HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Company Organization and Principal Activities

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. Currently, the Company and its subsidiaries own and operate twelve power plants, which are located in various provinces of the PRC.

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

2. Acquisition of Shandong Huaneng

On 18th July, 2000, the Company and Shandong Huaneng Power Development Co., Ltd. ("Shandong Huaneng") entered into an agreement under which the Company acquired the net assets of Shandong Huaneng. The shareholders of Shandong Huaneng were entitled to Rmb1.34 per ordinary A share or USD0.1618 per ordinary N share (the "Acquisition"). The total consideration of the Acquisition is approximately Rmb5,768 million paid in cash.

Before the Acquisition, Shandong Huaneng owned and operated the net assets of Dezhou Power Plant and held 60%, 75% and 25.5% equity interests in Weihai Power Plant, Jining Power Plant and Rizhao Power Plant, respectively. These power plants own coal-fired power generating facilities in the Shandong province and sell all the power generated to Shandong Electric Power Group Corporation. After obtaining all the necessary government approvals on the Acquisition, the Company took over the control of the net assets and operation of Shandong Huaneng from 1st January, 2001.

The acquired identifiable assets and liabilities are recorded based on their respective fair values on 1st January, 2001. The Company estimated that the fair value of the net identifiable assets and liabilities of Shandong Huaneng on that date to be approximately Rmb8,272 million. Such estimation was made by the Company based on the current information available, taking into consideration the recoverability and realizability of each asset and liability. The Company may adjust these fair values estimates, after taking into account the possible industry regulatory reform and other matters, unless they relate to specific events or changes in circumstances occurring after the date of acquisition. On the above basis, the resulting negative goodwill amounted to approximately Rmb2,473 million, which is amortized over the remaining weighted average useful life of identifiable acquired depreciable/amortizable assets (ie.10 years) on the straight-line basis, starting from 1st January, 2001.

2. **Acquisition of Shandong Huaneng** *(Cont'd)*

The fair values of the identifiable assets and liabilities of Shandong Huaneng as at 1st January, 2001 based on management current assessment are as follows:

	Rmb'000
Cash and cash equivalents	2,602,934
Short-term investments	1,513,976
Account receivables	167,324
Materials and supplies	68,460
Other receivables and assets	202,154
Property, plant and equipment, net	5,444,755
Other long-term assets	324,457
Total assets	10,324,060
Current liabilities	(703,697)
Long-term loans	(1,348,024)
Total liabilities	(2,051,721)
Fair values of net assets	8,272,339
Less: Total consideration of the Acquisition	(5,767,898)
Direct costs relating to the Acquisition	(31,657)
Negative goodwill	2,472,784

Summarized unaudited financial information of the above acquired business was as follows:

	As at 30th June, 2001
	Rmb'000
Balance sheet	
Current assets	2,218,128
Total assets	11,418,688
Current Liabilities	2,753,878
Total liabilities	3,582,646

	For the six months ended 30th June, 2001
	Rmb'000
Income statement	
Operating revenue, net	1,707,042
Operating expenses	1,156,797
Net Profit	480,502

3. Principal Accounting Policies

The accompanying condensed consolidated financial statements are prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Committee and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted for the preparation of the condensed financial statements as at and for the six months ended 30th June, 2001 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31st December, 2000, except that financial instruments are recognized and measured in accordance with IAS 39, which is effective from 1st January, 2001.

In accordance with IAS 39, after initial recognition of a financial asset or financial liability at cost, the Company and its subsidiaries measure each major class of the financial instruments at either the reliable fair value or amortized cost. Regular way purchases and sales of financial assets are accounted for at trade date.

Short-term investments, which represent quoted debt securities, are classified as financial assets held-for-trading. Their fair value is determined based on quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair value subsequent to initial recognition are included in net profit or loss for the period. For the six months ended 30th June, 2001, gain or loss arising from change in the fair value of securities held-for-trading was not material.

Derivatives instruments are recorded as either assets or liabilities in the balance sheet at fair value, which is determined based on appropriate valuation model using assumptions that are based on market conditions prevailing at each balance sheet date. Changes in the fair value of derivatives are recorded each period in current earnings or recognized directly in equity through the statement of changes in shareholder's equity, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction.

The financial effects of adopting IAS 39 did not have a significant impact on the opening balances to these condensed financial statements.

4. Principles of Consolidation

The accompanying condensed consolidated financial statements of the Company and its subsidiaries include Huaneng Power International, Inc. and the companies that it controls. This control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Details of the consolidated subsidiaries as at 30th June, 2001 were as follow:

Name of subsidiaries	Country and date of incorporation	Company's equity interest	Registered capital	Principal activities
Weihai Power Plant	PRC 22nd November, 1993	60%	Rmb761,832,800	Power generation
Jining Power Plant	PRC 19th February, 1990	75%	Rmb383,010,000	Power generation

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the period are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

4. Principles of Consolidation *(Cont'd)*

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where a significant influence is exercised by the Company are accounted for by using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the investee incurs losses, the Company recognizes its share of losses until the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued, unless the Company has incurred obligations to the associated company or to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. To the extent that the Company has incurred such obligations, it continues to recognize its share of losses of the investee.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated upon consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

5. Accounting Policies on Goodwill

The excess of the Company's interest in the fair value of the net identifiable assets acquired as at the date of the exchange transaction over the cost of an acquisition is recorded as negative goodwill.

In addition to the purchase consideration, direct costs relating to the acquisition incurred by the Company is included in the cost of acquisition. These include the costs of registering and professional fees paid to accountants, legal advisers, valuers and other consultants to effect the acquisition. General administrative costs, which cannot be directly attributed to the particular acquisition being accounted for, are not included in the cost of the acquisition but are recognized as an expense as incurred.

The amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognized in the income statement as other income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets, which is estimated to be 10 years.

6. Accounts Receivable

The Company and its subsidiaries usually grant one-month credit period to all the local power companies from the end of the month in which the sales are made. As at 30th June, 2001, all accounts receivable were aged within one year.

7. Appropriation and Distribution of Profit

For the six months ended 30th June, 2001, 10% and 7.5% of the after-tax profits, as reflected in the Company's statutory financial statements prepared under PRC GAAP, have been appropriated to the statutory surplus reserve fund and the statutory public welfare fund, respectively. The appropriations for the statutory surplus reserve fund and the statutory public welfare fund are reflected in the balance sheet under shareholders' equity as dedicated capital.

8. **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities comprised:

	As at 30th June, 2001	
	The Company and its subsidiaries	The Company
	Rmb'000	Rmb'000
Accounts payable	1,027,439	999,083
Accrued liabilities	1,898,688	1,772,857
	2,926,127	2,771,940

As at 30th June, 2001, the aging analysis of accounts payable were as follows:

	As at 30th June, 2001	
	The Company and its subsidiaries	The Company
	Rmb'000	Rmb'000
Within one year	434,480	416,616
Between one to two years	135,737	125,245
Over two years	457,222	457,222
	1,027,439	999,083

9. **Additional Financial information on Balance Sheet**

As at 30th June, 2001, the net current liabilities of the Company and its subsidiaries and that of the Company amounted to approximately Rmb119 million and Rmb61 million, respectively. On the same date, the total assets less current liabilities of the Company and its subsidiaries and that of the Company were approximately Rmb36,272 million and Rmb34,998 million, respectively.

10. **Sales of Electric Power**

Operating revenue represents amounts billed for electricity generated and transmitted to the ultimate consumers through the respective regional or provincial power companies (net of Value Added Tax ("VAT")). Revenues are billed and recognized upon transmission of electricity to the power grid controlled and owned by the respective power companies and include billings for generation through the end of each month.