Supplemental Information for North American Shareholders

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

		Equity	
	Note	As at 30th June, 2002	As at 31st December, 2001
		Rmb'000	*Rmb'000*
Equity under IAS		28,270,807	28,293,530
Impact of US GAAP adjustments:			
Recording of capital contribution arising from acquisition of Shandong Huaneng	(b)	862,922	862,922
Adjustments on negative goodwill			
- Difference in amortization of negative goodwill	(c)	(210,730)	(87,091)
- Effect of the adoption of SFAS 141 and SFAS 142	(d)	1,449,673	—
Adjustments on convertible notes			
- Reversal of equity component of the convertible notes	(e)	(510,506)	(510,506)
- Reversal of adjustment relating to the convertible notes arising from the initial adoption of IAS 39	(e)	463,921	463,921
- Difference in accounting treatment of put premium relating to the convertible notes	(e)	(9,567)	—
Difference in capitalization of borrowing costs	(f)	(83,981)	—
Applicable deferred tax impact of the above GAAP differences	(g)	(301,004)	—
Equity under US GAAP		29,931,535	29,022,776

Supplemental Information for North American Shareholders *(Cont'd)*

		Net Profit	
		For the six months ended 30th June,	
	Note	2002	2001
		Rmb'000	*Rmb'000*
Net profit under IAS		1,777,277	1,558,315
Impact of US GAAP adjustments:			
Recording housing benefits provided by HIPDC	(a)	(13,076)	(13,076)
Difference in amortization of negative goodwill	(c)	(123,639)	(43,545)
Difference in accounting treatment of put premium relating to the convertible notes	(e)	(9,567)	—
Difference in capitalization of borrowing costs	(f)	(83,981)	—
Applicable deferred tax impact of the above GAAP differences	(g)	32,822	—
Income before cumulative effect of a change in accounting principle under US GAAP		1,579,836	1,501,694
Cumulative effect of a change in accounting principle relating to the adoption of SFAS 141 and SFAS 142	(d)	1,449,673	—
Related deferred tax impact	(d)	(333,826)	—
Net profit under US GAAP		2,695,683	1,501,694
Basic earnings per share under US GAAP (Rmb):			
Income before cumulative effect of a change in accounting principle under US GAAP		0.26	0.25
Cumulative effect of a change in accounting principle relating to the adoption of SFAS 141 and SFAS 142, net of tax		0.19	—
Net profit under US GAAP		0.45	0.25
Fully diluted earnings per share under US GAAP (Rmb):			
Income before cumulative effect of a change in accounting principle under US GAAP		0.26	0.25
Cumulative effect of a change in accounting principle relating to the adoption of SFAS 141 and SFAS 142, net of tax		0.18	—
Net profit under US GAAP		0.44	0.25

(a) Housing Benefits Provided by HIPDC

HIPDC sold to certain qualified employees of the Company living quarters owned by HIPDC at preferential prices. The difference between the cost of living quarters and the sales proceeds received from the employees is considered as housing benefits. Under IAS, such housing benefits provided by HIPDC are not reflected in the condensed 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 from HIPDC.

(b) Amount of Negative Goodwill Upon Acquisition of Shandong Huaneng

Huaneng Group is the controlling parent company of HIPDC, which in turn is the controlling parent of the Company. Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng Power Development Co., Limited ("Shandong Huaneng"), holding 33.09% equity interest in it before the Company's acquisition of Shandong Huaneng ("Acquisition of Shandong Huaneng"). Under IAS, upon the completion of the Acquisition of Shandong Huaneng, 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. Under US GAAP, upon completion of the Acquisition of Shandong Huaneng, Huaneng Group's proportionate share in the net assets of Shandong Huaneng being transferred to the Company was recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration was recorded as capital contribution to the Company.

In accordance with US regulatory accounting requirements, after the Acquisition of Shandong Huaneng, 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. 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.

(c) Amortization of Negative Goodwill

In 2001, under US GAAP and IAS, the respective amounts of negative goodwill as determined on the basis as described in (b) above were recognized as income on a systematic basis over the remaining weighted average useful life of the acquired depreciable or amortizable assets. As the amounts of negative goodwill under IAS and US GAAP were different, the respective amounts recognized as income were also different.

In 2002, the amount of negative goodwill determined under IAS continued to be amortized on the same basis as described above. Under US GAAP, there was no amortization of negative goodwill after the adoption of SFAS 141 and SFAS 142 (see (d) below).

(d) Effect of the adoption of SFAS 141 and SFAS 142

Under US GAAP, upon the initial adoption of SFAS No. 141 "Business Combination" and SFAS No. 142 "Goodwill and Other Intangible Assets" on 1st January, 2002, the carrying amount of the negative goodwill determined under US GAAP as described in (b) above, net of deferred tax, was written off and recognized as the cumulative effect of a change in accounting principle.

Supplemental Information for North American Shareholders *(Cont'd)*

(e) Accounting Treatment of Convertible Notes

Under IAS, the proceeds received on the issue of the convertible notes were allocated into liability and equity components. Upon initial recognition, the liability component represented 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 was then determined by deducting the liability component from the proceeds received on the issue of the notes. Under US GAAP, the entire proceeds of the issue of convertible notes were recorded as long-term liabilities without distinguishing between the equity and liability components.

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

Under US GAAP, it is permitted not to measure the put option separately at its fair value, as it represents a derivative embedded in pre-1998 hybrid instrument. The Company continued to accrue for the put premium liability together with the interest payable on the notes using effective interest rate of 6.66% up to the redemption date of 21st May, 2002. As described in note 7 to the condensed consolidated financial statements, a portion of the convertible notes was not redeemed by the noteholders on 21st May, 2002. Under US GAAP, the relevant portion of the accrued put premium attributable to the remaining convertible notes not redeemed was amortized as a yield adjustment over the remaining term of the convertible notes because the put price exceeded the market value of the ordinary shares of the Company at the time of the redemption.

(f) Capitalization of Borrowing Costs

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

Under US regulatory accounting requirements, interests on funds borrowed generally and used for the purpose of obtaining a qualifying assets were not capitalized if such interests were not taken into consideration when determining the recoverable rate base for tariff setting purposes.

(g) Deferred Tax Impact

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