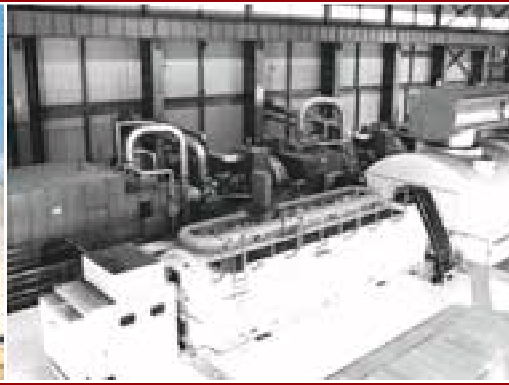
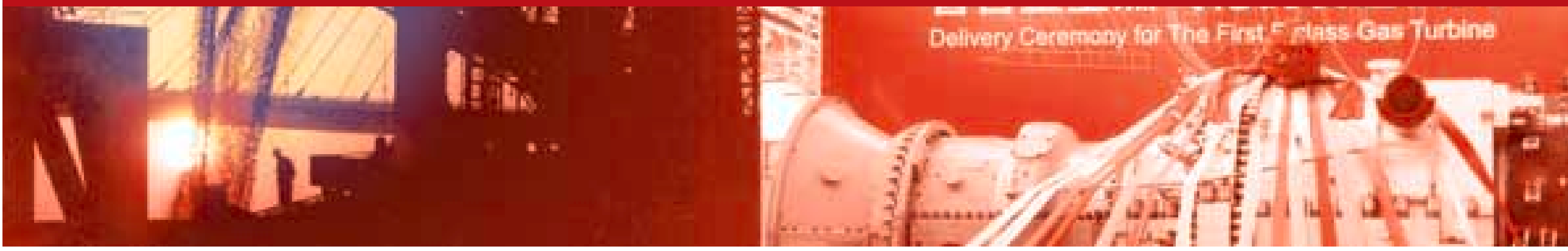
2007 ANNUAL REPORT

POWERING TOMORROW

華能國際電力股份有限公司
HUANENG POWER INTERNATIONAL, INC.
(Stock Code: 902)



Contents

Company Profile

Huaneng Power International, Inc. (the "Company" or "Huaneng Power") is engaged in developing, constructing, operating and managing large-scale power plants throughout China. As of March 2008, the Company is one of the China's largest listed power producers with equity-based generation capacity of 33,723MW and a controlling generation capacity of 37,119MW.

The Company was incorporated on 30 June 1994. It completed its initial public offering of 1,250,000,000 overseas listed foreign shares ("foreign shares") in October 1994 and such shares (represented by 31,250,000 American Depository Shares) were listed on the New York Stock Exchange (NYSE: HNP). In January 1998, the foreign shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by way of introduction (Stock Code: 902). Subsequently, in March 1998, the Company successfully completed a global placement of 250,000,000 foreign shares along with a private placement of 400,000,000 domestic shares. In November 2001, the Company successfully completed the issue of 350,000,000 A shares in the PRC, of which 250,000,000 shares were domestic public shares. Currently, the total share capital of the Company amounts to approximately 12.06 billion shares.

As of March 2008, the Company wholly-owned 16 operating power plants and had controlling interests in 13 operating power plants and minority interests in 5 operating power companies. Its power plants have advanced equipment with high efficiency and stability and are located in 12 provinces and two municipalities in China. The core business of the Company is to develop, construct, and operate coal-fired power plants by making use of modern technology and equipment and financial resources available domestically and internationally. The Company was the first to introduce a 600MW supercritical coal-fired generating unit into China while its Huaneng Dalian Power Plant was the first one to be awarded with the honor of "First Class Coal-fired Power Plant" in China. The generating unit No.1 at Huaneng Yuhuan Power Plant is the first operating single 1,000 MW ultra-supercritical coal-fired generating unit in China, and so Huaneng Yuhuan Power Plant was the first domestically made 1,000 MW ultra-supercritical coal-fired power plant in China that was put into commercial operation. The Company was the first power company in China to achieve listing status in New York, Hong Kong and Shanghai. The overall manpower efficiency of the Company has been remaining at the forefront in China's power industry. In 2000, the Company was conferred the honor of "First Class Power Company in China" by the State Power Corporation of China.

Throughout the years, with efforts in seeking expansion and operating the business in a prudent manner, the Company has expanded gradually, with steady profit growth and increasing competitive strengths. The success of the Company is attributable to the following competitive advantages: (1) advanced equipment, highly efficient generating units and stable operation of power plants; (2) high-quality staff and experienced management; (3) a disciplined corporate governance structure and rationalised decision-making mechanisms; (4) geographical advantages of the locations of the power plants which present promising prospects in the power market; and (5) good credit standing and reputation domestically and internationally and rich experience in the capital markets.

Under the new operating environment, the determined development objectives of the Company are: upholding "rational distribution, optimized structure, advanced technology, energy-saving and environmental protection, extensive cooperation and channel expansion"; upholding "emphasis on both development and acquisition, emphasis on both new construction and expansion, emphasis on both coal fuel and other feasible energy, and emphasis on both domestic and overseas resources"; actively investing in areas related to coal-fuel and enhancing the capability of securing coal supply. The Company will continue to focus on the strengthening of management, cost controls and enhancement of efficiency, adopting a proactive, balanced and stable dividend policy so as to increase shareholder value and maintain long-term stable growth.

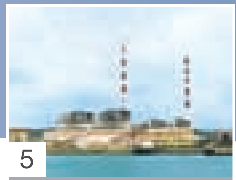
Huaneng International Power Development Corporation ("HIPDC"), the Company's parent company and controlling shareholder, was incorporated as a Sino-foreign joint venture enterprise in 1985. The Company was incorporated by way of joint promotion by HIPDC and local government investment companies in the regions where the power plants are located.


1
Dandong Power Plant
(700 MW)


2
Yingkou Power Plant
(1,840 MW)

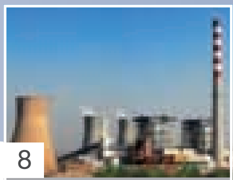

3
Dalian Power Plant
(1,400 MW)


4
Shang'an Power Plant
(1,300 MW)

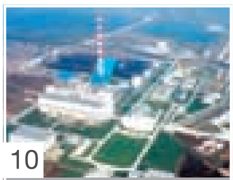

5
Weihai Power Plant
(850 MW)


6
Dezhou Power Plant
(2,650 MW)


7
Yushe Power Plant
(800 MW)


8
Xindian Power Plant
(1,050 MW)

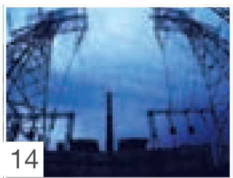

9
Jining Power Plant
(380 MW)


10
Taicang Power Plant
(1,800 MW)


11
Qinbei Power Plant
(2,400 MW)


12
Huaiyin Power Plant
(1,540 MW)


13
Nantong Power Plant
(1,404 MW)


14
Nanjing Power Plant
(640 MW)

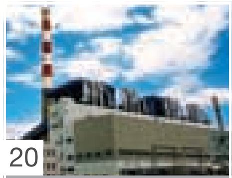

15
Shanghai Shidongkou
Second Power Plant
(1,200 MW)


16 Shanghai Shidongkou First Power Plant (1,270 MW)


17 Luohuang Power Plant (2,640 MW)


18 Yueyang Power Plant (1,325 MW)


19 Changxing Power Plant (260 MW)


20 Jinggangshan Power Plant (600 MW)


21 Fuzhou Power Plant (1,400 MW)


22 Shantou Coal-fired (1,200 MW)


23 Pingliang Power Plant (1,200 MW)


24 Shanghai Combined-cycle Power Plant (1,170 MW)


25 Yuhuan Power Plant (4,000 MW)


26 Jinling Power Plant (780 MW)

Major Corporate Events in 2007

January	The Company announced an increase of 6.24% in power generation in 2006 over the previous year. Unit 6 at Phase III of Huaneng Luohuang Power Plant (having a generation capacity of 600MW) passed the trial run.
April	The Company announced the annual results for 2006, with its profit attributable to equity holders of the Company under IFRS amounted to RMB6.071 billion representing an increase of 24.62% over 2005. The Company held press conference on its annual results in Hong Kong and Beijing respectively. The Comany carried out 2006 annual results roadshows in Europe, Japan and USA. The Company became the first batch of the PRC companies listed in the US which had fully met the requirements on the internal control aspects of the financial reports Section 404 of Sarbanes-Oxley Act. A total of 2,119,982,505 tradable shares which were subject to lock-up became listed. The Company announced that the power generation in the first quarter of 2007 increased by 7.61%, compared to the same period of previous year. The Company announced its first quarterly operating results for 2007. Its profit attributable to equity holders of the Company under PRC GAAP was RMB1.205 billion, representing an increase of 5.73% over the same period of the previous year. The Company held a telephone conference following the announcement of its first quarterly operating results at the headquarters of the Company with analysts and fund managers within and outside of the PRC.
May	Unit 1 of Shantou Power Plant and Unit No. 3 of Shang'an Power Plant of the Company were awarded golden prize in the "300 MW Ranking Electricity Reliability Index" by the State Electricity Regulatory Commission, while Unit 1 of Shidongkou II Power Plant was awarded golden prize in the 600 MW ranking. The Company organized reverse roadshows and a visit to Huaneng Taicang Power Plant for Hong Kong and PRC analysts and fund managers.

July	The Company announced an increase of 13.92% in power generation in the first half year of 2007 compared to the same period of the previous year.
August	Having obtained the approval from the People's Bank of China, the Company successfully issued a RMB5 billion short-term debenture with a maturity period of 364 days in the PRC interbank debenture market. The debenture carried an interest rate of 3.84% p.a. was repayable together with interest upon maturity.
	The Company announced its interim results for 2007. The profit attributable to equity holders of the Company under IFRS increased by 32.70% over the same period of previous year to RMB2.875 billion.
	The management team of the Company held a meeting on its interim results for 2007 with analysts in Hong Kong.
	The management team carried out interim results roadshows in Hong Kong, Shenzhen and Shanghai.
	The Company completed the trial run for Unit 3 at Phase II of Huaneng Yingkou Power Plant which is the first domestically-made 600 MW ultra-supercritical coal-fired generating unit.
September	The Company obtained the approval from the China Securities Regulatory Commission and planned to subscribe for 200 million non-listed new shares in Shenzhen Energy Investment Company Limited by way of cash.
	The Company, with its operating revenue in 2006, ranked the 32nd among the "Top 100 Listed Enterprises in China in 2007" by *Fortune.*
	Huaneng Shanghai Combined Cycle Power Plant was awarded the prize "the Best Power Plant in Asia for 2006" in an activity headed "the Electricity Award in Asia for 2006" in Bangkok, Thailand organized by *Asia Electricity*.

Major Corporate Events in 2007

October

The Company announced an increase of 11.24% in power generation in the first three quarters of 2007 compared to the same period of the previous year.

The Company completed the trial run for Unit 4 of Huaneng Yingkou Power Plant (generating capacity of 600 MW).

The Company announced the results for the first three quarters in 2007. Profit attributable to equity holders of the Company under PRC GAAP was RMB4.465 billion, representing an increase of 25.03% compared to the same period of previous year.

The Company held a telephone conference on the results for the first three quarters in 2007 with the PRC and overseas analysts and fund managers at the headquarters of the Company.

November

Unit 3 of Yuhuan Power Plant (generating capacity of 1,000 MW) completed the trial run.

Unit 3 of Qinbei Power Plant (generating capacity of 600 MW) completed the trial run.

Unit 4 of Yuhuan Power Plant (generating capacity of 1,000 MW) completed the trial run. This also marked the establishment of the first 4x1,000 MW coal-fired power plant in China.

The Company organized reverse roadshow and a visit to Huaneng Yuhuan Power Plant for PRC and Hong Kong analysts and fund managers.

Huaneng Power International was named among the “2007 Best Corporate Governance Disclosure Awards” for the H-share Companies Category by the Hong Kong Institute of Certified Public Accountants.

December	The Company executed the share transfer agreement relating to the Huaneng Nanjing Jinling Power Limited Company ("Jinling Power Plant") with HIPDC.
	Unit 4 of Huaneng Qinbei Power Plant (generating capacity of 600 MW) completed the trial run.
	The Company conducted an on-line roadshow regarding the issuance of Huaneng Power International, Inc. corporate bonds (first tranche) on the website of Zhong Zheng Wan (中証網). The initial issuing amount of the corporate bonds was RMB5 billion with the exercise of an option of further issuance of an amount of RMB1 billion in accordance with market condition.

Financial Highlights

(Amounts expressed in thousands of RMB, except per share data)

INCOME STATEMENT *(NOTE 1)*

	Year ended 31 December				
	2003	2004	2005	2006	2007
Operating revenue	23,433,572	30,150,602	40,190,004	44,301,403	49,767,849
Profit before income tax expense	6,712,161	6,529,663	6,592,208	8,016,773	7,319,301
Income tax expense	(1,097,859)	(948,734)	(1,044,297)	(1,127,699)	(838,270)
Profit after income tax expense	5,614,302	5,580,929	5,547,911	6,889,074	6,481,031
Attributable to:					
– Equitable holders of the Company	5,430,408	5,323,876	4,871,794	6,071,154	6,161,127
– Minority interests	183,894	257,053	676,117	817,920	319,904
Basic earnings per share (RMB/share)	0.45	0.44	0.40	0.50	0.51
Diluted earnings per share (RMB/share)	0.45	0.44	0.40	0.50	0.51

BALANCE SHEET *(NOTE 2)*

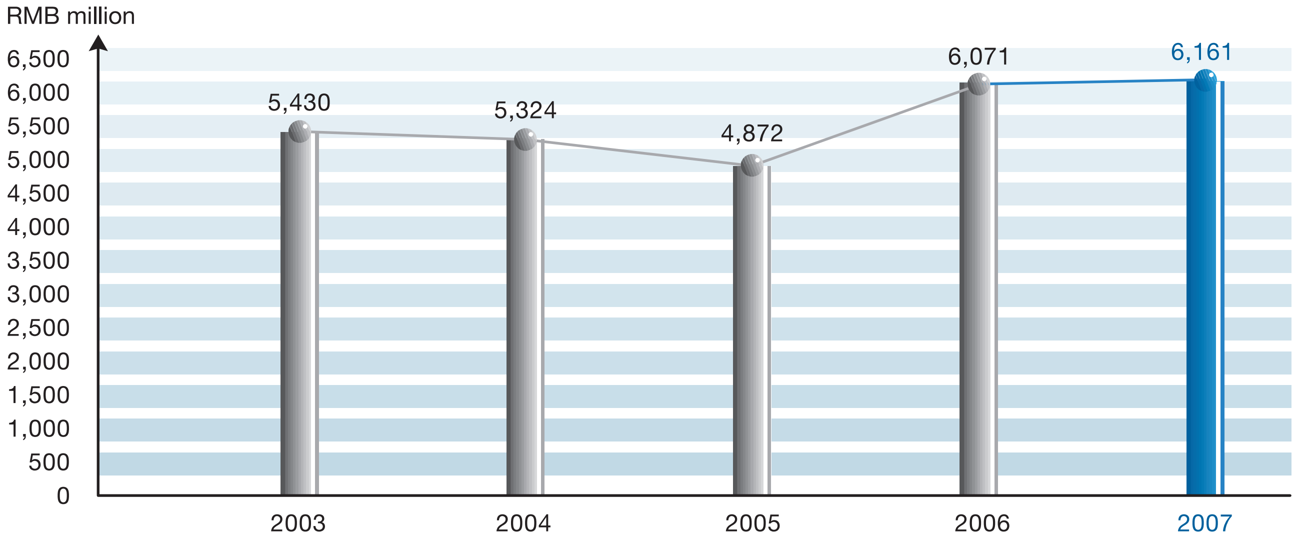
	As at 31 December				
	2003	2004	2005	2006	2007
Total assets	53,609,678	72,779,871	99,439,696	113,938,822	124,296,129
Total liabilities	(18,499,126)	(33,247,959)	(53,295,509)	(63,330,130)	(72,216,487)
Net assets	35,110,552	39,531,912	46,144,187	50,608,692	52,079,642
Equity holders of the Company	33,955,355	36,265,519	40,037,474	43,457,509	46,928,580
Minority interests	1,155,197	3,266,393	6,106,713	7,151,183	5,151,062

Notes:

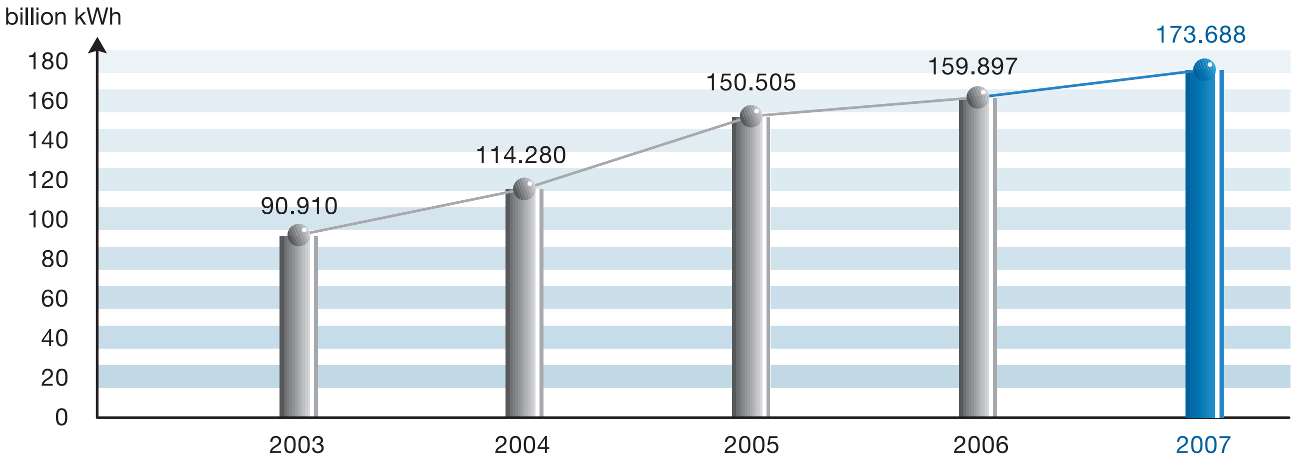
1. The results for the years ended 31 December 2003, 2004 and 2005 are derived from the historical financial statements of the Company. The results for the years ended 31 December 2006 and 2007 are set out on pages 91 to 92. All such information is extracted from the financial statements prepared under International Financial Reporting Standards ("IFRS").

2. The balance sheets as at 31 December 2003, 2004 and 2005 are derived from the historical financial statements of the Company. The balance sheets as at 31 December 2006 and 2007 are set out on pages 93 to 95. All such information is extracted from the financial statements prepared under IFRS.

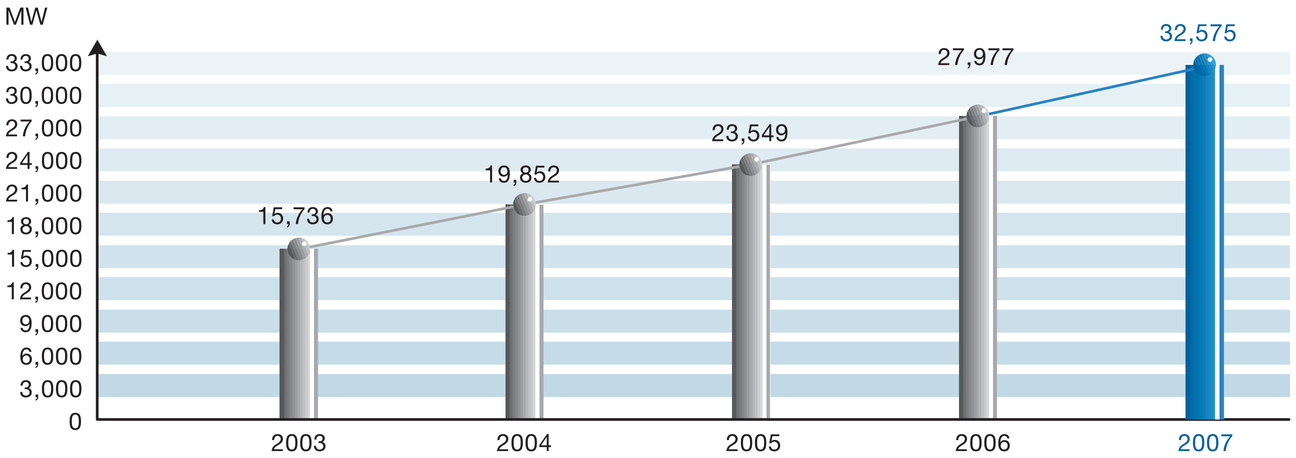
Profit attributable to equity holders of the Company under IFRS -
For the years ended 31 December



Power Generation - For the years ended 31 December



Generation Capacity on an equity basis - As at 31 December



Expanding market shares with successful commencement of new units

Letter To Shareholders

To: All Shareholders,

The development objectives of Huaneng Power International are: as a power company, the Company is devoted to providing sufficient, reliable, environmentally friendly and reasonably priced energy to the public; as a listed company, the Company is devoted to creating long-term, stable and increasing returns for its shareholders; and as a first-class company, the Company is devoted to becoming a leading enterprise domestically and an advanced enterprise internationally.

In 2007, the Company recorded operating revenues of RMB49.768 billion, representing an increase of 12.34% over the same period of 2006, and profit attributable to equity holders of the Company of RMB6.161 billion, representing an increase of 1.48% over the same period of the previous year. Earnings per share amounted to RMB0.51.

HUANENG POWER INTERNATIONAL IS DEVOTED TO PROVIDING SUFFICIENT, RELIABLE, ENVIRONMENTALLY FRIENDLY AND REASONABLY PRICED ENERGY TO THE PUBLIC.

Over the past year, the management and all staff of the Company worked hard together and, by virtue of their capabilities, overcame adverse factors including a continuous rise in coal prices and intensifying competition in the power market. The Company has achieved new results in various areas, such as production safety, operating management, energy saving and environmental protection, project development, capital operation and corporate governance.

Ensuring production safety and maintaining continued growth in power generation

The number one task for the Company in 2007 was "safe, stable and more power generation". The Company ensured safe, stable and more power generation through enhancing production operation, equipment maintenance and inspection and repair management. The Company achieved power generation totalling 173.688 billion kWH during the year, representing an increase of 13.21% over the same period of the previous year. The average utilization hours of thermal power plants reached 5,656 hours which was 340 hours higher than the average level nationwide.

Adopting various measures to control fuel costs

In 2007, coal supply was still very tight and coal prices continued to hover at a high level, thereby increasing the pressure upon the Company to control cost.

In view of the adverse situation such as tight coal supply and high coal prices, the Company actively explored and adopted various measures to control fuel costs, including stabilizing the major channels of coal supply by improving the operating mechanisms and striving to raise purchase ratios and fulfillment rates of key contracts; optimizing coal structure, raising coal quality and controlling purchase prices; ensuring a safe, stable and effective fuel supply by continuously developing new coal sources and actively opening up overseas coal markets.

Fulfilling corporate responsibility with effective energy conservation and emission reduction measures

The Company has conscientiously implemented an enterprise planning focusing on energy saving and environmental protection. On the basis of reducing the total volume of sulphur dioxide emissions, the Company commenced to gradually reduce the volume of nitrogen oxides emissions and further controlled the volume of smoke and dust emissions. The Company has invested substantial funds to conduct desulphurization and denitrification in our existing generating units and enhance the transformation of the efficiency of dust collectors. At the same time, desulphurization facilities constructed in newly built generating units, and advanced low-nitrogen combustion devices and high-efficiency dust collectors were used so that the volume of pollutants would be continuously reduced, thereby achieving the annual objective of energy saving and environmental protection. The Company will continue to strengthen the reduction in sulphur dioxide emissions and it is the Company's plan that the desulphurization ratio of its coal-fired generating units will reach 100% by 2009.

Currently, the Company's coal-fired power generating units maintain a leadership position in terms of the attainment of emissions indices and energy saving indices in the PRC, thereby actively contributing to the PRC power industry and environmental protection.

Expanding market shares with successful commencement of new units

In 2007, the Company actively pushed forward the construction of new projects. On the premise of ensuring high quality, the Company continued to strengthen its development of the power market. Two 1,000 MW generation units of Huaneng Yuhuan Power Plant Phase II commenced operation successively, thus realizing the commencement of operation of four 1,000 MW-level generating units within 12 months and setting a new record in constructing 1,000MW-level ultra-supercritical generating units. The commencement of operation of new generating units raised the power supply capability of the Company and laid a foundation for expanding the scale of the Company, consolidating and raising market share and increasing income.

Seeking greater profits through new investment projects

In 2007, the Company made new progress in capital operation. The Company directly purchased shares in Shenzhen Energy Investment Company Limited which is instrumental in enhancing the interests of the Company in Shenzhen Energy Group after the listing of Shenzhen Energy Group. The Company has acquired 60% interest in Jinling Power Plant from its parent company, thus enabling the Company to obtain the development right of two 1,000MW-level coal-fired generating units of subsequent projects at Jinling Power Plant, which is beneficial for enlarging the market share of the Company in the East China region. The above acquisition is in line with the long-term development strategy of the Company and the long-term benefits of all the shareholders of the Company.

Broadening financing channels to reinforce financial position

In 2007, the Company further expanded its financing channels and continuously reduced its financing costs whilst actively undertaking innovative financing. The Company became the third PRC enterprise permitted to issue corporate bonds and obtained a bond issuance limit totalling RMB10 billion. It issued the first batch of bonds amounting to RMB6 billion. Other than the above-said financing, the Company also raised a substantial amount of low-cost working capital by issuing RMB5 billion short-term financing bonds. The Company has effectively reduced financing costs through the above measures, thereby providing sufficient and low-cost capital support for safe and stable production and for the expansion of its operating scale, thereby laying a solid foundation for the sustainable and healthy development of the Company.

HUANENG POWER INTERNATIONAL IS DEVOTED TO CREATING LONG-TERM, STABLE AND INCREASING RETURNS FOR ITS SHAREHOLDERS.

Winning market acclaims with emphasis on both internal controls and corporate governance

Since its establishment, the Company has been striving to conscientiously put into practice of the core values of "upholding truthfulness, emphasizing cooperation, continuing innovations, keeping forging ahead, creating good results, serving the country". We believe that raising the quality of the listed company and improving its corporate governance is not only for fulfulling the requirements of the regulatory organs, but also for fulfilling the internal requirements of the Company: developing healthily; maintaining a leadership position amidst intensified competition in the market environment; continuously providing long-term, stable and increasing returns for the shareholders; protecting the lawful interests of investors; and actively performing the enterprise's social responsibilities. In 2007, the Company further raised the governance level of the Company and obtained favorable comments from the China Securities Regulatory Commission, having been selected as a constituent company under the Shanghai Stock Exchange Corporate Governance Index. After many years' efforts, the level of standardization and rationalization in corporate governance of the Company has been widely affirmed by investors. The Company won the Commendable Award in the "H shares Category" of the "2007 Best Corporate Governance Disclosure Awards" granted by the Hong Kong Institute of Certified Public Accountants.

In April 2007, the Company successfully passed the internal audit by its external auditors, PricewaterhouseCoopers, and became the first batch of PRC companies listed in the US to fulfil the internal control over financial reporting requirements of Section 404 of Sarbanes-Oxley Act, symbolizing that the internal control system of the Company has reached the international first-class level; the legal person corporate structure has become much improved; the system's execution capability has been enhanced; the asset management level has been further raised; and the quality of information disclosure has become more reliable, thereby effectively assuring the healthy and long-term development of the Company.

Proactive dividend distribution policy to achieve stable returns for shareholders

The operating scale of the Company is expanding continuously and the operating results grow steadily. Over the past years, the Company has brought about continuous and stable growth in returns for its shareholders. Since 1998, the Company has paid dividends to the shareholders each year and the total accumulated dividends amounted to RMB18.46 billion. From 2000, the dividend distribution ratio amounted to over 50% for seven years successively. The board of directors of the Company has passed a resolution proposing that profit distribution for 2007 as follows: payment of cash dividend of RMB3 to all shareholders for each 10 shares. This resolution will be put forward to the annual general meeting for approval. The Company will continue to adopt proactive, balanced and stable dividend distribution policy and strive to realize continued growth in shareholders' returns.

Huaneng Power International is devoted to becoming a leading enterprise domestically and an advanced enterprise internationally.

Looking ahead, the development of the Company has entered into a new phase. Under the new situation, the determined development objectives of the Company are: upholding "rational distribution, optimized structure, advanced technology, energy-saving and environmental protection, extensive cooperation and channel expansion"; upholding "emphasis on both development and acquisition, emphasis on both new construction and expansion, emphasis on both coal fuel and other feasible energy and emphasis on both domestic and overseas resources"; actively investing in areas related to coal-fuel and enhancing the capability of securing coal supply, On the basis of energy saving, reducing emissions, adjusting structure and enhancing efficiency, the Company strives to achieve the following objectives by 2010: power generation installed capacity of over 60,000 MW; controllable coal supply capacity of 50,000,000 tons / year; port coal storage and transportation and transit capacity of over 40,000,000 tons/year; and ocean coal transportation capacity of over 30,000,000 tons/year.

We believe that, given the continued economic growth in China, strong support from the authorities at all levels and from the parent company, and especially the support and trust from investors and shareholders, the Company has the confidence in achieving good and rapid development and creating long-term, stable and increasing returns for its shareholders.

Seeking greater profits through new investment projects

Management's Discussions and Analysis

(Prepared under International Financial Reporting Standards ("IFRS"), unless otherwise specified)

SUMMARY

The principal activities of the Company are investment, construction, operation and management of power plants. The Company provides stable and reliable electricity supply to customers through the grid companies where the operating plants are located. The Company insists on scientific development, increasing economic efficiency, enhancing returns for shareholders, conserving resources and protecting the environment. The Company also attaches importance to social responsibilities, and makes active efforts in building up a harmonious society.

Currently, Huaneng Power International, Inc. is one of the largest listed power producers in China. The power generation business of the Company is widely located, covering the Northeast China Grid, the North China Grid, the Northwest China Grid, the East China Grid, the Central China Grid and the South China Grid. Since its incorporation, the operating scale of the Company continued to expand. Its operating revenue continued to increase. Its competitiveness, its ability to manage resources effectively and its environmental protection standards continued to be maintained at an advanced level when compared with its competitors.

Looking back in 2007, China's national economy continued to develop at a very fast pace. China's power industry thus had gained significant development. The demand and supply of electricity has been generally brought into balance. Over the year, the Company oversaw its overall operations with a scientific development view. The Company actively strengthened the management, encouraged innovation, strengthened environmental protection and fuel saving and undertook efforts to fulfill its social responsibilities. The Company reached its targets in various areas, such as production and operation, construction, facilities renovation and environmental protection. In 2007, a number of technically advanced generating units began their commercial operations as scheduled, which enhanced the Company's power supply capacity. In addition, with a number of environmental protection facilities constructed and having commenced their operations as scheduled, the Company's environmental protection ability has been improved. From the period before to after the 2008 Lunar New Year, the rare sleet in southern China has brought significant negative impact on the economy and daily lives of people in this region. Our employees in southern China took their social responsibilities and made significant contributions in the efforts of securing transportation and power supply, by utilizing the Company's advantages in management and organization, personnel quality and equipment functions.

Looking forward to 2008, the Company faces new pressure and challenges in the power market, but is also endowed with development opportunities and favorable factors. The challenges include: (i) shortage of coal supply, continuous increase in coal prices and a decline in coal quality which will severely affect the operating results of the Company; (ii) intense competition in the power market which will increase the difficulties for the Company to increase its revenue and efficiency; (iii) insufficient supplementary rulings to the regulations and mechanisms during the course of the power industry's reforms which will bring additional operation risks to the Company. The development opportunities for the Company include: (i) the growth of the economy, the improvement of people's living standards and the evolution of the society have created more room for the power industry's development, which makes it possible for the Company to expedite its pace of development and to increase its market share; (ii) the deepening of the structural reform and the adjustment of the economic structure will enable the Company to further optimize the structure, adjust its strategies and explore more development channels; (iii) the implementation of the policies of energy saving and adjustment of power dispatch will be conducive for the Company to further capitalize on its advantages in scale and its leadership position, thus enhancing its return and strength. Overall, the Company believes that there are more opportunities than challenges, and more favorable conditions than unfavorable ones. With a solid foundation and an experienced team, the Company will adopt effective and creative measures to maintain its market position, actively expand its market share, control the increase in coal prices, and with its best endeavours, perform all aspects of operation work. The Company will adhere to the guidelines for scientific development; adhere to the policy of "rationalising the strategic deployment, optimizing the structure, advancing the technology, saving energy, exploring more channels for cooperation"; insist upon the principle of "emphasizing both development and acquisition; greenfield and expansion projects; coal-fired and other applicable energies; and domestic and overseas funding resources"; invest in the fields relating to coal and electricity; and improve the ability in securing coal supply. The Company believes that it will realize a rapid and healthy development by grapping the opportunities and overcoming the challenges.

I. OPERATING RESULTS

1. 2007 operating results

From 2007 onwards, the Company's equity interest in Sichuan Hydropower is reduced from 60% to 49%, and therefore the financial statements of Sichuan Hydropower are not consolidated into the Company's financial statements starting from 2007.

Regarding the power market and the utilization of generation equipment, the rapid growth of power demand rendered a good opportunity for the development of power sector. The Company has seized this opportunity in building and putting into operation a large number of generation units in recent years and therefore reinforced and increased its market share. After excluding the electricity sold by Sichuan Hydropower, the Company recorded an increase of 13.25% on its quantity of power sold from prior year.

In respect of the tariff, the average tariff of 2007 is RMB359.71 per MWh, representing an increase of RMB16.12 per MWh from prior year, which is mainly attributable to the implementation of the coal-electricity price linkage mechanism during the second half of 2006 and the relatively higher tariff for natural gas-fuelled engine.

On fuel supply and costs control, the Company's fuel cost increased as a result of the increase in the coal price of key contracts and high coal purchase prices in the open market. Compared to last year, the Company's unit fuel cost per unit of power sold increased by 10.04%.

Combining the foregoing factors, the operating revenue of the Company and its subsidiaries was increased by 12.34% from last year (or 16.08% after excluding Sichuan Hydropower). In 2007, the profit attributable to equity holders of the Company amounted to RMB6.161 billion, up 1.48% from RMB6.071 billion for last year. Such an increase was mainly attributable to the commenced operations of new power units, the adjustment of tariff rate under the "coal-electricity price linkage mechanism" implemented in June 2006, as well as the sale of a portion of the shares of Yangtze Power Co., Ltd. ("Yangtze Power") held by the Company.

2. Comparative analysis of operating results

2.1 Operating revenue and sale tax

Operating revenue represents amounts receivable or received from power sold after taking into account amounts received in advance. For the year ended 31 December 2007, the consolidated operating revenue of the Company and its subsidiaries amounted to RMB49.768 billion, representing an increase of 12.34% from RMB44.301 billion in 2006 (or 16.08% after excluding Sichuan Hydropower). The increase in operating revenue is mainly attributable to the operations of new generating units, which contributed RMB7.838 billion to the increase in revenue.

Power Plant	2006	Average tariff rate (VAT inclusive) (RMB/MWh) 2007	Change
Dalian	315.95	323.27	2.32%
Fuzhou	342.46	369.61	7.93%
Nantong	344.92	339.47	(1.58%)
Shijiazhuang	340.22	344.47	1.25%
Shantou Coal-fired	467.37	476.26	1.90%
Dandong	322.76	330.38	2.36%
Shidongkou II	357.08	347.93	(2.56%)
Nanjing	345.56	342.99	(0.74%)
Dezhou	360.68	360.45	(0.06%)
Weihai	402.99	403.00	0.00%
Jining	342.42	350.80	2.45%
Shidongkou I	358.85	369.54	2.98%
Taicang	361.64	359.69	(0.54%)
Changxing	408.90	428.16	4.71%
Huaiyin Phase I	366.44	N/A	N/A
Huaiyin Phase II	362.26	357.47	(1.32%)
Xindian	350.54	379.71	8.32%
Yushe	281.47	288.45	2.48%
Yingkou	334.47	343.37	2.66%
Jinggangshan	369.87	366.94	(0.79%)
Luohuang	315.46	319.86	1.39%
Yueyang	361.68	372.19	2.91%
Qinbei	311.20	311.86	0.21%
Pingliang	216.27	223.31	3.26%
Yuhuan	360.95	415.05	14.99%
Taicang II	371.50	358.08	(3.61%)
Xindian II	351.90	356.01	1.17%
Shanghai CCGT	N/A	N/A	N/A
Nanjing Jinling	—	481.99	N/A
Consolidated	343.59	359.71	4.69%

Note: Nanjing Jinling refers to Huaneng Nanjing Jinling Power Co., Ltd. (same as below)

Sales tax mainly consists of taxes associated with value-added tax surcharges. According to relevant administrative regulations, such surcharges include the City Construction Tax and Education Surcharges calculated at prescribed percentages on the amounts of the value-added tax paid. Such surcharges are currently not applicable to direct foreign investments that have been approved by the government, thus, certain power plants of the Company do not have to pay such surcharges. In 2007, the sales tax amounted to RMB140 million, representing a decrease of 5.60% from RMB148 million in 2006 (or increase by 6.68% after excluding Sichuan Hydropower), mainly attributable to the increase of the levy base due to the addition of newly operated power plants.

2.2 *Operating expenses*

The total operating expenses of the Company and its subsidiaries in 2007 amounted to RMB41.706 billion, representing an increase of 17.17% from RMB35.595 billion in 2006 (or 19.45% after excluding Sichuan Hydropower).

The increase was mainly attributable to the operations of new generating units, which contributed RMB5.938 billion to the increase in total operating expenses. Excluding this factor, there would be an increase of RMB853 million if excluding Sichuan Hydropower.

2.2.1 *Fuel*

Fuel cost represented the major operating expenses of the Company and its subsidiaries, which has increased by 22.92% to RMB27.79 billion in 2007 from RMB22.608 billion in 2006. The increase in fuel cost was primarily due to the operations of new generating units, which accounted for RMB4.208 billion of the increase.

As the average price of natural coal increased by 8.74% from RMB343.73 per ton in 2006 to RMB373.76 in 2007, the unit fuel cost per unit of power sold increased by 10.04% to RMB173.10 per MWh.

2.2.2 *Maintenance*

The maintenance expenses of the Company and its subsidiaries amounted to RMB1.534 billion in 2007, representing an increase of 17.38% from RMB1.307 billion in 2006 (or 22.23% after excluding Sichuan Hydropower). The increase is mainly due to the operations of new generating units, which contributed RMB233 million of the increase.

2.2.3 *Depreciation*

Depreciation expenses of the Company and its subsidiaries have increased by 7.54% from RMB6.719 billion in 2006 to RMB7.226 billion in 2007 (or 15.37% after excluding Sichuan Hydropower). The increase is mainly due to the operations of new generating units, which contributed RMB1.036 billion to the increase.

2.2.4 *Labor*

Labor costs of the Company and its subsidiaries amounted to RMB2.786 billion in 2007, representing a decrease of 3.49% from RMB2.887 billion in 2006 (no substantial change after excluding Sichuan Hydropower).

2.2.5 *Service fees paid to HIPDC*

The service fees paid to HIPDC refer to fees paid for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit. There was no significant change of this service fees in 2007 from that of 2006.

2.2.6 Other operating expenses

Other operating expenses include expenses such as environmental protection expenses, insurance fee, office expenses and amortization, etc. The other operating expenses of the Company and its subsidiaries amounted to RMB2.229 billion in 2007, representing an increase of 15.28% from RMB1.933 billion in 2006 (or 19.20% after excluding Sichuan Hydropower). The increase is mainly attributable to the operations of new generating units, which accounted for RMB310 million to the increase.

2.3 Financial expenses

Financial expenses include interest income, interest expense, bank charges and net exchange differences.

2.3.1 Interest Expense

The interest expense of the Company and its subsidiaries in 2007 amounted to RMB2.132 billion, representing an increase of 34.01% from RMB1.591 billion in last year. The increase was primarily attributable to the expense off of interest expense upon commencement of commercial operation for the new generating units instead of continued capitalization.

2.3.2 Net exchange differences and bank charges

Net exchange differences and bank charges of the Company and its subsidiaries amounted to RMB204 million in 2007, representing a relatively significant change from the RMB68 million of exchange gain less bank charges in 2006. In 2006, because of the appreciation of RMB against US dollar and Euro, loans denominated in US dollar and Euro generated foreign exchange gain of approximately RMB112 million, while contributed to an exchange gain of RMB232 million in 2007, giving rise to an increase in foreign exchange gain of RMB120 million from 2006.

2.4 Share of profit of associates

Share of profit of associates in 2007 was RMB586 million, representing a decrease of RMB205 million from RMB791 million in 2006. The decrease of share of profit of associates was primarily due to the decrease in investment income from Shenzhen Energy Group and Shandong Rizhao Power Company Co. Ltd. ("Rizhao Power") by approximately RMB303 million.

2.5 Enterprise income tax ("EIT')

The EIT of the Company and its subsidiaries amounted to RMB838 million in 2007, representing a decrease of 25.67% from RMB1.128 billion in 2006 (or 19.91% after excluding Sichuan Hydropower). The decrease in EIT was mainly due to the increase in the profitability from those power plants with lower EIT rates.

2.6 Profit for the year, profit attributable to equity holders of the Company and minority interests

The profit for the year of the Company and its subsidiaries amounted to RMB6.481 billion in 2007, which represented a decrease of RMB408 million when comparing with that of RMB6.889 billion in 2006. One reason for this decrease was that Sichuan Hydropower was accounted for using equity method in the consolidated financial statements instead of a full scope of consolidation, and another reason is the offsetting effect of the increased revenue from the operation of the new generating units by the increased operating expenses. As the weighting of profits from wholly-owned power plants increased, the profit attributable to equity holders of the Company increased slightly from RMB6.071 billion in 2006 to RMB6.161 billion in 2007. Combining the foregoing factors, the minority interests decreased from RMB818 million in 2006 to RMB320 million in 2007.

2.7 *Comparison of financial positions*

Compared with 2006, the assets and liabilities of the Company and its subsidiaries experienced a significant change as a result of the exclusion of Sichuan Hydropower from the consolidation scope, the acquisition of Nanjing Jinling and the continuous investments in construction projects.

2.7.1 *Comparison of asset items*

As at 31 December 2007, the total assets of the Company and its subsidiaries amounted to RMB124.296 billion, representing an increase of 9.09% from RMB113.939 billion in 2006. Amongst which, non-current assets increased by 5.35% to RMB105.745 billion and current assets increased by 36.76% to RMB18.551 billion. The increase in non-current assets was to the combination of continuous investments in construction projects, purchase of assets and the appreciation of the stock investment in Yangtze Power and the impact of the exclusion of Sichuan Hydropower from the Company's consolidated financial statements. Current assets increased by RMB4.987 billion from the beginning of 2007. Amongst which, cash and cash equivalents increased by RMB4.105 billion, which was attributable to the unused cash from the issuance of "2007 HPI Bonds" while the net increase in accounts receivable amounted to RMB561 million, primarily due to the increase in receivables for power sold generated by the new generating units.

2.7.2 *Comparison of liability items*

As at 31 December 2007, the total liabilities of the Company and its subsidiaries amounted to RMB72.216 billion, representing an increase of 14.03% from RMB63.330 billion as at 31 December 2006, mainly due to the increase in loans for the financing of construction projects and the issuance of "2007 HPI Bonds". The non-current liabilities of the Company and its subsidiaries mainly consisted of bank loans, bonds and shareholder's loans that are of similar terms as bank loans. The current liabilities increased comparing with the beginning of the year as a result of an increase in short-term loans.

As at 31 December 2007, total interest-bearing debts of the Company and its subsidiaries amounted to RMB60.535 billion, which included long-term loans (inclusive of current portion), long-term bonds, short-term loans, short-term bonds and notes payable. Amongst which liabilities denominated in foreign currencies amounted to approximately RMB4.174 billion.

2.7.3 *Comparison of shareholders' equity items*

Excluding the impact of profit and its appropriation, there was an increase in equity from the beginning to the end of 2007. This was mainly attributable to the appreciation of the stock price of Yangtze Power that recorded in equity.

2.7.4 Major financial position ratios

	2007	2006
Current ratio	0.59	0.51
Quick ratio	0.52	0.43
Ratio of liability and shareholders' equity	1.54	1.46
Multiples of interest earned	3.41	3.87

Formula of the financial ratios:

Current ratio = balance of current assets as at year end / balance of current liabilities as at year end

Quick ratio = (balance of current assets as at year end - net inventories as at year end) / balance of current liabilities as at year end

Ratio of liabilities and shareholders' equity = balance of liabilities as at year end / balance of shareholders' equity (excluding minority interests) as at year end

Multiples of interest earned = (profit before tax + interest expense) / interest expenditure (inclusive of capitalized interest)

The current ratio and quick ratio remained at a relatively low level in both years while there was an increase by the end of 2007. The increase in the ratio of liabilities and shareholders' equity at year end compared with the beginning of 2007 was mainly due to the issuance of the "2007 HPI Bonds" and the increase in loans for construction projects. The multiples of interest earned decreased from that of the prior year mainly due to the increase in construction interest expense resulted from the continuous investment in new construction projects.

II. LIQUIDITY AND CASH RESOURCES

1. Liquidity

	For the Year Ended 31 December 2007 RMB billion	2006 RMB billion	Change %
Net cash provided by operating activities	9.351	11.495	(18.64%)
Net cash used in investing activities	(16.257)	(15.916)	2.14%
Net cash provided by financing activities	11.011	4.980	121.10%
Net increase in cash and cash equivalents	4.105	0.559	634.35%
Cash and cash equivalents as at the beginning of the year	3.207	2.648	21.11%
Cash and cash equivalents as at the end of the year	7.312	3.207	128.00%

Net cash provided by operating activities represented the main source of cash for the Company. The net cash provided by operating activities amounted to RMB9.351 billion in 2007 which was lower than that of the prior year. Net cash used in investing activities was primarily the capital expenditure used in acquiring and constructing property, plant and equipment. The Company expects to continue its focus on construction projects in 2008.

As at 31 December 2007, the net current liabilities of the Company and its subsidiaries totaled RMB12.8 billion. Based on the successful financing records of the Company, the significant amount of undrawn banking facilities available to the Company and the stable operating results, the Company believes that it will be able to meet its liabilities as and when they fall due and secure the capital required for operations. In addition, the Company will continue to minimize interest expense by issuing short-term bonds. The Company is confident that it will be able to control the debt level and respective financial risks.

2. Capital expenditure and cash resources

2.1 Capital expenditures

2.1.1 Capital expenditures on acquisitions

In December 2007, the Company completed its subscription of 200 million shares or 9.08% equity interest, in Shenzhen Energy Investment Company Limited ("Shenzhen Energy") through the placement arrangement by Shenzhen Energy, with the consideration of RMB1.52 billion.

In December 2007, the Company also acquired 60% equity interest in Nanjing Jinling with the consideration of RMB420 million.

The Company continues to follow the strategy of a balance between development and acquisition by proactively seeking new acquisition opportunities to ensure the sustainable growth of profitability and shareholders' value. Since there are uncertainties associated with asset acquisition projects and their scales, the level of capital expenditures required are also uncertain. However, the Company believes that its cash flows from operating activities and the sound financing capability should provide it with a sufficient cash supply for asset acquisition projects.

2.1.2 Capital expenditures on construction and renovation projects

The capital expenditures in 2007 amounted to approximately RMB14.701 billion, which was mainly used in construction and renovation projects, including RMB2.608 billion for Yuhuan project, RMB330 million for Luohuang expansion project, RMB220 million for Xindian expansion project, RMB421 million for Shanghai CCGT project, RMB249 million for Huaiyin expansion project, RMB296 million for Yueyang expansion project, RMB1.062 billion for Yingkou expansion project, RMB1.735 billion for Qinbei expansion project, RMB1.614 billion for Shang'an expansion project, RMB1.276 billion for Rizhao expansion project and RMB1.828 billion for Haimen project. The expenditures on construction for other projects amounted to RMB585 million while the expenditures on renovation amounted to RMB2.477 billion.

The cash resources for the above capital expenditures are mainly from internal funding, debt financing and cash flows provided by operating activities.

The Company will continue to incur significant capital expenditures in the next few years and will actively accelerate the development of planned projects based on the principles of commercial viability. The Company will actively engage in new project developments to lay the foundation for its long-term development. The Company expects to finance the above capital expenditures through internal funding, debt financing and cash flows provided by operating activities.

2.2 Cash resources and anticipated financing costs

The Company expects the cash resources for capital expenditure and acquisition to be primarily generated from internal funds, cash flow from operating activities and future debt and equity financing.

Good operating results and credit status provide the Company with strong financing capabilities. As at 31 December 2007, the Company and its subsidiaries had undrawn banking facilities of RMB18.7 billion, which provided the Company with a sufficient level of credit facilities.

As at 31 December 2007, the total short-term loans of the Company and its subsidiaries amounted to RMB11.67 billion (2006: RMB8.162 billion) with interest rates charged ranged from 4.35% to 6.72% (2006: 4.30% to 5.51%) per annum. In addition, total short-term bonds of the Company and its subsidiaries amounted to RMB5.065 billion.

As at 31 December 2007, the total long-term bank loans of the Company and its subsidiaries amounted to approximately RMB34.732 billion (2006: RMB35.206 billion). These loans included bank borrowings denominated in Renminbi of approximately RMB30.684 billion (2006: RMB30.096 billion), US dollar of approximately US$465 million (2006: US$567 million) and Euro of approximately Euro61 million (2006: Euro66 million). Included in these borrowings were approximately US$47 million (2006: US$54 million) of floating-rate borrowings. For the year ended 31 December 2007, the long-term bank borrowings bore interest rates ranged from 2% to 7.05% (2006: 2% to 6.97%) per annum.

As at 31 December 2007, the total long-term shareholder's loans of the Company and its subsidiaries amounted to RMB2.80 billion (2006: RMB2.80 billion). For the year ended 31 December 2007, these borrowings bore interest rates ranged from 4.32% to 5.67% (2006: 4.05% to 5.02%) per annum.

As at 31 December 2007, other long-term loans of the Company and its subsidiaries amounted to approximately RMB126 million (2006: RMB424 million). These loans included borrowings denominated in Renminbi of nil (2006: approximately RMB254 million), US dollar of approximately US$10 million (2006: US$13 million) and Japanese Yen of approximately JPY833 million (2006: JPY1.071 billion). Both the US dollar and Japanese Yen borrowings were at floating rates. For the year ended 31 December 2007, these borrowings bore interest rates ranged from 5.80% to 5.87% (2006: 4.94% to 6.12%) per annum.

The Company and its subsidiaries will closely monitor changes in the exchange rate and interest rate markets and cautiously assess the currency and interest rate risks.

Combining the current development of the power generation industry and the growth of the Company, the Company will make continuous efforts to not only meet cash requirements of daily operations, construction and acquisition, but also establish an optimal capital structure to minimize the cost of capital and manage financial risks through effective financial management activities, thereby maintaining sustainable and stable returns to the shareholders.

2.3 *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 2007, in accordance with the profit appropriation plan of the board of directors of the Company (subject to the approval of the shareholders' meeting), the Company expects to pay a cash dividend of approximately RMB3.617 billion.

2.4 Maturity table of borrowings

Unit: RMB billion

Maturity Profile	2008	2009	2010	2011	2012
Principal planned to be repaid	21.0	9.7	10.9	4.2	5.2
Interest planned to be repaid	3.4	2.5	1.8	1.4	1.1
Total	24.4	12.2	12.7	5.6	6.3

Note:

(1) This table is prepared according to the amounts in the contracts which have been entered into;

(2) The amount of the principal to be repaid in 2008 is relatively large because this includes the expected repayments of short-term loans and short-term bonds.

III. TREND ANALYSIS

1. The major trend of the electricity power market

In August 2007, General Office of the State Council issued the "Notice concerning the Interim Measures of Energy Saving and Electricity Dispatch promulgated by the National Development Reform Commission forwarded by the General Office of the State Council" (Guofaban [2007] 53) (the "Notice"). The Notice provided that the energy saving and electricity dispatch shall "consolidate with the construction of power market which optimize the power market". The State Electricity Regulatory Commission is conducting research on how to effectively combine the energy saving and electricity dispatch with the construction of the power market, and the detailed measures are still in the process of drafting. Currently, some pilot provinces are actively preparing for the implementation of the policy of energy saving and electricity dispatch. As the State highly emphasizes energy saving and emission reduction, the related policies will become one of the critical factors for the development trend of the power market.

2. The trend of the coal supply in 2008

Since 2008, the sea freight charges and coal prices of the key contracts have increased significantly comparing to those in the same period in 2007. At the end of 2007 and in early 2008, the coal supply experienced shortage and the market price increased significantly. The increases in coal price and the transportation costs bring challenges to the Company in respect of fuel cost control.

3. The financial foreign exchange market

The Company has strong capacity, good reputation and sound financing channels both domestically and internationally. The government has raised the benchmark interest rates several times in 2007 in order to control the excessive growth of investments and lending, which has brought an impact to the Company's control of finance costs. The Company expects to continue to incur significant amount of expenditures for the project developments and environmental protection in the next few years. The sufficient cash inflow of operating activities and the sound financing channels will provide crucial capital resources for such investments. In terms of the impact of the fluctuation of foreign exchange on the Company, as most of the Company's liabilities denominated in foreign currencies are denominated in U.S. dollar, and only a small portion is denominated in Euro, and Renminbi keeps appreciation trend against U.S. dollar, the Company expects no adverse impact on its operating results.

IV. PERFORMANCE OF SIGNIFICANT INVESTMENTS AND THEIR PROSPECTS

On 22 April 2003, the Company paid RMB2.39 billion to acquire 25% equity interest in Shenzhen Energy Group. This investment brought the Company a profit of RMB270 million in 2007 under IFRS. In December 2007, the Company acquired 200 million shares from the subsidiary of Shenzhen Energy Group, Shenzhen Energy. In addition, Shenzhen Energy acquired most of the assets of Shenzhen Energy Group by issuing and placing new shares and Shenzhen Energy Group will be liquidated when appropriate. Upon its liquidation, the Company will hold a total of 25.01% direct equity interest in Shenzhen Energy. It is estimated that this investment will provide the steady investment returns to the Company in the future.

In July 2004, the Company paid RMB1.375 billion to acquire 40% equity interest in Hebei Hanfeng Power Company. This investment brought the Company a profit of RMB145 million in 2007 under IFRS. It is estimated that this investment will provide steady investment returns to the Company in the future.

As at 31 December 2006, the Company held 60% equity interest in Sichuan Hydropower directly. In January 2007, Huaneng Group increased its capital investment in Sichuan Hydropower by RMB615 million which resulted the decrease of the Company's equity interest in Sichuan Hydropower to 49%. Huaneng Group became the controlling shareholder of Sichuan Hydropower. This investment brought a profit of RMB140 million to the Company under IFRS. It is estimated that this investment will provide steady investment returns to the Company in the future.

V. EMPLOYEE BENEFITS

As at 31 December 2007, the Company and its subsidiaries had 22,899 employees. The Company and its subsidiaries provided the employees with competitive remuneration and linked such remuneration to operating results as working incentives for the employees. Currently, the Company and its subsidiaries do not have any non-cash remuneration packages.

Based on the development plans of the Company and its subsidiaries and the requirements of individual positions, together with consideration of specific characteristics of individual employees, the Company and its subsidiaries tailored various training programs for their employees on management skills, technical skills and marketing skills. These programs enhanced both the knowledge and operational skills of the employees.

VI. RELATED PARTY TRANSACTIONS

The Company entered into various transactions with China Huaneng Group ("Huaneng Group"), HIPDC and their group companies in the ordinary course of business, including operating leases on land use rights and property, electricity transmission and fuel purchases and transportation, etc.. Such transactions were for daily operations at terms no different from those with third parties and do not have any material impact on the business and operations of the Company. In addition, Huaneng Group, HIPDC and the minority shareholders of certain subsidiaries have committed or agreed through contracts in providing guarantees on loans to the Company and its subsidiaries.

Pursuant to relevant agreements, the Company rendered management services to power plants owned by Huaneng Group and HIPDC at fees covering the Company's costs and a reasonable profit. In 2007, such service fees amounted to RMB45.77 million which were less than 1% of the operating revenue of the Company in 2007.

In January 2007, Huaneng Group made an additional capital contribution of RMB615 million to Sichuan Hydropower, thereby increasing its direct equity interest in Sichuan Hydropower from 40% to 51%, which reduced the Company's equity interest in Sichuan Hydropower from 60% to 49%. Huaneng Group, thus, replaced the Company as the controlling shareholder of Sichuan Hydropower. In addition, the Company acquired 5% additional equity interest in Qinbei Power Company from Huaneng Group with a consideration of RMB65.75 million in cash, thereby increased the Company's equity interest in Qinbei Power Company to 60%.

In December 2007, the Company entered into an agreement with HIPDC, pursuant to which the Company agreed to acquire from HIPDC 60% equity interest in Nanjing Jinling for a consideration of RMB420 million. The acquisition took effect in the same month with the satisfaction of all the conditions, payment of the full amount of the considerations and the transfer of the related ownership and controlling power.

Please refer to Note 7(b) to the financial statements prepared under IFRS for details of related party transactions.

VII. GUARANTEES ON LOANS AND RESTRICTED ASSETS

As at 31 December 2007, the balance of the guarantees provided by the Company to Rizhao Power Company, an associate, amounted to RMB86 million.

As at 31 December 2007, restricted bank deposits amounted to RMB220 million, which were mainly deposits for letters of credits.

As at 31 December 2007, the Company had no contingent liabilities.

VIII. ACCOUNTING STANDARDS WITH SIGNIFICANT IMPACT ON THE FINANCIAL STATEMENTS OF THE COMPANY

Please refer to Note 2 to the financial statements prepared under IFRS for details on the changes in accounting policies which had a significant impact on the financial statements of the Company for 2007.

IX. RISK FACTORS

On 6 April 2007, the State Council issued the "Notice regarding the Implementation Opinions of Deepening Power Sector Reform during the 11th Five-Year Plan" (the "Implementation Opinions"). The Implementation Opinions reaffirm the direction of the power industry reform and require the acceleration of establishment of the regional power market platforms, the reform of power enterprises and gradual improvement of tariff-setting mechanism. The State encourages and supports the upgrades of the old generators. Using the policy of energy saving and pollution reduction as foundation, the State will accelerate the pace of closing the small generators, emphasize the importance of the policy of energy saving and environmental protection of the power industry. The State will further optimize the power supply structure through certain energy saving and electricity dispatch measures, implementing the desulphurization price and accelerating the construction of power grid. The State will promote the structural adjustment of the economy and the transformation of the way of tariff differential policies. The Implementation Opinions bring opportunities to the power industry, and at the meantime will intensify the competitions within the industry.

1. Risks on the change of power market

Based on related forecast, in 2008, the overall demand and supply of electricity in China will reach equilibrium. With the commencement of commercial operations of new generating units (particularly in those regions where a substantial number of new generating units commence commercial operations), the utilization hours of the generating units in China are expected to drop, and the Company will face the risk of the decrease in the utilization hours of its generating units.

Facing the new market situation, the Company will bring its advantages of the efficient, energy saving and environmental friendly generating units into full play and increase the utilization hours of its generating units through the ways of improving the reliability of the equipment, strengthening market promotion and reinforcing the policy of energy saving and electricity dispatch. In the meantime, the Company will set up regular planning adjustment mechanism, explore and invest in the new construction projects and enhance its comprehensive capacity in accordance with the guidance of the State policy to enhance the ability of risk management and continuous development of the Company.

2. Risks on fuel purchase and increase in fuel cost

It is expected that the risk on tight coal supplies and high coal costs will last for a relatively long period of time from now onwards as a result of scarce coal resources, increasing demand triggered by newly operated generating units and the shutdown and suspension of certain small-scale mines. These would bring cost pressure to the Company.

The Company will adopt the following measures in order to control the fuel cost as follows:

1 To improve the coal supply structure by increasing the fulfillment rate of its contracts with large-scale mines and the purchase volume percentage of key coal contracts;

2 To manage market price through broadening our purchase channels, strengthening the management on assessment and evaluation of coal suppliers and insisting on the principle of market price and price comparison;

3 To enhance coal supplies guarantee. The Company plans to build warehouses in Yingkou, Haimen and Taicang, etc. in order to secure the coal supply for its power plants in northern, central and southern China and to offset the negative effect of the increasing coal price;

4 To secure coal supply and improve cost control by actively participating in the production, storage and transportation of coal;

5 To ensure the contract implementation for coal imported from Indonesia. The Company will closely monitor the international coal price and may increase the import of coal if necessary.

3. Financial risks

The Company is engaged in the capital-intensive industry with relatively large amount of assets. The State monetary policy and the fluctuation of international currency market will expose the Company to interest rate risk and foreign exchange risk. Regarding the interest rate risk, as the majority of the Company's liabilities are denominated in Renminbi, the changes in the benchmark lending rates announced by the People's Bank of China will directly affect on the cost of debt of the Company. The Company will mitigate the interest rate risk by reinforcing the capital management, utilizing capital more effectively and broadening the funding channels. As regards the foreign exchange risk, most of the Company's foreign currency liabilities are denominated in U.S. dollar, and Renminbi keeps the appreciation trend against U.S. dollar, while there is only a small portion of the Company's liabilities denominating in Euro, the fluctuation of foreign exchange will not have adverse impact on the Company. Nevertheless, the Company will monitor the fluctuation of the foreign exchange market closely. The Company is confident that it will be able to manage interest rate risk and foreign exchange risk by further improving its procedures on identifying, analyzing, reporting and controlling financial risks and reacting to the market changes proactively.

X. BUSINESS PLAN

The primary objective of the Company in 2008 is to secure safe, stable and increasing power generation as well as to strengthen cost control. The Company will continue its focus on energy saving and environmental protection; reducing consumptions of individual generating units; and ensuring good results of major economic indicators. The Company will also strengthen project management; speed up the construction of the projects-under-construction of totaling 4,560 MW; and reinforce the project preliminaries and preparation work for new projects totaling over 11,000 MW. Pursuant to the prevailing energy policies of the State and the demand for renewable energy, the Company will, along with the process of developing coal-fired electricity, invest, develop and construct the projects for wind-power and hydro-power. In the future, the Company will actively seek appropriate opportunities for acquiring assets of good quality. In 2008, the Company strives to generate approximately 200.8 billion kWh in total and to reach average utilization hours of 5,757 hours for its coal-fired generating units. In order to achieve the 2008 operating goals, the Company will take further measures to ensure production safety; improve equipment reliability; strive to expand the markets through re-inforced sales and marketing management; increase the utilization hours; and generate more power. The Company will make efforts to control coal purchase prices in response to the soaring prices in the fuel market so as to contain the increase in unit fuel cost within 18% or thereabout. The Company will further exploit potentials to control other costs; explore more revenue and control expenditure; implement measures to save energy and reduce emissions and to increase efficiency of generating units and reduce costs. Moreover, the Company will speed up its project construction and commercial operations in relatively more profitable markets to increase its profitability. The Company will strengthen its research and development and attempt to achieve a breakthrough in the area of renewable energy development in 2008. The Company will strengthen its capital operations, domestically and internationally, and will seek good opportunities and projects for acquisition. On the basis of energy saving, reducing emissions, adjusting structure and enhancing efficiency, the Company strives to achieve the following objectives by 2010: power generation installed capacity of over 60,000 MW; controllable coal supply capacity of 50,000,000 tons/year; port coal storage and transportation and transit capacity of over 40,000,000 tons/year; and ocean coal transportation capacity of over 30,000,000 tons/year.

Winning acclaims with emphasis on both internal controls and corporate governance

Corporate Governance Report

The Company has been consistently stressing the importance of corporate governance through promoting innovation on the Company's system management and strengthening the establishment of the Company's system. It strives to enhance the transparency of the Company's corporate governance standards and to maintain high-quality corporate governance on an ongoing basis. The Company insists on adopting the principle of "maximizing the benefits of the Company and of all shareholders" as the starting point and treats all shareholders fairly in order to ensure the generation of long-term, stable and growing returns for shareholders.

(A) CODE OF CORPORATE GOVERNANCE

In recent years, the Company adopted the following measures in order to strengthen corporate governance and enhance the Company's operation quality:

(1) Enhancing and improving corporate governance

Except from complying with the provisions of the applicable laws, as a public company listed in three markets both domestically and internationally, the Company is subject to the regulations of the securities regulatory authorities of the three listing places and the supervision of investors at-large. Accordingly, our fundamental principles are adopting a corporate governance structure that balances and coordinates the decision-making powers, supervisory powers and operating powers, acting with honesty and integrity, complying with the law and operating in accordance with the law.

Over the past years, the Company's Board formulated and implemented the Rules and Procedures of the Board of Directors Meetings; the Rules and Procedures of the Supervisory Committee Meetings; the Detailed Rules on the Work of the General Manager; the Detailed Rules on the Work of the Strategy Committee of the Board of Directors; the Detailed Rules on the Work of the Audit Committee of the Board of Directors; the Detailed Rules on the Work of the Nomination Committee of the Board of Directors; the Detailed Rules on the Work of the Renumeration and Appraisal Committee of the Board of Directors; and the System on Work of Independent Directors. The Board has also discussed and approved a number of proposals on the amendments to the Articles of Association. The Company has complied with the provisions of the Code of Corporate Governance Practices in Appendix 14 to the Hong Kong Listing Rules in this accounting year.

(2) Enhancing and improving the information disclosure system

The Company has been stressing the importance of external information disclosure. The Company has established the Information Disclosure Committee which comprises managers of various departments and headed by the Vice President and the Chief Accountant, and is responsible for examining the Company's regular reports. The Company has implemented the system of holding regular information disclosure meetings every Monday chaired by the Vice President and the Chief Accountant who will report on the Company's important matters of the week, thereby warranting the Company's performance of the relevant information disclosure obligations. The Company has successively formulated and implemented a series of rules including the Measures on Investor Relations Management, the Provisions on the Management of External Information Disclosure Work, the Provisions on Internal Reporting of External Disclosure of Material

Information, the Detailed Rules on the Work of the Information Disclosure Committee, the Interim Provisions on the Work Procedures of Capital Operation and the Rules and Procedures for the Shareholders' Meetings. In June 2007, pursuant to the Management Measures on Information Disclosure by Listed Issuers and the Guidance Notes regarding the Management Systems of the Information Disclosure Matters by Listed Issuers whose shares are listed on the Shanghai Stock Exchange promulgated by the China Securities Regulatory Commission and the Shanghai Stock Exchange respectively, the Company had amended the Measures on Investor Relations Management, consolidated the original Provisions on the Management of External Information Disclosure Work and the Provisions on Internal Reporting of External Disclosure of Material Information, and formulated the Measures on Information Disclosure Management and the Rules on the Management of the shares held by the directors, supervisors and senior management of Huaneng Power International, Inc. and other regulations. Relevant departments of the Company compiled answers (and subsequent updates) to questions regarding the hot topics of market concerns, the Company's production, operation and operating results in a timely manner, which shall become the basis of external communication after being approved by the Company's management and the authorized representatives of the Information Disclosure Committee. Also, the Company engages professional personnel to conduct specialised training for the staff of the Company responsible for information disclosure on an irregular basis in order to continuously enhance their level of professionalism. The implementation of the above rules and measures ensures that the Company completes various external disclosure work effectively, thereby increasing the transparency of the Company's operation and obtaining good social benefits.

(3) Regulating financial management system, strengthening internal control

The credibility of a listed company, to a large extent, relates to the quality of the preparation of financial statements and a regulated operation of financial activities. In order to regulate its financial management, the Company has completed a large amount of specific and detailed work, including:

1. In order to strictly implement the accounting rules, accounting standards and accounting systems, to strengthen accounting and accounts supervision, and to truthfully and fairly reflect the financial position, operating results and cash flow, the Company has compiled the Measures on Accounting, the Measures on Construction Accounting, the Guidelines on Construction Accounting, the Measures on Fixed Assets Management, Lists of Fixed Assets and the Measures on Cost Management. The Company's Board and the Audit Committee have examined the Company's financial reports on a quarterly basis and the Company has fulfilled the requirements of making the Chairman, the President and the Chief Accountant responsible for the authenticity and completeness of the financial reports.

2. In order to safeguard the independence of the listed company, the Comapny realized the separation of personnel in organizational structure and specifically established the relevant institution responsible for the entrusted business (the business related to the assets entrusted by Huaneng Group for management) so that the Company may realize the complete separation of the listed company and the controlling shareholder in terms of personnel, assets and finances according to the laws and regulations of the State and the requirements of regulatory rules.

3. In 2003, the Company initiated an all-rounded plan to enhance the internal management, in order to establish a sound internal control system for the Company, to achieve an efficient operating effect for ensuring the reliability of financial reports, and to effectively enhance the capability of risk prevention. For the past five year, the Company had established an internal control strategic plan and highlighted the targets for internal control. Through the implementation of internal control cork in full force, the continuing improvement in the Company's development power, competitive edge and risk resistance power, the Company has visualised the strategic targets, established a system for internal control and reinforced the work require for internal control systems for both the Company and the power plants. Based on the COSO control framework, the Company had established an internal control procedure that was consistent with the management feature of the Company, designed and promulgated the internal control handbook which was identified as having the highest authority to govern the Company's internal management issues. The Company had organised various self-assessments on internal management, thereby discovering control deficiencies and implementing rectification followed by an all-rounded propaganda and training on the philosophy and knowledge for internal control.

   Based on a comprehensive assessment, the management believes that the improvement work to the Company's internal control and system is effective. These improvement measures had effectively enhance the efficiency regarding the internal control of the financial reports.

   On 3 April 2007, the external auditors had formally issued the auditor's report on the Company's internal control for 2006 without any qualification opinion. The Company has smoothly achieved the internal work target for 2006 and was among the first batch of the as listed PRC enterprises which had satisfied with the requirement on internal control in the financial reports under section 404 of the Saxley Oblery Act. Since 2007, the Company has been implementing the internal control work in different steps and procedures for establishing a long term internal control system.

4. In regard to fund management, the Company has successfully formulated a number of management measures including the Measures on Financial Management, the Interim Measures on the Management of Funds Receipts and Expenses and the relevant examination measures, the Measures on Management of Fund Raising and the Measures on the Management of Bills of Exchange. The Company's Articles of Association also set out provisions relating to loans, guarantees and investment. In the annual report of the Company over the previous years, the Company has engaged registered accountants to conduct auditing on the use of funds by the controlling shareholders and other related parties and issue individual statements according to the requirements of the China Securities Regulatory Commission ("CSRC") and the Shanghai Stock Exchange, and there has not been any violation of rules relating to the use of funds. Moreover, the Company also conducted quarterly checking and clearing with related parties in relation to the operational fund transfers in order to ensure the safety of funds. At the same time, the Company has reported the fund use position each quarter to the Beijing Securities Regulatory Bureau of CSRC and urged itself to comply with the relevant provisions at any time.

The above systems and measures have formed a sound management framework for our production and operation. The timely formulation and strict implementation of the above regulations not only ensure the on-going standardization of operations of the Company and gradual enhancement of corporate management quality, but also enable the Company to win honorable acclaims over the past years, including: "The Best Corporate Governance Award in China"; ranked first in "The Overall Best Managed Company in China"; ranked first in "The Best Company in Corporate Strategy and Best Operational Efficiency in China"; ranked second in "Most Concerned with Shareholders' Value"; "The Best Investor Relations Award"; "The Best Utilities Company Award in Asia"; "The Best Information Disclosure Communication for Acquisitions and Mergers Award"; and "The Best Corporate Governance in China". The above awards were conferred by authoritative publications in the international capital market including *Institutional Investors Magazine, Euromoney, Asiamoney, Asia Finance, IR Magazine and The Asset*, thus establishing a good overall image for the Company in both the domestic and international capital markets.

(B) SECURITIES TRANSACTIONS BY DIRECTORS

As the Company is listed in three jurisdictions, the Company has strictly complied with the relevant binding clauses on securities transactions by directors imposed by the regulatory authorities of the US, Hong Kong and China and we insist on the principle of complying with the strictest clause, that is, implementing the strictest clause among three places. We have adopted a set of standards not lower than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules as the model code for securities dealings by directors of the Company, namely, Management Rules regarding the Company's Securities Information and Trading. The Company also formulated and implemented the Management Rules in respect of the Shares Held by the Directors, Supervisors and Senior Management of Huaneng Power International, Inc.. The general principles for the trading of shares by the Company's directors include: trading the Company's shares strictly in accordance with the stipulations under the Companies Law and relevant regulations, prohibiting those whose are in possession of insider information using insider information in securities trading; and setting out detailed rules for those whose are in possession of insider information. Following a specific enquiry on all the directors and senior management of the Company, all the directors do not hold any shares in the Company and there is no material contract in which the directors directly or indirectly have material interests.

(C) BOARD OF DIRECTORS

The Company's Board of Directors comprised 15 members (currently with one temporary vacancy), with Mr. Li Xiaopeng as Chairman, and Mr. Huang Yongda and Mr. Huang Long as Vice Chairmen of the Board; the Executive Directors of the Company are Mr. Li Xiaopeng (Chairman) and Mr. Na Xizhi (President); other Non-executive Directors are: Mr. Huang Yongda, Mr. Huang Long, Mr. Wu Dawei, Mr. Shan Qunying, Mr. Ding Shida, Mr. Xu Zujian and Mr. Liu Shuyuan. The Company has five Independent Non-executive Directors comprising one-third of the members of the Company's Board of Directors, namely, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning.

The Board of Directors of the Company has held eleven meetings during this reporting year including regular meetings and ad hoc meetings (including those with voting by communication), at which the resolutions regarding the Proposal of Connected Transactions in 2007, Recognition of Financial Instruments, Scope of capitalisation of Interest from General Loan, Proposal of Taking out Liability Insurance for Directors and Senior Management, Proposal of Issuing Short Term Bonds, Proposal of Authorising Bank of New York to Submit Form F-6 to US Securities and Exchange Commission, Annual Report of 2006 and its summary, Proposal of Distribution of Dividends for 2006, First Quarterly Report of 2007, Huaneng Power International, Inc.'s Self-Investigation Report and Improvement Plans on Corporate Governance, Huaneng Power International, Inc.'s Management Guidelines on Disclosure of Information, Huaneng Power International, Inc.'s Management Guidelines on Investor Relations, Management Rules in respect of the Shares Held by the Directors, Supervisors and Senior Management of Huaneng Power International, Inc., Interim Report of 2007 and its summary, Proposal of Issue of Corporate Bonds by Huaneng Power International, Inc., Third Quarterly Report of 2007, Proposal of Change of Company Secretary and Proposal of Transfer of Shares of Huaneng Nanjing Jinling Power Limited Company, etc..

Details of the attendance of directors at the board meetings are as follows:

Name	Number of meetings to be attended	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (%)
Executive Directors				
Li Xiaopeng	11	11	0	100%
Na Xizhi	11	11	0	100%
Non-executive Directors				
Huang Yongda	11	10	1	90.91% (Attendance by proxy rate: 9.09%)
Huang Long	11	11	0	100%
Wu Dawei	11	10	1	90.91% (Attendance by proxy rate: 9.09%)
Shan Qunying	11	11	0	100%
Ding Shida	11	9	2	81.82% (Attendance by proxy rate: 18.18%)
Xu Zujian	11	9	2	81.82% (Attendance by proxy rate: 18.18%)
Liu Shuyuan	11	7	4	63.64% (Attendance by proxy rate: 36.36%)
Independent Non-executive Directors				
Qian Zhongwei	11	10	1	90.91% (Attendance by proxy rate: 9.09%)
Xia Donglin	11	9	2	81.82% (Attendance by proxy rate: 18.18%)
Liu Jipeng	11	10	1	90.91% (Attendance by proxy rate: 9.09%)
Wu Yusheng	11	10	1	90.91% (Attendance by proxy rate: 9.09%)
Yu Ning	11	10	1	90.91% (Attendance by proxy rate: 9.09%)

As stated in the Corporate Governance Report of 2006, the Company's Articles of Association set out in detail the duties and operational procedures of the Board (please refer to the Company's Articles of Association for details). The Board of the Company holds regular meeting to hear the report on the Company's operating results and makes timely decision. Material decisions on operation shall be discussed and approved by the Board. Ad hoc meetings may be held if necessary. Board meetings include regular meetings and ad hoc meetings. Regular meetings of the Board include: annual meetings, half-yearly meetings, first quarterly and third quarterly meetings.

All arrangements for regular meetings have been notified to all directors at least 14 days in advance and the Company has ensured that each director thoroughly understood the agenda of the meeting and fully expressed his/her opinions, while all Independent Non-executive Directors expressed their independent directors' opinions. Minutes have been taken for all the meetings and filed at the Office of the Board of Directors of the Company.

Moreover, the Independent Directors of the Company have submitted their annual confirmation letters of 2007 in relation to their independence according to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Apart from regular and ad hoc meetings, the Board obtained information through the Chairman Office in a timely manner in order to monitor the objectives and strategies of the management, the Company's financial position and operating results and clauses of material agreements. The Chairman Office discharged the duties on behalf of the Board when the Board was not in session.

The Chairman Office held meetings irregularly which were attended by the Chairman, Vice Chairmen, Secretary to the Board, President, relevant senior management and personnel of relevant departments, and they heard reports on the operating conditions of the Company and made decisions. These meetings: (1) examined and approved the establishment or cancellation of proposals to develop construction projects; (2) examined and approved proposals of the President in relation to the appointment, removal and transfer of managers of various departments of the Company and managers external branches; (3) examined and approved plans on the use of significant funds; (4) examined and approved proposals on the establishment or cancellation of branch or branch organs; (5) studied issues regarding the power market reforms and power sales and marketing; (6) examined and approved other major issues.

The management of the Company shall be in charge of the production and operational management of the Company according to the Articles of Association. It shall implement annual operation plans and investment proposals and formulate the Company's management rules.

The Chairman of the Company shall sign the management authorization letter to the President of the Company on behalf of the Board, and confirm the respective authorities and duties of the Board and senior management. The Company's senior management reports on the actual implementation of various authorizations each year.

(D) CHAIRMAN AND PRESIDENT

The Board of the Company shall have a Chairman and a President who shall perform their duties respectively according to the Articles of Association. During the reporting period, Mr. Li Xiaopeng acts as Chairman of the Board and Mr. Na Xizhi acts as President of the Company.

The division of duties of the Board and the senior management is same as what has been disclosed in the Corporate Governance Report of 2006.

(E) NON-EXECUTIVE DIRECTORS

According to the provisions of the Articles of Association, the term of office of members of the Board of the Company shall not exceed three years (including three years) and the members may be eligible for re-election. However, the term of office of Independent Non-executive Directors shall not exceed six years (including six years) according to the relevant provisions of the China Securities Regulatory Commission.

The respective terms of office of the Non-executive Directors are as follows:

Name of Directors	Term of office
Huang Yongda	2006.3.7-2008.5
Huang Long	2006.9.25-2008.5
Wu Dawei	2005.5.11-2008.5
Shan Qunying	2005.5.11-2008.5
Ding Shida	2005.11.17-2008.5
Xu Zujian	2005.5.11-2008.5
Liu Shuyuan	2005.5.11-2008.5
Qian Zhongwei	2005.5.11-2008.5
Xia Donglin	2005.5.11-2008.5
Liu Jipeng	2005.5.11-2008.5
Wu Yusheng	2005.5.11-2008.5
Yu Ning	2005.5.11-2008.5

(F) DIRECTORS' REMUNERATION

According to the provisions of the relevant laws of the PRC and the Articles of Association, the Board of the Company has established the Remuneration and Appraisal Committee mainly responsible for studying the appraisal standards of the directors and senior management personnel of the Company, conducting appraisals and making proposals; responsible for studying and examining the remuneration policies and proposals of the directors and senior management personnel of the Company and to be accountable to the Board. As the executive directors of the Company are also the senior management of the Company, their performance appraisals were reflected in the appraisal of the senior management by the Board of Directors. During the reporting period, Mr. Na Xizhi received salary from the Company as executive director. His salary was recorded in the annual total remuneration and determined in accordance with the Company's internal pay scale. The total remuneration, after examined by the Remuneration and Appraisal Committee, was then submitted to the Board of Directors. The Executive Directors have entered into the directors service contracts by adopting the standard form in compliance with requirements of the Hong Kong Stock Exchange.

Members of the Remuneration and Appraisal Committee of the Fifth Session of the Board of Directors comprised seven directors. Members of the Remuneration and Appraisal Committee were Mr. Liu Jipeng, Mr. Na Xizhi, Mr. Xu Zujian, Mr. Liu Shuyuan, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Wu Yusheng; of whom Mr. Liu Jipeng, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Wu Yusheng were Independent Non-executive Directors; Mr. Liu Jipeng acted as Chief Member of the Remuneration and Appraisal Committee.

The operation of the Remuneration and Appraisal Committee did properly follow the Detailed Rules on the Work of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee convened a meeting on 2 April 2007, at which the report of total wage expenses in 2007 was reviewed. In the new financial year, the Remuneration and Appraisal Committee will carry out its work in a timely manner pursuant to the above rules on work according to the actual situation.

During this financial year, the attendance of meetings of the Remuneration and Appraisal Committee of the Company's Board was as follows:

Name of meeting	Date of meeting	Members who attended the meeting in person	Members who attended the meeting by proxy
First meeting of the Fifth Session of the Remuneration and Appraisal Committee in 2007	2007-4-2	Mr. Liu Jipeng, Mr. Na Xizhi, Mr. Xu Zujian, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Wu Yusheng	Mr. Liu Shuyuan

(G) NOMINATION OF DIRECTORS

According to the provisions of the relevant laws of the PRC and the Articles of Association, the Board of the Company has established the Nomination Committee. The Committee is mainly responsible for studying the selection standards and procedures for candidates for directors and senior management personnel of the Company according to the directors' qualifications under the Companies Law and Securities Law and the needs of the operational management of the Company, and making proposals thereon to the Board; searching for qualified candidates for directors and suitable persons for senior management personnel on a wide basis; and examining the candidates for directors and suitable persons for senior management personnel and making proposals thereon. Currently, the nomination of the candidates of directors basically were made by the major shareholder. The nominations, after examination of the relevant qualification by the Nomination Committee, will be submitted to the Board of Directors. The candidates for the Vice President of the Company and management were nominated by the President. Such nominations, after examination of the relevant qualification by the Nomination Committee, will be submitted to the Board of Directors.

Members of the Nomination Committee of the Fifth Session of the Board are Mr. Qian Zhongwei, Mr. Huang Long, Mr. Shan Qunying, Mr. Ding Shida, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning; of whom Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning are Independent Non-executive Directors; Mr. Qian Zhongwei acted as the Chief Member of the Nomination Committee.

The operation of the Nomination Committee did follow the Detailed Rules on the Work of the Nomination Committee. On 23 October 2007, the Nomination Committee of the fifth session of the Board of Directors convened a meeting, at which the details of candidates for the Company's Vice President and Secretary to the Board of Directors were reviewed and Mr. Gu Biquan were nominated as the Company's Vice President and Secretary to the Board of Directors. In the new financial year, the Nomination Committee will carry out its work in a timely manner pursuant to the above rules on work according to the actual situation.

During the year, the attendance of meetings of the Nomination Committee of the Company's Board of Directors was as follows:

Name of meeting	Date of meeting	Members who attended the meeting in person	Members who attended the meeting by proxy
First meeting of the Nomination Committee of the Fifth Session of the Board of Directors in 2007	2007-10-23	Mr. Huang Long, Mr. Shan Qunying, Mr. Liu Jipeng	Mr. Qian Zhong wei, Mr. Ding Shida, Mr. Xia Donglin, Mr. Yu Ning

(H) REMUNERATION OF AUDITORS

The 2006 Annual General Meeting approved the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the domestic and international auditors of the Company, respectively. The total remuneration for 2007 audit and audit-related services amounted to approximately RMB30.353 million.

(I) AUDIT COMMITTEE

According to the requirements of the regulatory authorities of the jurisdictions where the Company is listed and the relevant provisions of the Articles of Association, the Board of Directors of the Company has established the Audit Committee mainly responsible for:

(1) proposing to appoint or change external auditing organizations;

(2) examining and supervising the Company's internal audit system and its implementation;

(3) communication between internal auditing and external auditing;

(4) auditing the Company's financial information and its disclosure;

(5) any other matters required by the Company's Board.

The responsibilities as stated above are same as those stated in the Corporate Governance Report of 2006.

Members of the Audit Committee of the Fifth Session of the Board of Directors comprised five directors, namely, Mr. Xia Donglin, Mr. Qian Zhongwei, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning; all the above members are Independent Non-executive Directors; Mr. Xia Donglin acted as Chief Member of the Audit Committee.

During the Year, The Audit Committee held five meetings. As per Audit Committee's duties, the Audit Committee interviewed with the Company's counsels, external auditors, management and the relevant departments separately and exchange ideas and communicated with them. With the understandings on the applicable laws and regulations of those jurisdictions in which the shares of the Company are listed, anti-misconduct position in the Company, change of the responsible officer of the Monitoring and Audit Department, recruitment of staff, implementation and execution of internal control mechanism and audit work carried out by external auditors, the Audit Committee has rendered their views and opinion and made certain proposals. The meetings discussed and examined the working report of the Audit Department in 2006, the working plan and budget for auditing in 2007, the 2006 budget report, the 2006 financial statements, the 2006 profit distribution proposal, the appointment of external auditors, the financial statements for the first, second and third quarters of 2007 respectively. The Audit Committee submitted to the Board of Directors a work report for the past year and examination reports done in the meetings.

During this financial year, the attendance of meetings of members of the Audit Committee was as follows:

Name of meeting	Date of meeting	Members who attended the meeting in person	Members who attended the meeting by proxy
First meeting of the Audit Committee of the Fifth Session of the Board in 2007	2007-4-2	Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng, Mr. Yu Ning	Nil
Second meeting of the Audit Committee of the Fifth Session of the Board in 2007	2007-4-23	Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng, Mr. Yu Ning	Nil
Third meeting of the Audit Committee of the Fifth Session of the Board in 2007	2007-8-13	Mr. Qian Zhongwei, Mr. Wu Yusheng, Mr. Yu Ning	Mr. Xia Donglin, Mr. Liu Jipeng
Fourth meeting of the Audit Committee of the Fifth Session of the Board in 2007	2007-10-22	Mr. Xia Donglin, Mr. Wu Yusheng, Mr. Yu Ning	Mr. Qian Zhongwei, Mr. Liu Jipeng
Correspondence meeting of the Audit Committee of the Fifth Session of the Board in 2007	2007-12-3	Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng, Mr. Yu Ning	Nil

(J) RESPONSIBILITY ASSUMED BY THE DIRECTORS IN RELATION TO THE FINANCIAL STATEMENTS

The Directors confirm that they shall assume the relevant responsibility in relation to the preparation of the financial statements of the Company and ensure that the preparation of the financial statements of the Company complies with the relevant laws and regulations and applicable accounting standards. The Directors also warrant that the financial statements of the Company will be published in a timely manner.

The reporting responsibility statements made by the auditors of the Company in relation to the financial statements of the Company are set out on page 89 to page 90 and page 170 to page 171 of this annual report.

(K) SENIOR MANAGEMENT'S INTEREST IN THE COMPANY'S SECURITIES

As at 31 December 2007, none of the senior management of the Company holds any shares of the Company.

(L) STRATEGY COMMITTEE

According to the requirements of regulatory authorities where the Company is listed and the requirements of the Company's Articles of Association, the Board of Directors of the Company set up the Strategy Committee. The main responsibilities of the Strategy Committee are:

1. to study and make suggestions on the Company's long-term development strategies and plans;
2. to study and make suggestions on material financing proposals which require the approval of the Board of Directors;
3. to study and make suggestions on material production and operational projects which require the approval of the Board of Directors;
4. to study and make suggestions on other material matters affecting the Company's development;
5. to monitor the implementation of the above matters;
6. any matters required by the Board of Directors.

Members of the Fifth Session of the Strategy Committee comprised six directors, namely, Mr. Li Xiaopeng, Mr. Huang Yongda, Mr. Huang Long, Mr. Na Xizhi, Mr. Wu Dawei, Mr. Wu Yusheng. Mr. Li Xiaopeng acted as Chief Member of the Strategy Committee.

On 25 May 2007, the Strategy Committee approved the Report on Classification of Prevention of and Control Measures on Risk in 2007. According to the Risk Management Rules, the Company's Risk Management Office submitted a Risk Analysis Report for half year of 2007 to the Strategy Committee in December. Currently, the Risk Management Rules operate effectively, thus continuously strengthening and improving the internal control and risk management mechanism of the Company.

Broadening financing channels to reinforce financial position

Investor Relations

The Company undertakes to its shareholders in a responsible manner that it will disclose its financial position and operating performance accurately, fairly and comprehensively and will continue to proactively maintain a stable and balanced dividend policy.

NOTICE TO SHAREHOLDERS

Dividends

The Board resolved to propose for the year ended 31 December 2007 a cash dividend of RMB0.30 per ordinary share.

Cash dividends will be denominated and declared in Renminbi. Cash dividends on domestic shares will be paid in Renminbi. Save for the dividends on foreign shares traded on the Hong Kong Stock Exchange which will be paid in Hong Kong dollars, cash dividends on other foreign shares will be paid in US dollars. Exchange rates for dividends paid in US dollars and Hong Kong dollars are USD1 to RMB7.05525 and HK$1 to RMB0.90733 respectively.

All the cash dividends will be paid to shareholders on or before 30 June 2008, subject to approval at the annual general meeting of the Company.

Annual General Meeting and Close of Register

The H-share register of the members of the Company will be closed from 12 April 2008 to 12 May 2008 (both days inclusive). The record date for eligibility to receive dividend is set on 12 April 2008. Holders of the Company's shares whose names appear on the Company's share register at 4:30 p.m. on 11 April 2008 are eligible to attend the annual general meeting and are entitled to receive dividends for 2007.

SHAREHOLDERS RETURN

Performance of share price

The performance of the Company's ADS traded on the New York Stock Exchange in 2007 was as follows: opening price: USD36.26/ADS, highest price: USD57.50/ADS, lowest price: USD32.01/ADS, closing price: USD41.30/ADS, representing an increase of USD5.37/ADS (14.95%) as compared to the previous year.

The performance of the Company's H shares traded on the Hong Kong Stock Exchange in 2007 was as follows: opening price: HKD6.95/H share, highest price: HKD11.18/H share, lowest price: HKD6.34/H share, closing price: HKD8.21/H share, representing an increase of HKD1.26/H share (18.13%) as compared to the previous year.

The performance of the Company's A shares traded on the Shanghai Stock Exchange in 2007 was as follows: opening price: RMB6.56/A share, highest price: RMB19.25/A share, lowest price: RMB6.49/A share, closing price: RMB14.83/A share, representing an increase of RMB8.38/A share (129.92%) as compared to the previous year.

DIVIDENDS

Policy

- The Company will continue to maintain a proactive, stable and balanced dividend policy.

Investor Relations

Declaration of dividends

- The Company has been declaring dividends since 1998. From 2000, the dividend payout ratio has been over 50% for seven consecutive years.

Year	Dividend per share (RMB)	Earnings per share (RMB)	Dividend weighting
1994		0.17	
1995		0.24	
1996		0.27	
1997		0.33	
1998	0.08	0.33	24.24%
1999	0.09	0.33	27.27%
2000	0.22	0.44	50.00%
2001	0.30	0.60	50.00%
2002	0.34	0.65	52.31%
2003*	0.50	0.90	55.56%
2004	0.25	0.44	56.82%
2005	0.25	0.40	62.50%
2006	0.28	0.50	56.00%

* The Company's dividend plan for 2003 included a cash dividend of RMB5.00 together with bonus issue of 10 shares, for each 10 shares.

INVESTOR RELATIONS

2007

- *Press Conference/Analysts Meetings*

  The Company has organized one press conference in Hong Kong, two large-group presentation with Hong Kong analysts, one large-group presentations with PRC analysts and fund managers and two global telephone conferences.

- *Roadshow*

  In April, the management of the Company conducted an annual roadshow in the United States, Japan and Europe. In August, the Company conducted roadshow for interim results in Hongkong, Shenzhen and Shanghai.The Company has had indepth communications and exchange of views with the major shareholders and potential investors of the Company.

- *Visits by and general enquiries from investors*

  The Company has received more than 100 groups of institutional investors for company visits and about 200 telephone enquiries from investors in the year.

- *Investors Forum*

  The management of the Company has attended 7 large investment forums in which it met more than 100 institutional investors.

- *Power Plant Visits*

  In 2007, the Company has conducted two reverse roadshow within and outside China for the analysts. Visits were made to Huaneng Taicang Power Plant and Yuhuan Power Plant. Through these site visits and discussion with the management of the power plants, the investors were deeply impressed by the facilities and the management quality of the Company's power plants, and had a thorough understanding of the economic development and power demand of the region where the power plants were located.

2008

As what we did in the past, we will continue to insist on making information disclosure in an open, timely and accurate manner, conducting investor relations work proactively and efficiently, maintaining a smooth and unimpeded communication channel for investors and further strengthening the interaction with the investors.

QUESTIONS AND ANSWERS WITH INVESTORS

- **What are the measures to control the rise in unit fuel cost in 2008?**

  (1) To raise the fulfilment rates of contracts with large-scale mines and coal purchase ratios of key contracts and to improve the coal supply structure with a view to attaining key contract fulfilment rates of 80% and coal purchase ratios of 65% for key contracts during the year.

  (2) Besides stabilizing the main resource channel of the Daqin Line for coastal power plants, we will increase certain quality resources from Mengxi and actively mobilising the channel of supplementing resources in the Northeast.

  (3) To actively push forward the strategic distribution of coal storage in inland and coastal areas, striving to select coal storage yards in coastal load centres in the midstream and downstream of Yangtze River.

  (4) To continue to enhance and broaden mid and long-term cooperation and to strive to maintain the order ratio of mid and long-term contracts at a level above 60%.

  (5) To closely monitor changes in the international market and to timely expand the operating scale of imported coal in response to the situations regarding coal prices and transportation costs.

- **Does the Company have any acquisition plan during the year? Your parent company made a number of acquisitions during the year. Does it have any plan to inject any of them into the listed company?**

  Our development strategy all along is "emphasis on both development and acquisitions". The Company will closely monitor the opportunities for acquiring assets both inside and outside the group in 2008. As regards the power generating assets of Huaneng Group, we will continue to acquire those assets which meet our return requirements and when the conditions are ripe. As regards power generating assets in the capital markets, we have to cultivate the right conditions and seek opportunities, promoting the development of the Company in various ways. At present, we do not have any discloseable plan.

- **Why did Huaneng Group choose to acquire the power generating assets in Singapore?**

  Firstly, Singapore has a stable political and economic environment, a sound legal system and a transparent market with an average annual GDP growth rate of 6% during 2002 – 2006 and a projected long-term growth rate of 4 – 6%.

  Secondly, the Singapore power market underwent a series of reforms during recent years and has developed into a transparent and sound market with relatively stable power operation and rapid retail growth, from which we may obtain market operation experience.

  Thirdly, Singapore is one of the financial centres in Asia and worldwide with sophisticated banking and capital markets, so much so that overseas funds may be used effectively to reduce the financing costs of acquisitions and financial leverages may be used to increase return.

- **What are the circumstances under which the Company closed small coal-fired power plants?**

  Pursuant to the Responsibility Letter on Closing Small Generating Units entered into between Huaneng Group and the National Development and Reform Commission, it was stated that the Company should have closed 10 small coal-fired generating units with a capacity of 526.75 MW by the end of 2010. As at the end of 2007, the Company has closed 10 generating units with a capacity of 646.75 MW, namely Jining No.1, No.2, No.3; Chongqing Combined Cycle No.1, No.2, No.3; Shantou Combined Cycle No.1, No.2, No.3; and Huaiyin No.1. As Jining No.4 generating unit undertakes part of the heat supply task, it will be closed after commencement of operation of Jining Thermal Power in 2009, thereby fulfilling in advance the obligations stipulated in the Responsibility Letter.

Human Resources

COMMUNICATION BETWEEN THE COMPANY AND STAFF

The Company encourages mutual understanding, mutual trust, sincere cooperation, all-round communication and harmonious relationships among its staff. Through the Staff Handbook, the Company communicates to its entire staff about its mission, values, strategic goals, operation concepts and corporate spirit, thereby enhancing employees' sense of commitment to the Company. The Company encourages its staff to participate in proposal fine-tuning activities, and gives appropriate rewards to the staff when their suggestions are being accepted. The Company set up a special suggestion box to collect staff's opinions. When working on important matters such as research and development plans, the Company invites its staff representatives to participate and listens to staff's opinions. When there is a dispute between the Company and its staff, we encourage mutual communication and negotiation to resolve the issues.

HUMAN RESOURCES STATUS

The Company believes that human resources are the most important assets of the Company. We put a strong emphasis on nurturing talents with the establishment of three core teams of senior management, senior engineering professionals and senior technicians as the focus, the strengthening of education and training as well as exploration of potentials in internal human resources as the foundation, and recruitment of external talents as the supplement, thereby realizing a sustainable development of the Company's human resources.

For a long period of time, our human resources management is closely knitted with the Company's overall development planning. By actively and appropriately implementing a talent-based "strong corporation" strategy, we have built a diligent, high quality and experienced staff team.

At the end of 2007, the Company had 22,899 employees in total.

There were 11,587 employees who had tertiary qualifications or above, over 50% of the workforce. Among them, 303 employees held master degrees or above, 4,517 employees held specialized university degrees, 6,767 employees held general university degrees.

DEVELOPMENT AND INCENTIVE SCHEME

The Company believes in growing together with its staff, we put strong emphasis on education and training. We provide financial sponsorships and other assistance on staff training, thereby increasing the staff's sense of commitment to the Company, and motivating them to develop their inner strengths, hence improving their career development.

The Company encourages its staff to participate in training programs in accordance with their personal needs and career plans, guaranteeing their training time, so that they can continuously improve their technical expertise and become all-rounded employees, delivering better service to the Company.

The Company put a strong emphasis on staff development. In 2007, we provide various kinds of training programs to our staff, including new staff entrance training, job position qualification training, technical skill training, international cooperation training, and on-the-job continuing education.

In 2008, the Company will continue to develop various levels and forms of training for our staff in accordance with the Company's development and staff's career plan. The Company will strive hard to enhance our staff's knowledge, technical expertise and management efficiency.

STAFF SAFETY

Providing a safe working environment for our staff is the Company's top priority. The Company works hard to improve the safety standards of our staff, prevents accidents and minimizes occupational hazard.

1. To establish the safety and prevention concept of "Safety as the first priority; precaution as the major measure integration in supervision" among staff, and to discover and eliminate potential hazards on time, safeguarding workplace safety, maintaining good working environment and preventing occupational diseases.

2. To actively develop safety education. New staff at power plants have to undergo safety education at the plant level, workshop level and work team level before going to work. This includes basic knowledge of safety in the workplace, major hazards and risk factors as well as safety issues, major preventive measures against industrial accidents and occupational diseases, case studies of typical hazards, handling procedures on accidents, and functions and correct usage of protective gears (instruments).

3. To establish the certificate-for-job system. Personnel who are engaged in special operations have to undergo special safety knowledge and safe operation training, and pass through exams to obtain certificates before they can start working in their job. We also implement safety education specifically for staff who are going to handle new work techniques, new technology, new equipment and new materials.

4. To promote a safety culture and enhance staff's safety awareness in order to protect their own safety by spreading safety knowledge around the Company.

Corporate Citizenship

ENVIRONMENTAL PROTECTION

During the Eleventh Five-year Plan, the PRC government continuously raises its requirements on environmental protection and has strengthened the management of environmental protection and the State will implement stricter management measures on the emission of pollutants including sulphur dioxide.

ENVIRONMENTAL PROTECTION WORK OF THE COMPANY

Since the establishment of the Company, the Company has been putting a strong emphasis on energy saving and environmental protection work. The Company maintains its leadership position in resources saving, increasing efficiency and energy saving environmental protection indicators in power generation by putting its priorities on the development of high efficiency, low consumption, large capacity and high parameter generating units and strengthening production operation and cost management.

In 2007, the State put energy saving and emission reduction work as a key point of the State's economic work. Pursuant to the requirements of the Notice of the State Council in relation to the Proposal on Energy Saving and Emission Reduction Comprehensive Work (Guo Fa [2007] No.15), as regards reduction in the emissions of pollutants of thermal power plants, the Company has invested substantial funds to conduct desulphurization and elimination of nitrate in our existing generating units and enhance the transformation of the efficiency of dust collectors and at the same time desulphurization facilities were constructed in newly built generating units and advanced low nitrogen combustion devices and high-efficiency dust collectors were used so that the discharge value of the unit output of pollutants discharged by the power plants under the Company is reducing continuously and the total volume of sulphur dioxide is controlled effectively.

On the basis of reducing the total volume of sulphur dioxide discharged, the Company gradually reduces the volume of nitrogen and oxidizing materials and further controls the volume of smoke and dust discharged. During the "Eleventh Five-Year Plan", the Company requires all newly built furnaces to use low nitrogen combustion devices. The Company commences to increase the contents of technology exchange and study proposals on nitrate elimination technology and implementation of the relevant projects; also commences to optimize operation to reduce the discharge of nitrogen and oxidizing materials and gradually implements transformation of combustion devices in thermal power plants using no-smoke coal and low-ash fuels.

The Company believes that it has already implemented enough measures to control the pollution generated by the Company's facilities. Besides the above measures, all operating power plants have environmental protection offices or specialists to monitor and operate the environmental protection facilities. The environmental protection departments of local governments monitor the amount of waste disposed and calculate waste disposal fees according to the monitoring results.

The environmental policy and facilities of the Company's operating power plants and construction projects meet the current requirements of the environmental protection laws and regulations prescribed by the national and local governments.

POLLUTANTS DISCHARGE FEES PAID BY THE COMPANY OVER THE PAST THREE YEARS

With the continued expansion of the Company's operation, the rates of waste disposal fees increased gradually and the waste disposal fees paid by the Company continued to increase over the past three years. Currently the rates of waste disposal fees of most provinces implement the State Administrative Measures on the Rates of Waste Disposal Fees. Certain provinces have raised the rates of waste disposal fees, of which Jiangsu Province increased the rates of waste disposal fees from 1 July 2007:

(1) The rates of pollutants discharge fees for waste gas shall be increased from RMB0.6 / pollutant equivalents to RMB1.2 / pollutant equivalents.

(2) The rates of pollutants discharge fees for waste water shall be increased from RMB0.7 / pollutant equivalents to RMB0.9 / pollutant equivalents.

In 2007, the pollutants discharge fees paid by the Company to the local government totalled RMB507 million approximately. The waste disposal fees paid in 2006 amounted to RMB432 million and the waste disposal fees paid in 2005 amounted to RMB377 million.

RENEWABLE ENERGY DEVELOPMENT PLAN

The Company actively seeks to construct channels and opportunities of renewable energy power generation including hydropower, wind power and perfect the formation of installation structure in accordance with the "green" concept. Currently the Company has commenced preliminary works of wind power generating projects in various provinces, municipalities and autonomous regions of the country.

SOCIAL OBLIGATIONS

The Company based itself on realities and strictly adhered to the strategic ideas of the Annual Sustainable Development Report of China Huaneng Group and upheld the unification of enterprise development and social obligations, upheld the mission of Huaneng "three-colour" company and the development concept of "building one power plant, stimulating the regional economy, improving the regional environment, benefiting the local residents", and upheld the principles of development for a win-win situation, development for joint construction, development for joint benefits and development for joint growth. At the same time, the Company is actively participating in public charity donations (including money and goods) and public welfare activities to support disaster combating and relief and care for the underprivileged, thereby generally reflecting that the Company is actively performing its sense of mission and obligation to build a harmonious society. In 2007, the Company donated a total of RMB3,500,000 for the construction of primary schools, rural hospitals and reconstruction in poor villages.

Fulfilling corporate responsibility with effective energy conservation and emission reduction measures

Report of the Board of Directors

The Directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2007.

RESULTS SUMMARY

BUSINESS REVIEW OF YEAR 2007

In 2007, the management and all staff of the Company strived to work hard together to overcome unfavourable factors including the persistent increases in coal prices and intensifying competition of the power market. The Company has achieved record results in various areas, such as production safety, operating management, energy-saving, emission reduction, project development, capital operation and corporate governance, etc.

1. Operating Results

For the twelve months ended 31 December 2007, the Company recorded operating revenue of RMB49.768 billion, representing an increase of 12.34% as compared to the same period of 2006, and profit attributable to equity holders of the Company of RMB6.161 billion, representing an increase of 1.48% as compared to the same period of the previous year. Earnings per share amounted to RMB0.51.

As at the end of 2007, the net assets per share of the Company was RMB3.89 (excluding minority interest), representing an increase of 7.99% compared to 2006.

The Audit Committee of the Company held a meeting on 24 March 2008 to review the annual results of 2007.

2. Power Generation

In 2007, the operating power plants of the Company and its subsidiaries achieved power generation totalling 173.688 billion kWh on a consolidated basis, representing an increase of 13.21% over the same period of the previous year.

The growth in power generation is, on the one hand, attributable to its adoption of effective marketing strategies and tactics, thereby giving full play to the competitive advantages of the Company's power plants and enhancing a relatively rapid growth in power generation of the Company. On the other hand, the sustained economic growth in the areas where the power plants of the Company are located brought along an increase in power demand, thereby providing room for market development for the power plants of the Company. At the same time, the safe and stable operation of new generating units in 2007 played a key role in boosting the Company's growth in power generation.

3. Cost Control

In 2007, coal supply was still very tight and coal prices continued to hover at a high level, thereby increasing the pressure of cost control by the Company. The Company actively adopted various measures, including raising the ratios of key coal purchase contracts and fulfillment rates, stabilizing major channels of coal supply, optimizing coal structure, raising coal quality, controlling coal purchasing prices and purchasing imported coal as supplement, thereby ensuring a safe, stable and effective fuel supply. Although we have adopted various measures to control costs, we still could not offset the increase in power generating costs brought about by the increase in coal prices. The unit fuel cost of the Company increased 10.04% over the same period of the previous year.

4. Energy Saving and Emission Reduction

As at 31 December 2007, the Company had completed the installation of desulphurization facilities for 47 generating units with a total capacity of 19,280MW, representing 51.5% of the controlling power generation installed capacity of the Company. While the power output of the Company's power plants increased by 20.267 billion kWh over the same period of the previous year, the volume of sulphur dioxide emission decreased by 26,500 tons over the same period of the previous year. The Company will continue to strengthen the reduction in sulphur dioxide emission and it is the Company's plan that all of its coal-fired generating units will be installed with desulphurization facilities by 2009.

In 2007, the average equivalent availability ratio of the power plants of the Company and its subsidiaries was 93.53% and the average capacity factor was 59.04%. The annual weighted average coal consumption rate for power generated was 307.57 gram/kWh; and that for power sold was 328.77 gram/kWh, which was 29 gram/kWh lower than the average level nationwide. The weighted average house consumption rate was 5.30%. The technical and economic indices continued to maintain a leadership position in the PRC.

5. Project Development and Construction

In 2007, in view of the adverse situation of the persistent decreases in the utilization rates of power plants, the Company actively carried out the construction of new projects. On the premise of ensuring high quality, the Company continued to strengthen the expansion of the power market. A total of 7 thermal generating units with a total installed capacity of 5,000MW have commenced commercial operation during the year. Huaneng Yuhuan Power Plant realized "the commencement of operation of four 1,000MW-level generating units within 12 months", thus creating a new record in constructing 1,000 MW-level ultra-supercritical generating units. Also, there had been a change in the Company's power generation installed capacity on an equity basis due to suspension and closure of small-scale generating units and technical upgrades on existing generating units. As at 31 March 2008, the Company's power generation installed capacity on an equity basis was 33,723MW and the controlling power generation installed capacity reached 37,119MW.

6. Capital Operation

In 2007, the Company made new progress in capital operation.

Upon approval of the China Securities Regulatory Commission in September 2007, the Company subscribed in cash for 200,000,000 non-publicly issued shares in Shenzhen Energy Investment Company Limited at RMB7.60 per share in December 2007. The direct purchase of shares in Shenzhen Energy Investment Company Limited will enable the Company to enhance its investment return after the listing of Shenzhen Energy Group in the future.

On 29 December 2007, the Company acquired 60% interest of Huaneng Nanjing Jinling Power Limited Company ("Jinling Power Plant") from Huaneng International Power Development Corporation ("HIPDC"), thus boosting the power generation installed capacity on an equity basis by 468MW. More importantly, by virtue of the acquisition, the Company has obtained the project development right of 2 x 1,000MW coal-fired units, thereby helping to increase the Company's market share in East China.

The above acquisitions are in line with the long-term development strategy of the Company and the long-term benefits of all the shareholders.

7. **Financing**

In 2007, upon approval of the China Securities Regulatory Commission, the Company became the third PRC enterprise which was permitted to issue corporate bonds. The Company obtained a bond issuance limit totalling RMB10 billion, and issued the first batch of bonds amounting to RMB6 billion in December 2007. The bonds were divided into 3 types with respective terms of 5 years, 7 years and 10 years, thus satisfying the long-term capital requirements of the Company and improving its liability structure. The finance costs of such three types of bonds were lower than the best lending rates offered by the banks for the same period.

Other than that, the Company also raised a substantial amount of low-cost working capital by issuing RMB5 billion short-term bonds.

PROSPECTS FOR 2008

Looking forward to 2008, the Company faces new pressure and challenges in the power market, but is also endowed with development opportunities and favorable factors.

The challenges include: (i) shortage of coal supply, continuous increase in coal prices and a decline in coal quality which will severely affect the operating results of the Company; (ii) intense competition in the power market which will increase the difficulties for the Company to increase its revenue and efficiency; (iii) insufficient supplementary rulings to the regulations and mechanisms during the course of the power industry's reforms will bring additional operation risks to the Company.

The development opportunities for the Company include: (i) the growth of the economy, the improvement of people's living standards and the evolution of the society have created more room for the power industry's development, which makes it possible for the Company to expedite its pace of development and to increase its market share; (ii) the deepening of the structural reform and the adjustment of the economic structure will enable the Company to further optimize the structure, adjust its strategies and explore more development channels; (iii) the implementation of the policies of energy saving and adjustment of power dispatch will be conducive for the Company to further capitalise on its advantages in scale and its leadership position, thus enhancing its return and strength.

Overall, the Company believes that there are more opportunities than challenges, and more favorable conditions than unfavorable ones. With a solid foundation and an experienced team, the Company will adopt effective and creative measures to maintain its market position, actively expand its market share, control the increase in coal prices, and with its best endeavours, perform all aspects of operation work.

The Company will adhere to the guidelines for scientific development; adhere to the policy of "rationalising the strategic deployment, optimizing the structure, advancing the technology, saving energy, exploring more channels for cooperation"; insist upon the principle of "emphasizing both development and acquisition; greenfield and expansion projects; coal-fired and other applicable energies; and domestic and overseas funding resources"; invest in the fields relating to coal and electricity; and improve the ability in securing coal supply.

The Company believes that it will realize a rapid and healthy development by grapping the opportunities and overcoming the challenges.

The primary objective of the Company in 2008 is to secure safe, stable and increasing power generation as well as to strengthen cost control. The Company will continue its focus on energy saving and environmental protection; reducing consumptions of individual generating units; and ensuring good results of major economic indicators. The Company will also strengthen project management; fasten the construction speed of the projects-under-construction of 4,560 MW; and reinforce the project preliminaries and preparation work for new projects of over 11,000 MW. Pursuant to the prevailing energy policies of the State and the demand for renewable energy, the Company will, along with the process of developing coal-fired electricity, invest, develop and construct the projects for wind-power and hydro-power. In the future, the Company will actively seek appropriate opportunities for acquisition of assets of good quality.

In 2008, the Company strives to generate power of approximately 200.8 billion kWh in total and to reach average utilization hours of 5,757 hours for its coal-fired generating units.

In order to achieve the 2008 operating goals, the Company will take further measures to ensure production safety; improve equipment reliability; strive to expand the markets through re-inforced sales and marketing management; increase the utilization hours; and generate more power. The Company will make efforts to control coal purchase prices in response to the soaring prices in the fuel market so as to contain the increase in unit price for fuel cost within 18% or thereabout. The Company will further exploit potentials to control other costs; explore more revenue and control expenditure; implement measures to save energy and reduce emission and to increase efficiency of generating units and reduce costs. Moreover, the Company will speed up its project construction and commercial operations in relatively more profitable markets to increase its profitability. The Company will strengthen its research and development and attempt to achieve a breakthrough in the area of renewable energy development in 2008. The Company will strengthen its capital operations, domestically and internationally, and will seek good opportunities and projects for acquisition.

On the basis of energy saving, reducing emissions, adjusting structure and enhancing efficiency, the Company strives to achieve the following objectives by 2010: power generation installed capacity of over 60,000,000 kW; controllable coal supply capacity of 50,000,000 tons/year; port coal storage and transportation and transit capacity of over 40,000,000 tons/year; ocean coal transportation capacity of over 30,000,000 tons/year by 2010.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS

Please refer to the Financial Highlights on page 10 for summary of the operating results and assets and liabilities of the Company and its subsidiaries as at 31 December 2007 and for the year then ended.

Please refer to pages 91, 92 and 174 of the financial statements for the operating results of the Company and its subsidiaries for the year ended 31 December 2007, which have been reviewed by the Company's Audit Committee.

DISTRIBUTABLE RESERVE

Distributable reserve of the Company as at 31 December 2007, calculated in accordance with its articles of association is set out in Note 20 to the financial statements prepared under International Financial Reporting Standards ("IFRS").

DIVIDENDS

The Board resolved to propose for the year ended 31 December 2007 a cash dividend of RMB0.30 per ordinary share.

Cash dividends will be denominated and declared in Renminbi. Cash dividends on domestic shares will be paid in Renminbi. Save for the dividends on foreign shares traded on the Hong Kong Stock Exchange which will be paid in Hong Kong dollars, cash dividends on other foreign shares will be paid in United States dollars. Exchange rates for dividends paid in United States dollars and Hong Kong dollars are USD1 to RMB7.05525 and HK$1 to RMB0.90733 respectively.

All the cash dividends will be paid to shareholders on or before 30 June 2008, subject to approval at the annual general meeting of the Company.

PRINCIPAL BUSINESS

Currently, the Company wholly owns 16 power plants and have controlling interests in 13 operating power plants and minority interests in 5 operating power companies. Its power plants have advanced equipment with high efficiency and stability. Their operations are widely located in 12 provinces and two municipalities. The core business of the Company is to develop, construct and operate large scale power plants by making use of modern technology and equipment and financial resources available domestically and internationally.

SUBSIDIARIES AND ASSOCIATES

Please refer to Notes 11 and 12 to the financial statements prepared under IFRS for details of associates and subsidiaries respectively.

BONDS

During the year, the Company issued RMB5 billion and RMB6 billion unsecured short-term bonds and long-term bonds in meeting its operational and capital expenditure needs respectively.

BANK LOANS AND OTHER BORROWINGS

Please refer to Notes 22 and 28 to the financial statements prepared under IFRS for details of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2007.

CAPITALIZED INTEREST

Please refer to Note 10 to the financial statements prepared under IFRS for details of the Company and its subsidiaries capitalized borrowing costs during the year.

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 10 to the financial statements prepared under IFRS for changes in the property, plant and equipment of the Company and its subsidiaries during the year.

RESERVES

Please refer to consolidated statement of changes in equity and statement changes in equity on pages 96 to 98 and pages 177 to 180 for the movements of reserves of the Company and its subsidiaries and the Company standalone during the year respectively.

STAFF RETIREMENT SCHEME

The Company and its subsidiaries have implemented a series of specified retirement contribution schemes as prescribed by the places where the Company and its subsidiaries have operations.

Pursuant to the specified retirement contribution schemes, the Company and its subsidiaries have paid contributions according to the terms and obligations set out in the publicly administered retirement insurance plans. The Company has no other obligations to pay further contributions. The contributions payable from time to time will be regarded as expenses in the period and counted as labor cost. Please refer to Note 8 to the financial statements prepared under IFRS for details of staff retirement benefits.

PRE-EMPTIVE RIGHTS

According to the articles of association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

MAJOR SUPPLIERS AND CUSTOMERS

The five major suppliers of the Company and its subsidiaries for year 2007 were coal suppliers, i.e. Shenhua Coal Transportation & Sale Company, China Coal Import & Export Corporation, Shanxi Provincial Coal Transportation & Sale Limited Company, Inner Mongolia Yitai Group Limited Company and Chongqing Municipal Energy Investment Corporation. The total purchase from them amounted to approximately RMB7.85 billion, representing approximately 24.5% of the total coal purcahse of the year.

As a power producer, the Company sells most of the electricity generated by its power plants through local operating power grid companies and does not have other significant customers. The five major customers of the Company and its subsidiaries for the year 2007 were Jiangsu Electric Power Company, Shandong Electric Power Corporation, Liaoning Electirc Power Company Limited, Shanghai Municipal Electric Power Company and Zhejiang Electric Power Corporation. These five customers accounted for approximately 63.86% of total operating revenue while the largest customer (Jiangsu Electric Power Company) accounted for approximately 17.89% of operating revenue.

None of the directors, supervisors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange")) had any interests in the five largest suppliers or customers of the Company mentioned above in 2007.

CONNECTED TRANSACTIONS

Please refer to Note 7 to the financial statements prepared under IFRS in relation to the details of connected transactions. The purposes of the Company to enter into such connected transactions with connected persons were to meet the operational need of the Company and to get the most favorable terms and conditions from the market from the Company's perspective. The transactions as set out in Note 7(b) to the financial statements prepared under IFRS are connected transactions as defined in Chapter 14A of the Listing Rules.

The Independent Directors of the Company confirmed that all connected transactions in 2007 to which the Company and/or any of its subsidiaries was a party:

1. had been entered into by the Company and/or any of its subsidiaries in the ordinary and usual course of its business;

2. had been entered into either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature made by similar entities within the PRC), or (b) where there was no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company were concerned, and

3. had been entered into either (a) in accordance with the terms of the agreements governing such transactions, or (b) where there was no such agreement, on terms no less favorable than terms available to third parties.

Based on the work performed, the auditors of the Company have reviewed such continuing connected transactions and reported to the Directors that:

(a) the transactions have been approved by the Board of Directors;

(b) the management income transactions were in accordance with the pricing policy of the Company;

(c) the transactions were made in accordance with the terms of the related agreements governing such transactions; and

(d) have not exceeded the caps allowed by the Hong Kong Stock Exchange in the previous waivers.

COMPETITION WITH CONTROLLING SHAREHOLDERS

The ultimate controlling shareholder of the Company, Huaneng Group, also engages in the power industry in China. HIPDC, the direct controlling shareholder of the Company also engages in the power industry in China. The Company, HIPDC (direct controlling shareholder) and Huaneng Group (ultimate controlling shareholder) have power plants located in certain same regions. Huaneng Group and HIPDC have already entrusted the Company to manage certain of their coal-fired power plants.

Currently, the Company has 14 directors and only 4 of them have positions in Huaneng Group and/or HIPDC. According to the articles of association of the Company, in case of conflict of interest arises, the relevant directors shall abstain from voting in the relevant resolutions. Therefore, the operation of the Company is independent from Huaneng Group and HIPDC and the operation of the Company is conducted for its own benefit.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY (AND/OR ITS SUBSIDIARIES)

The Company and its subsidiaries did not sell any other types of securities and did not purchase or redeem the shares or other securities of the Company and its subsidiaries in 2007.

DIRECTORS OF THE COMPANY

The Directors of the Company in 2007 were:

Li Xiaopeng	Chairman	Appointed on 11 May 2005
Huang Yongda	Vice Chairman	Appointed on 11 May 2005
Huang Long	Vice Chairman	Appointed on 11 May 2005
Na Xizhi	Director	Appointed on 11 May 2005
Wu Dawei	Director	Appointed on 11 May 2005
Shan Qunying	Director	Appointed on 11 May 2005
Ding Shida	Director	Appointed on 17 November 2005
Xu Zujian	Director	Appointed on 11 May 2005
Liu Shuyuan	Director	Appointed on 11 May 2005
Qian Zhongwei	Independent Director	Appointed on 11 May 2005
Xia Donglin	Independent Director	Appointed on 11 May 2005
Liu Jipeng	Independent Director	Appointed on 11 May 2005
Wu Yusheng	Independent Director	Appointed on 11 May 2005
Yu Ning	Independent Director	Appointed on 11 May 2005

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

On 28 June 2007, the Company's Board of Directors approved the Management Guidelines Regarding the Holding of the Company's Shares by the Directors, Supervisors and Senior Management of Huaneng Power International, Inc. The standard of such guidelines is not lower than that of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Enquiry has been made with all Directors and Supervisors and all of them confirmed that they have complied with the code throughout 2007.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' RIGHT TO PURCHASE SHARES IN THE COMPANY

For the year ended 31 December 2007, none of the Directors or Chief Executives or Supervisors or their respective associates had any interests in the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which are (a) required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; (c) 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 Issuers.

For the year ended 31 December 2007, none of the Directors or Chief Executives, Supervisors, senior management or their spouses or children under the age of 18 was given the right to acquire shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of the SFO).

INDEPENDENT DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received independent confirmation from each of the independent directors, namely Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning, and considers them to be independent.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of Directors and Supervisors of the Company are set out in Note 9 to the financial statements prepared under IFRS.

FIVE HIGHEST PAID STAFF

Details of the five highest paid staff in the Company are set out in Note 9 to the financial statements prepared under IFRS.

PUBLIC FLOAT

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

SHARE CAPITAL STRUCTURE

As at 31 December 2007, the total issued share capital of the Company was 12,055,383,440 shares, of which 9,000,000,000 shares were domestic shares, representing approximately 74.66% of the total issued share capital, and 3,055,383,440 shares were foreign shares, representing approximately 25.34% of the total issued share capital. For domestic shares, HIPDC owns a total of 5,066,662,118 shares, representing 42.03% of the total issued share capital of the Company. Huaneng Group owns a total of 1,055,124,549 shares, representing 8.75% of total issued share capital of the Company. The rest of domestic shareholders hold a total of 2,878,213,333 shares, representing 23.88% of the total issued share capital of the Company.

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2007, the interests or short positions of persons who were entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors, Supervisors and chief executive) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Hong Kong Law Cap. 571) (the "SFO") were as follows:

Name of substantial shareholder	Class of shares	Number of shares held (shares)	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Huaneng International Power Development Corporation	Domestic Shares	5,066,662,118 (L)	Beneficial owner	Corporate	56.30% (L)	42.03% (L)
China Huaneng Group	Domestic Shares	1,055,124,549 (L)	Beneficial owner	Corporate	11.72%(L)	8.75% (L)
Hebei Provincial Construction Investment Company	Domestic Shares	603,000,000 (L)	Beneficial owner	Corporate	6.70% (L)	5.00% (L)
JP Morgan Chase Bank	H Shares	108,190,980 (L)	Investment manager and custodian	Corporate	3.54% (L)	0.90% (L)
J.P. Morgan Fleming Asset Management (Asia) Inc.	H Shares	83,918,000 (L)	Investment manager	Corporate	2.75% (L)	0.70% (L)
J.P. Morgan Fleming Asset Management Holdings Inc.	H Shares	83,198,000 (L)	Investment manager	Corporate	2.72% (L)	0.69% (L)
JF Asset Management Limited	H Shares	80,298,000 (L)	Investment manager	Corporate	2.63% (L)	0.67% (L)

Note: The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

Save as stated above, as at 31 December 2007, in the register required to be kept under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS AND SERVICE CONTRACTS

Save for the service contracts mentioned below, as at the end of 2007, the directors and supervisors of the Company did not have any material interests in any contracts entered into by the Company.

No director or supervisor has entered into any service contract which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Each and every Director and Supervisor of the Company had entered into a service contract with the Company for a term of three years commencing from the signing of the contract.

REMUNERATION POLICY

In accordance with the overall development strategy of the Company, the Company has formulated "Provisional Regulations on Remuneration Management" and "Provisional Guidelines on Salary Management for Branches and Subordinate Units". Employees' salaries are calculated with reference to the complexity of their jobs, the responsibilities they have to carry and their job performance. The remuneration of Directors, Supervisors and senior management mainly consists of the following:

(1) Basic salary and allowance

The basic salary is set by an evaluation of the job position and a factor analysis, and with reference to the salary level of the relevant position in the labor market. It accounts for about 20% of the total remuneration.

(2) Discretionary bonus

Discretionary bonus is based on the job performance of Directors, Supervisors and senior management. It accounts for about 60% of the total remuneration.

(3) Retirement contribution

For those Directors, Supervisors and senior management receiving remuneration from the Company, the Company provides basic and supplemental retirement insurance. This accounts for about 20% of the total remuneration.

According to the resolution at the shareholders' meeting, the Company pays each Independent Director a subsidy amounted to RMB60,000 (after tax) each year. The Company also reimburses to the Independent Directors for the expenses they incur in attending board meetings and shareholders' meetings and other reasonable expenses they incur while fulfilling their obligations under the Company Ordinance and the Company's Memorandum and Articles of Association (including travelling expenses and administrative expenses). Besides these, the Company does not give the Independent Directors any other benefit.

STAFF HOUSING

The Company made allocation to the housing fund for its employees in accordance with the relevant PRC regulations.

DISPOSAL OF STAFF QUARTERS

According to the relevant regulations of the State, the Company has not provided welfare quarters to its staff for the year ended 31 December 2007.

STAFF MEDICAL INSURANCE SCHEME

According to the requirements as prescribed by the relevant local governments, the Company and its subsidiaries have joined a medical insurance scheme for its staff, and have taken measures for its implementation according to planning.

GENERAL MEETINGS

During the year, the Company convened one annual general meeting and two extraordinary general meetings.

1. The Company's annual general meeting was held on 22 May 2007. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 23 May 2007.

2. The Company's first extraordinary general meeting of 2007 was held on 20 March 2007. The resolutions passed at the meeting were published in (Hong Kong) Wen Wei Po, South China Morning Post, China Securities Journal and Shanghai Securities News on 21 March 2007.

3. The Company's second extraordinary general meeting of 2007 was held on 9 October 2007. The resolutions passed at the meeting were published on the website of the Hong Kong Stock Exchange and in China Securities Journal and Shanghai Securities News on 10 October 2007.

MAJOR EVENTS

1. As approved by the China Securities Regulatory Commision in September 2007, the Company subscribed in cash through the private placement of 200 million shares in Shenzhen Energy Investment Company Limited at the price of RMB7.60 per share. The total consideration paid by the Company amounted to RMB1.52 billion. Such shares were registered under the name of the Company in China Securities Registrar & Settlement Limited Liability Company on 6 December 2007 and listed on Shenzhen Stock Exchange on 20 December 2007.

2. On 3 December 2007, the Company entered into an agreement relating to the equity transfer of Jinling Power Plant. Pursuant to such agreement, the Company acquired 60% interest in the registered capital of Jinling Power Plant from HIPDC. The consideration paid by the Company to HIPDC for the equity transfer was RMB420 million. Upon completion of the acquisition, the Company's total generation capacity on an equity basis increased by 468 MW.

3. Changes of Directors, Supervisors and Senior Management.

For work reallocation reason, Ms. Lu Dan resigned from the position of Vice President of the Company on 14 August 2007.

For work reallocation reason, Mr. Huang Jian resigned from the position of Vice President of the Company on 23 October 2007 and ceased to be the company secretary on 20 December 2007.

Mr. Gu Biquan was appointed as Vice President of the Company and as the Secretary to the Board of Directors on 31 October 2007 and 20 December 2007 respectively.

For work reallocation reason, Mr. Qu Xiaojun resigned from the position of Vice President of the Company on 3 January 2008.

CODE OF CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. This annual report contains a corporate governance report prepared in accordance with the requirements of the Listing Rules.

DESIGNATED DEPOSIT

As at 31 December 2007, the Company and its subsidiaries did not have any designated deposit with any financial institutions within the PRC nor any overdue fixed deposit which could not be recovered.

DONATIONS

During the year, the total amount of donation made by the Company and its subsidiaries was approximately RMB3.50 million.

LEGAL PROCEEDINGS

As at 31 December 2007, the Company and its subsidiaries were not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company and its subsidiaries.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER

The 2007 Annual General Meeting will be held on 13 May 2008. For details of the resolutions to be considered and approved at the meeting, please refer to the Notice of 2007 Annual General Meeting issued by the Company on 26 March 2008. Holders of the Company's H Shares whose names appear on the HK$ Dividend H Shares register and the US$ Dividend H Shares register maintained by Hong Kong Registrars Limited at 4:30 p.m. on 11 April 2008 are eligible to attend the 2007 Annual General Meeting and are entitled to receive dividends. The H Share register of members of the Company will be closed from 12 April 2008 to 12 May 2008 (both days inclusive).

AUDITORS

In the forthcoming annual general meeting for 2007, a proposal regarding the re-appointment of PricewaterhouseCoopers as the international auditors of the Company and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors of the Company for 2008 will be tabled for shareholders, consideration and approval.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This 2007 annual report has been published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.hpi.com.cn and http://www.hpi-ir.com.hk).

By Order of the Board
Li Xiaopeng
Chairman

Beijing, PRC
25 March 2008

Report of the Supervisory Committee

To: All Shareholders

In 2007, all members of the Supervisory Committee of the Company strictly complied with the laws and regulations of the places where the Company is listed, as well as the articles of association of the Company. They have acted honestly and in good faith, and carried out their work diligently so as to protect the interest of the shareholders and the benefit of the Company. The Committee conducted reviews on the performance of duties of the Directors of the Company and senior management and the operational situation and management of the Company for 2007. We hereby report the major work during the period as follows:

I. WORK OF THE SUPERVISORY COMMITTEE IN 2007

In accordance with the applicable laws and regulations, the Articles of Association and the practical needs of the Company, the Supervisory Committee convened four meetings and completed the following tasks:

1. On 3 April 2007, the seventh meeting of the fifth session of the Supervisory Committee was convened at the headquarters of the Company. The financial statements of the Company for 2006, the profit distribution plan of the Company for 2006, the annual report of the Company for 2006 and its extract, and the Working Report of the Supervisory Committee of the Company for 2006 were considered and approved at the meeting.

2. On 24 April 2007, the eighth meeting of the fifth session of the Supervisory Committee was held at the headquarters of the Company. The first quarterly report of 2007 was considered and approved at the meeting.

3. On 14 August 2007, the ninth meeting of the fifth session of the Supervisory Committee was held at the headquarters of the Company. The interim report of the Company for 2007 and its extract were considered and approved at the meeting.

4. On 23 October 2007, the tenth meeting of the fifth session of the Supervisory Committee was held at the headquarters of the Company. The third quarterly report of 2007 was considered and approved at the meeting.

The Supervisors attended (or appointed proxy) all of the aforesaid meetings. The convocation of the meetings complied with the requirements of the Company Law of the PRC and the articles of association of the Company.

During the reporting period, the Supervisors of the Company attended all board meetings and general meetings of the Company.

II INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE RELEVANT MATTERS OF THE COMPANY IN 2007

1. Lawfulness of the Company's operations

The Supervisory Committee performed effective supervision and examination on the procedures for convening the shareholders' meetings and Board meetings, the adoption of resolutions, the implementation of the resolutions of the shareholders' meetings by the Board of Directors and the senior managements performance of duties of the Directors and the senior management of the Company and the internal management system of the Company according to the relevant laws and regulations stipulated by the Articles of Association.

The Supervisory Committee is of the view that the Board of Directors and the senior management are capable of establishing a model and conducting regulated operation in strict compliance with the Articles of Association and the relevant laws, regulations and rules of the jurisdictions in which the Company's shares are listed, and have performed dutifully, diligently, and in good faith. During the reporting period, the Company's management system further improved as a result of the continuing establishment of the internal system. The internal control system became more all–rounded. The business activities of the Company complied with the legal requirements. In the course of examining the financial position of the Company and supervising the performance of duties of the Directors and senior management, the Supervisory Committee has not found any of their behavior which contravened any relevant laws, regulations or the articles of association of the Company or any issues that has caused damage to the interests of the Company.

2. Examining the financial conditions of the Company

The Supervisory Committee has carefully examined and verified the financial reports of the Company for 2007, the profit distribution proposal of the Company for 2007, the annual report of the Company of 2007, and the 2007 financial statements audited by the domestic and international auditors with unqualified opinions issued.

The Supervisory Committee is of the view that: as year 2007 was a year which marked an advanced achievement of various work by the Company. Although the Company encountered rises of fuel costs, a heavy burden of project construction works and increasing market competition, under the right guidance of the Board and as a result of the hard work of all staff led by the management, the Company has overcome the difficulties and achieved good operating results. The Company's financial statements of 2007 have accurately reflected the financial conditions and operating results of the Company during the reporting period. The Supervisory Committee agreed to the auditors' report on the Company's financial statements of 2007 issued by the auditors and the profit distribution plan for 2007.

3. Fund raising

The latest fund raising exercise by the Company was in November 2001 in issuance of A shares. The actual use of the fund raised was consistent with the undertaking referred to in the Company's prospectus.

4. Acquisition and disposal of assets and connected transactions

During the reporting period, the Board of Directors of the Company has, by way of resolutions numbered 077, 086, 087 and 088, examined and approved the proposals regarding the continuing connected transactions in 2007, the scheme of increasing the share capital of China Huaneng Finance Corporation, the share transfer of Huaneng Nanjing Jinling Power Limited Company, the continuing connected transactions in 2008. All the transactions as contemplated by the above proposals are connected transactions.

The Supervisory Committee is of the view that the arrangements involved in the above resolutions did not involve any insider dealings and the Supervisory Committee had not found any issues which was prejudicial to the interest of the shareholders or caused the loss of the Company's assets or damaged the interest of the Company. The connected transactions were fair and the prices thereof were determined reasonably.

5. **Examing the conditions of information disclosure of the Company**

The Supervisory Committee is of the view that the Company's control over and procedure on the information disclosure were complete and effective. The process of information disclosure had strictly complied with the stipulations as set out in the Management Rules for Information Disclosure and the Measures on Investor Relations Management and met the requirements of the Company's listing places. The Company has provided the investors with information in a timely, accurate, true, complete and fair manner, thus facilitating the investors to have a more objective and comprehensive understanding of the Company. The information disclosure by the Company is conducive to enhance the reputation and image of the Company in the capital market.

In 2008, the Supervisory Committee will continue to perform its duties assigned by the laws, regulations and the articles of assocation of the Company diligently and in good faith, so as to safeguard and protect the legal interest of the shareholders and the Company.

Supervisory Committee
of
Huaneng Power International, Inc.

Beijing, PRC
25 March 2008

Profiles of Directors, Supervisors and Senior Managment

Biographies of Directors and Supervisors

Li Xiaopeng, aged 48, is the Chairman of the Company and President of Huaneng Group as well as Chairman and President of HIPDC. Mr. Li was Vice President, President and Vice Chairman of the Company as well as Vice President, President and Vice Chairman of HIPDC, Chairman of Huaneng Group and Vice President of State Power Corporation. Before joining HIPDC, he had successively served as Engineer of the Power System Research Division, as Deputy Division Chief of the Planning and Operations Division, and as General Manager of the Power Technology and Economic Research Division, Electric Power Research Institute. He graduated from the North China Institute of Electric Power specializing in power plants and power systems holding a bachelor's degree. He is a senior engineer.

Huang Yongda, aged 50, is the Vice Chairman of the Company as well as the Vice President of Huaneng Group. He was the Deputy Director of the Economic Moderation and State Asset Supervision Office of Ministry of Power Industry, Deputy Director of the General Office of the Ministry of Power Industry, Deputy Officer of the Finance and Asset Management Department of State Power Corporation, Deputy Director of the Power Department of the State Economic and Trade Commission, President of Jiangxi Province Power Corporation, Vice President of HIPDC. Chairman of Xi'an Thermal Industrial Research Institute Limited Company and Huaneng Capital Services Limited Company and President of the Company. He graduated from China Renmin University, specializing in industrial financial accounting holding a Postgraduate Degree. He is a senior accountant.

Huang Long, aged 54, is the Vice Chairman of the Company as well as the Vice President of Huaneng Group. He has served as Deputy General Manager and General Manager of the International Co-operation Department of HIPDC, and as Vice President and Secretary of the Board of Directors of the Company. He graduated with a M.S. degree from North Carolina State University in the U.S., specializing in communications and auto-control. He is a senior engineer.

Na Xizhi, aged 54, is the Director and President of the Company. He has served in Huaneng Group as Deputy Manager of the Power Generation Department, Manager of the Operation Department, General Manager of the Power Safety and Production Department, Deputy Chief Engineer and Vice President of Huaneng Group. He graduated from Wuhan Hydroelectric University, specializing in thermal power with a master degree in engineering. He is a senior engineer.

Wu Dawei, aged 54, is the Director of the Company, Deputy Chief Engineer of Huaneng Group and President of Huaneng Group East China Branch. He joined the Company in 1988, and has served as Deputy General Manager of Huaneng Shanghai Shidongkou Second Power Plant, Deputy General Manager of Shanghai branch of the Company, the General Manager of Huaneng Shanghai Shidongkou Second Power Plant. He has obtained a Master of Business Administration degree from the Central Europe International Business School. He is a senior engineer.

Shan Qunying, aged 54, is the Director of the Company and the Vice President of Hebei Provincial Construction Investment Company. He had been the Energy & Communication Division Chief of Hebei Provincial Construction Investment Company. He graduated from Beijing Steel Institute specializing in automation holding a bachelor's degree. He is a senior engineer.

Ding Shida, aged 59, is the Director of the Company, President of Fujian International Trust and Investment Corporation, General Manager of Fujian Investment Enterprise Group Corporation, Chairman of Minxin Group Limited (a Hong Kong listed company) Vice Chairman, Director and Executive Director of Xiamen International Bank, Director and Executive Director of Macau International Bank and Chairman of Hong Kong Guixin Limited. Mr Ding had been Secretary of the Communist Party Shanghang County, Committee Member of Longyan District Committee of the Communist Party, Secretary of Longyan City, and the General Manager of Fujian Provincial Construction Materials Corporation. He graduated from the Post Graduate School of the China Academy of Social Sciences, specializing in agricultural economics management and was conferred a doctoral degree in management. He is a senior economist.

Xu Zujian, aged 53, is the Director of the Company, Director and Vice President of Jiangsu Province Guoxin Asset Management Group Limited Company, and Chairman of Jiangsu Investment Management Co. Ltd. He was Vice President of Jiangsu Provincial International Trust & Investment Corporation, President of Jiangsu Provincial Investment & Management Limited Liability Company, Director. He graduated from Liaoning Finance University majoring in infrastructure finance, holding a bachelor's degree. He is a senior economist.

Profiles of Directors, Supervisors and Senior Managment

Liu Shuyuan, aged 57, is the Director of the Company, and the Chairman of Liaoning Energy Investment (Group) Limited Liability Company. He has been the Deputy General Manager of Liaoning Provincial Trust and Investment Corporation, the Vice President, Director and President of Liaoning Changye (Group) Limited Liability Company (Liaoning Energy Corporation), Director and General Manager of Liaoning Energy Investment (Group) Limited Liability Company. He is a postgraduate of PRC Liaoning Province Communist Party School specializing in economic management. He is a senior economist and senior operating manager.

Qian Zhongwei, aged 69, is the Independent Director of the Company and has been the Deputy Chief Engineer, Chief Engineer and Deputy Chief of the Eastern China Power Industry Management Bureau, Chief of Shanghai Electricity Bureau, Chief of Easter China Power Administration Bureau, and President of Easter China Power group Company. He graduated from the electrical engineering department of Tsinghua University holding a bachelor's degree of high voltage engineering. He is a professor and senior engineer.

Xia Donglin, aged 46, is the Independent Director of the Company, a Professor and Ph. D. tutor of the Economic and Management School of Tsinghua University. He is also the Advisory Specialist of the Accounting Standard Committee of the Ministry of Finance, Deputy Secretary of China Accounting Society, and Independent Director of Zhejiang Zhongda companies and other companies. He was the Head of Accounting Department of Economic and Management School of Tsinghua University. He graduated from the Finance and Administration Science Research Institute of Ministry of Finance, specializing in accounting and was awarded a doctoral degree in economics. He is a certified public accountant (non-practising member).

Liu Jipeng, aged 51, is the Independent Director of the Company and a professor at the Law and Economics Research Centre at China University of Political Science and Law, and the Chairman of Beijing Standard Consulting Company. He graduated from the Economic Department of the graduate School of China Academy of Social Science with a master's degree in economics. He is a certified public accountant.

Wu Yusheng, aged 51, is the Independent Director of the Company, Chief Information Engineer of State Grid Corporation of China. Mr. Wu has served as Deputy Director and Senior Engineer of Electric Grid Department of China Electric Power Research Institute and Deputy Chief Engineer, Deputy Dean and Dean of China Electric Power Research Institute, and Deputy Chief Engineer and Director of Technology Department of State Grid Corporation of China. He graduated from Postgraduate School of China Electric Power Research Institute specializing in electric power system and automation with a master degree. He is a professor and senior engineer.

Yu Ning, aged 53, is the Independent Director of the Company. He was the President of All China Lawyers Association. Mr. Yu served as Deputy Director and Director of CCP Central Disciplinary Inspection Commission, practising lawyer at Beijing Times Highland Law Firm, part-time professor at Peking University, and mentor of master postgraduates at the Law School of Tsinghua University. He graduated from Peking University specializing in economic law with a master degree. He is a lawyer.

Guo Junming, aged 42, is the Chairman of the Company's Supervisory Committee, the Chief Accountant of Huaneng Group. He was Deputy Manager of the Finance Department of Huaneng Group, Vice President and President of China Huaneng Finance Limited Liability Company, President of Huaneng Capital Services Limited Company, Deputy Chief Accountant and Manager of the Finance Department of Huaneng Group. He graduated from Shanxi Finance and Economic Institute specializing in business finance and accounting. He is a senior accountant.

Yu Ying (Ms), aged 52, is the Vice Chairman of the Company's Supervisory Committee and President of Dalian Municipal Investment Corporation. Ms. Yu has served as Vice Director of Social Affair Department of Dalian Municipal Planning Commission, Director of Fixed Assets Investment Department of Dalian Municipal Planning Commission, Assistant to President of Dalian International Trusts Investment Corporation and Chairman and President of Dalian State-owned Asset Management Limited Company. She graduated from Liaoning University of Finance and Economics, specializing in finance and credit, with a master degree in Economics. She is a senior economist.

Profiles of Directors, Supervisors and Senior Managment

Gu Jianguo, aged 41, is the Supervisor of the Company and Director and President of Nantong Investment & Management Limited Company. Mr Gu has served as Deputy Chief and Chief of General Department, Investment Department, Finance Department and Foreign Economic Affairs Department of the Nantong Municipal Planning Committee; Vice President of Nantong Ruici Investment Limited Company; Secretary of the Communist Party Committee of the main branch and Executive President of Ruici Hospital, President of Ruici (Maanshan) Development Limited Company; Chairman and President of Nantong Zhonghe Guarantee Limited Company, Chief Officer of Nantong Municipal Investment Management Centre and Director and President of Nantong Xinhongji Investment Management Limited Company. He graduated from Nanjing Aviation University holding a bachelor's degree. He is a senior economist.

Shen Zongmin, aged 53, is the Supervisor of the Company and president of Shantou Electric Power Development Corporation. He has been Vice President of Shantou Electric Power Development Corporation and Chairman of Shantou Power Development Joint Stock Company; President of Shantou Electric Power Development Corporation and Chairman of Shantou Power Development Joint Stock Company. He graduated from Macau Technology University and has a MBA degree. He is a senior corporate culture specialist.

Zou Cui (Ms), aged 54, is the Supervisor and Senior Consultant of the Company. She has served as Deputy Chief and Chief of Personnel Division of Human Resources Department of HIPDC, Deputy Manager of Human Resources Department, Deputy Manager and Manager of Supervision and Auditing Department, and Manager of Human Resources Department of the Company. She graduated from Xi'an Jiaotong University specializing in computer science holding a bachelor's degree. She is a senior engineer.

Wang Zhaobin, aged 52, is the Supervisor of the Company, Manager of Administration Department of the Company. He served as Chief of Corporate Culture Division of Human Resources Department, and Chief of Retirement Department of HIPDC. He was Deputy Secretary of Communist Party Committee, Secretary of Communist Party Disciplinary Inspection Committee and Chairman labour union of HIPDC, Beijing Branch; Manager of Corporate Policy Division of the Company. He graduated from China Beijing Municipal Communist Party School, specializing in economic management, holding a bachelor's degree. He is a corporate culture specialist.

SENIOR MANAGEMENT

Na Xizhi, aged 54, is the President of the Company. He has served in Huaneng Group as Deputy Manager of the Power Generation Department, Manager of the Operation Department, Manager of the Power Safety and Production Department and Deputy Chief Engineer, Vice President of the Company and Vice President of Huaneng Group. Mr Na graduated from Wuhan Hydroelectric University, specializing in thermal power with a master degree in engineering. He is a senior engineer.

Liu Guoyue, aged 44, is the Vice President of the Company. Mr Liu has served as the Deputy Manager (Deputy Director) and Manager (Director) of Huaneng Shijiazhuang Branch (Shang'an Power Plant) and Director of Huaneng Dezhou Power Plant. He graduated from Beijing University, with a master degree (EMBA) in business administration. He is a senior engineer.

Qu Xiaojun (whose resignation as Vice President was approved by the fifth session of the Board of Directors on 3 January 2008), aged 49, was the then Vice President of the Company. Mr Qu was Deputy Secretary of Communist Party Committee, Secretary of Communist Party Disciplinary Inspection Committee and Chairman of labour union of HIPDC, Beijing Branch, and Deputy Manager and Manager of the Personnel and Labour Department, Manager of Human Resources Department and Chief of the Discriplinary Division of the Company. Before joining the Company, he was the Deputy Manager of Electricity Technology Research Institute Services Company, Deputy Chief of the Communist Party Committee and Supervising Officer of the Supervisory Division of Energy Department and Director of second Supervisory Division of Power Department. Mr Qu graduated from China Central Communist School, specializing in economic management. He is a senior economist.

Huang Jian (whose resignation as the Vice President and resignation as the secretary to the Board of Directors were approved at the 13th meeting of the fifth session of the Board of Directors on 23 October 2007 and 20 December 2007, respectively), aged 45, was the Vice President and the secretary to the Board of Directors of the Company. Mr Huang has served as Deputy Chief and Chief of the Finance Department of the Company, Chief Accountant of the Beijing Branch of HIPDC, Deputy Manager of the Finance Department of the Company, Deputy Chief Accountant and Chief Accountant of the Company. He graduated from the Institute of Fiscal Science of the Ministry of Finance with a post-graduate degree specializing in accounting. He is a senior accountant.

Profiles of Directors, Supervisors and Senior Managment

Lu Dan aged 50, (whose resignation as Vice President was approved at the 13th meeting of the fifth session of the Board of Directors on 14 August 2007), was the Vice President of the Company. She was the Deputy Manager of the General Planning Department of Huaneng Power Generation Company, Assistant to Manager of General Planning Department, Deputy Manager of Planning Development Department, Deputy Manager of General Planning Department of Huaneng Group, Manager of Planning Development Department of the Company, and Assistant to President of the Company. Ms Lu graduated from Beijing Chemical Industry Institute with bachelor degree, specializing in chemical industry and engineering. She is a professor and senior engineer.

Fan Xiaxia, aged 45, is the Vice President of the Company. Mr Fan has served as Deputy Chief of General Administration Division of Engineering Department and Deputy Chief of Construction Management Department of HIPDC, Deputy General Manager of the Company's Nantong Branch, Deputy Manager of Construction Management Department of HIPDC, Deputy Manager and Manager of International Co-operation and Business Department of the Company, Manager of Construction Management Department of the Company, Assistant to President of the Company and General Manager of the Company's Zhejiang Branch. He graduated from Beijing Construction Institute with a bachelor degree, specializing in civil engineering. He is a senior engineer.

Gu Biquan, aged 50, the Vice President and secretary to the Board of Directors of the Company. He was Deputy Chief and Chief of Securities and Investment Department, Chief and Deputy Manager of the Secretariate of the Administration Department of HIPDC, and Manager of Securities and Investment Department, Assistant to the President, Manager of Administration Department of the Company. He also served as Deputy Chief of Power Development Department of Huaneng Group, Vice President and secretary to the Board of Directors of HIPDC. He graduated from Beijing Boardcasting Television University, specializing in electronic engineering. He is an engineer.

Zhou Hui, aged 44, is the Chief Accountant of the Company. She has been the Deputy Chief and Chief of the Finance Department of HIPDC, Deputy Manager and Manager of the Finance Department of the Company, Deputy Chief Accountant and Chief Accountant of the Company. Ms. Zhou graduated from China Renmin University with a post graduated degree, specializing in financial accounting. She is a senior accountant.

Corporate Information

Legal Address of the Company	West Wing, Building C Tianyin Mansion 2C Fuxingmennan Street Xicheng District Beijing The People's Republic of China
Company Secretary	Gu Biquan West Wing, Building C Tianyin Mansion 2C Fuxingmennan Street Xicheng District Beijing The People's Republic of China
Authorised Representatives	Li Xiaopeng Na Xizhi
Hong Kong Share Registrar	Hong Kong Registrars Limited Room 1901-1905 19th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
Depository	The Bank of New York Investor Relations P.O. Box 11258 Church Street Station New York NY 10286-1258 USA

Corporate Information

Legal Advisers to the Company

As to Hong Kong law:	Herbert Smith 23rd Floor, Gloucester Tower 15 Queen's Road Central Hong Kong
As to PRC law:	Haiwen & Partners 21st Floor, Beijing Silver Tower No.2, Dong San Huan North Road Chaoyang District Beijing The People's Republic of China
As to US law:	Skadden, Arps, Slate, Meagher & Flom LLP 42/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong

Auditors of the Company

Domestic Auditors	PricewaterhouseCoopers Zhong Tian CPAs Limited Company 11/F PricewaterhouseCoopers Center 202 Hu Bin Road Shanghai 200021, The People's Republic of China
International Auditors	PricewaterhouseCoopers 22/F Prince's Building Central, Hong Kong

Listing Information

H Shares:	The Stock Exchange of Hong Kong Limited Stock Code: 902
ADSs:	The New York Stock Exchange, Inc. Ticker Symbol: HNP
A Shares:	Shanghai Stock Exchange Stock Code: 600011

Publications

The Company's interim and annual reports (A share version and H share version) were published in August and April respectively. As required by the United States securities laws, the Company will file an annual report in Form 20-F with the Securities and Exchange Commission of the U.S. before 30th June. As the Company's A shares have already been issued and listed, the Company shall, in compliance of the relevant regulations of the China Securities Regulatory Commission and the Shanghai Stock Exchange, prepare quarterly reports. Copies of the interim and annual reports as well as the Form 20-F, once filed, will be available at:

Beijing:	Huaneng Power International, Inc. West Wing, Building C Tianyin Mansion 2C Fuxingmennan Street Xicheng District Beijing The People's Republic of China Tel: (8610) 6649 1999 Fax: (8610) 6649 1860 Website: http://www.hpi.com.cn
Hong Kong:	Rikes Communications Limited Room 1312, Wing On Centre 111 Connaught Road Central Hong Kong Tel: (852) 2520 2201 Fax: (852) 2520 2241

Glossary

Equivalent Availability Factor (EAF): Percentage on deration of usable hours on generating units in period hour, i.e.

$$EAF = \frac{\text{Available Hours (AH)} - \text{Equivalent Unit Derated Hours (EUNDH)}}{\text{Period Hour (PH)}} \times 100\%$$

Gross Capacity Factor (GCF):

$$GCF = \frac{\text{Gross Actual Generation (GAAG)}}{\text{Period Hour (PH) X Gross Maximum Capacity (GMC)}} \times 100\%$$

Weighted Average Coal Consumption Rate for Power Sold: The standard of measurement on average consumption of coal for the production of every one kWh of electricity from a coal-fired generating unit. Unit: gram/kWh

Weighted Average Coal Consumption Rate for Power Generated: The standard of measurement on average consumption of coal for the generation of every one kWh of electricity from a coal-fired generating unit. Unit: gram/kWh

Weighted Average House Consumption: The rate of electricity consumption during power production versus power generating unit: %

Average Utilization Hour: The operation hour coefficient converted from actual gross power generation of generating units to maximum gross capacity (or fixed capacity)

Capacity Rate: Ratio between average capacity and maximum capacity which indicates the difference in capacity. The larger the ratio, the more balanced the power production, and the higher the utilization of facilities

Power Generation: Electricity generated by power plants (generating units) during the reporting period, or "power generation". It refers to the consumed generated electricity produced by generating units with power energy being processed and transferred, or the product of actual consumed electricity generated by generating units and actual operation hours of generating units

Electricity Sold: Electricity for consumption or production sold by power producers to customers or power-producing counterparts

GW: = The unit of power generation, = 10^9W, gigawatt
MW: = The unit of power generation 10^6W, megawatt
kW: = The unit of power generation 10^3W, kilowatt
kWh: Unit of power generation, kilowatt per hour

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

Independent Auditor's Report
To the shareholders of Huaneng Power International, Inc.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Huaneng Power International, Inc. (the "Company") and its subsidiaries set out on pages 91 to 169, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated and Company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

PRICEWATERHOUSECOOPERS

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and the Company and its subsidiaries as at 31 December 2007 and of the Company and its subsidiaries' financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2008

Consolidated Income Statement

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB, except per share data)

	Note	For the year ended 31 December 2007	2006
Operating revenue		49,767,849	44,301,403
Sales tax		(139,772)	(148,057)
Operating expenses			
Fuel		(27,790,310)	(22,608,151)
Maintenance		(1,534,016)	(1,306,888)
Depreciation		(7,225,964)	(6,719,158)
Labor		(2,786,109)	(2,886,767)
Service fees on transmission and transformer facilities of HIPDC	7(b)	(140,771)	(140,771)
Others		(2,228,596)	(1,933,200)
Total operating expenses		(41,705,766)	(35,594,935)
Profit from operations		7,922,311	8,558,411
Interest income		53,527	51,910
Interest expense		(2,132,122)	(1,591,033)
Exchange gain and bank charges, net		204,134	67,819
Total financial expenses, net		(1,874,461)	(1,471,304)
Share of profits of associates	11	586,323	790,629
Investment income, net		127,281	128,614
Gain / (Loss) on disposals of investments	6 & 13	545,230	(19)
Other income, net	5	12,617	10,442
Profit before income tax expense	6	7,319,301	8,016,773
Income tax expense	32	(838,270)	(1,127,699)
Profit for the year		6,481,031	6,889,074

Consolidated Income Statement (Cont'd)

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB, except per share data)

	Note	For the year ended 31 December 2007	2006
Attributable to:			
Equity holders of the Company		6,161,127	6,071,154
Minority interests		319,904	817,920
		6,481,031	6,889,074
Dividends paid		3,375,507	3,013,846
Proposed dividend	21	3,616,615	3,375,507
Proposed dividend per share (expressed in RMB per share)	21	0.30	0.28
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic	33	0.51	0.50
- Diluted	33	0.51	0.50

The notes on pages 101 to 169 are an integral part of these financial statements.

Balance Sheets

As At 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Note	The Company and its subsidiaries As at 31 December 2007	2006	The Company As at 31 December 2007	2006
ASSETS					
Non-current assets					
Property, plant and equipment, net	10	90,125,919	90,444,225	50,720,718	43,787,388
Investments in associates	11	8,731,490	5,418,213	7,204,362	4,321,310
Investments in subsidiaries	12	—	—	9,500,898	9,622,256
Available-for-sale investments	13	3,462,158	1,458,759	3,462,158	1,458,759
Land use rights	14	2,269,208	2,013,480	1,369,494	1,182,279
Deferred income tax assets	29	211,654	98,429	182,543	48,316
Goodwill	15	555,266	671,796	108,938	108,938
Other non-current assets		389,375	269,404	215,035	84,411
Total non-current assets		105,745,070	100,374,306	72,764,146	60,613,657
Current assets					
Inventories, net	16	2,319,290	2,121,489	1,476,464	1,234,859
Other receivables and assets, net	17	822,131	615,488	507,630	286,634
Accounts receivable, net	18	7,876,318	7,315,683	4,097,806	4,115,237
Financial assets at fair value through profit or loss		—	100,180	—	100,180
Due from subsidiaries	7(a)(iv) & 17	—	—	168,160	148,801
Due from other related parties	7(a)(iv) & 17	560	621	400	400
Restricted cash		220,495	203,863	190,050	190,193
Cash and cash equivalents	34(a)	7,312,265	3,207,192	5,500,378	1,433,165
Total current assets		18,551,059	13,564,516	11,940,888	7,509,469
Total assets		124,296,129	113,938,822	84,705,034	68,123,126

Balance Sheets (Cont'd)

As At 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

		The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	Note	2007	2006	2007	2006
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the Company					
A shares, par value of RMB1.00 each	19	9,000,000	9,000,000	9,000,000	9,000,000
Overseas listed foreign shares, par value of RMB1.00 each	19	3,055,383	3,055,383	3,055,383	3,055,383
Additional paid-in capital		8,988,973	8,988,973	8,972,184	8,972,184
Dedicated capital	20	6,096,100	5,454,467	6,096,100	5,454,467
Fair value gains from available-for-sale investment, net of tax	13 & 29	1,674,449	998,825	1,667,037	998,668
Retained earnings					
Proposed dividend	21	3,616,615	3,375,507	3,616,615	3,375,507
Others		14,497,060	12,584,354	12,236,340	10,083,097
		46,928,580	43,457,509	44,643,659	40,939,306
Minority interests		5,151,062	7,151,183	—	—
Total equity		52,079,642	50,608,692	44,643,659	40,939,306
Non-current liabilities					
Long-term loans from Huaneng Group	22	2,800,000	2,800,000	2,000,000	2,000,000
Long-term bank loans	22	30,548,338	32,065,840	13,896,095	9,182,454
Other long-term loans	22	90,309	232,779	—	—
Long-term bonds	23	5,885,615	—	5,885,615	—
Deferred income tax liabilities	29	1,092,545	1,078,897	802,533	369,618
Other non-current liabilities	24	423,119	309,930	307,817	203,279
Total non-current liabilities		40,839,926	36,487,446	22,892,060	11,755,351

As At 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Note	The Company and its subsidiaries As at 31 December 2007	2006	The Company As at 31 December 2007	2006
Current liabilities					
Accounts payable and other liabilities	25	8,849,363	8,221,787	5,809,607	4,608,284
Taxes payables	26	955,334	1,191,783	588,785	666,038
Dividends payable		12,150	—	—	—
Due to Huaneng Group	7(a)(iv)	190	44,592	—	—
Due to HIPDC	7(a)(iv)	80,140	79,730	79,745	79,423
Due to subsidiaries	7(a)(iv)	—	—	795	960
Due to associates	7(a)(v)	8,254	83,512	84	77,327
Due to other related parties	7(a)(iv)	303,122	65,795	196,750	38,424
Salary and welfare payables		213,403	584,043	162,174	372,239
Short-term bonds	27	5,064,690	5,077,577	5,064,690	5,077,577
Short-term loans	28	11,670,400	8,161,910	4,240,000	3,422,750
Current portion of long-term bank loans	22	4,183,391	3,140,393	1,026,685	1,085,447
Current portion of other long-term loans	22	36,124	191,562	—	—
Total current liabilities		31,376,561	26,842,684	17,169,315	15,428,469
Total equity and liabilities		124,296,129	113,938,822	84,705,034	68,123,126

These financial statements have been approved for issue by the Board of Directors on 25 March 2008.

Huang Long
Director

Na Xizhi
Director

The notes on pages 101 to 169 are an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Company							Minority interests	Total equity
	Share capital	Additional paid-in capital	Dedicated capital			Available-for-sale investment revaluation reserve	Retained earnings		
			Statutory and discretionary surplus reserve funds	Statutory public welfare fund	Sub-total				
Balance as at 1 January 2006	12,055,383	8,988,107	2,682,424	2,217,005	4,899,429	636,964	13,457,591	6,106,713	46,144,187
Changes in equity for the year ended 31 December 2006									
Fair value gains from available-for-sale investment – gross (Note 13)	–	–	–	–	–	425,769	–	–	425,769
Fair value gains from available-for-sale investment – tax (Note 29)	–	–	–	–	–	(63,908)	–	–	(63,908)
Net income recognized directly in equity	–	–	–	–	–	361,861	–	–	361,861
Profit for the year ended 31 December 2006	–	–	–	–	–	–	6,071,154	817,920	6,889,074
Total recognized income and expense for the year	–	–	–	–	–	361,861	6,071,154	817,920	7,250,935
Net capital injection from minority shareholders of subsidiaries	–	–	–	–	–	–	–	588,201	588,201
Dividends waived by a shareholder of a subsidiary	–	866	–	–	–	–	–	495	1,361
Dividends relating to 2005	–	–	–	–	–	–	(3,013,846)	(362,146)	(3,375,992)
Transfer from statutory public welfare fund to statutory surplus reserve fund	–	–	2,217,005	(2,217,005)	–	–	–	–	–
Transfer to dedicated capital (Note 20)	–	–	555,038	–	555,038	–	(555,038)	–	–
Balance as at 31 December 2006	12,055,383	8,988,973	5,454,467	–	5,454,467	998,825	15,959,861	7,151,183	50,608,692

Consolidated Statement of Changes In Equity (Cont'd)

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Company							Minority interests	Total equity
	Share capital	Additional paid-in capital	Dedicated capital			Available-for-sale investment revaluation reserve	Retained earnings		
			Statutory and discretionary surplus reserve funds	Statutory public welfare fund	Sub-total				
Balance as at 1 January 2007	12,055,383	8,988,973	5,454,467	–	5,454,467	998,825	15,959,861	7,151,183	50,608,692
Changes in equity for the year ended 31 December 2007									
Fair value gains from available-for-sale investment – gross (Note 13)	–	–	–	–	–	1,607,251	–	–	1,607,251
Fair value gains from available-for-sale investment – tax (Note 29)	–	–	–	–	–	(483,366)	–	–	(483,366)
Reversal of deferred income tax	–	–	–	–	–	79,105	–	–	79,105
Disposals of available-for-sale investment	–	–	–	–	–	(527,366)	–	–	(527,366)
Net income recognized directly in equity	–	–	–	–	–	675,624	–	–	675,624
Profit for the year ended 31 December 2007	–	–	–	–	–	–	6,161,127	319,904	6,481,031
Total recognized income and expense for the year	–	–	–	–	–	675,624	6,161,127	319,904	7,156,655
Deemed disposal of a subsidiary (Note 11)	–	–	–	–	–	–	–	(2,216,278)	(2,216,278)
Acquisitions of subsidiaries	–	–	–	–	–	–	–	225,718	225,718
Net capital injection from minority shareholders of subsidiaries	–	–	–	–	–	–	–	116,890	116,890
Dividends relating to 2006	–	–	–	–	–	–	(3,375,507)	(446,355)	(3,821,862)
Transfer to dedicated capital (Note 20)	–	–	631,806	–	631,806	–	(631,806)	–	–
Others	–	–	9,827	–	9,827	–	–	–	9,827
Balance as at 31 December 2007	12,055,383	8,988,973	6,096,100	–	6,096,100	1,674,449	18,113,675	5,151,062	52,079,642

The notes on pages 101 to 169 are an integral part of these financial statements.

Statement of Changes in Equity

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Company							Total equity
	Share capital	Additional paid-in capital	Dedicated capital			Available-for-sale investment revaluation reserve	Retained earnings	
			Statutory and discretionary surplus reserve funds	Statutory public welfare fund	Sub-total			
Balance as at 1 January 2006	12,055,383	8,972,184	2,682,424	2,217,005	4,899,429	636,964	11,781,336	38,345,296
Changes in equity for the year ended 31 December 2006								
Fair value gains from available-for-sale investment – gross (Note 13)	–	–	–	–	–	425,534	–	425,534
Fair value gains from available-for-sale investment – tax (Note 29)	–	–	–	–	–	(63,830)	–	(63,830)
Net income recognized directly in equity	–	–	–	–	–	361,704	–	361,704
Profit for the year ended 31 December 2006	–	–	–	–	–	–	5,246,152	5,246,152
Total recognized income and expense for the year	–	–	–	–	–	361,704	5,246,152	5,607,856
Dividends relating to 2005	–	–	–	–	–	–	(3,013,846)	(3,013,846)
Transfer from statutory public welfare fund to statutory surplus reserve fund	–	–	2,217,005	(2,217,005)	–	–	–	–
Transfer to dedicated capital (Note 20)	–	–	555,038	–	555,038	–	(555,038)	–
Balance as at 31 December 2006	12,055,383	8,972,184	5,454,467	–	5,454,467	998,668	13,458,604	40,939,306
Balance as at 1 January 2007	12,055,383	8,972,184	5,454,467	–	5,454,467	998,668	13,458,604	40,939,306
Changes in equity for the year ended 31 December 2007								
Fair value gains from available-for-sale investment – gross (Note 13)	–	–	–	–	–	1,600,153	–	1,600,153
Fair value gains from available-for-sale investment – tax (Note 29)	–	–	–	–	–	(483,523)	–	(483,523)
Reversal of deferred income tax	–	–	–	–	–	79,105	–	79,105
Disposals of available-for-sale investment	–	–	–	–	–	(527,366)	–	(527,366)
Net income recognized directly in equity	–	–	–	–	–	668,369	–	668,369
Profit for the year ended 31 December 2007	–	–	–	–	–	–	6,401,664	6,401,664
Total recognized income and expense for the year	–	–	–	–	–	668,369	6,401,664	7,070,033
Dividends relating to 2006	–	–	–	–	–	–	(3,375,507)	(3,375,507)
Transfer to dedicated capital (Note 20)	–	–	631,806	–	631,806	–	(631,806)	–
Others	–	–	9,827	–	9,827	–	–	9,827
Balance as at 31 December 2007	12,055,383	8,972,184	6,096,100	–	6,096,100	1,667,037	15,852,955	44,643,659

The notes on pages 101 to 169 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Note	For the year ended 31 December 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax expense		7,319,301	8,016,773
Adjustments to reconcile profit before income tax expense to net cash provided by operating activities:			
Depreciation		7,229,108	6,721,684
Provision for impairment loss on property, plant and equipment		7,044	11,920
Amortization of land use rights		46,447	42,484
Amortization of other non-current assets		17,813	15,719
Amortization of housing loss		38,059	38,810
Amortization of bonds issuance expense		17,403	19,052
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		—	(24,758)
Gain on deemed disposal of Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower")		(17,864)	—
Gain on disposal of available-for-sale investment		(527,366)	—
Reversal of provision for doubtful accounts		(1,466)	(4,853)
(Reversal of) / Provision for inventory obsolescence		(6,615)	1,808
Investment income, net		(127,281)	(128,595)
(Gain) / Loss on disposals or write-off of property, plant and equipment, net		(238,037)	100,018
Unrealized exchange gain, net		(236,093)	(116,028)
Share of profits of associates		(586,323)	(790,629)
Interest income		(53,527)	(51,910)
Interest expense		2,132,122	1,591,033
Changes in working capital:			
Inventories		(190,332)	188,060
Other receivables and assets		(201,721)	(106,505)
Accounts receivable		(1,498,184)	(883,033)
Due from other related parties		61	(621)
Restricted cash		(13,520)	(2,587)
Other non-current liabilities		251,761	183,003
Accounts payable and other liabilities		31,610	39,378
Taxes payable		(40,650)	151,412
Due to Huaneng Group		—	(6,128)
Due to HIPDC		410	26,500
Due to associates		(75,258)	83,512
Due to other related parties		239,008	36,176
Salary and welfare payables		(270,994)	189,641
Others		(31,073)	1,790
Interest paid		(2,722,935)	(2,507,354)
Interest received		52,825	53,444
Income tax paid		(1,192,133)	(1,394,503)
Net cash provided by operating activities		9,351,600	11,494,713

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB)

	Note	For the year ended 31 December 2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(14,223,310)	(15,998,575)
Proceeds from disposals of property, plant and equipment, net		270,131	32,180
Prepayments of land use rights		(216,752)	(250,627)
Prepayments of territorial waters use right		(152,409)	—
Increase in other non-current assets		(6,247)	(8,973)
Decrease in temporary cash investment		—	2,652
Cash dividend received		518,934	482,609
Capital injections in associates		(1,654,000)	(174,918)
Purchases of financial assets at fair value through profit or loss		(370,189)	—
Cash paid for acquiring available-for-sale investments		(449,457)	—
Proceeds from trading of available-for-sale investment		603,411	—
Cash consideration paid for acquisitions		(485,750)	—
Cash from acquisition of a subsidiary	34(c)	259,924	—
Cash outflow upon deemed disposal of Sichuan Hydropower	34(d)	(322,176)	—
Others		(29,465)	110
Net cash used in investing activities		(16,257,355)	(15,915,542)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term bonds issuance expense paid		(20,000)	(20,000)
Issuance of short-term bonds		5,000,000	5,000,000
Repayments of short-term bonds		(5,000,000)	(4,862,200)
Drawdown of short-term loans		23,898,505	14,458,700
Repayments of short-term loans		(19,771,700)	(13,215,850)
Drawdown of long-term bank loans		8,186,176	9,982,982
Repayments of long-term bank loans		(3,282,102)	(3,010,623)
Drawdown of other long-term loans		—	40,000
Repayments of other long-term loans		(210,873)	(472,154)
Long-term bonds issuance expense paid		(96,356)	—
Issuance of long-term bonds		6,000,000	—
Net capital injection from minority shareholders of the subsidiaries		116,890	588,708
Dividends paid to shareholders of the Company		(3,375,507)	(3,013,846)
Dividends paid to minority shareholders of the subsidiaries		(434,205)	(495,361)
Net cash provided by financing activities		11,010,828	4,980,356
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,105,073	559,527
Cash and cash equivalents as at beginning of the year		3,207,192	2,647,665
CASH AND CASH EQUIVALENTS AS AT END OF THE YEAR	34(a)	7,312,265	3,207,192

The notes on pages 101 to 169 are an integral part of these financial statements.

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 30 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 Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group ("Huaneng Group") as the parent company and ultimate parent company of the Company, 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 principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and financial assets at fair value through profit or loss.

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

During 2007, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as at 31 December 2007, the Company and its subsidiaries have a negative working capital balance of approximately RMB12.8 billion (2006: RMB13.3 billion). The Company and its subsidiaries have unsecured undrawn available banking facilities amounting to approximately RMB18.70 billion (2006: RMB25.61 billion), and will refinance and / or restructure certain short-term loans into long-term loans and also consider alternative sources of financing, where applicable. Therefore, the directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these financial statements on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(a) Basis of preparation *(Cont'd)*

The following new standard, amendment to standard and interpretation are mandatory for financial year with annual period beginning on or after 1 January 2007 and relevant to the Company and its subsidiaries.

- IFRS 7, Financial Instruments: Disclosures and a complementary amendment to International Accounting Standard ("IAS") 1, Presentation of Financial statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard introduces certain revised disclosure requirements, including the mandatory disclosures on sensitivity analysis for each type of market risk. It replaces IAS 30, Disclosures in the Financial statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation and is applicable to all entities reporting under IFRS. The amendment to IAS 1 introduces disclosures on the objectives, policies and processes for managing capital. Except for an extension of disclosures, the Company and its subsidiaries considered there was no significant impact from adopting IFRS 7 and the amendment to IAS 1 on the financial statements of the Company and its subsidiaries.

- International Financial Reporting Interpretation Committee Interpretation ("IFRIC Interpretation") 10, Interim Financial Reporting and Impairment. This interpretation prohibits the impairment losses recognized in a previous interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at subsequent balance sheet dates. The Company and its subsidiaries considered there will be no significant impact from adopting IFRIC Interpretation 10 on the financial statements of the Company and its subsidiaries.

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities over which the Company and its subsidiaries have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company and its subsidiaries controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and its subsidiaries. They are de-consolidated from the date that control ceases.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(b) Consolidation *(Cont'd)*

(i) Subsidiaries (Cont'd)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company and its subsidiaries (including acquisitions from common control shareholders). The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the Company and its subsidiaries on the identifiable net assets acquired is recorded as goodwill (Note 2(e)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

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

In the balance sheet of the Company, the investments in subsidiaries are stated at costs less provision for impairment losses (Note 2(f)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions with minority interests

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

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(b) Consolidation *(Cont'd)*

(iii) Associates

Associates are all entities over which the Company and its subsidiaries have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The investments in associates of the Company and its subsidiaries include goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2(e)).

The shares of the Company and its subsidiaries on post-acquisition profits or losses of associates are recognized in the income statement and their shares of post-acquisition movements in reserves are recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the share of the Company and its subsidiaries on losses in an associate equals or exceeds their interest in the associate, including any other unsecured receivables, the Company and its subsidiaries do not recognize further losses, unless they have incurred obligations or made payments on behalf of the associate.

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

Dilution gains and losses in associates are recognized in the income statement.

In the balance sheet of the Company, the investments in associates are stated at costs less provision for impairment losses (Note 2(f)). The results of associates are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(d) Property, plant and equipment, net

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Construction-in-progress ("CIP") represents property, plant and equipment under construction and is stated at cost. This includes the costs of construction, plant and machinery and other direct costs. CIP is not depreciated until such time as the relevant asset is completed and ready for its intended use.

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

	2007	2006
Dam	N/A	45 – 55 years
Buildings	15 – 35 years	8 – 55 years
Electric utility plant in service	7 – 35 years	4 – 40 years
Transportation facilities	6 – 15 years	5 – 27 years
Others	4 – 18 years	2.5 – 18 years

* The change of the above range was due to the conversion of Sichuan Hydropower from subsidiary to associate.

The residual values, useful lives and depreciation method of the assets are reviewed, and adjusted if appropriate, at each financial year-end.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount (Note 2(f)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognized within 'operating expenses – others' in the income statement.

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the Company and its subsidiaries on the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less any accumulated impairment loss. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing (Note 15). The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company and its subsidiaries allocate goodwill to CGUs or groups of CGUs in the region in which they operate.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(f) Impairment of investment in subsidiaries, associates and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Company and its subsidiaries classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management of the Company and its subsidiaries has the positive intention and ability to hold to maturity. If the Company and its subsidiaries were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets *(Cont'd)*

(iv) Available-for-sale investments

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

Regular purchases and sales of financial assets are recognized on trade-date – the date on which the Company and its subsidiaries commit to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction cost are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company and its subsidiaries have transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized costs using the effective interest method.

Changes in the fair value of investments classified as available-for-sale are recognized in equity. Gains or loss arising from changes in the fair value of the "financial asset at fair value through profit or loss" category are presented in the income statement within 'investment income, net' in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'Gain / (Loss) on disposals of investments'. Dividends on available-for-sale equity instruments are recognized in the income statement as part of 'investment income, net' when the right of the Company and its subsidiaries to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company and its subsidiaries establish fair value by using valuation techniques. These include the use of discounted cash flow analysis and option pricing model, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets *(Cont'd)*

The Company and its subsidiaries assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment loss recognized in the income statement on equity instrument is not reversed through the income statement. The impairment loss of held-to-maturity investments is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of such an asset shall be reduced either directly or through use of an allowance account while the amount of such losses shall be recognized in the income statement. Impairment testing of receivables is described in Note 2(i).

(h) Inventories

Inventories consist of fuel, materials and supplies. They are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of inventories includes direct material cost and transportation expenses incurred in bringing the inventories to the working locations. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(i) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts. A provision for doubtful accounts of receivable is established when there is objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amounts of the receivables are reduced through the use of allowance accounts, and the amount of the provision is recognized in the income statement within 'operating expenses – others'. When a receivable is uncollectible, it is written off against the allowance account for receivable. Subsequent recoveries of amounts previously written off are credited against 'operating expenses – others' in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(j) Related parties

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

(k) Cash and cash equivalents

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

(l) Accounts and other payables

Accounts and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(m) Borrowings

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

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

(n) Taxation

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

Under the relevant PRC tax laws, the Company and its subsidiaries are subject to VAT. The Company and its subsidiaries are subject to output VAT levied at 17% of the operating revenue. The input VAT can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because VAT is a tax on the customer and the Company and its subsidiaries collect such tax from the customers and pay such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenue or operating expenses.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(n) Taxation *(Cont'd)*

(ii) Current and deferred income tax

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

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 and 3% of local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by State Tax Bureau, a lower tax rate would be applied. Effective from 1 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 fully owned operating power plants after obtaining the approval of State Tax Bureau.

Certain power plants 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 of five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

In March 2007, the PRC government promulgated the Corporate Income Tax Law (the "CIT Law") which will be effective from 1 January 2008. The CIT Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprise. The existing Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the People's Republic of China on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the power plants of the Company and its subsidiaries applied the tax rates under the existing tax laws in deriving the current income tax expense. The CIT Law has provided a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(n) Taxation *(Cont'd)*

(ii) Current and deferred income tax (Cont'd)

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

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

(o) Employee benefits

(i) Pension obligations

The Company and its subsidiaries operate various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Company and its subsidiaries pay fixed contributions into a separate publicly administered pension insurance plan on mandatory and voluntary bases. The Company and its subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as assets to the extent that a cash refund or a reduction in the future payment is available.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Company and its subsidiaries before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and its subsidiaries recognize termination benefits when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company and its subsidiaries will comply with all attached conditions.

Government grants relating to costs are recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

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

(q) Revenue and income recognition

Revenue and income are recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries and the amount of the revenue and income can be measured reliably.

(i) Operating revenue

Operating revenue represents the fair value of the consideration received or receivable for electricity sold in the ordinary course of the activities of the Company and its subsidiaries (net of VAT and after taking into account amounts received in advance). Revenue is earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective regional or provincial grid companies.

(ii) Management service income

The Company provides management services to certain power plants owned by Huaneng Group and HIPDC. The Company recognizes the service income as other income when service is rendered in accordance with the management service agreement.

(iii) Interest income

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

(iv) Dividend income

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

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(r) Operating leases

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

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets (including in property, plant and equipment) are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(t) Financial guarantee contracts

(i) Classification

The Company issues financial guarantee contracts that transfer significant insurance risk.

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

(ii) Liability adequacy test

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

(u) Dividend distribution

Dividend distribution to the shareholders of the Company and its subsidiaries is recognized as a liability in the financial statements of the Company and its subsidiaries in the period in which the dividends are approved by the shareholders of the Company and its subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(v) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

(w) Standards and amendments to published standards that are not yet effective but relevant to the Company and its subsidiaries

Certain new standards, amendments to existing standards have been published that are mandatory for the accounting periods of the Company and its subsidiaries beginning on or after 1 January 2009 or later periods but which the Company and its subsidiaries have not early adopted. These are summarized as follows:

- IAS 1, Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009), replaces IAS 1 (revised in 2003) as amended in 2005 and establishes the amendments to the presentation of information in the financial statements. It requires the presentation of recognized income and expense in a statement of comprehensive income or in a statement of profit or loss together with a statement of comprehensive income, separately from owner changes in equity. All other non-owner changes in equity and related current and deferred income tax should also be presented separately from the owner changes in equity. IAS 1 also requires, as a minimum, the presentation of three statements of financial position (balance sheet) in a complete set of financial statements whenever there is a prior period adjustment or a reclassification of items in the financial statements – as at the end of the current period, the end of the comparative period and the beginning of the comparative period. Dividends recognized as distributions to owners and related per-share amounts should be presented on the face of the statement of changes in equity or in the notes and not on the face of the statement of comprehensive income or the face of the income statement. The Company and its subsidiaries will apply IAS 1 in its financial statements for the period commencing from 1 January 2009. Management does not expect any material impact from adopting IAS 1 on the financial statements of the Company and its subsidiaries.

- IAS 23, Borrowing costs (effective for annual periods beginning on or after 1 January 2009). It supersedes IAS 23 revised in 1993 and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sales) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company and its subsidiaries will apply IAS 23 from 1 January 2009. As the Company and its subsidiaries used to adopt the capitalization treatment under existing IAS 23, management considered there is no material impact from adopting IAS 23 on the financial statements of the Company and its subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(w) Standards and amendments to published standards that are not yet effective but relevant to the Company and its subsidiaries *(Cont'd)*

- IAS 27, Consolidated and separate financial statements (effective for annual periods beginning on or after 1 July 2009). It replaces IAS 27 (revised in 2003) and establishes the amendments to the presentation, accounting treatment and disclosure requirement related to the consolidated financial statements. IAS 27 requires the total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. Gain or loss is recognized in the income statement when an entity loses control of a subsidiary. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Company and its subsidiaries will apply IAS 27 in its financial statements from 1 January 2010. The expected impact on the accounting policies is still being assessed by the Company and its subsidiaries.

- IFRS 3, Business combinations (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July, 2009). IFRS 3 supersedes IFRS 3 as issued in 2004 and clarifies the accounting for business combination in details. This IFRS provides a revised approach of deriving goodwill which non-controlling interest can be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets before including in the computation of goodwill. It also stipulated certain exceptions to recognition and measurement principles for certain acquisition items with corresponding subsequent accounting treatments. The Company and its subsidiaries will apply IFRS 3 in its financial statements from any acquisition effective after 31 December 2009. The expected impact on the accounting policies is still being assessed by the Company and its subsidiaries.

- IFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purpose. The Company and its subsidiaries will apply IFRS 8 from 1 January 2009. The Company and its subsidiaries considered there is no material impact from adopting IFRS 8 on the financial statements of the Company and its subsidiaries.

3. FINANCIAL, CAPITAL AND INSURANCE RISKS MANAGEMENT

(a) Financial risk management

Risk management, including the management on the financial risks, is carried out under the instruction of the Strategy Committee of Board of Directors and the Risk Management Team. The Company works out general principles for overall management as well as management policies covering specific areas. In considering the importance of risks, the Company identifies and evaluates risks at head office and individual power plant level, and requires analysis and proper communication for the information collected periodically.

(i) Market risk

(1) Foreign exchange risk

Foreign exchange risk primarily arises from loans denominated in foreign currencies of the Company and its subsidiaries. Related exposures are disclosed in Note 22 to the financial statement.

At 31 December 2007, if RMB had weakened / strengthened by 5% (2006: 5%) against US$ and 3% (2006: 3%) against € with all other variables constant, exchange gain of the Company and its subsidiaries would have been RMB174 million (2006: RMB227 million) and RMB20 million (2006: RMB20 million) lower / higher respectively. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rates during the previous year under analysis.

(2) Price risk

The Company and its subsidiaries are exposed to equity security price risk because of investments held by the Company and its subsidiaries and classified on the balance sheets either as available-for-sale or at fair value through profit or loss. The exposure of such a risk is presented on the balance sheets.

Detailed information relating to the available-for-sale investments is disclosed in Note 13. Being a strategic investment in nature, the Company has a director in the Board of the investee and exercises influence in safeguarding the interest. The Company and its subsidiaries also closely monitor the pricing trends in the open market in determining their long-term strategic stakeholding decisions.

3. FINANCIAL, CAPITAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

(a) Financial risk management *(Cont'd)*

(i) Market risk (Cont'd)

(3) Cash flow and fair value interest rate risk

The interest rate risk of the Company and its subsidiaries primarily arises from loans and bonds. Loans borrowed at variable rates expose the Company and its subsidiaries to cash flow interest rate risk while bonds and loans issued/borrowed at fixed rates expose the Company and its subsidiaries to fair value interest rate risk. The exposures of these risks are disclosed separately in Notes 22 and 23 to the financial statements. The Company will enter into interest rate swap agreements with banks when considered appropriate to hedge against cash flow interest rate risk.

At 31 December 2007, if interest rates on RMB-denominated borrowings had been 50 basis points (2006: 100 basis points) higher/lower with all other variables held constant, interest expense for the year would have been RMB198 million (2006: RMB315 million) higher/lower. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related interest rates during the previous year under analysis.

(ii) Credit risk

Credit risk arises from cash and cash equivalents, credit exposures to customers and outstanding receivables. The maximum exposures of cash and cash equivalents, accounts and other receivable are disclosed in Notes 34, 17 and 18 to the financial statements, respectively.

A significant portion of cash and cash equivalents of the Company and its subsidiaries is deposited with a non-bank financial institution which is a related party of the Company. The Company has a director in the Board of this non-bank financial institution and exercises influence. Corresponding maximum exposures of these cash equivalents are disclosed in Note 7 to the financial statements.

Most of the power plants of the Company and its subsidiaries sell electricity generated to their sole customers, the power grid companies of their respective provinces or regions where the power plants operate. Related concentrations are disclosed in Note 37 to the financial statements. The Company and its subsidiaries communicate with their individual grid companies periodically and believe that adequate provision for doubtful accounts have been made in the financial statements. The Company and its subsidiaries do not hold any collateral as securities.

3. FINANCIAL, CAPITAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

(a) Financial risk management *(Cont'd)*

(iii) Liquidity risk

Liquidity risk management is to primarily ensure the ability of the Company and its subsidiaries to meet its liabilities as and when they are fall due. The liquidity reserve comprises the undrawn borrowing facility and cash and cash equivalents (Note 34) available as at each month end in meeting its liabilities.

The Company and its subsidiaries maintained flexibility in funding by cash generated by their operating activities and availability of committed credit facilities (Note 34).

Financial liabilities due within 12 months are presented as the current liabilities in the balance sheets. The repayment schedules of the long-term loans and long-term bonds are disclosed in Notes 22 and 23.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale investments) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company and its subsidiaries is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company and its subsidiaries use a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as option pricing model and estimated discounted cash flows, are used to determine fair value for warrants, long-term loans and long-term bonds.

The carrying value less impairment provision of accounts receivable, accounts payable, other receivables and assets, other liabilities and short-term loans are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company and its subsidiaries for similar financial instruments.

The estimated fair value of long-term loans including current maturities and long-term bonds was approximately RMB37.22 billion and approximately RMB5.89 billion as at 31 December 2007 (2006: RMB38.16 billion and nil) respectively. The aggregate book value of these liabilities was approximately RMB37.66 billion and RMB5.89 billion as at 31 December 2007 (2006: RMB38.43 billion and nil) respectively.

3. FINANCIAL, CAPITAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

(c) Capital risk management

The objectives of the Company and its subsidiaries when managing capital are to safeguard the ability of the Company and its subsidiaries in continuing as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company and its subsidiaries monitor capital by using debt ratio analysis. This ratio is calculated as total liabilities (sum of current liabilities and non-current liabilities) divided by total assets as shown in consolidated balance sheet. During 2007, the strategy of the Company and its subsidiaries remained unchanged from 2006. The debt ratio of the Company and its subsidiaries as at 31 December 2007 was 58.10% (2006: 55.58%).

(d) Insurance risk management

The Company and its subsidiaries issue contracts that transfer significant insurance risk.

The risk relates to the financial guarantees provided to banks by the Company on the borrowings of an associate. The risk under any one financial guarantee contract is the possibility that the insured event (default of a specified debtor) occurs and the uncertainty of the amount of the resulting claims. By the nature of a financial guarantee contract, this risk is predictable.

Experience shows credit risks from the specified debtor are relatively remote. The Company maintain a close watch on the financial position and liquidity of the associate for which financial guarantees have been granted in order to mitigate such risks (Note 2(t)(ii)). The Company take all reasonable steps to ensure that they have appropriate information regarding any claim exposures.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Cont'd)*

(a) Estimated impairment of goodwill

The Company and its subsidiaries test annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(e). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of goodwill.

(b) Useful lives of property, plant and equipment

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

(c) Estimated impairment of property, plant and equipment

The Company and its subsidiaries test whether property, plant and equipment suffered any impairment whenever any impairment indication exists. In accordance with Note 2(f), an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

5. OTHER INCOME, NET

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

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense was determined after charging and (crediting) the following:

	For the year ended 31 December	
	2007	2006
Interest expense on bank loans:		
— wholly repayable within five years	1,854,879	1,327,990
— not wholly repayable within five years	567,464	833,739
Interest expense on long-term loans from Huaneng Group:		
— not wholly repayable within five years	137,942	140,194
Interest expense on other long-term loans:		
— wholly repayable within five years	14,945	40,483
Interest expense on long-term bonds	7,030	—
Interest expense on short-term bonds	163,951	140,275
Total interest expense	2,746,211	2,482,681
Less: amounts capitalized in property, plant and equipment	(614,089)	(891,648)
	2,132,122	1,591,033
Change in fair value on financial instruments:		
— Financial assets at fair value through profit and loss	(87,132)	(100,180)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	—	(24,758)
Gain on deemed disposal of Sichuan Hydropower (Note 11)	(17,864)	—
Auditors' remuneration	34,688	48,315
(Gain) / Loss on disposals or write-off of property, plant and equipment, net	(238,037)	100,018
Operating leases:		
— Property, plant and equipment	34,366	33,724
— Land use rights	40,819	41,090
Depreciation of property, plant and equipment	7,229,108	6,721,684
Impairment loss of property, plant and equipment	7,044	11,920
Amortization of land use rights	46,447	42,484
Amortization of other non-current assets	17,813	15,719
Cost of inventories consumed	28,330,667	23,034,903
Reversal of provision for doubtful accounts	(1,466)	(4,853)
Bad debts recovery	(5,318)	(35,035)
(Reversal of) / Provision for inventory obsolescence	(6,615)	1,808
Staff costs:		
— Wages and staff welfare	1,754,490	1,936,908
— Retirement benefits (Note 8)	528,728	503,592
— Termination benefits	17,661	—
— Housing fund (Note 31)	196,348	198,212
— Social insurance and others	288,882	248,054

7. RELATED PARTY BALANCES AND TRANSACTIONS

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

Names of related parties	Nature of relationship
Huaneng Group	Ultimate parent company
HIPDC	Parent company
Xi'an Thermal Power Research Institute Co., Ltd. ("Xi'an Thermal") and its subsidiaries	Subsidiaries of Huaneng Group
Huaneng Energy & Communications Holdings Co., Ltd. ("HEC") and its subsidiaries	Subsidiaries of Huaneng Group
Huaneng Capital Service Co., Ltd. ("Huaneng Capital Service")	A subsidiary of Huaneng Group
Greatwall Securities Co., Ltd. ("Greatwall Securities")	A subsidiary of Huaneng Group
Qufushengcheng Heat-Power Company Ltd. ("Qufushengcheng Heat-Power Company")	A subsidiary of Huaneng Group
Zhalainuoer Coal Mining Company Ltd. ("Zhalainuoer Coal")	A subsidiary of Huaneng Group
Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")	An associate of the Company
China Huaneng Finance Co., Ltd. ("Huaneng Finance")	An associate of the Company
Chongqing Huaneng Shifen Company Limited ("Shifen Company")	An associate of a subsidiary
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 indirectly controlled by the PRC government are also considered 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 balances and transactions disclosure, 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 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 year and significant balances arising from related party transactions as at year end.

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

(a) Related party balances

(i) As at 31 December 2007, current deposits of approximately RMB4,942 million (2006: RMB2,247 million) were placed with Huaneng Finance, a non-bank PRC financial institution, which bore interest that ranged from 0.72% to 1.53% (2006: from 0.72% to 1.62%) per annum.

(ii) As described in Note 22, certain loans of the Company and its subsidiaries were borrowed from Huaneng Group.

(iii) As at 31 December 2007, short-term loans amounting to approximately RMB2,292 million (2006: RMB2,535 million) were borrowed from Huaneng Finance, which bore interest that ranged from 4.20% to 6.56% (2006: from 3.80% to 5.51%) per annum.

(iv) As at 31 December 2007 and 2006, balances with Huaneng Group, HIPDC, subsidiaries and other related parties are unsecured, non-interest bearing and receivable / repayable within one year. As at and for the years ended 31 December 2007 and 2006, no provision is made on receivable balances from these parties.

(v) As at 31 December 2007, balances with associates are unsecured, non-interest bearing and repayable within one year. As at 31 December 2006, including in the balances with associates, a balance with an associate amounted to approximately RMB77 million is unsecured, interest bearing at 5.265% per annum and repayable within one year. All the remaining balances are unsecured, non-interest bearing and repayable within one year.

(vi) Included in the balance sheets, the balances with state-owned enterprises are as follows:

	The Company and its subsidiaries		The Company	
	As at 31 December		As at 31 December	
	2007	2006	2007	2006
	RMB million	RMB million	RMB million	RMB million
Receivables and other assets, net	8,465	7,262	4,447	4,279
Cash at banks	2,335	856	2,014	782
Borrowings	37,787	33,650	15,660	9,603
Accounts payable and other liabilities	4,346	2,822	3,105	1,242

Except for cash at banks and borrowings stated above, all the balances of assets and liabilities with state-owned enterprises mentioned above are unsecured, non-interest bearing and receivable / repayable within one year. As at 31 December 2007, provision of approximately RMB51 million (2006: RMB51 million) has been made on receivable balances.

(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

(a) Related party balances *(Cont'd)*

(vi) *(Cont'd)*

Terms of the long-term loans, short-term loans and cash at banks are described in Notes 22, 28 and 34(a), which have no material difference with the terms with third parties.

(b) Related party transactions

	For the year ended 31 December 2007	2006
Huaneng Group		
Management service fee income for management services rendered to certain power plants	41,785	39,099
Less: related expenses	(30,266)	(29,708)
Management service fee income, net	11,519	9,391
Acquisition of 20% equity interest in Huaneng Finance	—	(126,000)
Acquisition of 5% additional equity interest in Henan Qinbei Power Limited Company ("Qinbei Power Company")	(65,750)	—
Interest expense on long-term loans	(137,942)	(139,946)
Net income for substituted power arrangement to a branch of Huaneng Group	6,245	—
HIPDC		
Management service fee income for management services rendered to certain power plants	3,981	4,378
Less: related expenses	(2,884)	(3,327)
Management service fee income, net	1,097	1,051
Service fee expenses on transmission and transformer facilities	(140,771)	(140,771)
Rental charge on land use rights of Huaneng Nanjing Power Plant	(1,334)	(1,334)
Rental charge on office building	(26,000)	(26,000)
Acquisition of Huaneng Nanjing Jinling Power Generation Co., Ltd. ("Jinling Power Company") (Note)	(420,000)	—

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

(b) Related party transactions *(Cont'd)*

	For the year ended 31 December	
	2007	2006
Huaneng Finance		
Discounting of notes receivable	354,517	114,150
Discounting charges	(4,673)	(1,086)
Drawdown of short-term loans	2,247,700	3,374,700
Drawdown of long-term loans	—	40,000
Issuance of short-term bonds	—	900,000
Interest on short-term and long-term loans	(138,292)	(128,414)
Huaneng Capital Service		
Issuance of short-term bonds	—	250,000
Greatwall Securities		
Issuance of short-term bonds	—	300,000
China Huaneng International Trade Economics Corporation ("CHITEC")*		
Purchase of coal from CHITEC	—	(139,972)
Purchase of equipment from CHITEC	—	(34,055)
HEC and its subsidiaries		
Purchase of coal from HEC and its subsidiaries and service fee occurred for transportation	(2,907,428)	(735,081)
Purchase of equipment from HEC and its subsidiaries	(247,764)	—
Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan")*		
Purchase of coal from Huaneng Jingyuan	—	(49,159)
Shifen Company		
Purchase of lime from Shifen Company	(63,506)	(47,235)
Huaneng Xinrui Controlled Technology Co., Ltd. ("Huaneng Xinrui")*		
Technical services and industry-specific technological project contracting services	—	(9,425)
Xi'an Thermal and its subsidiaries		
Technical services and industry-specific technological project contracting services	(139,234)	(94,723)
Qufushengcheng Heat-Power Company		
Net income for substituted power arrangement	23,065	—
Zhalainuoer Coal		
Purchase of coal from Zhalainuoer Coal	(8,562)	—

(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

(b) Related party transactions *(Cont'd)*

* In 2007, as CHITEC (including Huaneng Jingyuan, a subsidiary of CHITEC) and Huaneng Xinrui merged with HEC and Xi'an Thermal and became subsidiaries of HEC and Xi'an Thermal, respectively, the transactions with the entities above are presented under "HEC and its subsidiaries" and "Xi'an Thermal and its subsidiaries" respectively.

Note:

In December 2007, the Company acquired 60% equity interest in Jinling Power Company from HIPDC using cash at RMB420 million. Goodwill of RMB1.34 million arose from this acquisition as a result of the expectation of high profitability and synergy of this acquired business. This acquisition has no material impact on the financial results of the Company and its subsidiaries as this transaction became effective close to the end of 2007. Please refer to Note 34(c) for details of related assets and liabilities acquired.

<u>Transactions with state-owned enterprises</u>

	For the year ended 31 December	
	2007	2006
	RMB million	RMB million
Sales of electricity	49,628	44,646
Purchases of fuel	(17,888)	(12,499)
Acquisition of property, plant and equipment	(5,331)	(7,568)
Subcontracting labor for construction and renovation	(2,092)	(3,621)
Issuance of short-term bonds	5,000	3,550
Drawdown of short-term loans	18,299	9,033
Drawdown of long-term bank loans	8,136	9,453
Interest expense of loans and bonds to banks and other financial institutions	(1,905)	(1,797)

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

(c) Guarantees

	As at 31 December	
	2007	2006
(i) Short-term loan guaranteed by state-owned banks	1,000,000	1,000,000
(ii) Long-term loans guaranteed by		
— Huaneng Group	1,462,140	6,249,089
— HIPDC	2,041,783	2,693,280
— State-owned enterprises	100,000	353,250
(iii) Certain long-term bank loans of Rizhao Power Company guaranteed by the Company	(86,063)	(123,250)
(iv) Purchase settlements guaranteed by a state-owned bank	—	80,000
(v) Long-term bonds guaranteed by state-owned banks	6,000,000	—

(d) Key management personnel compensation

	For the year ended 31 December	
	2007	2006
Salaries and other short-term employee benefits	6,930	5,670
Post-employment benefits	1,529	1,616
Total	8,459	7,286

8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension upon their retirements. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the publicly administered retirement plan at a specified rate, currently set at 18% to 22% (2006: 18% to 22%), of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31 December 2007 were approximately RMB281 million (2006: RMB278 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions, such amount is payable from the approved salary budget. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31 December 2007 totaled approximately RMB257 million (2006: RMB238 million).

The Company and its subsidiaries have no further obligation for post-retirement benefits beyond the above annual contributions made.

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The remuneration of every director and supervisor of the Company for the year ended 31 December 2007 is set out below:

	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Name of director					
Mr. Li Xiaopeng	—	—	—	—	—
Mr. Huang Yongda	—	—	—	—	—
Mr. Huang Long	—	—	—	—	—
Mr. Na Xizhi	—	222	627	197	1,046
Mr. Wu Dawei	—	124	544	123	791
Mr. Shan Qunying	40	—	—	—	40
Mr. Ding Shida	40	—	—	—	40
Mr. Xu Zujian	40	—	—	—	40
Mr. Liu Shuyuan	40	—	—	—	40
Mr. Qian Zhongwei	60	—	—	—	60
Mr. Xia Donglin	60	—	—	—	60
Mr. Liu Jipeng	60	—	—	—	60
Mr. Wu Yusheng	60	—	—	—	60
Mr. Yu Ning	60	—	—	—	60
Sub-total	460	346	1,171	320	2,297
Name of supervisor					
Mr. Guo Junming	—	—	—	—	—
Ms. Yu Ying	40	—	—	—	40
Mr. Gu Jianguo	40	—	—	—	40
Mr. Shen Zongmin	40	—	—	—	40
Ms. Zou Cui	—	126	458	138	722
Mr. Wang Zhaobin	—	125	457	134	716
Sub-total	120	251	915	272	1,558
Total	580	597	2,086	592	3,855

(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(Cont'd)

(a) Directors' and supervisors' emoluments *(Cont'd)*

The remuneration of every director and supervisor of the Company for the year ended 31 December 2006 is set out below:

	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Name of director					
Mr. Li Xiaopeng	—	—	—	—	—
Mr. Huang Yongda	—	—	—	—	—
Mr. Wang Xiaosong[1]	—	—	—	—	—
Mr. Huang Long	—	150	350	166	666
Mr. Na Xizhi	—	225	310	173	708
Mr. Wu Dawei	—	21	121	21	163
Mr. Shan Qunying	40	—	—	—	40
Mr. Ding Shida	40	—	—	—	40
Mr. Xu Zujian	40	—	—	—	40
Mr. Liu Shuyuan	40	—	—	—	40
Mr. Qian Zhongwei	60	—	—	—	60
Mr. Xia Donglin	60	—	—	—	60
Mr. Liu Jipeng	60	—	—	—	60
Mr. Wu Yusheng	60	—	—	—	60
Mr. Yu Ning	60	—	—	—	60
Sub-total	460	396	781	360	1,997
Name of supervisor					
Mr. Guo Junming[2]	—	—	—	—	—
Ms. Yu Ying	40	—	—	—	40
Mr. Gu Jianguo	40	—	—	—	40
Mr. Shen Zongmin	40	—	—	—	40
Ms. Zou Cui	—	128	398	152	678
Mr. Wang Zhaobin	—	126	382	139	647
Sub-total	120	254	780	291	1,445
Total	580	650	1,561	651	3,442

(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(Cont'd)

(a) Directors' and supervisors' emoluments *(Cont'd)*

[1] Mr. Wang Xiaosong resigned from the capacity of director on 7 March 2006.

[2] Appointed on 18 January 2006.

During the year, no option was granted to the directors or the supervisors (2006: nil).

During the year, no emolument was paid to the directors or the supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (2006: nil).

No director or supervisor had waived or agreed to waive any emoluments during the years 2006 and 2007.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiaries for the year include one (2006: one) director whose emoluments is reflected in the analysis presented above. The emoluments payable to the remaining four (2006: four) individuals during the year are as follows:

	For the year ended 31 December	
	2007	2006
Basic salaries and allowances	536	551
Discretionary bonuses	2,406	1,776
Employer's contributions to pension schemes	657	702
	3,599	3,029

The emoluments fell within the following bands:

	Number of individuals For the year ended 31 December	
	2007	2006
Emolument bands (in RMB)		
RMBnil-RMB1,000,000	4	5
RMB1,000,001-RMB1,500,000	1	—
	5	5

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET

The Company and its subsidiaries

	Dam	Buildings	Electric utility plant in service	Transportation facilities	Others	Construction-in-progress	Total
As at 1 January 2006							
Cost	2,565,853	2,168,543	80,113,023	223,816	3,910,861	20,280,986	109,263,082
Accumulated depreciation	(74,187)	(467,445)	(28,605,598)	(83,064)	(1,005,411)	–	(30,235,705)
Accumulated impairment loss	–	–	(30,080)	–	–	–	(30,080)
Net book value	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
Year ended 31 December 2006							
Beginning of the year	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
Reclassification	–	(84,198)	1,748,053	(1,167)	(1,662,688)	–	–
Addition	–	8,295	21,886	39	98,117	18,306,849	18,435,186
Transfer from CIP	987,317	50,504	24,967,179	276	84,012	(26,089,288)	–
Disposals / Write-off	–	(16,284)	(225,963)	(59)	(5,936)	–	(248,242)
Depreciation charge	(95,558)	(97,878)	(6,270,573)	(15,932)	(248,155)	–	(6,728,096)
Impairment charge	–	–	(42,000)	–	–	–	(42,000)
Reversal of impairment charge	–	–	30,080	–	–	–	30,080
End of the year	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
As at 31 December 2006							
Cost	3,553,170	2,053,942	106,111,993	224,007	2,386,701	12,498,547	126,828,360
Accumulated depreciation	(169,745)	(492,405)	(34,363,986)	(100,098)	(1,215,901)	–	(36,342,135)
Accumulated impairment loss	–	–	(42,000)	–	–	–	(42,000)
Net book value	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
Year ended 31 December 2007							
Beginning of the year	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
Reclassification	–	131,973	(188,275)	(19,800)	76,102	–	–
Acquisition	–	98,889	1,816,102	–	23,165	635,171	2,573,327
Additions	–	16,395	30,494	–	105,875	15,386,036	15,538,800
Transfer from CIP	–	314,883	13,070,043	5,565	211,436	(13,601,927)	–
Disposals / Write-off	–	(6,613)	(243,984)	–	(14,759)	–	(265,356)
Depreciation charge	–	(98,590)	(6,896,759)	(15,409)	(233,825)	–	(7,244,583)
Impairment charge	–	–	(7,044)	–	–	–	(7,044)
Deemed disposal of a subsidiary (Notes 11 & 34(d))	(3,383,425)	(354,363)	(4,909,687)	–	(201,361)	(2,064,614)	(10,913,450)
End of the year	–	1,664,111	74,376,897	94,265	1,137,433	12,853,213	90,125,919
As at 31 December 2007							
Cost	–	2,234,479	114,342,118	206,956	2,452,285	12,853,213	132,089,051
Accumulated depreciation	–	(570,368)	(39,965,221)	(112,691)	(1,314,852)	–	(41,963,132)
Net book value	–	1,664,111	74,376,897	94,265	1,137,433	12,853,213	90,125,919

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET *(Cont'd)*

	The Company					
	Buildings	Electric utility plant in service	Transportation facilities	Others	Construction-in-progress	Total
As at 1 January 2006						
Cost	1,148,389	53,524,140	177,193	3,170,730	6,926,808	64,947,260
Accumulated depreciation	(376,149)	(24,674,873)	(95,250)	(823,598)	–	(25,969,870)
Accumulated impairment loss	–	(30,080)	–	–	–	(30,080)
Net book value	772,240	28,819,187	81,943	2,347,132	6,926,808	38,947,310
Year ended 31 December 2006						
Beginning of the year	772,240	28,819,187	81,943	2,347,132	6,926,808	38,947,310
Reclassification	(15,466)	1,646,963	–	(1,631,497)	–	–
Additions	7,645	10,452	39	54,710	8,937,553	9,010,399
Transfer from CIP	32,771	7,892,018	276	39,495	(7,964,560)	–
Disposals / Write-off	(15,851)	(154,876)	(59)	(3,849)	–	(174,635)
Depreciation charge	(54,514)	(3,771,544)	(11,655)	(146,053)	–	(3,983,766)
Impairment charge	–	(42,000)	–	–	–	(42,000)
Reversal of impairment charge	–	30,080	–	–	–	30,080
End of the year	726,825	34,430,280	70,544	659,938	7,899,801	43,787,388
As at 31 December 2006						
Cost	1,145,669	62,729,239	177,384	1,590,033	7,899,801	73,542,126
Accumulated depreciation	(418,844)	(28,256,959)	(106,840)	(930,095)	–	(29,712,738)
Accumulated impairment loss	–	(42,000)	–	–	–	(42,000)
Net book value	726,825	34,430,280	70,544	659,938	7,899,801	43,787,388
Year ended 31 December 2007						
Beginning of the year	726,825	34,430,280	70,544	659,938	7,899,801	43,787,388
Reclassification	5,321	4,083	(6,344)	(3,060)	–	–
Additions	6,368	28,525	–	71,121	11,441,270	11,547,284
Transfer from CIP	209,536	10,994,334	520	116,508	(11,320,898)	–
Disposals / Write-off	(3,648)	(91,074)	–	(3,731)	–	(98,453)
Depreciation charge	(58,498)	(4,293,097)	(10,158)	(146,704)	–	(4,508,457)
Impairment charge	–	(7,044)	–	–	–	(7,044)
End of the year	885,904	41,066,007	54,562	694,072	8,020,173	50,720,718
As at 31 December 2007						
Cost	1,364,117	73,140,337	155,289	1,782,175	8,020,173	84,462,091
Accumulated depreciation	(478,213)	(32,074,330)	(100,727)	(1,088,103)	–	(33,741,373)
Net book value	885,904	41,066,007	54,562	694,072	8,020,173	50,720,718

(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET *(Cont'd)*

Interest expense of approximately RMB614 million (2006: RMB892 million) arising on borrowings for the construction of power plants were capitalized during the year and are included in 'Additions' in property plant and equipment. A capitalization rate of approximately 5.30% (2006: 5.25%) per annum was used.

In 2006, there were impairment losses of certain property, plant and equipment in Huaneng Shantou Power Plant amounting to RMB42 million. The recoverable amount is determined based on fair value less costs to sell based on the bidding price and the valuation performed by an independent valuer. In 2007, an additional provision of RMB7.04 million is made based on the cost over fair value less costs to sell based on the contracts signed. By the end of 2007, the whole impairment charge amounting to RMB49.04 million was reversed upon the disposal of related property, plant and equipment.

In 2005, there were impairment losses of certain property, plant and equipment amounting to RMB30 million in Huaneng Dandong Power Plant ("Dandong Power Plant") due to the continued loss incurred in the operations. In 2006, as a result of changes in the local power market regulations, the tariff of Dandong Power Plant increased and this led to an increase in recoverable amount of related property, plant and equipment based on the value-in-use calculations as at year end. An impairment charge of RMB30 million recorded in 2005 was, thus, reversed in 2006. A discount rate of approximately 7.76% was applied.

11. INVESTMENTS IN ASSOCIATES

	The Company and its subsidiaries		The Company	
	2007	2006	2007	2006
Beginning of the year	5,418,213	4,593,984	4,321,310	3,884,659
Conversion of Sichuan Hydropower from subsidiary to associate ((a) and Note 34(d))	1,544,206	—	1,229,052	—
Additional investments in Huaneng Finance	134,000	487,676	134,000	436,651
Acquisition of equity interest in Shenzhen Energy Investment Co., Ltd. ("SEI") (b)	1,520,000	—	1,520,000	—
Share of other equity movement	7,255	157	—	—
Share of profit before income tax expense	768,318	896,186	—	—
Share of income tax expense	(181,995)	(105,557)	—	—
Dividends	(478,507)	(454,233)	—	—
End of the year	8,731,490	5,418,213	7,204,362	4,321,310

Investments in associates as at 31 December 2007 included goodwill of approximately RMB1,457 million (2006: RMB976 million).

11. INVESTMENTS IN ASSOCIATES *(Cont'd)*

Note:

(a) In January 2007, Huaneng Group unilaterally injected capital into Sichuan Hydropower amounting to RMB615 million, which had therefore reduced the related equity interest holding of Sichuan Hydropower by the Company from 60% to 49%. From January 2007 onwards, Sichuan Hydropower became an associate of the Company and was accounted for using equity method in the consolidated financial statements instead of a full scope of consolidation.

(b) In 2006, Shenzhen Energy Group Co., Ltd. ("SEG") planned to restructure with its listed subsidiary – SEI. SEI issued new shares to SEG in acquiring most of the assets of SEG and SEG will be deregistered ultimately. In accordance with the resolutions of the board of directors and related signed agreement, the Company subscribed 200 million shares, and will take up a portion of shareholding of SEI from SEG upon the deregistration of the latter entity. The Company will directly hold 25.01% shareholding in SEI by then. As at 31 December 2007, the Company has paid RMB1.52 billion to subscribe 200 million shares, representing 9.08% shareholding of SEI. The Company considered the nature of the investment and classified this as an associate. The 200 million shares mentioned above are subject to a lock-up period of 3 years from the acquisition date. As there is no published price quotation for shares with such specific lock-up arrangement, there is no price information available for the disclosure purpose.

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVESTMENTS IN ASSOCIATES *(Cont'd)*

As at 31 December 2007, the investments in associates of the Company and its subsidiaries, all of which are unlisted except for SEI which is listed in the Shenzhen Stock Exchange, were as follows:

Name of associate	Country and date of incorporation	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Rizhao Power Company	PRC 20 March 1996	34%	—	RMB1,245,587,900	Power generation
SEG	PRC 15 July 1985	25%	—	RMB955,555,556	Power generation
SEI	PRC 21 August 1993	9.08%	(Note (b))	RMB2,202,495,332	Power generation and investments holding
Hebei Hanfeng Power Generation Limited Liability Company	PRC 28 October 1996	40%	—	RMB1,975,000,000	Power generation
Shifen Company	PRC 5 November 1996	—	25%	RMB50,000,000	Lime production and sale
Huaneng Finance	PRC 21 May 1988	20%	—	RMB2,000,000,000	Provision for financial service including fund deposit services, lending, finance lease arrangements, notes discounting and entrusted loans and investment arrangement within Huaneng Group
Sichuan Hydropower	PRC 12 July 2004	49%	—	RMB800,000,000	Investments holding and hydropower projects development

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVESTMENTS IN ASSOCIATES *(Cont'd)*

The gross amounts of operating results, assets and liabilities (excluding goodwill) of the associates of the Company and its subsidiaries were as follows:

	2007	2006
Assets	82,084,730	52,651,063
Liabilities	(53,434,823)	(31,138,182)
Operating revenue	17,339,522	14,204,353
Profit attributable to equity holders of associates	1,992,974	2,768,300

(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2007, the investments in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows:

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held	Registered and fully paid capital	Principal activities
Huaneng Weihai Power Limited Liability Company	PRC 22 November 1993 Limited liability company	60%	RMB761,838,300	Power generation
Huaneng Huaiyin Power Generation Co. Ltd. ("Huaiyin Power Company")	PRC 26 January 1995 Limited liability company	90%	RMB265,000,000	Power generation
Huaneng Huaiyin II Power Limited Company	PRC 22 June 2004 Limited liability company	63.64%	RMB774,000,000	Power generation
Huaneng (Suzhou Industrial Park) Power Generation Co. Ltd.	PRC 19 June 1997 Limited liability company	75%	RMB632,840,000	Power generation
Huaneng Taicang Power Co., Ltd.	PRC 18 June 2004 Limited liability company	75%	RMB804,146,700	Power generation
Qinbei Power Company	PRC 26 December 2001 Limited liability company	60%	RMB810,000,000	Power generation
Huaneng Yushe Power Generation Co., Ltd.	PRC 29 November 1994 Limited liability company	60%	RMB615,760,000	Power generation
Huaneng Xindian Power Co., Ltd.	PRC 24 March 2004 Limited liability company	95%	RMB100,000,000	Power generation

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

As at 31 December 2007, the investments in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows *(Cont'd)*:

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held	Registered and fully paid capital	Principal activities
Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")	PRC 16 December 2003 Limited liability company	55%	RMB1,055,000,000	Power generation
Huaneng Chongqing Luohuang Power Generation Limited Liability Company	PRC 16 December 2003 Limited liability company	60%	RMB1,658,310,000	Power generation
Huaneng Shanghai Combined Cycle Power Limited Liability Company	PRC 13 January 2005 Limited liability company	70%	RMB685,800,000	Power generation
Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company")	PRC 6 November 1996 Limited liability company	65%	RMB924,050,000	Power generation
Huaneng International Power Fuel Limited Liability Company	PRC 17 December 2007 Limited liability company	100%	RMB200,000,000	Wholesale of coal
Jinling Power Company	PRC 2 February 2005 Limited liability company	60%	RMB582,000,000	Power generation

(Amounts expressed in thousands of RMB unless otherwise stated)

13. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent the 1.82% (2006: 1.82%) equity interest in China Yangtze Power Co., Ltd. ("Yangtze Power") and the 10% (2006: N/A) equity interest in Shanxi Xishan Jinxing Energy Co., Ltd. ("Jinxing Energy"). Yangtze Power is a listed company and Jinxing Energy is unlisted, both are incorporated in the PRC. As at 31 December 2007, the Company held approximately 171.71 million shares of Yangtze Power (2006: approximately 149.31 million shares). The closing market price of Yangtze Power quoted in Shanghai Stock Exchange on the last trading day of 2007 was RMB19.49 (2006: RMB9.77) per share.

	2007	2006
Beginning of the year	1,458,759	1,033,225
Investment in Jinxing Energy	115,599	—
Additions due to exercise of stock warrants	891,058	—
Disposals	(603,411)	—
Revaluation gains	1,600,153	425,534
End of the year	3,462,158	1,458,759

Gain on disposals of shares in Yangtze Power amounted to approximately RMB527 million (2006: nil). There were no impairment provisions on available-for-sale investments in 2007 and 2006.

14. LAND USE RIGHTS

Details of land use rights are as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	2,242,026	1,977,738	1,351,114	1,163,623
Leases of over 50 years	27,182	35,742	18,380	18,656
	2,269,208	2,013,480	1,369,494	1,182,279

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

15. GOODWILL

The movements in the carrying amount of goodwill during the years are as follows:

	The Company and its subsidiaries	The Company
As at 1 January 2006		
Cost	671,796	108,938
As at 31 December 2006		
Cost	671,796	108,938
Movement in 2007:		
Opening net book value	671,796	108,938
Acquisitions	13,703	—
Deemed disposal (Notes 11 & 34(d))	(24,287)	—
Transfer to investments in associates (Notes 11 & 34(d))	(105,946)	—
Closing net book value	555,266	108,938
As at 31 December 2007		
Cost	555,266	108,938

Impairment tests for goodwill

Goodwill is allocated to the CGUs of the Company and its subsidiaries identified according to their operations in different regions.

The carrying amounts of significant portion of goodwill allocated to individual CGUs are as follows:

	2007	2006
Huaiyin Power Company	118,596	118,596
Yueyang Power Company	100,907	100,907
Pingliang Power Company	107,735	107,735

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. The Company expects cash flows beyond the three-year period will be similar to that of the third year based on existing production capacity.

15. GOODWILL *(Cont'd)*

Impairment tests for goodwill *(Cont'd)*

Pre-tax discount rates used for value-in-use calculations:

Huaiyin Power Company	11.50%
Yueyang Power Company	9.31%
Pingliang Power Company	9.87%

Key assumptions used for value-in-use calculations:

Key assumptions applied in the impairment tests include the expected tariff rates, demands of electricity in specific regions where these power plants are located and fuel cost. Management determined these key assumptions based on past performance and its expectations on market development. The discount rates used are pre-tax and reflect specific risks relating to individual CGUs. Management believes that any reasonably possible change in any of these key assumptions on which recoverable amounts of individual CGUs are based may or may not cause carrying amounts of individual CGUs to exceed their recoverable amounts.

Based on the assessments, no goodwill was impaired.

(Amounts expressed in thousands of RMB unless otherwise stated)

16. INVENTORIES, NET

Inventories comprised:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Fuel (coal and oil) for power generation	1,324,226	1,241,838	858,422	677,961
Material and supplies	1,025,211	926,191	625,825	579,383
	2,349,437	2,168,029	1,484,247	1,257,344
Less: provision for inventory obsolescence	(30,147)	(46,540)	(7,783)	(22,485)
	2,319,290	2,121,489	1,476,464	1,234,859

Movements of provision for inventory obsolescence during the years are analyzed as follows:

	The Company and its subsidiaries		The Company	
	2007	2006	2007	2006
Beginning of the year	(46,540)	(44,732)	(22,485)	(21,256)
Provision	(666)	(4,235)	(482)	(3,656)
Write-offs	9,778	—	9,759	—
Reversal	7,281	2,427	5,425	2,427
End of the year	(30,147)	(46,540)	(7,783)	(22,485)

(Amounts expressed in thousands of RMB unless otherwise stated)

17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised the following:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Prepayments for inventories	429,189	285,465	267,907	95,794
Prepayments to contractors	30,480	96,286	22,093	77,602
Other prepayments	113,857	19,655	98,449	24,591
Total prepayments	573,526	401,406	388,449	197,987
Receivable from Jiangsu Power Grid Company for the construction of transmission facilities	53,353	53,310	—	—
Staff advances	8,756	10,377	4,618	6,456
Others	216,959	183,618	136,596	104,988
	279,068	247,305	141,214	111,444
Less: provision for doubtful accounts	(30,463)	(33,223)	(22,033)	(22,797)
Total other receivables, net	248,605	214,082	119,181	88,647
Subtotal	822,131	615,488	507,630	286,634
Due from subsidiaries – other receivables	—	—	168,160	148,801
Due from other related parties – prepayments	560	621	400	400
Subtotal	560	621	168,560	149,201
Total	822,691	616,109	676,190	435,835

Other receivables and assets do not contain significant impaired assets. Movements of provision for doubtful accounts during the years are analyzed as follows:

	The Company and its subsidiaries		The Company	
	2007	2006	2007	2006
Beginning of the year	(33,223)	(33,223)	(22,797)	(22,840)
Provision	(33)	(3,732)	(33)	(3,689)
Reversal	1,499	3,474	797	3,474
Deemed disposal of a subsidiary	93	—	—	—
Write-off	1,201	258	—	258
End of the year	(30,463)	(33,223)	(22,033)	(22,797)

(Amounts expressed in thousands of RMB unless otherwise stated)

17. OTHER RECEIVABLES AND ASSETS, NET *(Cont'd)*

As at 31 December 2007, there was no indication of impairment relating to other receivables which were not past due and no provision was made. Other receivables of RMB51 million (2006: RMB44 million) were past due but not impaired. These receivables were contracts bounded with repayment terms on demand. The ageing analysis of these other receivables was as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Between 1 to 2 years	11,869	6,305	9,094	5,503
Between 2 to 3 years	4,318	2,100	4,222	315
Over 3 years	35,246	35,463	18,309	19,423
	51,433	43,868	31,625	25,241

As at 31 December 2007, other receivables of RMB35 million (2006: RMB35 million) were impaired. The individually impaired receivables have been long outstanding without any repayment agreements in place or possibility of renegotiation. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these other receivables was as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Between 1 to 2 years	4,783	2,228	3,023	—
Between 2 to 3 years	—	112	—	112
Over 3 years	30,617	32,386	22,612	23,135
	35,400	34,726	25,635	23,247

(Amounts expressed in thousands of RMB unless otherwise stated)

18. ACCOUNTS RECEIVABLE, NET

Accounts receivable comprised the following:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Accounts receivable	6,251,958	6,232,275	3,688,275	3,757,011
Notes receivable	1,674,933	1,133,981	409,531	358,226
	7,926,891	7,366,256	4,097,806	4,115,237
Less: provision for doubtful accounts	(50,573)	(50,573)	—	—
	7,876,318	7,315,683	4,097,806	4,115,237

The Company and its subsidiaries usually grant about one month's credit period to local power grid customers from the end of the month in which the sales are made. The Company and its subsidiaries do not hold any collateral as security.

Movements of provision for doubtful accounts during the years are analyzed as follows:

	The Company and its subsidiaries		The Company	
	2007	2006	2007	2006
Beginning of the year	(50,573)	(58,433)	—	—
Reversal	—	5,111	—	—
Write-off	—	2,749	—	—
End of the year	(50,573)	(50,573)	—	—

Ageing analysis of accounts receivable was as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Within 1 year	7,737,783	7,054,280	4,092,147	3,997,679
Between 1 to 2 years	3,959	114,121	3,014	112,371
Between 2 to 3 years	100	51,554	—	—
Over 3 years	185,049	146,301	2,645	5,187
	7,926,891	7,366,256	4,097,806	4,115,237

(Amounts expressed in thousands of RMB unless otherwise stated)

18. ACCOUNTS RECEIVABLE, NET *(Cont'd)*

As at 31 December 2007, the maturity period of the notes receivable ranged from 15 days to 28 months (2006: 1 month to 23 months).

As at 31 December 2007, accounts receivable of RMB51 million (2006: RMB52 million) were impaired. The amount of the provision was RMB51 million as at 31 December 2007 (2006: RMB51 million). This amount is mainly related to receivables of Yueyang Power Company. The Company had received the related guarantee payment from HIPDC. The ageing of these accounts receivable was as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Between 2 to 3 years	—	51,554	—	—
Over 3 years	50,573	—	—	—
	50,573	51,554	—	—

As at 31 December 2007, there was no indication of impairment relating to accounts receivable which were not past due and no provision was made. Accounts receivable of RMB202 million (2006: RMB275 million) were past due but not impaired. This amount is mainly related to a receivable from Yueyang Power Company and the management believes that these receivables can be recovered in the future period. HIPDC had provided guarantee to the Company on the Company's share of such an account receivable balance of approximately RMB140 million when the Company acquired the subsidiary from HIPDC. The Company received the guarantee payment from HIPDC as at 31 December 2006. The ageing analysis of these accounts receivable was as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
2 months to 1 year	63,226	14,521	1,452	12,487
Between 1 to 2 years	3,959	114,121	3,014	112,371
Between 2 to 3 years	100	—	—	—
Over 3 years	134,476	146,301	2,645	5,187
	201,761	274,943	7,111	130,045

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

19. AUTHORIZED SHARE CAPITAL AND PAID-IN CAPITAL

	As at 31 December 2007	As at 31 December 2006
A shares, par value of RMB1.00 each	9,000,000	9,000,000
Overseas listed foreign shares, par value of RMB1.00 each	3,055,383	3,055,383
Total	12,055,383	12,055,383

As at 31 December 2007, the authorized share capital of the Company was RMB12,055,383,440 (2006: RMB12,055,383,440), divided into 12,055,383,440 shares (2006: 12,055,383,440 shares) of RMB1.00 each (2006: RMB1.00 each).

All shares issued by the Company were fully paid. The holders of domestic shares and overseas listed foreign shares, with minor exceptions, are entitled to the same economic and voting rights.

20. DEDICATED CAPITAL

The Board of Directors decided on an annual basis the percentages of profit attributable to equity holders of the Company, as determined under the PRC accounting standards, to be appropriated to the statutory surplus reserve fund and the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be discretionary. The statutory surplus reserve fund can be used to offset prior years' losses or increase share capital, provided that the balance after such an issue is not less than 25% of registered capital. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the directors and then approved by the shareholders.

In relation to the profit appropriation plan for the year ended 31 December 2007, the Board of Directors resolved on 25 March 2008 that to appropriate 10% (2006: 10%) of profit attributable to equity holders of the Company as determined under the PRC accounting standards to the statutory surplus reserve fund.

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lower of the amounts determined in accordance with (a) the PRC accounting standards and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31 December 2007 was approximately RMB5.40 billion (2006: RMB5.00 billion). The cumulative balance of distributable profit as at 31 December 2007 was approximately RMB17.22 billion (2006: RMB15.30 billion).

(Amounts expressed in thousands of RMB unless otherwise stated)

21. DIVIDENDS

On 25 March 2008, the Board of Directors proposed a cash dividend of RMB0.30 per share, totaling approximately RMB3,617 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividends payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31 December 2008.

On 22 May 2007, the shareholders approved the declaration of cash dividends of RMB0.28 per share, totaling approximately RMB3,376 million in their annual general meeting.

22. LONG-TERM LOANS

	The Company and its subsidiaries					
	As at 31 December 2007			As at 31 December 2006		
	Original currency '000	Annual interest rate	Amount	Original currency '000	Annual interest rate	Amount
Loans from Huaneng Group						
Unsecured						
RMB						
- Fixed rate	2,800,000	4.32% - 5.67%	2,800,000	2,800,000	4.05% - 5.02%	2,800,000
Bank loans						
Secured						
RMB						
- Fixed rate	—		—	60,000	5.18% - 6.16%	60,000
Unsecured						
RMB						
- Fixed rate	30,684,366	3.60%-7.05%	30,684,366	30,035,770	3.60% - 6.84%	30,035,770
US$						
- Fixed rate	417,630	5.95%-6.97%	3,050,616	513,549	5.95% - 6.97%	4,010,150
- Variable rate	47,455	5.15%-5.51%	346,639	53,782	4.13% - 5.49%	419,969
€						
- Fixed rate	60,946	2%	650,108	66,268	2%	680,344
			34,731,729			35,146,233
			34,731,729			35,206,233

(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS *(Cont'd)*

	The Company and its subsidiaries					
	As at 31 December 2007			As at 31 December 2006		
	Original currency '000	Annual interest rate	Amount	Original currency '000	Annual interest rate	Amount
Other loans						
Secured						
RMB						
- Fixed rate	—		—	130,000	5.27%	130,000
Unsecured						
RMB						
- Fixed rate	—		—	123,625	4.94% - 6.12%	123,625
US$						
- Variable rate	10,000	5.80%-5.87%	73,046	12,857	5.80%	100,398
JPY						
- Variable rate	833,333	5.80%	53,387	1,071,429	5.80%	70,318
			126,433			294,341
			126,433			424,341

As at 31 December 2006, the secured other long-term loans of RMB130 million were secured by tariff collection right. Such loans were fully repaid in 2007.

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS *(Cont'd)*

	The Company					
	As at 31 December 2007			As at 31 December 2006		
	Original currency '000	Annual interest rate	Amount	Original currency '000	Annual interest rate	Amount
Loans from Huaneng Group						
Unsecured						
RMB						
- Fixed rate	2,000,000	5.02%	2,000,000	2,000,000	5.02%	2,000,000
Bank loans						
Unsecured						
RMB						
- Fixed rate	12,250,026	3.60%-7.05%	12,250,026	6,810,250	3.60% - 5.832%	6,810,250
US$						
- Fixed rate	318,445	5.95%-6.60%	2,326,115	389,013	5.95% - 6.60%	3,037,682
- Variable rate	47,455	5.15%-5.51%	346,639	53,782	4.13% - 5.49%	419,969
			14,922,780			10,267,901

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS *(Cont'd)*

The maturity of long-term loans is as follows:

	The Company and its subsidiaries					
	Loans from Huaneng Group		Bank loans		Other loans	
	As at 31 December		As at 31 December		As at 31 December	
	2007	2006	2007	2006	2007	2006
1 year or less	—	—	4,183,391	3,140,393	36,124	191,562
More than 1 year but not more than 2 years	—	—	9,661,391	3,956,803	36,124	98,259
More than 2 years but not more than 3 years	—	—	8,654,175	9,687,803	36,124	78,259
More than 3 years but not more than 4 years	—	—	3,707,389	3,849,141	18,061	38,259
More than 4 years but not more than 5 years	—	—	2,597,389	3,405,639	—	18,002
More than 5 years	2,800,000	2,800,000	5,927,994	11,166,454	—	—
	2,800,000	2,800,000	34,731,729	35,206,233	126,433	424,341
Less: amounts due within 1 year included under current liabilities	—	—	(4,183,391)	(3,140,393)	(36,124)	(191,562)
	2,800,000	2,800,000	30,548,338	32,065,840	90,309	232,779

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS *(Cont'd)*

	The Company			
	Loans from Huaneng Group		Bank loans	
	As at 31 December		As at 31 December	
	2007	2006	2007	2006
1 year or less	–	–	1,026,685	1,085,447
More than 1 year but not more than 2 years	–	–	4,358,685	1,065,447
More than 2 years but not more than 3 years	–	–	6,589,711	3,912,447
More than 3 years but not more than 4 years	–	–	561,685	1,748,697
More than 4 years but not more than 5 years	–	–	1,175,319	600,447
More than 5 years	2,000,000	2,000,000	1,210,695	1,855,416
	2,000,000	2,000,000	14,922,780	10,267,901
Less: amounts due within 1 year included under current liabilities	–	–	(1,026,685)	(1,085,447)
	2,000,000	2,000,000	13,896,095	9,182,454

The analysis of the above is as follows:

	The Company and its subsidiaries		The Company	
	As at 31 December		As at 31 December	
	2007	2006	2007	2006
Loans from Huaneng Group				
- Not wholly repayable within five years	2,800,000	2,800,000	2,000,000	2,000,000
Bank loans				
- Wholly repayable within five years	24,081,310	19,307,871	13,291,809	6,715,074
- Not wholly repayable within five years	10,650,419	15,898,362	1,630,971	3,552,827
	34,731,729	35,206,233	14,922,780	10,267,901
Other loans				
- Wholly repayable within five years	126,433	424,341	–	–

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS *(Cont'd)*

The interest payment schedule of long-term loans in the future years are summarized as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
1 year or less	2,267,851	2,127,990	987,696	673,540
More than 1 year but not more than 2 years	1,816,247	1,927,663	845,697	612,111
More than 2 years but not more than 5 years	2,622,125	3,528,522	939,469	1,018,639
More than 5 years	1,331,666	2,678,582	420,508	676,947
	8,037,889	10,262,757	3,193,370	2,981,237

23. LONG-TERM BONDS

The Company and its subsidiaries issued RMB1 billion, RMB1.7 billion and RMB3.3 billion of unsecured long-term bonds bearing coupon rates of 5.67%, 5.75% and 5.90% per annum respectively in December 2007. These bonds are denominated in RMB and will mature in 5 years, 7 years and 10 years from their respective issue dates at their nominal values respectively. Interest expense on these bonds is calculated using the effective interest rates of 6.13%, 6.10% and 6.17% per annum. Interests of these bonds are payable per annum and the principals are to be paid one-off when the bonds fall due. The amounts of interest paid per annum during the tenure of the bonds are RMB57 million, RMB98 million and RMB195 million respectively.

24. OTHER NON-CURRENT LIABILITIES

Including in balances of other non-current liabilities, balances of government grants of the Company and its subsidiaries amounted to RMB423 million (2006: RMB272 million). The related balances at Company level were RMB308 million (2006: RMB203 million). Such grants represented primarily subsidies for the construction of desulphurization equipment.

In 2007, the government grants which were credited to the income statement amounted to RMB14.57 million (2006: RMB2.14 million).

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

25. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Accounts and notes payable	2,072,876	2,037,447	1,337,380	1,334,156
Amounts received in advance	844,445	1,207,776	844,445	1,207,776
Payables to contractors for construction	4,511,988	2,993,257	2,849,502	1,367,048
Other payables to contractors	336,841	914,856	217,576	171,957
Accrued interest	181,089	195,643	121,650	119,864
Others	902,124	872,808	439,054	407,483
	8,849,363	8,221,787	5,809,607	4,608,284

As at 31 December 2007, balances of accounts payable and other liabilities include accrued interest to Huaneng Finance and Huaneng Group amounting to approximately RMB4.7 million and RMB2.9 million (2006: RMB7.6 million and RMB10 million) respectively.

The ageing analysis of accounts and notes payable (including amounts due to other related parties of trading in nature) was as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Accounts and notes payable				
Within 1 year	1,999,247	2,028,121	1,330,886	1,330,927
Between 1 to 2 years	71,515	6,170	5,600	2,346
Over 2 years	2,114	3,156	894	883
Subtotal	2,072,876	2,037,447	1,337,380	1,334,156
Amounts due to other related parties of trading in nature				
Within 1 year	276,787	38,336	181,088	20,952
Over 2 years	108	108	108	108
Subtotal	276,895	38,444	181,196	21,060
Total	2,349,771	2,075,891	1,518,576	1,355,216

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

26. TAXES PAYABLE

Taxes payable comprises:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
VAT payable	631,046	718,602	387,215	412,535
Income tax payable	211,418	373,573	151,733	234,473
Others	112,870	99,608	49,837	19,030
	955,334	1,191,783	588,785	666,038

27. SHORT-TERM BONDS

The Company and its subsidiaries have repaid, in May 2007 and June 2007 respectively, unsecured short-term bonds of RMB500 million and RMB4,500 million, which bore coupon rates of 3.12% and 3.35% per annum at par. Effective interest rates on these bonds were 3.53% and 3.77% per annum, respectively.

Subsequently, the Company and its subsidiaries issued RMB5 billion of unsecured short-term bonds at coupon rate of 3.84% per annum on 9 August 2007. These bonds are denominated in RMB and will mature in 364 days from their issue date at their nominal values. Effective interest rate on these bonds is 4.26% per annum.

28. SHORT-TERM LOANS

Other than those discounted notes receivables described below, short-term loans are denominated in RMB, unsecured and bear interest from 4.35% to 6.72% per annum for the year ended 31 December 2007 (2006: 4.30% to 5.51% per annum).

As at 31 December 2007, notes receivables of approximately RMB303 million (2006: RMB338 million) are discounted and recorded as collateralized short-term loans.

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

29. DEFERRED INCOME TAXES

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

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Deferred income tax assets:				
- Deferred income tax assets to be recovered after more than 12 months	124,019	34,501	132,009	12,068
- Deferred income tax assets to be recovered within 12 months	87,635	63,928	50,534	36,248
	211,654	98,429	182,543	48,316
Deferred income tax liabilities:				
- Deferred income tax liabilities to be recovered after more than 12 months	(1,009,965)	(945,193)	(753,388)	(316,147)
- Deferred income tax liabilities to be recovered within 12 months	(82,580)	(133,704)	(49,145)	(53,471)
	(1,092,545)	(1,078,897)	(802,533)	(369,618)
	(880,891)	(980,468)	(619,990)	(321,302)

The gross movement on the deferred income tax accounts is as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Beginning of the year	(980,468)	(1,093,700)	(321,302)	(323,180)
Deemed disposal of Sichuan Hydropower (Note 11)	314,309	—	—	—
Acquisition	(5,614)	—	—	—
Credited to the income statement (Note 32)	195,300	177,062	105,730	65,708
Charged directly to equity	(404,418)	(63,830)	(404,418)	(63,830)
End of the year	(880,891)	(980,468)	(619,990)	(321,302)

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

29. DEFERRED INCOME TAXES *(Cont'd)*

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, are as follows:

Deferred income tax assets:

	The Company and its subsidiaries								The Company							
	Amortization of land use rights	Provision for impairment losses	Staff benefits	Depreciation	Accrued expenses	Tax refund on purchase of domestically manufactured equipment	Others	Total	Amortization of land use rights	Staff benefits	Depreciation	Provision for impairment losses	Accrued expenses	Tax refund on purchase of domestically manufactured equipment	Others	Total
As at 1 January 2006	10,591	68,652	13,966	–	–	–	59,273	152,482	10,591	1,390	–	–	–	–	1,280	13,261
(Charged) / Credited to the income statement	(221)	10,027	26,195	33,164	6,449	–	(14,859)	60,755	(221)	17,996	18,215	13,507	4,153	–	4,928	58,578
As at 31 December 2006	10,370	78,679	40,161	33,164	6,449	–	44,414	213,237	10,370	19,386	18,215	13,507	4,153	–	6,208	71,839
Deemed disposal of Sichuan Hydropower	–	(6,483)	(2,008)	(6,979)	(1,301)	–	–	(16,771)	–	–	–	–	–	–	–	–
Acquisition	–	–	–	–	1,440	–	–	1,440	–	–	–	–	–	–	–	–
Credited / (Charged) to the income statement	6,311	(26,666)	(16,007)	10,985	1,609	126,742	(3,578)	99,396	6,311	(6,952)	11,810	247	1,747	126,742	9,166	149,071
As at 31 December 2007	16,681	45,530	22,146	37,170	8,197	126,742	40,836	297,302	16,681	12,434	30,025	13,754	5,900	126,742	15,374	220,910

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

29. DEFERRED INCOME TAXES *(Cont'd)*

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, are as follows *(Cont'd)*:

Deferred income tax liabilities:

	The Company and its subsidiaries						The Company				
	Fair value gains	Amortization of goodwill and negative goodwill	Amortization of land use rights	Depreciation	Others	Total	Fair value gains	Amortization of goodwill and negative goodwill	Depreciation	Others	Total
As at 1 January 2006	(112,405)	(186,221)	(52,814)	(887,378)	(7,364)	(1,246,182)	(112,405)	(186,221)	(30,451)	(7,364)	(336,441)
(Charged) / Credited to the income statement	(15,027)	36,528	(5,405)	100,211	–	116,307	(15,027)	36,528	(14,371)	–	7,130
Charged directly to equity	(63,830)	–	–	–	–	(63,830)	(63,830)	–	–	–	(63,830)
As at 31 December 2006	(191,262)	(149,693)	(58,219)	(787,167)	(7,364)	(1,193,705)	(191,262)	(149,693)	(44,822)	(7,364)	(393,141)
Deemed disposal of Sichuan Hydropower	–	–	6,043	325,037	–	331,080	–	–	–	–	–
Acquisition	–	–	(889)	(6,165)	–	(7,054)	–	–	–	–	–
(Charged) / Credited to the income statement	(13,070)	(4,083)	(14,064)	122,815	4,306	95,904	(13,070)	(4,083)	(31,544)	5,356	(43,341)
Charged directly to equity	(404,418)	–	–	–	–	(404,418)	(404,418)	–	–	–	(404,418)
As at 31 December 2007	(608,750)	(153,776)	(67,129)	(345,480)	(3,058)	(1,178,193)	(608,750)	(153,776)	(76,366)	(2,008)	(840,900)

(Amounts expressed in thousands of RMB unless otherwise stated)

29. DEFERRED INCOME TAXES *(Cont'd)*

In March 2007, the PRC government promulgated the CIT Law which will be effective from 1 January 2008. The CIT Law will impose a single income tax rate of 25% for both domestic and foreign investment enterprises in due course by 2012.

Deferred income tax assets are recognized for tax loss carried-forwards to the extent that the realization of the related tax benefits through the future taxable profits is probable. The Company and its subsidiaries did not recognize deferred income tax assets in respect of certain losses that can be carried forward against future taxable income. The expiry dates of the tax losses to be utilized are summarized as follows:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Year of expiry				
2007	N/A	71,125	N/A	71,125
2008	—	—	—	—
2009	12,970	12,970	12,970	12,970
2010	30,252	183,127	30,252	183,127
2011	46,574	176,934	46,574	150,686
2012	225,766	N/A	223,334	N/A
	315,562	444,156	313,130	417,908

30. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEETS

As at 31 December 2007, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB12,826 million (2006: RMB13,278 million). On the same date, total assets less current liabilities was approximately RMB92,920 million (2006: RMB87,096 million).

As at 31 December 2007, the net current liabilities of the Company amounted to approximately RMB5,228 million (2006: RMB7,919 million). On the same date, total assets less current liabilities was approximately RMB67,536 million (2006: RMB52,695 million).

(Amounts expressed in thousands of RMB unless otherwise stated)

31. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at 10% - 27% (2006: 7% - 27%) of the specified salary amount of the PRC employees. At the same time, the employees are required to make contributions out of their payroll equal to the contributions of the Company and its subsidiaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2007, the Company and its subsidiaries contributed approximately RMB201 million (2006: RMB198 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees and is recorded as other non-current assets and amortized over the remaining average service life of the relevant employees which is estimated to be approximately 10 years. For the year ended 31 December 2007, the housing benefits being amortized by the Company and its subsidiaries to the employees amounted to approximately RMB38 million (2006: RMB39 million).

The Company and its subsidiaries have no further obligation for housing benefits.

32. INCOME TAX EXPENSE

Income tax expense comprised:

	For the year ended 31 December	
	2007	2006
Current income tax expense	1,033,570	1,304,761
Deferred income tax (Note 29)	(195,300)	(177,062)
	838,270	1,127,699

(Amounts expressed in thousands of RMB unless otherwise stated)

32. INCOME TAX EXPENSE *(Cont'd)*

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (2006: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

	For the year ended 31 December	
	2007	2006
Average statutory tax rate	18.03%	19.73%
Effect of tax holiday	(3.86%)	(4.60%)
Tax credit relating to domestically manufactured equipment*	(2.24%)	—
Others	(0.48%)	(1.06%)
Effective tax rate	11.45%	14.07%

* This represented tax credit granted to certain power plants on their purchases of certain domestically manufactured equipment upon the approval of the tax bureaus.

The average statutory tax rate for the years ended 31 December 2007 and 2006 represented the weighted average tax rate of the Company and its subsidiaries calculated on the basis of the relative amounts of profit before tax and the applicable statutory tax rates.

The aggregated effect of the tax holiday was approximately RMB282 million for the year ended 31 December 2007 (2006: RMB369 million).

33. EARNINGS PER SHARE

The calculation of basic earnings per share is done based on the profit attributable to the equity holders of the Company of approximately RMB6,161 million (2006: RMB6,071 million) and the weighted average number of approximately 12,055 million (2006: 12,055 million) outstanding ordinary shares during the year.

There was no dilutive effect on earnings per share since the Company had no dilutive potential ordinary shares for the years ended 31 December 2007 and 2006.

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Analysis of cash and cash equivalents

Cash and cash equivalents comprised the following:

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Cash in RMB	528	1,327	452	326
Current deposits				
RMB	7,310,626	3,203,712	5,498,971	1,430,851
US$ (RMB equivalent)	1,111	2,153	955	1,988
Total cash and cash equivalents	7,312,265	3,207,192	5,500,378	1,433,165

(b) Undrawn borrowing facilities

As at 31 December 2007, the Company and its subsidiaries had undrawn unsecured borrowing facilities amounting to approximately RMB18.70 billion (2006: RMB25.61 billion). Management expects to drawdown the available facilities in accordance with the level of working capital and / or planned capital expenditure of the Company and its subsidiaries.

(Amounts expressed in thousands of RMB unless otherwise stated)

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Cont'd)*

(c) Acquisition of a subsidiary

	Amount
Property, plant and equipment, net (Note 10)	2,573,327
Land use rights	46,941
Other non-current assets	60,298
Cash and cash equivalents	259,924
Other current assets	97,887
Borrowings	(1,975,000)
Deferred income tax liabilities (Note 29)	(5,614)
Accounts payable and other liabilities	(323,152)
Other current liabilities	(36,848)
Total assets and liabilities acquired	697,763
Less: minority interests	(279,105)
Net assets acquired	418,658
Add: goodwill	1,342
Satisfied by cash	420,000
Less: cash and cash equivalents acquired	(259,924)
Net cash outflow in respect of the purchase of a subsidiary	160,076

(Amounts expressed in thousands of RMB unless otherwise stated)

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Cont'd)*

(d) Non-cash transactions

Except for the deemed disposal of Sichuan Hydropower, there is no material non-cash transaction for the year ended 31 December 2007. The amounts of assets and liabilities other than cash and cash equivalents in Sichuan Hydropower upon deemed disposal, were summarized by each major category as follows:

	Amount
Property, plant and equipment, net (Note 10)	10,913,450
Land use rights	20,578
Other non-current assets	90,424
Goodwill (Note 15)	130,233
Inventories, net	17,704
Other receivables and assets, net	28,669
Accounts receivable, net	184,135
Borrowings	(6,921,540)
Other non-current liabilities	(37,847)
Deferred income tax liabilities (Note 29)	(314,309)
Accounts payable and other liabilities	(526,438)
Other current liabilities	(164,615)
	3,420,444
Less: minority interests	(2,216,278)
	1,204,166
Transfer to investments in associates (Note 11)	(1,544,206)
Gain on deemed disposal of Sichuan Hydropower	17,864
Cash outflow upon deemed disposal of Sichuan Hydropower	(322,176)

There is no material non-cash transaction for the year ended 31 December 2006.

For The Year Ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

35. COMMITMENTS

(a) Capital and operational commitments

(i) 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. Details of such commitments are as follows:

	The Company and its subsidiaries		The Company	
	As at 31 December		As at 31 December	
	2007	2006	2007	2006
Contracted but not provided for				
- purchase of inventories	3,145,904	2,829,393	1,556,606	2,484,723
- construction	15,418,352	14,558,971	9,293,167	9,310,116
Sub-total	18,564,256	17,388,364	10,849,773	11,794,839
Authorized but not contracted for				
- purchase of inventories	3,579,423	531,360	3,579,423	531,360
- construction	2,626,945	2,166,046	2,626,945	2,166,046
Sub-total	6,206,368	2,697,406	6,206,368	2,697,406
Total	24,770,624	20,085,770	17,056,141	14,492,245

(ii) From 2004 to 2007, the Company also 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 agreements contain provisions for price escalations and minimum purchase level clauses. Purchases for the years ended 31 December 2007 and 2006 were approximately RMB7,852 million and RMB5,701 million respectively. The future purchase commitments under the above agreements are as follows:

	As at 31 December	
	2007	2006
2007	N/A	9,457,131
2008	8,760,250	5,512,180
2009	7,808,250	5,512,180
	16,568,500	20,481,491

(Amounts expressed in thousands of RMB unless otherwise stated)

35. COMMITMENTS *(Cont'd)*

(a) Capital and operational commitments *(Cont'd)*

(iii) Jinling Power Company entered into a Gas Purchase Agreement with PetroChina Company Limited ("PTR") on 29 December 2004, pursuant to which Jinling Power Company purchases gas from PTR from the date on which it commenced commercial operations to 31 December 2023. According to the agreement, Jinling Power Company is required to pay to PTR at a minimum annual price equivalent to 486.9 million standard cubic meter of gas from 2008 to the end of gas supply period, which amounted to approximately RMB681 million based on current market price as at 31 December 2007. The purchase price is negotiated annually between the contracting parties based on the latest ruling set out by the National Development and Reform Commission.

(b) Operating lease commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 7(b)). Some of the leases contain renewal options and most of the leases contain escalation clauses. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debts or further leasing.

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

	As at 31 December	
	2007	2006
Land and buildings		
- not later than 1 year	29,254	29,254
- later than 1 year and not later than 2 years	3,253	3,253
- later than 2 years and not later than 5 years	9,760	9,760
- later than 5 years	107,885	111,138
	150,152	153,405

In addition, in accordance with a 30-year operating lease agreement signed by Huaneng Dezhou Power Plant ("Dezhou Power Plant") and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phases I and II in June 1994, annual rental amounted to approximately RMB30 million 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% of the previous annual rental amount. For the years ended 31 December 2007 and 2006, the annual rental were approximately RMB30 million and RMB30 million respectively.

(Amounts expressed in thousands of RMB unless otherwise stated)

36. FINANCIAL GUARANTEES

	The Company and its subsidiaries As at 31 December		The Company As at 31 December	
	2007	2006	2007	2006
Financial guarantees				
- granted to an associate	86,063	123,250	86,063	123,250

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

37. BUSINESS RISK

The Company and its subsidiaries conduct their operations in the PRC and accordingly investing in the shares of the Company and its subsidiaries are subject to the risks of, among others, economic and legal environment in the PRC, restructuring of the PRC power industry and regulatory reform, new regulation pertaining to setting of power tariff and availability of fuel supply at stable price.

For the year ended 31 December 2007, the Company and its subsidiaries sold electricity to four (2006: three) major customers, each of which amounted to approximately 10% or more of the operating revenue. In aggregation, these customers accounted for approximately 55% (2006: 45%) of the operating revenue of the Company and its subsidiaries.

PRICEWATERHOUSECOOPERS
普 华 永 道

PricewaterhouseCoopers Zhong
Tian CPAs Limited Company
11/F PricewaterhouseCoopers Center
202 Hu Bin Road
Shanghai 200021, P.R.C.
Tel: +86 (21) 6123 8888
Fax: +86 (21) 6123 8800

Report of the Auditors

PwC ZT Shen Zi (2008) No.10025

(page 1 of 2 pages)

To the Shareholders of Huaneng Power International, Inc.

We have audited the accompanying financial statements of Huaneng Power International, Inc. (hereinafter referred to as "Huaneng Power") and its subsidiaries (hereinafter referred to as "Huaneng Power and its subsidiaries"), which comprise the consolidated balance sheet of Huaneng Power and its subsidiaries as at 31 December 2007 and the consolidated profit and loss account, cash flow statement and consolidated statement of changes in equity for the year then ended, and the balance sheet of Huaneng Power as at 31 December 2007 and its profit and loss account, cash flow statement and statement of changes in equity for the year then ended and notes to these financial statements.

(1) MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of Huaneng Power and its subsidiaries is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes:

(1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

(2) selecting and applying appropriate accounting policies;

(3) making accounting estimates that are reasonable in the circumstances.

PRICEWATERHOUSECOOPERS
普 华 永 道

PwC ZT Shen Zi (2008) No.10025
(page 2 of 2 pages)

(2) AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

(3) OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Huaneng Power and its subsidiaries and Huaneng Power standalone as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

PricewaterhouseCoopers
Zhong Tian CPAs Limited Company

Li Yanyu
Certified Public Accountant

Wang Binhong
Certified Public Accountant

Shanghai • China
25 March 2008

Balance Sheet

As at 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2007	31 December 2006	31 December 2007	31 December 2006
		Consolidated		The Company	
			(Restated)		(Restated)
CURRENT ASSETS					
Cash	7(1)	7,532,760,305	3,434,260,078	5,690,428,161	1,623,357,667
Trading financial assets	7(2)	—	100,179,545	—	100,179,545
Notes receivable	7(3)	1,674,933,239	1,133,980,632	409,531,418	358,225,876
Accounts receivable	7(4), 9(1)	6,201,384,406	6,204,034,022	3,688,274,755	3,757,011,387
Advances to suppliers	7(5)	537,169,705	397,461,228	357,795,850	195,668,083
Interest receivable		2,254,384	1,552,631	2,254,384	1,552,631
Dividend receivable		—	12,842	—	—
Other receivables	7(4), 9(1)	281,757,838	213,119,204	315,983,543	226,431,421
Inventories	7(6)	2,319,290,494	2,133,534,601	1,476,464,289	1,246,903,789
Other current assets		1,510,798	2,200,346	156,911	137,320
Total current assets		18,551,061,169	13,620,335,129	11,940,889,311	7,509,467,719
NON-CURRENT ASSETS					
Available-for-sale financial assets	7(7)	3,346,559,685	1,458,758,700	3,346,559,685	1,458,758,700
Long-term equity investments	7(8), 9(2)	8,511,050,400	5,425,516,266	16,426,523,978	12,995,781,446
Fixed assets	7(9)	76,062,501,399	76,141,626,044	42,829,128,741	35,644,252,152
Construction-in-progress	7(11)	8,803,472,597	9,366,655,549	4,691,088,438	5,002,103,726
Construction materials	7(10)	4,079,709,861	3,825,266,558	3,359,053,100	2,814,290,927
Intangible assets	7(12)	2,321,671,156	1,848,960,731	1,609,885,948	1,271,731,865
Goodwill	7(13)	129,441,347	133,341,119	1,528,308	1,528,308
Long-term deferred expenses		76,232,647	89,224,766	1,837,059	2,969,283
Deferred income tax assets	7(24)	257,650,147	173,464,942	200,252,359	58,267,494
Other non-current assets		—	68,943,706	—	—
Total non-current assets		103,588,289,239	98,531,758,381	72,465,857,616	59,249,683,901
TOTAL ASSETS		122,139,350,408	112,152,093,510	84,406,746,927	66,759,151,620

Balance Sheet (Cont'd)

As at 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2007 Consolidated	31 December 2006 Consolidated (Restated)	31 December 2007 The Company	31 December 2006 The Company (Restated)
CURRENT LIABILITIES					
Short-term loans	7(14)	11,670,400,123	8,161,909,780	4,240,000,000	3,422,750,000
Notes payable	7(15)	332,544,000	751,507,699	332,544,000	542,494,600
Accounts payable	7(16)	2,017,227,031	1,290,126,082	1,186,031,317	765,329,899
Salary and welfare payables	7(17)	213,403,153	584,852,646	162,174,184	372,238,817
Taxes payable	7(18)	955,334,054	1,193,158,758	588,784,593	666,037,521
Interest payables		181,088,854	197,736,656	121,649,783	119,863,967
Dividends payable	7(19)	12,150,000	—	—	—
Other payables	7(20)	5,702,416,535	5,080,350,132	3,501,421,087	2,078,292,827
Current portion of non-current liabilities	7(22)	4,219,515,105	3,331,954,868	1,026,684,643	1,085,447,233
Provisions		—	4,416,482	—	—
Other current liabilities	7(21)	5,228,038,843	5,233,590,022	5,165,580,091	5,177,272,288
Total current liabilities		30,532,117,698	25,829,603,125	16,324,869,698	14,229,727,152
NON-CURRENT LIABILITIES					
Long-term loans	7(22)	33,438,647,481	36,303,618,746	15,896,095,397	11,182,454,295
Bonds payable	7(23)	5,885,614,909	—	5,885,614,909	—
Specific payables		277,191,567	203,480,035	220,811,567	157,600,035
Deferred income tax liabilities	7(24)	770,318,864	378,585,382	759,125,768	347,024,298
Other non-current liabilities		469,716,200	37,847,158	464,046,200	—
Total non-current liabilities		40,841,489,021	36,923,531,321	23,225,693,841	11,687,078,628
TOTAL LIABILITIES		71,373,606,719	62,753,134,446	39,550,563,539	25,916,805,780
SHAREHOLDERS' EQUITY					
Share capital	7(25)	12,055,383,440	12,055,383,440	12,055,383,440	12,055,383,440
Capital surplus	7(26)	10,700,531,318	10,278,881,619	8,796,231,783	7,915,109,729
Surplus reserves	7(27)	6,142,345,063	5,503,477,721	6,142,345,063	5,503,477,721
Undistributed profits	7(28)	17,221,419,482	15,228,908,521	17,862,223,102	15,368,374,950
Shareholders' equity attributable to shareholders of the Company		46,119,679,303	43,066,651,301	44,856,183,388	40,842,345,840
Minority interests	7(29)	4,646,064,386	6,332,307,763	—	—
TOTAL SHAREHOLDERS' EQUITY		50,765,743,689	49,398,959,064	44,856,183,388	40,842,345,840
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		122,139,350,408	112,152,093,510	84,406,746,927	66,759,151,620

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	**Zhou Hui**	**Huang Lixin**

Profit and Loss Account

For the year ended 31December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

	Note	2007 Consolidated	2006 Consolidated (Restated)	2007 The Company	2006 The Company (Restated)
1. Revenue from operations	7(30), 9(3)	50,434,614,049	44,433,924,789	32,014,678,503	28,153,388,302
Less: Cost of operations	7(30), 9(3)	(40,943,065,668)	(33,825,245,238)	(26,140,551,211)	(22,039,788,218)
Tax and levies on operations	7(31)	(151,105,639)	(148,056,933)	(14,655,468)	(6,364,486)
General and administrative expenses		(1,524,034,619)	(1,450,225,959)	(1,066,256,341)	(1,053,352,182)
Financial expenses, net	7(32)	(1,939,092,478)	(1,706,897,864)	(559,936,443)	(521,830,756)
Assets impairment loss	7(33)	6,480,825	30,956,625	(1,043,084)	(13,620,654)
Add: Gain from changes in fair value	7(34)	(100,179,545)	100,179,545	(100,179,545)	100,179,545
Investment income	7(35), 9(4)	1,341,059,743	725,099,669	2,311,596,005	1,375,796,409
Including: investment income from associates		586,233,218	696,726,370	584,228,533	695,214,049
2. Operating profit		7,124,676,668	8,159,734,634	6,443,652,416	5,994,407,960
Add: Non-operating income	7(36)	303,211,333	26,166,208	209,884,722	42,352,948
Less: Non-operating expenses	7(36)	(38,018,781)	(121,060,373)	(30,013,972)	(44,273,458)
Including: loss on disposals of non-current assets		(14,771,760)	(109,295,776)	(13,033,978)	(42,688,786)
3. Profit before taxation		7,389,869,220	8,064,840,469	6,623,523,166	5,992,487,450
Less: income tax expense	7(37)	(972,263,962)	(1,245,576,943)	(418,472,091)	(619,364,413)
4. Net profit		6,417,605,258	6,819,263,526	6,205,051,075	5,373,123,037
Including: net profit generated by acquiree before combination		94,600,836	–	–	–
Attributable to:					
Shareholders of the Company		5,997,058,661	5,923,618,531	6,205,051,075	5,373,123,037
Minority interests		420,546,597	895,644,995	–	–
5. Earnings per share (based on the net profit attributable to shareholders of the Company)					
Basic earnings per share	7(38)	0.50	0.49		
Diluted earnings per share		0.50	0.49		

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	**Zhou Hui**	**Huang Lixin**

Cash Flow Statement

For the year ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

Items	Note	2007 Consolidated	2006 Consolidated (Restated)	2007 The Company	2006 The Company (Restated)
1. Cash flows generated from operating activities					
Cash received from sales of goods and services rendered		57,359,530,390	51,364,369,244	36,802,767,901	32,425,434,138
Other cash received relating to operating activities		194,385,312	159,870,984	777,554,757	128,639,859
Sub-total of cash inflows of operating activities		57,553,915,702	51,524,240,228	37,580,322,658	32,554,073,997
Cash paid for goods and services received		(34,138,632,366)	(27,338,586,880)	(21,346,598,516)	(17,661,407,753)
Cash paid to and on behalf of employees		(3,009,251,361)	(2,788,883,063)	(2,112,352,900)	(1,947,967,636)
Payments of all types of taxes		(6,552,635,085)	(6,201,177,079)	(3,888,540,344)	(3,425,029,262)
Other cash paid relating to operating activities	7(39)	(1,631,993,852)	(1,336,666,890)	(1,549,065,354)	(870,984,023)
Sub-total of cash outflows of operating activities		(45,332,512,664)	(37,665,313,912)	(28,896,557,114)	(23,905,388,674)
Net cash flows generated from operating activities	7(39)	12,221,403,038	13,858,926,316	8,683,765,544	8,648,685,323
2. Cash flows generated from investing activities					
Cash received on disposals of investments		603,945,511	2,757,206	603,411,052	2,757,206
Cash received on investment income		518,933,990	482,617,063	1,358,505,450	1,133,500,586
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		270,130,779	32,180,266	165,021,516	25,562,610
Other cash received relating to investing activities		–	165,194	–	–
Sub-total of cash inflows of investing activities		1,393,010,280	517,719,729	2,126,938,018	1,161,820,402
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(15,442,320,214)	(17,585,979,591)	(10,313,185,109)	(7,573,815,842)
Net cash paid for investments		(2,989,395,263)	(174,918,510)	(3,534,645,263)	(921,161,510)
Cash decrease due to deemed disposal of a subsidiary		(322,176,384)	–	–	–
Other cash paid relating to investing activities		–	(3,187,691)	–	–
Sub-total of cash outflows of investing activities		(18,753,891,861)	(17,764,085,792)	(13,847,830,372)	(8,494,977,352)
Net cash flows used in investing activities		(17,360,881,581)	(17,246,366,063)	(11,720,892,354)	(7,333,156,950)

Cash Flow Statement (Cont'd)

For the year ended 31December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

Items	Note	For the year ended 31 December 2007 Consolidated	2006 Consolidated (Restated)	2007 The Company	2006 The Company (Restated)
3. Cash flows generated from financing activities					
Cash received from investments		164,890,000	845,707,745	–	–
Including: cash received from minority shareholders of subsidiaries		164,890,000	588,707,745	–	–
Cash received from borrowings		32,854,681,377	25,701,682,361	22,319,775,999	12,805,982,360
Cash received from issuing long-term bonds and short-term bonds		10,883,643,800	4,980,000,000	10,883,643,800	4,980,000,000
Other cash received relating to financing activities		229,910,000	195,915,047	179,510,000	149,515,047
Sub-total of cash inflows of financing activities		44,133,125,177	31,723,305,153	33,382,929,799	17,935,497,407
Cash paid on repayments of borrowings		(28,264,673,990)	(21,720,825,903)	(21,617,724,430)	(14,565,696,087)
Cash paid for dividends, profit appropriation or interest expense payments		(6,625,656,000)	(6,051,432,927)	(4,646,669,532)	(3,947,606,164)
Including: dividends paid to minority shareholders of subsidiaries		(434,204,673)	(495,361,059)	–	–
Other cash paid relating to financing activities		(15,356,954)	(21,188,855)	(11,210,343)	(15,793,956)
Sub-total of cash outflows of financing activities		(34,905,686,944)	(27,793,447,685)	(26,275,604,305)	(18,529,096,207)
Net cash flows generated from / (used in) financing activities		9,227,438,233	3,929,857,468	7,107,325,494	(593,598,800)
4. Effect of foreign exchange rate changes on cash		(4,298,406)	(3,773,795)	(2,985,602)	(2,161,086)
5. Net increase in cash	7(39)	4,083,661,284	538,643,926	4,067,213,082	719,768,487
Add: Cash at beginning of the year		3,228,603,526	2,689,959,600	1,433,164,645	713,396,158
6. Cash at end of the year		7,312,264,810	3,228,603,526	5,500,377,727	1,433,164,645

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	**Zhou Hui**	**Huang Lixin**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

Item	Note	Attributable to shareholders of the Company: Share capital	Capital surplus	Surplus reserves	Undistributed profits	Minority interests	Total shareholders' equity
Balance as at 31 December 2005		12,055,383,440	8,765,352,464	4,945,674,209	13,315,141,847	4,934,649,003	44,016,200,963
Business combination under common control		–	195,000,000	–	–	130,000,000	325,000,000
First time adoption of Accounting Standards for Business Enterprises	13	–	636,963,692	20,491,208	(458,693,693)	36,134,126	234,895,333
Balance as at 1 January 2006, restated		12,055,383,440	9,597,316,156	4,966,165,417	12,856,448,154	5,100,783,129	44,576,096,296
Changes for the year ended 31 December 2006							
Net profit		–	–	–	5,923,618,531	895,644,995	6,819,263,526
Gains / (Losses) directly recorded in shareholders' equity							
Gains from net changes in fair value of available-for-sale investment		–	425,533,500	–	–	–	425,533,500
Other equity movements of investee companies accounted for under equity method		–	114,204,390	–	–	–	114,204,390
Income tax impact of items recorded in shareholders' equity		–	(63,830,025)	–	–	–	(63,830,025)
Others		–	51,457,598	–	–	6,517,780	57,975,378
Subtotal		–	527,365,463	–	5,923,618,531	902,162,775	7,353,146,769
Capital injection and withdrawal by shareholders		–	154,200,000	–	–	691,507,744	845,707,744
Profit appropriation							
Transfer to surplus reserve	7(28)	–	–	537,312,304	(537,312,304)	–	–
Dividends payables to shareholders	7(28)	–	–	–	(3,013,845,860)	(362,145,885)	(3,375,991,745)
Balance as at 31 December 2006		12,055,383,440	10,278,881,619	5,503,477,721	15,228,908,521	6,332,307,763	49,398,959,064

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

Item	Note	Attributable to shareholders of the Company: Share capital	Capital surplus	Surplus reserves	Undistributed profits	Minority interests	Total shareholders' equity
Balance as at 1 January 2007, restated	13	12,055,383,440	10,278,881,619	5,503,477,721	15,228,908,521	6,332,307,763	49,398,959,064
Changes for the year ended 31 December 2007							
Net profit		–	–	–	5,997,058,661	420,546,597	6,417,605,258
Gains / (Losses) directly recorded in shareholders' equity							
Gains from net changes in fair value of available-for-sale investment		–	1,072,787,539	–	–	–	1,072,787,539
Other equity movements of investee companies accounted for under equity method		–	7,395,991	–	–	–	7,395,991
Income tax impact of items recorded in shareholders' equity		–	(404,418,294)	–	–	–	(404,418,294)
Business combination under common control		–	(420,000,000)	–	–	–	(420,000,000)
Others		–	165,884,463	39,161,476	(29,334,471)	8,313,599	184,025,067
Subtotal		–	421,649,699	39,161,476	5,967,724,190	428,860,196	6,857,395,561
Capital injection and withdrawal by shareholders							
Capital injection by shareholders		–	–	–	–	116,890,000	116,890,000
Others		–	–	–	–	(1,785,638,900)	(1,785,638,900)
Profit appropriation							
Transfer to surplus reserve	7(28)	–	–	599,705,866	(599,705,866)	–	–
Dividends payables to shareholders	7(28)	–	–	–	(3,375,507,363)	(446,354,673)	(3,821,862,036)
Balance as at 31 December 2007		12,055,383,440	10,700,531,318	6,142,345,063	17,221,419,482	4,646,064,386	50,765,743,689

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	**Zhou Hui**	**Huang Lixin**

Statement of Changes in Equity

For the year ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

Item	Note	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
Balance as at 31 December 2005		12,055,383,440	8,765,352,464	4,945,674,209	13,332,985,698	39,099,395,811
First time adoption of Accounting Standards for Business Enterprises		–	(1,359,721,690)	20,491,208	213,424,379	(1,125,806,103)
Balance as at 1 January 2006, restated		12,055,383,440	7,405,630,774	4,966,165,417	13,546,410,077	37,973,589,708
Changes for the year ended 31 December 2006						
Net profit		–	–	–	5,373,123,037	5,373,123,037
Gains / (Losses) directly recorded in shareholders' equity						
Gains from net changes in fair value of available-for-sale investment		–	425,533,500	–	–	425,533,500
Other equity movements of investee companies accounted for under equity method		–	114,204,390	–	–	114,204,390
Income tax impact of items recorded in shareholders' equity		–	(63,830,025)	–	–	(63,830,025)
Others		–	33,571,090	–	–	33,571,090
Subtotal		–	509,478,955	–	5,373,123,037	5,882,601,992
Profit appropriation						
Transfer to surplus reserve		–	–	537,312,304	(537,312,304)	–
Dividends payables to shareholders		–	–	–	(3,013,845,860)	(3,013,845,860)
Balance as at 31 December 2006		12,055,383,440	7,915,109,729	5,503,477,721	15,368,374,950	40,842,345,840

Statement of Changes in Equity (Cont'd)

For the year ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

Item	Note	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
Balance as at 1 January 2007, restated	13	12,055,383,440	7,915,109,729	5,503,477,721	15,368,374,950	40,842,345,840
Changes for the year ended 31 December 2007						
Net profit		—	—	—	6,205,051,075	6,205,051,075
Gains / (Losses) directly recorded in shareholders' equity						
Gains from net changes in fair value of available-for-sale investment		—	1,072,787,539	—	—	1,072,787,539
Other equity movements of investee companies accounted for under equity method		—	7,395,991	—	—	7,395,991
Income tax impact of items recorded in shareholders' equity		—	(404,418,294)	—	—	(404,418,294)
Others		—	205,356,818	39,161,476	264,010,306	508,528,600
Subtotal		—	881,122,054	39,161,476	6,469,061,381	7,389,344,911
Profit appropriation						
Transfer to surplus reserve		—	—	599,705,866	(599,705,866)	—
Dividends payables to shareholders		—	—	—	(3,375,507,363)	(3,375,507,363)
Balance as at 31 December 2007		12,055,383,440	8,796,231,783	6,142,345,063	17,862,223,102	44,856,183,388

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	**Zhou Hui**	**Huang Lixin**

1. COMPANY PROFILE

Huaneng Power International, Inc. (hereinafter referred to as the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock company on 30 June 1994. The registered address of the Company is West Wing, Building C, Tianyin Mansion, 2C Fuxingmennan Street, Xicheng District, Beijing, PRC.

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

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 power plants"). The five original operating power plants were previously under Huaneng International Power Development Corporation ("HIPDC"), a Sino-foreign equity joint venture established in the PRC. In accordance with the reorganization agreement dated 30 June 1994, the Company acquired the assets, liabilities and businesses of the five original operating power plants from HIPDC which in return HIPDC received an equity interest in the Company (the "Reorganization"). After the Reorganization, the Company continues to construct or acquire other operating power plants.

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

The Company's ultimate parent company is China Huaneng Group ("Huaneng Group"). Huaneng Group is a state-owned enterprise registered in the PRC, please refer to Note 10(1) for details.

In January 2007, Huaneng Group made an additional capital contribution of RMB615 million to Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower Company"), thereby increasing its direct equity interest in Sichuan Hydropower Company from 40% to 51% while diluted the Company's respective equity interest from 60% to 49%. Huaneng Group replaced the Company as the controlling shareholder of Sichuan Hydropower Company. Thus, the Company did not consolidate the financial statements of Sichuan Hydropower Company since January 2007. In addition, the Company also acquired 5% additional equity interest in Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company") from Huaneng Group with a consideration of RMB65.75 million in cash, thereby increased the Company's equity interest in Qinbei Power Company to 60%.

In December 2007, the Company entered into an agreement with HIPDC under which the Company agreed to acquire from HIPDC 60% equity interest in Huaneng Nanjing Jinling Power Co., Ltd. ("Nanjing Jinling Power Company") with a consideration of RMB420 million. The acquisition became effective at the end of December 2007 after the satisfaction of all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership and control. Please refer to Note 8 for details.

These financial statements were approved by the board of directors of the Company on 25 March 2008.

2. BASIS OF PREPARATION

The Company and its subsidiaries previously prepared financial statements in accordance with the Accounting Standards for Business Enterprises promulgated before 15 February 2006 and "Accounting Systems for Business Enterprises" promulgated on 29 December 2000 (hereinafter collectively referred to as the "Previous Accounting Standards and Accounting Systems"). From 1 January 2007 onwards, the Company and its subsidiaries adopted the "Accounting Standards for Business Enterprises – Basic Standard" and the 38 specific accounting standards promulgated by Ministry of Finance on 15 February 2006, Application Guidance for Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other related regulations (hereinafter collectively referred to as the "Accounting Standards for Business Enterprises") which were promulgated thereafter. The financial statements of the Company and its subsidiaries for the year ended 31 December 2007 are the first annual financial statements prepared in accordance with the Accounting Standards for Business Enterprises.

Upon the first time adoption of Accounting Standards for Business Enterprises on 1 January 2007, in addition to the retrospective adjustments made in accordance with paragraphs 5-19 of "Accounting Standards for Business Enterprises No. 38 – First time adoption of Accounting Standards for Business Enterprises" by the Company and its subsidiaries, retrospective adjustments were also made in accordance to the "Interpretation of Accounting Standards for Business Enterprises No. 1". Such retrospective adjustments primarily include:

(1) The unamortized investment differences arising from business combinations under common control were written off in full.

(2) The unamortized goodwill arising from business combinations under common control and the negative goodwill arising from business combination not under common control were written off in full.

(3) Financial assets at fair value through profit or loss and available-for-sale financial assets were adjusted to their fair value.

(4) Temporary differences arising from the differences between the carrying amount of the assets or liabilities and their respective tax bases as well as deductible losses or tax deductions that can be carried forward to following years were recognized as respective deferred income tax assets or deferred income tax liabilities when the recognition criteria were met.

(5) Retrospective adjustments were made on equity investments in subsidiaries presented in the financial statements of the Company, as if the cost method had been adopted by the Company from the earliest period presented.

(6) Retrospective adjustments were made in accordance with to the Accounting Standards for Business Enterprises on goodwill arising from business combinations not under common control and investments in associates, which the carrying amount of long-term investments and goodwill were also adjusted accordingly.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

2. BASIS OF PREPARATION *(Cont'd)*

The reconciliation from the consolidated shareholders' equity as at 1 January 2006 and 31 December 2006, as well as the consolidated net profit for the year ended 31 December 2006 prepared under Previous Accounting Standards and Accounting Systems to the consolidated shareholders' equity and consolidated net profit prepared under Accounting Standards for Business Enterprises is presented in Note 13 to the financial statements.

3. DECLARATION OF COMPLIANCE OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The consolidated financial statements of the Company and its subsidiaries and the financial statements of the Company for the year ended 31 December 2007 are prepared in accordance with Accounting Standards for Business Enterprises, and present fairly and completely the financial position of the Company and its subsidiaries as well as the Company alone as at 31 December 2007 and their financial performance and cash flows and other related information for the year ended 31 December 2007.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Financial year

The financial year of the Company and its subsidiaries starts on 1 January and ends on 31 December.

(2) Reporting currency

The reporting currency of the Company and its subsidiaries is Renminbi ("RMB").

(3) Basis of accounting and measurement principle

The Company and its subsidiaries apply accrual method as the basis for recognition, measurement and reporting. Financial statements elements are usually measured at historical cost by the Company and its subsidiaries. Replacement cost, net realizable value, present value or fair value are applied in measurement on the premise that the availability and reliable measurement can be secured.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(4) Foreign currency translation

Foreign currency transactions are translated into RMB using the spot exchange rate on the transaction dates. On the balance sheet date, the foreign currency monetary items are translated at the spot exchange rate on the balance sheet date. The exchange differences are recorded in the profit and loss account in the current period after excluding those exchange difference attributable to foreign currency specific borrowings for the acquisition or construction of qualifying assets eligible for capitalization. The foreign currency non-monetary items are measured at historical cost and are translated at the spot exchange rate on the transaction date at the balance sheet date.

(5) Cash and cash equivalents

Cash presented in the cash flow statement refers to cash on hand and deposits held at call with banks while cash equivalents refers to short-term (usually within 3 months), highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6) Financial assets

Financial assets are classified into financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments at initial recognition. The classification is based on intention and ability to hold the financial assets of the Company and its subsidiaries.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include held-for-trading financial assets and financial assets designated upon initial recognition as at fair value through profit or loss.

(b) Receivables

Receivables are non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market, including notes receivable, accounts receivable, interest receivable, dividends receivable and other receivables, etc. Please refer to Note 4(7) for details of the accounting policy of accounts receivable and other receivables.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(6) Financial assets *(Cont'd)*

(c) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale at initial recognition or those financial assets not being classified as financial assets at fair value through profit or loss, receivables and held-to-maturity investments. Available-for-sale financial assets that will be sold within 12 months after the balance sheet date are presented as other current assets on the balance sheet.

(d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable recoverable amount and fixed maturity that the Company and its subsidiaries have the positive intention and ability to hold to maturity. Held-to-maturity investments that are due within 12 months after the balance sheet date are presented as non-current assets due within one year on the balance sheet.

(e) Recognition and measurement

Financial assets are recognized initially when the Company and its subsidiaries become a contracting party and measured at fair value. Related transaction costs for financial assets at fair value through profit or loss are directly expensed off as incurred. The transaction costs for other financial assets are included in the assets at initial recognition. When the contractual right to receive cash flow of a particular financial asset expires or when almost all the risks and rewards of that financial asset are transferred to the transferee, that financial asset is derecognized.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. However, the equity investments that have no quoted prices in an active market and whose fair value cannot be measured reliably are measured at cost.

The changes in the fair value of financial assets at fair value through profit or loss are recorded in the "gain from changes in fair value". Interest or cash dividends received when holding such assets are recorded in the profit and loss account in the current period. The difference between fair value and carrying amount is recognized as investment income on disposal and adjusts the gain or loss from changes in fair value accordingly.

The gain or loss from the changes in the fair value of available-for-sale financial assets, other than impairment loss and exchange difference arising from monetary financial assets, is recorded in shareholders' equity and transferred to the profit and loss account upon derecognition of such financial assets.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(6) Financial assets *(Cont'd)*

(e) Recognition and measurement (Cont'd)

Receivables and held-to-maturity investments are measured using the effective interest method at amortized cost.

(f) Impairment of financial assets

Except for the financial assets at fair value through profit and loss, the Company and its subsidiaries assess the carrying amounts of financial assets at each balance sheet date. Impairment loss is provided if there is any objective evidence indicating impairment of a particular financial asset.

When there is a relatively significant or prolonged decline in the fair value of available-for-sale financial assets, the cumulative loss due to decline in fair value that has been previously recorded in equity is recognized as impairment loss in the profit and loss account. Impairment loss recognized in the profit and loss account on available-for-sale debt investments is reversed through profit and loss in the current period, when the fair value is subsequently increased as a result of objective changes in circumstances when the impairment loss was originally recognized. Impairment loss recognized on available-for-sale equity investments is reversed through the equity when the fair value is subsequently increased as a result of objective changes in circumstances when the impairment loss was originally recognized.

When financial assets at amortized cost are impaired, the carrying amount of the financial assets is reduced to present value of estimated future cash flows (excluding future credit losses that have not been incurred). The impaired amount is recognized as assets impairment loss in the current period. If there is objective evidence that the value of the financial assets is recovered as a result of objective changes in circumstances when the impairment loss was originally recognized, the originally recognized impairment loss is reversed through the profit and loss account. For the impairment test of receivables, please refer to Note 4(7).

Impairment loss recognized on equity instruments that does not have quoted prices in an active market and whose fair value cannot be reliably measured is not reversed when the value recovers subsequently.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(7) Receivables

Receivables including accounts receivable, notes receivable and other receivables, etc. are recognized initially at fair value. Receivables are measured using the effective interest method and stated at amortized cost less provision for doubtful accounts.

When there is objective evidence that the Company and its subsidiaries will not be able to collect all receivables on the original terms of the receivables, individual impairment test is performed and related provision for doubtful accounts is made based on the difference on the shortfall of carrying amount over respective present value of estimated future cash flow.

(8) Inventories

Inventories include fuel for power generation, materials for repairs and maintenance and spare parts, etc.. Inventories are stated at lower of cost and net realizable values.

Inventories are initially recorded at cost and are charged to fuel costs or repairs and maintenance respectively when used or capitalized to fixed assets when installed, as appropriate, using weighted average cost basis. Cost of inventories includes costs of purchase and transportation costs.

Provision for inventory obsolescence is made based on the excess of cost over its net realizable value on an item-by-item basis. For inventories that are voluminous and at relatively low unit price, provision is made based on individual categories. The net realizable value is determined based on the estimated selling price after deducting the estimated selling expense and relevant taxation in the ordinary course of production.

The Company and its subsidiaries apply perpetual inventory system.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(9) Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, associates and long-term equity investments in entities where i) the Company and its subsidiaries have no control, common control or significant influence and ii) there is no quoted price in an active market and the fair value of such investments cannot be reliably measured.

(a) Subsidiaries

Subsidiaries are entities over which the Company exercises control, i.e. the power to govern the financial and operating policies to obtain benefits from the investees' operation activities. The existence and effect of potential voting rights such as convertible notes and warrants that are currently convertible or exercisable are considered when assessing whether the Company controls the investee. The investments in subsidiaries are accounted for using the cost method in the Company's separate financial statements. They are adjusted in accordance with the equity method when preparing the consolidated financial statements.

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividends or income appropriation declared by the investees are recognized as investment income in the current period. Investment income is recognized to the extent of proportionate share of post-acquisition cumulative net profit, any excess of income appropriation or cash dividends is regarded as recovery of investment cost.

If the Company purchases further interests of its subsidiaries from the minority shareholders, the difference between the consideration paid to the minority shareholders and the proportionate share of the fair value of net identifiable assets acquired on the date of exchange is recognized as goodwill. The gain or loss incurred on disposal or deemed disposal of part of equity interests in subsidiaries to minority shareholders is recorded in shareholders' equity.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(9) Long-term equity investments *(Cont'd)*

(b) Associates

Associates are entities which the Company and its subsidiaries have substantially significant influence over the financial and operating policies.

Investments in associates are initially recognized at cost, and are subsequently accounted for using the equity method. The excess of initial investment cost over the proportionate share of fair value of net identifiable assets of the associates at the time of investment is subsumed in the initial investment cost. The excess of the proportionate share of fair value of net identifiable assets of the associates over initial investment cost is written off in the profit and loss account and the long-term equity investment is adjusted accordingly.

When applying the equity method, the Company and its subsidiaries adjust the profit and loss account of the associates including the fair value adjustments on the net identifiable assets of the associates, the adjustments to align with the accounting policies of the Company and its sudsidiaries and the adjustments for different financial year end. Investment income for the current period is recognized based on the proportionate shares of the Company and its subsidiaries over such profit or loss. The Company and its subsidiaries recognize the net loss of the associates to the extent that the carrying amount of their long-term investments. However, when the Company and its subsidiaries have the obligation of bearing additional losses and such an obligation satisfies the recognition criteria of provision under the standard of contingency, they have to continue recognize such losses and provision. For the changes in the equity of the associates other than those in the profit and loss account and where the equity share in the investee remain unchanged, the Company and its subsidiaries record their shares in the shareholders' equity and adjust the carrying amount of the long-term equity investments. The Company and its subsidiaries' share of income appropriation or cash dividends declared by the associates are recognized as deductions of the carrying amount of the long-term equity investments. However, the excess of cash dividends over recognized investment income but within the share of post-acquisition profit, will be recognized as investment income during the current period. Profits and losses resulting from intragroup transactions between the Company and its subsidiaries and the associates are eliminated to the extent of the proportionate share of the Company and its subsidiaries. If loss generated from intragroup transactions between the Company and its subsidiaries and the associates is regarded as asset impairment losses, such loss will be fully recognized, and the unrealized profit or loss is not eliminated.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(9) Long-term equity investments *(Cont'd)*

(c) Other long-term equity investments

Other long-term equity investments where i) the Company and its subsidiaries have no control, joint control, or significant influence; ii) there is no quoted price in an active market; and iii) the fair value of the investments cannot be reliably measured, are accounted for using the cost method.

(d) Long-term equity investments impairment

When the recoverable amounts of investments in subsidiaries or associates become lower than their carrying amounts, the carrying amounts are reduced to recoverable amounts. Please refer to Note 4(14) for details.

Regarding the above-mentioned other long-term equity investments, the difference between the carrying amounts and the present value of such investments (deriving from discounting of future cash flow of similar investments at current market return rate) is recognized as impairment loss and recorded in the profit and loss in the current period. Please refer to Note 4(6)(f) for details.

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

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(10) Fixed assets and depreciation

Fixed assets are tangible assets that are used in power production or held for management purposes, which their useful lives are over 1 year and are of relatively high unit price. Purchased or newly constructed fixed assets are initially recognized at cost. Fixed assets obtained during the Reorganization were initially recorded at their appraisal value approved by relevant stated-owned assets administration authorities.

Subsequent expenditures on fixed assets are capitalized if it is probable that future economic benefits associated will flow into the Company and its subsidiaries and can be measured reliably. The carrying amount of replaced parts are derecognized. Other subsequent expenditures not qualifying for capitalization are recognized in the profit and loss account as incurred.

Fixed assets are depreciated using the straight-line method based on cost less estimated residual values over their estimated useful lives. For those impaired fixed assets, the related depreciation charge is prospectively determined based on the carrying amounts (after deducting impairment loss) over their remaining useful lives.

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

	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15-35 years	0%-11%	2.71%-6.67%
Electric utility plant in service	7-35 years	0%-11%	2.71%-14.29%
Transportation and transmission facilities	6-15 years	0%-11%	6.67%-16.67%
Others	4-18 years	0%-11%	5.39%-20.00%

The estimated useful lives, estimated residual values and depreciation method applied to fixed assets are reviewed at each financial year-end and adjusted when necessary.

When fixed assets are disposed of or no future economic benefits are expected from their use or disposal, such fixed assets are derecognized. Difference between the disposal proceeds arising from sales, transfer, write-off or damages of fixed assets and their respective carryig amounts after deducting related taxes is recognized in the profit and loss account as incurred.

When the recoverable amount of fixed assets becomes lower than their carrying amount, the excess is recognized as an impairment loss. Please refer to Note 4(14).

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(11) Construction-in-progress

Construction-in-progress is recorded at cost. Cost comprises construction expenditures, other expenditures necessary for the purpose of preparing the assets for their intended use and those borrowing costs arising from borrowings for the purpose of preparing the assets for their intended use and eligible for capitalization. Construction-in-progress is transferred to the fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

When the recoverable amount of construction-in-progress becomes lower than its carrying amount, the excess is recognized as an impairment loss. Please refer to Note 4(14).

(12) Intangible assets and amortization

Intangible assets, including land use right and software etc., are initially recognized at cost. The Company's intangible assets obtained during the Reorganization were initially recorded at their appraisal value approved by relevant stated-owned assets administration authorities. The intangible assets described above are amortized using the straight-line method over their useful lives.

When the recoverable amount of intangible assets becomes lower than their carrying amount, the excess is recognized as an impairment loss. Please refer to Note 4(14).

The expected useful lives and amortization method applied to intangible assets with definite useful lives are reviewed at each financial year-end and adjusted when necessary.

(13) Goodwill

Goodwill is the excess of equity investment cost over the proportionate share of the fair value of the net identifiable assets of the investees on the date of exchange, or the cost of business combination not under common control over the proportionate share of the fair value of the net identifiable assets on the acquisition date. Goodwill arising from business combinations is presented separately on consolidated financial statements.

Goodwill presented separately on consolidated financial statements is tested for impairment at least annually. When performing impairment test, the carrying amount of goodwill is allocated to assets group or group of assets groups that are expected to benefit from the synergies arising from the business combination. Please refer to Note 4(14) for the accounting policy of impairment of assets group or group of assets groups. Goodwill is presented at cost less accumulated impairment loss as at period end.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(14) Assets impairment

Goodwill presented separately on consolidated financial statements is tested for impairment at least annually regardless of whether there are indications of impairment. An impairment test is carried out for fixed assets, intangible assets and long-term equity investments that are not accounted for as financial assets whenever there is impairment indication at the balance sheet date. If the result of the impairment test shows that the recoverable amount is lower than the carrying amount, the difference is provided as impairment loss and recorded in the profit and loss account. The recoverable amount is the higher of the asset's fair value less costs to sell and its present value of the future cash flows expected to be derived from the asset. Impairment is calculated and recognized at the individual asset level. The recoverable amount is calculated for the assets group to which the asset belongs where the recoverable amount for an individual asset cannot be reliably estimated. An asset group is the smallest identifiable group of assets that generates independent cash inflows.

The assets impairment referred above cannot be reversed after recognition even if the amount is recovered subsequently.

(15) Borrowing costs

The borrowing costs incurred which are directly attributable to the acquisition or construction of assets which the acquisition and construction take a substantial period of time to get ready for its intended use, are capitalized and recorded in the costs of the assets when the capital expenditure and borrowing costs incurred and the acquisition or construction activities necessary to prepare the asset for its intended use begin. The capitalization of the borrowing costs is ceased when the asset under acquisition or construction is ready for the intended use, and the borrowing costs incurred afterward are expensed as incurred. If the acquisition or purchase of an asset is interrupted abnormally and if the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended till such activities resume. For specific borrowings for the acquisition or construction of an asset eligible for capitalization, the capitalized amount of interests is determined based on the interest expense incurred after deducting any interest income earned from the deposits or investment income from a temporary investment based on the unused borrowing balances. For general borrowings used for the acquisition or construction of an asset eligible for capitalization, the Company and its subsidiaries determine the capitalized interest by multiplying the weighted average excess of accumulated capital expenditure over specific borrowings by the capitalization rate of such general borrowings. The capitalization rate is determined according to the weighted average interest rate of the general borrowings.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(16) Payables

Payables including accounts payable, notes payable and other payables, etc. and are initially recognized at fair value and then measured using the effective interest method and presented at amortized cost.

(17) Loans

Loans are initially recognized at fair value less transaction costs and subsequently measured using the effective interest method at amortized cost. Loans fall due within 12 months after the balance sheet date (including 12 months) are presented as current liabilities, and the remaining are recognized as long-term loans.

(18) Employee benefits

Employee benefits include salary, bonus, allowance and subsidy, staff welfare, social insurance, housing fund, labor union fund, employee education fund and other expenditures relating to the services rendered by employees.

The Company and its subsidiaries recognize employee benefits as liabilities in the accounting period when employees rendered their services. Such benefits are capitalized or expensed based on the beneficiaries of services received.

(19) Bonds payable

The corporate bonds are initially recorded as liabilities at fair value less transaction cost and subsequently measured at amortized cost using the effective interest method over the terms of the bonds.

Interest expense are expensed as incurred, unless capitalization criteria are met.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(20) Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are calculated and recognized based on differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). For deductible losses or tax deductions that can be deducted against taxable profit and can be carried forward to the following years according to the tax law, these are deemed to be temporary differences and deferred income tax assets are, thus, recognized. Deferred income tax liabilities are not recognized for the temporary differences arising from the initial recognition of goodwill. For those temporary differences arising from the initial recognition of assets or liabilities in transactions that are not business combinations and affect neither the accounting profit nor the taxable profit (or the deductible losses) at the time of transactions, no deferred income tax assets and liabilities are recognized.

The Company and its subsidiaries recognize the deferred income tax assets to the extent that the amount of the taxable income is likely to be available to utilize the deductible temporary differences, deductible losses or tax credits.

On the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities settled.

(21) Revenue recognition

Revenue is recognized based the following methods:

(a) Revenue from principal operations

Revenue from principal operations refers to amounts earned from electricity generated and transmitted to the ultimate consumers through respective provincial or regional grid companies (net of Value-Added Tax ("VAT")). The Company and its subsidiaries recognize revenue at each month end based on the actual power transmitted when they transmit electricity to respective power grids.

(b) Management service income

As mentioned in Note 10(5)(h), the Company provides management service to certain power plants owned by Huaneng Group and HIPDC. The Company recognizes management service income as other income when the above-mentioned service is rendered in accordance with the management service agreement.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(21) Revenue recognition *(Cont'd)*

(c) Other income

Interest income from deposits is recognized on a time proportion basis using effective yield method.

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

(22) Leases

Leases where all the risks and rewards incidental to ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases. Operating lease expenses are capitalized or expensed on a straight-line basis over the lease term.

(23) Government grants

Government grants are recognized when the Company and its subsidiaries comply with the conditions attached and receipts are ensured. When government grants are in the form of monetary assets, they are measured on the basis of the received or receivable. When government grants are in the form of non-monetary assets, they are measured at fair value. If fair values cannot be measured reliably, they are measured at nominal amounts.

Government grants relating to assets are recognized as deferred income and amortized over the useful lives of the related assets in the profit and loss account.

Government grants relating to income and are used for compensating the related future expenses or losses of the Company and its subsidiaries are recognized as deferred income and recorded in the profit and loss account in the period when the such expenses incur. Government grants used for compensating expenses or losses that have already been incurred by the Company and its subsidiaries are directly recorded in the profit and loss account.

(24) Dividends appropriation

Cash dividends is recognized as a liability in the period when the proposed dividends are approved by the general meeting of shareholders.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(25) Business combinations

(a) Business combinations under common control

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amounts of the net assets obtained and the carrying amount of the consideration paid is recorded in capital surplus. Any shortfall of capital surplus is adjusted to the undistributed profits.

Any direct expenses attributable to for the business combination are recorded in the profit and loss account in the current period. However, the handling fees, commissions and other expenses incurred for the equity instruments or bonds issued for the business combination are recorded in shareholders' equity or in the initial measurement of the bonds.

(b) Business combinations not under common control

The acquirer measures both the acquisition costs and its share of net identifiable assets acquired at their fair values on the acquisition date. Any excess of the acquisition costs over the proportionate share of fair values of the net identifiable assets acquired on the acquisition date is recognized as goodwill. Any excess of the proportionate share of fair value of the net identifiable assets acquired on the acquisition date over the acquisition costs is recorded in the profit and loss account in the current period.

Any direct expenses attributable to the business combination are recorded in the cost of business combination. However, the handling fees, commissions and other expenses incurred for the equity instruments or bonds issued for the business combination are recorded in shareholders' equity or in the initial measurement of the bonds.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(26) Preparation of consolidated financial statements

The scope of consolidated financial statements includes the Company and its subsidiaries.

A subsidiary is consolidated from the date when the Company obtains the control and ceased to be consolidated once the control is lost. All material inter-company balances, transactions and unrealized profit among the Company and its subsidiaries are eliminated upon consolidation. The portion of shareholders' equity of subsidiaries that is not attributable to the Company is regarded as minority interests and are separately presented within the shareholders' equity in the consolidated financial statements.

When the accounting policies or financial period adopted by subsidiaries are not consistent with those adopted by the Company, adjustments are made to the subsidiaries' financial statements based on the policies adopted by the Company when preparing consolidated financial statements.

For subsidiaries acquired under business combinations not under common control, when preparing consolidated financial statements, adjustments are made on the separate financial statements of the subsidiaries based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired under business combinations under common control, when preparing consolidated financial statements, the consolidated financial statements include the assets, liabilities, operating results and cash flows of such subsidiaries from the earliest period presented as if the business combinations had occurred at the beginning of the earliest comparative period presented and the net profit realized before acquisition date is separately disclosed in the consolidated profit and loss account.

(27) Fair value determination of financial instruments

When an active market exists for a financial instrument, fair value is determined based on quoted prices in the active market. When no such an active market exists, fair value is determined by using valuation techniques. Valuation techniques includes making reference to the prices used by knowledgeable and willing parties in a recent transaction, the current fair value of other financial assets that are same in substance, discounted cash flow method and option pricing model, etc.. When applying valuation techniques, the Company and its subsidiaries use market parameters to the fullest extent possible and as little as possible on specific parameters of the Company and its subsidiaries.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(28) Changes in accounting estimates

Changes in accounting estimates refer to adjustments on the carrying amount of an asset or a liability, or on the amount of the regular consumption of an asset, as a result of the change in the existing status, and the expected future benefits and obligations associated with the asset or liability. The Company and its subsidiaries apply the changes in accounting estimates prospectively.

(29) Critical accounting estimates and judgments

The Company and its subsidiaries made estimates and judgments based on historical experience and other factors, including reasonable expectations to future events based on the existing circumstances. Such critical accounting estimates and key assumptions are subject to continuous evaluation.

The estimates and assumptions made for the future by the Company and its subsidiaries may not fully equal to the actual results. The accounting estimates and key assumptions that may cause material adjustments to the carrying amounts of assets and liabilities within the next financial period include:

(a) Accounting estimate on impairment of goodwill

The Company and its subsidiaries test annually to identify whether goodwill is impaired in accordance with the accounting policy stated in Note 4(13). The recoverable amounts of assets group or group of assets groups are determined based on value in use. Such calculations require the use of estimates. It is possible that the reasonable estimates from such tests based on existing experience be different to the actual outcome within the next financial period, and could cause a material adjustment to the carrying amount of goodwill.

(b) Useful lives of fixed assets

The management of the Company and its subsidiaries determine the estimated useful lives and related depreciation charges for fixed assets. Such estimates are based on projected wears and tears incurred during power generation, and could be largely affected by technical innovations of power generators. Management will adjust the estimated useful lives of fixed assets when useful lives vary from previous estimated lives. They will write off technically obsolete or non-strategic assets that have been disposed or sold. It is possible that the estimates made based on existing experience be different to the actual outcomes within the next financial period, and could cause a material adjustment to the carrying amount of fixed assets.

4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Cont'd)*

(29) Critical accounting estimates and judgments *(Cont'd)*

(c) Estimated impairment of fixed assets

The Company and its subsidiaries test whether fixed assets suffer any impairment whenever any impairment indication exists. In accordance with Note 4(14), an impairment loss is recognized for the excess of the carrying amount over recoverable amount of the fixed assets. It is possible that the reasonable estimates from such tests based on existing experience be different to the actual outcomes within the next financial period, and could cause a material adjustment to the carrying amount of fixed assets.

5. TAXATION

(1) VAT

The power sales of the Company and its subsidiaries are subjected to VAT. VAT payable is determined by applying 17% on the taxable revenue after offsetting deductible input VAT of the period.

(2) Income tax

Pursuant to the relevant income tax law, Sino-foreign enterprises are, in general, subject to statutory income tax rate of 33% (30% of Enterprise Income Tax ("EIT") and 3% of local income tax). If these enterprises are located in certain specific regions or cities, or are specifically approved by the State Tax Bureau, lower applicable tax rates would be enjoyed. Pursuant also to the requirements of "Implementation Guidance on Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises of the Peoples's Republic of China", upon the approval of State Tax Bureau, all productive foreign investment enterprises engaging in energy and transportation infrastructure projects, can apply a reduced EIT rate of 15% from 1 January 1999 onwards. Operating branches of the Company applied this rule after obtaining the approvals from the State Tax Bureau.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

5. TAXATION *(Cont'd)*

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

In accordance with Guo Shui Han [1994] 381, the head office, Shandong Branch (the former headquarters of Shandong Huaneng Power Development Company Limited ("Shandong Huaneng")), Huadong Branch, Dongbei Branch, Huazhong Branch, Huaneng Power International Fuel Limited Liability Company ("Fuel Company") and all of the operating power plants make their income tax payment to their respective local tax bureaux individually. The income tax rates (after considering tax holiday) and such related applicable tax holiday of the head office, Shandong Branch, Huadong Branch, Dongbei Branch, Huazhong Branch, Fuel Company, individual operating power plants and the subsidiaries of the Company are summarized as follows:

	Approved File No.	2007	2006	Tax holiday period
Head Office (Note 1)	Guo Shui Han [1997]368	15.0%	–	None
Huaneng Dalian Power Plant ("Dalian Power Plant")*	Guo Shui Han [1994]381	18.0%	18.0%	Till 31 December 1994
Huaneng Dalian Power Plant Phase II ("Dalian Power Plant Phase II")* (Note 2)	Guo Shui Zhi Shui Han [2004]12 & Guo Shui Da Zhi Shui Han [2005]017	15.0%	10.0%	Till 31 December 2006
Huaneng Shang'an Power Plant ("Shang'an Power Plant")*	Guo Shui Han [1994]381 & [1999]604	18.0%	18.0%	Till 31 December 1996
Huaneng Shang'an Power Plant Phase II ("Shang'an Power Plant Phase II")*	Guo Shui Han [1994]381 & [2000]194	18.0%	18.0%	Till 31 December 2003
Huaneng Nantong Power Plant ("Nantong Power Plant")*	Guo Shui Han [1994]381	15.0%	15.0%	Till 31 December 1996
Huaneng Nantong Power Plant Phase II ("Nantong Power Plant Phase II")* (Note 3)	Tong Guo Shui Wai Zi [2005]1	10.0%	10.0%	Till 31 December 2007
Huaneng Fuzhou Power Plant ("Fuzhou Power Plant")*	Guo Shui Han [1994]381	15.0%	15.0%	Till 31 December 1995
Huaneng Fuzhou Power Plant Phase II ("Fuzhou Power Plant Phase II")* (Note 4)	Chang Guo Shui Han [2005]2	10.0%	10.0%	Till 31 December 2007

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

5. TAXATION *(Cont'd)*

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

	Approved File No.	2007	2006	Tax holiday period
Huaneng Shantou Coal-Fired Power Plant ("Shantou Power Plant")* (Note 5)	Shan Guo Shui Zhi Han [2006]004	18.0%	15.0%	Till 31 December 2006
Huaneng Shantou Coal-Fired Power Plant Phase II ("Shantou Power Plant Phase II")* (Note 6)	Shan Guo Shui Zhi Han [2006]014	–	–	Till 31 December 2010
Huaneng Shanghai Shidongkou II Power Plant ("Shidongkou II Power Plant")*	Approved by Shanghai Tax Bureau Shewai Branch	16.5%	16.5%	Till 31 December 1998
Huaneng Dandong Power Plant ("Dandong Power Plant")* (Note 7)	Dan Guo Shui She Wai [1999]7	–	–	Not commenced yet
Huaneng Nanjing Power Plant ("Nanjing Power Plant")*	Ning Guo Shui Wai Zi [1997]039	15.0%	15.0%	Till 31 December 2004
Shandong Branch (Note 8)	Guo Shui Han [2001]866	–	–	None
Huaneng Dezhou Power Plant ("Dezhou Power Plant")	Guo Shui Han [2001]866	17.0%	17.0%	None
Huaneng Jining Power Plant ("Jining Power Plant") (Note 9)	Guo Shui Han [2002]1063 & Ji Guo Shui Han [2003]1	–	15.0%	None
Huaneng Changxing Power Plant ("Changxing Power Plant")	Guo Shui Han [2002]1030	17.4%	16.5%	None
Huaneng Shanghai Shidongkou I Power Plant ("Shidongkou I Power Plant")	Hu Guo Shui Ba Shui [2003]31	18.0%	18.0%	None
Huaneng Xindian Power Plant ("Xindian Power Plant") (Notes 9 & 10)	Lin Guo Shui Han [2004]123	–	15.0%	None
Huaneng Yingkou Power Plant ("Yingkou Power Plant")* (Note 11)	Approved by New Economic Technology Development Zone Branch of Yingkou State Tax Bureau	7.5%	–	Till 31 December 2009

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

5. TAXATION *(Cont'd)*

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

	Approved File No.	2007	2006	Tax holiday period
Huaneng Jinggangshan Power Plant ("Jinggangshan Power Plant")* (Note 12)	Ji An Shi Guo Shui Zhong Qi Fa [2004]20	7.5%	7.5%	Till 31 December 2008
Huaneng Weihai Power Limited Liability Company ("Weihai Power Company")	Not applicable	33.0%	33.0%	None
Huaneng (Suzhou Industrial Park) Power Generation Co. Ltd. ("Taicang Power Company")	Not applicable	33.0%	33.0%	None
Huaneng Taicang Power Co., Ltd. ("Taicang II Power Company")	Not applicable	33.0%	33.0%	None
Huaneng Huaiyin Power Generation Co. Ltd. ("Huaiyin Power Company")	Not applicable	33.0%	33.0%	None
Huaneng Huaiyin II Power Limited Company ("Huaiyin II Power Company")	Not applicable	33.0%	33.0%	None
Huaneng Yushe Power Generation Co., Ltd. ("Yushe Power Company")	Not applicable	33.0%	33.0%	None
Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company") (Note 13)	Yue Guo Shui Han [2007]166	–	33.0%	Till 31 December 2010
Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company")* (Note 14)	Approved by Chongqing State Tax Bureau Shewai Branch & Yu Guo Shui Zhi Jian [2008]4	7.5%	7.5%	Till 31 December 2010
Luohuang Power Company Phase III* (Note 14)	Yu Guo Shui Zhi Jian [2007]120 & Cai Shui Zi [2002]56	–	N/A	Till 31 December 2012
Qinbei Power Company	Not applicable	33.0%	33.0%	None
Huaneng Pingliang Power Generation Limited Liability Company ("Pingliang Power Company") (Note 15)	Not applicable	33.0%	33.0%	None

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

5. TAXATION *(Cont'd)*

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

	Approved File No.	2007	2006	Tax holiday period
Huaneng Shanghai Combined Cycle Power Limited Liability Company ("Shanghai Combined Cycle Power Company")	Not applicable	33.0%	33.0%	None
Huadong Branch (Note 8)	Not applicable	–	–	None
Dongbei Branch (Note 8)	Not applicable	–	–	None
Huazhong Branch (Note 9)	Not applicable	–	N/A	None
Huaneng Yuhuan Power Plant Phase I ("Yuhuan Power Plant Phase I") (Note 16)	Guo Shui Han [2007]201 & Zhe Guo Shui Wai [2007]14	–	N/A	Till 31 December 2011
Huaneng Xindian Power Co., Ltd. ("Xindian II Power Company") (Note 9)	Not applicable	–	33.0%	None
Huaneng Shanghai Electricity Repairing Company (Note 8)	Hu Guo Shui Ba Shui [2003]31	–	–	None
Nanjing Jinling Power Company (Note 17)	Not applicable	33.0%	–	None
Fuel company (Note 18)	Not applicable	N/A	N/A	None

* Pursuant to "Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises of the People's Republic of China", these operating power plants of the Company 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.

Note 1. The head office made profit since 2007 with applicable tax rate of 15%.

Note 2. In accordance with Guo Shui Zhi Shui Han [2004]12, Dalian Power Plant Phase II can exercise the tax holiday separately and is granted an exemption of local income tax of 3% from 1 January 1999 to 31 December 2008. Meanwhile, pursuant to Guo Shui Da Zhi Shui Han [2005]17, Dalian Power Plant Phase II is also qualified as a foreign investment advanced technology enterprise and is, therefore, entitled to preferential tax treatment with applicable tax rate of 10% from 1 January 2005 to 31 December 2006.

Note 3. In accordance with Tong Guo Shui Wai Zi [2005]1, Nantong Power Plant Phase II is qualified as a foreign investment advanced technology enterprise and is, therefore, entitled to preferential tax treatment with applicable tax rate of 10% from 1 January 2005 to 31 December 2007.

5. TAXATION *(Cont'd)*

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

Note 4. In accordance with Chang Guo Shui Han [2005]2, Fuzhou Power Plant Phase II is qualified as a foreign investment advanced technology enterprise and is, therefore, entitled to preferential tax treatment with applicable tax rate of 10% from 1 January 2005 to 31 December 2007.

Note 5. In accordance with Shan Guo Shui Zhi Han [2006]004, Shantou Power Plant is granted an exemption of local income tax from 1 January 2006 to 31 December 2006 with applicable tax rate of 15%.

Note 6. In accordance with Shan Guo Shui Zhi Han [2006]014, Shantou Power Plant Phase II enjoys tax holiday from 1 January 2006 to 31 December 2010 with income tax exemption for the first two years and 50% tax rate deduction for the three years thereafter.

Note 7. As Dandong Power Plant has not fully utilized its accumulated loss, the tax rate is zero. The tax holiday of Dandong Power Plant has not commenced yet.

Note 8. These entities encountered at tax-losses in both 2007 and 2006, thus, their effective income tax rates are zero.

Note 9. These entities encountered tax-losses in 2007, thus, their effective income tax rates are zero.

Note 10. In accordance with Lin Guo Shui Han [2004]123, Xindian Power Plant is qualified as Sino-foreign enterprises investing in energy production with applicable EIT rate of 15%.

Note 11. 2007 is the first year of Yingkou Power Plant enjoying 50% income tax reduction after two years' tax exemption.

Note 12. In accordance with Ji An Shi Guo Shui Zhong Qi Fa [2004]20, Jinggangshan Power Plant is entitled to a tax holiday with income tax exempted from 1 July 2004 to 31 December 2005 following by a 50% reduction of the applicable tax rate from 1 January 2006 to 31 December 2008 with applicable tax rate of 7.5%.

Note 13. As approved by Hunan Tax Bureau, Yueyang Power Company enjoyed two-years' tax exemption and three-year 50% reduction since the 4th quarter of 2006 as a foreign investment enterprise, therefore, the 2007 applicable tax rate was zero.

Note 14. In accordance with the approval from Chongqing State Tax Bureau Shewai Branch, Luohuang Power Company Phases I and II are entitled to a tax holiday from 1 January 2003 to 31 December 2007 with income tax exemption for the first two years and 50% tax rate for the three years thereafter. The applicable income tax rate is 7.5% for 2006 and 2007. In accordance with the approval obtained dated 10 December 2007 from Tax Bureau Branch directly under Chongqing State Tax Bureau, Luohuang Power Company is entitled to an extension of 50% reduction of income tax rate in 2008, 2009 and 2010.

In accordance with the approval from Tax Bureau Branch directly under Chongqing State Tax Bureau, Luohuang Power Company Phase III is entitled to a tax holiday with income tax exemption for the first two years and 50% reduction of applicable tax rate for the three years thereafter since the first profit-making year. 2007 was the first profit-making year and when the exemption of income tax began to apply.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

5. TAXATION *(Cont'd)*

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

Note 15. In accordance with the Catalogue of Industry Adjustment issued by National Development and Reform Commission (the "NDRC") in December 2006, Pingliang Power Company is no longer entitled to the preferential tax treatment of two-year exemption and three-year 50% reduction.

Note 16. As 2007 is the first profit-making year of Yuhuan Power Plant Phase I, there is no applicable tax rate for 2006. In accordance with the approval from State Tax Bureau of Yuhuan Province in 2007, Yuhuan Power Plant Phase I is entitled to a tax holiday with income tax exemption for the first two years and 50% reduction of applicable tax rate for the three years thereafter from 1 January 2007 to 31 December 2011.

Note 17. As the two generators of Nanjing Jinling Power Company commenced commercial operations on 31 December 2006 and 5 March 2007, respectively, there is no applicable tax rate for 2006.

Note 18. As Fuel Company was established on 17 December 2007 and there is no operation activities taken place in 2007, there is no applicable tax rates for both 2007 and 2006.

On 16 March 2007, the National People's Congress promulgated the "Corporate Income Tax Law of the People's Republic of China (the "New Income Tax Law") which will be effective from 1 January 2008. In accordance with the "Implementing Regulation of Corporate Income Tax Law", the "Circular on Implementing the Preferential Policy Transition of Corporate Income Tax" promulgated by the State Council and "Circular on Questions relating to Implementing the Preferential Policy Transition of Corporate Income Tax promulgated by the State Council" promulgated by the Ministry of Finance and State Tax Bureau, branches of the Company and its subsidiaries, which enjoyed preferential tax rate or holiday, will gradually transit to statutory tax rate in five years from 1 January 2008 onwards. Those branches and subsidiaries, which originally applied the EIT rate of 15%, will apply tax rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The branches of the Company and its subsidiaries, which were originally entitled to tax holidays such as two-year exemption and three-year 50% reduction, will continue to enjoy the preferential policies till the expiration according to the original tax laws, regulations and related provisions from 1 January 2008 onwards. However, the preferential period will start from 2008 if the related entities have not commenced the tax holiday due to loss making. The subsidiaries with applicable tax rate of 33% will apply tax rate of 25% from 1 January 2008 onwards.

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

6. SUBSIDIARIES

(1) Subsidiaries acquired during business combinations under common control

Name of investee	Place and date of incorporation	Registered capital	Business nature and scope of operations	Percentage of equity interest or percentage of voting right held by the Company		Included in consoli-dated financial statements
				Direct	Indirect	
Taicang Power Company	16/F, Zhiye Business Plaza, No. 158 Wangdun Road, Suzhou Industrial Park 19 June 1997	RMB632,840,000	Power generation	75%	–	Yes
Qinbei Power Company	Wulongkou Town, Jiyuan, Henan Province 26 December 2001	RMB810,000,000	Power generation	60%	–	Yes
Yushe Power Company	Yushe County, Shanxi Province 29 November 1994	RMB615,760,000	Power generation	60%	–	Yes
Yueyang Power Company	ChengLingJi, Yueyang, Hunan Province 16 December 2003	RMB1,055,000,000	Power generation	55%	–	Yes
Luohuang Power Company	Luohuang Town, JiangJin 16 December 2003	RMB1,658,310,000	Power generation	60%	–	Yes
Pingliang Power Company	No. 7 Binhe Zhong Road, Qilihe District, Lanzhou 6 November 1996	RMB924,050,000	Power generation	65%	–	Yes
Nanjing Jinling Power Company	No. 8 Qixia Economic & Technology Development Zone, Qixia District, Nanjing 2 February 2005	RMB582,000,000	Power generation	60%	–	Yes

The subsidiaries above and the Company are all controlled by Huaneng Group before and after the acquisitions.

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

6. SUBSIDIARIES *(Cont'd)*

(2) Subsidiaries acquired during business combinations not under common control or acquired through other ways

Name of investee	Place and date of incorporation	Registered capital	Business nature and scope of operations	Percentage of equity interest or percentage of voting right held by the Company		Included in consoli-dated financial statements
				Direct	Indirect	
Weihai Power Company	No. 58 Haibu Road, Weihai Economic & Technology Development Zone 22 November 1993	RMB761,838,300	Power generation	60%	—	Yes
Taicang II Power Company	Jinlanglanggang Village, Fuqiao Town, Taicang 18 June 2004	RMB804,146,700	Power generation	75%	—	Yes
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an 26 January 1995	RMB265,000,000	Power generation	90%	—	Yes
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an 22 June 2004	RMB774,000,000	Power generation	63.64%	—	Yes
Xindian II Power Company	Qilu Chemical Industrial Park, Linzi District 24 March 2004	RMB100,000,000	Power generation	95%	—	Yes
Shanghai Combined Cycle Power Company	No. 298 Shengshi Road, Baoshan District 13 January 2005	RMB685,800,000	Power generation	70%	—	Yes
Fuel Company	Bing 7/F, No. 2 Fuxingmennan Street, Xicheng District, Beijing 17 December 2007	RMB200,000,000	Coal wholesale	100%	—	Yes

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

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash

		31 December 2007			31 December 2006		
		Original foreign currency amount	Exchange rate	RMB equivalent	Original foreign currency amount	Exchange rate	RMB equivalent
Cash	– RMB			527,828			1,338,105
Bank deposits	– RMB			7,374,295,988			3,271,242,018
	– USD	21,621,508	7.3046	157,936,468	20,705,102	7.8087	161,679,933
	– Japanese yen	331	0.0641	21	331	0.0656	22
Sub-total				7,532,232,477			3,432,921,973
Total cash				7,532,760,305			3,434,260,078

Please refer to Note 7(39) for the balances and changes of cash and cash equivalents stated in the cash flow statement.

Please refer to Note 10(6) for cash deposits in a related party.

(2) Trading financial assets

	31 December 2007	31 December 2006
Trading equity instrument investment	—	100,179,545

As at 31 December 2006, the trading equity instrument investment represented the stock warrants received associated with the equity investment in China Yangtze Power Co., Ltd. ("Yangtze Power") held by the Company (see Note 7(7)). Its fair value was determined based on option pricing model. The stock warrants were exercised in 2007.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(3) Notes receivable

	31 December 2007	31 December 2006
Banking notes receivable	1,147,053,239	1,001,830,632
Commercial notes receivable	527,880,000	132,150,000
	1,674,933,239	1,133,980,632

As at 31 December 2007, the balance of discounted notes of the Company and its subsidiaries that are yet to mature amounted to RMB302,700,123 (31 December 2006: RMB338,189,780) (Note 7(14)).

(4) Accounts receivable and other receivables

(a) Accounts receivable

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Accounts receivable	6,455,806,425			6,445,737,545
Less: provision for doubtful accounts	(251,772,403)	—	7,419,264	(244,353,139)
	6,204,034,022			6,201,384,406

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(4) Accounts receivable and other receivables *(Cont'd)*

(a) Accounts receivable (Cont'd)

The ageing analysis of accounts receivable and provision for doubtful accounts are as follows:

	31 December 2007			31 December 2006		
Ageing	Amount	Percentage	Provision for doubtful acconuts	Amount	Percentage	Provision for doubtful acconuts
Within 1 year	6,063,893,333	94%	–	5,944,380,509	92%	–
1-2 years	3,014,422	–	–	112,370,836	2%	–
2-3 years	–	–	–	51,554,429	1%	(10,000,000)
Over 3 years*	378,829,790	6%	(244,353,139)	347,500,651	5%	(241,772,403)
	6,445,737,545	100%	(244,353,139)	6,455,806,425	100%	(251,772,403)

* As at 31 December 2007, the major portion of accounts receivable aged over 3 years not fully provided of the Company and its subsidiaries was the past due account receivables of Yueyang Power Company due from local grid company. According to the acquisition agreement between the Company and HIPDC, HIPDC has provided guarantee of approximately RMB140 million on such account receivable based on the equity interest in Yueyang Power Company held by the Company. Such accounts receivable arose when the Company acquired Yueyang Power Company from HIPDC in 2004. The Company received the guarantee payment from HIPDC as at 31 December 2006. In addition, Yueyang Power Company is in the process of negotiation with local grid company regarding the collection of the above-mentioned receivables. Considering the preliminary negotiation outcome and the above acquisition arrangement, the Company and its subsidiaries did not fully provide bad debt on these accounts receivable.

As at 31 December 2007, the individually significant accounts receivable of the Company and its subsidiaries amounted to RMB2,600,482,514 (31 December 2006: RMB2,286,892,305), representing 40.34% (31 December 2006: 35.42%) of the total accounts receivable. There was no bad debt provision made on these accounts receivable based on the assessment as at 31 December 2007 (31 December 2006: Nil).

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

As at 31 December 2007, there was no account receivable from shareholders who held 5% or more of the equity interest in the Company (31 December 2006: Nil).

As at 31 December 2007, the five largest accounts receivable of the Company and its subsidiaries amounted to RMB3,633,240,944 (31 December 2006: RMB3,871,211,754), which are of aged within 1 year and representing 56.37% (31 December 2006: 59.96%) of the total accounts receivable.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(4) Accounts receivable and other receivables *(Cont'd)*

(b) Other receivables

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Other receivables	290,335,895			312,330,931
Less: provision for doubtful accounts*	(77,216,691)	(32,935)	46,676,533	(30,573,093)
	213,119,204			281,757,838

* Current year deductions were mainly due to the exclusion of Sichuan Hydropower Company from the consolidation scope and the relevant provision for doubtful accounts was transferred out accordingly.

The ageing analysis of other receivables and bad debt provision are as follows:

	31 December 2007			31 December 2006		
Ageing	Amount	Percentage	Provision for doubtful acconuts	Amount	Percentage	Provision for doubtful acconuts
Within 1 year	168,231,795	54%	(597,447)	160,031,598	55%	(1,138,099)
1-2 years	70,828,544	23%	(239,657)	9,679,066	3%	(248,281)
2-3 years	4,318,332	1%	(21,604)	3,518,193	1%	(28,322)
Over 3 years	68,952,260	22%	(29,714,385)	117,107,038	41%	(75,801,989)
	312,330,931	100%	(30,573,093)	290,335,895	100%	(77,216,691)

As at 31 December 2007, the individually significant other receivables of the Company and its subsidiaries amounted to RMB53,352,577 (31 December 2006: RMB53,310,000), representing 17.08% (31 December 2006: 18.36%) of the total other receivables. There was no bad debt provision made on these other receivables based on the assessment as at 31 December 2007 (31 December 2006: Nil).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(4) Accounts receivable and other receivables *(Cont'd)*

(b) Other receivables (Cont'd)

The details of other receivables are as follows:

	31 December 2007	31 December 2006
Receivable from Jiangsu Power Grid Company for the construction of transmission facilities	53,352,577	53,310,000
Receivable from Sichuan Financial Lease Centre	—	25,500,000
Receivable from Jinbohe Hydropower Station	—	17,616,971
Current portion of receivable from Sichuan Power Grid Company for transfers of the transmission facilities	—	16,472,726
Receivable from Administration Center of Housing Fund for sales of staff quarters	27,556,094	27,408,042
Staff advances	8,755,632	10,377,245
Prepayments to constructions	6,916,832	7,764,611
Receivable from China Taiyuan Coal Trading Centre	30,000,000	—
Others	185,749,796	131,886,300
	312,330,931	290,335,895

As at 31 December 2007, the five largest other receivables of the Company and its subsidiaries amounted to RMB141,357,954 (31 December 2006: RMB127,417,863), representing 45.26% (31 December 2006: 43.89%) of total other receivables.

There were no other receivable from shareholders who held 5% or more of the equity interest in the Company (31 December 2006: Nil).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(5) Advances to suppliers

	31 December 2007	31 December 2006
Prepayments for coal	395,373,557	253,731,662
Prepayments for materials and spare parts	33,815,124	31,733,504
Prepayments for equipment	21,039,544	74,531,037
Prepayments to contractors	2,684,134	14,211,175
Others	84,257,346	23,253,850
	537,169,705	397,461,228

The ageing analysis of advances to suppliers is as follows:

	31 December 2007		31 December 2006	
Ageing	Amount	Percentage	Amount	Percentage
Within 1 year	510,389,346	95%	374,330,368	94%
1-2 years	9,137,656	2%	6,261,239	2%
2-3 years	1,269,922	—	15,452,713	4%
Over 3 years	16,372,781	3%	1,416,908	—
	537,169,705	100%	397,461,228	100%

As at 31 December 2007, there was no advance to shareholders who held 5% or more of the equity interest in the Company (31 December 2006: Nil).

Please refer to Note 10 for related party balances.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(6) Inventories

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Fuel for power generation (coal and oil)	1,241,838,130	28,124,602,071	(28,042,214,333)	1,324,225,868
Materials and spare parts	941,862,601	1,944,966,416	(1,858,482,034)	1,028,346,983
	2,183,700,731			2,352,572,851
Less: provision for inventory obsolescence - spare parts	(50,166,130)	(665,180)	17,548,953	(33,282,357)
	2,133,534,601			2,319,290,494

(7) Available-for-sale financial assets

	31 December 2007	31 December 2006
Available-for-sale equity instrument	3,346,559,685	1,458,758,700

Available-for-sale financial assets represents the equity investment in Yangtze Power. As at 31 December 2007, the Company had approximately 171.71 million shares of Yangtze Power, representing 1.82% (31 December 2006: approximately 149.31 million shares, 1.82%) of its total share capital. The fair value of the above available-for-sale equity instrument as at 31 December 2007 was determined based on the closing market price of RMB19.49 per share quoted in the Shanghai Stock Exchange on the last trading day of 2007.

(8) Long-term equity investments

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Associates (a)	5,422,007,876	3,523,440,092	(553,004,458)	8,392,443,510
Other long-term equity investments	8,416,633	115,598,500	(500,000)	123,515,133
Less: provision for impairment on long-term equity investments	(4,908,243)	—	—	(4,908,243)
	5,425,516,266	3,639,038,592	(553,504,458)	8,511,050,400

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

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(8) Long-term equity investments *(Cont'd)*

(a) Associates

Name of investee	Place and date of incorporation	Registered capital	Business nature and scope of operation	Percentage of equity interest or percentage of voting rigth held by the Company Direct	Indirect
Associates:					
Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")	No. 399 Beijing Road, Rizhao 20 March 1996	RMB1,245.59 million	Power generation	34%	–
Shenzhen Energy Group Co., Ltd. ("SEG")	Shenzhen, Guangdong Province 15 July 1985	RMB955.56 million	Development, production and sale of regular energy, new energy and energy construction project, etc.	25%	–
Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company")	Yijing Town, Fengfeng Coal Field, Handan, Hebei Province 28 October 1996	RMB1,975.00 million	Power generation	40%	–
Chongqing Huaneng Lime Company Limited ("Lime Company")	Luohuang Town, JiangJin 5 November 1996	RMB50.00 million	Lime production and sale of construction materials and bio-chemical products	–	25%
China Huaneng Finance Corporation Ltd. ("Huaneng Finance")	Huashi Mansion, Yi 26 Jinrong Street, Xicheng District, Beijing 21 May 1988	RMB2,000.00 million	Provision of deposit services; loans and finance lease arrangements; notes receivable and discounting; and entrusted loans and investments for membership entities within Huaneng Group	20%	–
Sichuan Hydropower Company	Huaneng Mansion, No. 47 Division 4 Renmin South Road, Wuhou District, Chengdu 12 July 2004	RMB800.00 million	Development, investment, construction, operation and management of hydropower	49%	–
Shenzhen Energy Investment Co., Ltd. ("SEI")*	Huaneng Mansion, No. 2068 Shennan ZhongLu Futian District, Shenzhen 21 August 1993	RMB2,202.50 million	Energy and investment in related industries	9.08%	

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(8) Long-term equity investments *(Cont'd)*

(a) Associates (Cont'd)

Total net assets of the associates above as at 31 December 2007 are RMB27,879,383,480 while total revenue from operations and total net profit of the associates above for the year ended 31 December 2007 amounted to RMB17,491,239,592 and RMB3,054,385,512, respectively.

* In 2006, SEG planned to restructure with its listed subsidiary-SEI. SEI issued new shares to SEG in acquiring most of the assets of SEG and SEG will be deregistered ultimately when appropriate. In accordance with the resolutions of the board of directors of the Company and related signed agreement, the Company will subscribe 200 million shares, and take up a portion of shareholding of SEI from SEG upon the deregistration of the latter entity. The Company will directly hold 25.01% shareholding of SEI by then. As at 31 December 2007, the Company has paid RMB1.52 billion for the subscription of 200 million shares, representing 9.08% shareholding of SEI. The Company considered the nature of this investment and classified this as an associate and these 200 million shares are subject to a lock-up period of 3 years from the acquisition date.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(8) Long-term equity investments *(Cont'd)*

(a) Associates (Cont'd)

	Investment period	Percentage of equity interest held		Cost of investment			Accumulated equity movement				Carrying amount	
		31 December 2006	31 December 2007	31 December 2006	Current year additions/ (deductions)	31 December 2007	31 December 2006	Current year additions	Current year deductions*	31 December 2007	31 December 2006	31 December 2007
Rizhao Power Company	20 years	34%	34%	426,948,218	–	426,948,218	62,630,194	7,820,000	(54,129,377)	16,320,817	489,578,412	443,269,035
SEG	No specific terms	25%	25%	2,269,785,209	–	2,269,785,209	909,060,147	271,074,218	(125,000,000)	1,055,134,365	3,178,845,356	3,324,919,574
Hanfeng Power Company	25 years	40%	40%	1,382,210,557	–	1,382,210,557	(50,399,529)	145,262,680	(189,747,600)	(94,884,449)	1,331,811,028	1,287,326,108
Lime Company	No specific terms	25%	25%	24,295,710	–	24,295,710	1,641,858	2,004,686	(1,047,400)	2,599,144	25,937,568	26,894,854
Huaneng Finance	64 years	20%	20%	306,634,130	134,000,000	440,634,130	69,257,127	84,250,257	(23,644,399)	129,862,985	375,891,257	570,497,115
Sichuan Hydropower Company	No specific terms	60%	49%	–	1,221,257,497	1,221,257,497	–	137,770,754	(139,491,427)	(1,720,673)	–	1,219,536,824
Sichuan Jialingjiang Tourism Development Company Inc.	5 years	25%	–	20,000,000	(20,000,000)	–	(55,745)	–	55,745	–	19,944,255	–
SEI	50 years	–	9.08%	–	1,520,000,000	1,520,000,000	–	–	–	–	–	1,520,000,000
				4,429,873,824	2,855,257,497	7,285,131,321	992,134,052	648,182,595	(533,004,458)	1,107,312,189	5,422,007,876	8,392,443,510

* The current year deductions include cash dividends amounting to RMB478,506,817 received from associates of the Company and its subsidiaries.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(9) Fixed assets and accumulated depreciation

Movement of cost and accumulated depreciation of fixed assets is as follows:

	Dam	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
Cost						
31 December 2006	3,700,201,060	2,328,601,982	114,443,947,546	296,317,663	2,855,799,952	123,624,868,203
Reclassification	–	37,122,147	(62,045,427)	(22,615,792)	47,539,072	–
Transfers from construction-in-progress	–	313,612,687	14,369,719,637	5,564,791	226,666,868	14,915,563,983
Other additions in current year	–	20,016,714	62,253,266	–	108,276,116	190,546,096
Current year deductions*	(3,700,201,060)	(401,374,192)	(7,326,493,918)	–	(388,870,459)	(11,816,939,629)
31 December 2007	–	2,297,979,338	121,487,381,104	279,266,662	2,849,411,549	126,914,038,653
Accumulated depreciation						
31 December 2006	582,347,719	698,691,419	44,278,005,930	191,993,042	1,690,204,049	47,441,242,159
Reclassification	–	11,580,381	19,626,915	(16,271,594)	(14,935,702)	–
Current year depreciation	–	95,402,807	6,777,217,094	14,651,259	235,177,305	7,122,448,465
Current year deductions*	(582,347,719)	(82,368,599)	(2,847,294,526)	–	(200,142,526)	(3,712,153,370)
31 December 2007	–	723,306,008	48,227,555,413	190,372,707	1,710,303,126	50,851,537,254
Impairment provision						
31 December 2006	–	–	(42,000,000)	–	–	(42,000,000)
Current year additions	–	–	(7,043,793)	–	–	(7,043,793)
Current year reversals**	–	–	49,043,793	–	–	49,043,793
31 December 2007	–	–	–	–	–	–
Net book value						
31 December 2007	–	1,574,673,330	73,259,825,691	88,893,955	1,139,108,423	76,062,501,399
31 December 2006	3,117,853,341	1,629,910,563	70,123,941,616	104,324,621	1,165,595,903	76,141,626,044

* Current year deductions were mainly due to the exclusion of Sichuan Hydropower Company from consolidation scope and the cost and accumulated depreciation of related fixed assets were transferred out accordingly.

** Current year reversals were mainly due to the disposal of retired generators after their shutdowns.

As at 31 December 2007, the net book value of fully depreciated property and equipment that remains in use amounted to approximately RMB0.223 billion (cost of approximately RMB5.444 billion) (31 December 2006: net book value of approximately RMB0.188 billion; cost of approximately RMB4.396 billion).

For the year ended 31 December 2007, depreciation charged to cost of operations and general and administrative expenses amounted to RMB7,092,744,082 and RMB14,204,422 (2006: RMB6,363,448,522 and RMB16,663,853), respectively.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(10) Construction materials

	31 December 2007	31 December 2006
Specific materials and equipment	1,249,784,368	525,932,560
Prepayments for major equipment	2,785,026,235	3,227,886,633
Tools and spare parts	44,899,258	71,447,365
	4,079,709,861	3,825,266,558

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

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(11) Construction-in-progress

Project	Budget	31 December 2006	Current year additions	Transfers to fixed assets during current year	Other deductions*	31 December 2007	Percentage of capital expenditure incurred over budget	Source of financing
Yuhuan Power Plant Phase I project	9,669,320,000	24,664,724	858,042,271	(785,708,413)	–	96,998,582	99.58%	Funds borrowed from financial institutions and internal funds
Huaneng Yuhuan Power Plant Phase II project	8,341,260,000	2,264,663,294	3,540,167,955	(5,699,033,381)	–	105,797,868	81.43%	Funds borrowed from financial institutions and internal funds
Qinbei Power Company Phase II project	3,997,930,000	401,477,015	2,889,901,484	–	–	3,291,378,499	82.33%	Funds borrowed from financial institutions and internal funds
Huaneng Rizhao Power Plant project	4,401,290,000	55,745,087	815,222,010	–	–	870,967,097	36.40%	Funds borrowed from financia institutions and internal funds
Xindian II Power Company project	2,453,780,000	6,158,355	62,678,478	–	–	68,836,833	93.57%	Funds borrowed from financial institutions and internal funds
Luohuang Power Company Phase III project	4,483,660,000	1,190,284,579	472,325,881	(1,659,328,170)	–	3,282,290	86.44%	Funds borrowed from financial institutions and internal funds
Yingkou Power Plant Phase II project	4,539,960,000	1,832,236,288	2,206,125,484	(4,034,819,093)	–	3,542,679	99.00%	Funds borrowed from financial institutions and internal funds
Shang'an Power Plant Phase III project	4,576,210,000	257,214,962	1,118,306,118	–	–	1,375,521,080	73.61%	iFunds borrowed from financial institutions and internal funds
Huaneng Haimen Power Plant project	9,210,310,000	187,568,787	1,133,719,417	–	–	1,321,288,204	22.76%	Funds borrowed from financial institutions and internal funds
Nanjing Jinling Power Company project	2,503,760,000	739,005,835	221,507,405	(959,639,240)	–	874,000	96.20%	Funds borrowed from financial institutions and internal funds
Other projects		2,407,636,623	2,906,347,798	(1,777,035,686)	(1,871,963,270)	1,664,985,465		Funds borrowed from financial institutions and internal funds
		9,366,655,549	16,224,344,301	(14,915,563,983)	(1,871,963,270)	8,803,472,597		
Including: capitalized borrowing cost		348,203,909	636,834,775	(504,905,553)	(135,552,842)	344,580,289		

* Other deductions represent the transfer out of the construction-in progress of Sichuan Hydropower Company as it is excluded from the consolidation scope.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(11) Construction-in-progress *(Cont'd)*

For the year ended 31 December 2007, interest expense capitalized for construction-in-progress of the Company and its subsidiaries amounted to RMB636,834,775 with capitalization rate of 5.31% per annum (2006: RMB693,758,588 with capitalization rate of 5.48% per annum).

As at 31 December 2007 and 31 December 2006, there was no indication that the construction-in-progress of the Company and its subsidiaries was impaired, and thus, no provision for impairment loss was made.

(12) Intangible assets

	Original cost	31 December 2006	Current year additions	Current year transfer out	Current year amortization	Accumulated amortization	31 December 2007	Remaining amortization period	Acquisition method
Land use rights	2,497,372,529	1,825,739,797	330,063,482	(10,502,776)	(42,049,425)	(394,121,451)	2,103,251,078	13-66.5 years	Purchase and acquisition
Others	239,146,694	23,220,934	206,666,123	(1,637,022)	(9,829,957)	(20,726,616)	218,420,078	1-49.83 years	Purchase and acquisition
		1,848,960,731					2,321,671,156		

As at 31 December 2007 and 31 December 2006, there was no indication that the intangible assets of the Company and its subsidiaries were impaired, and thus, no provision for impairment loss was made. No intangible assets of the Company and its subsidiaries were used for pledge or guarantee.

(13) Goodwill

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Goodwill	133,341,119	–	(3,899,772)	129,441,347
Less: impairment provision	–	–	–	–
	133,341,119	–	(3,899,772)	129,441,347

As at 31 December 2007, goodwill of the Company and its subsidiaries was primarily arising from the acquisitions of subsidiaries under business combinations not under common control.

The Company and its subsidiaries performed annual impairment test on goodwill as at 2007 year end, no impairment was made.

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(14) Short-term loans

	31 December 2007	31 December 2006
Credit loans	10,367,700,000	6,823,720,000
Guaranteed loans (a)	1,302,700,123	1,338,189,780
– Discounted notes	302,700,123	338,189,780
– Guarantee	1,000,000,000	1,000,000,000
Total	11,670,400,123	8,161,909,780

(a) As at 31 December 2007, the guaranteed short-term loans include:

Guaranteed short-term loans of RMB302,700,123 (31 December 2006: RMB338,189,780) represented the discounted notes receivable with recourse. As these notes receivable were yet to mature, the proceeds received were recorded as short-term loans (see Note 7(3)).

As at 31 December 2007, short-term loans of RMB1,000 million borrowing from Zhonghai Trust & Investment Company Limited were guaranteed by the headquarter of China Citic Bank Co., Ltd., with annual interest rate of 4.78% (31 December 2006: short-term loans of RMB1,000 million borrowing from SDIC Hong Tai Trust & Investment Company Limited were guaranteed by Beijing Branch of Industrial and Commercial Bank of China, with annual interest rate of 4.35%).

As at 31 December 2007, short-term loans of RMB2,291,500,000 were borrowed from Huaneng Finance, with annual interest rates ranging from 4.40% to 6.56% (31 December 2006: RMB2,534,609,781 with annual interest rates ranging from 3.80% to 5.51%) (see Note 10(5)).

As at 31 December 2007, all of the short-term loans of the Company and its subsidiaries were denominated in RMB, with annual interest rates ranging from 5.27% to 6.72% for credit loans (31 December 2006: 5.02% to 5.51%) and annual interest rates ranging from 3.24% to 10.20% for discounted notes (31 December 2006: 3.00% to 3.80%).

(15) Notes payable

As at 31 December 2007 and 31 December 2006, all the notes payable of the Company and its subsidiaries are banking notes.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(16) Accounts payable

Accounts payable mainly represents the amounts due to coal suppliers. As at 31 December 2007 and 31 December 2006, there was no account payable to any shareholder who held 5% or more of the equity interest in the Company, and there was no significant accounts payable aged over 3 years.

See Note 10 for related party balances.

(17) Salary and welfare payables

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Salary, bonus, allowance and subsidy	254,921,574	1,818,226,316	(2,044,033,461)	29,114,429
Welfare, award and welfare fund	190,694,814	209,167,224	(329,098,208)	70,763,830
Social insurance	38,184,433	483,539,442	(499,875,074)	21,848,801
Including: medical insurance	24,348,920	162,692,773	(175,196,299)	11,845,394
basic pension insurance	11,841,099	283,528,326	(287,903,251)	7,466,174
unemployment insurance	648,531	22,511,715	(21,620,683)	1,539,563
industrial injury insurance	116,630	9,676,718	(9,703,610)	89,738
childbirth insurance	446,197	5,129,910	(5,131,243)	444,864
Housing fund	50,763,527	238,653,498	(262,109,250)	27,307,775
Labor union fee and employee education fee	38,278,102	41,230,986	(67,083,233)	12,425,855
Termination benefits	12,010,196	43,356,602	(3,424,335)	51,942,463
	584,852,646	2,834,174,068	(3,205,623,561)	213,403,153

(18) Taxes payable

The detailed breakdown of taxes payable is as follows:

	31 December 2007	31 December 2006
EIT payables	211,418,391	373,572,839
VAT payables	631,046,025	719,971,797
Others	112,869,638	99,614,122
	955,334,054	1,193,158,758

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(19) Dividends payable

	31 December 2007	31 December 2006
Jiangsu Electricity Development Inc.	12,150,000	—

(20) Other payables

The detailed breakdown of other payables is as follows:

	31 December 2007	31 December 2006
Payables to contractors	2,041,495,491	1,830,531,708
Payables for purchases of equipment	2,346,633,154	1,742,223,080
Retention monies	339,518,080	467,297,834
Payables for purchases of materials	152,362,858	191,554,552
Payables to HIPDC	80,140,485	79,730,462
Payables to Huaneng Group	189,963	44,591,698
Accruals of various expenses	33,036,499	55,953,416
Bonus payables for construction	115,172,502	85,198,918
Payables of housing maintenance funds	44,567,548	55,496,201
Payables of pollutants discharge fees	24,381,151	28,782,674
Others	524,918,804	498,989,589
	5,702,416,535	5,080,350,132

As at 31 December 2007, there were no other payable due to shareholders who held 5% or more of the equity interest in the Company except for payables due to HIPDC of RMB80,140,485 and payables due to Huaneng Group of RMB189,963 (31 December 2006: due to HIPDC of RMB79,730,462, due to Huaneng Group of RMB44,591,698) mentioned above.

As at 31 December 2007, other payables aged over 3 years amounting to approximately RMB226.49 million (31 December 2006: RMB119.92 million) mainly comprised of payables of housing maintenance funds, payables to contractors, etc.

Please refer to Note 10 for related party balances.

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(21) Other current liabilities

Other current liabilities are mainly short-term bonds payable. The Company issued unsecured short-term bonds amounting to RMB5 billion bearing annual interest rate of 3.84% on 9 August 2007. Such bonds are denominated in RMB and issued at face value and will mature in 364 days from the issuance date. Interest expense on these bonds is calculated using the effective annual interest rates of 4.26%. As at 31 December 2007 interest payable on the above-mentioned bonds amounted to approximately RMB76.80 million.

The Company issued short-term interest-bearing bonds with one year maturity on 23 May 2006 and 26 June 2006 respectively. The face values totaled RMB0.5 billion and RMB4.5 billion with annual interest rates of 3.12% and 3.35% respectively. The actual proceeds received were RMB0.5 billion and RMB4.5 billion respectively. As at 31 December 2007, the above-mentioned bonds were repaid on time.

(22) Long-term loans

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

	31 December 2007	31 December 2006
Long-term loans from ultimate parent company (a)	2,800,000,000	2,800,000,000
Long-term bank loans (b)	34,731,729,921	36,411,233,187
Other long-term loans (c)	126,432,665	424,340,427
	37,658,162,586	39,635,573,614
Less: current portion of long-term loans	(4,219,515,105)	(3,331,954,868)
	33,438,647,481	36,303,618,746

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

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(22) Long-term loans *(Cont'd)*

(a) Long-term loans from ultimate parent company

As at 31 December 2007, detailed information of the long-term loans from ultimate parent company is as follows:

Lender	31 December 2007	Terms of loan	Annual interest rate	Current portion	Terms
Renminbi loans					
Entrusted loans from Huaneng Group through Huaneng Finance*	600,000,000	2004-2013	4.60%	–	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*	200,000,000	2004-2013	5.67%	–	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*	2,000,000,000	2005-2015	5.02%	–	Nil
	2,800,000,000			–	

* Such loans are yet to enter into repayment period as at 31 December 2007 and 1 year after, thus, there was no current portion.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(22) Long-term loans *(Cont'd)*

(b) Long-term bank loans

Details of long-term bank loans (including the current portion) are as follows:

	31 December 2007					
	Foreign currency amount	Exchange rate	RMB equivalent	Less: current portion	Long-term portion	Annual interest rate
Credit loans						
– Renminbi loans			30,584,366,000	(3,379,750,000)	27,204,616,000	3.60%-7.05%
– US dollar loans	2,705,975	7.3046	19,766,065	(9,002,920)	10,763,145	6.97%
– Euro loans	60,946,309	10.6669	650,108,188	(56,770,016)	593,338,172	2.00%
Guaranteed loans*						
– Renminbi loans			100,000,000	–	100,000,000	5.51%
– US dollar loans	462,378,456	7.3046	3,377,489,668	(737,868,550)	2,639,621,118	5.15%-6.60%
Total			34,731,729,921	(4,183,391,486)	30,548,338,435	

* Bank loans amounting to approximately RMB2.042 billion and RMB1.336 billion (31 December 2006: approximately RMB2.693 billion and RMB6.078 billion) were guaranteed by HIPDC and Huaneng Group respectively.

There were no bank loans of the subsidiaries of the Company guaranteed by the Company (31 December 2006: Nil).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(22) Long-term loans *(Cont'd)*

(c) Other long-term loans

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

	31 December 2007		
	Foreign currency amount	Exchange rate	RMB equivalent
US dollar loans	10,000,000	7.3046	73,046,000
Japanese yen loans	833,333,334	0.0641	53,386,665
			126,432,665
Less: current portion of other long-term loans			(36,123,619)
Long-term portion			90,309,046

The detailed information of other long-term loans is as follows:

Lender	31 December 2007	Terms of Loan	Annual interest rate	Current portion	Terms
US dollar loan					
On-lent foreign loan of the Ministry of Finance	73,046,000	1996 - 2011	LIBOR+0.43%	(20,870,286)	Guaranteed by Huaneng Group
Japanese yen loan					
On-lent foreign loan of the Ministry of Finance	53,386,665	1996 - 2011	LIBOR+0.3%	(15,253,333)	Guaranteed by Huaneng Group
Subtotal of foreign loans	126,432,665			(36,123,619)	
Total	126,432,665			(36,123,619)	

Maturity analysis of long-term loans is as follows:

	31 December 2007	31 December 2006
1-2 years	9,697,515,105	4,175,062,011
2-5 years	15,013,137,925	18,532,102,347
Over 5 years	8,727,994,451	13,596,454,388
	33,438,647,481	36,303,618,746

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(23) Bonds payable

The Company issued bonds with maturity of 5 years, 7 years and 10 years in December 2007. The face value of such bonds are RMB1 billion, RMB1.7 billion and RMB3.3 billion with annual interest rates of 5.67%, 5.75% and 5.90% respectively. The actual proceeds received by the Company was approximately RMB5.885 billion.

The corporate bonds are denominated in RMB and issued at face values. Interest is payable annually while principal be paid when the bonds fall due. The interest expense is calculated using the effective annual interest rates of 6.13%, 6.10% and 6.17% respectively. As at 31 December 2007, interest payable for the above-mentioned bonds payable amounted to approximately RMB6.789 million.

(24) Deferred income tax assets and liabilities

(a) Deferred income tax assets

	31 December 2007		31 December 2006	
	Amount	Deductible temporary difference	Amount	Deductible temporary difference
Provision for assets impairment	45,529,918	354,925,767	78,678,496	412,700,877
Fixed assets depreciation	26,053,399	106,851,557	20,659,294	122,388,070
Accrued expenses	8,120,746	41,541,014	15,753,944	70,952,670
Income tax credit due to purchase of domestically-manufactured equipment*	126,741,825	—	—	—
Others	51,204,259	250,704,530	58,373,208	255,978,311
	257,650,147	754,022,868	173,464,942	862,019,928

* In 2007, an operating power plant of the Company obtained the approval from the tax bureau regarding the income tax credit arising from the purchase of domestically-manufactured equipment. The income tax credit, being 40% of the amount spent on the domestically-manufactured equipment, is to be deducted from the incremental income tax of the plant (compared with the year when the equipment were purchased (2006)) within the 5 years including 2007. As at 31 December 2007, the Company recorded the deferred income tax assets based on the amount that can be deducted from income tax within the next 4 years.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(24) Deferred income tax assets and liabilities *(Cont'd)*

(b) Deferred income tax liabilities

	31 December 2007		31 December 2006	
	Amount	Taxable temporary difference	Amount	Taxable temporary difference
Fixed assets depreciation	10,143,096	64,196,808	31,561,084	95,639,650
Fair value change	608,750,408	2,435,001,633	191,262,314	1,275,082,093
Others	151,425,360	768,349,996	155,761,984	1,011,698,327
	770,318,864	3,267,548,437	378,585,382	2,382,420,070

The tax rates used in calculating the deferred income tax assets and deferred income tax liabilities are the tax rates applicable to the periods when the assets are expected to be recovered or liabilities settled. The Company and its subsidiaries have taken into account the requirements of the New Income Tax Law and the existing preferential treatments enjoyed when estimating and adjusting the deferred income tax assets and deferred income tax liabilities as at 31 December 2007. See Note 7(37) for details.

(25) Share capital

	31 December 2007	31 December 2006
Tradeable shares (with lock-up limitation)		
State-owned shares	1,055,124,549	1,055,124,549
State-owned legal person shares	5,174,892,946	7,269,542,118
Other domestic shares	—	25,333,333
Including: domestic legal person shares	—	25,333,333
Tradeable shares (without lock-up limitation)		
Domestic shares listed in the PRC	2,769,982,505	650,000,000
Overseas listed shares	3,055,383,440	3,055,383,440
Sub-total of tradeable shares	12,055,383,440	12,055,383,440
Total shares	12,055,383,440	12,055,383,440

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(26) Capital surplus

Movement of capital surplus is as follows:

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Share premium	8,939,977,628	94,840,157	(436,592,466)	8,598,225,319
Other capital surplus –				
Changes in fair value of available-for-sale financial assets	998,667,165	1,116,630,576	(448,261,331)	1,667,036,410
Others	340,236,826	95,456,772	(424,009)	435,269,589
Subtotal	1,338,903,991	1,212,087,348	(448,685,340)	2,102,305,999
	10,278,881,619	1,306,927,505	(885,277,806)	10,700,531,318

(27) Surplus reserves

	31 December 2006	Current year appropriation	Current year additions	31 December 2007
Statutory surplus reserve	5,480,902,037	599,705,866	29,334,471	6,109,942,374
Discretionary surplus reserve	22,575,684	—	9,827,005	32,402,689
	5,503,477,721	599,705,866	39,161,476	6,142,345,063

According to the Company Law of the PRC, the Company's articles of association and board resolution, the Company appropriates 10% of each year's net profit to the statutory surplus reserve until such a reserve reaches 50% of the registered share capital when the Company can opt out. Upon the approval from relevant authorities, this reserve can be used to make up any losses incurred or to increase share capital. Except for offsetting against losses, this reserve cannot fall below 25% of the registered share capital after being used to increase share capital. The Company appropriated 10% of net profit to the statutory surplus reserve amounting to RMB599,705,866 in 2007 (2006: 10%, amounting to RMB537,312,304).

Appropriation of discretionary surplus reserve is proposed by the Board of Directors, and approved by the general meeting of shareholders. This reserve can be used to make up any losses incurred or to increase the share capital after obtaining relevant approvals. For the year ended 31 December 2007, no provision was made to the discretionary surplus reserve fund (2006: Nil).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(28) Unappropriated profit

	2007	2006
Undistributed profit brought forward	15,228,908,521	12,856,448,154
Add: net profit for the year	5,997,058,661	5,923,618,531
Less: appropriations to statutory surplus reserve (Note 7(27))	(599,705,866)	(537,312,304)
dividends payable-prior year cash dividends approved at the general meeting of the shareholders	(3,375,507,363)	(3,013,845,860)
others	(29,334,471)	–
Undistributed profit carried forward	17,221,419,482	15,228,908,521

Pursuant to the resolution of the Board of Directors on 3 April 2007, the proposed 2006 profit appropriation plan was made on the basis of a total of 12,055,383,440 ordinary shares outstanding as at 31 December 2006, a cash dividend of RMB2.8 (including tax) for every 10 existing ordinary shares amounting to RMB3,375,507,363 to be distributed to the shareholders. On 22 May 2007, the shareholders approved the profit appropriation plan above in the general meeting and declared the cash dividend, on the basis of 12,055,383,440 ordinary shares outstanding as at that date. For the year ended 31 December 2007, the Company has paid cash dividend amounting to RMB3,375,507,363.

Pursuant to the resolution of the Board of Directors on 25 March 2008, the proposed 2007 profit appropriation plan was made on the basis of a total of 12,055,383,440 ordinary shares outstanding as at 31 December 2007, a cash dividend of RMB3 (including tax) for every 10 existing ordinary shares amounting to RMB3,616,615,032 to be distributed to the shareholders. Such a proposal is subject to the approval of the shareholders at the annual general meeting.

The maximum amount available for distribution to the shareholders is based on the lower of the amounts (i.e. the sum of current year net profit and undistributed profit brought forward from previous year) determined under the Accounting Standards for Business Enterprises and the International Financial Reporting Standards ("IFRS") after current year appropriation to statutory surplus reserve.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(29) Minority interests

Minority interests attributable to the minority shareholders of the subsidiaries are:

	31 December 2007	31 December 2006
Weihai Power Company	413,633,255	436,687,949
Huaiyin Power Company	59,936,183	57,821,891
Huaiyin II Power Company	379,923,457	394,801,043
Taicang Power Company	226,941,201	225,012,428
Taicang II Power Company	235,768,602	263,899,462
Qinbei Power Company	596,968,026	518,025,357
Yushe Power Company	286,047,758	288,711,850
Xindian II Power Company	24,400,213	21,631,818
Yueyang Power Company	523,472,837	481,290,827
Luohuang Power Company	946,278,005	1,032,928,916
Shanghai Combined Cycle Power Company	226,070,591	206,107,543
Pingliang Power Company	455,983,924	441,173,964
Sichuan Hydropower Company*	—	750,944,895
Sichuan Huaneng BaoXing River Power Co. Ltd.*	—	335,006,012
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company*	—	115,225,336
Sichuan Huaneng Taipingyi Hydropower Limited Liability Company*	—	201,177,602
Sichuan Huaneng Kangding Hydroelectric Power Co., Ltd.*	—	204,689,928
Huaneng Mingtai Power Limited Liability Company *	—	21,427,137
Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company *	—	91,150,513
Sichuan Huaneng Fujiang Hydropower Limited Liability Company *	—	11,793,292
Nanjing Jinling Power Company	270,640,334	232,800,000
	4,646,064,386	6,332,307,763

* As stated in Note 1, Sichuan Hydropower Company and its subsidiaries are excluded from the consolidation scope of the Company and its subsidiaries since January 2007.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(30) Revenue from operations and cost of operations

	2007		2006	
	Revenue	Cost	Revenue	Cost
Principal operations	50,310,393,627	40,856,792,034	44,312,826,811	33,752,975,116
Other operations	124,220,422	86,273,634	121,097,978	72,270,122
	50,434,614,049	40,943,065,668	44,433,924,789	33,825,245,238

The Company and its subsidiaries are principally engaged in power sale in the PRC.

For the years ended 31 December 2007 and 31 December 2006, the revenue from principal operations from the five largest customers of the Company and its subsidiaries amounted to RMB32,347,869,516 and RMB28,248,658,123, representing 64.30% and 63.75% of the revenue from principal operations, respectively.

Details of revenue from other operations and cost of other operations are as follows:

	2007		2006	
	Revenue from other operations	Cost of other operations	Revenue from other operations	Cost of other operations
Sales of fuel and steam	44,525,802	36,878,027	42,787,399	25,245,486
Others	79,694,620	49,395,607	78,310,579	47,024,636
	124,220,422	86,273,634	121,097,978	72,270,122

(31) Tax and levies on operations

	2007	2006
City construction tax	84,205,215	85,508,749
Education surcharge	63,060,526	58,353,060
Others	3,839,898	4,195,124
	151,105,639	148,056,933

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

(32) Financial expenses, net

	2007	2006
Interest expense	2,199,324,757	1,825,678,947
Interest expense on borrowings	2,183,608,041	1,817,831,941
Interest expense on notes discounts	15,716,716	7,847,006
Less: interest income	(54,901,202)	(51,909,677)
Exchange losses	11,046,122	54,263,067
Less: exchange gains	(242,840,753)	(166,517,176)
Others	26,463,554	45,382,703
	1,939,092,478	1,706,897,864

(33) Assets impairment loss

	2007	2006
Reversal of provision for doubtful accounts	(6,700,143)	(46,989,862)
(Reversal of) / Provision for inventory obsolescence	(6,824,475)	4,155,237
Long-term equity investment impairment reversal	—	(42,000)
Fixed assets impairment	7,043,793	11,920,000
	(6,480,825)	(30,956,625)

(34) Gains from changes in fair value

The gains from changes in fair value represent changes in fair value of warrants of Yangtze Power, which were classified as trading financial assets. The amount shown in 2007 represents the transfer of accumulated fair value change originally recorded to investment income when the Company exercised the stock warrants.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS *(Cont'd)*

(35) Investment income

	2007	2006
Gains from trading financial assets	187,011,462	—
Gains from available-for-sale financial assets	567,772,246	28,219,590
Gains from held-to-maturity investment	—	4,950
Shares of net profit of investees accounted for under the equity method	586,233,218	696,726,370
Dividends declared by investees accounted for under the cost method	42,817	148,759
	1,341,059,743	725,099,669

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

(36) Non-operating income and non-operating expenses

(a) Non-operating income

	2007	2006
Gain on fixed assets disposal	248,945,774	4,532,401
Others	54,265,559	21,633,807
	303,211,333	26,166,208

(b) Non-operating expenses

	2007	2006
Loss on fixed assets disposal	14,771,760	109,295,776
Others	23,247,021	11,764,597
	38,018,781	121,060,373

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS *(Cont'd)*

(37) Income tax expense

	2007	2006
Current income tax	1,075,791,410	1,304,586,515
Deferred income tax	(103,527,448)	(59,009,572)
	972,263,962	1,245,576,943

Reconciliation from profit before taxation in consolidated income statement to income tax expense are as follows:

	2007	2006
Profit before taxation	7,389,869,220	8,064,840,469
Income tax expense calculated based on applicable income tax rate	1,276,592,441	1,479,113,622
Impact on existing deferred income tax balance upon the promulgation of the New Income Tax Law (Note 7(24))	28,390,332	–
Non-taxable income	(239,553,522)	(232,883,748)
Non-deductible costs, expenses and losses	81,186,962	31,524,385
Utilization of deductible tax loss not recognized as deferred income tax assets in prior years	(46,387,978)	(28,793,019)
Deductible tax loss not recognized as deferred income tax assets in the current year	38,756,956	23,362,052
Income tax credit due to purchase of domestically-manufactured equipment	(166,721,229)	(26,746,349)
Income tax expense	972,263,962	1,245,576,943

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS *(Cont'd)*

(38) Earnings per share

Basic earnings per share

The basic earnings per share is calculated by dividing the consolidated net profit attributable to the shareholders of the Company by the weighted average number of the Company's outstanding ordinary shares during the year:

	2007	2006
Consolidated net profit attributable to shareholders of the Company	5,997,058,661	5,923,618,531
Weighted average number of the Company's outstanding ordinary shares	12,055,383,440	12,055,383,440
Basic earnings per share	0.50	0.49

For the year ended 31 December 2007, as there were no potential dilutive ordinary shares, both the basic earnings per share and the diluted earnings per share are the same.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS *(Cont'd)*

(39) Notes to the cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities

	2007	2006
Net profit	6,417,605,258	6,819,263,526
Add: reversal of provision for assets impairment	(6,480,825)	(30,956,625)
depreciation of fixed assets	7,106,948,504	6,380,112,375
amortization of intangible assets	51,879,382	53,764,036
amortization of long-term deferred expenses	10,604,579	9,539,342
(gains) / losses on disposal of fixed assets and intangible assets	(243,254,200)	104,763,374
losses / (gains) on changes in fair value	100,179,545	(100,179,545)
financial expenses	1,991,018,599	1,754,613,693
investment income	(1,341,059,743)	(725,099,669)
negative goodwill	(5,067,505)	—
amortization of deferred income	(24,998,403)	—
increase in deferred income tax assets	(93,977,635)	(23,436,973)
decrease in deferred income tax liabilities	(9,549,812)	(35,572,598)
(increase) / decrease in inventories	(195,236,310)	188,085,995
increase in operating receivable items	(1,767,628,036)	(938,812,365)
increase in operating payable items	230,419,640	402,841,750
Net cash flows generated from operating activities	12,221,403,038	13,858,926,316

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

7. NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS *(Cont'd)*

(39) Notes to the cash flow statement *(Cont'd)*

(b) Changes in cash and cash equivalents

	2007	2006
Cash at end of the year	7,312,264,810	3,228,603,526
Less: cash at beginning of the year	(3,228,603,526)	(2,689,959,600)
Net increase in cash and cash equivalents	4,083,661,284	538,643,926

(c) Cash and cash equivalents

	31 December 2007	31 December 2006
Cash –		
Cash on hand	527,828	1,338,105
Cash in bank	7,532,232,477	3,432,921,973
Less: restricted cash	(220,495,495)	(205,656,552)
Cash and cash equivalents at end of the year	7,312,264,810	3,228,603,526

(d) Other cash paid relating to operating activities

Other cash paid relating to operating activities in cash flow statement primarily includes:

	2007	2006
Service fees paid to HIPDC on transmission and transformer facilities provision	140,771,050	140,771,050
Pollutants discharge fees	507,113,328	431,919,042
Other items	984,109,474	763,976,798
	1,631,993,852	1,336,666,890

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

7. NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS *(Cont'd)*

(40) Entities being excluded from consolidation scope in current reporting period

As mentioned in Note 1, the financial statements of Sichuan Hydropower Company and its subsidiaries were not consolidated since January 2007. The unaudited net assets as at 31 December 2007 and unaudited net profit for the year then ended of Sichuan Hydropower Company and its subsidiaries were as follows:

	Net assets as at 31 December 2007 (Unaudited)*	Net profit for the year ended 31 December 2007 (Unaudited)*
Sichuan Hydropower Company and its subsidiaries	3,300,517,299	456,740,058

* Both the net assets and net profit above include minority interests.

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

8. BUSINESS COMBINATION UNDER COMMON CONTROL

At the end of December 2007, the Company acquired from HIPDC 60% equity interest in Nanjing Jinling Power Company. The acquisition became effective on 29 December 2007 when the Company obtained the control of Nanjing Jinling Power Company.

The carrying amounts of assets and liabilities of Nanjing Jinling Power Company on the acquisition date and cash flows relating to this acquisition are as follows:

	Carrying amount	
	Acquisition date	31 December 2006
Cash and cash equivalents	259,923,685	21,411,987
Restricted cash	3,112,053	1,793,367
Receivables	77,615,803	32,613,551
Inventories	17,159,222	—
Fixed assets and construction-in-progress	2,548,668,551	1,871,573,857
Intangible assets	43,383,203	—
Other non-current assets	61,738,806	45,266,425
Less: loans	(1,975,000,000)	(1,205,000,000)
payables	(358,911,286)	(184,849,666)
salary and welfare payables	(351,651)	(809,521)
other liabilities	(737,550)	—
Net assets	676,600,836	582,000,000
Less: minority interests	(270,640,334)	—
Net assets acquired	405,960,502	582,000,000
Consideration paid in cash	420,000,000	
Less: cash and cash equivalents acquired from the subsidiary acquired	(259,923,685)	
Net cash paid for acquiring the subsidiary	160,076,315	

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

8. BUSINESS COMBINATION UNDER COMMON CONTROL *(Cont'd)*

The revenue from operations, net profit and cash flows of Nanjing Jinling Power Company for the year ended 31 December 2006 and for the period from 1 January 2007 to the acquisition date are as follow:

	For the period from 1 January 2007 to the acquisition date	2006
Revenue from operations	905,895,588	—
Net profit	94,600,836	—
Cash flows from operating activities	249,894,266	—
Net cash flows	238,511,699	(20,881,616)

When preparing the consolidated financial statements, the Company has included the related assets, liabilities, financial performance and cash flows of Nanjing Jinling Power Company from the beginning of the earliest period presented as Nanjing Jinling Power Company is a subsidiary acquired under common control.

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

9. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

(1) Accounts receivable and other receivables

(a) Accounts receivable

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Accounts receivable	3,757,120,713			3,688,274,755
Less: provision for doubtful accounts	(109,326)	—	109,326	—
	3,757,011,387			3,688,274,755

The ageing analysis of accounts receivable and related provision for doubtful accounts are as follows:

	31 December 2007			31 December 2006		
Ageing	Amount	Percentage	Provision for doubtful accounts	Amount	Percentage	Provision for doubtful accounts
Within 1 year	3,682,615,336	100%	—	3,639,453,428	97%	—
1-2 years	3,014,419	—	—	112,370,835	3%	—
2-3 years	—	—	—	—	—	—
Over 3 years	2,645,000	—	—	5,296,450	—	(109,326)
	3,688,274,755	100%	—	3,757,120,713	100%	(109,326)

As at 31 December 2007, the individually significant accounts receivable of the Company totaled RMB2,584,604,465 (31 December 2006: RMB2,051,163,004), representing 70.08% (31 December 2006: 54.59%) of total accounts receivable. There was no bad debt provision made on these accounts receivable based on the assessment as at 31 December 2007 (31 December 2006: Nil).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

9. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

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

(a) Accounts receivable (Cont'd)

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

As at 31 December 2007, there were no accounts receivable from shareholders who held 5% or more of the equity interest in the Company (31 December 2006: Nil).

As at 31 December 2007, the five largest accounts receivable of the Company amounting to RMB2,584,604,465 (31 December 2006: RMB2,765,981,319), representing 70.08% (31 December 2006: 73.62%) of total accounts receivable.

(b) Other receivables

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Other receivables	249,342,297			338,071,448
Less: provision for doubtful accounts	(22,910,876)	(32,935)	855,906	(22,087,905)
	226,431,421			315,983,543

The ageing analysis of other receivables and provision for doubtful accounts are as follows:

	31 December 2007			31 December 2006		
Ageing	Amount	Percentage	Provision for doubtful accounts	Amount	Percentage	Provision for doubtful accounts
Within 1 year	279,593,041	83%	(592,827)	199,474,576	80%	(986,191)
1-2 years	12,939,998	4%	(239,657)	6,408,956	3%	(181,427)
2-3 years	4,222,112	1%	(21,604)	446,318	–	(12,805)
Over 3 years	41,316,297	12%	(21,233,817)	43,012,447	17%	(21,730,453)
	338,071,448	100%	(22,087,905)	249,342,297	100%	(22,910,876)

As at 31 December 2007, the individually significant other receivables of the Company amounted to RMB137,585,079 (31 December 2006: RMB84,670,683), representing 40.70% (31 December 2006: 33.96%) of total other receivables. There was no bad debt provision made on these other receivables based on the assessment as at 31 December 2007 (31 December 2006: Nil).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

9. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

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

(b) Other receivables (Cont'd)

The details of other receivables are as follow:

	31 December 2007	31 December 2006
Receivables from Administration Center of Housing Fund for sales of staff quarters	14,384,005	14,518,166
Staff advances	4,618,351	6,455,867
Management fees from subsidiaries	30,516,798	15,554,004
Receivables relating to investments	102,000,000	16,750,000
Receivables from subsidiaries for repairs and maintenance services rendered	58,500	31,826,092
Receivables from subsidiaries for fuel and materials	65,585,079	84,670,683
Others	120,908,715	79,567,485
	338,071,448	249,342,297

As at 31 December 2007, the five largest other receivables of the Company amounted to RMB205,795,838 (31 December 2006: RMB161,789,635), most of which aged within one year, representing 60.87% (31 December 2006: 64.89%) of total other receivables.

As at 31 December 2007 and 31 December 2006, there were no other receivables from shareholders who held 5% or more of the equity interest in the Company.

Please refer to Note 10 for related party balances.

(2) Long-term equity investments

	31 December 2006	Current year additions	Current year deductions	31 December 2007
Subsidiaries (a)	7,616,647,003	1,093,654,214	(767,932,785)	7,942,368,432
Associates	5,376,126,053	3,521,435,406	(532,012,803)	8,365,548,656
Other long-term equity investments	7,916,633	115,598,500	—	123,515,133
Less: provision for impairment on long-term equity investments	(4,908,243)	—	—	(4,908,243)
	12,995,781,446	4,730,688,120	(1,299,945,588)	16,426,523,978

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

9. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

(2) Long-term investments (cont'd)

(a) Long-term equity investments in subsidiaries

		Percentage of equity interest held				31 December 2006			31 December 2007
	Investment period	31 December 2006	31 December 2007	Cost of initial investment	Additional investment	Carrying amount of investment	Current year additions	Current year deductions	Carrying amount of investment
Weihai Power Company	30 years	60%	60%	474,038,793	–	474,038,793	–	–	474,038,793
Taicang Power Company	25 years	75%	75%	433,059,517	36,647,043	469,706,560	–	–	469,706,560
Huaiyin Power Company	No specific terms	90%	90%	292,513,951	400,885,579	693,399,530	–	–	693,399,530
Huaiyin II Power Company	No specific terms	63.64%	63.64%	76,368,000	496,205,600	572,573,600	–	–	572,573,600
Yushe Power Company	30 years	60%	60%	134,085,896	240,363,999	374,449,895	–	–	374,449,895
Qinbei Power Company	50 years	55%	60%	29,055,599	472,300,000	501,355,599	363,693,712	–	865,049,311
Xindian II Power Company	20 years	95%	95%	140,100,000	261,000,000	401,100,000	18,000,000	–	419,100,000
Taicang II Power Company	No specific terms	75%	75%	37,500,000	565,610,000	603,110,000	–	–	603,110,000
Yueyang Power Company	25 years	55%	55%	200,734,838	272,250,000	472,984,838	–	–	472,984,838
Luohuang Power Company	30 years	60%	60%	740,218,249	455,000,000	1,195,218,249	54,000,000	–	1,249,218,249
Shanghai Combined Cycle Power Company	25 years	70%	70%	35,000,000	445,060,000	480,060,000	–	–	480,060,000
Sichuan Hydropower Company	No specific terms	60%	49%	767,932,785	–	767,932,785	–	(767,932,785)	–
Pingliang Power Company	23 years	65%	65%	600,675,636	10,041,518	610,717,154	52,000,000	–	662,717,154
Nanjing Jinling Power Company	20 years	–	60%	–	–	–	405,960,502	–	405,960,502
Fuel Company	No specific terms	–	100%	–	–	–	200,000,000	–	200,000,000
				3,961,283,264	3,655,363,739	7,616,647,003	1,093,654,214	(767,932,785)	7,942,368,432

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

9. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

(3) Revenue from operations and costs of operations

	2007		2006	
	Revenue	Cost	Revenue	Cost
Principal operations	31,296,089,931	25,471,246,679	27,852,976,148	21,821,100,152
Other operations	718,588,572	669,304,532	300,412,154	218,688,066
	32,014,678,503	26,140,551,211	28,153,388,302	22,039,788,218

The Company is principally engaged in power sale in the PRC.

For the years ended 31 December 2007 and 31 December 2006, the revenue from principal operations from the five largest customers of the Company amounted to RMB22,670,593,917 and RMB21,555,196,148, representing 72.44% and 77.39% of the total revenue from principal operations, respectively.

Revenue from other operations and cost of other operations are detailed as follows:

	2007		2006	
	Revenue from other operations	Cost of other operations	Revenue from other operations	Cost of other operations
Sales of fuel and steam	610,018,012	602,370,236	167,309,890	149,767,977
Others	108,570,560	66,934,296	133,102,264	68,920,089
	718,588,572	669,304,532	300,412,154	218,688,066

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

9. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS *(Cont'd)*

(4) Investment income

	2007	2006
Gain from trading financial assets	187,011,462	—
Gain from available-for-sale financial assets	567,772,246	28,219,590
Gain from held-to-maturity investment	—	4,950
Shares of net profit of investees accounted for under the equity method	584,228,533	695,214,049
Dividends declared by investees accounted for under the cost method	972,583,764	652,357,820
	2,311,596,005	1,375,796,409

The long-term investments of the Company are not subject to restriction on remittance of investment income.

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

Name of entity	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Huaneng Group	Jia 23 Fuxing Road, Haidian District, Beijing	Investments in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber and related industries	Ultimate parent company of the Company	State-owned enterprise	Li Xiaopeng
HIPDC	Bing 2 Fuxingmennan Street, Xicheng District, Beijing	Investments, construction and operations of power plants and development, investments and operations of other export-oriented enterprises	Parent company of the Company	Sino-foreign equity joint stock limited liability company	Li Xiaopeng
Weihai Power Company	No. 58 Haibu Road, Weihai Economic & Technology Development Zone	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian
Taicang Power Company	16/F, Zhiye Business Plaza, No. 158, Wangdun Road, Suzhou Industrial Park	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Taicang II Power Company	Jinlanglanggang Village, Fuqiao Town, Taicang	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Qinbei Power Company	Wulongkou Town, Jiyuan City, Henan Province	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Yushe Power Company	Yushe County, Shanxi Province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

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

Name of entity	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Xindian II Power Company	Qilu Chemical Industrial Park, Linzi District	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian
Yueyang Power Company	ChengLingJi, Yueyang, Hunan Province	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Luohuang Power Company	Luohuang Town, Jiangjin City	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Shanghai Combined Cycle Power Company	No. 298 Shengshi Road, Baoshan District	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei
Pingliang Power Company	No. 7 Binhe Zhong Road, Qilihe District, Lanzhou	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Nanjing Jinling Power Company	No. 8 Qixia Economic & Technology Development Zone, Qixia District, Nanjing	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei
Fuel Company	Bing 7/F, No. 2 Fuxingmennan Street, Xicheng District, Beijing	Coal wholesale	A subsidiary of the Company	Limited liability company	Liu Guoyue

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

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

Name of entity	Currency	31 December 2006	Current year additions/ (deductions)	31 December 2007
Huaneng Group	RMB	20,000,000,000	—	20,000,000,000
HIPDC	USD	450,000,000	—	450,000,000
Weihai Power Company	RMB	761,838,300	—	761,838,300
Taicang Power Company	RMB	632,840,000	—	632,840,000
Taicang II Power Company	RMB	894,410,000	(90,263,300)	804,146,700
Huaiyin Power Company	RMB	265,000,000	—	265,000,000
Huaiyin II Power Company	RMB	774,000,000	—	774,000,000
Qinbei Power Company	RMB	810,000,000	—	810,000,000
Yushe Power Company	RMB	615,760,000	—	615,760,000
Xindian II Power Company	RMB	100,000,000	—	100,000,000
Yueyang Power Company	RMB	1,055,000,000	—	1,055,000,000
Luohuang Power Company	RMB	1,291,650,000	366,660,000	1,658,310,000
Shanghai Combined Cycle Power Company	RMB	685,800,000	—	685,800,000
Pingliang Power Company	RMB	924,050,000	—	924,050,000
Nanjing Jinling Power Company	RMB	582,000,000	—	582,000,000
Fuel Company	RMB	—	200,000,000	200,000,000

(3) Shareholding or equity interest held by parties that control/are controlled by the Company and respective changes

	31 December 2006		Current year additions/(deductions)		31 December 2007	
Name of entity	Amount	%	Amount	%	Amount	%
Huaneng Group*	1,055,124,549	8.75	—	—	1,055,124,549	8.75
HIPDC**	5,066,662,118	42.03	—	—	5,066,662,118	42.03

For details of shareholding or equity interest in related parties that are controlled by the Company and respective changes, please refer to Note 9(2).

* Huaneng Group holds 8.75% equity interest in the Company upon the completion of shareholding reform plan in 2006. In addition, Huaneng Group holds 51.98% equity interest in HIPDC.

** HIPDC holds 42.03% equity interest in the Company upon the completion of shareholding reform plan in 2006. The directors of the Company consider that, HIPDC as the parent company of the Company, while Huaneng Group, parent company of HIPDC, is regarded as the related party who controls the Company together with HIPDC.

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

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

Name of related parties	Relationship with the Company
Huaneng Finance	An associate of the Company
Xi'an Thermal Power Research Institute Co., Ltd. ("Xi'an Thermal") *	A subsidiary of Huaneng Group
Rizhao Power Company	An associate of the Company
Hanfeng Power Company	An associate of the Company
Lime Company	An associate of Luohuang Power Company
Huaneng Energy & Communications Holdings Co., Ltd. ("HEC") *	A subsidiary of Huaneng Group
China Huaneng (Group) Baiyanghe Power Plant ("Baiyanghe Power Plant")	A branch of Huaneng Group
Zhalainuoer Coal Mining Company Ltd. ("Zhalainuoer Coal")	A subsidiary of Huaneng Group
Qufushengcheng Heat-Power Company Ltd. ("Qufushengcheng Heat-Power Company")	A subsidiary of Huaneng Group

* In 2007, China Huaneng International Economic & Trading Co., Ltd. ("CHITEC") (including its subsidiary Hebei Huaneng Jingyuan Coal Mining Co., Ltd.) and Huaneng Xinrui Controlling Technology Co., Ltd. ("Huaneng Xinrui") merged with HEC and Xi'an Thermal, thus, CHITEC and Huaneng Xinrui became subsidiaries of HEC and Xi'an Thermal respectively. The related party transactions and balances of the Company and its subsidiaries with these entities mentioned above were included in the "HEC and its subsidiaries" and "Xi'an thermal and its subsidiaries" respectively.

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

(5) Related party transactions

(a) Pursuant to the service agreement entered into between the Company and HIPDC, HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. For the year ended 31 December 2007, the total amount of service fees was approximately RMB141 million (2006: RMB141 million).

(b) Pursuant to a leasing agreement entered into between the Company and HIPDC, HIPDC leased the land use right to Nanjing Power Plant for 50 years from 1 January 1999 at an annual rental payment of RMB1.334 million. For the year ended 31 December 2007, total rental fees of the land use right were RMB1.334 million (2006: RMB1.334 million).

(c) Pursuant to a leasing agreement between the Company and HIPDC, HIPDC leases its office building to the Company from 1 January 2005 for 5 years at an annual rental of RMB26 million. For the year ended 31 December 2007, the rental expense of office building was RMB26 million (2006: RMB26 million).

(d) Please refer to Note 7(22)(a) for details of long-term loans on-lent from Huaneng Group through Huaneng Finance to the subsidiaries of the Company. For the year ended 31 December 2007, total long-term loan interest incurred by the Company and its subsidiaries to Huaneng Finance amounted to RMB137,941,695 (2006: RMB144,229,498).

(e) As at 31 December 2007, Huaneng Finance provided short-term loans amounting to RMB2,292 million (31 December 2006: RMB2,535 million) to the Company and its subsidiaries. The relevant annual interest rates ranged from 4.40% to 6.56% (2006: 3.80% to 5.51%). The interest rates for such loans have no material difference from the prevailing average market interest rates (see Note 7(14)). For the year ended 31 December 2007, total amount of short-term loan interest incurred by the Company and its subsidiaries to Huaneng Finance amounted to RMB142,637,319 (2006: RMB130,360,726).

(f) Please refer to Note 7(22) for details of the long-term bank loans of the Company and its subsidiaries guaranteed by HIPDC and Huaneng Group.

(g) Please refer to Note 11 for details of bank loans of Rizhao Power Company guaranteed by the Company.

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

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

(h) On 6 November 2007 and 8 August 2007, the Company entered into management service agreements with Huaneng Group and HIPDC, respectively. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC for 3 years. For the year ended 31 December 2007, the total service fees earned from Huaneng Group amounted to RMB41,785,370 (2006: RMB39,098,670). The total service fees earned from HIPDC amounted to RMB3,980,850 (2006: RMB4,378,350). For the year ended 31 December 2007, the related costs incurred for the management services rendered amounted to approximately RMB33.15 million (2006: RMB33.03 million).

(i) For the year ended 31 December 2007, the amount incurred for coal and transportation services provided by HEC and its subsidiaries to the Company and its subsidiaries amounted to RMB2,907 million (2006: RMB924 million)*.

(j) For the year ended 31 December 2007, the amount incurred for coal purchased by the Company and its subsidiaries from Zhalainuoer Coal amounted to approximately RMB8.56 million (2006: Nil)*.

(k) For the year ended 31 December 2007, the amount of equipment purchased by the Company and its subsidiaries from HEC and its subsidiaries amounted to approximately RMB247.76 million (2006: RMB34.06 million)*.

(l) For the year ended 31 December 2007, the amount incurred for lime products purchased by the Company and its subsidiaries from Lime Company amounted to approximately RMB63.51 million (2006: RMB47.24 million)*.

(m) For the year ended 31 December 2007, the amount incurred for information and technology supporting services rendered by Xi'an Thermal and its subsidiaries to the Company and its subsidiaries amounted to approximately RMB144 million (2006: RMB104 million)*.

(n) In January 2007, the Company acquired from Huaneng Group 5% equity interest in Qinbei Power Company at a consideration of RMB65.75 million. This acquisition increased the Company's equity share in Qinbei Power Company to 60%.

(o) In December 2007, the Company acquired from HIPDC 60% equity interest in Nanjing Jinling Power Company with a consideration of RMB420 million.

(p) For the year ended 31 December 2007, the Company and its subsidiaries discounted approximately RMB350 million of notes receivable with Huaneng Finance and the related charge amounted to RMB4.67 million (2006: RMB114 million and RMB1.086 million, respectively).

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

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

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

(q) For the year ended 31 December 2007, the Company and its subsidiaries earned revenue amounting to RMB6,244,526 from substituted power arrangement from Baiyanghe Power Plant (2006: Nil); and earned revenue amounting to RMB23,064,744 from substituted power generating arrangement for Qufushengcheng Heat-Power Company (2006: Nil)*.

(r) For the year ended 31 December 2007, the Company and its subsidiaries paid RMB8.46 million (2006: RMB7.29 million) as the compensation for key management personnel.

* The amounts of related party transactions above have excluded VAT.

(6) Cash deposits in a related party

	31 December 2007	31 December 2006
Deposits in Huaneng Finance		
- Savings deposits	4,942,264,384	2,264,076,847

As at 31 December 2007, the annual interest rates for these savings deposits placed with Huaneng Finance ranged from 0.72% to 1.53% (31 December 2006: from 0.72% to 1.62%).

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

(7) Receivables from and payables to related parties

	31 December 2007		31 December 2006	
	Amount	Percentage attributable to related balance	Amount	Percentage attributable to related balance
Prepayments				
Prepayments to Xi'an Thermal and its subsidiaries	560,480	0.10%	620,500	0.16%
Accounts payable				
Payables to Lime Company	(8,169,658)	0.40%	(6,185,598)	0.48%
Payables to Xi'an Thermal and its subsidiaries	(4,239,601)	0.21%	(4,754,305)	0.37%
Payables to HEC and its subsidiaries	(261,207,610)	12.95%	(27,504,528)	2.13%
Payables to other subsidiaries of Huaneng Group	(3,278,000)	0.16%	—	—
Other payables				
Payables to HIPDC	(80,140,485)	1.41%	(79,730,462)	1.57%
Payables to other subsidiaries of HIPDC	—	—	(927,200)	0.02%
Payables to Huaneng Group	(189,963)	—	(44,591,698)	0.88%
Payables to Rizhao Power Company	(42,882)	—	(77,298,477)	1.52%
Payables to Hanfeng Power Company	(41,482)	—	(28,340)	—
Payables to other subsidiaries of Huaneng Group	—	—	(8,685,831)	0.17%
Payables to Xi'an Thermal and its subsidiaries	(28,043,212)	0.49%	(19,976,324)	0.39%
Payables to HEC and its subsidiaries	(6,353,796)	0.11%	(3,947,109)	0.08%
Interest payables				
Interest payables on loans from Huaneng Finance	(4,712,876)	2.60%	(7,592,431)	3.84%
Interest payables on loans from Huaneng Group	(2,894,072)	1.60%	(10,000,000)	5.06%
Other non-current liabilities				
Interest payables on loans from Huaneng Group	—	—	(32,553,304)	86.01%

The receivables and payables with related parties above were unsecured and non-interest bearing.

In addition, please refer to Notes 7(14) and (22) for loan balances borrowed from related parties.

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

(8) Related transactions and balances among the Company and its subsidiaries

(a) For the year ended 31 December 2007, the Company earned service fees amounting to RMB43,211,761 (2006: RMB40,160,633) from its subsidiaries.

(b) For the year ended 31 December 2007, the Company earned revenue amounting to RMB13,008,834 (2006: Nil) from its subsidiaries through substituted power generation.

(c) For the year ended 31 December 2007, the Company earned revenue amounting to RMB591,229,847 (2006: RMB155,209,661) from sales of fuel and materials to its subsidiaries.

(d) For the year ended 31 December 2007, the Company earned revenue amounting to RMB2,336,898 (2006: RMB1,024,617) from sales of heat to its subsidiaries.

(e) For the year ended 31 December 2007, the Company earned revenue amounting to RMB16,500,000 (2006: RMB44,483,397) from rendering repairs and maintenance services to its subsidiaries.

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

10. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Cont'd)*

(8) Related transactions and balances among the Company and its subsidiaries *(Cont'd)*

(f) Receivables from and payables to subsidiaries of the Company

	31 December 2007		31 December 2006	
	Amount	Percentage attributable to related balance	Amount	Percentage attributable to related balance
Other receivables				
Receivables from Weihai Power Company	2,615,304	0.83%	2,767,360	1.22%
Receivables from Yueyang Power Company	13,803,327	4.37%	18,093,173	7.99%
Receivables from Luohuang Power Company	14,098,167	4.46%	11,443,471	5.05%
Receivables from Taicang Power Company	—	—	1,326,092	0.59%
Receivables from Shanghai Combined Cycle Power Company	58,500	0.02%	30,500,000	13.47%
Receivables from Xindian II Power Company	65,585,079	20.76%	84,670,683	37.39%
Receivables from Nanjing Jinling Power Company	72,000,000	22.79%	—	—
Other payables				
Payables to Shanghai Combined Cycle Power Company	(570,482)	0.02%	(960,000)	0.05%
Payables to Huaiyin Power Company	(7,000)	—	—	—
Payables to Qinbei Power Company	(32,000)	—	—	—
Payables to Yushe Power Company	(17,882)	—	—	—
Payables to Xindian II Power Company	(140,000)	—	—	—
Payables to Taicang Power Company	(2,400)	—	—	—
Payables to Pinliang Power Company	(25,000)	—	—	—

The transactions and balances among the Company and its subsidiaries referred above were fully eliminated when preparing the consolidated financial statements of the Company and its subsidiaries.

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

11. CONTINGENT LIABILITY

Item	31 December 2007 The Company and its subsidiaries	31 December 2007 The Company
Guarantees on the long-term bank loans of Rizhao Power Company	86,062,500	86,062,500

Guarantees on the long-term bank loans of Rizhao Power Company by the Company had no significant financial impact on the operations of the Company.

12. COMMITMENTS

Commitments mainly relate to the construction of new power projects and renovation projects. Expenditure on construction projects and purchase of coal which were contracted but not provided for as at 31 December 2007 amounted to approximately RMB18.564 billion (31 December 2006: RMB17.605 billion).

In addition, from 2004 to 2006, the Company entered into various long-term agreements with its major coal suppliers for the procurement of coal from 2005 to 2009 for use in power generation. Such agreements are subject to termination only under certain limited circumstances. Most of the above-mentioned agreements contain provisions for price escalation and minimum purchase level clauses. The future purchase commitments under the above agreements are as follows:

	31 December 2007
2008	8,760,250,000
2009	7,808,250,000
	16,568,500,000

The Company entered into various operating lease arrangements for land and buildings. Total non-cancellable future minimum lease payments for these operating leases are as follows:

	31 December 2007	31 December 2006
Land and buildings		
Within 1 year	29,253,383	29,253,383
1-2 years	3,253,383	3,253,383
2-3 years	3,253,383	3,253,383
After 3 years	114,391,756	117,645,138
	150,151,905	153,405,287

12. COMMITMENTS *(Cont'd)*

In addition, in accordance with a 30-year operating lease agreement signed by Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phases I and II in June 1994, annual rental amounted to approximately RMB29,874,000 effective from June 1994 and is subject to revision at the end of the fifth year from the agreement 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% of last annual rental amount.

Nanjing Jinling Power Company entered into a Gas Purchase Agreement with PetroChina Company Limited ("PTR") on 29 December 2004 for 19 years. Pursuant to which Nanjing Jinling Power Company purchases gas from PTR from the date when it commenced commercial operations until 31 December 2023 ("Gas Supply Period"). According to the agreement, Nanjing Jinling Power Company is obligated to pay to PTR at least the amount worth of 486.9 million standard cubic meter of gas per annum from 2008 to the end of Gas Supply Period should there be no adjustment made on gas quantity and no force majeure occurred ("take or pay contract term"). The purchase price is negotiated annually between the contracting parties based on the latest ruling of the NDRC.

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

13. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(1) The reconciliation items to adjust the consolidated shareholders' equity as at 1 January 2006 and 31 December 2006 and the consolidated net profit of 2006 under Previous Accounting Standards and Accounting Systems to the consolidated shareholders' equity and consolidated net profit under Accounting Standards for Business Enterprises are as follows:

	1 January 2006 Shareholders' equity	31 December 2006 Shareholders' equity	2006 Net profit
The amount in accordance with Previous Accounting Standards and Accounting Systems	39,081,551,960	41,783,022,106	5,550,381,540
Investment differences of long-term equity investments			
– investment differences arising from business combinations under common control	(1,646,071,688)	(1,422,175,870)	223,895,818
Business combinations			
– carrying amount of goodwill arising from business combinations under common control	(29,546,356)	(25,072,072)	4,474,284
– carrying amount of negative goodwill arising from business combinations not under common control	1,236,391,816	989,113,454	(247,278,362)
Financial assets at fair value through profit or loss and available-for-sale financial assets	749,369,049	1,322,649,519	146,661,121
Income tax expense	(216,658,217)	(167,560,535)	113,286,034
Including: deferred income tax assets	113,374,781	208,748,723	95,373,942
deferred income tax liabilities	(330,032,998)	(376,309,258)	17,912,092
Effect of full retrospective adjustments to long-term investment acquired not under common control	105,276,603	237,474,699	132,198,096
Shares of minority interests on the above-mentioned items	36,134,126	36,740,898	606,772
The balance of minority interests under previous Accounting Standards and Accounting Systems transferred to shareholder's equity under Accounting Standards for Business Enterprises	4,934,649,003	6,062,766,865	895,038,223
Total of first time adoption adjustments	5,169,544,336	7,033,936,958	1,268,881,986
The amount in accordance with Accounting Standards for Business Enterprises	44,251,096,296	48,816,959,064	6,819,263,526
Effect on shareholders' equity/net profit due to business combination under common control	325,000,000	582,000,000	—
Total shareholders' equity/net profit	44,576,096,296	49,398,959,064	6,819,263,526

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

13. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES *(Cont'd)*

(2) If assuming 1 January 2006 being the date of first time adoption and the Company and its subsidiaries fully adopt Accounting Standards for Business Enterprises, the reconciliation items for which the above restated 2006 net profit based on Accounting Standards for Business Enterprises being adjusted to 2006 pro forma net profit if Accounting Standards for Business Enterprises are fully adopted on 1 January 2006 are as follows:

	2006
The amount restated in accordance with Accounting Standards for Business Enterprises	6,819,263,526
Capitalization of borrowing costs on general borrowings	196,826,772
Others	64,096,716
Impact on minority interests	27,752,054
The pro forma net profit as if Accounting Standards for Business Enterprises were fully adopted from 1 January 2006	7,107,939,068

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

13. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES *(Cont'd)*

The Company and its subsidiaries first adopted the Accounting Standards for Business Enterprises on 1 January 2007 and disclosed the retrospectively adjusted shareholders' equity as at 1 January 2007 in accordance with Accounting Standards for Business Enterprises in the reconciliation of consolidated shareholders' equity on the differences between new and old accounting standards in the 2006 annual report. When preparing these financial statements, the Company and its subsidiaries performed reviews on the carrying amounts of related assets, liabilities and shareholers' equity on the date of first time adoption based on the requirements of "Interpretation of Accounting Standards for Business Enterprises No. 1", and revised the shareholders' equity as at 1 January 2007 as follows:

	Disclosed amount in 2007 annual report	Disclosed amount in 2006 annual report	Difference	Explanation
The amount in accordance with Previous Accounting Standards and Accounting Systems	41,783,022,106	41,783,022,106	—	
Investment differences of long-term equity investments – investment differences arising from business combinations under common control	(1,422,175,870)	(1,422,175,870)	—	
Business combinations – carrying amount of goodwill arising from business combinations under common control	(25,072,072)	(25,072,072)	—	
– carrying amount of negative goodwill arising from business combinations not under common control	989,113,454	989,113,454	—	
Financial assets at fair value through profit or loss and available-for-sale financial assets	1,322,649,519	1,322,649,519	—	
Income tax expense	(167,560,535)	(167,560,535)	—	
Including: deferred income tax assets	208,748,723	208,748,723	—	
deferred income tax liabilities	(376,309,258)	(376,309,258)	—	
Effect of full retrospective adjustments to long-term investment acquired not under common control	237,474,699	—	237,474,699	(a)
Shares of minority interests on the above-mentioned items	36,740,898	36,740,898	—	
The balance of minority interests under previous Accounting Standards and Accounting Systems transferred to shareholder's equity under Accounting Standards for Business Enterprises	6,062,766,865	6,062,766,865	—	
Total of first time adoption adjustments	7,033,936,958	6,796,462,259		
The amount in accordance with Accounting Standards for Business Enterprises	48,816,959,064	48,579,484,365		

For The Year Ended 31 December 2007
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

13. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES *(Cont'd)*

(a) In accordance with Accounting Standards for Business Enterprises No. 20 – Business Combinations, the acquirer measures both the acquisition costs and net identifiable assets acquired at their fair values on the acquisition date in a business combination not under common control. The excess of the acquisition costs over the acquirer's proportionate share of fair values of the net identifiable assets acquired on the acquisition date is recognized as goodwill. Meanwhile, in accordance with Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments, if initial investment cost exceeds the proportionate share of fair value net of identifiable assets of the investees on acquisition date, the initial investment cost is not adjusted. In accordance with the above standards, the Company retrospectively adjusted the net identifiable assets of subsidiaries acquired not under common control to their fair value on acquisition date, and adjusted the original cost of goodwill and related amortization. In addition, the Company retrospectively adjusted the post-investment accumulated profit and loss movement of the investees on the basis of fair value of net identifiable assets acquired on the investment date.

14. NET PROFIT AFTER DEDUCTING NON-RECURRING ITEMS

	2007	2006
Net profit	6,417,605,258	6,819,263,526
Add: pre-tax (gain)/loss on disposals of non-current assets	(770,620,474)	104,763,374
Less: other pre-tax non-operating income/expenses, net	(21,938,351)	(9,869,209)
Income tax impact on non-recurring items above	106,716,571	(762,184)
Net profit and loss of subsidiary acquired from business combination under common control from the beginning of earliest period presented to the acquisition date	(94,600,836)	–
Net profit after deducting non-recurring items	5,637,162,168	6,913,395,507

Basis of preparing breakdown of non-recurring items

In accordance with "Q & A on Disclosures of Information of public listed companies No. 01 - non-recurring items", non-recurring items refer to those transactions or events from which are not directly related to business operations or those which are related to business operation but affect the presentation of the daily operations and profitability of the Company as a result of their nature, amount or frequency.

IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") ON NET PROFIT AND NET ASSETS

The financial statements, which are prepared by the Company and its subsidiaries in conformity with the Accounting Standards for Business Enterprises ("PRC GAAP"), differ in certain respects from that of IFRS. Major impact of IFRS on the net profit and net assets of the Company and its subsidiaries, are summarized as follows:

	Net Profit	
	2007	2006 (Note 1)
	RMB	RMB (Restated)
Consolidated net profit under PRC GAAP	6,417,605,258	6,819,263,526
Impact of IFRS adjustments:		
Effect of recording the amounts received in advance (a)	363,330,716	(11,423,779)
Difference in the recognition of housing benefits to the employees of the Company and its subsidiaries (b)	(38,966,944)	(36,568,905)
Difference in borrowing costs capitalized in previous years and related depreciation (c)	(28,522,635)	220,444,505
Differences in accounting treatment on business combinations under common control (d)	(94,600,836)	—
Difference in depreciation and amortization of assets acquired in business combinations under common control (d)	(287,403,083)	(329,039,674)
Effect of recording the deemed disposal of 11% equity interest in Sichuan Hydropower (d)	17,864,278	—
Applicable deferred income tax impact of the above GAAP differences (e)	111,155,578	118,124,442
Others	20,568,720	108,273,603
Profit under IFRS	6,481,031,052	6,889,073,718

IMPACT OF IFRS ON NET PROFIT AND NET ASSETS *(Cont'd)*

	Net Assets	
	31 December 2007	31 December 2006 (Note 1)
	RMB	RMB (Restated)
Net assets under PRC GAAP	50,765,743,689	49,398,959,064
Impact of IFRS adjustments:		
Effect of recording the amounts received in advance (a)	(844,445,071)	(1,207,775,787)
Difference in the recognition of housing benefits to the employees of the Company and its subsidiaries (b)	(47,627,149)	(8,660,205)
Difference in borrowing costs capitalized in previous years (c)	464,433,007	500,608,621
Differences in accounting treatment on business combinations under common control (d)	2,977,546,675	3,098,622,392
Difference in depreciation and amortization of assets acquired in business combinations under common control (d)	(1,045,985,225)	(848,257,949)
Effect of recording the deemed disposal of 11% equity interest in Sichuan Hydropower (d)	(76,975,874)	—
Applicable deferred income tax impact of the above GAAP differences (e)	68,356,013	(244,477,122)
Others	(181,404,098)	(80,326,643)
Net assets under IFRS	52,079,641,967	50,608,692,371

Note 1: *The Company and its subsidiaries restate the comparative figures for the year ended 31 December 2006 and as at 31 December 2006 as a result of the first time adoption of the Accounting Standards for Business Enterprises.*

IMPACT OF IFRS ON NET PROFIT AND NET ASSETS *(Cont'd)*

(a) Effect of recording the amounts received in advance

In accordance with the tariff setting mechanism applicable to certain power plants of the Company, certain power plants of the Company receive advanced payments in the previous years (calculated at 1% of the cost of fixed assets) as the major repairs and maintenance cost of these power plants. Such receipts in advance are recognized as liabilities under IFRS and are recognized as revenue when the repairs and maintenance is performed and the liabilities extinguished. In accordance with PRC GAAP, when preparing the financial statements, revenue is computed based on actual power sold and the tariff currently set by the government, no such amounts are recorded.

(b) Difference in the recognition of housing benefits to the employees of the Company and its subsidiaries

The Company and its subsidiaries once provided staff quarters to the employees of the Company and its subsidiaries and sold such staff quarters to the employees of the Company and its subsidiaries at preferential prices set by the local housing reform office. Difference between cost of the staff quarters and proceeds from the employees represented the housing losses, and was borne by the Company and its subsidiaries.

When preparing financial statements under PRC GAAP, in accordance with the relevant regulations issued by the Ministry of Finance, such housing losses incurred by the Company and its subsidiaries are fully charged to non-operating expenses as incurred. Under IFRS, such housing losses incurred by the Company and its subsidiaries are recognized on a straight-line basis over the estimated remaining average service lives of the employees.

(c) Effect of capitalization of borrowing costs

In previous years, under Previous Accounting Standards and Accounting System ("Previous PRC GAAP"), the scope of capitalization of borrowing costs was limited to specific borrowings, and thus, borrowing costs arising from general borrowings were not capitalized. In accordance with IFRS, the Company and its subsidiaries capitalized borrowing costs on general borrowing used for the purpose of obtaining qualifying assets in addition to the capitalization of borrowing costs on specific borrowings. From 1 January 2007 onwards, the Company and its subsidiaries adopted the PRC GAAP No. 17 prospectively, the adjustments for the current year represent the related depreciation on capitalized borrowing costs included in the cost of related assets under IFRS in previous years.

IMPACT OF IFRS ON NET PROFIT AND NET ASSETS *(Cont'd)*

(d) Differences in accounting treatment on business combinations under common control

Huaneng Group is the parent company of HIPDC, which in turn is also the ultimate parent of the Company. The Company once carried out a series of acquisitions from Huaneng Group and HIPDC. As the acquired power plants and companies and the Company and its subsidiaries were under common control of Huaneng Group before the acquisitions, such acquisitions are regarded as business combinations under common control.

In accordance with PRC GAAP, the assets and liabilities acquired in business combinations under common control are measured at the carrying amounts of the acquirees on the acquisition date. The difference between carrying amounts of the net assets acquired and the consideration paid is adjusted to equity account of the acquirer. The transaction costs directly attributable to the business combinations incurred by the acquirer are recorded in the profit and loss account as incurred. The operating results for all years presented are retrospectively restated as if the current structure and operations resulting from the acquisition had been in existence since the beginning of the earliest year presented, with financial data of previously separate entities consolidated. The cash consideration paid by the Company is treated as an equity transaction in the year of acquisition.

For the business combination occurred before 1 January 2007, in accordance with previous PRC GAAP, when equity interests acquired is less than 100%, the assets and liabilities of the acquirees are measured at their carrying amounts. The excess of consideration over the proportionate share of the carrying amounts of the net assets acquired was recorded as equity investment difference and amortized on a straight-line basis for not more than 10 years. When acquiring the entire equity, the entire assets and liabilities are accounted for in a method similar to purchase accounting. Goodwill arising from such transactions is amortized over the estimated useful lives on a straight-line basis. The transaction costs incurred were recorded in profit and loss account as incurred. On 1 January 2007, in accordance with PRC GAAP, the unamortized equity investment differences and goodwill arising from business combinations under common control were written off against undistributed profits.

Under IFRS, the Company and its subsidiaries adopted the purchase method to account for the above acquisitions. The assets and liabilities acquired in acquisitions were recorded at fair value by the acquirer. Direct transaction costs incurred by the acquirer were included in the acquisition cost. The excess of acquisition cost over the proportionate share of fair value of net identifiable assets acquired was recorded as goodwill. Goodwill is not amortized but is tested annually for impairment and carried at cost less accumulated impairment losses. The operating results of the acquirees are consolidated in the operating results of the Company and its subsidiaries from the acquisition dates onwards.

As mentioned above, the differences in accounting treatment under PRC GAAP and IFRS on business combinations under common control affect both equity and profit. Meanwhile, due to different measurement basis of the assets acquired, depreciation and amortization in the period subsequent to the acquisition will be affected which will also give different result on equity and profit or loss upon subsequent disposals of such investments.

(e) Deferred income tax impact on GAAP differences

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