Financial Statements                                     |
| IAS 2                  | Inventories  |
| IAS 8                  | Accounting Policies, Changes in Accounting Estimates and Errors          |
| IAS 10                 | Events after the Balance Sheet Date                                      |
| IAS 16                 | Property, Plant, and Equipment   |
| IAS 17                 | Leases   |
| IAS 21                 | The Effects of Changes in Foreign Exchange Rates                         |
| IAS 24                 | Related Party Disclosures  |
| IAS 27                 | Consolidated and Separate Financial Statements                           |
| IAS 28                 | Investments in Associates  |
| IAS 32                 | Financial Instruments: Disclosure and Presentation                       |
| IAS 33                 | Earnings per Share   |
| IAS 36                 | Impairment of Assets   |
| IAS 38                 | Intangible Assets  |
| IAS 39                 | Financial Instruments: Recognition and Measurement                       |
| IFRS 3                 | Business Combinations  |
| IFRIC Interpretation 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities |

The adoption of IASs 1, 2, 8, 10, 16, 17, 21, 32, 33, 38 and 39 and IFRIC Interpretation 1 did not result in substantial changes to the accounting policies of the Company and its subsidiaries. In summary:

IAS 1 has affected the presentation of minority interest, share of profit of associates and other disclosures.

IASs 2, 8, 10, 16, 17, 32, 33, 38 and 39 and IFRIC Interpretation 1 had no material effect on the policies of the Company and its subsidiaries.

IAS 21 had no material effect on the policy of the Company and its subsidiaries. The functional currency of each of the entities of the Company and its subsidiaries has been re-evaluated based on the guidance to the revised standard. All the entities used Renminbi ("Rmb") as their functional currency as

well as presentation currency.

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2. Principal Accounting Policies (Cont'd)

IAS 24 has extended the identification and disclosure of related parties to include state-owned enterprises. Related parties include Huaneng Group, HIPDC and their related parties, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control, jointly control or exercise significant influence and key management personnel of the Company, HIPDC and Huaneng Group as well as their close family members.

The adoptions of IASs 27 and 28 have resulted in changes in accounting policies for investments in subsidiaries and associates at company level. Until 31st December, 2004, investments in subsidiaries and associates at company level are accounted for using the equity method. Subsequent to that date, the Company and its subsidiaries, at the entity level, restated such investments at cost less any accumulated impairment losses.

The adoption of IFRS 3 and IAS 36 resulted in changes in the accounting policies for goodwill and negative goodwill and the assessment by management of asset impairment.

In accordance with the provisions of IFRS 3:

- o the Company and its subsidiaries ceased amortization of goodwill and negative goodwill from 1st January, 2005;
- o accumulated amortization as at 31st December, 2004 has been eliminated with a corresponding decrease in the costs of goodwill and negative goodwill; and
- o From 1st January, 2005 onwards, goodwill arising from all acquisitions is tested annually for impairment, as well as when there are indications of impairment while negative goodwill is derecognized as at 1st January, 2005 with a corresponding adjustment to the opening balance of retained earnings.

In accordance with the provision of IAS 36:

- o Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
- o An impairment loss is recognized 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).

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2. Principal Accounting Policies (Cont'd)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All of the new / revised

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standards adopted by the Company and its subsidiaries require retrospective application other than:

- o IAS 16 -- the exchange of property, plant and equipment is accounted at fair value prospectively; and
- o IFRS 3 -- prospectively after 31st March, 2004.

The adoption of IAS 1 resulted in the changes of following:

|   | For the six months end<br>2005 |
|---|--------------------------------|
| Decrease in share of profit of associates | (28,217)                       |
| Decrease in income tax expenses           | 28,217                         |

The adoption of IFRS 3 resulted in an increase in opening retained earnings at 1st January, 2005 of Rmb1,261 million. Details of which are as follows:

|   | As at<br>31st March<br>2005 |
|---|-----------------------------|
| Decrease in negative goodwill             | (28,217)                    |
| Increase in deferred income tax liability | 28,217                      |

Increase in operating expenses -- others  
 Decrease in income tax expense  
 Decrease in basic earnings per share (Rmb)

### Comparatives

Due to an associate of approximately Rmb3.8 million has been reclassified from due to other related parties while current portion of bank loans of approximately Rmb32 million and long-term bank loans of approximately Rmb93.2 million have been reclassified into current portion of other long-term loans and other long-term loans respectively in order to conform with the presentation in the current period.

### 3. Acquisitions

In January, 2005, the Company acquired equity interests in a number of power companies from Huaneng Group. In June, 2005, the Company also acquired additional 26.36% equity interest in Jiangsu Huaneng Huaiyin Power Limited Company ("Huaiyin Power Company") from Jiangsu Yueda Investment Co. Ltd. ("Jiangsu Yueda"). The Company previously held equity interest of 63.64% in this

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entity. These acquisitions have been accounted for under the purchase method of accounting.

The acquisition for the power companies acquired from the Huaneng Group became effective when the Company obtained effective control over the acquired power plants upon the Company's minority shareholders' approving the transaction, the Company obtained all necessary government approvals and paying the purchase consideration which was in the form of cash.

The acquisition of the additional interest in Huaiyin Power Company became effective when amongst other things, Jiangsu Yueda obtained shareholders' approval for the transaction, the Company obtained all necessary government approvals and paid the purchase consideration which was in the form of cash.

Details of these acquisitions are shown in the table below:

|   | For the six months ended 30th June  |   |     |
|---|---|---|-----|
|   | 60% equity<br>interest in<br>Sichuan Huaneng<br>Hydropower<br>Development<br>Corporation, Ltd.<br>("Sichuan<br>Hydropower") | Acquisition of subsidiaries<br>65% equity<br>interest in the<br>Gansu Huaneng<br>Pingliang Power<br>Generation Limited<br>Liability Company<br>("Pingliang<br>Power Company") |     |
| Equity interest acquired                      |   |   |     |
| Original equity holder                        | Huaneng Group   | Huaneng Group   |     |
| Effective date of acquisition                 | 5th January, 2005   | 5th January, 2005   | 30  |
| Consideration paid                            | Rmb1,219 million  | Rmb806 million  | Rmb |
| Direct transaction costs of acquisitions paid | Rmb10.05 million  | Rmb6.65 million   |     |
| Fair value of net assets acquired             | Rmb1,099.3 million  | Rmb704.9 million  | Rmb |
| Goodwill                                      | Rmb129.75 million   | Rmb107.75 million   | Rm  |
|   | =====   |   |     |

### 3. Acquisitions (Cont'd)

The above acquisitions contributed unaudited net operating revenue of approximately Rmb1,441 million and unaudited net profit of approximately Rmb402 million to the Company and its subsidiaries for the period from 1st January, 2005 to 30th June, 2005. If the acquisitions had occurred on 1st January, 2005, there would have been no material impact on unaudited net operating revenue, unaudited profit before allocations and unaudited profit attributable to equity holders of the Company because the Sichuan Hydropower and the Pingliang Power Company acquisitions took place in early January, 2005 and Huaiyin Power Company was already a subsidiary of the Company prior to the acquisition of the additional interest and therefore, its unaudited operating results were already consolidated.

Goodwill arising from the acquisitions in 2005 is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the Company's acquisitions of equity interests in the subsidiaries stated above.

## 3. Acquisitions (Cont'd)

The aggregated assets and liabilities arising from these acquisitions in 2005 were as follows:

|   | For the six months<br>ended 30th June, |
|---|--|
|   | Fair value                             |
|   | -----                                  |
| Property, plant and equipment, net  | 12,416,392                             |
| Deferred income tax assets  | 33,993                                 |
| Other non-current assets  | 192,689                                |
| Inventories, net  | 363,408                                |
| Other current assets  | 460,850                                |
| Accounts receivable   | 654,267                                |
| Cash and cash equivalents   | 650,948                                |
| Minority interest   | (2,191,351)                            |
| Long-term loans, unsecured  | (7,392,149)                            |
| Long-term loans, secured  | (567,000)                              |
| Deferred income tax liabilities   | (404,205)                              |
| Other current liabilities   | (1,923,668)                            |
| Less: Original equity interest of the Company<br>in Huaiyin Power Company | (346,443)                              |
|   | -----                                  |
| Net assets acquired   | 1,947,731                              |
|   | -----                                  |
| Add: Goodwill   | 294,567                                |
| Less: Direct transaction costs of acquisitions                            | (16,698)                               |
|   | -----                                  |
| Total consideration paid  | 2,225,600                              |
| Add: Direct transaction costs of acquisitions paid                        | 16,698                                 |
| Less: Cash inflow from the acquired power plants                          | (566,704)                              |
|   | -----                                  |
| Net cash outflow for the acquisitions                                     | 1,675,594                              |
|   | =====                                  |

## 4. List of Subsidiaries

Details of the major subsidiaries of the Company as at 30th June, 2005 were as follow:

| Country, date of | Percentage | Registered |
|------------------|------------|------------|
|------------------|------------|------------|



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| Name of subsidiary  | incorporation and<br>type of legal entity                  | of equity<br>interest held |          | and fully<br>paid capital  |
|---|--|----------------------------|----------|--|
|   |  | Direct                     | Indirect |  |
| Huaneng Weihai Power Limited<br>Liability Company<br>("Weihai Power Company")                     | PRC<br>22nd November, 1993<br>Limited liability<br>company | 60%                        | -        | Rmb761,838,300   |
| Suzhou Industrial Park<br>Huaneng Power Limited<br>Liability Company<br>("Taicang Power Company") | PRC<br>19th June, 1997<br>Limited liability<br>company     | 75%                        | -        | Rmb632,840,000   |
| Huaneng Taicang Power Co., Ltd.   | PRC<br>18th June, 2004<br>Limited liability<br>company     | 75%                        | -        | Registered<br>capital of<br>Rmb894,410,000<br>and fully paid<br>capital of<br>Rmb447,210,000 |
| Huaiyin Power Company   | PRC<br>26th January, 1995<br>Limited liability<br>company  | 90%                        | -        | Rmb265,000,000   |
| Jiangsu Huaneng Huaiyin II<br>Power Limited Company   | PRC<br>22nd June, 2004<br>Limited liability<br>company     | 63.64%                     | -        | Rmb474,000,000   |
| Henan Huaneng Qinbei<br>Power Limited Company<br>("Qinbei Power Company")                         | PRC<br>12th July, 1995<br>Limited liability<br>company     | 55%                        | -        | Rmb10,000,000  |

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4. List of Subsidiaries (Cont'd)

| Name of subsidiary   | Country, date of<br>incorporation and<br>type of legal entity | Percentage<br>of equity<br>interest held |          | Registered<br>and fully<br>paid capital |
|--|---|--|----------|---|
|  |   | Direct                                   | Indirect |   |
| Shanxi Huaneng Yushe Power<br>Limited Liability Company<br>("Yushe Power Company") | PRC<br>29th November, 1994<br>Limited liability<br>company    | 60%                                      | -        | Rmb615,760,000                          |
| Shanxi Huaneng Yushe<br>Yuanheng Power Industry                                    | PRC<br>17th September, 2002                                   | -  | 95%      | Rmb3,000,000                            |

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|  |   |     |   |                |  |
|--|---|-----|---|----------------|--|
| Limited Liability Company  | Limited liability company                               |     |   |                |  |
| Shandong Huaneng Xindian Power Co., Ltd.   | PRC<br>14th March, 2004<br>Limited liability company    | 95% | - | Rmb100,000,000 |  |
| Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")       | PRC<br>16th December, 2003<br>Limited liability company | 55% | - | Rmb560,000,000 |  |
| Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company") | PRC<br>16th December, 2003<br>Limited liability company | 60% | - | Rmb900,000,000 |  |
| Huaneng Shanghai Ranji Power Generation Limited Liability Company                                | PRC<br>13th January, 2005<br>Limited liability company  | 70% | - | Rmb50,000,000  |  |

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#### 4. List of Subsidiaries (Cont'd)

| Name of subsidiary  | Country, date of incorporation and type of legal entity | Percentage of equity interest held |          | Registered and fully paid capital |
|---|---|------------------------------------|----------|-----------------------------------|
|   |   | Direct                             | Indirect |                                   |
| Sichuan Hydropower  | PRC<br>12th July, 2004<br>Limited liability company     | 60%                                | -        | Rmb800,000,000                    |
| Sichuan Huaneng Baoxinghe Power Limited Liability Company ("Baoxinghe Power")             | PRC<br>19th June, 1994<br>Limited liability company     | -                                  | 68%      | Rmb516,100,000                    |
| Sichuan Huaneng Taipingyi Hydropower Limited Liability Company ("Taipingyi Hydropower")   | PRC<br>23th April, 1994<br>Limited liability company    | -                                  | 60%      | Rmb100,000,000                    |
| Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company ("Dongxiguan Hydropower") | PRC<br>29th June, 1994<br>Limited liability company     | -                                  | 55.33%   | Rmb156,725,000                    |
| Sichuan Huaneng Fujiang Hydropower Limited Liability Company                              | PRC<br>22nd March, 2002<br>Limited liability company    | -                                  | 95%      | Rmb150,000,000                    |

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|  |   |   |     |                |
|--|---|---|-----|----------------|
|  | company   |   |     |                |
| Sichuan Huaneng Kangding<br>Hydropower Limited<br>Liability Company<br>("Kangding Hydropower") | PRC<br>14th April, 1994<br>Limited liability<br>company | - | 60% | Rmb194,000,000 |

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4. List of Subsidiaries (Cont'd)

| Name of subsidiary   | Country, date of<br>incorporation and<br>type of legal entity | Percentage<br>of equity<br>interest held |          | Registered<br>and fully<br>paid capital  |
|--|---|--|----------|--|
|  |   | Direct                                   | Indirect |  |
| Sichuan Huaneng Mingtai<br>Hydropower Limited<br>Liability Company<br>("Mingtai Hydropower") | PRC<br>22nd May, 2000<br>Limited liability<br>company         | -  | 52.20%   | Rmb97,700,000  |
| Sichuan Huaneng Jialingjiang<br>Hydropower Limited<br>Liability Company                      | PRC<br>30th September, 1998<br>Limited liability<br>company   | -  | 55%      | Registered<br>capital of<br>Rmb193,080,000<br>and fully paid<br>capital of<br>Rmb157,119,800 |
| Pingliang Power Company  | PRC<br>6th November, 1996<br>Limited liability company        | 65%                                      | -        | Rmb623,000,000   |

5. Property, Plant and Equipment, net

|                      | As at<br>30th June,<br>2005 | 31 |
|----------------------|-----------------------------|----|
| Beginning of period  | 57,780,410                  |    |
| Acquisition (Note 3) | 12,061,897                  |    |
| Additions            | 5,799,548                   |    |
| Depreciation         | (3,179,241)                 |    |
| Disposals            | (5,171)                     |    |
| End of period        | 72,457,443                  |    |

## 6. Accounts Receivable, Net

The Company and its subsidiaries usually grant about one month's credit period to local grid customers from the end of the month in which the sales are made.

The aging analysis of accounts receivable, net was as follows:

|                      | As at<br>30th June,<br>2005 | 31 |
|----------------------|-----------------------------|----|
|                      | -----                       |    |
| Within 1 year        | 5,356,263                   |    |
| Between 2 to 3 years | 124,958                     |    |
| Over 3 years         | 416,194                     |    |
|                      | -----                       |    |
|                      | 5,897,415                   |    |
|                      | =====                       |    |

As at 30th June, 2005, HIPDC had provided guarantees on certain accounts receivable balances of the Company and its subsidiaries of approximately Rmb205 million (31st December, 2004: approximately Rmb209 million) (Note 19).

## 7. Appropriations of Profit

For the six months ended 30th June, 2005, the Company and its subsidiaries did not make a provision for the statutory and discretionary surplus reserve funds and the statutory public welfare fund.

## 8. Accounts Payable and Other Liabilities

Accounts payable and other liabilities comprised:

|  | As at<br>30th June,<br>2005 | 31 |
|--|-----------------------------|----|
|  | -----                       |    |
| Accounts and notes payable             | 1,460,467                   |    |
| Other payables and accrued liabilities | 4,567,721                   |    |
|  | -----                       |    |

6,028,188

The aging analysis of accounts and notes payable was as follows:

|                      | As at<br>30th June,<br>2005 | 31 |
|----------------------|-----------------------------|----|
| Within 1 year        | 1,438,882                   |    |
| Between 1 to 2 years | 18,196                      |    |
| Over 2 years         | 3,389                       |    |
|                      | -----                       |    |
|                      | 1,460,467                   |    |
|                      | =====                       |    |

9. Short-term Bonds

On 27th May, 2005, the Company and its subsidiaries issued Rmb4.5 billion and Rmb0.5 billion short-term zero-coupon bonds with maturity of 1 year and nine months respectively. These bonds were of face value at Rmb100 and were issued at discounts of 97.16% and 98% with effective interest rates of 3.40% per annum and 3.31% per annum respectively.

10. Short-term Loans

Short-term loans are denominated in Rmb and bear interest at the prevailing rates in the PRC, which ranged from 4.30% to 5.76% per annum for the six months ended 30th June, 2005 (2004: 4.54% to 5.05% per annum).

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11. Long-term Loans

|                     | As at 30th June, 2005 |                  |            | As at 31st Decemb    |                  |
|---------------------|-----------------------|------------------|------------|----------------------|------------------|
|                     | Original<br>currency  | Interest<br>rate | Amount     | Original<br>currency | Interest<br>rate |
| Shareholder's loans |                       |                  |            |                      |                  |
| Unsecured           |                       | 4.05% -          |            |                      | 3.78% -          |
| - Rmb               | 800,000               | 4.6%             | 800,000    | 800,000              | 4.60%            |
| Bank loans          |                       |                  |            |                      |                  |
| Secured             |                       | 4.941% -         |            |                      |                  |
| - Rmb               | 367,000               | 5.94%            | 367,000    | -                    | -                |
| Unsecured           |                       | 2.88% -          |            |                      | 3.60% -          |
| - Rmb               | 19,825,088            | 6.12%            | 19,825,088 | 8,679,869            | 5.76%            |

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|                       |           |          |            |           |          |
|-----------------------|-----------|----------|------------|-----------|----------|
|                       |           | 2.155% - |            |           | 1.225% - |
| - US dollars ("US\$") | 727,372   | 6.60%    | 6,020,097  | 778,474   | 6.97%    |
| - Euro                | 73,936    | 2%       | 739,031    | 76,699    | 2%       |
| <hr/>                 |           |          |            |           |          |
|                       |           |          | 26,951,216 |           |          |
| <hr/>                 |           |          |            |           |          |
| Other loans           |           |          |            |           |          |
| Unsecured             |           | 4.94% -  |            |           | 4.94% -  |
| - Rmb                 | 944,177   | 6.12%    | 944,177    | 434,726   | 5.76%    |
| - US\$                | 17,143    | 2.9925%  | 141,883    | 18,571    | 2.9925%  |
| - Japanese Yen        | 1,428,572 | 5.902%   | 107,356    | 1,547,619 | 5.902%   |
| <hr/>                 |           |          |            |           |          |
|                       |           |          | 1,193,416  |           |          |
| <hr/>                 |           |          |            |           |          |
|                       |           |          | 28,944,632 |           |          |
| <hr/>                 |           |          |            |           |          |

Certain loans are secured by various property, plant and equipment of the Company and its subsidiaries totalling Rmb712 million (2004: Nil) (Note 20).

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11. Long-term Loans (Cont'd)

As at 30th June, 2005, shareholder's loans, bank loans and other loans of the Company and its subsidiaries were repayable as follows:

|                      | Shareholder's loans         |                                 | Bank loans                  |                                 | Other         |
|----------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|---------------|
|                      | As at<br>30th June,<br>2005 | As at<br>31st December,<br>2004 | As at<br>30th June,<br>2005 | As at<br>31st December,<br>2004 | As at<br>2005 |
| 31st December,       |                             |                                 |                             |                                 |               |
| Within 1 year        | -                           | -                               | 1,964,677                   | 1,225,476                       | 426,273       |
| Between 1 to 2 years | -                           | -                               | 3,305,591                   | 1,269,497                       | 288,782       |
| Between 2 to 5 years | -                           | -                               | 10,763,003                  | 7,639,071                       | 312,744       |
| After the 5th year   | 800,000                     | 800,000                         | 10,917,945                  | 5,852,703                       | 165,617       |
| <hr/>                |                             |                                 |                             |                                 |               |
|                      | 800,000                     | 800,000                         | 26,951,216                  | 15,986,747                      | 1,193,416     |
| <hr/>                |                             |                                 |                             |                                 |               |

12. Additional Financial Information on Unaudited Condensed Consolidated Interim

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### Balance Sheet

As at 30th June, 2005, the net current liabilities of the Company and its subsidiaries amounted to approximately Rmb10,552 million (31st December, 2004: approximately Rmb7,079 million). On the same date, the total assets less current liabilities of the Company and its subsidiaries were approximately Rmb69,319 million (31st December, 2004: Rmb56,047 million).

#### 13. Other Income, Net

The breakdown of other income, net is as follows:

|                   | For the six months ended<br>2005 |
|-------------------|----------------------------------|
|                   |                                  |
| Investment income | 34,839                           |
| Others*           | 3,472                            |
|                   |                                  |
|                   | 38,311                           |
|                   |                                  |

\* Pursuant to a management service agreement entered into among Huaneng Group, HIPDC and the Company, the Company provided management services to certain power plants owned by Huaneng Group and HIPDC in return for a service fee. Net other income represented the management service fee income net of relevant expenses.

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#### 14. Profit Before Tax

Profit before tax in the unaudited condensed consolidated interim statement of income was determined after charging and (crediting) the following items:

|   | For the six months ended<br>2005 |
|---|----------------------------------|
|   |                                  |
| Interest expenses on                                      |                                  |
| - loans   | 949,669                          |
| - short-term bonds  | 13,523                           |
| - convertible notes                                       | -                                |
|   |                                  |
| Total interest expenses on borrowings                     | 963,192                          |
| Less: Amount capitalized in property, plant and equipment | (239,932)                        |
|   |                                  |

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|  |           |
|--|-----------|
| Total interest expenses                                    | 723,260   |
| Depreciation of property, plant and equipment              | 3,174,402 |
| Amortization of goodwill                                   | -         |
| Amortization of negative goodwill                          | -         |
| Amortization of land use rights                            | 18,162    |
| Amortization of other non-current assets                   | 30,089    |
| Gain on interest rate swaps                                | -         |
| Reversal of provision for doubtful debts                   | (2,367)   |
| Loss / (Gain) on disposal of property, plant and equipment | 555       |
| Interest income  | (25,196)  |
| Auditors' remuneration                                     | 8,223     |
|  | =====     |

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### 15. Taxation

No Hong Kong profits tax was provided for the six months ended 30th June, 2005 as the Company and its subsidiaries had no estimated assessable profit arising in or deriving from Hong Kong (2004: Nil).

PRC income tax has been provided on the estimated assessable profit for the period at their prevailing rates of taxation. Certain of the power plants, being located in specially designated regions or cities, are subject to preferential income tax rates. In addition, certain power plants are exempted from the PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% exemption of the applicable tax rate for the next three years. For the six months ended 30th June, 2005, the weighted average effective tax rate applicable to the Company is approximately 15% (for the six months ended 30th June, 2004: approximately 16%).

Share of taxation of associates amounting to approximately RMB28 million (for the six months ended 30th June, 2004: approximately Rmb27 million) was included in share of profit of associates in the unaudited condensed consolidated interim statement of income.

### 16. Dividends Declared

On 11th May, 2005, the shareholders approved the declaration of cash dividends of Rmb0.25 per ordinary share, totaling approximately Rmb3,014 million in their general meeting. During the period ended 30th June, 2005, dividends of approximately Rmb3,022 million were paid (2004: Rmb3,006 million), which represents Rmb0.25 dividends paid per share (2004: Rmb0.25).

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### 17. Earnings Per Share

#### Basic

The calculation of basic earnings per share is based on the net profit attributable to the equity holders of the Company of approximately Rmb1,679 million (for the six months ended 30th June, 2004: approximately Rmb2,481 million) and the weighted average number of approximately 12,055 million (for the six months ended 30th June, 2004: approximately 12,055 million) outstanding ordinary shares during the period.



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Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares at the beginning of the year. In 2005, the Company had no potential ordinary shares (in 2004: the Company had one category of potential ordinary shares: convertible notes). The convertible notes in 2004 are assumed to have been converted into ordinary shares and the net profit in 2004 is adjusted to eliminate the interest expense less the tax effect for the purpose of the calculation of the diluted earnings per share in 2004.

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### 18. Supplementary Information to Unaudited Condensed Consolidated Interim Statement of Cash Flows

Cash flows (used in) / provided by investing and financing activities mainly included the followings:

|  | For the six months ended<br>2005 |
|--|----------------------------------|
|  |                                  |
| Investing activities:  |                                  |
| Cash inflows from the acquired power companies   | 566,704                          |
| Cash dividend received   | 304,460                          |
| Cash outflow from disposal of Huaneng Nanjing Ranji Power Generation Limited Liability Company ("Nanjing Ranji") | (10,479)                         |
| Proceeds from disposal of Nanjing Ranji  | 30,000                           |
| Prepayments of land use rights   | (97,971)                         |
| Capital expenditures on power plant construction and improvements  | (5,619,518)                      |
| Cash consideration paid for acquisitions   | (2,225,600)                      |
| Direct transaction costs of acquisitions paid  | (16,698)                         |
| Decrease in temporary cash investments   | 5,000                            |
| Others   | (646)                            |
| Financing activities:  |                                  |
| Drawdown of:   |                                  |
| - Short-term loans, unsecured  | 7,893,000                        |
| - Long-term loans from shareholders, unsecured   | -                                |
| - Long-term bank loans, unsecured  | 4,714,309                        |
| - Other long-term loans, unsecured   | 66,389                           |
| Repayments of:   |                                  |
| - Short-term loans, unsecured  | (7,771,000)                      |
| - Long-term loans from shareholders, unsecured   | -                                |
| - Long-term bank loans, unsecured  | (940,953)                        |
| - Other long-term loans, unsecured   | (140,097)                        |
| Dividends paid to the shareholders of the Company  | (3,022,096)                      |
| Capital injection from minority shareholders of the subsidiaries   | 44,830                           |
| Dividend paid to minority shareholders of the subsidiaries   | (161,680)                        |
| Issuance of short-term bonds   | 4,862,200                        |
| Bonds issuance expense paid  | (22,500)                         |

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### 19. Related Party Balances and Transactions

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The related parties of the Company and its subsidiaries that had transactions with the Company and its subsidiaries are as follows:

| Name of related parties  | Nature of relationship                 |
|--|--|
| Huaneng Group  | Ultimate parent                        |
| HIPDC  | Parent                                 |
| China Huaneng Finance Company ("Huaneng Finance")                                | A subsidiary of Huaneng Group          |
| Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan")                 | A subsidiary of Huaneng Group          |
| China Huaneng International Trade Economics Corporation ("CHITEC")               | A subsidiary of Huaneng Group          |
| Weihai Power Development Bureau ("WPDB")   | Minority shareholder of Weihai Power C |
| Chongqing Construction and Investment Limited Liability Company ("CCI")          | Minority shareholder of Luohuang Power |
| Henan Construction Investment Company ("Henan Investment")                       | Minority shareholder of Qinbei Power C |
| Jiangsu Electric Power Development Co., Ltd. ("JEPDC")                           | Minority shareholder of Huaiyin Power  |
| Jiangsu Yueda  | Minority shareholder of Huaiyin Power  |
| Jiyuan Construction & Investment Company ("Jiyuan Investment")                   | Minority shareholder of Qinbei Power C |
| Shanxi International Power (Group) Company Limited ("Shanxi International")      | Minority shareholder of Yushe Power Co |
| Gansu Provincial Power Construction Investment Development Corporation ("GPPCI") | Minority shareholder of Pingliang Powe |
| Sichuan Yongan Hydro Power Joint-Stock Limited Company ("Sichuan Yongan")        | Minority shareholder of Mingtai Hydrop |
| Sichuan Province Power Development Company ("Sichuan Power")                     | Minority shareholder of Baoxinghe Powe |
| Aba Hydro Power Development Co., Ltd. ("Aba Hydro Power")                        | Minority shareholder of Taipingyi Hydr |
| Shanghai Time Shipping Company Ltd. ("Time Shipping")                            | A jointly controlled entity of Huaneng |

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### 19. Related Party Balances and Transactions (Cont'd)

| Name of related parties                                     | Nature of relationship                 |
|---|--|
| Shandong Rizhao Power Company Ltd. ("Rizhao Power Company") | An associate of the Company            |
| Chongqing Huaneng Shifen Company Limited ("Shifen Company") | An associate of Luohuang Power Company |
| State-owned enterprises*                                    | Related parties of the Company         |

\* Huaneng Group is a state-owned enterprise. In accordance with the revised IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under Huaneng Group, directly or

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indirectly controlled by the PRC government are also defined as related parties of the Company and its subsidiaries.

The majority of the business activities of the Company and its subsidiaries are conducted with state-owned enterprises. For the purpose of the related party transactions disclosure in accordance with IAS 24, the Company and its subsidiaries have established procedures to determine, to the extent possible, the identification of the ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that all material related party balances and transactions have been adequately disclosed.

In addition to the related party information shown elsewhere in the unaudited condensed consolidated interim financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its subsidiaries and their related parties during the period and balances arising from related party transactions at the end of the period.

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### 19. Related Party Balances and Transactions (Cont'd)

#### (a) Related Party Balances

- a. As at 30th June, 2005, current deposits of approximately Rmb1,371 million (31st December, 2004: approximately Rmb1,363 million) were placed with a non-bank PRC financial institution, Huaneng Finance.

For the six months ended 30th June, 2005, the interest rates of the current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% per annum (for the six months ended 30th June, 2004: 0.72% to 1.71% per annum).

- b. As at 30th June, 2005, the long-term loans from Huaneng Group amounted to Rmb800 million (31st December, 2004: Rmb800 million) bearing interest rates that ranged from 4.05% to 4.6% per annum (for the six months ended 30th June, 2004: 3.78% to 4.6% per annum). These loans are unsecured and payable in accordance with the repayment schedules agreed with Huaneng Group.
- c. As at 30th June, 2005, the long-term loans (including current portion) from Huaneng Finance, WPDB, JEPDC, CCI, Shanxi International, Sichuan Power, Sichuan Yongan, Aba Hydro Power and GPPCI amounted to Rmb80 million, Rmb66 million, Rmb19 million, Rmb183 million, Rmb125.2 million, Rmb40 million, Rmb6 million, Rmb212 million and Rmb11 million (31st December, 2004: Nil, Rmb106 million, Rmb19.47 million and Rmb184 million, Rmb125.2 million, N/A, N/A, N/A and N/A) respectively, bearing interest rates that ranged from 4.94% to 5.18%, 5.02%, 5.76%, 4.94%, 5.02% to 6.12%, 5.18%, 6.12%, 5.51% and 5.76% per annum (for the six months ended 30th June, 2004: Nil, 5.76%, 5.76%, N/A, Nil, N/A, N/A, N/A and N/A per annum) respectively. These loans are unsecured and payable in accordance with the repayment schedules agreed with the respective parties.
- d. As at 30th June, 2005, short-term loans amounting to approximately Rmb2,424 million (31st December, 2004: approximately Rmb3,694 million) were due to Huaneng Finance, which bore interests at 4.54% to 5.02% per annum (for the six months ended 30th June, 2004: 4.78% to 5.05% per

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annum) .

- e. As at 30th June, 2005, notes receivable amounting to approximately Rmb80.11 million (31st December, 2004: Nil) were discounted to Huaneng Finance.
- f. As at 30th June, 2005, the balances with Huaneng Group, HIPDC and other related parties are unsecured, non-interest bearing and receivable or repayable within one year. Except for an amount due from a related party of approximately Rmb11 million which was fully provided for in prior years, no provision has been made in the current period (for the six months ended 30th June, 2004: Nil) for the receivable balances.

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### 19. Related Party Balances and Transactions (Cont'd)

#### (a) Related Party Balances (Cont'd)

- g. As at 30th June, 2005, HIPDC had provided guarantees on certain accounts receivable balances of the Company and its subsidiaries totalling approximately Rmb205 million (31st December, 2004: approximately Rmb209 million).
- h. Included in the unaudited condensed consolidated interim balance sheet, the balances with state-owned enterprises are as follows:

|  |  | As at As at<br>30th June, 3<br>2005 |
|--|--|-------------------------------------|
| Rmb million                              |  |                                     |
| Non-current assets                       |  |                                     |
| Available-for-sale investment            |  | 255                                 |
| Other non-current asset                  |  | 127                                 |
| Current assets                           |  |                                     |
| Other receivables and assets, net        |  | 981                                 |
| Accounts receivable, net                 |  | 5,894                               |
| Temporary cash investments               |  | 8                                   |
| Cash at banks                            |  | 1,370                               |
| Non-current liabilities                  |  |                                     |
| Long-term bank loans                     |  | 19,179                              |
| Other long-term loans                    |  | 130                                 |
| Current liabilities                      |  |                                     |
| Accounts payable and other liabilities   |  | 3,250                               |
| Short-term bonds                         |  | 4,856                               |
| Short-term loans                         |  | 4,772                               |
| Current portion of long-term bank loans  |  | 1,067                               |
| Current portion of other long-term loans |  | 70                                  |

Except for cash at banks, loans and available-for-sale investment stated above, all the balances of assets and liabilities are unsecured, non-interest bearing and receivable or repayable within one year. No

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provision has been made in the current period (for the six months ended 30th June, 2004: Nil) for the receivable balances.

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### 19. Related Party Balances and Transactions (Cont'd)

#### (b) .Related Party Transactions

|   | For the six months e<br>2005<br>----- |
|---|---------------------------------------|
| Huaneng Group   |                                       |
| Management service fee income   | 16,921                                |
| Management service expense  | (605)                                 |
| Consideration paid for the acquisitions of Sichuan Hydropower<br>and Pingliang Power Company (Note 3)     | (2,025,000)                           |
| HIPDC   |                                       |
| Proceeds from disposal of Nanjing Ranji   | 30,000                                |
| Management service fee income   | 1,644                                 |
| Service fees expenses on transmission and transformer facilities  | (70,493)                              |
| Rental charge on land use rights of Huaneng Shanghai<br>Shidongkou Second Power Plant                     | -                                     |
| Rental charge on land use rights of Huaneng Nanjing Power Plant   | (667)                                 |
| Rental charge on office building  | (13,000)                              |
| Huaneng Finance   |                                       |
| Discounting of notes receivable   | 119,664                               |
| Discounting charges   | (1,044)                               |
| Drawdown of short-term loans  | 1,600,000                             |
| CHITEC  |                                       |
| Coal purchased from CHITEC  | (276,310)                             |
| Time Shipping   |                                       |
| Coal purchased from Time Shipping and service<br>fee paid for transportation                              | (274,000)                             |
| Shifen Company  |                                       |
| Lime purchased from Shifen Company  | (27,296)                              |
| Huaneng Jingyuan  |                                       |
| Coal purchased from Huaneng Jingyuan  | (122,661)                             |
| Jiangsu Yueda   |                                       |
| Consideration paid for the acquisition of additional equity<br>interest in Huaiyin Power Company (Note 3) | (200,600)                             |

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WPDB

Drawdown of other long-term loans 66,389

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19. Related Party Balances and Transactions (Cont'd)

(b) Related Party Transactions (Cont'd)

|   | For the six months ended<br>2005 |
|---|----------------------------------|
|   | -----<br>Rmb million             |
| State-owned enterprises   |                                  |
| Sales of electricity  | 18,794                           |
| Purchases of fuel   |                                  |
| - Coal  | (7,927)                          |
| - Oil   | (95)                             |
| - Natural gas   | (19)                             |
| Acquisition of property, plant and equipment  | (3,600)                          |
| Acquisition of construction materials   | (438)                            |
| Purchases of raw materials and spare parts  | (163)                            |
| Water charges   | (34)                             |
| Power purchases   | (20)                             |
| Subcontracting labor for  |                                  |
| - construction and renovation   | (381)                            |
| - maintenance   | (207)                            |
| Interest income   | 18                               |
| Dividend income   | 35                               |
| Drawdown of short-term loans  | 5,263                            |
| Drawdown of long-term bank loans  | 4,714                            |
| Other charges   |                                  |
| - interest expenses of loans and bonds to banks and<br>other financial institutions | (498)                            |
| - insurance expenses  | (36)                             |
| - transportation expenses   | (465)                            |
| - rental expenses   | (16)                             |
| - handling fee for disposing of residues  | (7)                              |

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19. Related Party Balances and Transactions (Cont'd)

(c) Guaranteed Loans

As at As at  
30th June, 3

2005

|  |                              |
|--|------------------------------|
|  | -----                        |
| a. Long-term bank loans guaranteed by  |                              |
| - Huaneng Group  | 7,516,000                    |
| - HIPDC  | 3,666,000                    |
| - WPDB   | 100,000                      |
| - Henan Investment   | 200,000                      |
| - Jiyuan Investment  | 125,000                      |
| - Shanxi International   | 448,000                      |
| - GPPCI  | 578,625                      |
| - Sichuan Yongan   | 15,000                       |
| b. Certain long-term bank loans of Rizhao Power Company<br>guaranteed by the Company | 292,500                      |
| (d) Key Management Personnel Compensation  |                              |
|  | For the six months e<br>2005 |
|  | -----                        |
| Salaries and other short-term employee benefits                                      | 4,223                        |
| Post-employment benefits   | 502                          |
|  | -----                        |
| Total  | 4,725                        |
|  | =====                        |

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20. Pledge of Assets

As mentioned in Note 11, the Company and its subsidiaries have pledged various assets as collateral against certain loans. A summary of the pledged assets is as follows:

Dongxiguan Hydropower

- Dam
- Electric utility plant in service
- Buildings
- Others

Kangding Hydropower

- Electric utility plant in service

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Mingtai Hydropower  
 - Electric utility plant in service

Total

As at 31st December, 2004, there were no assets pledged as collateral.

21. Capital Commitments

|                                   | As at<br>30th June,<br>2005 | As at<br>30th June,<br>2004 |
|-----------------------------------|-----------------------------|-----------------------------|
| Contracted but not provided for   | 20,176,553                  |                             |
| Authorized but not contracted for | 566,245                     |                             |
| Total                             | 20,742,798                  |                             |

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21. Capital Commitments (Cont'd)

During 2004, the Company entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from 2005 to 2009 for use in power generation. In most cases, these contracts contain provisions for price escalations and minimum purchase level clauses. Purchases for the periods ended 30th June, 2005 and 2004 were approximately Rmb2,412 million and Nil respectively. The future purchase commitments under contracts are as follows:

|      | As at<br>30th June,<br>2005 |
|------|-----------------------------|
| 2005 | 3,427,749                   |
| 2006 | 9,110,989                   |
| 2007 | 10,136,747                  |
| 2008 | 7,553,349                   |
| 2009 | 8,465,884                   |



38,694,718  
=====

22. Contingent Liabilities

As at  
30th June, 2005  
-----

Guarantees for loan facilities granted to an associate

292,500  
=====

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23. New Accounting Pronouncements

The IASB issued a number of new and revised IASs, IFRSs and the IFRIC issued a number of new IFRIC Interpretations which are effective for annual accounting periods beginning on or after 1st March, 2005. The summary is as follows:

(a) IAS 19 Employee Benefits

Effective date: annual periods beginning on or after 1st January, 2006

The amendments introduced an additional recognition option for actuarial gains and losses arising in post-employment defined benefit plans. They also clarify (i) a contractual agreement between a multi-employer plan and participating employers that determines how a surplus is to be distributed or a deficit funded will give rise to an asset or liability; (ii) accounting requirements for group defined benefit plans in the separate or individual financial statements of entities within the group; and (iii) additional disclosures that (1) provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost; and (2) bring the disclosure in IAS 19 closer to those required by the US standard SFAS 132 Employers' Disclosures about Pensions and Other Postretirement Benefits, which was revised in December, 2003.

The Company and its subsidiaries consider that this revised standard will not have any material impact on their financial statements.

(b) IAS 32 Financial Instruments: Disclosure and Presentation

Effective date: annual periods beginning on or after 1st January, 2006

The amendment reflects in simultaneous changes in disclosure requirements of June 2005 amendment of IAS 39.

The Company and its subsidiaries have not completed the assessment of the effects of adopting this revised standard.

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### 23. New Accounting Pronouncements (Cont'd)

#### (c) IAS 39 Financial Instruments: Recognition and Measurement

Effective date: annual periods beginning on or after 1st January, 2006

The April 2005 amendment clarifies the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

The June 2005 amendment refines the definition of financial assets or financial liabilities at fair value through profit or loss and embedded derivatives. It also further elaborates the application of valuation techniques.

The Company and its subsidiaries have not completed the assessment of the effects of adopting this revised standard.

#### (d) IFRS 1 First-time Adoption of International Financial Reporting Standards

Effective date: annual periods beginning on or after 1st January, 2006

The amendment reflects simultaneous changes of June 2005 amendment of IAS 39.

The Company and its subsidiaries have considered the effect of adopting this new standard and do not expect material impact on their financial statements.

#### (e) IFRS 6 Exploration for and Evaluation of Mineral Resources

Effective date: annual periods beginning on or after 1st January, 2006

This IFRS permits an entity to continue using accounting policies for exploration and evaluation assets previously developed as part of the accounting policies upon the adoption of IFRS 6 while requires the entity recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

The Company and its subsidiaries have considered the effect of adopting this new standard and do not expect material impact on the financial statements.

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### 23. New Accounting Pronouncements (Cont'd)

#### (f) IFRIC Interpretation 3 Emission Rights

Effective date: annual periods beginning on or after 1st March, 2005

This interpretation deals with accounting treatment on "cap and trade" emission rights scheme. This interpretation requires that any allowance should be treated as intangible assets and should be measured at fair value while the obligation of emissions should be measured in accordance with IAS 37. In addition, as the existence or requirements of an emission rights

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scheme may cause a reduction in the cash flows expected to be generated for certain assets, this represented an indication that the related assets may be impaired and should be tested in accordance with IAS 36.

This IFRIC Interpretation was subsequently withdrawn in July, 2005

- (g) IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease

Effective date: annual periods beginning on or after 1st January, 2006

This interpretation provides guidance for determining whether an arrangement (comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments) are leases that should be accounted for in accordance with IAS 17.

The Company and its subsidiaries have not completed the assessment of the effects of adopting this new interpretation.

- (h) IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Effective date: annual periods beginning on or after 1st January, 2006

This interpretation applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both the features of (i) the assets are administered separately; and (ii) a contributor's right to access the assets is restricted.

The Company and its subsidiaries have considered the effect of adopting this new interpretation and do not expect material impact on the financial statements.

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### SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED ) (Amounts expressed in thousands of Rmb unless otherwise stated)

The unaudited condensed consolidated interim financial statements of the Company and its subsidiaries prepared under IFRS differ in certain respects from those prepared under generally accepted accounting principles in the United States of America ("US GAAP"). Significant differences between IFRS and US GAAP, which affect the equity and net profit of the Company and its subsidiaries, are summarized below:

- (a) Effect of the Acquisition of Entities under Common Control

Huaneng Group is the controlling parent company of HIPDC, which in turn is the controlling parent of the Company.

Under IFRS, the Company and its subsidiaries adopted the acquisition method to account for the acquisition of:

- (i) 70% equity interest in Huaneng Shanghai Shidongkou I Power Plant ("Shidongkou I Power Plant"), 70% equity interest in Taicang Power Company and all of the assets and liabilities of Huaneng Changxing Power Plant ("Changxing Power Plant") in July, 2002 from Huaneng Group;
- (ii) 55% equity interest in Qinbei Power Company, 60% equity interest in Yushe Power Company and all of the assets and liabilities of Huaneng Xindian

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Power Plant ("Xindian Power Plant") in October, 2003 from Huaneng Group;

- (iii) 60% equity interest in Luohuang Power Company, 55% equity interest in Yueyang Power Company, 90% equity interest in Jinggangshan Power Plant and all of the assets and liabilities of Huaneng Yingkou Power Plant ("Yingkou Power Plant") in July, 2004 from HIPDC and/or from Huaneng Group; and
- (iv) 60% equity interest in Sichuan Hydropower and 65% equity interest in Pingliang Power Company in January, 2005 from Huaneng Group.

Under the acquisition method, the results of the acquired businesses are included in the results of operations of the Company and its subsidiaries from the date of the acquisition. The difference between the purchase consideration and the fair value of the underlying net assets acquired is treated as goodwill. In prior years, goodwill arising from the acquisitions in (i) and (ii) above is amortized on a systematic basis to the income statement over its useful economic life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets while goodwill arising from the acquisition in (iii) above is tested annually for impairment and carried at cost less accumulated impairment losses. In the current period, goodwill arising from all the acquisitions above is not amortized and is tested annually for impairment and carried at cost less accumulated impairment losses.

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### (a) Effect of the Acquisition of Entities under Common Control (cont'd)

As the power companies and power plants acquired were under the control of Huaneng Group prior to their acquisitions by the Companies and its subsidiaries, these acquisition transactions were considered common control transactions. Under US GAAP, they are considered to be transfers of businesses under common control and the acquired assets and liabilities are accounted for at historical cost in a manner similar to the pooling of interests method. Accordingly, the consolidated financial statements for all periods presented have been retroactively restated as if the current structure and operations resulting from the acquisition had been in existence since the beginning of the earliest period presented, with financial data of previously separate entities combined. The cash consideration paid by the Company is treated as an equity transaction in the year of the acquisition for US GAAP purposes. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

- (b) Effect of Acquisition of 44.16% Equity Interest in Huaiyin Power Company, 30% Additional Equity Interest in Shidongkou I Power Plant, 5% Additional Equity Interest in Taicang Power Company and 40% Equity Interest in Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company")

The Company acquired from Huaneng Group:

- (i) 44.16% equity interest of Huaiyin Power Company in July, 2002;
- (ii) 30% additional equity interest of Shidongkou I Power Plant and 5% additional equity interest of Taicang Power Company in December, 2002; and
- (iii) 40% equity interest of Hanfeng Power Company in July, 2004.

Under IFRS, upon the completion of the above acquisitions, the relevant equity interests of the net assets of the acquired companies and power plants are recorded at fair value. The excess of the total cost of the acquisition over the fair value of the relevant portion of net assets of power plant acquired is recorded as goodwill. In prior years, goodwill arising from the acquisitions of

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Shidongkou I Power Plant, the Taicang Power Company and the Huaiyin Power Company was amortized on a systematic basis to the income statement over its useful economic life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets, while goodwill arising from the acquisition of Hanfeng Power Company was tested annually for impairment and carried at cost less accumulated impairment losses. In the current period, goodwill arising from the acquisition is not amortized and is tested annually for impairment and carried at cost less accumulated impairment losses.

Under US GAAP, upon completion of the above acquisitions, Huaneng Group's proportionate share in the net assets of Huaiyin Power Company, Shidongkou I Power Plant, Taicang Power Company and Hanfeng Power Company being sold to the Company was recorded at the historical carrying value. The excess of the total cost of acquisition over the net assets acquired was recorded as a deemed distribution. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

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### (c) Housing Benefits Provided by HIPDC

HIPDC sold to certain qualified employees of the Company living quarters owned by HIPDC at preferential prices. The difference between the cost of living quarters and the sales proceeds received from the employees is considered to be housing benefits. Under IFRS, such housing benefits provided by HIPDC are not reflected in the financial statements of the Company. Under US GAAP, the amount of housing benefits provided by HIPDC to the employees of the Company are recognized as the Company's operating expenses on a straight-line basis over the estimated remaining average service life of the employees. The corresponding amount is recorded as an addition of capital contribution from HIPDC.

### (d) Acquisition of Shandong Huaneng Power Development Company Limited ("Shandong Huaneng")

Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng, holding 33.09% equity interest in it before the Company's acquisition of Shandong Huaneng. Under IFRS, upon the completion of the acquisition of Shandong Huaneng, the entire net assets of Shandong Huaneng were recorded at fair value. In prior years, the excess of the fair value of the entire net assets acquired over the total cost of the acquisition was recorded as negative goodwill. In the current period, the ending balance of negative goodwill brought forward from prior year is offset against opening retained earnings according to IFRS 3. Under US GAAP, upon completion of the acquisition of Shandong Huaneng, Huaneng Group's proportionate share of 33.09% in the net assets of Shandong Huaneng that was sold to the Company was recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration was recorded as a capital contribution to the Company. The book value of the remaining 66.91% of the net assets continues to be part of the recoverable rate base under the cost recovery formula of the tariff setting mechanism. Under US GAAP, the difference between these net asset values and the cash consideration was recorded as a reduction to the property, plant and equipment value of the respective power plants.

As the amount of negative goodwill originally recognized under IFRS is different from the amount of the reduction to property, plant and equipment under US GAAP due to the 33.09% portion of the net assets previously owned by Huaneng Group as described above and also that the negative goodwill under IFRS is offset against opening retained earnings in the current period whereas, for US GAAP purposes, the property, plant and equipment, after the reduction described above, are depreciated over the respective assets' useful life, the net profit under IFRS

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and US GAAP is different.

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(e) Capitalization of Borrowing Costs

In accordance with IAS 23, the Company capitalized interest on general borrowings used for the purpose of obtaining a qualifying asset in addition to the capitalization of interest on specific borrowings.

Under US regulatory accounting requirements, interest on funds borrowed generally and used for the purpose of obtaining qualifying assets are not capitalized if such interests cannot be taken into consideration when determining the recoverable rate base for tariff setting purposes. Consequently, under US GAAP, the Company did not capitalize interest on general borrowings. An adjustment is made to reverse the capitalized interest on general borrowings net of the related depreciation on fixed assets.

(f) Reversal of Goodwill Amortization

In 2004, in accordance with IFRS 3, goodwill arising from acquisitions for which the agreement date was before 31st March, 2004 is amortized using the straight-line method over its estimated useful life and recognized in the income statement as other operating expenses and subject to an impairment review whenever events or changes in circumstances indicate their carrying value may not be recoverable, and annually if the estimated useful life exceeds 20 years. Under US GAAP, in accordance with Statement of Financial Accounting Standard Number 142 "Goodwill and Other Intangible Assets", goodwill arising from acquisition is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances.

There is no such GAAP difference in the current period.

(g) Deferred Tax Impact

This represents the deferred tax effect on the above GAAP differences where applicable.

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Differences between IFRS and US GAAP which affect the net assets and net profit of the Company and its subsidiaries are summarized below:

|  | Note | Net Assets<br>As at 30th<br>June, 2005 |  |
|--|------|--|--|
|  |      |  |  |
| Net assets under IFRS  |      | 41,626,943                             |  |
| Balance at 1st January, 2005, as previously separately reported as minority interest | ii   | -                                      |  |
|  |      |  |  |

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|   |     |             |
|---|-----|-------------|
| Net assets under IFRS, as restated  |     | 41,626,943  |
| Minority interest   | ii  | (5,434,898) |
| Impact of US GAAP adjustments Note i:   |     |             |
| Effect of acquisition of Sichuan Hydropower and Pingliang Power Company   | (a) | (1,043,392) |
| Effect of acquisition of Yingkou Power Plant, Jinggangshan Power Plant, the Luohuang Power Company and Yueyang Power Company  | (a) | (1,926,068) |
| Effect of acquisition of Qinbei Power Company, Yushe Power Company and Xindian Power Plant  | (a) | (355,448)   |
| Effect of acquisition of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant  | (a) | (720,273)   |
| Effect of acquisition of 40% equity interests in Hanfeng Power Company, 30% additional equity interests in Shidongkou I Power Plant, 5% additional equity interests in Taicang Power Company and 44.16% equity interests in Huaiyin Power Company | (b) | (258,426)   |
| Recording of capital contribution arising from acquisition of Shandong Huaneng  | (d) | 862,922     |
| Difference in accounting treatment for acquisition of Shandong Huaneng  | (d) | (1,751,541) |
| Difference in capitalization of borrowing costs   | (e) | (84,191)    |
| Reversal of goodwill amortization   |     |             |
| - Reversal of goodwill amortization of equity investment in Shenzhen Energy Group Co. Ltd. ("SEG")  | (f) | 136,599     |
| - Reversal of goodwill amortization of investment in Huaiyin Power Company  | (f) | 34,740      |
| Applicable deferred tax impact on the above GAAP differences  | (g) | 1,137,706   |
|   |     | -----       |
| Net assets under US GAAP Note i   |     | 32,224,673  |
|   |     | =====       |

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|  | Note | Net profit<br>For the six months ended<br>2005 |
|--|------|--|
|  |      | -----  |
| Net profit under IFRS  |      | 1,991,504                                      |
| Minority interest for the six months ended 30th June, 2004, as previously separately reported as minority interest | ii   | -  |
|  |      | -----  |
| Net profit under IFRS, as restated   |      | 1,991,504                                      |
| Profit attributable to Minority Interests  | ii   | (312,251)                                      |
| Impact of US GAAP adjustments Note i:  |      |  |
| Effect of acquisition of Sichuan Hydropower and Pingliang Power Company  | (a)  | 2,025  |

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|   |     |           |
|---|-----|-----------|
| Effect of acquisition of Luohuang Power Company, Yueyang Power Company, Yingkou Power Plant and Jinggangshan Power Plant  | (a) | 81,315    |
| Effect of acquisition of Qinbei Power Company, Yushe Power Company and Xindian Power Plant  | (a) | 13,804    |
| Effect of acquisition of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant  | (a) | 55,319    |
| Effect of acquisition of 40% equity interest in Hanfeng Power Company, 30% additional equity interest in Shidongkou I Power Plant, 5% additional equity interest in Taicang Power Company and 44.16% equity interest in Huaiyin Power Company | (b) | 12,741    |
| Recording housing benefits provided by HIPDC  | (c) | (13,076)  |
| Difference in accounting treatment for acquisition of Shandong Huaneng  | (d) | 80,493    |
| Difference in capitalization of borrowing costs   | (e) | 3,233     |
| Reversal of goodwill amortization   |     |           |
| - Reversal of goodwill amortization of equity investment in SEG   | (f) | -         |
| - Reversal of goodwill amortization of investment in Huaiyin Power Company  | (f) | -         |
| Applicable deferred tax impact on the GAAP differences  | (g) | (51,146)  |
| Others  |     | -         |
|   |     | -----     |
| Net profit under US GAAP Note i   |     | 1,863,961 |
|   |     | =====     |

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(Note i) Consistent with applying the accounting treatment under US GAAP as described in Note (a) above, the unaudited consolidated net assets and net profit under US GAAP for prior periods presented have been retroactively restated as if the current structure and operations resulted from the acquisition of Sichuan Hydropower, Pingliang Power Company, Luohuang Power Company, Yueyang Power Company, Yingkou Power Plant and Jinggangshan Power Plant had been in existence since the beginning of the earliest period presented.

(Note ii) Consistent with disclosure requirement of revised IAS 1 -- Presentation of Financial Statements, minority interest in the unaudited consolidated net assets and net profit under IFRS for prior periods should be included as a portion of total equity and total profit attributable to shareholders respectively.

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### BALANCE SHEET (UNAUDITED)

AS AT 30TH JUNE, 2005

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

|        |      | Consolidated       |                        |        |
|--------|------|--------------------|------------------------|--------|
| ASSETS | Note | 30th June,<br>2005 | 31st December,<br>2004 | 30th J |



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|   |              |                  |                  |              |
|---|--------------|------------------|------------------|--------------|
| -----   |              |                  |                  |              |
| CURRENT ASSETS                                |              |                  |                  |              |
| Cash  | 5 (1)        | 2,932,644,401    | 2,510,859,390    | 1,181,977    |
| Short-term investment                         |              | 13,200           | 13,200           | 13           |
| Notes receivable                              | 5 (2)        | 1,079,472,495    | 1,242,671,845    | 423,519      |
| Dividends receivable                          |              | -                | -                | 208,092      |
| Interest receivable                           |              | 1,822,634        | 1,734,452        | 1,822        |
| Accounts receivable                           | 5 (3), 6 (1) | 4,817,943,375    | 3,730,431,156    | 2,710,067    |
| Other receivables                             | 5 (3), 6 (1) | 477,372,022      | 292,845,939      | 146,389      |
| Advance to suppliers                          | 5 (4)        | 660,896,479      | 441,370,775      | 212,215      |
| Inventories                                   | 5 (5)        | 2,538,944,427    | 1,431,403,605    | 1,543,327    |
| Deferred expenses                             |              | 46,296,934       | 2,319,162        | 35,595       |
| Current portion of long-term debt investments | 5 (6)        | 4,000            | 5,000            | 4            |
| -----   |              |                  |                  |              |
| Total current assets                          |              | 12,555,409,967   | 9,653,654,524    | 6,463,024    |
| -----   |              |                  |                  |              |
| LONG-TERM INVESTMENTS                         |              |                  |                  |              |
| Long-term equity investments                  | 5 (6), 6 (2) | 6,397,216,325    | 5,886,238,518    | 12,743,255   |
| Long-term debt investments                    | 5 (6)        | 53,700           | 53,700           | 53           |
| -----   |              |                  |                  |              |
| Total long-term investment                    |              | 6,397,270,025    | 5,886,292,218    | 12,743,309   |
| -----   |              |                  |                  |              |
| Including: Consolidated difference in value   | 5 (6)        | 1,928,670,419    | 1,331,850,487    |              |
| -----   |              |                  |                  |              |
| FIXED ASSETS                                  |              |                  |                  |              |
| Fixed assets, cost                            | 5 (7)        | 95,341,474,572   | 80,565,305,102   | 56,576,719   |
| Less: Accumulated Depreciation                | 5 (7)        | (39,419,221,578) | (33,246,132,232) | (24,341,840) |
| -----   |              |                  |                  |              |
| Fixed assets, net book value                  | 5 (7)        | 55,922,252,994   | 47,319,172,870   | 32,234,879   |
| Construction materials                        | 5 (8)        | 5,161,554,766    | 3,876,065,407    | 1,716,238    |
| Construction-in-progress                      | 5 (9)        | 8,626,971,400    | 5,128,225,240    | 3,409,346    |
| -----   |              |                  |                  |              |
| Total fixed assets                            |              | 69,710,779,160   | 56,323,463,517   | 37,360,464   |
| -----   |              |                  |                  |              |
| INTANGIBLE AND OTHER ASSETS                   |              |                  |                  |              |
| Intangible assets                             | 5 (10)       | (294,337,932)    | (551,009,877)    | (487,682)    |
| Long-term deferred expenses                   |              | 34,271,392       | 12,577,696       | 7,032        |
| Other long-term assets                        | 5 (11)       | 126,633,493      | -                |              |
| -----   |              |                  |                  |              |
| Total intangible and other assets             |              | (133,433,047)    | (538,432,181)    | (480,650)    |
| -----   |              |                  |                  |              |
| TOTAL ASSETS                                  |              | 88,530,026,105   | 71,324,978,078   | 56,086,148   |
| =====   |              |                  |                  |              |

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| LIABILITIES AND SHAREHOLDERS' EQUITY              | Note   | Consolidated          |                       | 30th June,<br>2005 | 1st December,<br>2004 | 30th J |
|---|--------|-----------------------|-----------------------|--------------------|-----------------------|--------|
|   |        |                       |                       |                    |                       |        |
| <b>CURRENT LIABILITIES</b>                        |        |                       |                       |                    |                       |        |
| Short-term loans                                  | 5 (12) | 8,675,300,000         | 8,099,000,000         | 4,600,000          |                       |        |
| Short-term bonds                                  | 5 (13) | 4,875,722,910         | -                     | 4,875,722          |                       |        |
| Notes payable                                     |        | 10,000,000            | 29,000,000            |                    |                       |        |
| Accounts payable                                  | 5 (14) | 1,450,466,809         | 738,762,443           | 699,539            |                       |        |
| Salary payable                                    |        | 31,194,551            | 39,736,104            | 1,199              |                       |        |
| Welfare payable                                   |        | 179,418,021           | 219,555,237           | 96,491             |                       |        |
| Interest payable                                  |        | 268,583,531           | 121,270,836           | 83,000             |                       |        |
| Dividends payable                                 |        | 80,764,356            | 21,668,696            |                    |                       |        |
| Taxes payable                                     | 5 (15) | 748,430,349           | 999,792,185           | 293,924            |                       |        |
| Other levies payable                              |        | 73,861,129            | 37,477,764            | 34,078             |                       |        |
| Other payables                                    | 5 (16) | 3,034,161,419         | 3,706,812,746         | 1,252,990          |                       |        |
| Accrued expenses                                  |        | 164,951,318           | 43,572,392            | 60,079             |                       |        |
| Current portion of long-term loans                | 5 (17) | 2,390,949,310         | 1,543,237,546         | 823,286            |                       |        |
| Provisions  |        | 4,416,483             | -                     |                    |                       |        |
| <b>Total current liabilities</b>                  |        | <b>21,988,220,186</b> | <b>15,599,885,949</b> | <b>12,820,311</b>  |                       |        |
| <b>LONG-TERM LIABILITIES</b>                      |        |                       |                       |                    |                       |        |
| Long-term loans                                   | 5 (17) | 26,553,681,844        | 15,955,289,378        | 7,475,887          |                       |        |
| Other non-current liability                       |        | 14,500,000            | 13,000,000            |                    |                       |        |
| <b>Total long-term liabilities</b>                |        | <b>26,568,181,844</b> | <b>15,968,289,378</b> | <b>7,475,887</b>   |                       |        |
| <b>TOTAL LIABILITIES</b>                          |        | <b>48,556,402,030</b> | <b>31,568,175,327</b> | <b>20,296,199</b>  |                       |        |
| <b>MINORITY INTERESTS</b>                         |        | <b>4,183,675,301</b>  | <b>2,573,400,216</b>  |                    |                       |        |
| <b>SHAREHOLDERS' EQUITY</b>                       |        |                       |                       |                    |                       |        |
| Share capital                                     | 5 (18) | 12,055,383,440        | 12,055,383,440        | 12,055,383         |                       |        |
| Capital surplus                                   | 5 (19) | 8,616,086,160         | 8,615,982,210         | 8,616,086          |                       |        |
| Surplus reserves                                  | 5 (20) | 4,112,214,828         | 4,112,214,828         | 4,112,214          |                       |        |
| Including: Statutory public welfare fund          | 5 (20) | 1,863,280,308         | 1,863,280,308         | 1,863,280          |                       |        |
| Undistributed profits                             | 5 (21) | 11,006,264,346        | 12,399,822,057        | 11,006,264         |                       |        |
| <b>Total shareholders' equity</b>                 |        | <b>35,789,948,774</b> | <b>37,183,402,535</b> | <b>35,789,948</b>  |                       |        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |        | <b>88,530,026,105</b> | <b>71,324,978,078</b> | <b>56,086,148</b>  |                       |        |

The accompanying notes form an integral part of these financial statements.

|                       |   |   |
|-----------------------|---|---|
| Legal representative: | Person in charge of<br>accounting function: | Person in charge of<br>accounting department: |
| Li Xiaopeng           | Huang Jian                                  | Zhou Hui                                      |

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PROFIT AND LOSS ACCOUNTS (UNAUDITED)  
 FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
 (Prepared in accordance with PRC Accounting Standards)  
 (All amounts are stated in Rmb Yuan unless otherwise stated)

|   | Note          | For the six months ended 30th J |                 |           |
|---|---------------|---------------------------------|-----------------|-----------|
|   |               | Consolidated                    |                 |           |
|   |               | 2005                            | 2004            |           |
| 1.  |               |                                 |                 |           |
| Revenue from principal operations             | 5 (22), 6 (3) | 18,860,674,631                  | 13,040,289,339  | 12,465,2  |
| Less: Cost of principal operations            | 5 (22), 6 (3) | (15,381,295,296)                | (9,498,640,593) | (10,583,5 |
| Tax and levies on principal operations        |               | (54,980,528)                    | (25,297,711)    | (3,3      |
| 2.  |               |                                 |                 |           |
| Profit from principal operations              |               | 3,424,398,807                   | 3,516,351,035   | 1,878,2   |
| Add: Profit from other operations             |               | 30,598,625                      | 13,054,772      | 24,6      |
| Less: General and administrative expenses     |               | (444,897,068)                   | (210,090,841)   | (291,4    |
| Financial expenses, net                       | 5 (23)        | (687,155,433)                   | (255,383,895)   | (342,1    |
| 3.  |               |                                 |                 |           |
| Operating profit                              |               | 2,322,944,931                   | 3,063,931,071   | 1,269,3   |
| Add: Investment income                        | 5 (24), 6 (4) | 98,672,174                      | 79,858,472      | 560,7     |
| Non-operating income                          |               | 13,328,952                      | 1,428,338       | 12,8      |
| Less: Non-operating expenses                  |               | (42,932,245)                    | (4,544,990)     | (3,6      |
| 4.  |               |                                 |                 |           |
| Profit before taxation and minority interests | 2,392,013,812 | 3,140,672,891                   | 1,839,285,527   | 2,892,3   |
| Less: Income tax                              |               | (400,460,328)                   | (510,203,778)   | (218,9    |
| Minority interests                            |               | (371,265,335)                   | (99,504,588)    |           |
| 5.  |               |                                 |                 |           |
| Net profit                                    |               | 1,620,288,149                   | 2,530,964,525   | 1,620,2   |

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| Supplemental information:                                      | For the six months ended 30th J |      |            |
|--|---------------------------------|------|------------|
|  | Consolidated                    |      |            |
|  | 2005                            | 2004 | The C 2005 |
| 1.   |                                 |      |            |
| Profit from sale or disposal of a business unit or investments | -                               | -    | -          |

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|    |   |   |   |   |
|----|---|---|---|---|
| 2. | Loss due to natural disaster  | - | - | - |
| 3. | Increase / (decrease) in profit before taxation and minority interests as a result of changes in accounting policies  | - | - | - |
| 4. | Increase / (decrease) in profit before taxation and minority interests as a result of changes in accounting estimates | - | - | - |
| 5. | Loss on debt restructuring  | - | - | - |
| 6. | Others  | - | - | - |

The accompanying notes form an integral part of these financial statements.

|                       |  |  |
|-----------------------|--|--|
| Legal representative: | Person in charge of accounting function: | Person in charge of accounting department: |
| Li Xiaopeng           | Huang Jian                               | Zhou Hui                                   |

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STATEMENT OF INCOME APPROPRIATION (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
(Prepared in accordance with PRC Accounting Standards)  
(All amounts are stated in Rmb Yuan unless otherwise stated)

|    | Note   | For the six months ended 30th J<br>Consolidated<br>2005 |                 |                 | 2004            | 2005            |
|----|--|---|-----------------|-----------------|-----------------|-----------------|
| 1. | Net profit                                       |   | 1,620,288,149   | 2,530,964,525   | 1,620,288,149   | 2,530,964,525   |
|    | Add: Undistributed profit brought forward        | 5 (21)  | 12,399,822,057  | 13,981,531,454  | 12,399,822,057  | 13,981,531,454  |
| 2. | Undistributed profit                             |   | 14,020,110,206  | 16,512,495,979  | 14,020,110,206  | 16,512,495,979  |
|    | Less: Transfer to statutory surplus reserve fund |   | -               | -               | -               | -               |
|    | Transfer to statutory public welfare fund        |   | -               | -               | -               | -               |
| 3. | Profit distributable to shareholders             |   | 14,020,110,206  | 16,512,495,979  | 14,020,110,206  | 16,512,495,979  |
|    | 16,512,495,979                                   |   |                 |                 |                 |                 |
|    | Less: Dividends                                  | 5 (21)  | (3,013,845,860) | (3,013,835,600) | (3,013,845,860) | (3,013,835,600) |
|    | (3,013,835,600                                   | )   |                 |                 |                 |                 |
|    | Bonus shares                                     | 5 (21)  | -               | (3,013,835,600) | -               | (3,013,835,600) |
| 4. | Undistributed profit carried forward             | 5 (21)  | 11,006,264,346  | 10,484,824,779  | 11,006,264,346  | 10,484,824,779  |

The accompanying notes form an integral part of these financial statements.

|                       |  |  |
|-----------------------|--|--|
| Legal representative: | Person in charge of accounting function: | Person in charge of accounting department: |
|-----------------------|--|--|

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Li Xiaopeng

Huang Jian

Zhou Hui

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CASH FLOW STATEMENT (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
(Prepared in accordance with PRC Accounting Standards)  
(All amounts are stated in Rmb Yuan unless otherwise stated)

| Items   | Note   | Consolidated     |
|---|--------|------------------|
| <hr/>   |        |                  |
| 1. Cash flows from operating activities   |        |                  |
| Cash received from sale of goods and services                                   |        | 21,507,255,412   |
| Other cash received relating to operating activities                            |        | 50,515,039       |
|   |        | <hr/>            |
| Sub-total of cash inflows   |        | 21,557,770,451   |
|   |        | <hr/>            |
| Cash paid for goods and services  |        | (12,935,010,021) |
| Cash paid to and on behalf of employees   |        | (1,238,152,560)  |
| Payment of all types of taxes   |        | (2,729,865,671)  |
| Other cash paid relating to operating activities                                | 5 (26) | (1,779,078,559)  |
|   |        | <hr/>            |
| Sub-total of cash outflows  |        | (18,682,106,811) |
|   |        | <hr/>            |
| Net cash flows from operating activities  |        | 2,875,663,640    |
|   |        | <hr/>            |
| 2. Cash flows from investing activities   |        |                  |
| Cash received on disposal of investments  |        | 37,490,834       |
| Cash received on investment income  |        | 304,460,330      |
| Net cash received from disposals of fixed assets                                |        | 4,615,819        |
| Other cash received relating to investing activities                            |        | 25,328,394       |
|   |        | <hr/>            |
| Sub-total of cash inflows   |        | 371,895,377      |
|   |        | <hr/>            |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets |        | (5,730,956,974)  |
| Capital injection to subsidiaries   |        | (200,600,000)    |
| Cash paid to acquire equity interest in subsidiaries                            | 5 (25) | (1,458,296,346)  |
| Other cash paid relating to investing activities                                |        | (10,479,471)     |
|   |        | <hr/>            |
| Sub-total of cash outflows  |        | (7,400,332,791)  |
|   |        | <hr/>            |
| Net cash flows used in investing activities                                     |        | (7,028,437,414)  |
|   |        | <hr/>            |

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| Items   | Note  | Consolidated     |
|---|-------|------------------|
| 3. Cash flows from financing activities   |       |                  |
| Cash received from investments  |       | 44,830,000       |
| Including: cash received from minority shareholders' equity investments in subsidiaries |       | 44,830,000       |
| Cash received from borrowings   |       | 12,673,697,492   |
| Other cash received relating to financing activities                                    |       | 4,862,200,000    |
| Sub-total of cash inflows   |       | 17,580,727,492   |
| Cash paid on repayment of borrowings  |       | (8,852,049,685)  |
| Cash payments of interest expenses, dividends and appropriation of profit               |       | (4,121,380,956)  |
| Including: dividends paid to minority shareholders of subsidiaries                      |       | (161,680,506)    |
| Other cash paid relating to financing activities  |       | (22,524,101)     |
| Sub-total of cash outflows  |       | (12,995,954,742) |
| Net cash flows from financing activities  |       | 4,584,772,750    |
| 4. Effect of foreign exchange rate changes on cash                                      |       | (2,807,175)      |
| 5. Net increase(decrease) in cash   | 5 (1) | 429,191,801      |

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| Supplementary Information   | Consolidated  |
|---|---------------|
| 1. Reconciliation of net profit to cash flows from operating activities |               |
| Net profit  | 1,620,288,149 |
| Add: Minority interests   | 371,265,335   |
| Reversal for asset impairment   | (2,278,382)   |
| Depreciation of fixed assets  | 3,010,679,419 |
| Amortization of intangible assets                                       | (107,805,407) |
| Amortization of long-term deferred expenses                             | 754,581       |
| Increase in deferred expenses   | (43,514,082)  |
| Increase in accrued expenses  | 93,502,534    |
| Loss on disposal of fixed assets  | 555,426       |
| Financial expenses  | 676,067,429   |
| Gains arising from investments  | (98,672,174)  |

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|   |                 |
|---|-----------------|
| Increase in inventories   | (1,052,893,770) |
| Increase in operating receivables items   | (675,726,816)   |
| Increase (decrease) in operating payables items                                     | (916,558,602)   |
|   | -----           |
| Net cash flows from operating activities  | 2,875,663,640   |
|   | =====           |
| 2. Investing and financing activities that do not involve cash receipts or payments |                 |
| Conversion of debt into capital   | -               |
| Reclassification of current portion of convertible notes to current liabilities     | -               |
| Fixed assets capitalized under finance leases                                       | -               |
| 3. Net increase(decrease) in cash   |                 |
| Cash at end of period   | 2,724,722,773   |
| Less: cash at beginning of period   | (2,295,530,972) |
| Cash equivalents at end of period   | -               |
| Less: cash equivalents at beginning of period                                       | -               |
|   | -----           |
| Net increase(decrease) in cash  | 429,191,801     |
|   | =====           |

The accompanying notes form an integral part of these financial statements.

|                       |  |  |
|-----------------------|--|--|
| Legal representative: | Person in charge of accounting function: | Person in charge of accounting department: |
| Li Xiaopeng           | Huang Jian                               | Zhou Hui                                   |

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NOTES TO THE Financial STATEMENTS (UNAUDITED)  
 FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
 (Prepared in accordance with PRC Accounting Standards)  
 (All amounts are stated in Rmb Yuan unless otherwise stated)

### 1. Company Background

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock company on 30th June, 1994.

The Company and its subsidiaries are principally engaged in the generation and sale of electric power to ultimate consumers through the respective provincial or regional grid companies.

Five of the power plants had already been in commercial operations at time of incorporation of the Company in 1994 (hereinafter collectively referred to as the "five original operating plants"). The five original operating plants were previously branches of Huaneng International Power Development Corporation (the "HIPDC"), which is a Sino-foreign equity joint venture established in the PRC. In accordance with the Reorganization Agreement dated 30th June, 1994, the Company acquired the assets, liabilities and businesses of the five original operating plants from HIPDC which in return received an equity interest in the Company (the "Reorganization"). The other operating plants were either constructed or acquired by the Company after the Reorganization.

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The Company's Overseas Listed Foreign Shares were listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 6th October, 1994 and 4th March, 1998, respectively. The A shares of the Company issued to the public were listed on the Shanghai Stock Exchange on 6th December, 2001.

The Company's ultimate parent company is China Huaneng Group (the "Huaneng Group"). Huaneng Group is a state-owned enterprise registered in People Republic of China. For details, please refer to Note 7(1).

On 26th October, 2004, the Company entered into an agreement with Huaneng Group pursuant to which the Company acquired from Huaneng Group 60% equity interest in Sichuan Huaneng Hydropower Development Corporation, Ltd (the "Sichuan Hydropower") and 65% equity interest in the Gansu Huaneng Pingliang Power Generation Limited Liability Company (the "Pingliang Power Company") at considerations of Rmb1,219 million and Rmb806 million respectively. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership and control, the acquisitions were effective on 5th January, 2005. Please refer to Note 5(25).

On 26th May, 2005, the Company entered into an agreement with Jiangsu Yueda Investment Co. Ltd (the "Jiangsu Yueda" ) pursuant to which the Company acquired from Jiangsu Yueda 26.36% equity interest in Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company") at a consideration of Rmb200.6 million. After this acquisition, the Company's equity interest in Huaiyin Power Company is up to 90%. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership, the Company obtained the aforementioned interest on 30th June, 2005.

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

#### (1) Basis of preparation

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises as promulgated by the PRC.

#### (2) Accounting year

The financial year starts on 1st January and ends on 31st December.

#### (3) Reporting currency

The Company and its subsidiaries use the Renminbi as reporting currency.

#### (4) Basis of accounting and measurement bases

Accrual method is used as the basis of accounting. Assets are initially recorded at their costs. Subsequently, if they are impaired, impairment provisions are taken accordingly.

#### (5) Foreign currency translation

Transactions denominated in foreign currencies are translated into Rmb at the exchange rates stipulated by the People's Bank of China (the "PBOC") prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the exchange rates stipulated by the PBOC at the balance sheet date. Exchange differences



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arising from these translations are taken to the profit and loss account, except for those attributable to foreign currency borrowings that have been taken out specifically for construction of fixed assets, in which case, the foreign exchange differences are capitalized as part of the fixed asset costs accordingly.

### (6) Cash and cash equivalents

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

For the purpose of the cash flow statement, restricted cash and time deposits with maturity beyond three months are not considered as cash and cash equivalents. Their movements are considered as cash flows from investing activities.

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

### (7) Receivables and provision for bad debts

Receivables include accounts receivable and other receivables.

The Company and its subsidiaries make provision for bad debts using the "allowance method". Receivables are netted with the provision for bad debts.

Provisions for bad debts are made based on an assessment of the collectibility of the receivables. Based on the actual circumstances and experiences, the Company and its subsidiaries made provisions against balances that have been assessed to be uncollectible.

For balances where there are clear evidence that they cannot be recovered (e.g. creditor has been deregistered, declared bankrupt, is unable to meet its liabilities as they fall due or is having serious cash-flow issues), then bad debts are recognized and the balances are written off against the provision.

### (8) Inventories

Inventories include fuel for power generation, materials and supplies for repairs and maintenance. Inventories are recorded at actual cost and are charged to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate, using the weighted average cost basis. Cost of inventories includes costs of purchase and transportation costs.

Inventories at balance sheet date are stated at the lower of cost and net realizable values. When their costs exceed their net realizable value, the excess of their original cost over their net realizable value is taken as a "provision for loss on realization of inventories". Net realizable value is the estimated replacement cost.

The company and its subsidiaries use a perpetual inventory system.

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## 2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation

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of Consolidated Financial Statements (Cont'd)

### (9) Long-term investments

Long-term investments comprise equity investments in companies that the Company does not intend to dispose of within one year, bonds and other debt investments that are not readily convertible into cash or the Company does not intend to dispose.

#### (a) Equity investment

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

Long-term equity investments are recorded at the actual cost of acquisition. The Company accounts for long-term equity investments in subsidiaries and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When long-term equity investments acquired prior to 17th March, 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over ten years. When long-term equity investments acquired after 17th March, 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over a certain period of not more than 10 years.

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the year is recognized as an investment income or loss. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

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

### (9) Long-term investments (Cont'd)

#### (b) Debt investment

Long-term debt investments are recorded at cost on acquisition, less unpaid interest which has been accrued. The interest receivable computed in the current period is recognized as interest income.

Entrusted loans refer to loans that the Company provides to related parties via intermediary financial institutions with maturities over one year. Interest income is accrued based on the interest rate agreed

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in the contract and recorded as income in each period. Interest receivable that has been accrued, but cannot be collected when due, is written off.

### (c) Impairment of long-term investment

If the recoverable amount of an investment is lower than the carrying amount, as a result of a continuous decline in market value or adverse changes in operating condition of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment is recognised as a provision for impairment loss.

If there are indications that the factors, based on which a provision for impairment loss of a long-term investment was recognized in prior years, have changed, resulting in the recoverable amount of the long-term investment higher than its carrying amount, the provision for impairment is reversed up to the amount of the impairment loss being recognized in prior years.

### (10) Fixed assets and depreciation

Fixed assets are tangible assets that are used in power production or held for management purposes, which have useful lives over one year and have relatively high unit price. Effective from 1st January, 2001, when construction takes place on the Company's land and the construction is for its own use, the carrying value of land use right is capitalized as part of the cost of buildings within fixed assets.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets obtained upon the Reorganization were initially recorded at their appraised value approved by relevant government authorities.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost of each asset, net of estimated residual values, over their estimated useful lives. When a provision for impairment loss has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life.

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

### (10) Fixed assets and depreciation (Cont'd)

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

| Categories                        | Estimated useful lives | Estimated residual value |
|-----------------------------------|------------------------|--------------------------|
| Water retaining structure         | 45-55 years            | 0%                       |
| Buildings                         | 8-55 years             | 0%-11%                   |
| Electric utility plant in service | 4-40 years             | 0%-11%                   |
| Transportation and                |                        |                          |

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|                         |              |        |
|-------------------------|--------------|--------|
| transmission facilities | 5-27 years   | 5%-11% |
| Others                  | 2.5-18 years | 0%-11% |

When fixed assets are sold, transferred, disposed of or destroyed, proceeds reduced by the carrying amount of the assets, related taxes and expenses, are included in non-operating income or expenses.

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

Fixed assets at balance sheet date are stated at the lower of the recoverable amount and the carrying amount. If there are indications that the carrying amount of the fixed assets is higher than their recoverable amount, an impairment test is carried out. If the carrying amount of the fixed assets exceeds their recoverable amount, the excess is recognized as an impairment loss.

If there are indications that the factors, based on which an impairment loss for a fixed assets was recognized in prior years, have changed, resulting in the recoverable amount of the fixed assets higher than their carrying amount, the provision for fixed assets impairment is reversed up to the amount of the impairment loss recognized in prior years.

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

#### (11) Construction-in-progress

Construction-in-progress represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which include interest costs incurred on specific borrowings used to finance the capital assets, prior to the date at which the asset reaches the expected usable condition. Construction-in-progress is transferred to the fixed assets account and depreciation commences when the assets have been substantially completed and reaches the expected usable condition.

If there are indications showing that the carrying amount of an individual construction-in-progress is higher than its recoverable amount, an impairment test is carried out. If the carrying amount of the construction-in-progress exceeds its recoverable amount, the excess is recognized as an impairment loss. If there are indications that the factors, based on which an impairment loss for a construction-in-progress was recognized in prior years, have changed, resulting in the recoverable amount of the construction-in-progress higher than its carrying amount, the provision for impairment loss is reversed up to the amount of the impairment loss recognized in prior years.

#### (12) Intangible assets and amortization

Intangible assets include land use rights, goodwill and negative goodwill.

The land use rights acquired through payment of land use fees, are initially

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recorded at cost. They are recorded as intangible assets and amortized, before the construction takes place on land, using the straight-line method over the land use rights period of 20 to 70 years. Effective from 1st January, 2001, when construction takes place on the land and the construction is for the Company's own use, then the carrying value of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January, 2001 on which construction of fixed assets has already completed are not reclassified.

Goodwill and negative goodwill arising from acquisitions are amortized over 10 years on a straight-line basis.

Intangible assets at balance sheet date are stated at lower of the recoverable amount and the carrying amount. If there are indications that the carrying amount of the intangible asset is higher than their recoverable amount, an impairment test is carried out. If the carrying amount of the intangible asset exceeds its recoverable amount, the excess is recognized as an impairment loss.

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

#### (12) Intangible assets and amortization (Cont'd)

If there are indications that the factors, based on which an impairment loss for an intangible asset was recognized in prior years, have changed, resulting in the recoverable amount of the intangible asset higher than its carrying amount, the impairment loss is reversed up to the amount of the impairment loss recognized in prior years.

#### (13) Long-term deferred expenses

Long-term deferred expenses represent other deferred expenses with amortization period more than one year (exclude one year). They are stated at cost and amortized using the straight-line method over the expected beneficial period of the asset.

#### (14) Borrowing costs

Interest, ancillary costs and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the assets when the capital expenditures and borrowing costs are incurred and the activities to enable the assets to reach their expected usable condition have commenced. The capitalization of borrowing costs ceases when the construction-in-progress has reached the asset's expected usable condition. Borrowing costs incurred thereafter are recognized as expenses in the period in which they are incurred.

The capitalization amount of interest for each accounting period is determined by using the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period and the relevant capitalization rate of the relevant borrowings. The amount of interest for each capitalization period shall not exceed the actual amount of interest incurred on the specific borrowings during that period. Exchange differences for specific borrowings denominated in foreign currency and ancillary costs incurred in connection with the arrangement of specific borrowings are capitalized in the period in which they are incurred.

Interest on other borrowings is recognized as expenses in the period in which it is incurred.

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

(15) Short-term bonds

Proceeds received on issuance of short-term bonds are initially recorded as a liability.

Interest on short-term bonds is accounted for on an accrual basis. Interest and issuance costs that do not meet the capitalization requirements are expensed.

The difference (discount or premium) between the proceeds received and the face value of the short-term bonds is amortized using the effective interest rate method over the period of the bonds.

(16) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, organized by the local government authorities in accordance with relevant regulations. Except for the above social security benefits, the Company and its subsidiaries have no other material commitment for employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on certain percentages (47% to 62.5%) of the total salary of employees, subject to specified ceilings. Contributions to the plans are charged to the profit and loss account as incurred.

(17) Profit distribution

Cash dividend is transferred out of owners' equity in the period when the cash dividend is approved by the shareholders at their annual general meeting, and stock dividend is recognized as share capital in the period when the stock dividend is approved by the shareholders.

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

(18) Revenue recognition

Revenue is recognized under the following methods:

(a) Operating revenue

Operating revenue represents amounts earned for electricity generated and transmitted to the ultimate consumers through respective provincial or regional grid companies (net of Value Added Tax (the "VAT")). The Company and its subsidiaries bill the respective grid companies and recognize revenue based on the actual quantity of electricity transmitted or sold to the power grid controlled and owned by the respective grid companies at the end of each month.

(b) Management service income

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As mentioned in Note 7(5)(h), the Company provides management service to certain power plants owned by the Huaneng Group and HIPDC. The Company recognizes a management service income as other income when service is rendered in accordance with the management service agreement.

### (c) Other income

Interest income from deposits is recognized on a time proportion basis that reflect the effective yield on the assets.

Subsidies are recognized when received.

Rental income under operating leases is recognized on a straight-line basis over the relevant lease term.

### (19) Lease

Leases where all the risks and rewards of ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases. Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

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

### (20) Accounting for income tax

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

### (21) Consolidation of financial statements

The consolidated financial statements, including the financial statements of the Company and its subsidiaries, are prepared in accordance with the CaiKuaiZi(1995)11 "Tentative Regulations for Consolidated Financial Statements", "Accounting System for Business Enterprises" and relevant regulations issued by the Ministry of Finance of the PRC.

The revenue, costs and profit of a subsidiary is consolidated from the date on which control is obtained by the Company. Major intercompany balances, transactions and unrealized gains between the Company and its subsidiaries are eliminated upon consolidation. Minority interests in the consolidated financial statements represent the portion of the shareholders equity of the subsidiaries that are not owned by the Company.

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

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## 3. Taxation

### (1) Value added tax

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The electricity sales of the Company and its subsidiaries are subjected to Value Added Tax (the "VAT"). The applicable tax rate is 17%. Input VAT from purchase of raw materials and other production materials are netted off against output VAT from sales.

### (2) Income tax

According to the relevant income tax law, Sino-foreign enterprises are, in general, subject to statutory income tax of 33% (30% of Enterprise Income Tax (the "EIT") and 3% of local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by the State Tax Bureau, a lower tax rate would be applied. Effective from 1st January, 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, a reduced income tax rate of 15% (after the approval of State Tax Bureau) is applicable across the country. The Company applied this rule to all of its directly owned operating power plants after obtaining the approval of the State Tax Bureau.

Pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", all power plants (except for the Huaneng Dezhou Power Plant (the "Dezhou Power Plant"), Huaneng Jining Power Plant (the "Jining Power Plant"), Huaneng Changxing Power Plant (the "Changxing Power Plant"), Huaneng Shanghai Shidongkou Power Plant (the "Shidongkou I Power Plant") and Huaneng Xindian Power Plant (the "Xindian Power Plant")) are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction of the applicable tax rate for the next three years.

In accordance with Guo Shui Han [1994] No.381, the head office, the Shandong branch (the former headquarters of Shandong Huaneng Power Development Company Limited (the "Shandong Huaneng")) and all the individual power plants make their income tax payment to local tax bureau individually.

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### 3. Taxation (Cont'd)

#### (2) Income tax (Cont'd)

The statutory income tax rates applicable to the head office, the Shandong branch, the operating individual power plants and the Company's subsidiaries, after the expiration of tax holiday are summarized as follows:

|  | Income tax rate | Tax       |
|--|-----------------|-----------|
| Head Office  | 15.0%           |           |
| Huaneng Dalian Power Plant<br>(the "Dalian Power Plant")                       | 18.0%           | Till 31st |
| Huaneng Dalian Power Plant Phase II<br>(the "Dalian Power Plant Phase II")     | 18.0%           | Till 31st |
| Huaneng Shang'an Power Plant<br>(the "Shang'an Power Plant")                   | 18.0%           | Till 31st |
| Huaneng Shang'an Power Plant Phase II<br>(the "Shang'an Power Plant Phase II") | 18.0%           | Till 31st |
| Huaneng Nantong Power Plant  |                 |           |



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|   |       |           |
|---|-------|-----------|
| (the "Nantong Power Plant")   | 15.0% | Till 31st |
| Huaneng Nantong Power Plant Phase II<br>(the "Nantong Power Plant Phase II")        | 15.0% | Till 31st |
| Huaneng Fuzhou Power Plant<br>(the "Fuzhou Power Plant")                            | 15.0% | Till 31st |
| Huaneng Fuzhou Power Plant Phase II<br>(the "Fuzhou Power Plant Phase II")          | 15.0% | Till 31st |
| Huaneng Shantou Oil-Fired Plant<br>(the "Shantou Oil-Fired Power Plant")            | 15.0% | Till 31st |
| Huaneng Shantou Coal-Fired Power Plant<br>(the "Shantou Power Plant")               | 15.0% | Till 31st |
| Huaneng Shanghai Shidongkou Second Power Plant<br>(the "Shidongkou II Power Plant") | 16.5% | Till 31st |
| Huaneng Dandong Power Plant<br>(the "Dandong Power Plant")                          | 18.0% | No        |
| Huaneng Nanjing Power Plant<br>(the "Nanjing Power Plant")                          | 15.0% | Till 31st |
| Shandong Branch   | 17.0% |           |

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### 3. Taxation (Cont'd)

#### (2) Income tax (Cont'd)

|   | Income tax rate | Tax       |
|---|-----------------|-----------|
| Dezhou Power Plant  | 17.0%           |           |
| Jining Power Plant  | 15.0%           |           |
| Changxing Power Plant   | 16.5%           |           |
| Shidongkou I Power Plant  | 18.0%           |           |
| Xindian Power Plant   | 15.0%           |           |
| Huaneng Yingkou Power Plant<br>(the " Yingkou Power Plant ")                                    | 18.0%           | No        |
| Huaneng Jinggangshan Power Plant<br>(the "Jinggangshan Power Plant")                            | 18.0%           | Till 31st |
| Huaneng Weihai Power Company<br>(the "Weihai Power Company")                                    | 33.0%           |           |
| Suzhou Industrial Park Huaneng Power Limited<br>Liability Company (the "Taicang Power Company") | 33.0%           |           |
| Huaiyin Power Company   | 33.0%           |           |
| Jiangsu Huaneng Huaiyin Second Power<br>Limited Company (the "Huaiyin II Power Company")        | 33.0%           |           |
| Shanxi Huaneng Yushe Power Company<br>(the "Yushe Power Company")                               | 33.0%           |           |
| Hunan Huaneng Yueyang Power Company<br>(the "Yueyang Power Company")                            | 33.0%           |           |
| Chongqing Huaneng Luohuang Power Company<br>(the "Luohuang Power Company")                      | 15.0%           | Till 31st |
| Henan Huaneng Qinbei Power Company<br>(the "Qinbei Power Company")                              | 33.0%           |           |
| Pingliang Power Company   | 33.0%           | Till 31st |
| Sichuan Huaneng Taipingyi Hydropower Limited<br>Liability Company (the "Taipingyi Hydropower")  | 33.0%           | Till 31st |
| Sichuan Huaneng Baoxinghe Power Limited<br>Liability Company (the "Baoxinghe Power")            | 33.0%           | Till 31st |
| Sichuan Huaneng Dongxiguan Hydropower Limited   |                 |           |

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|   |       |           |
|---|-------|-----------|
| Liability Company (the "Dongxiguan Hydropower") | 33.0% | Till 31st |
|---|-------|-----------|

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### 3. Taxation (Cont'd)

#### (2) Income tax (Cont'd)

|  | Income tax rate | Tax       |
|--|-----------------|-----------|
| Sichuan Huaneng Kangding Hydropower Limited<br>Liability Company (the "Kangding Hydropower")         | 33.0%           | Till 31st |
| Sichuan Huaneng Mingtai Hydropower Limited<br>Liability Company (the "Mingtai Hydropower")           | 33.0%           | Till 31st |
| Sichuan Huaneng Fujiang Hydropower Limited<br>Liability Company (the "Fujiang Hydropower")           | 33.0%           | Till 31st |
| Sichuan Huaneng Jialingjiang Hydropower Limited<br>Liability Company (the "Jialingjiang Hydropower") | 33.0%           | Till 31st |
| Sichuan Hydropower   | 33.0%           | Till 31st |

The statutory income tax rates applicable to the head office, the Shandong branch, the operating individual power plants and the Company's subsidiaries, after taking the tax holiday into consideration, are summarized as follow:

|                                       | Approved File No.   | For the six months ended<br>2005 |
|---------------------------------------|---|----------------------------------|
|                                       |   |                                  |
| Head Office                           | Guo Shui Han [1997]368  | 15.0%                            |
| Dalian Power Plant                    | Guo Shui Han [1994]381  | 18.0%                            |
| Dalian Power Plant Phase II (Note 1)  | Guo Shui Zhi Shui Han [2004]12  | 15.0%                            |
| Shangan Power Plant                   | Guo Shui Han [1994]381 &<br>Guo Shui Han [1999]604                                      | 18.0%                            |
| Shangan Power Plant Phase II          | Guo Shui Han [1994]381 &<br>Guo Shui Han [2000]194                                      | 18.0%                            |
| Nantong Power Plant                   | Guo Shui Han [1994]381  | 15.0%                            |
| Nantong Power Plant Phase II (Note 2) | Guo Shui Han [1994]381 &<br>Su Guo Shui Han [2003]248&<br>Tong Guo Shui Wai Zi [2003] 1 | 15.0%                            |
| Fuzhou Power Plant                    | Guo Shui Han [1994]381  | 15.0%                            |
| Fuzhou Power Plant Phase II (Note 3)  | Guo Shui Han [1994]381 &<br>Min Guo Shui Han [2003]37                                   | 15.0%                            |
| Shantou Oil-Fired Plant               | Guo Shui Han [1994]381  | 15.0%                            |

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### 3. Taxation (Cont'd)

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(2) Income tax (Cont'd)

|                                      | Approved File No.                                    | For the six months ended<br>2005 |
|--------------------------------------|--|----------------------------------|
| Shantou Power Plant (Note 4)         | Approved by Shantou State<br>Tax Bureau              | 10.0%                            |
| Shidongkou II Power Plant            | Approved by Shanghai State<br>Tax Bureau             | 16.5%                            |
| Dandong Power Plant (Note 5)         | Dan Guo Shui She Wai [1999]7                         | -                                |
| Nanjing Power Plant (Note 6)         | Ning Guo Shui Wai Zi [1997]039                       | 15.0%                            |
| Shandong Branch                      | Guo Shui Han [2001]866                               | 17.0%                            |
| Dezhou Power Plant                   | Guo Shui Han [2001]866                               | 17.0%                            |
| Jining Power Plant                   | Guo Shui Han [2002]1063 &<br>Ji Guo Shui Han [2003]1 | 15.0%                            |
| Changxing Power Plant                | Guo Shui Han [2002]1030                              | 16.5%                            |
| Shidongkou I Power Plant             | Hu Guo Shui Ba Shui [2003]31                         | 18.0%                            |
| Xindian Power Plant (Note 7)         | Lin Guo Shui Han [2004]123                           | 15.0%                            |
| Yingkou Power Plant (Note 5,10)      | Approved by Yingkou State<br>Tax Bureau              | -                                |
| Jinggangshan Power Plant (Note 8,10) | Ji An Shi Guo Shui Zhong<br>Qi Fa 2004(20)           | -                                |
| Weihai Power Company                 | Not applicable                                       | 33.0%                            |
| Taicang Power Company                | Not applicable                                       | 33.0%                            |
| Huaiying Power Company               | Not applicable                                       | 33.0%                            |
| Huaiying II Power Company            | Not applicable                                       | 33.0%                            |
| Yushe Power Company                  | Not applicable                                       | 33.0%                            |
| Yueyang Power Company (Note 10)      | Not applicable                                       | 33.0%                            |
| Luohuang Power Company (Note 9,10)   | Approved by Chongqing State<br>Tax Bureau            | 7.5%                             |
| Qinbei Power Company (Note 11)       | Guo Shui Fa[2002]47                                  | -                                |
| Pingliang Power Company (Note 10,12) | Guo Shui Fa[2002]47 &<br>Gan Guo Shui[2002]08        | 15.0%                            |
| Taipingyi Hydropower (Note 10,12)    | Guo Shui Fa[2002]47 &<br>A Zhou Guo Shui Han[2004]28 | 15.0%                            |

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3. Taxation (Cont'd)

(2) Income tax (Cont'd)

|                                    | Approved File No.   | For the six months ended<br>2005 |
|------------------------------------|---|----------------------------------|
| Baoxinghe Hydropower (Note 10,12)  | Guo Shui Fa[2002]47 &<br>Ya Guo Shui Han Zheng<br>Shou Han [2003]38 | 15.0%                            |
| Dongxiguan Hydropower (Note 10,12) | Guo Shui Fa [2002]47 &  | 15.0%                            |

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|                                      |                        |       |
|--------------------------------------|------------------------|-------|
|                                      | Chuan Ti Gai [1994]333 |       |
| Kangding Hydropower (Note 10,12)     | Guo Shui Fa[2002]47    | 7.5%  |
| Mingtai Hydropower (Note 10,12)      | Guo Shui Fa[2002]47    | -     |
| Fujiang Hydropower (Note 10,12)      | Guo Shui Fa[2002]47    | -     |
| Jialingjiang Hydropower (Note 10,12) | Guo Shui Fa[2002]47    | 15.0% |

Note:

- (1) In accordance with Guo Shui Zhi Shui Han [2004] No.12, the tax holiday of the Dalian Power Plant Phase II is determined separately from the Dalian Power Plant. The Dalian Power Plant Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January, 2001 to 31st December, 2003, and a 3% reduction of the local applicable tax rate from 1st January, 1999 to 31st December, 2008.
- (2) In accordance with Su Guo Shui Han [2003] No. 248 and Tong Guo Shui Wai Zi [2003] No.1, the tax holiday of the Nantong Power Plant Phase II is determined separately from the Nantong Power Plant. The Nantong Power Plant Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January, 2002 to 31st December, 2004. Therefore, from 1st January, 2005, the applicable income tax rate of the Nantong Power Plant Phase II is 15%.
- (3) In accordance with Min Guo Shui Han [2003] No. 37, the tax holiday of the Fuzhou Power Plant Phase II is determined separately from the Fuzhou Power Plant. The Fuzhou Power Plant Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January 2002 to 31st December, 2004. Therefore, from 1st January, 2005, the applicable income tax rate of the Fuzhou Power Plant Phase II is 15%.
- (4) In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated 16th January, 2003, the Shantou Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January, 2003 to 31st December, 2005. The applicable tax rate during the extension period is 10%.
- (5) Dandong Power Plant and Yingkou Power Plant are still in the tax-loss-offsetting period, so their tax holidays have not commenced yet.

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### 3. Taxation (Cont'd)

#### (2) Income tax (Cont'd)

- (6) In accordance with Ning Guo Shui Wai Zi [1997] No.39, the Nanjing Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January, 2002 to 31st December, 2004. The applicable tax rate during the extension period is 10%. From 1st January, 2005, the applicable income tax rate of the Nanjing Power Plant is 15%.
- (7) The Company acquired all of the assets and liabilities of the Xindian Power Plant on 27th October, 2003 and the Xindian Power Plant became a branch of the Company. In accordance with Lin Guo Shui Han [2004] No.123, the Xindian Power Plant is entitled to the preferential tax treatment applicable to Sino-foreign enterprises investing in energy industry at a reduced income tax rate of 15%.
- (8) In accordance with Ji An Shi Guo Shui Zhong Qi Fa 2004 No. 20, the Jinggangshan Power Plant is entitled to a tax holiday from 1st July, 2004

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to 31st December, 2005. Therefore, the applicable tax rate is zero during this period.

- (9) In accordance with the approval from Chongqing State Tax Bureau Shewai Branch, the Luohuang Power Company is entitled to a tax holiday from 1st January, 2003 to 31st December, 2007. Therefore, the applicable income tax rate of Luohuang is 7.5% in 2005.
- (10) Not applicable in the first half of 2004 as they were not branches or subsidiaries of the Company.
- (11) Not applicable in the first half of 2004 as the Qinbei Power Company did not commence its commercial operations until November 2004.
- (12) In accordance with Guo Shui Fa [2002] No.47 "The announcement about the opinion of carrying out specific taxation implementation according to West Development Policy" issued by the State Tax Bureau, and the approval of the relevant local tax bureaus, Pingliang Power Company, Taipingyi Hydropower, Baoxinghe Hydropower, Dongxiguan Hydropower, Kangding Hydropower, Mingtai Hydropower, Jialingjiang Hydropower and Fujiang Hydropower are entitled to a 15% income tax rate from 1st January, 2001 to 31st December, 2010.

Kangding Hydropower is entitled to a tax holiday from 1st January, 2003 to 31st December, 2007. Therefore the applicable income tax rate is 7.5% in 2005. The tax rate was approved by the local tax bureau. Mingtai Hydropower is still in the period of offsetting tax loss; therefore, the applicable income tax rate is zero. Fujiang Hydropower is entitled to a tax holiday from 1st January, 2005 to 31st December, 2009. Therefore the applicable income tax rate is zero in 2005. Mingtai Hydropower and Fujiang Hydropower's approval of the tax holiday are still in the application process.

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#### 4. Subsidiaries

As at 30th June, 2005, the detailed information of the Company's subsidiaries is as follows:

| Name                  | Place and date of incorporation   | Registered capital | Principal activities | Total investment contributed by the Company and its subsidiaries |
|-----------------------|---|--------------------|----------------------|--|
| Weihai Power Company  | No. 58 Haifu road, Economic Development Zone, Weihai, Shandong province 22nd November, 1993 | Rmb761,883,300     | Power generation     | Rmb474,038,793   |
| Taicang Power Company | Jinjihupan, Sanxing Road, Suzhou, Jiangsu province 19th June, 1997                          | Rmb632,840,000     | Power generation     | Rmb661,293,633   |

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|   |  |                |                  |                |
|---|--|----------------|------------------|----------------|
| Huaneng Taicang Power Limited Company (the "Taicang II Power Company")          | Jinlanglanggang village, Fuqiao town, Taicang, Jiangsu province<br>18th June, 2004         | Rmb894,410,000 | Power generation | Rmb335,410,000 |
| Huaiyin Power Company   | No. 291 Huaihai West Road, Huai'an, Jiangsu province<br>26th January, 1995                 | Rmb265,000,000 | Power generation | Rmb693,399,531 |
| Huaiyin II Power Company  | No. 291 Huaihai West Road, Huai'an, Jiangsu province<br>22nd June, 2004                    | Rmb474,000,000 | Power generation | Rmb397,113,600 |
| Qinbei Power Company  | Wulongkou town, Jiyuan city, Henan province<br>12th July, 1995                             | Rmb10,000,000  | Power generation | Rmb441,556,956 |
| Yushe Power Company   | Dengyu village, Yushe county, Shanxi province<br>29th November, 1994                       | Rmb615,760,000 | Power generation | Rmb380,385,896 |
| Shandong Huaneng Xindian Power Limited Company (the "Xindian II Power Company") | Qilu Chemical Industrial Park, Linzi district, Zibo, Shandong province<br>14th March, 2004 | Rmb100,000,000 | Power generation | Rmb151,100,000 |

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4. Subsidiaries (Cont'd)

| Name   | Place and date of incorporation  | Registered capital | Principal activities | Total investment contributed by the Company and its subsidiaries |
|--|--|--------------------|----------------------|--|
| Yueyang Power Cheng Company  | Lingji, Yueyang, Hunan province<br>16th December, 2003                 | Rmb560,000,000     | Power generation     | Rmb710,451,197   |
| Luohuang Power Company   | Luohuang County, Jiang Jin city, Chongqing<br>16th December, 2003      | Rmb900,000,000     | Power generation     | Rmb1,504,301,221   |
| Huaneng Shanghai Power Ranji Generation Limited Liability Company (the "Shanghai Ranji Power Company") | No.298 Shengshi Road, Baoshan district, Shanghai<br>13th January, 2005 | Rmb50,000,000      | Power generation     | Rmb35,000,000  |

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|                          |   |                |                       |                  |
|--------------------------|---|----------------|-----------------------|------------------|
| Sichuan Hydropower       | No. 47 division 4<br>Renmin South Road,<br>Wuhou district, Chengdu,<br>Sichuan province<br>12th July,2004 | Rmb800,000,000 | Investment<br>Holding | Rmb1,219,000,000 |
| Baoxinghe Hydropower     | No.18 Yanjiang North<br>Road, Ya'an, Sichuan<br>province<br>19th June,1994                                | Rmb516,100,000 | Power generation      | Rmb350,948,000   |
| Dongxiguan<br>Hydropower | Li'an town, Wusheng<br>county, Sichuan<br>province<br>29th June,1994                                      | Rmb156,725,000 | Power generation      | Rmb86,715,942    |
| Taipingyi Hydropower     | Yingxiu town, Wenchuan<br>county, Sichuan<br>province<br>23rd April,1994                                  | Rmb100,000,000 | Power generation      | Rmb60,000,000    |
| Kangding Hydropower      | Yuanyang ba, Kangding<br>county, Ganzi, Sichuan<br>province<br>14th April,1994                            | Rmb194,000,000 | Power generation      | Rmb163,600,000   |

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4. Subsidiaries (Cont'd)

| Name                       | Place and<br>date of<br>incorporation   | Registered<br>capital | Principal<br>activities | Total investment<br>contributed by<br>the Company<br>and its<br>subsidiaries |
|----------------------------|---|-----------------------|-------------------------|--|
| Mingtai Hydropower         | Donghe Road, Beiba<br>Development Zone,<br>Santai county, Sichuan<br>province<br>22nd May,2000    | Rmb97,700,000         | Power generation        | Rmb50,999,400  |
| Jialingjiang<br>Hydropower | No.189 Liulin Road,<br>Shunqing district,<br>Nanchong, Sichuan<br>province<br>30th September,1998 | Rmb193,080,000        | Power generation        | Rmb87,220,000  |
| Fujiang Hydropower         | Baima village, Pingwu<br>county, Sichuan province<br>22nd March,2002                              | Rmb150,000,000        | Power generation        | Rmb133,630,000   |
| Pingliang Power<br>Company | No.7 Binhe middle Road,<br>Qilihe district,   | Rmb623,000,000        | Power generation        | Rmb806,000,000   |

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Lanzhou, Gansu province  
6th November, 1996

|   |   |              |          |              |
|---|---|--------------|----------|--------------|
| Shanxi Huaneng Yushe County Yuanheng Service Company (the "Yuanheng Company") | Dengyu village, Yushe county, Shanxi province<br>17th September, 2002 | Rmb3,000,000 | Services | Rmb2,850,000 |
|---|---|--------------|----------|--------------|

As at 30th June, 2005, Yushe Power Company, one of the Company's subsidiaries, had 95% equity interest in Yuanheng Company. The registered capital of Yuanheng Company was Rmb3,000,000, and Yushe Power Company's investment in Yuanheng Company was Rmb2,850,000. The principal operating activities of Yuanheng Company are the provision of logistic services and other services to Yushe Power Company. As at 30th June, 2005, the total assets of Yuanheng Company amounted to Rmb35,774,646, and net liability amounted to Rmb617,757. For the six months ended 30th June, 2005, the net profit of Yuanheng Company amounted to Rmb733,615. Since the assets, liabilities and operating results of Yuanheng Company are immaterial to the Company, they have not been included in these consolidated financial statements.

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### 5. Notes to the Consolidated Financial Statements

#### (1) Cash

|                    | 30th June, 2005                |                  |                   | 31st December,                 |                  |
|--------------------|--------------------------------|------------------|-------------------|--------------------------------|------------------|
|                    | Original<br>currency<br>amount | Exchange<br>rate | Rmb<br>equivalent | Original<br>currency<br>amount | Exchange<br>rate |
| Cash on hand - RMB |                                | 837,863          |                   |                                |                  |
| Bank deposit - RMB |                                | 2,770,251,012    |                   |                                |                  |
| - USD              | 19,519,785                     | 8.2765           | 161,555,502       | 19,301,268                     | 8.2765           |
| - Japanese Yen     | 325                            | 0.0751           | 24                | 325                            | 0.0797           |
| Sub-total          |                                |                  | 2,931,806,538     |                                |                  |
| Total cash         |                                |                  | 2,932,644,401     |                                |                  |

Cash as stated in the cash flow statement comprised the following:

|  |  |
|--|--|
| Cash   |  |
| Less: Time deposit with maturity beyond 3 months |  |
| Restricted cash                                  |  |

|                                      |  |
|--------------------------------------|--|
| Cash as at 30th June, 2005           |  |
| Less: Cash as at 31st December, 2004 |  |



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Net increase in cash

Please refer to Note 7 for cash deposits in related parties.

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

(2) Notes receivable

|                             | 30th June,<br>2005 | 3 |
|-----------------------------|--------------------|---|
| Banking notes receivable    | 569,142,495        |   |
| Commercial notes receivable | 510,330,000        |   |
|                             | 1,079,472,495      |   |
|                             | 1,079,472,495      |   |

As at 30th June, 2005 and 31st December, 2004, all the notes receivable were unsecured notes receivable.

(3) Accounts receivable and other receivables

(i) Accounts receivable

|                                   | 30th June,<br>2005 | 3 |
|-----------------------------------|--------------------|---|
| Accounts receivable               | 5,265,559,444      |   |
| Less: Specific Bad Debt Provision | (447,616,069)      |   |
|                                   | 4,817,943,375      |   |
|                                   | 4,817,943,375      |   |

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

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

(i) Accounts receivable (Cont'd)

Accounts receivable's aging and bad debt provision are as follows:

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| Aging         | 30th June, 2005 |                | Bad debt provision | 31st December, 2004 |                |
|---------------|-----------------|----------------|--------------------|---------------------|----------------|
|               | Amount          | Percentage (%) |                    | Amount              | Percentage (%) |
| Within 1 year | 4,276,790,143   | 81             | -                  | 3,267,696,332       | 81             |
| 1-2 years     | 111,815,777     | 2              | -                  | 96,807,620          | 2              |
| 2-3 years     | 14,754,095      | -              | (1,611,249)        | -                   | -              |
| Over 3 years* | 862,199,429     | 17             | (446,004,820)      | 716,029,866         | 17             |
|               | 5,265,559,444   | 100            | (447,616,069)      | 4,080,533,818       | 100            |

\* As at 30th June, 2005 and 31st December, 2004, the major portion of the accounts receivable aged over 3 years but not provided for was Yueyang Power Company and Luohuang Power Company's account receivables due from local grid companies. According to the acquisition agreement with HIPDC, HIPDC has agreed to compensate the Company's equity portion in the above two subsidiaries on any amount of these receivable that remains uncollected by 31st December, 2006. Therefore, no bad debt provision has been made for these accounts receivables by the Company and its subsidiaries.

All accounts receivable balances represent receivables from the provincial or regional grid companies for the sales of electric power.

As at 30th June, 2005, the five largest accounts receivables of the Company and its subsidiaries amounted to Rmb2,849,264,010 (31st December, 2004: Rmb2,315,793,777), representing 54.11% of the total accounts receivable (31st December, 2004: 56.75%).

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

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

(ii) Other receivables

|                          | 30th June, 2005 |
|--------------------------|-----------------|
| Other receivables        | 567,939,909     |
| Less: bad debt provision | (90,567,887)    |
|                          | 477,372,022     |

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Other receivables' aging and bad debt provision are as follows:

| Aging         | 30th June, 2005 |                |                    | 31st December, 2004 |                |                    |
|---------------|-----------------|----------------|--------------------|---------------------|----------------|--------------------|
|               | Amount          | Percentage (%) | Bad debt provision | Amount              | Percentage (%) | Bad debt provision |
| Within 1 year | 336,264,989     | 59             | (1,239,505)        | 187,298,876         | 59             | (1,239,505)        |
| 1-2 years     | 47,128,648      | 8              | (26,232)           | 49,794,157          | 15             | (26,232)           |
| 2-3 years     | 36,212,528      | 7              | (6,240,708)        | 22,263,956          | 7              | (6,240,708)        |
| Over 3 years  | 148,333,744     | 26             | (83,061,442)       | 82,597,007          | 26             | (83,061,442)       |
|               | 567,939,909     | 100            | (90,567,887)       | 341,953,996         | 100            | (90,567,887)       |

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

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

##### (ii) Other receivables (Cont'd)

Breakdown of other receivables is as follows:

|  | 30th June, 2005 |
|--|-----------------|
| Receivable from employees for sales of staff quarters            | 72,586          |
| Social insurance funds   | 26,964,224      |
| Petty cash   | 19,832,992      |
| Payment of steam on behalf of Jining Power Plant Duoqing Company | 22,859,074      |
| Payment on behalf of Huai'an Huaneng Shiye Company               | 19,931,226      |
| Receivable from Huadong Power Grids Company                      | 120,000,000     |
| Prepayments for constructions                                    | 25,234,940      |
| Others   | 333,044,867     |
|  | 567,939,909     |

As at 30th June, 2005, the five largest other receivables of the Company and its subsidiaries amounted to Rmb244,005,336 (31st December, 2004: Rmb135,176,856), representing 42.96% of total other receivables (31st December, 2004: 39.53%).

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As at 30th June, 2005, there were no accounts receivable and other receivables due from shareholders who held 5% or more of the equity interest in the Company, except for an other receivable balance of Rmb8,460,600 (31st December, 2004:Nil) due from Huaneng Group.

See Note 7 for the balances due from or due to related parties.

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

#### (4) Advance to suppliers

|   | 30th June,<br>2005 |  |
|---|--------------------|--|
|   |                    |  |
| Prepayments for coal                      | 397,004,935        |  |
| Prepayments for materials and spare parts | 65,355,356         |  |
| Prepayments for equipments                | 66,543,542         |  |
| Prepayments to contractors                | 56,183,241         |  |
| Others                                    | 75,809,405         |  |
|   |                    |  |
|   | 660,896,479        |  |
|   |                    |  |

Aging for advance to suppliers is as follows:

| Aging         | 30th June, 2005 |                | 31st December, |
|---------------|-----------------|----------------|----------------|
|               | Amount          | Percentage (%) | Amount         |
|               |                 |                |                |
| Within 1 year | 524,380,259     | 79             | 434,116,293    |
| 1-2 years     | 48,590,054      | 7              | 5,512,106      |
| 2-3 years     | 9,062,274       | 2              | 208,500        |
| Over 3 years  | 78,863,892      | 12             | 1,533,876      |
|               |                 |                |                |
|               | 660,896,479     | 100            | 441,370,775    |
|               |                 |                |                |

As at 30th June, 2005, there was no advance paid to shareholders who held 5% or more of the equity interest in the Company.

See Note 7 for the balances due from or due to related parties.

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

(5) Inventories

|  | 30th June,<br>2005 | 3 |
|--|--------------------|---|
|  | -----              |   |
| Fuel (coal and oil) for power generation               | 1,765,323,722      |   |
| Materials and spare parts                              | 790,389,943        |   |
|  | -----              |   |
|  | 2,555,713,665      |   |
| Less: provision for inventory obsolescence-spare parts | (16,769,238)       |   |
|  | -----              |   |
|  | 2,538,944,427      |   |
|  | =====              |   |

Movement of provision for inventory obsolescence during the period is analyzed as follows:

|                          |       |
|--------------------------|-------|
| 31st December, 2004      | ----- |
| Current period addition  |       |
| Current period deduction |       |
|                          | ----- |
| 30th June, 2005          | ===== |

For the six months ended 30th June, 2005, the cost of inventories recognized as expenses and included in cost of sales amounted to Rmb10,518,697,137 (For the six months ended at 30th June, 2004: Rmb6,125,255,044).

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

(6) Long-term investments

|                                      | 31st December,<br>2004 | Current period<br>additions | Current per<br>deducti |
|--------------------------------------|------------------------|-----------------------------|------------------------|
|                                      | -----                  |                             |                        |
| Long-term equity investments -       |                        |                             |                        |
| Consolidated difference in value (i) | 1,331,850,487          | 716,349,005                 | (119,529,              |
| Associates (ii)                      | 3,217,902,086          | 244,835,252                 | (269,621,              |

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|   |               |             |           |
|---|---------------|-------------|-----------|
| Equity investment difference (iii)                  | 1,075,342,379 | -           | (61,473,  |
| Other long-term equity investments (iv)             | 261,143,566   | 500,000     | (83,      |
| -----   |               |             |           |
| Long-term equity investments                        | 5,886,238,518 | 961,684,257 | (450,706, |
| -----   |               |             |           |
| Long-term debt investments                          | 58,700        | -           | (1,       |
| Less: current portion of long-term debt investments | (5,000)       | -           | 1,        |
| -----   |               |             |           |
| Long-term debt investments                          | 53,700        | -           |           |
| -----   |               |             |           |
| Total long-term investments                         | 5,886,292,218 | 961,684,257 | (450,706, |
| -----   |               |             |           |

As at 30th June, 2005 and 31st December 2004, the Company and its subsidiaries' total long-term investments accounted for 17.87 % and 15.83% of the Company and its subsidiaries' net assets respectively.

As at 30th June, 2005 and 31st December 2004, there was no indication of impairment of long-term investments of the Company and its subsidiaries and therefore no provision for impairment of long-term investments was made.

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

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

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

- (i) Equity investment difference that resulted in consolidated difference in value

Consolidated difference in value mainly represents the difference between the considerations paid for the acquisitions of Taicang Power Company, Huaiyin Power Company, Qinbei Power Company, Yushe Power Company, Yueyang Power Company, Luohuang Power Company, Sichuan Hydropower and Pingliang Power Company, and the proportionate share of the net assets of these eight companies. Details are summarized as follows:

| Name                  | Amortization period | Original cost | Balance at 31st December 2004 | Current period additions | Current period amortization | Acc |
|-----------------------|---------------------|---------------|-------------------------------|--------------------------|-----------------------------|-----|
| -----                 |                     |               |                               |                          |                             |     |
| Taicang Power Company | 10 years            | 191,587,073   | 144,655,775                   | -                        | (9,579,354)                 | (56 |
| Huaiyin Power Company | 10 years            | 211,580,733   | 118,274,556                   | 59,957,428               | (7,581,165)                 | (40 |
| Qinbei Power          |                     |               |                               |                          |                             |     |

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|                 |          |               |               |             |               |       |
|-----------------|----------|---------------|---------------|-------------|---------------|-------|
| Company         | 10 years | 96,461,357    | 85,207,532    | -           | (4,823,068)   | (16)  |
| Yushe Power     |          |               |               |             |               |       |
| Company         | 10 years | 5,936,001     | 5,342,401     | -           | (296,800)     |       |
| Yueyang Power   |          |               |               |             |               |       |
| Company         | 7.5years | 393,716,359   | 367,468,602   | -           | (26,247,757)  | (52)  |
| Luohuang Power  |          |               |               |             |               |       |
| Company         | 8.5years | 649,082,972   | 610,901,621   | -           | (38,181,351)  | (76)  |
| Sichuan         |          |               |               |             |               |       |
| Hydropower      | 10 years | 451,067,215   | -             | 451,067,215 | (22,553,360)  | (22)  |
| Pingliang Power |          |               |               |             |               |       |
| Company         | 10 years | 205,324,362   | -             | 205,324,362 | (10,266,218)  | (10)  |
|                 |          | 2,204,756,072 | 1,331,850,487 | 716,349,005 | (119,529,073) | (276) |

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

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

(ii) Investment in associates

| Name   | Places and dates of incorporation  | Registered capital | Principal activities  | Total investment contributed by Company and its subsidiaries |
|--|--|--------------------|---|--|
| <b>Associates:</b>   |  |                    |   |  |
| Shandong Rizhao Power Limited Liability Company (the "Rizhao Power Company") | Rizhao, Shandong province<br>20th March, 1996                                | US\$150 million    | Power generation  | Rmb231.87 million  |
| Shenzhen Energy Group Co., Ltd. (the "SEG")                                  | Shenzhen, Guangdong province<br>16th July, 1997                              | Rmb955.56 million  | Development, production and sale of energy, and energy construction project | Rmb2,390 million   |
| Hebei Hanfeng Power Limited Liability Company (the "Hanfeng Power Company")  | Yijing villiage, Fengfeng mine, Handan, Hebei province<br>28th October, 1996 | Rmb1,975 million   | Power generation  | RMB1,241.49 million  |
| Chongqing Huaneng Lime Company Limited (the "Lime Company")                  | Luohuang county, Jiangjin city, Chongqing<br>5th November, 1996              | Rmb50 million      | Lime production and sale  | Rmb12.5 million  |

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

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

(ii) Investment in associates (Cont'd)

| Name                  | Investment period | Percentage of equity interest held by the Company |                 | Investment cost movement |                 | Accumulated equity  |               |
|-----------------------|-------------------|---|-----------------|--------------------------|-----------------|---------------------|---------------|
|                       |                   | 31st December, 2004                               | 30th June, 2005 | 31st December, 2004      | 30th June, 2005 | 31st December, 2004 | p addi (educt |
| Rizhao Power Company  | 20 years          | 25.5%   | 25.5%           | 231,868,800              | 231,868,800     | (64,830,409)        | 26,28         |
| SEG                   | No specific terms | 25%   | 25%             | 1,595,902,576            | 1,595,902,576   | 362,700,789         | 112,08        |
| Hanfeng Power Company | 25 years          | 40%   | 40%             | 940,103,488              | 806,121,370     | 133,167,724         | (28,80        |
| Lime Company          | No specific terms | 25%   | 25%             | 18,028,710               | 18,028,710      | 960,408             | (37           |
|                       |                   |   |                 | 2,785,903,574            | 2,651,921,456   | 431,998,512         | 109,196       |

[TABLE CONTINUED]

| Name                  | Net carrying value  |                 |
|-----------------------|---------------------|-----------------|
|                       | 31st December, 2004 | 30th June, 2005 |
| Rizhao Power Company  | 167,038,391         | 193,327,576     |
| SEG                   | 1,958,603,365       | 2,070,688,365   |
| Hanfeng Power Company | 1,073,271,212       | 910,486,167     |
| Lime Company          | 18,989,118          | 18,613,898      |
|                       |                     | 3,217,902,086   |
|                       |                     | 3,193,116,006   |



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(iii) Equity investment difference

Equity investment difference on associates mainly represents the differences between the considerations paid for the acquisitions of SEG and Hanfeng Power Company, and the proportionate share of the net assets of these two companies. Details are summarized as follows:

| Name                  | Amortization period | Original cost | Balance at 31st December, 2004 | Current period amortization | Accumulated amortization | 30 |
|-----------------------|---------------------|---------------|--------------------------------|-----------------------------|--------------------------|----|
| SEG                   | 10 years            | 794,097,424   | 661,747,854                    | (39,704,872)                | (172,054,442)            |    |
| Hanfeng Power Company | 10 years            | 435,362,658   | 413,594,525                    | (21,768,133)                | (43,536,266)             |    |
|                       |                     | 1,229,460,082 | 1,075,342,379                  | (61,473,005)                | (215,590,708)            |    |

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

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

(iv) Other long-term equity investments

Other long-term equity investments mainly represent the 2.11% (2004: 2.11 %) equity in Yangtze Power Co., Ltd (the "Yangtze Company"), details are as follows:

| Name            | Investment period                                       | Total investment contributed by the Company | Stock category      | Stock amount |
|-----------------|---|---|---------------------|--------------|
| Yangtze Company | Starting from 22nd August, 2002, with no specific terms | 254,989,551                                 | Non-circulate stock | 165,900,000  |

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

(7) Fixed assets and accumulated depreciation

The movement of cost of fixed assets and accumulated depreciation are as follows:

Electric utility      Transportation and

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|   | Water retaining<br>structure | Buildings     | plant<br>in service | transmission<br>facilities |    |
|---|------------------------------|---------------|---------------------|----------------------------|----|
| <hr/>                                     |                              |               |                     |                            |    |
| Cost                                      |                              |               |                     |                            |    |
| 31st December, 2004                       | -                            | 2,554,360,403 | 75,380,590,710      | 540,248,325                | 2, |
| Reclassification                          | -                            | (397,835,060) | 508,510,433         | (44,919,581)               |    |
| Additions from acquisition                | 2,224,273,866                | 882,998,833   | 8,217,308,532       | 96,096,456                 |    |
| Transfer from construction<br>in-progress | -                            | 639,502       | 3,053,195,682       | -                          |    |
| Current period additions                  | -                            | 3,963,002     | 25,996,536          | -                          |    |
| Current period disposals                  | -                            | (612,414)     | (6,681,660)         | -                          |    |
| <hr/>                                     |                              |               |                     |                            |    |
| 30th June, 2005                           | 2,224,273,866                | 3,043,514,266 | 87,178,920,233      | 591,425,200                | 2, |
| <hr/>                                     |                              |               |                     |                            |    |
| Accumulated depreciation                  |                              |               |                     |                            |    |
| 31st December, 2004                       | -                            | 562,520,489   | 31,359,289,541      | 240,598,360                | 1, |
| Reclassification                          | -                            | 5,060,416     | (41,991,744)        | 279,811                    |    |
| Additions from acquisition                | 414,013,496                  | 67,604,623    | 2,520,981,910       | 12,240,890                 |    |
| Current period depreciation               | 18,224,592                   | 57,807,254    | 2,811,058,692       | 9,736,449                  |    |
| Current period disposals                  | -                            | (142,320)     | (3,071,612)         | -                          |    |
| <hr/>                                     |                              |               |                     |                            |    |
| 30th June, 2005                           | 432,238,088                  | 692,850,462   | 36,646,266,787      | 262,855,510                | 1, |
| <hr/>                                     |                              |               |                     |                            |    |
| Net book value                            |                              |               |                     |                            |    |
| 30th June, 2005                           | 1,792,035,778                | 2,350,663,804 | 50,532,653,446      | 328,569,690                |    |
| <hr/>                                     |                              |               |                     |                            |    |
| 31st December, 2004                       | -                            | 1,991,839,914 | 44,021,301,169      | 299,649,965                | 1, |
| <hr/>                                     |                              |               |                     |                            |    |

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

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

As at 30th June, 2005 and 31st December, 2004, there was no indication of impairment of fixed assets of the Company and its subsidiaries and therefore no impairment provision of fixed assets was made.

As at 30th June, 2005, cost of the fixed assets which had been fully depreciated but still in use amounted to Rmb1,873.28 million (31st December 2004: Rmb645.24 million), and the related net book value amounted to Rmb9.5 million (31st December 2004: Rmb18.22 million).

As at 30th June, 2005, the Company and its subsidiaries have pledged various assets as collateral against certain loans. The summary of the pledged assets is as follows:

|                                     | 30th June, 2005 |
|-------------------------------------|-----------------|
| <hr/>                               |                 |
| Dongxiguan Hydropower               |                 |
| - Water retaining structure         | 391,247,773     |
| - Electric utility plant in service | 206,251,038     |

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|  |             |
|--|-------------|
| - Buildings                            | 1,965,724   |
| - Others                               | 12,168,004  |
| Kangding Hydropower                    |             |
| - Electric utility plant in service    | 28,198,000  |
| Mingtai Hydropower                     |             |
| - Electricity utility plant in service | 72,320,000  |
|  | -----       |
| Total                                  | 712,150,539 |
|  | =====       |

As at 31st December, 2004, there were no assets pledged as collateral assets.

For the detailed information of the long-term loans against which the above fixed assets are pledged, please refer to Note 5 17.

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

(8) Construction materials

|                                 | 30th June,<br>2005 | 31st December,<br>2004 |
|---------------------------------|--------------------|------------------------|
|                                 | -----              | -----                  |
| Prepayment for major equipments | 4,170,278,866      | 3,299,390,095          |
| Materials purchased             | 544,966,979        | 427,856,456            |
| Specific equipments             | 300,503,048        | 94,670,368             |
| Specific materials              | 145,805,873        | 54,148,488             |
|                                 | -----              | -----                  |
|                                 | 5,161,554,766      | 3,876,065,407          |
|                                 | =====              | =====                  |

(9) Construction-in-progress

| Projects                            | Budget        | 31st<br>December,<br>2004 | Additions<br>from<br>acquisition | Current<br>period<br>Additions | Transfer to<br>fixed assets | 30th |
|-------------------------------------|---------------|---------------------------|----------------------------------|--------------------------------|-----------------------------|------|
|                                     |               |                           |                                  |                                |                             |      |
| Yuhuan Power<br>Plant project       | 9,669,320,000 | 868,047,247               | -                                | 615,782,171                    | -                           | 1,   |
| Huaiyin II Power                    | 2,400,600,000 | 1,800,342,979             | -                                | 360,412,102                    | (2,069,072,728)             |      |
| Taicang II Power<br>Company project | 4,638,590,000 | 655,869,433               | -                                | 980,755,629                    | -                           | 1,   |

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|  |               |             |   |             |   |    |
|--|---------------|-------------|---|-------------|---|----|
| Shantou Power<br>Plant Phase II<br>project | 2,263,055,204 | 592,197,112 | - | 786,746,967 | - | 1, |
|--|---------------|-------------|---|-------------|---|----|

[TABLE CONTINUED]

| Projects                                   | Source of<br>financing   |
|--|--|
| Yuhuan Power<br>Plant project              | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Huaiyin II Power                           | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Taicang II Power<br>Company project        | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Shantou Power<br>Plant Phase II<br>project | Funds borrowed<br>from financial<br>institutions and<br>internal funds |

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

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

| Projects                                   | Budget        | 31st<br>December,<br>2004 | Additions<br>from<br>acquisition | Current<br>period<br>Additions | Transfer to<br>fixed assets | 30t |
|--|---------------|---------------------------|----------------------------------|--------------------------------|-----------------------------|-----|
| Xindian II Power<br>Company project        | 2,431,933,416 | 92,853,529                | -                                | 48,595,721                     | -                           |     |
| Yushe Power<br>Company Phase<br>II project | 2,686,250,000 | 14,199,676                | -                                | 20,828,766                     | -                           |     |
| Qinbei Power<br>Company project            | 4,654,950,000 | 7,068,975                 | -                                | 80,298,225                     | -                           |     |

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|  |               |             |               |               |                 |
|--|---------------|-------------|---------------|---------------|-----------------|
| Yueyang Power<br>Company project       | 2,473,600,000 | 343,706,646 | -             | 182,590,607   | -               |
| Luohuang Power<br>Company project      | 4,483,667,794 | 217,892,046 | -             | 234,348,989   | -               |
| Other projects                         | -             | 536,047,597 | 1,980,979,263 | 1,279,168,215 | (1,002,687,767) |
|  |               |             |               | -----         |                 |
|  |               |             |               | 5,128,225,240 | 1,980,979,263   |
|  |               |             |               | 4,589,527,392 | (3,071,760,495) |
|  |               |             |               | =====         | 8               |
| Include: Capitalized<br>borrowing cost |               | 190,746,909 | 77,411,735    | 176,985,883   | (116,882,529)   |

[TABLE CONTINUED]

| Projects                                   | Source of<br>financing   |
|--|--|
| -----                                      |  |
| Xindian II Power<br>Company project        | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Yushe Power<br>Company Phase<br>II project | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Qinbei Power<br>Company project            | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Yueyang Power<br>Company project           | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Luohuang Power<br>Company project          | Funds borrowed<br>from financial<br>institutions and<br>internal funds |
| Other projects                             | Funds borrowed<br>from financial<br>institutions and<br>internal funds |

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Include: Capitalized  
borrowing cost

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

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

For the six months ended 30th June, 2005, the interest capitalized for construction-in-progress of the Company and its subsidiaries was Rmb176,985,883 and the capitalization rate was 4.71% per annum (For the six months ended 30th June, 2004: Rmb83,048,832, at 4.87% per annum).

As at 30th June, 2005 and 31st December, 2004, there was no indication of impairment of construction-in-progress of the Company and its subsidiaries. Accordingly, no provision for impairment loss was made.

(10) Intangible assets

The movements of intangible assets, which comprised land-use rights, goodwill and negative goodwill, were as follows:

|                   | Original cost   | 31st<br>December,<br>2004 | Addition<br>from<br>acquisition | Current<br>period<br>additions | Current<br>period<br>amortization | Accumulated<br>amortization |
|-------------------|-----------------|---------------------------|---------------------------------|--------------------------------|-----------------------------------|-----------------------------|
| Land use rights   | 1,148,543,892   | 887,735,778               | -                               | 143,019,771                    | (11,659,486)                      | (129,447,829)               |
| Negative goodwill | (2,472,783,635) | (1,483,670,180)           | -                               | -                              | 123,639,182                       | 1,112,752,637               |
| Goodwill          | 39,036,491      | 36,104,680                | -                               | -                              | (2,376,075)                       | (5,307,886)                 |
| Others            | 22,236,664      | 8,819,845                 | 2,524,438                       | 3,322,329                      | (1,798,214)                       | (9,368,266)                 |
|                   | (1,262,966,588) | (551,009,877)             | 2,524,438                       | 146,342,100                    | 107,805,407                       | 968,628,656                 |

[TABLE CONTINUED]

|                   | Remaining<br>amortization<br>period | Obtained<br>through |
|-------------------|-------------------------------------|---------------------|
| Land use rights   | 15.5 to 69.5 years                  | Purchase            |
| Negative goodwill | 5.5 years                           | Acquisition         |

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|          |                   |             |
|----------|-------------------|-------------|
| Goodwill | 6 to 9 years      | Acquisition |
| Others   | 0.5 to 16.5 years | Purchase    |

As at 30th June, 2005 and 31st December, 2004, there was no indication that the intangible assets of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was made. No intangible assets of the Company and its subsidiaries were pledged or guaranteed.

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

#### (11) Other long-term assets

Other long-term assets represent the Company's subsidiaries' receivables due from Sichuan Power Grid Company resulting from the transfer of transmission facilities. Sichuan Power Grid Company entered into an agreement with Baoxinghe Hydropower, Dongxiguan Hydropower and Taipingyi Hydropower each on the transfer of transmission facilities from these plants to Sichuan Power Grid Company, pursuant to which Sichuan Power Grid Company agreed to return the principal and interest amount related to the construction of the transmission facilities over 12.5 years, 12.5 years and 9 years respectively. The interest rate should be determined according to the prevailing bank loan's interest rate while the principal is repaid.

#### (12) Short-term loans

|              | 30th June,<br>2005 | 31st December,<br>2004 |
|--------------|--------------------|------------------------|
| Credit loans | 8,675,300,000      | 8,099,000,000          |
|              |                    |                        |

As at 30th June, 2005, all of the short-term loans of the Company and its subsidiaries were dominated in Rmb, with interest rates ranging from 4.30% to 5.76% per annum (31st December 2004: 4.30% to 5.02% per annum).

As at 30th June, 2005, short-term loans of the Company and its subsidiaries amounting to Rmb2,424 million were borrowed from China Huaneng Finance Company (the "Huaneng Finance"), with interest rates ranging from 4.54% to 5.02% per annum. (31st December, 2004: Rmb3,694 million with interest rates from 4.54% to 5.02% per annum), please refer to Note 7(5).

#### (13) Short-term bonds

On 27th May, 2005, the Company issued short-term bonds in two batches and the face value were Rmb4.5 billion (due in 365 days) and Rmb0.5 billion (due in 9 months). These bonds were issued at a discount with an effective interest rates of 2.92% per annum and 2.70% per annum respectively. The proceeds received by the Company and its subsidiaries were Rmb4,372.2 million and Rmb490 million respectively. As at 30th June, 2005, the accrued interest payable on the above short-term bonds was approximately Rmb14 million.

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

#### (14) Accounts payable

Accounts payable represents mainly the amounts due to coal suppliers. As at 30th June, 2005 and 31st December, 2004, except for the accounts payable due to Huaneng Group of Rmb830,174(31st December, 2004: Nil), there was no other accounts payable to any shareholder who held 5% or more of the equity interest in the Company, and there were no significant accounts payable aged over three years.

See Note 7 for balances due from or due to related parties.

#### (15) Taxes payable

Taxes payable comprised:

|                    | 30th June,<br>2005 | 31st December,<br>2004 |
|--------------------|--------------------|------------------------|
|                    |                    |                        |
| Income tax payable | 281,194,368        | 407,449,828            |
| VAT payable        | 392,056,392        | 527,292,394            |
| Others             | 75,179,589         | 65,049,963             |
|                    |                    |                        |
|                    | 748,430,349        | 999,792,185            |
|                    |                    |                        |

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

#### (16) Other payables

Other payables comprised:

|   | 30th June,<br>2005 | 31st December,<br>2004 |
|---|--------------------|------------------------|
|   |                    |                        |
| Payable to contractors                              | 474,470,371        | 889,096,823            |
| Payable for purchase of equipment                   | 756,701,788        | 703,714,020            |
| Other payable to contractors                        | 835,481,667        | 237,912,047            |
| Payable to HIPDC                                    | 51,043,976         | 1,258,799,490          |
| Payable of housing maintenance fund                 | 51,957,280         | 49,231,372             |
| Accrual expenses                                    | 33,406,016         | 35,828,523             |
| Social insurance funds payable                      | 79,801,660         | 71,458,881             |
| Environment protection-exhaust emission fee payable | 16,902,171         | 20,695,875             |
| Others  | 734,396,490        | 440,075,715            |
|   |                    |                        |
|   | 3,034,161,419      | 3,706,812,746          |
|   |                    |                        |

As at 30th June, 2005, there was no other payable due to any shareholder who held 5% or more of the equity interest in the Company except for a payable due to HIPDC of Rmb51,043,976 and a payable due to Huaneng Group of Rmb189,963 as mentioned in Note 7. (31st December, 2004: Due to HIPDC: Rmb1,258,799,490; Due



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to Huaneng Group: Rmb189,963). There was also no significant other payable aged over three years.

See Note 7 for balances due from or due to related parties.

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

#### (17) Long-term loans

Long-term loans comprised (all were credit loans unless otherwise stated):

|  | 30th June,<br>2005  | 31st December,<br>2004 |
|--|---------------------|------------------------|
|  |                     |                        |
| Long-term loans from ultimate parent company | (i) 800,000,000     | 800,000,000            |
| Long-term bank loans                         | (ii) 26,951,215,360 | 15,986,747,027         |
| Other long-term loans                        | (iii) 1,193,415,794 | 711,779,897            |
|  | 28,944,631,154      | 17,498,526,924         |
| Less: current portion of long-term loans     | (2,390,949,310)     | (1,543,237,546)        |
|  | 26,553,681,844      | 15,955,289,378         |

#### (i) Long-term loans from ultimate parent company

As at 30th June, 2005, detailed information of the long-term loans from ultimate parent company was as follows:

| Lender  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|-------------|----------------------------|--------------------|
|   |                    |             |                            |                    |
| Renminbi loans  |                    |             |                            |                    |
| Entrusted loans from<br>Huaneng Group through<br>Huaneng Finance* | 600,000,000        | 2004-2013   | 4.60%                      | -                  |
| Entrusted loans from<br>Huaneng Group through<br>Huaneng Finance* | 200,000,000        | 2004-2013   | 4.05%                      | -                  |
|   | 800,000,000        |             |                            | -                  |

\* As at 30th June, 2005, these loans were not repayable within one year and therefore there was no current portion.

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

## (17) Long-term loans (Cont'd)

## (ii) Long-term bank loans

Long-term bank loans (including current portion) comprised:

|  | Original currency | 30th June, 2005<br>Exchange rate |     |
|--|-------------------|----------------------------------|-----|
| Renminbi bank loans                              |                   |                                  | 2   |
| United States dollar bank loans                  | 727,372,337       | 8.2765                           |     |
| Euro dollar bank loans                           | 73,936,225        | 9.9955                           | --- |
| Less: current portion of<br>long-term bank loans |                   |                                  | (   |
|  |                   |                                  | 2   |
|  |                   |                                  | === |

As at 30th June, 2005, detailed information of the long-term bank loans was as follows:

| Lenders                                      | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| Renminbi bank loans                          |                    |             |                            |                    |
| China Construction Bank*                     | 81,860,000         | 2005-2015   | 5.51%                      | -                  |
| China Construction Bank*                     | 540,579,300        | 2005-2015   | 5.27%                      | -                  |
| China Development Bank*                      | 215,000,000        | 2005-2008   | 5.18%                      | -                  |
| China Development Bank*                      | 10,000,000         | 2005-2010   | 5.27%                      | -                  |
| China Construction Bank -<br>Shantou branch* | 200,000,000        | 2004-2007   | 4.94%                      | -                  |
| China Construction Bank -<br>Shantou branch* | 400,000,000        | 2004-2009   | 5.02%                      | -                  |
| China Construction Bank -<br>Weihai branch*  | 100,000,000        | 1999-2007   | 5.76%                      | -                  |

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

## (17) Long-term loans (Cont'd)

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

| Lenders  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| Bank of China**                                | 194,000,000        | 1998-2010   | 5.18%                      | -                  |
| Bank of China**                                | 47,000,000         | 1999-2011   | 5.18%                      | -                  |
| Bank of China-Taicang Branch*                  | 574,000,000        | 1998-2010   | 5.18%                      | -                  |
| Bank of China-Taicang Branch*                  | 20,000,000         | 1999-2011   | 5.18%                      | -                  |
| Bank of China-Suzhou Branch                    | 73,000,000         | 1999-2011   | 5.18%                      | 33,000,000         |
| Bank of China-Jiangsu Branch*                  | 460,000,000        | 2005-2010   | 5.27%                      | -                  |
| Bank of China-Shanghai Branch*                 | 460,000,000        | 2005-2010   | 5.27%                      | -                  |
| Bank of China-Suzhou Branch*                   | 230,000,000        | 2005-2010   | 5.27%                      | -                  |
| Bank of China-Taicang Branch*                  | 230,000,000        | 2005-2010   | 5.27%                      | -                  |
| China Development Bank*                        | 243,000,000        | 2005-2021   | 5.51%                      | -                  |
| China Merchants Bank-<br>Nanjing branch*       | 100,000,000        | 2003-2006   | 4.94%                      | -                  |
| China Development Bank-<br>Jiangsu branch      | 600,000,000        | 2003-2008   | 5.27%                      | 20,000,000         |
| China Development Bank*                        | 200,000,000        | 2004-2009   | 3.60%                      | -                  |
| China Construction Bank-<br>Huai'an branch*    | 1,000,000,000      | 2004-2009   | 5.27%                      | -                  |
| Bank of Communication-<br>Nanjing branch*      | 200,000,000        | 2004-2007   | 5.18%                      | -                  |
| China Construction Bank-<br>Jiyuan sub branch* | 1,065,000,000      | 2004-2019   | 5.51%                      | -                  |

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

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

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

| Lenders                                  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| China Construction Bank-<br>Ji'an branch | 1,030,500,000      | 2000-2010   | 5.60%                      | 185,000,000        |
| China Construction Bank-                 | 100,000,000        | 2004-2014   | 5.18%                      | -                  |

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|                               |               |           |       |   |
|-------------------------------|---------------|-----------|-------|---|
| Yueyang Lingji sub branch*    |               |           |       |   |
| China Construction Bank-      | 230,000,000   | 2004-2009 | 5.02% | - |
| Yueyang Lingji sub branch*    |               |           |       |   |
| China Construction Bank-      | 80,000,000    | 2005-2013 | 5.51% | - |
| Yueyang Lingji sub branch*    |               |           |       |   |
| China Construction Bank-      | 130,000,000   | 2005-2015 | 5.51% | - |
| Yueyang Lingji sub branch*    |               |           |       |   |
| Bank of China-Yueyang branch* | 215,000,000   | 2005-2013 | 5.51% | - |
|                               |               |           |       |   |
| Bank of China-Yueyang branch* | 60,000,000    | 2005-2010 | 5.27% | - |
|                               |               |           |       |   |
| Bank of China-Yueyang branch* | 60,000,000    | 2005-2015 | 5.51% | - |
| Bank of China-Yueyang branch* | 225,000,000   | 2004-2009 | 5.27% | - |
| China Development Bank-       | 855,000,000   | 2004-2009 | 5.02% | - |
| Henan branch*                 |               |           |       |   |
| Bank of China-                |               |           |       |   |
| Jinzhong branch**             | 1,120,000,000 | 2003-2019 | 5.51% | - |

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

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

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

| Lenders                                     | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|-------------|----------------------------|--------------------|
| China Construction Bank-                    | 30,000,000         | 2002-2005   | 5.18%                      | 30,000,000         |
| Yushe sub branch                            |                    |             |                            |                    |
| China Construction Bank-                    | 1,000,000,000      | 2004-2014   | 5.18%                      | -                  |
| Yuhuan county sub branch*                   |                    |             |                            |                    |
| China Construction Bank-                    | 49,869,370         | 2005-2006   | 5.02%                      | 49,869,370         |
| Yushe sub branch                            |                    |             |                            |                    |
| China Construction Bank-                    | 13,000,000         | 2004-2007   | 5.18%                      | -                  |
| Yushe sub branch*                           |                    |             |                            |                    |
| China Development Bank-                     | 1,172,000,000      | 1998-2012   | 5.51%                      | 140,000,000        |
| Gansu branch                                |                    |             |                            |                    |
| China Construction Bank-                    | 91,000,000         | 1998-2010   | 5.18%                      | 40,000,000         |
| Lanzhou electricity power<br>sub branch     |                    |             |                            |                    |
| China Construction Bank-                    | 115,000,000        | 1998-2010   | 5.51%                      | 27,500,000         |
| Lanzhou electricity power<br>sub branch     |                    |             |                            |                    |
| Industrial and Commercial<br>Bank of China- | 380,000,000        | 1998-2011   | 5.18%                      | 140,000,000        |
| Pingliang branch                            |                    |             |                            |                    |

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|   |             |           |       |             |
|---|-------------|-----------|-------|-------------|
| Industrial and Commercial Bank of China-<br>Pingliang branch* | 200,000,000 | 1998-2011 | 5.18% | -           |
| Bank of China- Gansu branch                                   | 467,500,000 | 1998-2010 | 5.51% | 115,000,000 |

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

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

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

| Lenders   | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|-------------|----------------------------|--------------------|
| Bank of China-Gansu branch-<br>Pingliang sub branch*                        | 100,000,000        | 1998-2015   | 5.51%                      | -                  |
| Bank of China-Chongqing<br>branch *   | 30,000,000         | 2005-2018   | 5.51%                      | -                  |
| Industrial and Commercial<br>Bank of China-Chongqing<br>Jijiang sub branch* | 150,000,000        | 2005-2018   | 5.18%                      | -                  |
| China Construction Bank-<br>Chongqing branch*                               | 30,000,000         | 2005-2010   | 5.27%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 30,000,000         | 2001-2014   | 5.76%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 50,000,000         | 2002-2014   | 5.76%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 30,000,000         | 2002-2015   | 5.76%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 20,000,000         | 2002-2015   | 5.18%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 190,000,000        | 2003-2016   | 5.18%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 40,000,000         | 2004-2014   | 5.18%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 120,000,000        | 2004-2017   | 5.18%                      | -                  |
| China Construction Bank-<br>Nanchong branch*                                | 40,000,000         | 2005-2018   | 5.51%                      | -                  |
| China Construction Bank-<br>Ya'an branch                                    | 228,500,000        | 2002-2010   | 5.18%                      | 30,000,000         |

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

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

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

| Lenders  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch   | 84,000,000         | 1998-2006   | 5.18%                      | 30,000,000         |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 60,000,000         | 1999-2007   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 90,000,000         | 1999-2008   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 100,000,000        | 2000-2009   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 100,000,000        | 2000-2010   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 91,830,000         | 2000-2010   | 5.18%                      | -                  |
| China Construction Bank-<br>Ya'an branch *                   | 60,000,000         | 2003-2017   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 130,000,000        | 2003-2011   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 80,000,000         | 2003-2012   | 5.18%                      | -                  |

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

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

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

| Lenders  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 50,000,000         | 2004-2014   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 30,000,000         | 2004-2013   | 5.18%                      | -                  |
| China Construction Bank-<br>Ya'an branch *                   | 70,000,000         | 2004-2012   | 5.18%                      | -                  |
| China Construction Bank-<br>Chengdu Jincheng                 | 50,000,000         | 2004-2011   | 5.18%                      | -                  |

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|  |             |           |       |            |  |
|--|-------------|-----------|-------|------------|--|
| sub branch *   |             |           |       |            |  |
| China Construction Bank-<br>Ya'an branch *                   | 25,000,000  | 2004-2012 | 5.51% | -          |  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 50,000,000  | 2004-2013 | 5.51% | -          |  |
| China Construction Bank-<br>Ya'an branch *                   | 30,000,000  | 2004-2012 | 5.51% | -          |  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 50,000,000  | 2005-2013 | 5.51% | -          |  |
| China Construction Bank-<br>Ya'an branch *                   | 50,000,000  | 2005-2013 | 5.51% | -          |  |
| China Construction Bank-<br>Chengdu Jincheng<br>sub branch * | 50,000,000  | 2005-2014 | 5.51% | -          |  |
| China Development Bank-<br>Sichuan branch                    | 382,650,000 | 1992-2012 | 5.76% | 22,000,000 |  |

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

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

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

| Lenders   | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|-------------|----------------------------|--------------------|
| China Construction Bank-<br>Wusheng County<br>sub branch *    | 70,000,000         | 2003-2006   | 5.22%                      | -                  |
| China Construction Bank-<br>Wusheng County<br>sub branch *    | 20,000,000         | 2004-2006   | 4.94%                      | -                  |
| China Construction Bank-<br>Wusheng County<br>sub branch *    | 58,000,000         | 2004-2006   | 5.18%                      | -                  |
| Agriculture Bank of China -<br>Wusheng County<br>sub branch   | 60,000,000         | 2002-2005   | 5.94%                      | 60,000,000         |
| Agriculture Bank of China -<br>Wusheng County<br>sub branch   | 30,000,000         | 2002-2005   | 5.94%                      | 30,000,000         |
| Agriculture Bank of China -<br>Wusheng County<br>sub branch * | 30,000,000         | 2003-2006   | 5.94%                      | -                  |
| Agriculture Bank of China -<br>Wusheng County<br>sub branch * | 10,000,000         | 2004-2007   | 4.94%                      | -                  |
| Wusheng County<br>sub branch *                                |                    |             |                            |                    |

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|   |            |           |       |   |
|---|------------|-----------|-------|---|
| Industrial and Commercial                     | 24,000,000 | 2003-2006 | 5.22% | - |
| Bank of China- Wusheng<br>County sub branch * |            |           |       |   |
| Industrial and Commercial                     | 21,000,000 | 2003-2006 | 5.22% | - |
| Bank of China- Wusheng<br>County sub branch * |            |           |       |   |

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

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

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

| Lenders   | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|-------------|----------------------------|--------------------|
| Industrial and Commercial                                     | 34,000,000         | 2003-2006   | 4.94%                      | -                  |
| Bank of China- Wusheng<br>County sub branch *                 |                    |             |                            |                    |
| Industrial and Commercial                                     | 20,000,000         | 2004-2007   | 4.94%                      | -                  |
| Bank of China- Wusheng<br>County sub branch *                 |                    |             |                            |                    |
| China Construction Bank-<br>Chengdu Xinhua<br>sub branch*     | 40,000,000         | 2003-2006   | 4.94%                      | -                  |
| China Construction Bank-<br>Chengdu Xinhua<br>sub branch*     | 250,000,000        | 2003-2011   | 5.51%                      | -                  |
| China Development Bank-<br>Sichuan branch*                    | 83,260,000         | 1994-2006   | 5.51%                      | 26,960,000         |
| Agriculture Bank of China -<br>Kangding County<br>sub branch* | 20,000,000         | 2003-2006   | 5.76%                      | -                  |
| China Construction Bank-<br>Ganzizhou sub branch              | 120,000,000        | 2001-2019   | 5.51%                      | 5,000,000          |
| China Construction Bank-<br>Chengdu Xinhua<br>sub branch      | 212,000,000        | 1999-2017   | 5.51%                      | 17,000,000         |
| China Construction Bank-<br>Chengdu Xinhua<br>sub branch      | 258,000,000        | 2000-2017   | 5.18%                      | 20,000,000         |

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

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



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

| Lenders  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| China Construction Bank-<br>Chengdu Xinhua<br>sub branch * | 280,000,000        | 2005-2023   | 5.51%                      | -                  |
| Agriculture Bank of China-<br>Santai sub branch *          | 130,000,000        | 2002-2017   | 5.76%                      | -                  |
| Agriculture Bank of China-<br><br>Santai sub branch *      | 60,000,000         | 2001-2011   | 5.76%                      | -                  |
| Agriculture Bank of China-<br>Santai sub branch            | 10,000,000         | 2002-2005   | 5.49%                      | 10,000,000         |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 25,000,000         | 2002-2020   | 6.12%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 10,000,000         | 2002-2020   | 2.88%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 55,000,000         | 2002-2020   | 5.18%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 60,000,000         | 2002-2020   | 3.00%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 30,000,000         | 2003-2021   | 6.12%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 120,000,000        | 2003-2021   | 5.18%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 50,000,000         | 2003-2021   | 5.51%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch*   | 100,000,000        | 2004-2022   | 6.12%                      | -                  |

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

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

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

| Lenders  | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|--|--------------------|-------------|----------------------------|--------------------|
| Agriculture Bank of China -<br>Pingwu County sub branch* | 31,440,000         | 2004-2022   | 2.88%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch* | 150,000,000        | 2004-2014   | 5.18%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch* | 101,100,000        | 2004-2014   | 5.51%                      | -                  |
| Agriculture Bank of China -<br>Pingwu County sub branch* | 60,000,000         | 2005-2015   | 5.51%                      | -                  |
| Sub-total of Renminbi                                    | 20,192,088,670     |             |                            | 1,031,329,370      |

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| -----                                     |               |           |            |             |
|---|---------------|-----------|------------|-------------|
| bank loans                                |               |           |            |             |
| United States dollar bank loans           |               |           |            |             |
| Banque Nationale de Paris                 | 1,299,575,294 | 1995-2011 | 5.95%      | 199,625,730 |
| Misubishi Corporation                     | 47,972,274    | 1996-2010 | 6.97%      | 10,200,785  |
| Bank of Communication-<br>Shanghai branch | 1,817,212     | 2000-2005 | LIBOR+1.1% | 1,817,212   |
| Bank of China-Taicang branch              | 51,314,300    | 1999-2011 | 2.85%      | 33,106,000  |

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

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

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

| Lenders                                   | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|-------------|----------------------------|--------------------|
| -----                                     |                    |             |                            |                    |
| On-lent loans by Bank of China:           |                    |             |                            |                    |
| American I&E Bank                         | 963,738,388        | 1997-2011   | 5.95%                      | 148,268,001        |
| American I&E Bank                         | 834,151,414        | 1995-2011   | 5.95%                      | 128,330,983        |
| American I&E Bank                         | 991,264,584        | 1997-2011   | 6.54%                      | 141,609,227        |
| American I&E Bank                         | 246,580,951        | 1997-2012   | 6.60%                      | 32,877,461         |
| KFW Bank                                  | 630,661,881        | 1996-2012   | 6.60%                      | 90,095,910         |
| On-lent loans by China Construction Bank: |                    |             |                            |                    |
| KFW Bank                                  | 429,340,566        | 1999-2015   | 6.36%                      | 42,870,731         |
| Citibank                                  | 523,680,286        | 1999-2015   | LIBOR+0.075%               | 52,417,833         |
| Euro dollar bank loans                    |                    |             |                            |                    |
| French bank                               | 739,029,540        | 1994-2024   | 2.00%                      | 52,127,892         |
| -----                                     |                    |             |                            |                    |
| Sub-total of foreign<br>bank loans        | 6,759,126,690      |             |                            | 933,347,765        |
| -----                                     |                    |             |                            |                    |
| Total                                     | 26,951,215,360     |             |                            | 1,964,677,135      |
| -----                                     |                    |             |                            |                    |

\* As at 30th June, 2005, these loans were not repayable within one year and therefore there was no current portion.

\*\* In accordance with the repayment schedules, these loans are not due within one year and therefore there is no current portion.

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

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

(iii) Other long-term loans

Other long-term loans (including current portion) comprised:

|   | Original currency | 30th June, 2005<br>Exchange rate |
|---|-------------------|----------------------------------|
| -----   |                   |                                  |
| Renminbi loans                                    |                   |                                  |
| United States dollar loans                        | 17,142,857        | 8.2765                           |
| Japanese Yen loans                                | 1,428,571,429     | 0.0751                           |
|   |                   |                                  |
| Less: current portion of<br>other long-term loans |                   |                                  |

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

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

(iii) Other long-term loans (Cont'd)

As at 30th June, 2005, detailed information of the other long-term loans was as follows:

| Lender                                      | 30th June,<br>2005 | Loan period | Interest rate<br>per annum | Current<br>portion | Te |
|---|--------------------|-------------|----------------------------|--------------------|----|
| -----                                       |                    |             |                            |                    |    |
| Renminbi loans                              |                    |             |                            |                    |    |
| Huaneng Finance*                            | 30,000,000         | 2003-2006   | 4.94%                      | -                  | Ni |
| Huaneng Finance*                            | 20,000,000         | 2004-2007   | 4.94%                      | -                  | Ni |
| Huaneng Finance*                            | 20,000,000         | 2004-2007   | 4.94%                      | -                  | 15 |
|   |                    |             |                            |                    |    |
| Huaneng Finance*                            | 10,000,000         | 2003-2006   | 5.18%                      | -                  | Ni |
| Loan by mandate of WPDB                     | 40,000,000         | 2004-2006   | 5.02%                      | 40,000,000         | Ni |
| Loan by mandate of WPDB*                    | 26,388,822         | 2004-2006   | 5.02%                      | -                  | Ni |
| Loan by mandate of<br>Shanxi International* | 66,000,000         | 2003-2006   | 5.18%                      | -                  | Ni |
| Loan by mandate of<br>Shanxi International  | 32,000,000         | 1991-2005   | 5.02%                      | 32,000,000         | Ni |
| Loan by mandate of<br>Shanxi International  | 21,700,000         | 1991-2005   | 6.12%                      | 21,700,000         | Ni |

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|  |             |           |       |             |    |
|--|-------------|-----------|-------|-------------|----|
| Loan by mandate of   |             |           |       |             |    |
| Shanxi International*  | 5,500,000   | 1994-2006 | 6.12% | -           | Ni |
| Chongqing Construction<br>and Investment Limited<br>Liability Company<br>(the "CCI") | 183,670,000 | 2004-2005 | 4.94% | 183,670,000 | Ni |

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

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

(iii) Other long-term loans (Cont'd)

| Lender  | 30th June,<br>2005 | Loan period   | Interest rate<br>per annum | Current<br>portion |
|---|--------------------|---------------|----------------------------|--------------------|
| Jiangsu Electric Power<br>Development Co., Ltd.<br>(the "JEPDC")                  | 19,467,862         | 1997-2005     | 5.76%                      | 19,467,863         |
| Sichuan Province Power<br>Development Company<br>(the "Sichuan Power") *          | 40,000,000         | 2004-infinite | 5.18%                      | -                  |
| Sichuan Yong'an*  | 6,267,932          | 1997-2006     | 6.12%                      | -                  |
| Aba Hydro Power<br>Development Co., Ltd.<br>(the "Aba Hydro Power")               | 212,307,606        | 1994-2011     | 5.51%                      | 14,270,000         |
| GPPCI   | 10,875,000         | 1996-2007     | 5.76%                      | 3,625,000          |
| China Electric Power Finance<br>Co., Ltd-Northwest branch                         | 200,000,000        | 2003-2008     | 5.02%                      | 70,000,000         |
|   | -----              |               |                            | -----              |
| Subtotal of RMB loans   | 944,177,222        |               |                            | 384,732,863        |
|   | -----              |               |                            | -----              |
| United States dollar loan:<br>On-lent foreign loans of<br>the Ministry of Finance | 141,882,858        | 1996-2011     | LIBOR+0.43%                | 23,647,143         |
| Japanese Yen loan:<br>On-lent foreign loans of<br>the Ministry of Finance         | 107,355,714        | 1996-2011     | LIBOR+0.3%                 | 17,892,169         |
|   | -----              |               |                            | -----              |
| Subtotal of foreign loans   | 249,238,572        |               |                            | 41,539,312         |
|   | -----              |               |                            | -----              |
| Total   | 1,193,415,794      |               |                            | 426,272,175        |
|   | =====              |               |                            | =====              |

\* As at 30th June, 2005, these loans were not repayable within one year and therefore there was no current portion.

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

(18) Share capital

|   | 31st December,<br>2004 | Current period<br>addition/<br>(deduction) |
|---|------------------------|--|
| Unlisted shares                         |                        |  |
| Promoters shares                        | 8,500,000,000          | -  |
| Including: Domestic legal person shares | 8,500,000,000          | -  |
| Sub-total of unlisted shares            | 8,500,000,000          | -  |
| Listed shares                           |                        |  |
| Domestic shares listed in the PRC       | 500,000,000            | -  |
| Overseas listed shares                  | 3,055,383,440          | -  |
| Sub-total of listed shares              | 3,555,383,440          | -  |
| Total shares                            | 12,055,383,440         | -  |

(19) Capital surplus

Movement of capital surplus was as follow:

|                             | 31st December,<br>2004 | Current period<br>addition |
|-----------------------------|------------------------|----------------------------|
| Share premium               | 8,590,777,628          | -                          |
| Equity investment provision | 21,734,582             | 103,950                    |
| Transfer from grants        | 3,470,000              | -                          |
|                             | 8,615,982,210          | 103,950                    |

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

(20) Surplus reserves

| Statuary<br>capital surplus<br>reserve fund | Statuary<br>public welfare<br>fund | Discretionary<br>surplus reserve<br>fund |
|---|------------------------------------|--|
| -----                                       |                                    |  |

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|                                     |               |               |            |
|-------------------------------------|---------------|---------------|------------|
| 31st December, 2004                 | 2,229,832,058 | 1,863,280,308 | 19,102,462 |
| Current period addition/(deduction) | -             | -             | -          |

|                 |               |               |            |
|-----------------|---------------|---------------|------------|
| 30th June, 2005 | 2,229,832,058 | 1,863,280,308 | 19,102,462 |
|-----------------|---------------|---------------|------------|

For the six months ended 30th June, 2005, no provision was made to the surplus reserve fund.

(21) Undistributed profit

|   | For the six months ended |   |
|---|--------------------------|---|
|   | 2005                     |   |
| Undistributed profit brought forward  | 12,399,822,057           | 1 |
| Add: Net profit for the year  | 1,620,288,149            |   |
| Less: Dividends payable to ordinary shareholders-cash dividends of prior year approved at the general meeting of the shareholders | (3,013,845,860)          | ( |
| Ordinary share dividend - bonus shares  | -                        | ( |
| Undistributed profit carried forward  | 11,006,264,346           | 1 |

Pursuant to the resolution of the Board of Directors on 15th March, 2005, on the basis of 12,055,383,440 ordinary shares outstanding as at 31st December, 2004, the directors proposed a cash dividend of Rmb2.5 (including tax) of every 10 ordinary shares. On 11th May, 2005, the shareholders approved the profit distribution plan and declared the cash dividend amounting to 3,013,845,860, on the basis of 12,055,383,440 ordinary shares outstanding as at the distribution date.

The maximum amount available for distribution to the shareholders is the lowest of the amounts (i.e. net profit in current year plus undistributed profit brought forward from the beginning of the year, less any appropriations to the statutory surplus reserve fund and the statutory public welfare fund) determined under the PRC accounting standards and the International Financial Reporting Standards (the "IFRS").

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

(22) Revenue from principal operations and costs of principal operations

|                         | For the six months ended<br>30th June, 2005 | For the six months ended<br>30th June |
|-------------------------|---|---------------------------------------|
| Revenues from principal | Costs of principal                          | Revenue from principal                |

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|                         | operations     | operations     | operations     |
|-------------------------|----------------|----------------|----------------|
| Sales of electric power | 18,860,674,631 | 15,381,295,296 | 13,040,289,339 |

The Company and its subsidiaries are principally engaged in the generation and sale of electric power in China.

For the six months ended 30th June, 2005 and 2004, the revenue from the five largest customers of the Company and its subsidiaries amounted to Rmb11,860,159,760 and Rmb10,419,558,242, representing 62.88% and 79.90% of the total revenue, respectively.

(23) Financial expenses

|                       | For six months<br>ended 30th<br>June, 2005 |
|-----------------------|--|
| Interest expenses     | 784,070,806                                |
| Less: Interest income | (25,195,552)                               |
| Exchange losses       | 5,009,254                                  |
| Less: Exchange gain   | (109,659,451)                              |
| Others                | 32,930,376                                 |
|                       | -----                                      |
|                       | 687,155,433                                |
|                       | =====                                      |

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

(24) Investment income

|   | For six months<br>ended 30th<br>June, 2005 |
|---|--|
| Investment income on bonds  | -  |
| Share of profit of associates accounted for under the equity method | 244,835,252                                |
| Dividends declared by investees accounted for under the cost method | 34,839,000                                 |
| Amortization of equity investment differences                       | (181,002,078)                              |
|   | -----                                      |
|   | 98,672,174                                 |
|   | =====                                      |

There was no material restriction on the remittance of investment income to the Company and its subsidiaries.

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

## (25) Acquisition

As mentioned in Note 1, on 26th October, 2004, the Company acquired 60% equity interest in Sichuan Hydropower, and 65% equity interest in the Pingliang Power Company. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of the relevant ownership and control, the acquisitions were effective on 5th January, 2005 (the "effective date"). At the effective date, assets, liabilities and cash flows related to the acquisitions of these subsidiaries were as follows:

|  | As at 5th<br>January, 2005 |
|--|----------------------------|
|  | -----                      |
| Current assets                               | 1,328,999,525              |
| Fixed assets                                 | 10,658,011,842             |
| Intangible assets                            | 2,524,438                  |
| Other long-term assets                       | 154,162,257                |
| Current liabilities                          | 2,068,018,662              |
| Long-term loan                               | 7,190,341,383              |
| Minority shareholders interest               | 681,333,676                |
|  | -----                      |
| Net assets                                   | 2,204,004,341              |
| Net assets acquired                          | 1,368,608,423              |
| Add: premiums (equity investment difference) | 656,391,577                |
|  | -----                      |
| Total consideration                          | 2,025,000,000              |
| Less: cash flow from acquisition             | (566,703,654)              |
|  | -----                      |
| Net cash outflow for acquisition             | 1,458,296,346              |
|  | =====                      |

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

## (25) Acquisition (Cont'd)

The condensed income statements of these subsidiaries for the six months from the effective date of acquisition to 30th June, 2005 are as follows:

|  | For the six<br>months ended<br>30th June, 2005 |
|--|--|
|  | -----  |
| Revenue from principal operations      | 1,457,834,504                                  |
| Cost and tax from principal operations | (726,992,637)                                  |
|  | -----  |



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|                                  |              |
|----------------------------------|--------------|
| Profit from principal operations | 730,841,867  |
| Net income before tax            | 511,094,827  |
| Less: Income tax                 | (74,655,849) |
| Minority shareholders interest   | (94,119,206) |
|                                  | -----        |

|            |             |
|------------|-------------|
| Net profit | 342,319,772 |
|            | =====       |

(26) Other cash paid relating to operating activities

For the six  
months ended  
30th June, 2005

|                                 |               |
|---------------------------------|---------------|
| Service fee paid to HIPDC       | 70,493,451    |
| Payment of balance due to HIPDC | 1,200,913,553 |
| Others                          | 507,671,555   |
|                                 | -----         |
|                                 | 1,779,078,559 |
|                                 | =====         |

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6. Notes to the Company only Financial Statements

(1) Accounts receivable and other receivables

(i) Accounts receivable

|                                   | 30th June, 31st December,<br>2005 |           |
|-----------------------------------|-----------------------------------|-----------|
|                                   | -----                             | -----     |
| Accounts receivable               | 2,710,336,342                     | 2,407,402 |
| Less: Specific bad debt provision | (269,326)                         | (269,326) |
|                                   | -----                             | -----     |
|                                   | 2,710,067,016                     | 2,407,133 |
|                                   | =====                             | =====     |

Accounts receivable's aging and bad debt provision are as follows:

| Aging         | 30th June, 2005 |                |                    | 31st December, 2004 |                |                    |
|---------------|-----------------|----------------|--------------------|---------------------|----------------|--------------------|
|               | Amount          | Percentage (%) | Bad debt provision | Amount              | Percentage (%) | Bad debt provision |
|               | -----           | -----          | -----              | -----               | -----          | -----              |
| Within 1 year | 2,697,743,892   | 100            | -                  | 2,394,810,528       | 99             | -                  |
| 1-2 years     | -               | -              | -                  | 6,203,191           | -              | -                  |
| 2-3 years     | 6,203,191       | -              | -                  | -                   | -              | -                  |
| Over 3 years  | 6,389,259       | -              | (269,326)          | 6,389,259           | 1              | (269,326)          |
|               | -----           | -----          | -----              | -----               | -----          | -----              |

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|               |     |           |               |     |   |
|---------------|-----|-----------|---------------|-----|---|
| 2,710,336,342 | 100 | (269,326) | 2,407,402,978 | 100 | ( |
| =====         |     |           |               |     |   |

All accounts receivable represented receivables from the provincial or regional grid companies for the sales of electric power.

As at 30th June, 2005, the five largest accounts receivable of the Company amounted to Rmb2,039,589,727 (31st December, 2004: Rmb1,908,721,219), representing 75.25% of total accounts receivable (31st December, 2004: 79.29%).

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

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

(ii) Other receivables

|                          | 30th June, 2005 | 31st December, 2005 |
|--------------------------|-----------------|---------------------|
|                          | -----           |                     |
| Other receivables        | 171,600,922     | 153,647,924         |
| Less: bad debt provision | (25,211,778)    | (27,557,924)        |
|                          | -----           |                     |
|                          | 146,389,144     | 126,090,000         |
|                          | =====           |                     |

Other receivables' aging and bad debt provision are as follows:

| Aging         | 30th June, 2005 |                |                    | 31st December, 2004 |                |              | B            |
|---------------|-----------------|----------------|--------------------|---------------------|----------------|--------------|--------------|
|               | Amount          | Percentage (%) | Bad debt provision | Amount              | Percentage (%) | pr           |              |
|               | -----           |                |                    |                     |                |              |              |
| Within 1 year | 104,664,660     | 61             | (1,120,211)        | 80,738,203          | 53             | (1,120,211)  | (1,120,211)  |
| 1-2 years     | 16,089,430      | 10             | (16,031)           | 19,491,130          | 13             | (16,031)     | (16,031)     |
| 2-3 years     | 7,658,528       | 4              | (6,235,440)        | 8,496,078           | 5              | (6,235,440)  | (6,235,440)  |
| Over 3 years  | 43,188,304      | 25             | (17,840,096)       | 44,922,513          | 29             | (17,840,096) | (17,840,096) |
|               | -----           |                |                    |                     |                |              |              |
|               | 171,600,922     | 100            | (25,211,778)       | 153,647,924         | 100            | (27,557,924) | (27,557,924) |
|               | =====           |                |                    |                     |                |              |              |

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

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

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(ii) Other receivables (Cont'd)

Breakdown of other receivables is as follows:

|  | 30th June,<br>2005 | 31st<br>December,<br>2004 |
|--|--------------------|---------------------------|
| Receivables from employees for sales of staff quarters | 72,586             | 11,429,736                |
| Petty cash   | 11,429,736         | 15,840,285                |
| Prepayments for constructions                          | 15,840,285         | 28,358,932                |
| Due from management fee of subsidiaries                | 28,358,932         | 22,859,074                |
| Due from sales of steam to Jining Duoqing Company      | 22,859,074         | 93,040,309                |
| Others   | 93,040,309         |                           |
|  | 171,600,922        |                           |

As at 30th June, 2005, the five largest other receivables of the Company amounted to Rmb47,266,821 (31st December, 2004: Rmb37,899,319), representing 27.54% of total other receivables (31st December, 2004: 24.66% ).

As at 30th June, 2005, and 31st December, 2004, there was no balance of accounts receivable and other receivables from shareholders who held 5% or more of the equity interest in the Company, except for the other receivable amounting to 8,460,600 (31st December, 2004: Nil) due from Huaneng Group.

See Note 7 for balances due from or due to related parties.

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

(2) Long-term Investments

|                                     | 31st December,<br>2004 | Current period<br>additions | Current period<br>deductions |
|-------------------------------------|------------------------|-----------------------------|------------------------------|
| Long-term equity investments        |                        |                             |                              |
| Subsidiaries (i)                    | 4,515,546,857          | 2,219,152,800               | (369,546,645)                |
| Associates*                         | 3,198,912,967          | 243,553,376                 | (267,964,237)                |
| Equity investment difference*       | 2,407,192,866          | 716,349,005                 | (181,002,078)                |
| Other long-term equity investments* | 261,143,566            | -                           | (83,040)                     |
|                                     | 10,382,796,256         | 3,179,055,181               | (818,596,000)                |

\* Please refer to Note 5(6) for details.

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

(2) Long-term Investments (Cont'd)

(i) Long-term equity investments in subsidiaries

| Name                         | Investment period | Percentage of equity interest held by the Company |                 | Investment cost movement |                 | Accumulated equity  |                                   |
|------------------------------|-------------------|---|-----------------|--------------------------|-----------------|---------------------|-----------------------------------|
|                              |                   | 31st December, 2004                               | 30th June, 2005 | 31st December, 2004      | 30th June, 2005 | 31st December, 2004 | Cumulative additions (deductions) |
| Weihai Power Company         | No specific terms | 60%   | 60%             | 474,038,793              | 474,038,793     | 186,142,793         | (51,330,000)                      |
| Taicang Power Company        | No specific terms | 75%   | 75%             | 469,706,560              | 469,706,560     | 251,715,687         | (90,540,000)                      |
| Huaiyin Power Company        | No specific terms | 63.64%  | 90%             | 341,176,226              | 481,818,798     | 39,883,679          | (41,510,000)                      |
| Huaiyin II Power Company     | No specific terms | 63.64%  | 63.64%          | 301,653,600              | 397,113,600     | -                   | 9,840,000                         |
| Yushe Power Company          | No specific terms | 60%   | 60%             | 374,449,895              | 374,449,895     | 34,743,691          | (27,650,000)                      |
| Qinbei Power Company         | 50 years          | 55%   | 55%             | 325,095,599              | 345,095,599     | (9,902,420)         | 6,560,000                         |
| Xindian II Power Company     | No specific terms | 95%   | 95%             | 140,100,000              | 151,100,000     | -                   | -                                 |
| Taicang II Power Company     | No specific terms | 75%   | 75%             | 335,410,000              | 335,410,000     | -                   | -                                 |
| Yueyang Power Company        | No specific terms | 55%   | 55%             | 266,734,838              | 316,734,838     | 44,633,685          | (7,740,000)                       |
| Luohuang Power Company       | No specific terms | 60%   | 60%             | 820,218,249              | 855,218,249     | 119,745,982         | 81,660,000                        |
| Shanghai Ranji Power Company | No specific terms | 75%   | 75%             | -                        | 35,000,000      | -                   | -                                 |
| Sichuan Hydropower           | No specific terms | -   | 60%             | -                        | 767,932,785     | -                   | 94,590,000                        |
| Pingliang Power Company      | No specific terms | -   | 65%             | -                        | 600,675,638     | -                   | 120,030,000                       |
|                              |                   |   |                 | 3,848,583,760            | 5,604,294,755   | 666,963,097         | 93,890,000                        |

[TABLE CONTINUED]

| Name         | Net carrying value  |                 |
|--------------|---------------------|-----------------|
|              | 31st December, 2004 | 30th June, 2005 |
| Weihai Power |                     |                 |

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|                              |               |               |
|------------------------------|---------------|---------------|
| Company                      | 660,181,586   | 608,846,540   |
| Taicang Power Company        | 721,422,247   | 630,875,842   |
| Huaiyin Power Company        | 381,059,905   | 480,182,631   |
| Huaiyin II Power Company     | 301,653,600   | 406,959,605   |
| Yushe Power Company          | 409,193,586   | 381,533,909   |
| Qinbei Power Company         | 315,193,179   | 341,759,154   |
| Xindian II Power Company     | 140,100,000   | 151,100,000   |
| Taicang II Power Company     | 335,410,000   | 335,410,000   |
| Yueyang Power Company        | 311,368,523   | 353,626,556   |
| Luohuang Power Company       | 939,964,231   | 1,056,625,393 |
| Shanghai Ranji Power Company | -             | 35,000,000    |
| Sichuan Hydropower           | -             | 862,527,482   |
| Pingliang Power Company      | -             | 720,705,900   |
|                              | -----         |               |
|                              | 4,515,546,857 | 6,365,153,012 |
|                              | =====         |               |

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

(3) Revenue from principal operations and costs of principal operations

|                         | For the six months ended<br>30th June, 2005 |                                     | For the six months ended<br>30th June, 2004 |
|-------------------------|---|-------------------------------------|---|
|                         | Revenues from<br>principal<br>operations    | Costs of<br>principal<br>operations | Revenue from<br>principal<br>operations     |
|                         | -----                                       |                                     | -----                                       |
| Sales of electric power | 12,465,249,767                              | 10,583,594,083                      | 11,104,641,146                              |
|                         | =====                                       |                                     | =====                                       |

The Company and its subsidiaries are principally engaged in the generation and sale of electric power in China.

For the six months ended 30th June, 2005 and 2004, the revenue from the five largest customers of the Company amounted to Rmb9,902,938,076 and Rmb8,663,463,317, representing 79.44% and 78.02% of the total revenue of the company respectively.

(4) Investment income

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For the  
six months  
ended  
30th June,  
2005

|  |               |
|--|---------------|
| Investment income on bonds   | -             |
| Investment income on entrusted loans   | -             |
| Share of profit of subsidiaries and associates accounted for under the equity method | 706,891,231   |
| Dividend declared by investees accounted for under the cost method                   | 34,839,000    |
| Amortization of equity investment differences  | (181,002,078) |
|  | -----         |
|  | 560,728,153   |
|  | =====         |

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

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7. Related Party Transactions

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

| Name                     | Registered address  | Principal activities   | Relationship with the Company | Type of relationship |
|--------------------------|---|--|-------------------------------|----------------------|
| -----                    |   |  |                               |                      |
| Huaneng Group            | Jia 23 Fuxing Road, Haidian district, Beijing                           | Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber, and related industries | Ultimate parent company       | Shareholder          |
| HIPDC                    | 40 Xueyuan South Road, Haidian district, Beijing                        | Investment in power plants, development and investment in other export-oriented enterprises  | Parent company                | Shareholder          |
| Weihai Power Company     | No. 58 Haifu Road, Economic Development Zone, Weihai, Shandong province | Power generation   | A subsidiary of the Company   | Shareholder          |
| Taicang Power Company    | Jinjihupan, Sanxing Road, Suzhou, Jiangsu province                      | Power generation   | A subsidiary of the Company   | Shareholder          |
| Taicang II Power Company | Jinlanglanggang village, Fuqiao town, Taicang, Jiangsu province         | Power generation   | A subsidiary of the Company   | Shareholder          |

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|                       |  |                  |                             |         |
|-----------------------|--|------------------|-----------------------------|---------|
| Huaiyin Power Company | No. 291 Huaihai West Road, Huai'an, Jiangsu province | Power generation | A subsidiary of the Company | Li<br>c |
|-----------------------|--|------------------|-----------------------------|---------|

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7. Related Party Transactions (Cont'd)

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

| Name                         | Registered address   | Principal activities | Relationship with the Company | Ty<br>en |
|------------------------------|--|----------------------|-------------------------------|----------|
| Huaiyin II Power Company     | No. 291 Huaihai West Road, Huai'an, Jiangsu province                   | Power generation     | A subsidiary of the Company   | Li<br>c  |
| Qinbei Power Company         | Wulongkou town, Jiyuan, Henan province                                 | Power generation     | A subsidiary of the Company   | Li<br>c  |
| Yushe Power Company          | Dengyu village, Yushe county, Shanxi province                          | Power generation     | A subsidiary of the Company   | Li<br>c  |
| Xindian II Power Company     | Qilu Chemical Industrial Park, Linzi district, Zibo, Shandong province | Power generation     | A subsidiary of the Company   | Li<br>c  |
| Yueyang Power Company        | Cheng Lingji, Yueyang, Hunan province                                  | Power generation     | A subsidiary of the Company   | Li<br>co |
| Luohuang Power Company       | Luohuang town, Jiangjin, Chongqing province                            | Power generation     | A subsidiary of the Company   | Li<br>c  |
| Shanghai Ranji Power Company | No.298 Sheng Shi Road, Baoshan district, Shanghai                      | Power generation     | A subsidiary of the Company   | Li<br>co |

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7. Related Party Transactions (Cont'd)

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

|            |                   |    |
|------------|-------------------|----|
| Registered | Relationship with | Ty |
|------------|-------------------|----|

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| Name                  | address   | Principal activities | the Company                                   | en   |
|-----------------------|---|----------------------|---|------|
| Sichuan Hydropower    | No.27 Fourth south Renmin Road, Wuhou district, Chengdu, Sichuan province | Investment Holding   | A subsidiary of the Company                   | Li c |
| Baoxinghe Hydropower  | No.18 Yanjiang North Road, Ya'an, Sichuan province                        | Power generation     | A subsidiary of the subsidiary of the Company | Li c |
| Dongxiguan Hydropower | Li'an Town, Wusheng county, Sichuan province                              | Power generation     | A subsidiary of the subsidiary of the Company | Li c |
| Taipingyi Hydropower  | Yingxiu Town, Wenchuan county, Sichuan province                           | Power generation     | A subsidiary of the subsidiary of the Company | Li c |
| Kangding Hydropower   | Yuanyang ba, Kangding county, Ganzhi state, Sichuan province              | Power generation     | A subsidiary of the subsidiary of the Company | Li c |
| Mingtai Hydropower    | East river Road, north dam district, Santai county, Sichuan province      | Power generation     | A subsidiary of the subsidiary of the Company | Li c |

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7. Related Party Transactions (Cont'd)

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

| Name                    | Registered address   | Principal activities | Relationship with the Company                 | Ty en |
|-------------------------|--|----------------------|---|-------|
| Jialingjiang Hydropower | No.189 Liulin Road, Shunqing district, Nanchong city, Sichuan province | Power generation     | A subsidiary of the subsidiary of the Company | Li c  |
| Fujiang Hydropower      | Baima village, Pingwu county, Sichuan province                         | Power generation     | A subsidiary of the subsidiary of the Company | Li c  |
| Pingliang Power Company | No.7 Middle Road Qilihe, Lanzhou city, Gansu province                  | Power generation     | A subsidiary of the Company                   | Li c  |



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|                     |   |          |   |         |
|---------------------|---|----------|---|---------|
| Yuanheng<br>Company | Dengyu village,<br>Yushe county,<br>Shanxi province | Services | A subsidiary of<br>the subsidiary<br>of the Company | Li<br>c |
|---------------------|---|----------|---|---------|

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7. Related Party Transactions (Cont'd)

(2) Registered capital and changes in registered capital of related parties that control/are controlled by the Company:

| Name                         | Currency | 31st December,<br>2004 | Current<br>period<br>additions |   |
|------------------------------|----------|------------------------|--------------------------------|---|
| Huaneng Group                | Rmb      | 20,000,000,000         | -                              | 2 |
| HIPDC                        | US\$     | 450,000,000            | -                              |   |
| Weihai Power Company         | Rmb      | 761,838,300            | -                              |   |
| Taicang Power Company        | Rmb      | 632,840,000            | -                              |   |
| Taicang II Power Company     | Rmb      | 894,410,000            | -                              |   |
| Huaiyin Power Company        | Rmb      | 265,000,000            | -                              |   |
| Huaiyin II Power Company     | Rmb      | 474,000,000            | -                              |   |
| Qinbei Power Company         | Rmb      | 10,000,000             | -                              |   |
| Yushe Power Company          | Rmb      | 80,000,000             | 535,760,000                    |   |
| Xindian II Power Company     | Rmb      | 100,000,000            | -                              |   |
| Yueyang Power Company        | Rmb      | 560,000,000            | -                              |   |
| Luohuang Power Company       | Rmb      | 900,000,000            | -                              |   |
| Shanghai Ranji Power Company | Rmb      | -                      | 50,000,000                     |   |
| Sichuan Hydropower           | Rmb      | 800,000,000            | -                              |   |
| Baoxinghe Hydropower         | Rmb      | 516,100,000            | -                              |   |
| Dongxiguan Hydropower        | Rmb      | 156,725,000            | -                              |   |
| Taipingyi Hydropower         | Rmb      | 100,000,000            | -                              |   |
| Kangding Hydropower          | Rmb      | 194,000,000            | -                              |   |
| Mingtai Hydropower           | Rmb      | 97,700,000             | -                              |   |
| Jialingjiang Hydropower      | Rmb      | 193,080,000            | -                              |   |
| Fujian Hydropower            | Rmb      | 150,000,000            | -                              |   |
| Pingliang Power Company      | Rmb      | 623,000,000            | -                              |   |
| Yuanheng Company             | Rmb      | 3,000,000              | -                              |   |

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7. Related Party Transactions (Cont'd)

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

| Name  | 31st, December<br>2004 |   | 30th June,<br>Current period additions |   | Am |
|-------|------------------------|---|--|---|----|
|       | Amount                 | % | Amount                                 | % |    |
| ----- |                        |   |  |   |    |

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|                              |               |       |             |       |           |
|------------------------------|---------------|-------|-------------|-------|-----------|
| Huaneng Group*               | 1,675,660,547 | 51.98 | -           | -     | 1,675,660 |
| HIPDC**                      | 5,197,680,000 | 43.12 | -           | -     | 5,197,680 |
| Weihai Power Company         | 457,102,980   | 60    | -           | -     | 457,102   |
| Taicang Power Company        | 474,630,000   | 75    | -           | -     | 474,630   |
| Taicang II Powe Company      | 670,807,500   | 75    | -           | -     | 670,807   |
| Huaiyin Power Company        | 168,646,000   | 63.64 | 69,854,000  | 26.36 | 238,500   |
| Huaiyin II Power Company     | 301,653,600   | 63.64 | -           | -     | 301,653   |
| Qinbei Power Company         | 5,500,000     | 55    | -           | -     | 5,500     |
| Yushe Power Company          | 48,000,000    | 60    | 321,456,000 | -     | 369,456   |
| Xindian II Power Company     | 95,000,000    | 95    | -           | -     | 95,000    |
| Yueyang Power Company        | 308,000,000   | 55    | -           | -     | 308,000   |
| Luohuang Power Company       | 540,000,000   | 60    | -           | -     | 540,000   |
| Shanghai Ranji Power Company | -             | -     | 35,000,000  | 70    | 35,000    |
| Sichuan Hydropower           | -             | -     | 480,000,000 | 60    | 480,000   |
| Baoxinghe Hydropower***      | -             | -     | 350,948,000 | 68    | 350,948   |
| Dongxiguan Hydropower***     | -             | -     | 86,715,943  | 55.33 | 86,715    |
| Taipingyi Hydropower***      | -             | -     | 60,000,000  | 60    | 60,000    |
| Kangding Hydropower***       | -             | -     | 116,400,000 | 60    | 116,400   |
| Mingtai Hydropower***        | -             | -     | 50,999,400  | 52.20 | 50,999    |
| Jialingjiang Hydropower***   | -             | -     | 106,194,000 | 55    | 106,194   |
| Fujiang Hydropower***        | -             | -     | 142,500,000 | 95    | 142,500   |
| Pingliang Power Company      | -             | -     | 404,950,000 | 65    | 404,950   |
| Yuanheng Company****         | 2,850,000     | 95    | -           | -     | 2,850     |

\* Huaneng Group holds 51.98% equity interest in HIPDC.

\*\* In accordance with a shareholders' agreement entered into by certain founding shareholders, during the operating period of the Company, the voting rights of seven founding shareholders are given to HIPDC. Thus, HIPDC holds a 70.09% effective voting right at the shareholders' meetings.

\*\*\* Sichuan Hydropower directly holds 68%, 55.33%, 60%, 60%, 52.2%, 55% and 95% equity interest in Baoxinghe Hydropower, Dongxiguan Hydropower, Taipingyi Hydropower, Kangding Hydropower, Mingtai Hydropower, Jialingjiang Hydropower and Fujiang Hydropower respectively.

\*\*\*\* Yushe Power Company holds 95% equity interest in Yuanheng Company.

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7. Related Party Transactions (Cont'd)

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

| Name of related parties           | Relationship with the Company  |
|-----------------------------------|--|
| Huaneng Finance                   | A subsidiary of Huaneng Group  |
| WPDB                              | Minority shareholder of Weihai Power Company                               |
| Henan Investment                  | Minority shareholder of Qinbei Power Company                               |
| Jiyuan Investment                 | Minority shareholder of Qinbei Power Company                               |
| Shanxi International              | Minority shareholder of Yushe Power Company                                |
| CCI                               | Minority shareholder of Luohuang Power Company                             |
| JEPDC                             | Minority shareholder of Huaiyin Power Company and Huaiyin II Power Company |
| China Huaneng International Trade | A subsidiary of Huaneng Group  |

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|   |   |
|---|---|
| Economics Corporation (the "CHITEC")                                    |   |
| Shanghai Time Shipping Company<br>(the "Time Shipping")                 | A joint venture company of Huaneng Group                      |
| Rizhao Power Company  | An associate of the Company                                   |
| SEG   | An associate of the Company                                   |
| Hanfeng Power Company   | An associate of the Company                                   |
| Hebei Huaneng Jingyuan Coal Company<br>Limited (the "Huaneng Jingyuan") | A subsidiary of Huaneng Group                                 |
| Lime Company  | An associate of Luohuang Power Company                        |
| Sichuan Power   | Investee of Baoxinghe Hydropower and<br>Dongxiguan Hydropower |
| Sichuan Yong'an   | Investee of Mingtai Hydropower                                |
| Aba Hydro Power   | Investee of Taipingyi Hydropower                              |
| GPPIC   | Investee of Pingliang Hydropower                              |

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### 7. Related Party Transactions (Cont'd)

#### (5) Related party transactions

- a. On 30th June, 1994, the Company and HIPDC entered into a service agreement pursuant to which HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. The agreement covered a period of 10 years and expired during 2004. However, the Company has not yet signed a new agreement with HIPDC. The total amount of service fees paid to HIPDC for the six months ended 30th June, 2005 was approximately Rmb70 million (for the six months ended 30th June, 2004: Rmb105 million).
- b. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use right of Nanjing Power Plant is leased to the Company for 50 years from 1st January, 1999 at an annual rental payment of Rmb1.334 million.
- c. Pursuant to a leasing agreement entered into between the Company and HIPDC, HIPDC agreed to lease its office building to the Company at an annual rental of Rmb26 million for five years from 1st January, 2005.
- d. As described in Note 5 (17) (i), certain bank loans were on-lent from Huaneng Group through Huaneng Finance, and as described in Note 5 (17) (iii), certain bank loans of the Company and its subsidiaries were drawn from Huaneng Finance, WPDB, Shanxi International, CCI, JEPDC, Sichuan Power, Sichuan Yong'an, Aba Hydro Power and GPPCI.
- e. As at 30th June, 2005, Huaneng Finance had granted short-term loans of Rmb2,424 million (31st December, 2004: Rmb3,694 million) to the Company and its subsidiaries. The relevant interest rates range from 4.54% to 5.02% (2004: 4.54% to 5.02%) per annum. The interest rates for such loans have no material difference with the prevailing market interest rate (see Note 5(12)). For the six months ended 30th June, 2005, the interest paid by the Company and its subsidiaries to HIPDC for these loans amounted to Rmb38,629,135 (For the six months ended 30th June, 2004: Rmb23,543,851).
- f. As at 30th June, 2005, long-term bank loans of approximately Rmb3,666 million, Rmb7,516 million, Rmb100 million, Rmb200 million, Rmb448 million, Rmb125 million, Rmb579 million and Rmb15 million were guaranteed by HIPDC, Huaneng Group, WPDB, Henan Investment, Shanxi

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International, Jiyuan Investment, GPPCI and Sichuan Yong'an respectively (31st December, 2004: Rmb3,937 million, Rmb3,798 million, Rmb100 million, Rmb200 million, Rmb420 million, Rmb125 million, Nil and Nil) (see Note 5(17)).

- g. As described in Note 8, certain bank loans of Rizhao Power Company were guaranteed by the Company.

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### 7. Related Party Transactions (Cont'd)

#### (5) Related party transactions (Cont'd)

- h. On 6th November, 2002, the Company entered into a management service agreement with Huaneng Group and HIPDC. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC for five years. For the six months ended 30th June, 2005, the Company earned service fees amounted to Rmb16,921,200 from Huaneng Group (for the six months ended 30th June, 2004: Rmb16,647,600) and paid expenses on behalf of Huaneng Group's power plants amounted to Rmb1,359,377 (As at 31st December, 2004: 2,317,194). In addition, the Company earned service fees amounted to Rmb1,644,000 from HIPDC (For the six months ended 30th June, 2004: Rmb8,652,600). For the six months ended 30th June, 2005, the related costs incurred for the management services provided totaled approximately Rmb14.16 million (For the six months ended 30th June, 2004: Rmb18 million).
- i. For the six months ended 30th June, 2005, the Company and its subsidiaries paid approximately Rmb276.31 million for coal purchased from CHITEC (For the six months ended 30th June, 2004: Rmb100.35 million).
- j. For the six months ended 30th June, 2005, the Company and its subsidiaries paid approximately Rmb274 million for the fuel purchased and transportation services received from Time Shipping (For the six months ended 30th June, 2004: Rmb213 million).
- k. For the six months ended 30th June, 2005, the Company and its subsidiaries paid approximately Rmb122.66 million for coal purchased from Huaneng Jingyuan (For the six months ended 30th June, 2004: Nil).
- l. For the six months ended 30th June, 2005, the Company and its subsidiaries paid approximately Rmb27.3 million for lime products purchased from Lime Company (For the six months ended 30th June, 2004: N/A).
- m. For the six months ended 30th June, 2005, HIPDC had provided guarantees on the Company's equity portion of certain accounts receivable balances of two subsidiaries totaling approximately Rmb205 million (31st December, 2004: Rmb209 million) (see Note 5(3)(i)).

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### 7. Related Party Transactions (Cont'd)

#### (5) Related party transactions (Cont'd)

- n. On 26th October, 2004, the Company entered into an agreement with

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Huaneng Group pursuant to which the Company acquired from Huaneng Group 60% equity interest in Sichuan Hydropower and 65% equity interest in Pingliang Power Company at considerations of Rmb1,219 million and Rmb806 million respectively. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership and control, the acquisitions became effective on 5th January, 2005.

- o. On 11th April, 2005, the Company entered into an agreement with Huaneng Group, pursuant to which Huaneng Group provides management service to Sichuan Hydropower. The total amount of service fees is Rmb2.42 million per annum. The Company pays for a portion of this amount according to its equity interest in Sichuan Hydropower.
- p. For the period ended 30th June, 2005, the Company and its subsidiaries discounted approximately Rmb120 million, including the Rmb80.11 million as at 30th June, 2005 (31st December, 2004: Nil) of notes receivables to this entity, the discounting charges of which were approximately Rmb1.04 million (For the six months ended 30th June, 2004: Nil).
- q. For the six months ended 30th June, 2005, the Company sold a company at its net book value of Rmb30 million to HIPDC (For the six months ended 30th June, 2004: Nil).

### (6) Cash deposited with a related party

|                               | 30th June,<br>2005 | 31st December,<br>2004 |
|-------------------------------|--------------------|------------------------|
|                               |                    |                        |
| Deposited at Huaneng Finance: |                    |                        |
| - Current deposit             | 1,371,334,367      | 1,362,960,901          |
|                               |                    |                        |

As at 30th June, 2005, the interest rates per annum for the current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% (31st December, 2004: 0.72% to 1.44%).

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## 7. Related Party Transactions (Cont'd)

### (7) Receivables from / payables to related parties

|   | 30th June, 2005 |            | 31st Decem |
|---|-----------------|------------|------------|
|   | Amount          | Percentage | Amount     |
|   |                 |            |            |
| Advance to suppliers                    |                 |            |            |
| Prepayment to CHITEC                    | -               | -          | 5,000,000  |
| Prepayment to<br>Huaneng Jingyuan       | 12,000,000      | 1.82%      | 6,000,000  |
| Prepayment to<br>Yuanheng Company       | 1,977,556       | 0.30%      | -          |
| Other receivables                       |                 |            |            |
| Other receivables from<br>Huaneng Group | 8,460,600       | 1.77%      | -          |

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|   |             |       |             |
|---|-------------|-------|-------------|
| Other receivables from Huaneng Group's subsidiaries | 1,359,477   | 0.28% | 2,317,194   |
| Other receivables from Rizhao Power Company         | 1,020,000   | 0.21% | 1,652,353   |
| Accounts payable                                    |             |       |             |
| Accounts payable to Huaneng Jingyuan                | (8,301,871) | 0.57% | -           |
| Accounts payable to Huaneng Group                   | (830,174)   | 0.06% | -           |
| Accounts payable to Time Shipping                   | (8,148,077) | 0.56% | (6,959,110) |
| Accounts payable to Lime Company                    | (3,655,549) | 0.25% | (3,799,628) |

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7. Related Party Transactions (Cont'd)

(7) Receivables from/ payables to related parties (Cont'd)

|   | 30th June, 2005 |            | 31st Decem      |
|---|-----------------|------------|-----------------|
|   | Amount          | Percentage | Amount          |
| Other Payable                                   |                 |            |                 |
| Other payables to HIPDC                         | (51,043,976)    | 1.68%      | (1,258,799,490) |
| Other payable to CHITEC                         | (409,205)       | 0.01%      | (399,060)       |
| Other payables to Huaneng Finance               | (117,461)       | -          | (117,461)       |
| Other payables to Huaneng Group                 | (189,963)       | 0.01%      | (189,963)       |
| Other payables to Sichuan Huaneng Shiye Company | (1,292,217)     | 0.04%      | -               |
| Other payables to Huaneng Jingyuan              | (268,016)       | 0.01%      | -               |
| Interest payables                               |                 |            |                 |
| Interest payables on loans from Huaneng Finance | (59,997,925)    | 22.34%     | (1,960,863)     |
| Interest payables on loans from Huaneng Group   | (44,401,735)    | 16.53%     | -               |
| Dividends payables                              |                 |            |                 |
| Dividends payables to Huaneng Group             | (18,516,923)    | 22.93%     | -               |

The above balances with related parties were unsecured, non-interest bearing and to be settled within one year.

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8. Contingent Liability

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| Item  | 30th June<br>The Company<br>and its<br>subsidiaries |
|---|---|
| -----   |   |
| Guarantee on the long-term bank loans of Rizhao Power Company | 292,500,000   |
| Guarantee on the long-term bank loans of Qinbei Power Company | -   |
| Guarantee on the long-term bank loans of Yushe Power Company  | -   |
|   | -----   |
|   | 292,500,000<br>=====                                |

The directors are of the view that the guarantees on the long-term bank loans of Rizhao Power Company, Qinbei Power Company and Yushe Power Company by the Company had no significant financial impact on the Company's operation.

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9. Obligation and Commitments

Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Expenditure which was contracted for but not incurred and thus was not recognized in the financial statements as at 30th June, 2005 amounted to approximately Rmb24,177 million (31st December, 2004: Rmb11,483 million).

In addition, during 2004 and the first half of 2005, the Company entered into various long-term agreements for the procurement of coal from year 2005 to 2009 for power generation. These agreements are subject to termination only under certain limited circumstances. In most cases, these agreements contain provisions for price escalation and minimum purchase level clauses. The future commitments under these agreements are as follows:

| Year | 30th June, 2005         |
|------|-------------------------|
|      | -----                   |
| 2005 | 3,427,749,000           |
| 2006 | 9,110,989,000           |
| 2007 | 10,136,747,000          |
| 2008 | 7,553,349,000           |
| 2009 | 8,465,884,000           |
|      | -----                   |
|      | 38,694,718,000<br>===== |

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9. Obligation and Commitments (Cont'd)

The Company had various operating lease arrangements with HIPDC for land and

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buildings. Total future minimum lease payments under non-cancelable operating leases are as follows:

|                    | 30th June,<br>2005 | 31st December,<br>2004 |
|--------------------|--------------------|------------------------|
|                    |                    |                        |
| Land and buildings |                    |                        |
| - within 1 year    | 27,834,000         | 1,334,000              |
| - 1-2 years        | 27,334,000         | 1,334,000              |
| - 2-3 years        | 27,334,000         | 1,334,000              |
| - after 3 years    | 92,307,000         | 54,694,000             |
|                    |                    |                        |
|                    | 174,809,000        | 58,696,000             |
|                    |                    |                        |

In addition, in accordance with a 30-year operating lease agreement signed by the Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phase I and Phase II in June 1994, annual rental is approximately Rmb29,874,000 effective from June 1994 and is subject to revision at the end of the fifth year from the contract date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the six months ended 30th June, 2005, the rental was Rmb14,937,227 (For the six months ended 30th June, 2004: Rmb14,975,227).

### 10. Net Profit after Deducting Non-recurring Items

|   | For the six months e<br>2005 |
|---|------------------------------|
|   |                              |
| Net profit  | 1,620,288,149                |
| Add (Less): non-recurring items                   |                              |
| - Net loss (profit) from disposal of fixed assets | 555,426                      |
| - Reversal of bad debit provision                 | (3,208,923)                  |
| - Reversal of Inventory impairment provision      | (64,584)                     |
| - Non-operating income                            | (13,081,152)                 |
| - Non-operating expense                           | 42,129,019                   |
| Add (Less): tax impact on non-recurring items     | (833,294)                    |
|   |                              |
| Net profit after deducting non-recurring items    | 1,645,784,641                |
|   |                              |

SUPPLEMENTAL INFORMATION (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005  
(Prepared on consolidation basis; all amounts are stated in Rmb Yuan unless otherwise stated)

Net Profit and Net Assets Reconciliation Between PRC GAAP and International Financial Reporting Standards ("IFRS")



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The financial statements, which are prepared by the Company and its subsidiaries in conformity with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises ("PRC GAAP"), differ in certain respects from IFRS. Major differences between PRC GAAP and IFRS, which affect the net income and net assets of the Company and its subsidiaries, are summarized as follow:

|  | Net Income               |
|--|--------------------------|
|  | For the six months ended |
|  | 2005                     |
|  |                          |
| Net profit under PRC GAAP  | 1,620,288,149            |
| Impact of IFRS adjustments:  |                          |
| Profit attributable to minority interests (Note i)   | 371,265,335              |
| Effect of recording the amount received in advance based on rate making process (a)          | (5,220,452)              |
| Difference in the recognition policy on housing benefits to the employees of the Company (b) | (20,041,371)             |
| Difference in capitalization of borrowing costs (c)  | 60,571,750               |
| Effect of recording negative goodwill and amortization (d)                                   | (123,639,182)            |
| Difference in accounting treatment for issuance cost of short-term bonds (e)                 | 19,289,589               |
| Difference in recognition of professional fee incurred on acquisitions (f)                   | 16,698,000               |
| Applicable deferred tax impact of the above GAAP differences (h)                             | 51,864,681               |
| Others   | 427,222                  |
|  | 1,991,503,721            |
| Net profit under IFRS  | 1,991,503,721            |

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|   | Net Asset       |
|---|-----------------|
|   | 30th June       |
|   | 2005            |
|   |                 |
| Net assets under PRC GAAP   | 35,789,948,774  |
| Impact of IFRS adjustments:   |                 |
| Minority interests (Note i)   | 4,183,675,301   |
| Effect of recording the amount received in advance based on rate making process (a) | (1,134,818,232) |

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|  |                |    |
|--|----------------|----|
| Difference in the recognition policy on housing benefits to the employees of the Company (b) | 45,786,616     |    |
| Difference in capitalization of borrowing costs (c)  | 198,629,013    |    |
| Effect of recording negative goodwill and amortization (d)                                   | 1,360,030,998  |    |
| Difference in accounting treatment for issuance cost of short-term bonds (e)                 | 19,289,589     |    |
| Difference in recognition of professional fee incurred on acquisitions (f)                   | 59,510,756     |    |
| Effect on minority interests of recording fair value adjustments upon acquisitions (g)       | 1,643,384,932  |    |
| Applicable deferred tax impact of the above GAAP differences (h)                             | (431,480,882)  |    |
| Others   | (107,013,468)  |    |
|  |                |    |
| Net assets under IFRS  | 41,626,943,397 | 39 |
|  |                |    |

Note (i) Consistent with disclosure requirement of revised IAS 1-Presentation of Financial Statements, minority interests in the consolidated net assets and net profit under IFRS should be included as a portion of total equity and total profit attributable to shareholders respectively. Accordingly, the comparative figures have been restated to meet the disclosure requirement for this period.

(a) RECORDING OF THE AMOUNT RECEIVED IN ADVANCE

In accordance with the tariff setting mechanism applicable to some of the power plants, the Company and its subsidiaries receive an advance payment (calculated at 1% of the book value of fixed assets) as the major repair and maintenance cost requirements of the relevant power plants. This payment received in advance is recognized as a liability under IFRS and is recognized as revenue when the repair and maintenance is performed and the liability extinguished. For PRC statutory financial reporting purposes, this amount is not recorded as a liability and is recognized as revenue.

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(b) DIFFERENCE IN THE RECOGNITION POLICY ON HOUSING BENEFITS TO THE EMPLOYEES OF THE COMPANY

The Company and HIPDC provided housing benefits to certain qualified employees of the Company whereby the living quarters owned by the Company and HIPDC were sold to these employees at preferential prices. The housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees, which are borne by the Company and HIPDC.

For PRC statutory reporting purposes, in accordance with the relevant regulations issued by the Ministry of Finance, the total housing benefits provided by the Company are charged to non-operating expenses as incurred. Under IFRS, the housing benefits provided by the Company are recognized on a straight-line basis over the estimated remaining average service lives of the employees.

(c) CAPITALIZATION OF BORROWING COSTS

Under PRC GAAP, the capitalization of interests is limited to specific borrowings. No interest can be capitalized on general borrowings.

In accordance with IAS 23, the Company capitalized interest on general

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borrowings used for the purpose of obtaining a qualifying asset in addition to the capitalization of interest on specific borrowings. The GAAP difference of capitalized interests on general borrowings also causes the difference of depreciation expense of relevant fixed assets.

### (d) EFFECT OF RECORDING NEGATIVE GOODWILL AND AMORTIZATION

Under PRC GAAP, the excess of the equity portion of the net assets acquired over the total cost of the acquisition arising from the business combinations in prior years was recorded as negative goodwill and amortized over certain period on a straight-line basis.

In accordance with revised IFRS 3 -- Business Combination, negative goodwill arising from the business combination in prior years is derecognized in the beginning of this period and the effect is reflected in the beginning retained earnings. And under IFRS, the amortization of the above negative goodwill is reversed.

### (e) DIFFERENCE IN ACCOUNTING TREATMENT FOR ISSUANCE COST OF SHORT-TERM BONDS

Under PRC GAAP, the issuance cost of short-term bonds is expensed when occurs. In accordance with IAS 39, an entity generally amortizes issuance cost included in the calculation of the effective interest rate over the expected life of the short-term bonds.

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### (f) DIFFERENCE IN RECOGNITION OF PROFESSIONAL FEE INCURRED ON ACQUISITIONS

Under PRC GAAP, the professional fee directly attributable to the acquisition of subsidiaries should be expensed when occurs. In accordance with IFRS 3, such professional fee should be included in the cost of the combination and therefore capitalized.

### (g) EFFECT ON MINORITY INTERESTS OF RECORDING FAIR VALUE ADJUSTMENTS UPON ACQUISITIONS

Under PRC GAAP, the acquired subsidiaries are recorded in the consolidated financial statements of the Company and its subsidiaries at historical cost. In accordance with revised IFRS 3, the acquiree's identified assets, liabilities and contingent liabilities, except for non-current assets that are classified as held for sale in accordance with IFRS 5, are recorded at their fair value on the acquisition date. The differences between the fair value and historical cost of the acquiree's such identifiable assets, liabilities and contingent liabilities affect the acquiree's net assets on the acquisition date and therefore, affect the minority interests (shown as a portion of the net assets) in the consolidated financial statement of the Company and its subsidiaries.

### (h) DEFERRED TAX IMPACT

This represents deferred tax effect on the above GAAP differences where applicable.

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