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INTERIM RESULTS

The Board of Directors of Huaneng Power International, Inc. (the “Company”) is pleased to announce the unaudited operating results for the six months period ended 30th June, 2003 (the “Accounting Period”) and a comparison with the operating results for the same period of 2002. For the six months period ended 30th June, 2003, the Company recorded net operating revenue of Rmb10.514 billion and net profit of Rmb2.285 billion, representing increases of 33.75% and 28.58% respectively as compared to the same period of 2002. Earnings per share was Rmbo.38 and net asset value per share was Rmb5.11.

The Board of Directors is satisfied with the above results. Please refer to the unaudited financial information below for details of the operating results.

BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

During the first half of 2003, the PRC’s national economy continued to maintain rapid and steady growth, which led to a rapid increase in power demand. The rapid growth in national power consumption created a favourable market environment for the growth of the Company’s power generation. This is the first year after the implementation of power industry’s reform. The separation of power plants from power grids and the establishment of the five large power generation groups provided the Company with a market platform for fair competition, together with new opportunities for the Company’s future development. The management and all the staff of the Company made great efforts to seize the favourable opportunities of market upturn and to strengthen the operation and management, thus overcoming adverse factors including decrease in power tariffs, and achieving satisfactory results.

1. Power Generation

During the first half of this year, the power plants of the Company achieved power generation totaling 41.079 billion kWh on a consolidation basis, representing an increase of 39.67% over the same period of last year. The growth of power generation was mainly attributable to the power generation contributed by the four power plants acquired in 2002 and by the newly operated generating units 5 and 6 of Dezhou Power Plant. On the other hand, the continued rapid growth of power consumption in the regions where the Company’s power plants are located also provided favourable conditions for the Company to increase its power generation.

The Company considers safe operation being fundamental to its operation and sticks to the policy of “ensuring safe operation being the Company’s first priority by way of prevention”. During the first half year, the power plants of the Company reinforced the management to improve the safety level of the generating units so as to ensure their safe operation under increasing power demand.

In line with enhancement of safe operation, the Company has made rationalised arrangements for the maintenance of its generating units, thus enhancing their reliability and controllability, and improving their environmental protection performance.

2. Cost Control

In order to effectively control the fuel cost, the Company continued to strengthen its management of coal procurement and transportation, which proved to be fruitful. The average unit cost for power sold of the Company for the first half of the year was decreased by 2.19% compared to the same period of last year.

3. Project Development and Construction

The two environmentally friendly 135MW coal-fired generating units (Units 5 and 6) of Jining Power Plant expansion project (using Cycled Fluidized Bed Combustion Boilers) have completed their 168 hours full-loaded trial runs on 11th July, and 5th August, 2003, respectively and the generating unit 5 has commenced commercial operation.

In addition, the two gas-fired generation projects in Shanghai and Jinling and the expansion projects of Huaiyin Power Plant Phase II and Shantou Power Plant Phase II as well as Zhejiang Yuhuan Power Plant have made progress on their preliminary work.

4. Asset Acquisition

- (a) On 28th January, 2003, the Company entered into an agreement with Shenzhen Energy Group Co. Ltd. ("SEG") and Shenzhen Investment Holding Corporation ("SIH") to acquire a 25% equity interest of the enlarged share capital of SEG. The transaction was completed. As at the date hereof, the Company and SIH hold 25% and 75%, respectively, of the enlarged share capital of SEG. The transaction enlarged the Company's market share in Guangdong Province, in particular Shenzhen Municipality, an area with rapid economic growth and substantial power demand.
- (b) Following our overall development strategy, the Company entered into a transfer agreement with China Huaneng Group on 5th June, 2003 for transferring China Huaneng Group's equity interests in Henan Huaneng Qinbei Power Generation Limited Liability Company, Shanxi Huaneng Yushe Power Limited Liability Company and the entire assets and liabilities of China Huaneng Group Xindian Power Plant. The acquisition and the connected transactions ancillary thereto were approved by the shareholders at the extraordinary general meeting on 22nd July, 2003, now pending approvals from the relevant governmental authorities. The Company believes that such acquisition will bring increase in earnings per share for the Company.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the second half of year 2003, increasing power demand will put a lot of pressure on the power supply, and the power industry reform will be further deepened. The management of the Company will continue to put optimisation of shareholders' interests as its operation objective and targets, seizing the opportunities and overcoming the difficulties. Accordingly, the management and all the staff of the Company will make joint efforts to ensure the achievement of the annual targets in terms of generation and operation as well as other aspects. The main tasks for the second half of the year include:

1. to ensure safe operation of all power plants and to maintain the Company's leadership positions in respect of safe operation and in respect of the advantage and reliability of the Company's generating units;
2. to strengthen internal management and cost controls: focusing on fuel costs control, limiting the increase range of unit fuel costs;
3. to reinforce the Company's sales and marketing efforts to capture more market shares and to enhance the average settlement level of power tariffs, while further improving the analysis on power pooling in order to maximise the benefits of power sale by competitive bidding;
4. to ensure the smooth commencement of the project of Huaiyin Power Plant Phase II, and to continue to actively carry out the preparation work of other proposed projects;
5. to improve the quality of the staff by strengthening staff training.

OPERATING RESULTS

Comparison of operating results between the six months ended 30th June, 2003 and 30th June, 2002 (amounts expressed in Rmb unless otherwise stated).

Summary

For the first half of 2003, the demand and supply of electricity were generally balanced, with the overall demand and supply situation tended to be on the tight side. SARS did not have any significant impact on the growth of the power generation market. Both power generation and consumption maintained a fast rate of growth. During the first half of 2003, the power generation of the Company and its subsidiaries increased by 39.67% from 29.411 billion kWh to 41.079 billion kWh, when compared to the same period of last year. The increase was mainly attributed to:

- (1) Generation contribution from Shidongkou First Power Plant, Changxing Power Plant, Taicang Power Plant and Huaiyin Power Plant (the “Four Power Plants”) acquired by the Company in the second half of 2002;
- (2) The stable generation capacity of the newly operated generating units No.5 and No.6 of Dezhou Power Plant;
- (3) The power demand at the various regions where the Company’s power plants are located increased in the first half of 2003, which resulted in higher power generation for these power plants.

On 22nd April, 2003, the Company paid a consideration of Rmb2.39 billion to acquire a 25% equity interest of the enlarged share capital of SEG. From the effective acquisition date to 30th June, 2003, the Company’s share of the profit of SEG amounted to approximately Rmb53 million.

Net Operating Revenue

Net operating revenue represented the operating revenue net of value-added tax and deferred revenue. For the six months period ended 30th June, 2003, the consolidated net operating revenue of the Company and its subsidiaries was Rmb10.514 billion, representing an increase of 33.75% over the net operating revenue of Rmb7.861 billion of the same period of last year. Deferred revenue represents the excess of the major repair and maintenance expenses determined on the basis of 1% of the fixed asset cost recoverable through the tariff setting process over the major repair and maintenance expenses actually incurred. Because the excess of repair and maintenance expenses had been recovered through the tariff but not yet incurred, the Company had recorded such excess as deferred revenue and deducted the same amount from the major repair and maintenance expenses (i.e. the major repair and maintenance expenses were recorded as operating expenses based on the amount actually incurred).

The increase of net operating revenue was primarily a result of the 39.56% increase of power sold over the same period of last year. Dezhou Power Plant, Dalian Power Plant and Dandong Power Plant contributed most of the increase in net operating revenue. The substantial increase of the operating revenue in Dezhou Power Plant was mainly due to the fact that Dezhou Power Plant Phase III began its commercial operation in the second half of 2002. Its power output was increased by 74.88% over the same period of last year. The increase of operating revenue in Dalian Power Plant and Dandong Power Plant was primarily due to the increase of their on-grid power generation.

Operating Expenses

The total operating expenses of the Company and its subsidiaries increased by 36.51% to Rmb7.426 billion over the same period of last year.

The most significant operating expense of the Company and its subsidiaries was fuel cost. The average unit price of natural coal decreased by Rmbo.23 to Rmb237.78 per ton from Rmb238.01 per ton in the same period of last year. Excluding the Changxing Power Plant, Shidongkou First Power Plant, Taicang Power Plant and Huaiyin Power Plant acquired in the second half of 2002, the average unit price of natural coal decreased by Rmb5.37 per ton.

Financial Expenses

The financial expenses of the Company and its subsidiaries increased by 41.83% to Rmb284 million from Rmb200 million of the same period of last year. The increase was primarily due to the inclusion of financial expenses of the Four Power Plants acquired in the second half of 2002.

Income Tax

There is no change in the preferential income tax treatment applied to the Company and its subsidiaries. In the first half of 2003, the average effective tax rate for the Company and its subsidiaries was 18%.

Net Profit

The consolidated net profit of the Company and its subsidiaries increased by 28.58% to Rmb2.285 billion from Rmb1.777 billion of the same period of last year. The increase was mainly a result of the increase of power generation, effective cost control measures and the investment income from the SEG.

Comparison of Key Financial Ratios

	The Company and its subsidiaries	
	30th June, 2003	31st December, 2002
Ratio of liabilities and shareholders' equity	0.51	0.56
Current ratio	0.74	1.00
Quick ratio	0.62	0.88
	For the six months ended 30th June, 2003	For the six months ended 30th June, 2002
Multiples of interest earned	10.10	6.66

The operating results of the Company and its subsidiaries in the first half of 2003 reflected the enhancement of its competitiveness, earning ability and capital structure. The current ratio and quick ratio of the Company and its subsidiaries decreased because of the payment of the acquisition consideration of SEG, which decreased the cash balance but improved the overall earnings ability. The increase in multiples of interest earned is mainly due to the increase of the consolidated net profit.

As at 30th June, 2003, the total balance of interest-bearing loans of the Company and its subsidiaries amounted to approximately Rmb11.063 billion, of which Rmb3.0 billion was repayable within one year. The loans denominated in foreign currencies were United State dollar loans, which amounted to approximately US\$985 million, of which US\$263 million was repayable within one year. As at 30th June, 2003, the outstanding convertible notes balance amounted to US\$110,300.

Most of the long-term loans of the Company and its subsidiaries were fixed-rate loans. As at 30th June, 2003, the balance of the floating-rate loans of the Company and its subsidiaries, in accordance with the original loan agreements amounted to approximately US\$350 million. The Company and its subsidiaries made use of interest rate swap contracts, when appropriate, to manage the risk of interest rate fluctuations.

Calculation formula of the financial ratio:

Ratio of liabilities to shareholders' equity = balance of liabilities at the end of the period/ balance of shareholders' equity at the end of the period

Current ratio = balance of current assets at the end of the period/ balance of current liabilities at the end of the period

Quick ratio = (balance of current assets at the end of the period - net amount of inventory at the end of the period)/ balance of current liabilities at the end of the period

Multiples of interest earned = (profit before tax + interest expenses)/ interest expenditure (including capitalized interest)

SHARE CAPITAL STRUCTURE

As at 30th June, 2003, the entire issued share capital of the Company, excluding the shares which might be converted from the convertible notes, amounted to 6,027,671,200 shares, of which 4,500,000,000 shares were domestic shares, representing 74.66% of the entire issued share capital, and 1,527,671,200 shares were foreign shares, representing 25.34% of the entire issued share capital. In respect of domestic shares, Huaneng International Power Development Corporation ("HIPDC") owns a total of 2,554,840,000 shares, representing 42.39% of the entire issued share capital of the Company. Other domestic shareholders hold a total of 1,945,160,000 shares, representing 32.27% of the entire issued share capital.

The US\$230 million convertible notes issued by the Company are convertible into foreign shares of the Company at a price of US\$29.2 for each American Depository Share on or before 21st May, 2004. As stipulated in the terms of the notes, the Company issued 27,397,240 overseas listed shares of the Company to a noteholder as conversion of US\$20,000,000 convertible notes on 24th April, 2003. As at 30th June, 2003, there were outstanding notes with a face value of US\$115,000. Assuming such portion of the convertible notes was fully converted into foreign shares of the Company, the total issued share capital of the Company would increase by approximately 157,520 foreign shares.

PURCHASE, SALE OR REDEMPTION OF SHARES

According to the terms as stipulated in the convertible notes issued by the Company and at the application of a noteholder, the Company issued 27,397,240 overseas listed shares to a noteholder as a conversion of US\$20,000,000 convertible notes on 24th April, 2003. Save and except for the above, the Company did not sell any other types of securities and did not purchase or redeem its own shares or other securities in the first half of 2003.

SHAREHOLDING STRUCTURE

As at 30th June, 2003, the shareholding position of the Company was as follows:

	Total Shareholdings	Percentage of total shares outstanding
	(in '000)	(%)
Domestic Shares		
Huaneng International Power Development Corporation	2,554,840	42.39
Hebei Provincial Construction Investment Company	452,250	7.50
Fujian International Trust & Investment Company Limited	334,850	5.56
Jiangsu International Trust & Investment Company Limited	312,375	5.18
Liaoning Energy Corporation	229,685	3.81
Dalian Municipal Construction Investment Company	226,125	3.75
Nantong Investment Management Centre	67,875	1.12
Shantou Electric Power Development Company	46,500	0.77
Shantou Power Development Joint Stock Company Limited	19,000	0.32
Dandong Energy Investment Development Centre	6,500	0.11
Public Shares	250,000	4.15
Sub-total	4,500,000	74.66
Overseas Listed Foreign Shares	1,527,671	25.34
TOTAL	6,027,671	100.00

Save as disclosed below and so far as the Directors, chief executive officer and Supervisors of the Company are aware, as at 30th June, 2003, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the Securities and Futures Ordinance ("SFO"), or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or which was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company.

Shares held/Approximate shareholding percentage

Name of shareholder	Shares	Number of shares held	Interest	Approximate	Approximate percentage of shareholding in the Company's total issued domestic shares	Short position
			Approximate percentage of shareholding in the Company's total issued share capital	percentage of shareholding in the Company's total issued H shares		
Huaneng International Power Development Corporation (Note 1)	domestic shares	2,554,840,000	42.39%	56.77%	—	—
Hebei Provincial Construction Investment Company	domestic shares	452,250,000	7.50%	10.05%	—	—
Fujian International Trust & Investment Company	domestic shares	334,850,000	5.56%	7.44%	—	—
Jiangsu Province International Trust & Investment Company	domestic shares	312,375,000	5.18%	6.94%	—	—
Liaoning Energy Corporation	domestic shares	229,685,000	3.81%	5.10%	—	—
The Hongkong and Shanghai Banking Corporation Ltd. (Note 2)	H shares	522,753,293	8.67%	—	34.22%	—
Standard Chartered Bank (Note 2)	H shares	452,674,882	7.51%	—	29.63%	—
Citibank N.A. (Note 2)	H shares	98,828,903	1.64%	—	6.47%	—

Note 1: As at 30th June, 2003, China Huaneng Group holds 51.98% of the equity interest in Huaneng International Power Development Corporation.

Note 2: Such H shares were held through HKSCC Nominees Limited.

DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

As at 30th June, 2003, none of the Directors, chief executive officer or Supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise 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 Companies as contained in Appendix 10 to the Listing Rules.

DIVIDENDS

It was resolved by the Board of Directors not to distribute any interim dividends for 2003.

MAJOR EVENTS

1. On 28th January, 2003, the Company entered into an agreement with SEG and SIH to acquire a 25% equity interest of the enlarged share capital of SEG. The transaction was completed. As at the date hereof, the Company and SIH hold 25% and 75%, respectively, of the enlarged share capital of SEG. The transaction enlarged the Company's market share in Guangdong Province, in particular Shenzhen Municipality, an area with rapid economic growth and substantial power demand.
2. Following our overall development strategy, the Company entered into a transfer agreement with China Huaneng Group on 5th June, 2003 for transferring China Huaneng Group's equity interests in Henan Huaneng Qinbei Power Generation Limited Liability Company, Shanxi Huaneng Yushe Power Limited Liability Company and the entire assets and liabilities of China Huaneng Group Xindian Power Plant. The acquisition and the connected transactions ancillary thereto were approved by the shareholders at the extraordinary general meeting on 22nd July, 2003, now pending approvals from the relevant governmental authorities. The Company believes that such acquisition will bring about increase in earnings per share for the Company.
3. According to the terms of the convertible notes issued by the Company and at the application of a noteholder, the Company issued 27,397,240 overseas listed shares as conversion of US\$20,000,000 convertible notes to a noteholder on 24th April, 2003. The total share capital of the Company increased to 6,027,671,200 shares.

CODE OF BEST PRACTICE

Throughout the Accounting Period, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, with written terms of reference, for the purpose of reviewing and providing supervision over the financial report process and internal control system of the Company. The audit committee comprises five members, among whom two are non-executive directors and three are independent directors.

LEGAL PROCEEDINGS

As at 30th June, 2003, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Company is aware of.

DOCUMENTS FOR INSPECTION

This interim report will be published on the Hong Kong Stock Exchange's website. Besides, the Company will also file the interim report in Form 6-K with the US Securities and Exchange Commission. Copies of this report will be available at the following addresses:

PRC

Huaneng Power International, Inc.
West Wing, Building C
Tianyin Mansion
2C Fuxingmennan Street
Xicheng District
Beijing
People's Republic of China

Telephone Number: (8610) 6649 1999
Fax Number: (8610) 6649 1860
Postal code: 100031
Website of the Company <http://www.hpi.com.cn>

Hong Kong

Rikes Communications Limited
Room 701, Wanchai Central Building
89 Lockhart Road
Wanchai
Hong Kong

Telephone No: (852) 2520 2201
Fax No: (852) 2520 2241

By Order of the Board

Li Xiaopeng

Chairman

Beijing, the PRC
6th August, 2003

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

AS AT 30TH JUNE, 2003

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	Note	As at 30th June, 2003	As at 31st December, 2002
ASSETS			
Non-current assets			
Property, plant and equipment, net		39,582,291	41,103,468
Investment in associates		2,656,942	200,960
Available-for-sale investments		254,990	254,990
Other long-term assets		1,054,040	1,067,838
Goodwill		130,847	126,560
Less: Negative goodwill		(1,854,588)	(1,978,227)
Total non-current assets		41,824,522	40,775,589
Current assets			
Inventories, net		925,284	923,341
Other receivables and assets, net		247,223	242,905
Accounts receivable	5	2,411,838	2,361,833
Restricted cash		11,870	13,259
Temporary cash investments	19	934,252	1,141,502
Cash and cash equivalents	19	1,011,849	3,002,601
Due from Huaneng Group	19	8,324	—
Total current assets		5,550,640	7,685,441
Total assets		47,375,162	48,461,030
EQUITY AND LIABILITIES			
Shareholders' equity			
4,250,000,000 PRC Domestic Shares, par value Rmb1.00 each, in form of legal person shares		4,250,000	4,250,000
250,000,000 A shares, par value Rmb1.00 each		250,000	250,000
1,527,671,200 (2002:1,500,273,960) Overseas Listed Foreign Shares, par value Rmb 1.00 each		1,527,671	1,500,274
Additional paid-in capital		10,780,133	10,604,843
Dedicated capital	6	3,373,423	3,373,423
Equity component of convertible notes	9	255	44,647
Retained earnings		10,628,670	10,392,873
Total shareholders' equity		30,810,152	30,416,060
Minority interests		857,711	910,704

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) (Cont'd)

AS AT 30TH JUNE, 2003

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	Note	As at 30th June, 2003	As at 31st December, 2002
Non-current liabilities			
Liability component of convertible notes	9	—	155,999
Long-term loans from shareholders	19	194,460	388,891
Long-term bank loans		7,477,104	8,464,521
Other long-term loans		391,389	331,389
Other financial liabilities	17	13,322	19,397
Deferred tax liabilities		112,492	121,853
Total non-current liabilities		8,188,767	9,482,050
Current liabilities			
Accounts payable and other liabilities	7	3,527,392	3,734,350
Taxes payable		652,942	620,189
Due to HIPDC	19	34,560	100,475
Staff welfare and bonus payable		241,154	233,566
Short-term loans		200,000	550,000
Current portion of long-term loans from shareholders	19	388,896	388,891
Current portion of long-term bank loans		2,060,638	1,928,732
Current portion of other long-term loans		349,953	96,013
Liability component of convertible notes	9	913	—
Dividend payable	8	62,084	—
Total current liabilities		7,518,532	7,652,216
Total equity and liabilities		47,375,162	48,461,030

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with International Financial Reporting Standards)

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

	Note	For the six months ended 30th June,	
		2003	2002
Operating revenue, net	11	10,514,107	7,861,204
Operating expenses:			
Fuel		(4,031,851)	(2,862,970)
Maintenance		(309,316)	(268,548)
Depreciation		(2,046,390)	(1,579,206)
Labor		(676,911)	(433,642)
Transmission fees		(24,876)	(11,906)
Service fees to HIPDC		(105,220)	(143,703)
Others		(231,819)	(140,105)
Total operating expenses		(7,426,383)	(5,440,080)
Profit from operation		3,087,724	2,421,124
Interest income		32,329	73,021
Interest expense		(305,968)	(266,684)
Bank charges and exchange losses, net		(10,439)	(6,625)
Total financial expenses		(284,078)	(200,288)
Share of profit (loss) of associates		62,897	(16,935)
Gain from disposal of investments		10,168	—
Other income, net	12	10,035	—
Profit before tax	13	2,886,746	2,203,901
Income tax expenses			
The Company and its subsidiaries	14	(512,522)	(381,966)
Associates		(11,476)	—
Total income tax expenses		(523,998)	(381,966)
Profit before minority interests		2,362,748	1,821,935
Minority interests		(77,543)	(44,658)
Net profit attributable to shareholders		2,285,205	1,777,277
Basic earnings per share (Rmb)	16	0.38	0.30
Diluted earnings per share (Rmb)	16	0.38	0.29

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	Share Capital	Additional paid-in capital	Dedicated capital	Equity component of convertible notes	Retained earnings	Total
Balance at 1st January, 2003	6,000,274	10,604,843	3,373,423	44,647	10,392,873	30,416,060
Dividends relating to 2002 (Note 15)	—	—	—	—	(2,049,408)	(2,049,408)
Net profit for the six months ended 30th June, 2003	—	—	—	—	2,285,205	2,285,205
Conversion of convertible notes to share capital (Note 9)	27,397	175,290	—	(44,392)	—	158,295
Balance at 30th June, 2003	6,027,671	10,780,133	3,373,423	255	10,628,670	30,810,152
Balance at 1st January, 2002	6,000,000	10,137,732	2,659,012	510,506	8,986,280	28,293,530
Dividends relating to 2001	—	—	—	—	(1,800,000)	(1,800,000)
Net profit for the six months ended 30th June, 2002	—	—	—	—	1,777,277	1,777,277
Transfer to dedicated capital	—	—	318,656	—	(318,656)	—
Redemption of convertible notes (Note 9)	—	465,416	—	(465,416)	—	—
Balance at 30th June, 2002	6,000,000	10,603,148	2,977,668	45,090	8,644,901	28,270,807

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	For the six months ended 30th June,	
	2003	2002
Net cash provided by operating activities	4,241,240	3,131,758
Net cash (used in) provided by investing activities	(3,012,632)	4,252,632
Net cash used in financing activities	(3,219,360)	(5,826,019)
Net (decrease) increase in cash and cash equivalents	(1,990,752)	1,558,371
Cash and cash equivalents, beginning of period	3,002,601	2,173,136
Cash and cash equivalents, end of period	1,011,849	3,731,507

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(Prepared in accordance with International Financial Reporting Standards)

(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. Currently, the Company and its subsidiaries own and operate sixteen 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 Shenzhen Energy Group Co., Ltd. (“SEG”)

During the period, the Company entered into an agreement with Shenzhen Investment Holding Corporation (“SIH”) and SEG to acquire 25% equity interest of SEG’s enlarged share capital at a total consideration of Rmb 2,390 million. The acquisition became effective on 22nd April, 2003 when the Company obtained all necessary government approvals on the transaction and made payment of the purchase consideration. Direct costs relating to the acquisition amounted to approximately Rmb15 million and was capitalized as part of investment cost. The resulting goodwill on the acquisition is estimated to be approximately Rmb840 million, which is amortized over its estimated useful life on straight-line basis.

3. Principal Accounting Policies

The accompanying condensed consolidated financial statements have not been audited but have been reviewed by the Audit Committee. These financial statements are prepared in accordance with International Accounting Standard 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, 2003 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31st December, 2002.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. List of Subsidiaries

Details of the subsidiaries of the Company as at 30th June, 2003 were as follow:

Name of subsidiaries	Country and dates of incorporation	Registered capital	Company's equity interest	Principal activities
Huaneng Weihai Power Plant (the "Weihai Power Plant")	PRC 22nd November, 1993	Rmb761,832,800	60%	Power generation
Suzhou Industrial Park Huaneng Power Limited Company (the "Taicang Power Company")	PRC 19th June, 1997	Rmb632,840,000	75%	Power generation
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company")	PRC 26th January, 1995	Rmb265,000,000	63.64%	Power generation

5. 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, 2003, the aging analysis of accounts receivable was as follows:

	As at 30th June, 2003	As at 31st December, 2002
	'000	'000
Within one year	2,398,168	2,357,213
Between one to two years	13,670	4,620
	2,411,838	2,361,833

6. Appropriations and Distribution of Profit

For the six months ended 30th June, 2003, the Company and its subsidiaries did not provide statutory surplus reserve fund and statutory public welfare fund.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

7. Accounts Payables and Other Liabilities

Account payables and other liabilities comprized:

	As at 30th June, 2003	As at 31st December, 2002
	'000	'000
Accounts payable	550,387	471,609
Other payables and accrued liabilities	2,977,005	3,262,741
	3,527,392	3,734,350

As at 30th June, 2003, the aging analysis of accounts payable was as follows:

	As at 30th June, 2003	As at 31st December, 2002
	'000	'000
Within one year	542,395	465,624
Between one to two years	4,262	3,395
Over two years	3,730	2,590
	550,387	471,609

8. Dividend Payable

	As at 30th June, 2003
	'000
Dividend payable to shareholders of the Company	15,816
Dividend payable to minority shareholders of the subsidiaries	46,268
	62,084

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

9. Convertible Notes

In May, 1997, the Company issued at par value convertible notes with an aggregate principal amount of US\$230 million at 1.75% due 2004. The notes mature on 21st May, 2004, unless previously redeemed or converted.

- (i) On 21st May, 2002, the noteholders, by exercising their put option rights, redeemed a substantial portion of the convertible notes with an aggregate principal amount of US\$209,685,000, at 128.575% of the principal amount together with accrued interest. Upon the redemption, the equity component attributable to the redeemed portion of the convertible notes amounting to approximately Rmb465 million was transferred to additional paid-in capital. The net shortfall of approximately Rmb42 million between (a) the sum of the relevant principal amount plus accrued interest and the 28.575% put premium settled upon redemption and (b) the sum of the amortized cost of the liability component attributable to the redeemed portion of the convertible notes and the total carrying amount of the put option value as at 21st May, 2002, was charged to the statement of income as interest expense.
- (ii) The noteholders converted the convertible notes with principal of US\$20 million to 684,931 American Depository Share ("ADS") (27,397,240 H shares equivalent) during the six months ended 30th June, 2003. Upon the conversion, the equity component attributable to the converted portion of the convertible notes amounting to Rmb44 million was transferred to additional paid-in capital.

10. Additional Financial Information on Balance Sheet

As at 30th June, 2003, the net current liabilities of the Company and its subsidiaries amounted to approximately Rmb1,968 million (31st December, 2002: net current assets of approximately Rmb33 million). On the same date, the total assets less current liabilities of the Company and its subsidiaries were approximately Rmb39,857 million (31st December, 2002: Rmb40,809 million).

11. 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") and deferred revenue). Revenues are earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective power companies. Deferred revenue represents the excess of the major repair and maintenance expenses determined on the basis of 1% of the fixed assets cost recoverable through the tariff setting process over the major repair and maintenance expenses actually incurred.

12. Other Income, Net

On 6th November, 2002, the Company entered into a management service agreement with China Huaneng Group Corporation ("Huaneng Group") and Huaneng International Power Development Corporation ("HIPDC"). Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC and earns a service fee. Net other income represented the management service fee income net of relevant expenses.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

13. Profit Before Tax

Profit before tax in the condensed consolidated statement of income was determined after charging and (crediting) the following items:

	For the six months ended 30th June,	
	2003	2002
	'000	'000
Total interest charges on borrowings	316,096	371,121
Less: Capitalized in property, plant and equipment	(10,128)	(104,437)
Total interest expense	305,968	266,684
Depreciation of property, plant and equipment	2,046,390	1,579,206
Amortization of goodwill	24,995	—
Amortization of other long-term assets	27,572	7,736
Gain of interest rate swaps	(4,207)	(3,563)
Amortization of negative goodwill	(123,639)	(123,639)
Interest income	(32,329)	(73,021)

14. Taxation

Certain of the power plants, being located in specially designated regions or cities, are subject to preferential income tax rates. In addition, certain power plants are exempted from the PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% exemption of the applicable tax rate for the next three years ("tax holiday"). For the six months ended 30th June, 2003, the weighted average effective tax rate applicable to the Company is 18% (for the six months ended 30th June, 2002: 17%).

As at 30th June, 2003, the Company and its subsidiaries had not received any notification from the relevant tax authorities in respect of material change of the present tax rates applicable to the Company and its subsidiaries, except for Fuzhou Power Plant Phase II ("Fuzhou Phase II"), which received an approval from Fujian National Tax Bureau (Min Guo Shui Han [2003] No.37) on 27th January, 2003. In accordance with the approval, the Fuzhou Phase II was allowed to enjoy a 50% reduction of enterprise income tax ("EIT") for three years from 1st January, 2002. The Company is negotiating with the Fujian National Tax Bureau on implementation of such tax holiday for the year ended 31st December, 2002.

As at 31st December, 2002, Shanghai Shidongkou Power Limited Company (the "Shidongkou First Power Plant") had been restructured into a branch of the Company. Accordingly, Shidongkou First Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises and it is applying to the local tax bureau for such preferential tax treatment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

*(Amounts expressed in Rmb unless otherwise stated)***15. Dividends Declared**

On 28th May, 2003, the shareholders approved the declaration of dividends of Rmb0.34 per share, totaling Rmb2,049 million in respect of the year ended 31st December, 2002 in their annual general meeting. As at 30th June, 2003, dividends of approximately Rmb2,034 million had been paid.

16. Earnings Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately Rmb2,285 million (for the six months ended 30th June, 2002: Rmb1,777 million) and the weighted average number of 6,011 million (for the six months ended 30th June, 2002: 6,000 million) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders of Rmb2,288 million (for the six months ended 30th June, 2002: Rmb1,813 million) and the adjusted weighted average number of 6,028 million (for the six months ended 30th June, 2002: 6,251 million) ordinary shares in issue during the period. The calculation assumes that the convertible notes had been fully converted at the beginning of the period.

17. Hedging of Interest Rate Risk

The Company's floating rate bank loans expose the Company to interest rate risk. The Company uses derivative instruments, to the extent available in the PRC, to manage exposures arising from changes in interest rates. When considered appropriate, the Company would enter into interest rate swap agreements with local banks to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 30th June, 2003, the notional amount of the outstanding interest rate swap agreements was approximately US\$36 million (as at 30th June, 2002, approximately US\$67 million). For the six month ended 30th June, 2003, there was a gain amounted to approximately Rmb4.2 million (for the six month ended 30th June, 2002: a gain amounted to approximately Rmb3.6 million) arising from changes in the fair value of the interest rate swaps. Since the hedging relationship does not meet all of the conditions required for special hedge accounting as set out in International Accounting Standards ("IAS") 39, such gain was credited to earnings in current period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

18. Supplementary Information to Condensed Consolidated Statement of Cash Flow

Cash flow (used in)/provided by investing and financing activities included the followings:

	For the six months ended 30th June,	
	2003	2002
	'000	'000
Investing activities:		
Capital expenditures on power plant construction and improvement	(913,555)	(805,309)
Proceeds from disposal of property, plant and equipment	9,551	6,772
Consideration paid to acquire 25% equity interest of Jining Plant	—	(109,439)
Consideration paid to acquire 25% equity interest of SEG	(2,390,000)	—
Direct cost incurred in connection with the acquisition of equity interest of SEG	(2,145)	—
Proceeds from disposal of other assets	79,152	—
Proceeds from disposal of investments	1,016	—
Decrease in temporary cash investments	207,250	5,164,704
Financing activities:		
Drawdown of:		
- Short-term loans	—	120,000
- Long-term bank loans	105,542	138,359
- Other long-term loans	350,000	—
Repayment of:		
- Short-term loans	(350,000)	(60,000)
- Long-term loans from shareholders	(194,486)	—
- Long-term bank loans	(961,211)	(1,991,362)
- Other long-term loans	(36,060)	—
Redemption of convertible notes	—	(2,234,789)
Payment of dividends to the shareholders of the Company	(2,033,598)	(1,786,050)
Dividend paid to minority shareholders of the subsidiaries	(99,548)	—

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

19. Related Party Transactions

The related parties of the Company and its subsidiaries are as follows:

Name of related parties	Nature of relationship
HIPDC	Parent company
Huaneng Group	Ultimate parent company
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of Huaneng Group
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Weihai Power Development Bureau ("WPDB")	Minority shareholder of Weihai Power Plant
Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")	An associate of the Company

(a) The significant transactions and balances with HIPDC were as follows:

(i) Transactions during the six months ended 30th June, 2003:

	For the six months ended 30th June,	
	2003	2002
	'000	'000
Service fees on transmission and transformer facilities	105,220	143,703
Rental charge on the land of Shanghai Power Plant	3,000	3,000
Rental charge on the land of Nanjing Power Plant	667	667
Rental charge on office space	12,500	12,500
Management service fee income (Note 12)	8,653	—

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

19. Related Party Transactions (Cont'd)

(a) The significant transactions and balances with HIPDC were as follows: (Cont'd)

(ii) Balances as at 30th June, 2003:

	As at 30th June, 2003	As at 31st December, 2002
	'000	'000
Long-term loans guaranteed by HIPDC	5,096,365	5,544,324
Bank loans on-lent from HIPDC to the Company	583,356	777,782
Due to HIPDC (unsecured and non-interest bearing)	34,560	100,475

(b) The significant transactions and balances with other related parties were as follows:

(i) Transactions during the six months ended 30th June, 2003:

	For the six months ended 30th June, 2003	2002
	'000	'000
Huaneng Group		
Management service fee income (Note 12)	16,647	—
CHITEC		
Agency fee paid to CHITEC for equipment transportation and insurance service received	—	2,715
Coal purchased from CHITEC	22,897	—

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

19. Related Party Transactions (Cont'd)

(b) The significant transactions and balances with other related parties were as follows: (Cont'd)

(ii) Balances as at 30th June, 2003:

	As at 30th June, 2003	As at 30th June, 2002
	'000	'000
Huaneng Group		
Long-term loans guaranteed by Huaneng Group	1,129,155	1,139,543
Due from Huaneng Group	8,324	—
Huaneng Finance		
Current deposits in Huaneng Finance*	357,090	2,376,197
Fixed deposits in Huaneng Finance*	500,000	570,000
Short-term loan borrowed from Huaneng Finance*	200,000	200,000
Long-term loan borrowed from Huaneng Finance*	575,000	225,000
Interest receivable from Huaneng Finance*	4,091	1,630
(* The interest rates have no material difference with the prevailing market interest rate.)		
CHITEC		
Payable for coal purchased from CHITEC	5,585	—
WPDB		
Loans from WPDB (Interest rate: 6.21% (2002: 6.21%) per annum; repayable from 1994 to 2004)	106,389	106,389
Long-term bank loans guaranteed by WPDB	280,000	280,000
Dividend payable to WPDB	30,993	—
Rizhao Power Company		
Guarantee on the long-term bank loan of Rizhao Power Company**	399,250	399,250

(**Guarantee on the long-term bank loan of Rizhao Power Company by the Company had no significant financial impact on the Company's operation.)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

20. Commitment

Commitments mainly relate to the construction of Huaiyin Power Company Phase II, Dezhou Power Plant Phase III, Guangdong Power Plant Phase II, supplementary facilities and renovation projects for existing power plants. Capital expenditure which was contracted for but not incurred and thus was not recognized in the financial statements as at 30th June, 2003 amounted to approximately Rmb1.33billion.

21. Subsequent Event

On 5th June, 2003, the Company entered into an agreement with Huaneng Group. Pursuant to which, the Company intended to acquire from Huaneng Group the 55% equity interests in Henan Huaneng Qinbei Power Co., Ltd., 60% equity interests in Shanxi Huaneng Yushe Power Co., Ltd., and the entire assets and liabilities of China Huaneng Group Xindian Power Plant. The total consideration for the acquisition is Rmb550 million. The acquisition has been approved by the shareholders but is subject to the relevant government approvals.

SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED)

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

	Note	Net Assets	
		As at 30th June, 2003	As at 31st December, 2002
		Rmb'000	Rmb'000
Net assets under IFRS		30,810,152	30,416,060
Impact of US GAAP adjustments Note i:			
Effect of acquisition of Shidongkou First Power Plant, Taicang Power Company and Changxing Power Plant	(a)	(937,664)	(998,752)
Effect of acquisition of 30% additional equity interests in Shidongkou First Power Plant, 5% additional equity interests in Taicang Power Company and 44.16% equity interests in Huaiyin Power Company	(b)	(302,058)	(313,859)
Recording of capital contribution arising from acquisition of Shandong Huaneng	(d)	862,922	862,922
Difference in amortization of negative goodwill	(d)	(217,727)	(174,182)
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 convertible notes	(e)	26,808	5,246
Difference in capitalization of borrowing costs	(f)	(95,592)	(88,412)
Reversal of goodwill amortization			
- Reversal of goodwill amortization of equity investment in SEG	(g)	13,996	—
- Reversal of goodwill amortization of investment in Huaiyin Power Company	(g)	8,685	—
Applicable deferred tax impact of the above GAAP Differences	(h)	167,748	252,124
Net assets under US GAAP Note i		30,290,685	29,914,562

	Note	Net profit	
		For the six months ended 30th June,	
		2003	2002
		Rmb'000	Rmb'000
Net profit under IFRS		2,285,205	1,777,277
Impact of US GAAP adjustments Note i :			
Effect of acquisition of Shidongkou First Power Plant, Taicang Power Company and Changxing Power Plant	(a)	61,088	102,488
Effect of acquisition of 30% additional equity interests in Shidongkou First Power Plant, 5% additional equity interests in Taicang Power Company and 44.16% equity interests in Huaiyin Power Company	(b)	11,801	—
Recording housing benefits provided by HIPDC	(c)	(13,076)	(13,076)
Difference in amortization of negative goodwill	(d)	(43,545)	(43,545)
Difference in accounting treatment of convertible notes	(e)	14,310	(9,567)
Difference in capitalization of borrowing costs	(f)	(7,180)	(83,981)
Reversal of goodwill amortization			
- Reversal of goodwill amortization of equity investment in SEG	(g)	13,996	—
- Reversal of goodwill amortization of investment in Huaiyin Power Company	(g)	8,685	—
Applicable deferred tax impact of the above GAAP Differences	(h)	(84,376)	33,872
Net profit under US GAAP Note i		2,246,908	1,763,468
Basic earnings per ordinary share under US GAAP (Rmb) Note ii		0.37	0.29
Basic earnings per ADS under US GAAP (Rmb) Note ii		14.95	11.76
Diluted earnings per ordinary share under US GAAP (Rmb) Note ii		0.37	0.29
Diluted earnings per ADS under US GAAP (Rmb) Note ii		14.85	11.55

(Note i) Consistent with applying the accounting treatment under US GAAP as described in Note (a) below, the consolidated financial statements under US GAAP for prior period presented have been retroactively restated as if the current structure and operations resulted from the acquisition of the three new power plants had been in existence since the beginning of the earliest period presented.

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

(a) Effect of the Acquisition of Entities under Common Control

Under IFRS, the Company and its subsidiaries adopted the acquisition method to account for the acquisition of 70% equity interest in Shidongkou First Power Plant, 70% equity interest in Taicang Power Company and all of the assets and liabilities of Changxing Power Plant in July, 2002. Under the acquisition method, the acquired results are included in the results of operations of the Company and its subsidiaries from the date of the acquisition. The difference between the purchase consideration and the fair value of the underlying net assets acquired is treated as goodwill, which is amortized on a systematic basis to the income statement over the remaining weighted average useful life of the acquired depreciable or amortizable assets.

As the Company and its subsidiaries, Shidongkou First Power Plant, Taicang Power Company, and Changxing Power Plant were under common control of Huaneng Group prior to the acquisition, under US GAAP, the acquisition is considered as a transfer of businesses under common control and the acquired assets and liabilities are accounted at historical cost in a manner similar to the pooling of interests method. Accordingly, the consolidated financial statements for all periods presented have been retroactively restated as if the current structure and operations resulted from the acquisition had been in existence since inception. The cash consideration paid by the Company is treated as an equity transaction in the year of the acquisition for US GAAP purpose.

(b) Effect of Acquisition of 30% Additional Equity Interests in Shidongkou First Power Plant, 5% Additional Equity Interests in Taicang Power Company and 44.16% Equity Interests in Huaiyin Power Company

On 1st July, 2002, the Company acquired 44.16% equity interests of Huaiyin Power Company from Huaneng Group. In addition, the Company also acquired 30% additional equity interests of Shidongkou First Power Plant and 5% additional equity interests of Taicang Power Company from Huaneng Group on 31st December, 2002.

Under IFRS, upon the completion of the above acquisitions, the relevant equity interests of net assets of Shidongkou First Power Plant, Taicang Power Company and Huaiyin Power Company are recorded at fair value. The excess of the total cost of the acquisition over the fair value of the relevant portion of net assets of power plant acquired is recorded as goodwill. Such goodwill is amortized on a systematic basis to the income statement over the remaining weighted average useful life of the acquired depreciable or amortizable assets. Under US GAAP, upon completion of the above acquisitions, Huaneng Group's proportionate share in the net assets of Shidongkou First Power Plant, Taicang Power Company and Huaiyin Power Company being sold to the Company was recorded at the historical carrying value. The excess of the total cost of acquisition over the net assets acquired was recorded as a reduction of capital contribution to the Company. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

(c) 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 a housing benefit. 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 an addition of capital contribution from HIPDC.

(d) 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 IFRS, 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 of 33.09% 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 a capital contribution to the Company. The book value of the remaining 66.91% of the net assets continues to be part of the recoverable rate base under the cost recovery formula of the tariff setting mechanism. The difference between these net asset values and the cash consideration is recorded as a negative goodwill.

The amount of negative goodwill determined under IFRS was recognized as income on a systematic basis over the remaining weighted average useful life of the acquired depreciable or amortizable assets. The amounts of negative goodwill under US GAAP determined on the basis as described above was offset against the fixed assets of the respective power plants as a purchase allocation adjustment. As the amount of negative goodwill under IFRS is different from the amount of the purchase allocation adjustment determined under US GAAP due to the 33.09% portion of the net assets previously owned by Huaneng Group as described above, the net impact on income is also different.

(e) Accounting Treatment of Convertible Notes

Under IFRS, 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 recognized 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. On 21st May 2002, a portion of the convertible notes was not redeemed by the noteholders. 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) Reversal of goodwill amortization

Under IFRS, goodwill is amortized using the straight-line method over its estimated useful life and recognized in the income statement as other operating expenses. Under US GAAP, in accordance with Statement of Financial Accounting Standard Number 142 "Goodwill and Other Intangible Assets", goodwill is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances.

(h) Deferred Tax Impact

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

BALANCE SHEETS (UNAUDITED)

AS AT 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

ASSETS	Note	Consolidated		The Company	
		30th June, 2003	31st December, 2002	30th June, 2003	31st December, 2002
CURRENT ASSETS					
Cash	5(1)	1,957,970,492	4,157,362,535	1,699,704,045	3,853,281,582
Notes receivable	5(2)	165,700,000	472,750,000	138,500,000	440,080,000
Dividend receivable		—	—	88,693,728	—
Interest receivable		6,599,314	3,792,434	6,599,314	3,792,434
Accounts receivable	5(3), 6(1)	2,246,138,329	1,889,082,774	1,975,445,896	1,545,294,232
Other receivables	5(3), 6(1)	184,744,270	102,595,147	121,523,556	81,195,078
Advance to suppliers		40,928,349	54,040,826	25,756,463	39,068,231
Inventories	5(4)	941,522,678	940,723,848	767,729,878	765,649,739
Deferred expenses		23,173,274	12,451,202	21,777,199	9,659,052
Current portion of long-term investments	5(5), 6(2,3)	102,760	25,160	357,102,760	256,325,160
Other current assets	5(9)	—	70,000,000	—	70,000,000
Total current assets		5,566,879,466	7,702,823,926	5,202,832,839	7,064,345,508
LONG-TERM INVESTMENTS					
Long-term equity investments	5(5), 6(2)	3,216,852,060	776,151,596	4,716,348,915	2,324,449,270
Including: Consolidated difference in value	5(5)	1,092,960,593	313,862,886	—	—
Long-term debt investments	5(5), 6(3)	9,907,170	10,137,770	230,570,126	450,800,726
Total long-term investment		3,226,759,230	786,289,366	4,946,919,041	2,775,249,996
FIXED ASSETS					
Fixed assets, cost	5(6)	58,908,789,992	58,940,239,645	51,305,406,008	51,331,689,101
Less: Accumulated depreciation	5(6)	(20,730,990,014)	(18,725,078,726)	(17,671,535,259)	(15,884,329,113)
Fixed assets, net book value	5(6)	38,177,799,978	40,215,160,919	33,633,870,749	35,447,359,988
Construction-in-progress	5(7)	1,223,004,996	685,761,557	1,065,715,303	626,225,572
Total fixed assets		39,400,804,974	40,900,922,476	34,699,586,052	36,073,585,560
INTANGIBLE AND OTHER ASSETS					
Intangible assets	5(8)	(1,180,422,421)	(1,306,167,496)	(1,246,452,364)	(1,373,182,297)
Long-term deferred expenses		14,784,353	14,886,880	14,784,353	14,886,880
Total intangible and other assets		(1,165,638,068)	(1,291,280,616)	(1,231,668,011)	(1,358,295,417)
TOTAL ASSETS		47,028,805,602	48,098,755,152	43,617,669,921	44,554,885,647

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of
accounting function:

Huang Jian

Person in charge of
Accounting department:

Zhou Hui

BALANCE SHEETS (UNAUDITED) (Cont'd)

AS AT 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Consolidated		The Company	
		30th June, 2003	31st December, 2002	30th June, 2003	31st December, 2002
CURRENT LIABILITIES					
Short-term loans	5(10)	200,000,000	550,000,000	200,000,000	550,000,000
Accounts payable		550,386,791	471,608,936	480,153,001	409,500,258
Salary payable		198,325	9,276,290	—	9,077,965
Welfare payable		240,955,904	224,289,622	234,604,377	222,648,524
Dividends payable	5(11)	62,083,526	2,049,408,208	15,810,000	2,049,408,208
Interest payable		108,460,897	115,860,824	104,858,898	113,370,824
Taxes payable	5(12)	652,941,948	620,188,900	466,101,318	395,661,112
Other levies payable		6,869,904	7,805,368	2,713,496	2,713,031
Other payables	5(13)	1,839,836,821	2,280,414,185	1,751,477,107	2,199,243,434
Accrued expenses		45,156,773	26,273,238	41,621,235	26,273,238
Current portion of long-term loans	5(14)	2,799,487,209	2,413,636,557	2,178,533,722	2,172,623,070
Convertible notes	5(15)	951,901	—	951,901	—
Total current liabilities		6,507,329,999	8,768,762,128	5,476,825,055	8,150,519,664
LONG-TERM LIABILITIES					
Long-term loans	5(14)	8,062,952,648	9,184,800,869	6,455,858,066	7,077,706,287
Convertible notes	5(15)	—	166,497,890	—	166,497,890
Total long-term liabilities		8,062,952,648	9,351,298,759	6,455,858,066	7,244,204,177
TOTAL LIABILITIES		14,570,282,647	18,120,060,887	11,932,683,121	15,394,723,841
MINORITY INTERESTS		773,536,155	818,532,459	—	—
SHAREHOLDERS' EQUITY					
Share capital	5(16)	6,027,671,200	6,000,273,960	6,027,671,200	6,000,273,960
Capital surplus	5(17)	10,402,586,515	10,260,830,755	10,402,586,515	10,260,830,755
Surplus reserves	5(18)	3,419,668,242	3,419,668,242	3,419,668,242	3,419,668,242
Including: Statutory public welfare fund	5(18)	1,053,519,606	1,053,519,606	1,053,519,606	1,053,519,606
Undistributed profits	5(19)	11,835,060,843	9,479,388,849	11,835,060,843	9,479,388,849
Total shareholders' equity		31,684,986,800	29,160,161,806	31,684,986,800	29,160,161,806
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		47,028,805,602	48,098,755,152	43,617,669,921	44,554,885,647

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of
accounting function:

Huang Jian

Person in charge of
Accounting department:

Zhou Hui

PROFIT AND LOSS ACCOUNTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

	Note	For the six months ended 30th June,			
		Consolidated		The Company	
		2003	2002	2003	2002
1. Revenue from principal operations	5(20), 6(4)	10,618,086,009	7,965,521,030	9,193,411,044	7,131,203,236
Less: Cost of principal operations	5(20), 6(4)	(7,203,913,330)	(5,366,300,705)	(6,296,734,893)	(4,775,015,649)
Tax and levies on principal operations		(27,469,565)	(12,083,246)	(10,194,034)	(2,551,088)
2. Profit from principal operations		3,386,703,114	2,587,137,079	2,886,482,117	2,353,636,499
Add: Profit from other operations		22,836,671	1,590,549	22,581,519	612,453
Less: General and administrative expenses		(202,878,405)	(80,194,856)	(158,816,205)	(51,875,407)
Financial expenses, net	5(21)	(290,999,870)	(251,892,025)	(225,703,753)	(227,915,903)
3. Operating profit		2,915,661,510	2,256,640,747	2,524,543,678	2,074,457,642
Add: Income (loss) from investment	5(22), 6(5)	42,116,524	(16,121,262)	230,022,688	69,543,584
Non-operating income		10,611,425	8,913,645	1,324,530	1,022,994
Less: Non-operating expenses		(5,295,816)	(18,506,643)	(4,528,775)	(12,089,500)
4. Profit before taxation and minority interests		2,963,093,643	2,230,926,487	2,751,362,121	2,132,934,720
Less: Income tax		(521,882,186)	(367,689,104)	(395,690,127)	(312,044,052)
Minority interests		(85,539,463)	(42,346,715)	—	—
5. Net profit		2,355,671,994	1,820,890,668	2,355,671,994	1,820,890,668

PROFIT AND LOSS ACCOUNTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Supplemental information:	For the six months ended 30th June,			
	Consolidated		The Company	
	2003	2002	2003	2002
1. Profit from sale or disposal of a business unit or investments	—	—	—	—
2. Loss due to natural disaster	—	—	—	—
3. Increase / (decrease) in profit before taxation and minority interests as a result of changes in accounting policies	—	—	—	—
4. Increase / (decrease) in profit before taxation and minority interests as a result of changes in accounting estimates	—	—	—	—
5. Loss on debt restructuring	—	—	—	—
6. Others	—	—	—	—

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of
accounting function:

Huang Jian

Person in charge of
Accounting department:

Zhou Hui

STATEMENT OF INCOME APPROPRIATION (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

	For the six months ended 30th June,			
	Consolidated		The Company	
	2003	2002	2003	2002
1. Net profit	2,355,671,994	1,820,890,668	2,355,671,994	1,820,890,668
Add: Unappropriated profit brought forward	9,479,388,849	8,160,857,821	9,479,388,849	8,160,857,821
2. Unappropriated profit	11,835,060,843	9,981,748,489	11,835,060,843	9,981,748,489
Less: Transfer to statutory surplus reserve fund	—	(182,089,067)	—	(182,089,067)
Transfer to statutory public welfare fund	—	(136,566,800)	—	(136,566,800)
3. Profit distributable to shareholders	11,835,060,843	9,663,092,622	11,835,060,843	9,663,092,622
Less: Dividends	—	—	—	—
4. Unappropriated profit carried forward	11,835,060,843	9,663,092,622	11,835,060,843	9,663,092,622

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of
accounting function:

Huang Jian

Person in charge of
Accounting department:

Zhou Hui

CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Items	Note	For the six months ended 30th June,			
		Consolidated		The Company	
		2003	2002	2003	2002
1. Cash flows from operating activities					
Cash received from sale of goods and services		12,379,263,736	9,173,045,688	10,633,352,203	8,248,095,656
Other cash received relating to operating activities		63,239,671	88,064,620	52,658,901	74,550,594
Sub-total of cash inflows		12,442,503,407	9,261,110,308	10,686,011,104	8,322,646,250
Cash paid for goods and services		(4,426,184,370)	(3,204,905,763)	(3,856,095,501)	(2,796,830,324)
Cash paid to and on behalf of employees		(493,042,931)	(397,493,045)	(419,546,228)	(326,534,969)
Payment of all types of taxes		(1,854,213,331)	(1,510,506,578)	(1,500,146,172)	(1,362,178,994)
Other cash paid relating to operating activities	5(23)	(1,099,330,725)	(615,741,383)	(900,120,806)	(518,788,160)
Sub-total of cash outflows		(7,872,771,357)	(5,728,646,769)	(6,675,908,707)	(5,004,332,447)
Net cash flows from operating activities		4,569,732,050	3,532,463,539	4,010,102,397	3,318,313,803
2. Cash flows from investing activities					
Cash received on disposal of investments		388,768,714	5,168,716,979	508,068,715	4,954,690,302
Cash received on investments income		10,168,441	813,400	142,896,115	114,654,171
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		9,550,646	6,772,440	5,832,842	2,029,667
Other cash received relating to investing activities		—	—	—	251,383,846
Sub-total of cash inflows		408,487,801	5,176,302,819	656,797,672	5,322,757,986
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(914,042,933)	(830,249,072)	(799,994,310)	(811,972,721)
Cash paid to acquire investments		(2,505,417,838)	(109,493,283)	(2,502,373,739)	(109,493,283)
Sub-total of cash outflows		(3,419,460,771)	(939,742,355)	(3,302,368,049)	(921,466,004)
Net cash flows (used in) from investing activities		(3,010,972,970)	4,236,560,464	(2,645,570,377)	4,401,291,982

CASH FLOW STATEMENT (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Items	Note	For the six months ended 30th June,			
		Consolidated		The Company	
		2003	2002	2003	2002
3. Cash flows from financing activities					
Cash received from borrowings		455,541,766	258,358,192	455,541,766	138,358,191
Sub-total of cash inflow		455,541,766	258,358,192	455,541,766	138,358,191
Cash paid on repayment of borrowings		(1,541,756,230)	(4,286,152,039)	(1,421,696,230)	(4,096,192,485)
Cash payments of interest expenses and appropriation of dividends or profit		(2,463,297,452)	(2,182,859,456)	(2,296,735,399)	(2,167,861,268)
Including: Dividends paid to minority shareholders of subsidiaries		(99,547,821)	—	—	—
Sub-total of cash outflows		(4,005,053,682)	(6,469,011,495)	(3,718,431,629)	(6,264,053,753)
Net cash flows used in financing activities		(3,549,511,916)	(6,210,653,303)	(3,262,889,863)	(6,125,695,562)
4. Effect of foreign exchange rate changes on cash		—	—	—	—
5. Net (decrease) increase in cash and cash equivalents		(1,990,752,836)	1,558,370,700	(1,898,357,843)	1,593,910,223

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of
accounting function:

Huang Jian

Person in charge of
Accounting department:

Zhou Hui

CASH FLOW STATEMENT (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Supplementary Information	For the six months ended 30th June,			
	Consolidated		The Company	
	2003	2002	2003	2002
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	2,355,671,994	1,820,890,668	2,355,671,994	1,820,890,668
Add: Minority interests	85,539,463	42,346,715	—	—
Provision for asset impairment	1,460,803	1,120,205	1,028,323	1,228,528
Depreciation of fixed assets	2,017,274,815	1,579,205,466	1,795,001,716	1,458,919,837
Amortization of intangible assets	(114,886,848)	(115,951,049)	(115,871,706)	(116,950,482)
Amortization of long-term deferred expenses	1,510,721	1,868,302	1,510,721	1,841,485
Decrease in deferred expenses	(10,722,072)	—	(12,118,147)	—
Increase in accrued expenses	18,883,535	—	15,347,997	—
(Gains) Losses on disposal of fixed assets, intangible assets and other long-term assets	(283,791)	14,812,684	62,014	8,808,015
Financial expenses	322,970,403	322,257,093	254,844,171	295,626,756
(Gains) losses arising from investments	(42,116,524)	16,121,262	(230,022,688)	(69,543,584)
Increase in inventories	(669,767)	(55,694,698)	(1,612,784)	(52,805,059)
Increase in operating receivables items	(135,966,222)	(93,508,816)	(128,247,268)	(20,451,223)
Increase in operating payables items (or deduct: decrease)	71,065,540	(1,004,293)	74,508,054	(9,251,138)
Net cash flows from operating activities	4,569,732,050	3,532,463,539	4,010,102,397	3,318,313,803
2. Investing and financing activities that do not involve cash receipts and payments				
Conversion of debt into capital	165,548,000	—	165,548,000	—
Convertible notes maturing within one year	951,901	—	951,901	—
Fixed assets acquired under finance leases	—	—	—	—
3. Net increase in cash and cash equivalents				
Cash at end of period	1,011,848,634	3,731,506,945	762,116,253	3,723,242,621
Less: cash at beginning of period	(3,002,601,470)	(2,173,136,245)	(2,660,474,096)	(2,129,332,398)
Cash equivalents at end of period	—	—	—	—
Less: cash equivalents at beginning of period	—	—	—	—
Net (decrease) increase in cash and cash equivalents	(1,990,752,836)	1,558,370,700	(1,898,357,843)	1,593,910,223

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of accounting function:

Huang Jian

Person in charge of Accounting department:

Zhou Hui

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

*(All amounts are stated in Rmb Yuan unless otherwise stated)***1. COMPANY BACKGROUND**

Huaneng Power International, Inc. (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) as a Sino-foreign joint stock company on 30th June, 1994.

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

Five of the power plants were already in commercial operations at time of incorporation of the Company in 1994 (hereinafter collectively referred to as the “five original operating plants”). The five original operating plants were previously divisions of Huaneng International Power Development Corporation (“HIPDC”), which is a Sino-foreign equity joint venture established in the PRC. In accordance with the Reorganization Agreement dated 30th June, 1994, the Company acquired the assets, liabilities and businesses of the five original operating plants from HIPDC which in return received an equity interest in the Company (the “Reorganization”). The new operating plants were either constructed or acquired by the Company after the Reorganization.

The Company’s Overseas Listed Foreign Shares were listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 6th October, 1994 and 4th March, 1998, respectively. The 250,000,000 A shares of the Company issued to the public were listed on the Shanghai Stock Exchange on 6th December, 2001.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

1. COMPANY BACKGROUND (Cont'd)

Particulars of operating power plants of the Company, its subsidiaries and associates are as follows:

Operating plants	Total installed capacity of the Company, its subsidiaries and associates (MW)	Equity portion of total capacity of the Company (MW)	Province/ Municipality located
Wholly-owned power plants:			
Huaneng Dalian Power Plant (the "Dalian Power Plant")	700	700	Liaoning
Huaneng Shangan Power Plant (the "Shangan Power Plant")	700	700	Hebei
Huaneng Nantong Power Plant (the "Nantong Power Plant")	700	700	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	700	Fujian
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	100	100	Guangdong
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")	600	600	Guangdong
Huaneng Shangan Power Plant Phase II (the "Shangan Phase II")	600	600	Hebei
Huaneng Shanghai Shidongkou Second Power Plant (the "Shanghai Power Plant")	1,200	1,200	Shanghai
Huaneng Dalian Power Plant Phase II (the "Dalian Phase II")	700	700	Liaoning
Huaneng Dandong Power Plant (the "Dandong Power Plant")	700	700	Liaoning
Huaneng Nantong Power Plant Phase II (the "Nantong Phase II")	700	700	Jiangsu
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II")	700	700	Fujian
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	600	600	Jiangsu
Huaneng Dezhou Power Plant (the "Dezhou Power Plant")	2,520	2,520	Shandong
Huaneng Jining Power Plant (the "Jining Power Plant")	300	300	Shandong
Huaneng Changxing Power Plant (the "Changxing Power Plant")	250	250	Zhejiang
Shanghai Shidongkou Power Limited Company (the "Shanghai Shidongkou First Power Plant")	1,200	1,200	Shanghai
Subsidiaries:			
Huaneng Weihai Power Plant (the "Weihai Power Plant")	850	510	Shandong
Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company")	600	450	Jiangsu
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company")	400	255	Jiangsu
Associates:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	700	178	Shandong
Shenzhen Energy Group Co., Ltd. ("SEG")*	1,668	417	Guangdong
	17,188	14,780	

* On 28th January, 2003, the Company entered into an agreement with Shenzhen Energy Group Co., Ltd. pursuant to which the Company intended to acquire 25% equity interest of the SEG's enlarged share capital at a total consideration of RMB 2.39 billion. The acquisition became effective on 22nd April, 2003 after obtaining all necessary government approvals on the transaction and the payment of the purchase consideration.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**(1) Basis of preparation**

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises and relevant regulations as promulgated by the Ministry of Finance of the PRC.

(2) Accounting year

The financial year starts on 1st January, and ends on 31st December.

(3) Reporting currency

The Company and its subsidiaries use the Renminbi (Rmb) as reporting currency. All amounts in the financial statements are stated in Rmb Yuan.

(4) Basis of accounting and measurement bases

Accrual method is used as the basis of accounting. Assets are initially recorded at their acquired costs. Subsequently, if they are impaired, then impairment provisions are taken accordingly.

(5) Foreign currency translation

Transactions denominated in foreign currencies are translated into Rmb at the exchange rates stipulated by the People's Bank of China (the "PBOC") prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the exchange rates stipulated by the PBOC at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account, except for when they are attributable to foreign currency borrowings that have been taken out specifically for construction of fixed assets, which are capitalized as part of the fixed asset costs accordingly.

(6) Cash and cash equivalents

For the purpose of the cash flow statement, cash refers to all cash on hand and deposits held at call with banks. Cash equivalents refers to short-term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statement, cash with restricted usage and time deposits with maturity in excess of three months are not considered as cash and cash equivalents. Their movements are considered as cash flow from investing activities.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(7) Receivables and provision for bad debts**

Receivables include accounts receivable and other receivables.

The Company and its subsidiaries make provision for bad debts using the “allowance method”.

Provisions for bad debts are made based on the assessment of the collectibility of the receivables. Based on the actual circumstances and experiences, the Company and its subsidiaries made specific provisions against balances that have been assessed to be uncollectible. A general provision of 3% of other receivables outstanding at the balance sheet date is then set against the remaining balance of other receivables.

For balances where there is evidence that they cannot be recovered (e.g. creditor has been deregistered, declared bankruptcy, unable to meet its liabilities as they fall due or having significant cash shortage), then bad debt is recognized and the balances are written off against the provision.

(8) Inventories

Inventories include fuel for power generation, materials and supplies for repairs and maintenance. Inventories are recorded at actual cost and are charged to fuel costs or repairs and maintenance 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.

Inventories at balance sheet date are stated at lower of cost and net realizable values. When their costs exceed their net realizable value, the excess of their original cost over their net realizable value is taken as a “provision for loss on realization of inventories”. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to conclude the sale.

(9) Long-term investments

Long-term investments comprise equity investments in companies that the Company does not intend to dispose of within one year, bonds and other debt investments that are not readily convertible into cash or the Company does not intend to dispose.

Long-term equity investments are recorded at the initial cost of acquisition. When the Company owns an interest of 20% or more of the voting rights or otherwise has the ability to exercise significant influence over the financial and operational decisions, then these investments are accounted for using the equity method of accounting. When the Company owns an interest of less than 20% of the voting rights or otherwise does not have the ability to exercise significant influence over the financial and operational decisions although the Company owns an interest of 20% or more, then these investments are accounted for using the cost method of accounting.

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FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(9) Long-term investments** (Cont'd)

When long-term equity investments are accounted for using the equity method, the difference between the initial costs on acquisition and the proportionate share of the net assets of the investee is accounted for as an “equity investment difference” and is amortized on a straight-line basis over 10 years.

Long-term debt investments are recorded at cost of acquisition, less unpaid interest which has been accrued. The premium or discount is amortized using the straight-line method over the period between the purchase date and the maturity date over which the relevant interest income is recognized. Interest receivable from investments is computed for each period.

Investments in subsidiaries and associates are accounted for using the equity method. Subsidiaries are those companies in which the Company has an interest of more than 50% of the voting rights or an interest less than 50% of the voting rights but has the power to govern the financial and operating policies, and so as to obtain benefit from their operating activities. Associates are companies over which the Company has the ability to exercise significant influence.

Entrusted loans refers to loans that the Company provides to other companies via intermediary financial institutions with maturities over one year. Interest income is accrued and recorded as income in each period. Interest receivable that has been accrued, but cannot be collected when due, is written off. At the balance sheet date, when events indicate that the principal amount is higher than the recoverable amount of the entrusted loans, provision for impairment loss will be made.

(10) Fixed assets and depreciation

Fixed assets refer to buildings, plant and other equipment related to the production and operation of the Company and its subsidiaries with useful lives of over one year and unit cost of more than Rmb2,000.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets obtained upon Reorganization were initially recorded at their appraised value approved by relevant government authorities.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost of each asset, net of estimated residual values, over their estimated useful lives. When a provision for impairment loss has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset should be recalculated based on the asset's carrying amount and its remaining useful life.

Major modification, expansion or improvement of fixed assets are capitalized as costs of the asset. Expenditure on repairs or maintenance of fixed assets is recognized as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(10) Fixed assets and depreciation (Cont'd)**

The estimated useful lives, estimated residual value and depreciation rates of the fixed assets of the Company and its subsidiaries are as follows:

Categories	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	22 years	0%-11%	4.05%-4.55%
Electric utility plant in service	8-27 years	0%-11%	3.3%-12.5%
Transportation and transmission facilities	13-27 years	5%-11%	3.52%-6.85%
Others	6-13 years	0%-11%	6.85%-16.67%

(11) Construction-in-progress

Construction-in-progress represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which include interest costs incurred on specific borrowings used to finance the capital assets, prior to the date at which the asset reaches the expected usable condition. Construction-in-progress is transferred to the fixed assets account when the assets has been substantially completed and reaches the expected usable condition.

(12) Borrowing costs

Interest, ancillary costs incurred, and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the assets when the capital expenditures and borrowing costs have been incurred and the activities to enable the assets to reach their expected usable condition have commenced. The capitalization of borrowing costs ceases when the construction-in-progress has reached the asset's expected usable condition. Borrowing costs incurred thereafter are recognized as expenses in the period in which they are incurred.

The capitalization amount of interest for each accounting period is determined by using the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period and the relevant weighted average capitalization rate of the relevant borrowings. The amount of interest for each capitalization period shall not exceed the actual amount of interest incurred of the specific borrowings during that period. Exchange difference for specific borrowings denominated in foreign currency and ancillary costs incurred in connection with the arrangement of specific borrowings are capitalized in the period in which they are incurred.

Interests incurred in connection with other borrowings are recognized as expenses in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(13) Intangible assets**

Intangible assets include land use rights, goodwill and negative goodwill.

The land use rights acquired directly from the land bureau, through payment of land use fees, are initially recorded at cost. They are amortized using the straight-line method over the land use rights period. Effective from 1st January, 2001, when construction is taking place on land for which will eventually be utilized by the Company, then the carrying value of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January, 2001 that have already been constructed and utilized by the Company and its subsidiaries are not reclassified.

Goodwill and negative goodwill arose from acquisitions are amortized over 10 years on a straight-line basis.

(14) Long-term deferred expenses

Long-term deferred expenses represent other deferred expenses with amortization period over one year. They are stated at cost and amortized using the straight-line method over the expected beneficial period of the asset.

If the long-term deferred expenses cannot provide future benefit to the Company and its subsidiaries, the remaining balance is charged to expense in the current period.

(15) Asset impairment

The recognition of impairment provisions against entrusted loans, receivables and loss on realization of inventories are described in the respective accounting policies. When events or changes in circumstances indicate that the carrying value of other individual assets is higher than their recoverable amounts, then tests for impairment are undertaken. If the carrying amount is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss account.

The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.

If there are indications that the impairment loss recognized for an asset in prior years no longer exist or have decreased, then the recoverable amount of the asset will be assessed. If the carrying value of the asset is lower than the reassessed recoverable amount, then the provision for asset impairment is reversed to the extent of impairment loss being recognized in the previous years.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(16) Convertible notes**

Convertible notes are stated at principal plus interest receivable.

As mentioned in Note 5(15), the convertible notes are issued at par value with redemption rights. The notes might be redeemed, at the option of the noteholders, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest. Such premium is accrued together with the interest payable on the notes from date of issuance to date of redemption. The accounting treatment of accrued interest of the convertible notes is the same as that of borrowing costs.

(17) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised by the local government authorities in accordance with relevant regulations. Except for the above social security benefits, the Company and its subsidiaries have no additional material commitment to other employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on percentages (28% to 42%) of the total salary of employees, subject to certain ceilings. Contributions to the plans are charged to the profit and loss account as incurred.

(18) Revenue recognition

Revenue is recognized under the following methods:

(i) Operating revenue

Operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial power companies (net of Value Added Tax ("VAT")). The Company and its subsidiaries bill the respective power companies based on the actual quantity of electricity transmitted or sold to the power grid controlled and owned by the respective power companies and recognize revenue at the end of each month.

(ii) Interest income

Interest income is recognized on a time proportion basis on the amounts deposited/entrusted lending and the effective yield.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(18) Revenue recognition** (Cont'd)(iii) *Management service income*

As mentioned in Note 7(5)(l), the Company provides management service to certain power plants owned by Huaneng Group and HIPDC. The Company recognized the service income as other income when service was provided in accordance with the management service agreement.

(19) Accounting for income tax

The Company and its subsidiaries account for enterprise and local income taxes using the tax payable method.

(20) Consolidation of financial statements

The consolidated financial statements, including the financial statements of the Company and its subsidiaries, are prepared in accordance with the CaiKuaiZI(1995)11 “Tentative Regulations for Consolidated Financial Statements” and relevant regulations issued by the Ministry of Finance of the PRC.

Subsidiaries are consolidated from the date on which control is obtained by the Company. Major intercompany balances, transactions and unrealized gains between the Company and its subsidiaries are eliminated upon consolidation. Minority interests in the consolidated financial statements represent the portion of the shareholders equity of the subsidiaries that are not owned by the Company.

When the accounting policies adopted by subsidiaries are not consistent with those adopted by the Company and such inconsistency created a material impact to the consolidated financial statements, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Company.

(21) Accounting policy changes and impact

There was no change in accounting policy in current reporting period.

(22) Accounting estimations changes and impact

There was no change in accounting estimation in current reporting period.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

3. TAXATION**(1) Value added tax ("VAT")**

The electricity sales of the Company and its subsidiaries is subjected to Value Added Tax("VAT"). The applicable tax rate is 17%. Input VAT from purchase of raw materials and other production materials can be netted off against output VAT from sales.

(2) Income tax

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 ("EIT") and 3% of local income tax). If these enterprises are located in specified location or city, or specifically approved by the State Tax Bureau, a lower tax rate can be enjoyed. 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, a reduced income tax rate of 15% (after the approval of State Tax Bureau) are applicable across the country. The Company applied this rule in all operating power plants after the approval of State Tax Bureau since 1st January, 1999.

Pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", all power plants (except for the Dezhou Power Plant, Jining Power Plant, Shanghai Shidongkou First Power Plant and all expansion projects other than Shangan Power Plant Phase II and Fuzhou Power Plant Phase II) 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 ("tax holiday").

In accordance with Guo Shui Han [1994] No.381, the head office, the Shandong branch (the former headquarter of Shandong Huaneng) and all the individual power plants make their income tax payment to local tax bureau individually.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

3. TAXATION (Cont'd)**(2) Income tax** (Cont'd)

The statutory income tax rates applicable to the head office, the Shandong branch and the individual power plants after the expiration of tax holiday are summarized as follow:

	EIT rate	Tax holiday period
Head Office	15.0%	None
Dalian Power Plant (including Dalian Phase II)	18.0%	Till 31st December, 1994
Shangan Power Plant	18.0%	Till 31st December, 1996
Shangan Phase II	16.5%	Till 31st December, 2003
Nantong Power Plant (including Nantong Phase II)	15.0%	Till 31st December, 1996
Fuzhou Power Plant	15.0%	Till 31st December, 1995
Fuzhou Phase II	15.0%	Till 31st December, 2004
Shantou Oil-Fired Plant	15.0%	Till 31st December, 1994
Shantou Power Plant	15.0%	Till 31st December, 2005
Shanghai Power Plant	16.5%	Till 31st December, 1998
Dandong Power Plant	15.0%	Not commenced yet
Nanjing Power Plant	15.0%	Till 31st December, 2001
Shandong Branch	17.0%	None
Dezhou Power Plant	17.0%	None
Jining Power Plant	15.0%	None (Effective from 1st September, 2002)
Changxing Power Plant	16.5%	None (Effective from 1st July, 2002)
Shanghai Shidongkou First Power Plant *	33.0%	None
Weihai Power Plant	33.0%	None
Taicang Power Company	33.0%	None
Huaiyin Power Company	33.0%	None

* The Company acquired all of the assets and liabilities of Shanghai Shidongkou First Power Plant in 2002. As such, Shanghai Shidongkou First Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises and it is in the process of applying to the relevant tax bureau for such preferential treatment.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in Rmb Yuan unless otherwise stated)

3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Approved File No.	For the six months ended 30th June,	
		2003	2002
Head Office	Guo Shui Han [1997]368	15.0%	15.0%
Dalian Power Plant (including Dalian Phase II)	Guo Shui Han [1994]381	18.0%	18.0%
Shangan Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	18.0%
Shangan Phase II	Guo Shui Han [1994]381 & Guo Shui Han [2000]194	9.0%	9.0%
Nantong Power Plant (including Nantong Phase II)	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Phase II*	Min Guo Shui Han [2003]37	7.5%	7.5%
Shantou Oil-Fired Plant	Guo Shui Han [1994]381	15.0%	15.0%
Shantou Power Plant	Approved by Shantou State Tax Bureau	7.5%	7.5%
Shanghai Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant	Dan Guo Shui She Wai [1999]7	Not applicable	Not applicable
Nanjing Power Plant	Ning Guo Shui Wai Zi [1997]039	15.0%	15.0%
Shandong Branch	Guo Shui Han [2001]866	17.0%	17.0%
Dezhou Power Plant	Guo Shui Han [2001]866	17.0%	17.0%
Jining Power Plant**	Guo Shui Han [2002]1063 and Ji Guo Shui Han [2003]1	15.0%	33.0%
Changxing Power Plant***	Guo Shui Han [2002]1030	16.5%	Not applicable
Shanghai Shidongkou First Power Plant	Not applicable	33.0%	Not applicable
Weihai Power Plant	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	Not applicable
Huaiying Power Company	Not applicable	33.0%	Not applicable

* During the period from 1st January, 2002 to December, 31, 2004, Fuzhou Power Plant Phase II enjoyed a 50% reduction of the applicable tax rate after obtaining the approval from the State Tax Bureau of Fujian Province.

** Effective from 1st September, 2002, Jining Power Plant enjoyed an income tax rate of 15%.

*** Effective from 1st July, 2002, Changxing Power Plant enjoyed an income tax rate of 16.5%.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

4. SUBSIDIARIES

As at 30th June, 2003, the Company had equity interests in the following subsidiaries:

Name	Country and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Weihai Power Plant	Weihai, Shandong 22nd November, 1993	Rmb761,832,800	Power generation	Rmb457,103,040	60%
Taichang Power Company	Suzhou Industrial Park, Jiangsu 19th June, 1997	Rmb632,840,000	Power generation	Rmb474,630,000	75%
Huaiyin Power Company	Huaiyin, Jiangsu 26th January, 1995	Rmb265,000,000	Power generation	Rmb168,646,000	63.64%

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(1) Cash and cash equivalents**

	30th June, 2003			31st December, 2002		
	Original currency amount	Exchange rate	Rmb equivalent	Original currency amount	Exchange rate	Rmb equivalent
Cash - RMB			274,174			266,342
Bank deposit - RMB			1,660,441,140			3,610,632,507
- USD	35,911,660	8.2774	297,255,178	66,019,558	8.2773	546,463,686
Sub-total			1,957,696,318			4,157,096,193
Total cash and cash equivalents			1,957,970,492			4,157,362,535

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(1) Cash and cash equivalents (Cont'd)

The cash and cash equivalents as stated in the cash flow statement comprised the following:

	30th June, 2003	31st December, 2002
Cash	1,957,970,492	4,157,362,535
Less: Time deposit with maturity of more than 3 months	(934,251,716)	(1,141,502,257)
Restricted cash	(11,870,142)	(13,258,808)
	1,011,848,634	3,002,601,470

(2) Notes receivable

	30th June, 2003	31st December, 2002
Commercial notes receivable	165,700,000	472,750,000

As at 30th June, 2003 and 31st December, 2002, notes receivable represented unsecured commercial notes receivable.

(3) Accounts receivable and other receivables

(i) Accounts receivable

	30th June, 2003	31st December, 2002
Accounts receivable	2,246,138,329	1,889,082,774

Aging of the accounts receivable was as follows:

Aging	30th June, 2003		31st December, 2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,232,468,329	99	1,884,462,774	100
1 - 2 years	13,670,000	1	4,620,000	—
	2,246,138,329	100	1,889,082,774	100

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(3) Accounts receivable and other receivables** (Cont'd)(i) *Accounts receivable* (Cont'd)

All accounts receivable represented receivable from the local power companies or provincial power companies for the sale of electric power. Since these accounts receivable are collectible, no bad debt provision was provided by the Company and its subsidiaries.

As at 30th June, 2003, the five largest accounts receivable of the Company and its subsidiaries amounted to Rmb1,849,282,667 (31st December, 2002: Rmb1,607,995,057), representing 82.33% of total accounts receivable (31st December, 2002: 85.12%).

(ii) *Other receivables*

	30th June, 2003	31st December, 2002
Other receivables	207,777,542	124,038,553
Less: bad debt provision	(23,033,272)	(21,443,406)
	184,744,270	102,595,147

Aging and bad debt provision for other receivables were as follow:

Aging	30th June, 2003			31st December, 2002		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	112,028,918	54	(2,756,727)	51,988,624	41	(1,559,659)
1 - 2 years	7,854,772	4	(235,643)	28,088,594	23	(842,658)
2 - 3 years	57,100,180	27	(1,713,005)	22,129,117	18	(663,874)
More than 3 years	30,793,672	15	(18,327,897)	21,832,218	18	(18,377,215)
	207,777,542	100	(23,033,272)	124,038,553	100	(21,443,406)

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(3) Accounts receivable and other receivables** (Cont'd)(ii) *Other receivables* (Cont'd)

Breakdown of other receivables was as follow:

	30th June, 2003	31st December, 2002
Prepayments for materials	23,913,995	26,468,978
Receivable from employees for sales of staff quarters	17,152,371	10,086,707
Social insurance fund	23,628,516	10,137,471
Receivable from Huaneng Group	8,323,700	—
Others	134,758,960	77,345,397
	207,777,542	124,038,553

As at 30th June, 2003, the five largest other receivables of the Company and its subsidiaries amounted to Rmb70,789,435 (31st December, 2002: Rmb54,172,387), representing 34% of total other receivables (31st December, 2002: 44%).

See Note 7 for related party transactions.

As at 30th June, 2003 and 31st December, 2002, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company.

(4) Inventories

	30th June, 2003	31st December, 2002
Fuel (coal and oil) for power generation	445,363,245	434,725,588
Materials and spare parts	507,939,202	518,237,161
	953,302,447	952,962,749
Less: provision for inventory obsolescence - spare parts	(11,779,769)	(12,238,901)
	941,522,678	940,723,848

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(5) Long-term investments**

	1st January, 2003	Current period additions	Current period decrease	30th June, 2003
Long-term equity investments - Consolidated difference				
in value (i)	313,862,886	809,383,004	(30,285,297)	1,092,960,593
Associates (ii)	200,960,043	1,663,638,312	(1,897,356)	1,862,700,999
Other long-term equity investments (iii)	254,989,551	—	—	254,989,551
Others	6,364,276	—	(60,599)	6,303,677
	776,176,756	2,473,021,316	(32,243,252)	3,216,954,820
Less: current portion of other long-term investments	(25,160)	(77,600)	—	(102,760)
Long-term equity investments	776,151,596	2,472,943,716	(32,243,252)	3,216,852,060
Long-term bond investments	10,137,770	—	(230,600)	9,907,170
Total long-term investments	786,289,366	2,472,943,716	(32,473,852)	3,226,759,230

As at 30th June, 2003 and 31st December, 2002, there was no indication of impairment of long-term investments of the Company and its subsidiaries and therefore no provision of impairment of long-term investments was made.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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 (Prepared in accordance with PRC Accounting Standards)
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(5) Long-term investments (Cont'd)

The long-term investments of the Company and its subsidiaries are not subject to restriction on conversion into cash or restriction on remittance of investment income.

(i) Consolidated difference in value

Consolidated difference in value represents the difference between the considerations paid for the acquisitions of Taicang Power Company, Huaiyin Power Company and SEG and the proportionate share of the net assets of these 3 companies, which is amortized over 10 years. Details are as follows:

Name	Amortization period	Original cost	Accumulated amortization	Balance at 1st January, 2003	Current period addition	Current period amortization	Balance at 30th June, 2003
Taicang Power							
Company	10 years	189,383,490	(18,303,417)	180,549,248	—	(9,469,175)	171,080,073
Huaiyin Power							
Company	10 years	151,623,305	(10,605,252)	133,313,638	15,285,580	(7,581,165)	141,018,053
SEG	10 years	794,097,424	(13,234,957)	—	794,097,424	(13,234,957)	780,862,467
		1,135,104,219	(42,143,626)	313,862,886	809,383,004	(30,285,297)	1,092,960,593

(ii) Investment in associates

Name	Country and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Associates:					
Rizhao Power Company	Rizhao, Shandong 20th March, 1996	US\$150 million	Power generation	Rmb317,497,785	25.5%
SEG	Shenzhen, Guangdong July, 16, 1997	Rmb955.56 million	Generation and sale of electric power	Rmb2,390,000,000	25%

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(5) Long-term investments (Cont'd)

(ii) Investment in associates (Cont'd)

Name	Investment period	Investment cost			
		1st January, 2003	Current period addition	30th June, 2003	
Rizhao Power Company	20 years	231,868,800	—	231,868,800	
SEG	Indefinite	—	1,595,902,576	1,595,902,576	
		231,868,800	1,595,902,576	1,827,771,376	
Name		Accumulated equity pick-up			
		1st January, 2003	Current period profit / (loss)	Other addition	30th June, 2003
Rizhao Power Company		(30,908,757)	(1,897,356)	—	(32,806,113)
SEG		—	64,130,736	3,605,000	67,735,736
		(30,908,757)	62,233,380	3,605,000	34,929,623
Name		Net carrying value			
		1st January, 2003		30th June, 2003	
Rizhao Power Company			200,960,043	199,062,687	
SEG			—	1,663,638,312	
			200,960,043	1,862,700,999	

(iii) Other long-term equity investment

Other long-term equity investment represents investment in China Changjiang Power Company Limited (the “Changjiang Power Company”), details are as follows:

Name	Investment period	Total investment contributed by the Company	Percentage of equity interest held
Changjiang Power Company	Starting from 22nd August, 2002, with indefinite period	Rmb254,989,551	3%

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(6) Fixed assets

The movement of cost of fixed assets and related accumulated depreciation were as follow:

	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
Cost					
1st January, 2003	2,273,032,382	54,658,543,525	741,285,113	1,267,378,625	58,940,239,645
Reclassification	(32,717,280)	(22,793,403)	(3,757,473)	59,268,156	—
Transfer from					
construction- in-progress	10,034,664	194,432,970	—	725,131	205,192,765
Current period addition	131,262	4,320,573	160,965	20,067,988	24,680,788
Current period disposals	(1,037,161)	(7,121,092)	—	(12,472,129)	(20,630,382)
Other deduction*	—	(240,692,824)	—	—	(240,692,824)
30th June, 2003	2,249,443,867	54,586,689,749	737,688,605	1,334,967,771	58,908,789,992
Accumulated depreciation					
1st January, 2003	435,772,726	17,509,933,141	235,361,812	544,011,047	18,725,078,726
Reclassification	(11,984,248)	(26,531,277)	(128,693)	38,644,218	—
Current period depreciation	46,876,940	1,884,584,164	17,556,948	68,256,763	2,017,274,815
Current period disposals	(89,278)	(3,553,666)	—	(7,720,583)	(11,363,527)
30th June, 2003	470,576,140	19,364,432,362	252,790,067	643,191,445	20,730,990,014
Net book value					
30th June, 2003	1,778,867,727	35,222,257,387	484,898,538	691,776,326	38,177,799,978
1st January, 2003	1,837,259,656	37,148,610,384	505,923,301	723,367,578	40,215,160,919

As at 30th June, 2003 and 31st December, 2002, there was no indication of impairment of fixed assets of the Company and its subsidiaries and therefore no impairment provision of fixed assets was made.

* Other deduction represented compensation fee received relating to constructions, which are recorded as a deduction of relevant fixed assets cost.

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(7) Construction-in-progress

Name of the projects	1st January, 2003	Current period additions	Transfer to fixed assets	Other deduction	30th June, 2003	Source of financing
Jining Power Plant Phase III expansion project	316,940,555	292,520,998	—	(127,512)	609,334,041	Internal fund
Yuhuan Power Plant construction project	2,294,815	107,559,287	—	—	109,854,102	Internal fund
Other projects	366,526,187	346,036,564	(205,192,765)	(3,553,133)	503,816,853	Internal fund
	685,761,557	746,116,849	(205,192,765)	(3,680,645)	1,223,004,996	

The total budgeted investment of Jining Power Plant Phase III is approximately Rmb850.9 million. The percentage of completion of this project was about 71% as at 30th June, 2003.

For the six months ended 30th June, 2003, there is no interest capitalized for construction-in-progress (2002: Rmb28,026,381, at 4.24% per annum).

(8) Intangible assets

The movement of intangible assets, which comprised land-use rights, goodwill and negative goodwill, was as follow:

	Original cost	Accumulated amortization	1st January, 2003	Current period addition	Current period amortization	30th June, 2003	Remaining amortization period	Obtained through
Land use rights	755,113,218	(90,100,568)	662,762,458	10,000,000	(7,749,808)	665,012,650	41-65 years	Purchase
Negative goodwill	(2,472,783,635)	618,195,910	(1,978,226,907)	—	123,639,182	(1,854,587,725)	7.5 years	Acquisition
Goodwill	2,778,712	(277,871)	2,674,976	—	(174,135)	2,500,841	9 years	Acquisition
Others	10,090,765	(3,438,952)	6,621,977	858,227	(828,391)	6,651,813	3-5 years	Purchase
	(1,704,800,940)	524,378,519	(1,306,167,496)	10,858,227	114,886,848	(1,180,422,421)		

As at 30th June, 2003 and 31st December, 2002, there was no indication that the intangible assets were impaired and therefore no provision for impairment loss was made.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(9) Other current assets

Other current assets represented receivable from Shantou Harbor Group Company Limited for coal-port construction. As at 28th January, 2003, Shantou Harbor Group Company Limited had repaid the amount to the Company.

(10) Short-term loan

	30th June, 2003	31st December, 2002
Credit loan	200,000,000	550,000,000

The short-term loan bore interest at the rate of 4.7790% per annum as at 30th June, 2003 (31st December, 2002: 4.7790% to 5.5575% per annum).

As at 30th June, 2003, short-term loan was borrowed from China Huaneng Finance Company ("Huaneng Finance") (31st December, 2002: RMB200 million, with interest rate of 5.5575% per annum). Such loan is due as at 30th April, 2004.

(11) Dividends payable

	30th June, 2003	31st December, 2002
Dividend payable to the shareholders of the Company*	15,810,000	2,049,408,208
Weihai Power Plant's dividend payable to Weihai Power Development Bureau (WPDB)	30,993,430	—
Huaiyin Power Company's dividend payable to Huaian Investment Company	15,280,096	—
	62,083,526	2,049,408,208

* As at 28th May, 2003, the shareholders' meeting approved the declaration of dividends of Rmb0.34 per share, totaling Rmb2,049 million for the year ended 31st December, 2002. For the six months ended 30th June, 2003, dividends of about Rmb2,034 million had been paid by cash.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(12) Taxes payable**

Taxes payable comprised:

	30th June, 2003	31st December, 2002
Income tax payable	337,382,843	311,436,416
VAT payable	290,444,051	291,456,338
Others	25,115,054	17,296,146
	652,941,948	620,188,900

(13) Other payables

Other payables comprised:

	30th June, 2003	31st December, 2002
Payable to contractors	1,156,315,692	1,333,447,550
Other payable to contractors	155,237,440	140,328,419
Payable to HIPDC	34,559,729	100,475,344
Technical service fee payable	28,124,210	28,124,210
Project saving bonus	74,571,030	62,110,406
Payable of housing maintenance fund	64,099,173	47,488,793
Others	326,929,547	568,439,463
	1,839,836,821	2,280,414,185

As at 30th June, 2003 and 31st December, 2002, there was no other payable to the shareholders who were holding 5% or more of the equity interest in the Company, except for the payable to HIPDC which amounted to Rmb34,559,729 as mentioned in Note 7(7) (31st December, 2002: Rmb100,475,344), and there was no other payable aged over three years.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(14) Long-term loans

Long-term loans comprised (all were credit loans unless otherwise stated):

		30th June, 2003	31st December, 2002
Long-term loans from shareholders	(i)	583,356,025	777,782,754
Long-term bank loans	(ii)	9,537,741,522	10,393,252,361
Other long-term loans	(iii)	741,342,310	427,402,311
		10,862,439,857	11,598,437,426
Less: current portion of long-term loans		(2,799,487,209)	(2,413,636,557)
		8,062,952,648	9,184,800,869

(i) Long-term loans from shareholders

Long-term loans from shareholders (including current portion) comprised:

		30th June, 2003		
	Currency	Original Currency	Exchange rate	Rmb equivalent
Foreign currency bank loans				
on-lent by HIPDC	US\$	70,475,756	8.2774	583,356,025
Less: current portion of long-term loans from shareholders	US\$	(46,982,876)	8.2774	(388,896,058)
		23,492,880		194,459,967

As at 30th June, 2003, detailed information of the long-term loans from shareholders was as follow:

Lender	30th June, 2003	Loan period	Annual interest rate	Current portion
Bank loans on-lent by HIPDC				
Bank of China	583,356,025	1997-2004	LIBOR+0.9%	388,896,058

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(14) Long-term loans** (Cont'd)(i) *Long-term loans from shareholders* (Cont'd)

The foreign currency bank loans bore interest at the prevailing lending rates (both fixed and floating), prescribed by the loan contracts, which range from 3.68% to 4.01% per annum for the six months ended 30th June, 2003 (2002: 4.01% to 7.40%), and are repayable in accordance with the repayment schedules set by the banks.

The foreign-currency bank loans were previously borrowed by HIPDC for financing the construction of power plants. Upon the restructuring of the Company in 1994 or on the acquisition of the relevant power plants from HIPDC, all these outstanding long-term bank loans were restructured. HIPDC continued to borrow the loans from the banks and then on-lent the proceeds to the Company as shareholders loans. The existing terms of the loans including interest rates and repayment schedules remained intact after the restructuring.

(ii) *Long-term bank loans*

Long-term bank loans (including current portion) comprised:

	30th June, 2003
Renminbi bank loans	1,969,000,000
United States dollar bank loans	7,568,741,522
	9,537,741,522
Less: current portion of long-term bank loans	(2,350,637,664)
	7,187,103,858

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(14) Long-term loans (Cont'd)

(ii) Long-term bank loans (Cont'd)

As at 30th June, 2003, detailed information of the long-term bank loans was as follows:

Lenders	30th June, 2003	Loan period	Interest rate		
			per annum	Current portion	Terms
Renminbi bank loans					
China Construction Bank-Weihai branch	480,000,000	1998-2004	5.76%	480,000,000	Guaranteed by the Company and WPDB
China Construction Bank-Weihai branch*	30,000,000	1999-2005	5.76%	—	Guaranteed by the Company
China Construction Bank-Weihai branch*	100,000,000	1999-2007	5.76%	—	Guaranteed by the WPDB
Bank of China	526,000,000	1999-2009	5.76%	20,000,000	Guaranteed by the Company
Bank of China-Taicang branch*	664,000,000	1999-2014	5.76%	—	Guaranteed by the Company
Bank of China-Suzhou branch	114,000,000	1999-2009	5.76%	16,000,000	Guaranteed by the Company
China Construction Bank-Huaian Yangzhuang sub branch	35,000,000	1994-2004	6.21%	35,000,000	Guaranteed by the Company
China Construction Bank-Huaian Yangzhuang sub branch*	10,000,000	1994-2004	6.21%	—	Guaranteed by Jiangsu International Trust Investment Company
China Construction Bank-Huaian Yangzhuang sub branch	10,000,000	1994-2004	6.21%	10,000,000	Guaranteed by Jiangsu Huaian Investment Company
Sub-total of Renminbi bank loans	1,969,000,000			561,000,000	
United States dollar bank loans					
Mizuko Corporate Bank, Ltd., HongKong	22,040,785	1996-2003	LIBOR+0.45%	22,040,785	Nil
Sumi Tomo Mitsui Banking Corporation, Shanghai Branch	22,073,066	1996-2003	LIBOR+0.4%	22,073,066	Nil
Bank of China	1,196,958,624	2002-2004	LIBOR+0.6%	850,343,432	Nil
Bank of Communication	9,443,207	2000-2005	LIBOR+1.1%	3,808,800	Nil
Bank of China-Taicang branch*	92,705,760	1999-2006	Interest rate of foreign currency loan prescribed by Bank of China-0.5%	—	Guaranteed by the Company
	1,343,221,442			898,266,083	
On-lent loans by Bank of China					
American I&E Bank	1,274,630,042	1997-2011	6.54%	145,252,533	Guaranteed by HIPDC
American I&E Bank	1,090,931,994	1995-2011	5.95%	128,344,938	Guaranteed by HIPDC
American I&E Bank	1,260,410,529	1997-2011	5.95%	148,283,671	Guaranteed by HIPDC
American I&E Bank	312,369,835	1997-2012	6.60%	32,881,036	Guaranteed by HIPDC
Japan Tokyo Bank	92,553,659	1995-2003	LIBOR+0.3%	92,553,659	Guaranteed by HIPDC
KFW Bank	810,939,187	1996-2012	6.60%	90,105,707	Guaranteed by HIPDC
Japan Fuji Bank	254,530,050	1996-2004	LIBOR+0.38%	169,686,700	Guaranteed by HIPDC
KFW Bank	504,102,451	1999-2015	6.36%	31,839,805	Guaranteed by Huaneng Group
Citibank**	625,052,333	1999-2015	LIBOR	52,423,532	Guaranteed by Huaneng Group
	6,225,520,080			891,371,581	
Sub-total of US\$ bank loans	7,568,741,522			1,789,637,664	
Total	9,537,741,522			2,350,637,664	

* As at 30th June, 2003, the loan was not repayable within one year and therefore there was no current portion for the loan.

** The interest rate of the loan from Citibank is LIBOR prior to the last drawdown date and LIBOR plus 0.075% thereafter. The last drawdown date will be 20th July, 2003 or the date of loan cancellation, whichever earlier.

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(14) Long-term loans (Cont'd)

(iii) Other long-term loans

Other long-term loans
 Less: current portion of other long-term loans

30th June, 2003
741,342,310
(59,953,487)
681,388,823

As at 30th June, 2003, other long-term loans consisted of:

Lender	30th June, 2003	Loan period	Annual interest rate	Current portion	Terms
WPDB	106,388,823	1994-2004	6.21%	—	Nil
Huaneng Finance	575,000,000	2002-2005	5.64%	—	Nil
Jiangsu International Trust and Investment Company	31,505,374	1997-2003	6.21%	31,505,374	Nil
Jiangsu Huaian Investment Company	8,980,252	1997-2003	6.21%	8,980,252	Nil
Jiangsu Power Development Company Limited	19,467,861	1999-2003	6.21%	19,467,861	Nil
	741,342,310			59,953,487	

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(15) Convertible notes

Details of convertible notes comprised:

	1st January, 2003	Conversion	Interest accrual	Interest payment	30th June, 2003
Convertible notes	166,497,890	(165,548,000)	10,340	(8,329)	951,901

In May, 1997, the Company issued at par value convertible notes with an aggregate principal amount of US\$230 million (Rmb1.904 billion) at 1.75% per annum due in 2004. These notes are listed on the New York Stock Exchange and the Luxemburg Stock Exchange. The notes will mature on 21st May, 2004, unless previously redeemed or converted.

The notes are convertible, at the option of the noteholders, at any time from and including 21 August, 1997 up to and including the date of maturity (including the first and last day), unless previously redeemed, at an initial conversion price of US\$29.20 per ADS, each of which represents 40 Overseas Listed Foreign Shares, subject to adjustment in certain circumstances.

According to the agreement, the notes might be redeemed, at the option of the noteholders, in whole or in part, on 21st May, 2002 at 128.575% of the principal amount of the notes together with accrued interest, if any. The Company had accrued for the put premium liability together with the interest payable on the notes using the effective interest rate of 6.66%. On 21 May, 2002, notes amounting to US\$209,685,000 were redeemed by the noteholders. The accrued put premium and interests in connection of the unredeemed portion were charged to the profit and loss in 2002.

The notes may be redeemed, at the option of the Company, at any time on or after 21 May, 2000, but prior to maturity, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes, together with accrued interest, if any, if the closing price of the ADSs for a period of 30 consecutive trading days is at least 130% of the conversion price in effect on each such trading day.

The noteholders converted the convertible notes with principal amount of US\$200,000 to 6,849 ADSs (equivalent to 273,960 Overseas Listed Foreign Shares) in 2002. During the six months ended 30th June, 2003, the noteholders converted the convertible notes with principal amount of US\$20 million to 684,931 ADSs (equivalent to 27,397,240 Overseas Listed Foreign Shares).

As at 30th June, 2003, the Company has convertible notes with principal amount of US\$115,000 which have not been redeemed or converted into ADSs.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(16) Share capital**

	1st January, 2003	Current period addition	30th June, 2003
Unlisted shares			
Promoters shares	3,509,400,000	—	3,509,400,000
Others	740,600,000	—	740,600,000
Sub-total of unlisted shares	4,250,000,000	—	4,250,000,000
Listed shares			
Domestic shares listed in the PRC	250,000,000	—	250,000,000
Overseas listed shares	1,500,273,960	27,397,240	1,527,671,200
Sub-total of listed shares	1,750,273,960	27,397,240	1,777,671,200
Total	6,000,273,960	27,397,240	6,027,671,200

As mentioned in Note 5(15), the increase of share capital is due to exercise of conversion rights by noteholders with principal amount of US\$20,000,000 into 684,931 ADSs (equivalent to 27,397,240 Overseas Listed Foreign shares) during the six months ended 30th June, 2003.

(17) Capital surplus

Movement of capital surplus was as follow:

	1st January, 2003	Current period addition	30th June, 2003
Share premium	10,260,830,755	138,150,760	10,398,981,515
Equity investment provision	—	3,605,000	3,605,000
	10,260,830,755	141,755,760	10,402,586,515

As mentioned in Note 5(15), the increase of capital surplus is mainly due to the exercise of conversion rights by noteholders with principal amount of US\$20,000,000 into 684,931 ADSs at a premium during the six months ended 30th June, 2003.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(18) Surplus reserves

For the six months ended 30th June, 2003, the Company and its subsidiaries did not provide statutory surplus reserve fund and statutory public welfare fund.

(19) Unappropriated profit

Balance as at 31st December, 2002	9,488,703,911
Adjustment on difference between dividends declared and dividends proposed by the Board of Directors*	(9,315,062)
Balance as at 31st December, 2002, as adjusted	9,479,388,849
Add: Net profit for the six months ended 30th June, 2003	2,355,671,994
Balance as at 30th June, 2003	<u>11,835,060,843</u>

* As at 12th March, 2003, the Board of Directors proposed a dividend of Rmb0.34 per ordinary share for the year ended 31st December, 2002. As the outstanding shares of the company was 6,000,273,960 as at 12th March, 2003, the Company recorded dividends payable amounted to Rmb2,040 million in the financial statements of 2002. As at 28th May, 2003, the shareholders approved the declaration of such dividends in the annual general meeting. As there was 6,027,671,200 shares outstanding on that date, the total dividends payable amounted to Rmb2,049 million (see Note 5(11)). The Company recorded the difference between the actual dividends declared and the dividends proposed by the Board of Directors, which arose from the change of numbers of ordinary shares (see Note 5(16) for the reason of the change), as an adjustment to the unappropriated profit brought forward.

The maximum amount available for distribution to the shareholders is the lowest of the amount (i.e. net profit in current year plus undistributed profit brought forward from the beginning of the year, deducting the appropriations to the statutory surplus reserve fund and the statutory public welfare fund) determined under the PRC accounting standards, the amount determined under the International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States of America ("US GAAP").

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(20) Revenues from principal operations and costs of principal operations**

	For the six months ended 30th June, 2003		For the six months ended 30th June, 2002	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sale of electric power	10,618,086,009	7,203,913,330	7,965,521,030	5,366,300,705

The Company and its subsidiaries have contractual arrangements for the sale of electric power with the local power companies or provincial power companies.

For the six months ended 30th June, 2003 and 2002, the revenue from the five largest customers of the Company and its subsidiaries amounted to Rmb8,626,328,328 and Rmb6,177,295,638, representing 81.24% and 77.55% of the total revenue, respectively.

(21) Financial expenses

Financial expenses comprised:

	For the six months ended 30th June, 2003	For the six months ended 30th June, 2002
Interest expenses	312,889,862	318,288,131
Less: Interest income	(32,329,035)	(73,021,217)
Exchange losses	580,720	2,625,085
Less: Exchange gain	(3,312)	(56,965)
Others	9,861,635	4,056,991
	290,999,870	251,892,025

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(22) Investment income (losses)**

	For the six months ended 30th June, 2003	For the six months ended 30th June, 2002
Investment income on bonds	430,794	813,400
Investment income on other debt investments	9,152,305	—
Equity pick-up of associates	62,233,380	(16,934,662)
Investment income on other equity investment	585,342	—
Amortization of equity investment differences	(30,285,297)	—
	42,116,524	(16,121,262)

There was no material restriction on the Company and its subsidiaries to obtain the remittance of investment income.

(23) Other cash paid relating to operating activities

	For the six months ended 30th June, 2003	For the six months ended 30th June, 2002
Cash paid for repair and maintenance expenses	310,459,386	267,275,326
Service fee paid to HIPDC	105,219,532	143,703,375
Payment of balance due to HIPDC	323,473,961	46,599,464
Others	360,177,846	158,163,218
	1,099,330,725	615,741,383

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

(a) Accounts receivable and other receivables

(i) Accounts receivable

	30th June, 2003	31st December, 2002
Accounts receivable	1,975,445,896	1,545,294,232

Aging of the accounts receivable was as follow:

Aging	30th June, 2003		31st December, 2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	1,961,775,896	99	1,540,674,232	100
1 - 2 years	13,670,000	1	4,620,000	—
	1,975,445,896	100	1,545,294,232	100

All accounts receivable represented receivable from the local power companies or provincial power companies for the sale of electric power. Since these accounts receivable are collectible, no bad debt provision was provided by the Company.

As at 30th June, 2003, the five largest accounts receivable of the Company amounted to Rmb1,578,590,234 (31st December, 2002: Rmb1,264,206,514), representing 79.91% of total accounts receivable (31st December, 2002: 81.81%).

(ii) Other receivables

	30th June, 2003	31st December, 2002
Other receivables	144,123,436	102,299,280
Less: bad debt provision	(22,599,880)	(21,104,202)
	121,523,556	81,195,078

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)**(1) Accounts receivable and other receivables (Cont'd)****(ii) Other receivables (Cont'd)**

Aging and bad debt provision for other receivables were as follow:

Aging	30th June, 2003			31st December, 2002		
	Amount	Percentage	Bad debt provision	Amount	Percentage	Bad debt provision
		(%)			(%)	
Within 1 year	103,277,604	72	(2,494,188)	43,906,321	43	(1,317,190)
1 - 2 years	7,489,154	5	(224,675)	27,725,976	27	(831,779)
2 - 3 years	2,850,463	2	(85,514)	9,122,225	9	(273,667)
More than 3 years	30,506,215	21	(19,795,503)	21,544,758	21	(18,681,566)
	144,123,436	100	(22,599,880)	102,299,280	100	(21,104,202)

Breakdown of other receivables was as follows:

	30th June, 2003	31st December, 2002
Prepayments for materials	23,913,995	24,534,432
Receivables from employees for sales of staff quarters	7,359,175	9,744,849
Social insurance fund	11,114,214	—
Receivable from Huaneng Group	8,323,700	—
Others	93,412,352	68,019,999
	144,123,436	102,299,280

As at 30th June, 2003, the five largest other receivables of the Company amounted to Rmb43,527,540 (31st December, 2002: Rmb45,783,552), representing 30% of total other receivables (31st December, 2002: 45%).

See Note 7 for related party transactions.

As at 30th June, 2003 and 31st December, 2002, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

(2) Long-term investments

	1st January, 2003	Current period additions	Current period decrease	30th June, 2003
Long-term equity investments -				
Equity investment difference *	313,862,886	809,383,004	(30,285,297)	1,092,960,593
Subsidiaries and associates (i)	1,749,257,715	1,834,306,970	(221,366,832)	3,362,197,853
Other long-term equity investment	254,989,551	—	—	254,989,551
Others	6,364,278	—	(60,600)	6,303,678
	<u>2,324,474,430</u>	<u>2,643,689,974</u>	<u>(251,712,729)</u>	<u>4,716,451,675</u>
Less: current portion of other long-term equity investments	(25,160)	(77,600)	—	(102,760)
	<u>2,324,449,270</u>	<u>2,643,612,374</u>	<u>(251,712,729)</u>	<u>4,716,348,915</u>

* Please refer to Note 5(5) for details.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

(2) Long-term investments (Cont'd)

(i) Long-term equity investments in subsidiaries and associates

Name	Investment period	1st January, 2003	Investment cost	
			Current period additions	30th June, 2003
Weihai Power Plant	Indefinite	474,038,793	—	474,038,793
Taicang Power Company	Indefinite	469,706,560	—	469,706,560
Huaiyin Power Company	Indefinite	341,176,226	—	341,176,226
Rizhao Power Company	20 years	231,868,800	—	231,868,800
SEG	Indefinite	—	1,595,902,576	1,595,902,576
		1,516,790,379	1,595,902,576	3,112,692,955

Name	Accumulated equity pick-up				30th June, 2003
	1st January, 2003	Current period profit/(loss)	Other additions	Income appropriation	
Weihai Power Plant	167,986,263	61,057,736	—	(136,490,145)	92,553,854
Taicang Power Company	79,999,084	74,748,981	—	(33,053,751)	121,694,314
Huaiyin Power Company	15,390,746	34,861,941	—	(49,925,580)	327,107
Rizhao Power Company	(30,908,757)	(1,897,356)	—	—	(32,806,113)
SEG	—	64,130,736	3,605,000	—	67,735,736
	232,467,336	232,902,038	3,605,000	(219,469,476)	249,504,898

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)**(2) Long-term investments** (Cont'd)

Name	Net carrying amount	
	1st January, 2003	30th June, 2003
Weihai Power Plant	642,025,056	566,592,647
Taicang Power Company	549,705,644	591,400,874
Huaiyin Power Company	356,566,972	341,503,333
Rizhao Power Company	200,960,043	199,062,687
SEG	—	1,663,638,312
	<u>1,749,257,715</u>	<u>3,362,197,853</u>

There was no significant difference in accounting policies used by the investees and the Company. There was no significant restriction on the realisability of the investments or the remittance of investment income.

(3) Long-term debt investments

	1st January, 2003	Current period addition	Current period deduction	30th June, 2003
Long-term entrusted loans to a subsidiary*	696,962,956	—	(119,300,000)	577,662,956
Others	10,137,770	—	(230,600)	9,907,170
	<u>707,100,726</u>	<u>—</u>	<u>(119,530,600)</u>	<u>587,570,126</u>
Less: Current portion of entrusted loans	(256,300,000)	(100,700,000)	—	(357,000,000)
	<u>450,800,726</u>	<u>(100,700,000)</u>	<u>(119,530,600)</u>	<u>230,570,126</u>

* Long-term entrusted loan to a subsidiary

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)**(3) Long-term debt investments (Cont'd)**

In order to finance the construction of Weihai Power Plant Phase II, the Company had granted entrusted loans to Weihai Power Plant through a financial institution in September, 1995. These loans were not secured nor guaranteed and bore interests at 6.21% per annum. As at 30th June, 2003, these loans were repayable in accordance with the following agreed schedules:

	Rmb Yuan
Within 1 year	357,000,000
1-2 years	220,662,956
	<u>577,662,956</u>

For the six months ended 30th June, 2003, the Company received interest income of approximately Rmb17.24 million (for the six months ended 30th June, 2002: Rmb20.78 million) from Weihai Power Plant. As at 30th June, 2003, the outstanding entrusted loans, the related interest income and interest expense were eliminated in the consolidated financial statements.

(4) Revenues from principal operations and costs of principal operations

	For the six months ended 30th June, 2003		For the six months ended 30th June, 2002	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sale of electric power	9,193,411,044	6,296,734,893	7,131,203,236	4,775,015,649

The Company has contractual arrangements for the sale of electric power with the local power companies or provincial power companies.

For the six month ended 30th June, 2003 and 2002, the revenue from the five largest customers of the Company amounted to Rmb7,201,653,363 and Rmb5,375,354,344, representing 78.33% and 75.38% of the total revenue, respectively.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

(5) Investment income

	For the six months ended 30th June, 2003	For the six months ended 30th June, 2002
Investment income on bonds	430,794	—
Investment income on entrusted loans	17,237,506	20,779,263
Investment income on other debt investments	9,152,305	—
Equity pick-up of subsidiaries and associates	232,902,038	48,764,321
Other equity investment income	585,342	—
Amortization of equity investment differences	(30,285,297)	—
	230,022,688	69,543,584

There was no material restriction for the Company to obtain the remittance of investment income.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

7. RELATED PARTY TRANSACTIONS

(1) Related parties that control/are controlled by the Company:

Name	Type of enterprise	Legal representative	Registered address	Relationship with the Company	Principal activities
HIPDC	Sino-foreign equity limited liability company	Li Xiaopeng	2C Fuxingmennan Street, Xi Cheng District, Beijing	Parent company	Investment in power plants, development and investment in other export-oriented enterprises
Huaneng Group	State-owned enterprise	Li Xiaopeng	A23 Fuxin Road, Haidian District, Beijing	Ultimate parent company	Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber, cement and related industries and others
Weihai Power Plant	Limited liability company	Wu Dawei	No. 58 Haifu road, Economic Development Zone, Weihai, Shandong province	Subsidiary	Power generation
Taicang Power Company	Limited liability company	Hu Jianmin	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province	Subsidiary	Power generation
Huaiyin Power Company	Limited liability company	Liu Guoyue	No. 291 Huaihai West Road, Huaian, Jiangsu province	Subsidiary	Power generation

(2) Registered capital and changes in registered capital of related parties that control/are controlled by the Company:

Name	30th June, 2003 and 31st December, 2002
HIPDC	US\$ 450,000,000
Huaneng Group	Rmb1,900,000,000
Weihai Power Plant	Rmb761,832,800
Taicang Power Company	Rmb632,840,000
Huaiyin Power Company	Rmb265,000,000

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

7. RELATED PARTY TRANSACTIONS (Cont'd)

(3) Equity shares and changes in equity shares held by parties that control/are controlled by the Company:

Name	1st January, 2003		Current period additions		Current period deduction		30th June, 2003	
	Amount	%	Amount	%	Amount	%	Amount	%
HIPDC*	2,554,840,000	42.58	—	—	—	(0.19)	2,554,840,000	42.39
Huaneng Group**	1,675,660,547	51.98	—	—	—	—	1,675,660,547	51.98
Weihai Power Plant	457,103,040	60	—	—	—	—	457,103,040	60
Taicang Power Company	474,630,000	75	—	—	—	—	474,630,000	75
Huaiyin Power Company	168,646,000	63.64	—	—	—	—	168,646,000	63.64

* In accordance with a shareholders' agreement entered into by certain founding shareholders, during the operating period of the Company, the voting rights of seven founding shareholders are given to HIPDC. Thus, HIPDC holds 70.4% voting rights in the shareholders' meetings.

** Huaneng Group holds 51.98% equity interest in HIPDC.

(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	A subsidiary of Huaneng Group
WPDB	Minority shareholder of Weihai Power Plant
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Rizhao Power Company	An associate of the Company

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

(All amounts are stated in Rmb Yuan unless otherwise stated)

7. RELATED PARTY TRANSACTIONS (Cont'd)**(5) Related party transactions**

- a. Pursuant to the relevant service agreements, HIPDC provides transmission and transformer facilities to some of the power plants of the Company and receives service fees. Such service fees represent recoverable costs for rate setting purposes. The total service fee paid to HIPDC for the six months ended 30th June, 2003 was approximately Rmb105 million (for the six months ended 30th June, 2002: Rmb144 million).
- b. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use right of Shanghai Power Plant is leased to the Company for a period of 50 years at an annual rental payment of Rmb6 million. During the six months ended 30th June, 2003, the Company paid rental amounting to Rmb3 million to HIPDC (for the six months ended 30th June, 2002: Rmb3 million).
- c. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment, the land use right of Nanjing Power Plant is leased to the Company for 50 years with an annual rental payment of Rmb1.334 million.
- d. Pursuant to a leasing agreement between the Company and HIPDC, HIPDC agreed to lease its building to the Company as office for 5 years at an annual rental of Rmb25 million effective from 1st January, 2000.
- e. As described in Note 5(14)(i) and Note 5(14)(iii), certain bank loans were on-lent from HIPDC and drawn from WPDB and Huaneng Finance to the Company and its subsidiaries.
- f. As at 30th June, 2003, Huaneng Finance had granted short-term loans amounting to Rmb200 million (31st December, 2002: Rmb200 million) to the Company and its subsidiaries. The interest rates of such loans are not materially different from the prevailing market interest rate (see Note 5(10)).
- g. As at 30th June, 2003, long-term bank loans of approximately Rmb5,096 million, Rmb1,129 million and Rmb280 million were guaranteed by HIPDC, Huaneng Group and WPDB, respectively (31st December, 2002: Rmb5,544 million, Rmb1,140 million and Rmb280 million respectively) (see Note 5(14)).
- h. As described in Note 8, certain long-term bank loans of Rizhao Power Company, Weihai Power Plant, Taicang Power Company and Huaiyin Power Company were guaranteed by the Company.
- i. In accordance with an equipment import agency service agreement entered into between Shandong Huaneng Power Development Co., Ltd ("Shandong Huaneng") and CHITEC, the Company is required to pay an agency fee at 0.5% of the contracted amount of imported equipment in return for the agency service provided by CHITEC. For the six months ended 30th June, 2003, the Company did not pay any agency fee to CHITEC for equipment transportation and insurance service (for the six months ended 30th June, 2002: US\$0.328 million).
- j. For the six months ended 30th June, 2003, the Company purchased coal from CHITEC amounting to Rmb22.90 million (for the six months ended 30th June, 2002: nil).
- k. As at 30th June, 2003, the Company's subsidiaries' dividend payable to minority was stated in Note 5(11).

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in Rmb Yuan unless otherwise stated)

7. RELATED PARTY TRANSACTIONS (Cont'd)

(5) Related party transactions (Cont'd)

- I. On 6th November, 2002, the Company has entered into a management service agreement with Huaneng Group and HIPDC. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC. For the six months ended 30th June, 2003, the Company provided management services and earned service fee amounted to Rmb16,647,400 and Rmb8,652,600 from Huaneng Group and HIPDC, respectively.

(6) Cash deposited in related parties

	30th June, 2003	31st December, 2002
Deposited in Huaneng Finance:		
- Current deposits	357,089,930	2,376,197,356
- Fixed deposits	500,000,000	570,000,000
	857,089,930	2,946,197,356

As at 30th June, 2003, the interest rates per annum of the current deposits and fixed deposits placed with Huaneng Finance were ranged from 0.72% to 1.44% and 1.89%, respectively (31st December, 2002: 0.72% to 1.44% and 1.71%, respectively).

(7) Receivables from/payables to related parties

	30th June, 2003		31st December, 2002	
	Amount	Percentage	Amount	Percentage
Other receivable				
Receivable from Huaneng Group	8,323,700	4.01%	—	—
Interest receivable:				
Interest receivable on deposit from Huaneng Finance	4,090,685	61.99%	1,630,137	42.98%
Accounts payable				
Account payable to CHITEC for purchase of coal	5,584,505	1.01%	—	—
Other payable:				
Due to HIPDC	34,559,729	1.88%	100,475,344	4.41%

The balances with Huaneng Group, HIPDC and CHITEC were unsecured, non-interest bearing and receivable/repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

8. CONTINGENT LIABILITY

Item	30th June, 2003	
	The Company and its subsidiaries	The Company
Guarantee on the long-term bank loans of Rizhao Power Company	399,250,000	399,250,000
Guarantee on the long-term bank loans of Weihai Power Plant	—	330,000,000
Guarantee on the long-term bank loans of Taicang Power Company	—	1,396,705,760
Guarantee on the long-term bank loans of Huaiyin Power Company	—	35,000,000
	399,250,000	2,160,955,760

Guarantee on the long-term bank loans of Rizhao Power Company, Weihai Power Plant, Taicang Power Company and Huaiyin Power Company by the Company had no significant financial impact on the Company's operation.

9. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of electric generation facilities, renovation projects for existing power plants. Capital commitment amounting to Rmb 1.33 billion was not included in the consolidated balance sheet of the Company and its subsidiaries as at 30th June, 2003.

The Company had various operating lease arrangements with HIPDC for land and buildings. Total future minimum lease payments under non-cancelable operating leases were as follow:

	30th June, 2003	31st December, 2002
Land and buildings		
- within one year	32,334,000	32,334,000
- between one year and two years	19,834,000	32,334,000
- between two years and three years	7,334,000	7,334,000
- after three years	302,695,000	306,362,000
	362,197,000	378,364,000

In addition, in accordance with a 30-year operating lease agreement signed by the Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phase I and Phase II in June, 1994, annual rental is approximately Rmb29.874 million effective from June, 1994 and is subject to revision at the fifth year since 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 percent of the previous annual rental amount. For the six months ended 30th June, 2003, the rental was Rmb15,352,004 (for the six months ended 30th June, 2002: Rmb14,941,227).

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared in accordance with PRC Accounting Standards)

*(All amounts are stated in Rmb Yuan unless otherwise stated)***10. INTEREST RATE SWAP CONTRACT**

The Company entered into interest rate swap agreements with Bank of China to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 30th June, 2003, the notional amount of the outstanding interest swap agreements were approximately US\$36.08 million.

11. SUBSEQUENT EVENT

On 5th June, 2003, the Company entered into an agreement with Huaneng Group. Pursuant to which, the Company intended to acquire from Huaneng Group the 55% equity interests in Henan Huaneng Qinbei Power Co., Ltd., 60% equity interests in Shanxi Huaneng Yushe Power Co., Ltd., and the entire assets and liabilities of China Huaneng Group Xindian Power Plant. The total consideration for the acquisition is Rmb550 million. The acquisition has been approved by the shareholders and is subject to the government approvals.

12. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain prior year comparative figures have been reclassified to conform to the current period presentation.

SUPPLEMENTAL INFORMATION (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

(Prepared on consolidation basis; all amounts are stated in Rmb Yuan unless otherwise stated)

NET PROFIT AND NET ASSETS RECONCILIATION BETWEEN PRC GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The financial statements, which are prepared by the Company and its subsidiaries in conformity with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises (“PRC GAAP”), differ in certain respects from IFRS. Major differences between PRC GAAP and IFRS, which affect the net income and net assets of the Company and its subsidiaries, are summarized as follow:

	Net Income	
	For the six months ended 30th June,	
	2003	2002
Net income under PRC GAAP	2,355,671,994	1,820,890,668
Impact of IFRS adjustments:		
Effect of recording deferred revenue based on rate making process (a)	(76,509,744)	(92,233,553)
Difference in the basis of determining the amount of materials and supplies (b)	1,143,688	1,017,703
Difference in the recognition policy on housing benefits to the employees of the Company (c)	(13,244,487)	6,710,677
Difference in accounting treatment of amortized cost of the liability component and put option relating to the convertible notes (d)	(3,206,700)	(32,376,779)
Difference in capitalization of borrowing costs (e)	7,179,863	83,981,026
Difference in the recognition of financial liabilities (f)	4,206,206	3,563,641
Applicable deferred tax impact of the above GAAP differences (g)	6,451,513	(14,276,774)
Others	3,512,919	—
Net income under IFRS	2,285,205,252	1,777,276,609

	Net Assets	
	30th June, 2003	31st December, 2002
Net assets under PRC GAAP	31,684,986,800	29,160,161,806
Impact of IFRS adjustments:		
Effect of recording deferred revenue based on rate making process (a)	(1,016,073,338)	(939,563,594)
Difference in the basis of determining the amount of materials and supplies (b)	(16,238,999)	(17,382,687)
Difference in the recognition policy on housing benefits to the employees of the Company (c)	76,740,525	89,985,012
Difference in accounting treatment of convertible notes (d)	510,506,379	510,506,379
Adjustment relating to convertible notes arising from initial adoption of IAS 39 (d)	(463,920,605)	(463,920,605)
Difference in accounting treatment of amortized cost of the liability component and put option relating to the convertible notes (d)	(46,546,776)	(36,086,925)
Difference in capitalization of borrowing costs (e)	95,591,769	88,411,906
Difference in the recognition of financial liabilities (f)	(8,489,782)	(12,695,988)
Dividend in respect of the year but declared after the end of the year (g)	—	2,049,408,208
Applicable deferred tax impact of the above GAAP differences (h)	(4,006,379)	(10,457,892)
Others	(2,397,342)	(2,305,261)
Net assets under IFRS	30,810,152,252	30,416,060,359

(a) Recording deferred revenue based on rate making process

Under the rate making process applicable to the Company and its subsidiaries (except for power plants acquired in 2001 and 2002), major repair and maintenance expenses determined on the basis of 1% of the fixed asset cost is recovered through the current 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 expenses 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 deferred revenue under IFRS. For PRC statutory financial reporting purposes, in accordance with the requirement of PRC GAAP, no such amount is recorded and revenue is determined and recognized based on the actual amount of electricity transmitted to the grid and the prevailing approved power rates.

(b) Difference in the basis of determining the amount of material and supplies

Under PRC GAAP, materials and supplies have been restated to the appraised value determined by independent valuer during the reorganization of the five original operating plants in 1994 and the appraised value has been used as the basis in determining the amount charged to operating expenses upon actual utilization. Under IFRS, materials and supplies are charged to operating expenses at cost based on actual utilization.

(c) Difference in the recognition policy on housing benefits to the employees of the company

The Company and HIPDC provided housing benefits to certain qualified employees of the Company whereby the living quarters owned by the Company and HIPDC were sold to these employees at preferential prices. The housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees, which are borne by the Company and HIPDC.

For PRC statutory reporting purposes, in accordance with the relevant regulations issued by the Ministry of Finance, the total housing benefits provided by the Company are charged to non-operating expenses. Under IFRS, the housing benefits provided by the Company are recognized on a straight-line basis over the estimated remaining average service lives of the employees.

(d) Accounting treatment of convertible notes

Under PRC GAAP, the Company had accrued for the put premium liability together with the interest payable on the notes using the effective interest rate of 6.66% as at 21st May, 2002. As at 21st May, 2002, all accrued put premium of unredeemed notes was charged to the income statement as reversal of interest expense.

Under IFRS, 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 PRC 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 recognised 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 amortised cost of the liability component were charged or credited to the income statements.

(e) Capitalization of borrowing costs

Under PRC GAAP, the capitalization of interests is limited to specific borrowings. No interest can be capitalized on general borrowings.

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.

(f) Accounting treatment of financial liability

The Company enters into interest rate swap agreements with local banks to convert certain floating rate debts of the same principal amounts and for the same maturities to hedge against interest rate risk. As at 30th June, 2003, the notional amount of the outstanding interest rate swap agreement was approximately US\$36 million. For the six months ended 30th June, 2003, there was a gain amounted to approximately Rmb 4.2 million arising from changes in the fair value of the interest rate swaps. Under PRC GAAP, such interest swap contracts are considered and disclosed as off balance sheet items. Under IFRS, derivative instruments are recorded as either assets or liabilities in the balance sheet at fair value, which is determined based on market conditions 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. Since the hedging relationship does not meet all of the conditions required for special hedge accounting as set out in IAS 39, such gain was credited to the income statement in current period.

(g) Dividend appropriation

Under PRC GAAP, dividends proposed or declared after the balance sheet date but before the date when the financial statements are authorized for issue are deducted from the undistributed profit and recognized as liability as at the balance sheet date. Under IFRS, the dividends are recorded in the year in which the dividends are declared.

(h) Deferred tax impact

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