Supplemental Information for North American Shareholders

The accounting policies adopted by the Company and its subsidiaries conform to IFRS which differ in certain respects from generally accepted accounting principles in the United States of America ("US GAAP"). The principal differences having a significant effect on its financial statements are set out below.

a. Housing Benefits Provided by HIPDC

HIPDC provided housing benefits to certain qualified employees of the Company whereby the living quarters owned by HIPDC were sold to these employees at preferential prices. Under IFRS, such housing benefits provided by HIPDC are not reflected in the financial statements of the Company. Under US GAAP, the amount of housing benefits provided by HIPDC to the employees of the Company are recognized as the Company's operating expenses on a straight-line basis over the estimated remaining average service life of the employees. The corresponding amount is recorded as a capital contribution.

b. Effect of the Difference in the Amount of Negative Goodwill

China Huaneng Group is the controlling parent company of HIPDC, which in turn is the controlling parent of the Company. China Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng, holding 33.09% equity interest in it before the Acquisition. Under US GAAP, upon completion of the Acquisition, China Huaneng Group's proportionate share in the net assets of Shandong Huaneng being transferred to the Company is recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration is recorded as capital contribution to the Company. After the Acquisition, the book value of the power plants of Shandong Huaneng continue to be the recoverable rate base under the cost recovery formula of the tariff setting mechanism. Accordingly, in accordance with US regulatory accounting requirements, the book value of the remaining 66.91% of the net assets is effectively equal to fair value. The difference between these net asset values and the cash consideration is recorded as a negative goodwill and not taken into consideration when determining rate base in the tariff setting procedures. Under IFRS, upon the completion of the Acquisition, the entire net assets of Shandong Huaneng are recorded at fair value. The excess of the fair value of the entire net assets acquired over the total cost of the Acquisition is recorded as negative goodwill.

The movement of the carrying amount of negative goodwill under US GAAP during 2001 was as follows:

	Rmb'000
Beginning of year	—
Addition	1,609,862
Amortization during the year	(160,188)
End of year	1,449,674

c. Convertible Notes

In accordance with IFRS 39, which is effective on 1st January, 2001, the put option of the convertible notes, which allows the noteholders to redeem the convertible notes at a premium, is separated from the host contract and accounted for as an embedded derivative. This put option is measured at its fair value after initial recognition with changes in the fair value charged/credited to income statement. When IFRS 39 is initially applied in 2001, the difference between the previous carrying amount and the fair value of the put option was recognized as an adjustment to the opening retained earnings as at 1st January, 2001. In addition, the liability component is measured at amortized cost and the resulting difference with the previous carrying amount was recognized as an adjustment to opening retained earnings as at 1st January, 2001.

Under US GAAP, the entire proceeds of the issue of convertible notes as described in Note 21 are recorded as liabilities without distinguishing between the equity and liability components.

In addition, under US GAAP, it is permitted not to account separately for the put option, which represents a derivative embedded in pre-1998 hybrid instrument. The Company continues to accrue for the put premium liability together with the interest payable on the notes using the effective interest rate of 6.66% under US GAAP.

d. US Regulatory Accounting

Statement of Financial Accounting Standard Number 71 "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71") is applicable to utilities in the United States whose regulators have the power to approve and/or regulate rates that may be charged to customers. SFAS 71 recognizes that the regulatory process produces economic effects which should be reflected in the financial statements. Because revenues are based on costs, SFAS 71 governs the period in which various costs are included in the income statements with the objective of matching costs with revenues. Provided that, through the rate setting process, the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. The regulatory process may also impose a liability on a rate-regulated enterprise, usually representing obligations to the enterprise's customers, which should be recognized as regulatory liability.

In order to apply SFAS 71, three criteria must be met. These criteria require that a) the power rates for regulated services or products provided to customers be established by or are subject to approval by an independent, third-party regulator or by an entity's own governing board empowered by statute or contract to establish power rates that bind customers; b) the regulated power rates are designed to recover the costs of providing the regulated services or products; and c) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that power rates set at levels that will recover costs can be charged to and collected from customers; this criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. The Company and its subsidiaries believe these criteria have been met. Firstly, its power rates are established by an independent regulator, the provincial or local price bureau. Further, the pricing policy applicable to the Company and its subsidiaries provides for rate-setting based on the specific costs of the Company and its subsidiaries. This process has operated historically and will continue under the pricing policy. Finally, based on the significant demand for electricity in its service territory, it is reasonable to assume that the authorized power rates will be collected from customers.

Under IFRS, as there is no equivalent regulatory accounting standard, the Company's and its subsidiaries' policy is to recognize regulatory assets established under SFAS 71 only where they comprise rights or other access to future economic benefits as a result of past events; or to recognize regulatory liabilities only where they comprise a present obligation the settlement of which is expected to result in an outflow of resources embodying economic benefits.

For the year ended 31st December, 2001, there was no material difference in the recognition of regulatory assets and liabilities between IFRS and US GAAP.

e. Impairment of Long-lived Assets

The carrying amount of fixed assets under IFRS is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the asset discounted to their present value or the asset's net selling price. A subsequent increase in the recoverable amount is written back to the income statement when circumstances and events that led to the write-down cease to exist.

Under US GAAP, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Subsequent reversal of impairment is not permitted. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

For the year ended 31st December, 2001, no differences arose in respect of the timing and the amount of impairment in long-lived assets recognized.

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

		Net income For the year ended 31st December,	
	Note	**2001**	2000
		Rmb'000	Rmb'000
Balance under IFRS		**3,450,658**	2,515,830
Impact of US GAAP adjustments:			
Recording of housing benefits provided by HIPDC	*(a)*	**(26,152)**	(26,152)
Effect of the difference in negative goodwill under US GAAP	*(b)*	**(87,091)**	—
Balance under US GAAP		**3,337,415**	2,489,678
Basic earnings per ordinary share under US GAAP(Rmb) (i)		**0.59**	0.44
Basic earnings per equivalent ADS under US GAAP(Rmb) (i)		**23.45**	17.63
Diluted earnings per ordinary share under US GAAP(Rmb) (i)		**0.58**	0.44
Diluted earnings per equivalent ADS under US GAAP(Rmb) (i)		**23.07**	17.52

(i) Earning per ordinary shares and per equivalent ADS were calculated by dividing the net income for the financial year under US GAAP by the weighted average number of ordinary shares and ADS in issue during the financial year. On a diluted basis, both net income for the financial year and the weighted average number of ordinary shares and ADS outstanding for the financial year were adjusted on the assumption that the convertible notes had been fully converted at the beginning of the year.

		Equity	
		As at 31st December,	
		2001	2000
		Rmb '000	Rmb '000
Balance under IFRS		**28,293,530**	23,779,735
Impact of US GAAP adjustments:			
Recording of capital contribution arising from acquisition of Shandong Huaneng	(b)	**862,922**	—
Effect of the difference in negative goodwill under US GAAP	(b)	**(87,091)**	—
Reversal of equity component of convertible notes	(c)	**(510,506)**	(510,506)
Reversal of adjustment to opening retained earnings arising from adoption of IFRS 39	(c)	**463,921**	—
Balance under US GAAP		**29,022,776**	23,269,229

In preparing the summary of difference between IFRS and US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates have been employed in these financial statements to determine reported amounts, including realizability, useful lives of assets and other areas. Actual results could differ from those estimates.

Pro Forma Results of Operation

As if the acquisition of Shandong Huaneng had been completed on 1st January, 2000, the unaudited pro forma combined net operating revenue and net profit of the Company and Shandong Huaneng for the year ended 31st December, 2000 were Rmb15,453 million and Rmb3,174 million, respectively and the unaudited pro forma basic earnings per share of the Company for the year ended 31st December, 2000 was Rmb0.56. The unaudited pro forma information do not purport to represent what the results of operations would actually have been if the acquisition of Shandong Huaneng had been completed as of the assumed date or to project the results of operations of any future date. Pro forma operating results are for information purpose only.

Reclassifications

The reconciliation of net income and shareholders' equity from IFRS to US GAAP as presented above include those items which have a net effect on net income or shareholders' equity. There are no other major GAAP differences not included in the reconciliation which would affect the classification of assets and liabilities or income and expenses.

Cash Flow Statement

The Company and its subsidiaries adopt IFRS 7 "Cash Flow Statements". Its objectives and principles are similar to those set out in the Statement of Financial Accounting Standard Number 95 "Statement of Cash Flows". There is no material difference in the cash flow statements of the Company and its subsidiaries between these two standards for the year ended 31st December, 2001.

Statement of Comprehensive Income

Under US GAAP, certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. However, for the year ended 31st December, 2001, apart from the net income, there was no other comprehensive income which should be included in the statement of comprehensive income.

New Accounting Pronouncement

During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, Business Combination ("SFAS 141"), Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), Statement of Financial Accounting Standards No.143, Accounting for Asset Retirement Obligations ("SFAS 143") and Statement of Financial Accounting Standard No.144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144").

(i) SFAS 141 addresses financial accounting and reporting for business combinations and requires that the purchase method of accounting to be used for all business combinations initiated after 30th June, 2001.

(ii) SFAS 142 changes the existing accounting treatment of goodwill and other intangible assets whereby these assets will no longer be systematically amortized, but instead will be reviewed for impairment each year and written down and charged to results of operations when their carrying amount exceeds their estimated fair value.

(iii) SFAS 143 addresses financial accounting and reporting for obligations assocated with the retirement of tangible long-lived assets and the associated asset retirement costs.

(iv) SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The changes in SFAS 144 improve financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. SFAS 144 also resolved significant implementation issues related to impairment.

SFAS 141, SFAS 142, SFAS 143 and SFAS 144 are effective for fiscal years beginning after 15th December, 2002. The Company has not completed its assessment of the effects of adopting these new accounting pronouncements.