Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on 30th June, 1994. As at 31st December, 2000, the Company had 5,602 employees (1999: 5,485 employees). The Company currently owns and operates nine power plants, which are all located in various provinces of the PRC. The Company's power plants are principally engaged in the generation and sale of electric power to the respective regional or provincial power companies.

Particulars of Company's power plants are as follows:

Operating Plants	**Total installed capacity (MW)**	**Province/ Municipality located**
Five original operating plants:		
Huaneng Dalian Power Plant (the "Dalian Power Plant")	700	Liaoning
Huaneng Shangan Power Plant (the "Shangan Power Plant")	700	Hebei
Huaneng Nantong Power Plant (the "Nantong Power Plant")	700	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	Fujian
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	100	Guangdong
New operating plants:		
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")	600	Guangdong
Huaneng Shangan Power Plant Phase II (the "Shangan Phase II")	600	Hebei
Huaneng Shanghai Shidongkou Second Power Plant (the "Shanghai Power Plant")	1,200	Shanghai
Huaneng Dalian Power Plant Phase II (the "Dalian Phase II")	700	Liaoning
Huaneng Dandong Power Plant (the "Dandong Power Plant")	700	Liaoning
Huaneng Nantong Power Plant Phase II (the "Nantong Phase II")	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II")	700	Fujian
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	600	Jiangsu

The Dalian Phase II, Dandong Power Plant, Nantong Phase II and Fuzhou Phase II were placed into commercial service during 1999. The Company also acquired the Nanjing Power Plant from HIPDC and Nanjing Investment Company ("Nanjing Investment") in 1999 (See Note 5(d)). These new power plants increased the total installation capacity of the Company to 8,700MW as at 31st December, 2000.

The parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group Corporation ("China Huaneng Group") respectively. Both companies are incorporated in the PRC.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company are as follows:

a. General

The accompanying financial statements are prepared in accordance with International Accounting Standards ("IAS") formulated by the International Accounting Standards Committee ("IASC").

b. Basis of presentation

The accompanying financial statements are prepared under the historical cost convention.

c. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The cost of additions to, and replacements or betterment of, units of property, plant and equipment is capitalized. The cost of routine maintenance, repairs and replacements of minor items of property is charged to repair and maintenance expenses when incurred.

When assets are sold or retired, their costs and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	22 years
Electric utility plant in service	8-27 years
Transportation facilities	13-27 years
Others	6-13 years

Amortization of land use rights is calculated on a straight-line basis over the relevant land use rights period starting from the commencement of operations of the related power plants. The remaining amortization periods for the land use rights ranged from 43 to 48 years.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

c. Property, Plant and Equipment *(Cont'd)*

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

d. Long-term Investments

Investments held for long term are stated at cost less any impairment in value and are included in other long-term assets. An assessment of long-term investments is performed when there is an indication that the asset has been impaired.

Upon disposal of a long-term investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

e. Cash and Cash Equivalents

Cash includes cash on hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

f. Temporary Cash Investments

Temporary cash investments are cash invested in fixed-term deposits with original maturities ranging from more than three months to one year.

g. Materials and Supplies

Materials and supplies are stated at the lower of weighted average costs and net realizable values after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate. Cost of materials and supplies includes direct material cost and transportation expenses incurred in bringing the materials and supplies to the working locations.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

h. Convertible Notes

The proceeds received on the issue of the convertible notes were allocated into liability and equity components. The liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issue of the notes.

As further discussed in Note 16, the convertible notes were issued at par with a put option allowing the investors to redeem the notes at a premium for cash at 128.575% of the par value on 21st May, 2002. Accordingly, a liability is accrued for the "put premium" over the period from the issuance date of the notes to the exercise date of the put option. The equivalent amount was either charged to the income statement or capitalized in the construction-in-progress, depending on the usage of proceeds.

On 21st May, 2002, if the put option is not exercised, the accrued put premium will be credited to additional paid-in capital if the market value of the American Depositary Share ("ADS") that could be converted at that time exceeds the put price, or will be amortized on a straight-line basis over the remaining term of the notes if the market value of the ADS that could be converted at that time is lower than the put price.

i. Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

j. Foreign Currency Translation

The Company maintains its books and records in Renminbi ("Rmb"). Transactions in other currencies are translated into Rmb at the applicable exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into Rmb using the applicable PBOC exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods, other than those capitalized as a component of borrowing cost, are recognized in the income statement in the period in which they arise.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

k. 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 the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial power companies (net of Value Added Tax ("VAT")), less sales incentive fees paid to the power companies as an incentive to dispatch electricity in excess of the annual minimum offtake. Revenues are earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective power companies.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis that takes into account the effective yield on the assets.

l. Fuel Expenses

Fossil fuel inventories are stated at the lower of moving weighted average costs (net of VAT) and net realizable value and are charged to fuel expenses based on actual inventory usage. Changes in the level of fuel expenses can be recovered or adjusted through increases or decreases in power rates in accordance with the rate-setting mechanism.

m. Repair and Maintenance Expenses

Major repairs and maintenance determined on the basis of 1% of the fixed asset cost is allowed as an expense recoverable through power rates. The Company estimates that, over the useful life of its power plants, this basis would approximate the total expenses for major repair and maintenance actually incurred. In a particular year, to the extent that the actual repair and maintenance expenses incurred is less than the amount determined on the above basis, the difference represents revenue collected in excess of actual expenses incurred. Such difference is recorded as a regulatory liability.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

n. Operating Leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessors are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

o. Borrowing Costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

p. Taxation

(i) VAT

Under the relevant tax laws implemented on 1st January, 1994, the Company is subject to VAT. The Company is subject to output VAT levied at 17% of the Company's operating revenue. The input VAT paid on purchases of coal, water and materials can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because the VAT is a tax on the customer and the Company collects such tax from the customers and pays such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenues or operating expenses.

(ii) Income Tax

Prior to 1st January, 1999, pursuant to the income tax laws of the PRC, Sino-foreign joint stock companies are in general subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes). For enterprises located in specially designated regions or cities, or specially approved by the National Tax Bureau, lower tax rates apply. Income tax is computed based on taxable income as reported in the statutory financial statements adjusted for income and expense items which are not assessable or deductible for income tax purposes.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

p. Taxation *(Cont'd)*

(ii) Income Tax *(Cont'd)*

Effective from 1st January 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, the reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country.

All power plants are exempted from PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

The tax holiday of the five original operating plants and the Shanghai Power Plant had already expired prior to 1999. The tax holiday of the remaining operating plants will expire in 2001 to 2003.

The adjusted statutory income tax rates applicable to the head office and the individual power plants, after taking the effect of tax holiday into consideration are summarized below:

	2000	1999
Head Office	**15.0%**	15.0%
Dalian Power Plant (including Dalian Phase II)	**15.0%**	15.0%
Shangan Power Plant	**16.5%**	16.5%
Shangan Phase II	**Exempted***	Exempted*
Nantong Power Plant (including Nantong Phase II)	**15.0%**	15.0%
Fuzhou Power Plant (including Fuzhou Phase II)	**15.0%**	15.0%
Shantou Oil-Fired Plant	**15.0%**	15.0%
Shantou Power Plant	**7.5%**	Exempted
Shanghai Power Plant	**16.5%**	16.5%
Nanjing Power Plant	**7.5%**	7.5%
Dandong Power Plant	**Not applicable**	Not applicable

* In accordance with Guo Shui Han [2000] No. 194, the tax holiday of the Shangan Phase II is determined separately from the Shangan Power Plant. The Shangan Phase II is entitled to the tax holiday starting from the first profit making year (after covering any accumulated deficits). The excess income tax paid by the Shangan Phase II for the year ended 31st December, 1999 was refunded to the Company in 2000.