

P O W E R I N G
tomorrow

2004
INTERIM REPORT



華能國際電力股份有限公司
HUANENG POWER INTERNATIONAL, INC.

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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, 2004 (the “Accounting Period”) and a comparison with the operating results for the same period of 2003. For the six months period ended 30th June, 2004, the Company recorded a net operating revenue of Rmb12.964 billion and a net profit of Rmb2.481 billion, representing increases of 23.30% and approximately 8.58% respectively as compared to the same period of 2003. Earnings per share was Rmb0.21 and net asset value per share was Rmb2.77.

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 2004, the PRC’s national economy continued to maintain rapid and steady growth with GDP growth rate reaching 9.7%, which led to a rapid increase in power demand, and power generation of the State increased 15.8% when compared to the same period last year. The macro-control policies and measures adopted by the State began to see their impact. However, there were still difficulties regarding the fuel transportation for power generation. The trend of overall tight power supply has not been eased, in particular the drastic increase in coal prices brought great pressure upon cost control efforts of the Company.

The Company’s management and staff made great efforts to seize the favourable opportunities as presented by substantial increase in power demand brought about by the rapid growth of the national economy, working hard to cope with the challenges of tight fuel supply, drastic coal price rise and declining coal quality. Facing the increasingly keen competition in the power market, the Company made its best endeavours to overcome the difficulties with every possible means, thus accomplishing generation and operation task in the first half of this year.

1. Power Generation

During the first half of this year, the power plants of the Company achieved power generation totalling 48.83 billion kWh on a consolidated basis, representing an increase of 18.87% over the same period last year. The growth of power generation mainly attributable to the power generation contributed by Yushe Power Plant and Xindian Power Plant acquired in 2003, and by the stable generation capacity created by generating units no. 5 and 6 of Jining Power Plant. On the other hand, continued rapid growth of power consumption in the regions where the Company’s power plants are located also created favourable conditions for the Company to increase its power generation.

The Company considers safe operation being fundamental to its operation and adheres 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 its management to improve the safety level of the generating units and enhanced the reliability of the equipment and overcame various adverse impacts and difficulties including tight fuel supply, declining coal quality, continuous high-load operation of the generating units, thereby ensuring their safe operation under tight power supply and demand.

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

2. Cost Control

The persistent rise in coal prices since the end of 2003 had brought about a significant impact on the generation and operation of the Company. Starting the second quarter this year, the increase in the coal prices became more drastic. Despite the relatively significant increase in power generation as compared to the same period last year and the implementation of various measures on cost control by the Company, the above still could not offset the increase in power generation costs brought about by the rise in coal prices. The unit fuel cost of the Company for the first half of the year increased by 25.85% when compared to the same period last year. Facing such unfavourable operation situation, the Company adopted measures in a timely manner to actively implement and enhance the planned realization rate of the State's major coal contracts; increased the supply of coal with good quality and competitive prices through the amicable business relationship established with large-sized coal enterprises; entered into medium-to-long term coal supply agreements with major coal supply units; established stable long-term supply and demand relationship; actively and effectively commenced work on coal imports; reinforced the coordination with shipping companies, thereby relieving the delivery pressure. Besides, the Company continued to enhance its internal management and exert its full potentials, through coal blending burning, the price-rising pressure of the main coal and coal source could be eased. Through the process of up-grading the generating units, it reduced the unit coal consumption, and to a large extent minimized the adverse effect brought about by the increment in coal prices to the Company.

3. Project Development and Construction

During the first half of this year, infrastructure construction progressed smoothly and the preparation work of the power projects made certain progress:

- (1) The construction relating to Qinbei Phase I, Yushe Phase II, Huaiyin Phase II and Shantou Phase II progressed smoothly;
- (2) The originally planned projects of the Company progressed smoothly.

4. Asset Acquisition

On 16th April, 2004, the Company entered into transfer agreements with China Huaneng Group ("Huaneng Group"), Huaneng International Power Development Corporation ("HIPDC") and Jiangxi Provincial Investment Company respectively. Pursuant to the transfer agreements, the Company acquired the following power assets for Rmb4.575 billion: (1) 90% equity interest in Jinggangshan Huaneng Power Generation Limited Liability Company and 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company, both owned by Huaneng Group; (2) all the assets and liabilities of Yingkou Power Plant, 60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company, all owned by HIPDC; (3) 10% equity interest in Jinggangshan Power Plant owned by Jiangxi Provincial Investment Company. Currently, this acquisition has been completed and the power generation capacity on an equity basis of the Company increased by 3,096MW.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the second half of year 2004, on the one hand, the macro-economy will continue to maintain a steady and rapid development and the growth of GDP will maintain at a relatively high level. The rapid development in the national economy provided strong power demand, and demand is still greater than supply in the power market. On the other hand, the tight coal supply and continued rise in coal prices have aroused great concern to the relevant departments of the State. The State Development and Reform Commission will exercise control over the coal price, and the Railway Department has recently strengthened the transportation of coal, thus creating conditions for the overall completion of production operation targets of the Company. Moreover, the policies on the adjustments of power tariffs and the restrictions regarding the maximum price fluctuation in respect of coal for power generation adopted by the State have created a favourable external operating environment for stable operation.

The management of the Company will continue to put optimization of shareholders' interests as its business objective and work targets, seizing the opportunities and overcoming the difficulties. Accordingly, the management and all the staff of the Company will make joint efforts and overcome difficulties 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 production management and in respect of the advancement and reliability of the Company's generating units;
2. to strengthen internal management and cost controls: focusing on fuel cost control, and limiting the increase range of unit fuel costs;
3. to reinforce the Company's sales and marketing efforts: to further capture more market shares and to enhance the average settlement levels of power tariffs;
4. to ensure the commencement of production of 1 X 600 MW coal-fired generating unit of Qinbei Power Plant Phase I and 2 X 300 MW coal-fired generating units of Yushe Power Plant Phase II according to schedule, and to continue to actively carry out the preparation work of other proposed projects; and
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, 2004 and 30th June, 2003.

Summary

For the first half of 2004, there remained a shortage of supply in power in the PRC. The power generation and consumption maintained a rapid growth. During the first half of 2004, the power generation of the Company and its subsidiaries increased by 18.87% from 41.079 billion kWh to 48.830 billion kWh, when compared with the same period of the last year. The growth of power generation was mainly attributable to:

- (1) The power generation contribution from the Yushe Power Plant and the Xindian Power Plant, both of which were acquired in 2003;

- (2) The stable operation of new generation units No.5 and No.6 of the Jining Power Plant;
- (3) The rapid-growth of the power demand at the various regions where our power plants are located, such as Fujian, Liaoning and Jiangsu Province, which resulted in a stable increase of power generation for the Company.

On 16th April, 2004, the Company entered into agreements with Huaneng Group, HIPDC and Jiangxi Provincial Investment Company respectively, pursuant to which the Company acquired the following equity interests and assets at a consideration of Rmb4.575 billion:

- (1) 90% equity interest in Jinggangshan Huaneng Power Generation Limited Liability Company and 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company from Huaneng Group;
- (2) All the assets and liabilities of Yingkou Power Plant, 60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company from HIPDC;
- (3) 10% equity interest in Jinggangshan Power Plant from Jiangxi Provincial Investment Company.

After obtaining all the necessary government approvals on the acquisitions and the payment of the purchase considerations, the Company took over the control or obtained a significant influence of the above power companies and power plants in July 2004.

Net Operating Revenue

For the six months ended 30th June, 2004, the consolidated net operating revenue of the Company and its subsidiaries was Rmb12.964 billion, representing an increase of 23.30% from Rmb10.514 billion in the same period of last year.

The increase of net operating revenue was attributed to the increase of power output by 18.78% from the same period of last year. The Jining Power Plant, the Fuzhou Power Plant and the Dandong Power Plant had a relatively substantial increase in net operating revenue. The substantial increase of the operating revenue in the Jining Power Plant was due primarily to the fact that the Jining Power Plant Phase III commenced its commercial operation in the second half of the last year. Accordingly, its power output increased by 56.11% from the same period of the last year. The increase in the operating revenue of the Fuzhou Power Plant and the Dandong Power Plant was due primarily to the increase of their on-grid power output.

Operating Expenses

For the six months ended 30th June, 2004, the total operating expenses of the Company and its subsidiaries were Rmb9.771 billion, representing an increase of 31.57% from the same period of last year.

The primary operating expense of the Company and its subsidiaries is fuel cost. The coal price has been increasing since the end of 2003 and has increased significantly especially in the second quarter of this year. The average unit price of natural coal was Rmb290.22 per ton, representing an increase of Rmb52.44 from Rmb237.78 in the same period of last year. Excluding the Xindian Power Plant and the Yushe Power Plant acquired in the second half of the last year, the average unit price of natural coal increased by Rmb55.13 per ton. In order to manage the impact of increasing

coal price, the Company promptly took measures to ensure the implementation of key coal supply contracts allocated by the State, clarified responsibilities and established long-term purchase contracts with key coal suppliers in order to build a stable demand and supply relationship. In addition, the Company is considering to import coal from overseas market. The Company reinforced the coordination with shipping companies to relieve the delivery pressure. Moreover, the Company continued to carry out the coal blending burning work so as to ease the price-rising pressure of the main coal and coal source. Through the process of up-grading the generating units, it reduced the unit coal consumption, and to a large extent minimized the adverse effect brought about by the increment in coal prices to the Company.

Financial Expenses

The financial expenses of the Company and its subsidiaries were Rmb227 million, representing a decrease of 20.07% from Rmb284 million of the same period of last year. The decrease was due primarily to the decrease of the average balance of other loans when compared to the same period of last year, i.e. loans that are not used to finance the purchase and construction of property, plant and equipment.

Share of Profit of Associates

The share of profit of associates of the Company and its subsidiaries was Rmb109 million. This mainly represented the share of profit of Shenzhen Energy Group Co., Ltd, which was acquired in April 2003.

Income Tax

There was no change in the preferential income tax treatment applied to the Company and its subsidiaries. During the first half of 2004, the weighted average effective tax rate for the Company and its subsidiaries was 17%.

Net Profit

The consolidated net profit of the Company and its subsidiaries was Rmb2,481 million, representing an increase of approximately 8.58% from Rmb2,285 million of the same period of last year. The increase was mainly attributable to the increase in power output.

Comparison of Key Financial Ratios

Items	The Company and its subsidiaries	
	30th June, 2004	31st December, 2003
Debt to equity ratio	0.71	0.54
Current ratio	0.86	0.90
Quick ratio	0.78	0.81
	For the six months ended	
	30th June, 2004	30th June, 2003
Multiples of interest earned	9.66	10.10

The debt to equity ratio of the Company and its subsidiaries increased primarily because of the increase of the loans borrowed from financial institutions for construction projects.

As at 30th June 2004, the total balance of interest-bearing loans of the Company and its subsidiaries amounted to approximately Rmb19.129 billion, of which the current portion was about Rmb2,285 billion. The loans denominated in foreign currencies amounted to approximately US\$741 million and Japanese Yen1,667 million, of which US\$159 million and Japanese Yen238 million were repayable within one year.

The long-term loans of the Company and its subsidiaries were mainly fixed-rate loans. As at 30th June 2004, the floating-rate loans of the Company and its subsidiaries amounted to approximately US\$175 million and Japanese Yen1,667 million in accordance with the original loan agreements. The Company has entered into interest rate swap contracts to reduce the floating interest rate risk. Please refer to Note 14 to the condensed consolidated financial statements for further details.

As at 30th June 2004, the Company had guaranteed certain long-term bank loans of Rizhao Power Company amounting to Rmb327 million. The Company considered such guarantee had no significant financial impact on the Company's operation.

Calculation formula of the financial ratio:

Debt to equity ratio	=	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 - balance of inventories 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, 2004, the entire issued share capital of the Company amounted to 12,055,362,920 shares, of which 9,000,000,000 shares were domestic shares, representing 74.66% of the entire issued share capital, and 3,055,362,920 shares were foreign shares, representing 25.34% of the entire issued share capital. In respect of domestic shares, HIPDC owns a total of 5,169,680,000 shares, representing 42.88% of the entire issued share capital of the Company. Other domestic shareholders hold a total of 3,830,320,000 shares, representing 31.78% of the entire issued share capital of the Company.

The US\$230 million convertible notes issued by the Company could be converted into foreign shares of the Company at a price of US\$29.2 for each American Depositary Share on or before 21st May, 2004. As stipulated in the terms of the notes, the Company issued 20,520 overseas listed shares of the Company to a noteholder as conversion of US\$15,000 convertible notes on 5th June, 2004. As at 30th June, 2004, there were outstanding notes with a face value of US\$100,000. The Company has repaid such loan in accordance with the terms of the convertible notes.

PURCHASE, SALE OR REDEMPTION OF SHARES

The convertible notes with an aggregate principal amount of US\$230 million issued by the Company could be redeemed or converted on or before 21st May, 2004 at a price of US\$29.20 for each American Depositary Shares convertible into the foreign shares of the Company. According to the terms as stipulated in the convertible notes and at the application of a noteholder, the Company issued 20,520 overseas listed shares to a noteholder as a conversion of US\$15,000 convertible notes on 5th June, 2004. As at 30th June, 2004, the Company has repaid all outstanding notes with a face value of US\$100,000 in accordance with the terms of the notes. 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 2004.

SHAREHOLDING STRUCTURE

As at 30th June, 2004, 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*	5,169,680	42.88
Hebei Provincial Construction Investment Company	904,500	7.50
Fujian International Trust & Investment Company Limited	669,700	5.56
Jiangsu Provincial International Trust & Investment Company	624,750	5.18
Liaoning Energy Corporation	459,370	3.81
Dalian Municipal Construction Investment Company	452,250	3.75
Nantong Investment Management Centre	135,750	1.13
Shantou Electric Power Development Company	38,000	0.32
Guangdong Shantou City Power Development Company*	33,000	0.27
Dandong Energy Investment Development Centre	13,000	0.11
Public Shares	500,000	4.15
Sub-total	9,000,000	74.66
Overseas Listed Foreign Shares	3,055,362.92	25.34
TOTAL	12,055,362.92	100.00

* On 12th May 2004, Guangdong Shantou City Power Development Company which held 46.5 million state-owned legal person shares of the Company transferred 30 million of them to Huaneng International Power Development Corporation. The transfer has been approved by State-Owned Asset Supervising and Management Committee of the State Council.

Owing to the dispute arising out of a loan agreement with Shantou Branch of The Bank of Communications, the Intermediate People's Court of Shantou City, Guangdong Province, at the application of the bank, ordered to freeze the 33,000,000 state-owned legal shares of the Company held by Guangdong Shantou City Power Development Company for a period of one year commencing from 3rd June 2004 and expiring on 2nd June 2005.

** On 24th May 2004, the Company declared bonus shares and adopted a plan of conversion of reserve fund into share capital, i.e. to issue 5 bonus shares and 5 new shares for every 10 existing ordinary shares.

As at 30th June, 2004, so far as the Directors, chief executive officer and Supervisors of the Company are aware, each of the following persons, not being a Director, chief executive officer or Supervisor of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance ("SFO"):

Shares held/Approximate shareholding percentage

Name of shareholder	Shares	Number of shares held	Interest Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued domestic shares	Approximate percentage of shareholding in the Company's total issued H shares	Short position
Huaneng International Power Development Corporation (<i>Note 1</i>)	domestic shares	5,169,680,000	42.88%	57.44%	—	—
Hebei Provincial Construction Investment Company	domestic shares	904,500,000	7.50%	10.05%	—	—
Fujian International Trust & Investment Company	domestic shares	669,700,000	5.56%	7.44%	—	—
Jiangsu Provincial International Trust & Investment Company	domestic shares	624,750,000	5.18%	6.94%	—	—
Liaoning Energy Corporation	domestic shares	459,370,000	3.81%	5.10%	—	—
Dalian Municipal Construction Investment Company	domestic shares	452,250,000	3.75%	5.03%	—	—
The Hongkong and Shanghai Banking Corporation Ltd. (<i>Note 2</i>)	H shares	1,054,671,270	8.75%	—	34.52%	—
Standard Chartered Bank (Hong Kong) Limited (<i>Note 2</i>)	H shares	568,574,021	4.72%	—	18.61%	—
Citibank N.A. (<i>Note 2</i>)	H shares	170,558,495	1.41%	—	5.58%	—

Note 1: As at 30th June, 2004, 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.

Save as disclosed above and so far as the Directors, chief executive officer and Supervisors of the Company are aware, as at 30th June, 2004, 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 to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or 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.

DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

As at 30th June, 2004, 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 officer 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 interim dividends for 2004.

MAJOR EVENTS

- (1) On 16th April, 2004, the Company entered into transfer agreements with Huaneng Group, HIPDC and Jiangxi Provincial Investment Company respectively. Pursuant to the transfer agreements, Company acquired, at a consideration of Rmb4.575 billion, the following power assets: (1) 90% equity interest in Jinggangshan Huaneng Power Generation Limited Liability Company and 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company, both owned by Huaneng Group; (2) all the assets and liabilities of Yingkou Power Plant, 60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company, all owned by HIPDC; and (3) 10% equity interest in Jinggangshan Power Plant owned by Jiangxi Provincial Investment Company. With the completion of these acquisitions, the generation capacity on an equity basis of the Company will increase by 3,096 MW.
- (2) On 20th May, 2004, the Board of Directors of the Company convened the seventh meeting of the Fourth Session of the Board. It was resolved that due to operational need, Mr. Ye Daji and Mr. Hu Jianmin resigned from the position of President and Vice-President of the Company respectively, and Mr. Huang Yongda be appointed the President of the Company.

CODE OF BEST PRACTICE

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

The Company has adopted the required standard set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listing Companies of the Listing Rules. The Directors have complied with such code of conduct throughout the Accounting Period.

The Company has an audit committee which was established in accordance with the requirements of 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. A meeting of the audit committee was held on 9th August, 2004 to review the Company's interim result for the period ended 30th June, 2004 before they were presented to the Board of Directors for approval.

LEGAL PROCEEDINGS

As at 30th June, 2004, 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

The interim report for the first half of 2004 of the Company will be published on the Hong Kong Stock Exchange's website. The Company will also file the interim report in Form 6-K with the US Securities and Exchange Commission. Copies of the interim report for 2004 will be available at the following addresses and website:

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
Hong Kong	Rikes Communications Limited Room 1312, Wing On Centre 111 Connaught Road Central Hong Kong Telephone No: (852) 2520 2201 Fax No: (852) 2520 2241
Website of the Company	http://www.hpi.com.cn

By Order of the Board
Li Xiaopeng
Chairman

As at the date hereof, the Board comprises Messrs. Li Xiaopeng, Wang Xiaosong, Ye Daji, Huang Jinkai, Liu Jinlong, Shan Qunying, Yang Shengming, Xu Zujian as non-executive directors and Messrs. Gao Zongze, Zheng Jianchao, Qian Zhongwei and Xia Donglin as independent directors.

Beijing, the PRC
18 August, 2004

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

AS AT 30TH JUNE, 2004

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	Notes	As at 30th June, 2004	As at 31st December, 2003
ASSETS			
Non-current assets			
Property, plant and equipment, net		44,490,551	42,658,365
Investment in associates		2,847,110	2,766,031
Available-for-sale investments		254,990	254,990
Land use rights and other assets		1,020,965	1,037,859
Deferred tax assets		19,990	21,311
Goodwill		283,811	298,876
Less: Negative goodwill		(1,607,309)	(1,730,949)
Total non-current assets		47,310,108	45,306,483
Current assets			
Inventories, net		977,796	800,281
Other receivables and assets, net		705,563	259,421
Accounts receivable	4	2,835,013	2,804,026
Due from HIPDC	16	93,184	—
Due from other related parties	16	12,073	5,862
Restricted cash		9,008	159,961
Temporary cash investments		56,767	144,996
Cash and cash equivalents		6,520,626	4,128,648
Total current assets		11,210,030	8,303,195
Total assets		58,520,138	53,609,678
EQUITY AND LIABILITIES			
Shareholders' equity			
8,500,000,000 (2003: 4,250,000,000) PRC Domestic Shares, par value Rmb1.00 each, in form of legal person shares	12	8,500,000	4,250,000
500,000,000 (2003: 250,000,000) A shares, par value Rmb1.00 each	12	500,000	250,000
3,055,362,920 (2003: 1,527,671,200) Overseas Listed Foreign Shares, par value Rmb1.00 each	12	3,055,363	1,527,671
Additional paid-in capital	12	8,972,191	10,780,133
Dedicated capital	5,12	3,122,889	4,328,423
Equity component of convertible notes		—	255
Retained earnings		9,272,328	12,818,873
Total shareholders' equity		33,422,771	33,955,355
Minority interests		1,334,817	1,155,197

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

AS AT 30TH JUNE, 2004

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	Notes	As at 30th June, 2004	As at 31st December, 2003
Non-current liabilities			
Long-term loans from ultimate parent company	16	800,000	—
Long-term bank loans		9,158,120	8,305,320
Other long-term loans		600,980	848,284
Deferred tax liabilities		98,898	103,114
Total non-current liabilities		10,657,998	9,256,718
Current liabilities			
Accounts payable and other liabilities	6	3,701,155	3,342,517
Taxes payable		543,182	917,362
Due to HIPDC	16	—	87,508
Due to other related parties	16	117,982	27,338
Staff welfare and bonus payable		162,059	220,896
Short-term loans	7	6,495,000	1,600,000
Current portion of long-term loans			
from shareholders	16	194,441	388,875
Current portion of long-term bank loans		1,412,050	2,409,240
Current portion of other long-term loans		468,392	243,386
Liability component of convertible notes		—	935
Other financial liabilities	14	2,041	4,351
Dividend payable		8,250	—
Total current liabilities		13,104,552	9,242,408
Total equity and liabilities		58,520,138	53,609,678

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with International Financial Reporting Standards)

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

	Notes	For the six months ended 30th June,	
		2004	2003
Operating revenue, net		12,963,871	10,514,107
Operating expenses:			
Fuel		(6,026,598)	(4,031,851)
Maintenance		(410,573)	(309,316)
Depreciation		(2,124,463)	(2,046,390)
Labor		(799,292)	(676,911)
Service fees to HIPDC		(105,038)	(105,220)
Others		(305,036)	(256,695)
Total operating expenses		(9,771,000)	(7,426,383)
Profit from operation		3,192,871	3,087,724
Interest income		27,893	32,329
Interest expense		(244,085)	(305,968)
Bank charges and exchange losses, net		(10,500)	(10,439)
Total financial expenses		(226,692)	(284,078)
Share of profit of associates		108,553	62,897
Gain from disposal of investments		4	10,168
Other income, net		28,577	10,035
Profit before tax	9	3,103,313	2,886,746
Income tax expenses			
The Company and its subsidiaries	10	(502,686)	(512,522)
Associates		(27,473)	(11,476)
Total income tax expenses		(530,159)	(523,998)
Profit before minority interests		2,573,154	2,362,748
Minority interests		(92,027)	(77,543)
Net profit attributable to shareholders		2,481,127	2,285,205
Basic earnings per share (Rmb)	13	0.21	0.19
Diluted earnings per share (Rmb)	13	0.21	0.19

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (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, 2004	6,027,671	10,780,133	4,328,423	255	12,818,873	33,955,355
Cash dividends relating to 2003 (Note 11)	—	—	—	—	(3,013,836)	(3,013,836)
Common stock split (Note 12)	6,027,671	(1,808,301)	(1,205,534)	—	(3,013,836)	—
Net profit for the six months ended 30th June, 2004	—	—	—	—	2,481,127	2,481,127
Repayment of convertible notes and conversion of convertible notes to share capital	21	359	—	(255)	—	125
Balance at 30th June, 2004	12,055,363	8,972,191	3,122,889	—	9,272,328	33,422,771
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	—	—	—	—	(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	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

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of Rmb)

	Notes	For the six months ended 30th June,	
		2004	2003
Net cash provided by operating activities		3,822,777	4,241,240
Net cash used in investing activities	15	(3,883,018)	(3,012,632)
Net cash provided by (used in) financing activities	15	2,452,219	(3,219,360)
Net increase (decrease) in cash and cash equivalents		2,391,978	(1,990,752)
Cash and cash equivalents, beginning of period		4,128,648	3,002,601
Cash and cash equivalents, end of period		6,520,626	1,011,849

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED 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 18 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 grid companies.

2. 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 consolidated financial statements as at and for the six months ended 30th June, 2004 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31st December, 2003.

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

3. List of Subsidiaries

Details of the major subsidiaries of the Company as at 30th June, 2004 were as follow:

Name of subsidiaries	Country, date of incorporation and type of legal entity	Percentage of equity interest directly held	Registered capital	Principal activities
Huaneng Weihai Power Limited Liability Company (the "Weihai Power Company")	PRC 22nd November, 1993 Limited liability company	60%	Rmb761,832,800	Power generation
Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company")	PRC 19th June, 1997 Limited liability company	75%	Rmb632,840,000	Power generation
Huaneng Taicang Power Co. Ltd. (the "Taicang II Power Company")	PRC 18th June, 2004 Limited liability company	75%	Rmb894,410,000	Power generation
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company")	PRC 26th January, 1995 Limited liability company	63.64%	Rmb265,000,000	Power generation
Jiangsu Huaneng Huaiyin II Power Limited Company (the "Huaiyin II Power Company")	PRC 22nd June, 2004 Limited liability company	63.64%	Rmb474,000,000	Power generation
Henan Huaneng Qinbei Power Co., Ltd. (the "Qinbei Power Company")	PRC 12th July, 1995 Limited liability company	55%	Rmb10,000,000	Power generation
Shanxi Huaneng Yushe Power Co., Ltd. (the "Yushe Power Company")	PRC 29th November, 1994 Limited liability company	60%	Rmb80,000,000	Power generation
Shandong Huaneng Xindian Power Co., Ltd. (the "Xindian II Power Company")	PRC 14th March, 2004 Limited liability company	95%	Rmb100,000,000	Power generation

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

4. Accounts Receivable

The Company and its subsidiaries usually grant one-month credit period to the regional or provincial grid companies from the end of the month in which the sales are made.

The aging analysis of accounts receivable was as follows:

	As at 30th June, 2004 '000	As at 31st December, 2003 '000
Within one year	2,831,317	2,800,330
Two to three years	—	3,696
Over three years	3,696	—
	2,835,013	2,804,026

5. Appropriations and Distribution of Profit

For the six months ended 30th June, 2004, the Company and its subsidiaries did not make a provision for the statutory surplus reserve fund and the statutory public welfare fund.

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities comprised:

	As at 30th June, 2004 '000	As at 31st December, 2003 '000
Accounts payable	705,715	635,860
Other payables and accrued liabilities	2,995,440	2,706,657
	3,701,155	3,342,517

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

(Prepared in accordance with International Financial Reporting Standards)

*(Amounts expressed in Rmb unless otherwise stated)***6. Accounts Payable and Other Liabilities (Cont'd)**

The aging analysis of accounts payable was as follows:

	As at 30th June, 2004 '000	As at 31st December, 2003 '000
Within one year	659,979	595,994
Between one to two years	24,491	36,188
Over two years	21,245	3,678
	705,715	635,860

7. Short-term loans

Short-term loans are all credit loans denominated in Renminbi and bear interest at the prevailing rates in the PRC, which ranged from 4.54% to 5.05% per annum for the six months ended 30th June, 2004 (2003: 4.54% to 5.05%), and are repayable within one year.

8. Additional Financial Information on Balance Sheet

As at 30th June, 2004, the net current liabilities of the Company and its subsidiaries amounted to approximately Rmb1,895 million (31st December, 2003: Rmb939 million). On the same date, the total assets less current liabilities of the Company and its subsidiaries were approximately Rmb45,416 million (31st December, 2003: Rmb44,367 million).

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

9. 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,	
	2004	2003
	'000	'000
Total interest charges on borrowings	358,258	316,096
Less: capitalized in property, plant and equipment	(114,173)	(10,128)
Total interest expense	244,085	305,968
Depreciation of property, plant and equipment	2,124,463	2,046,390
Amortization of goodwill	21,001	10,999
Amortization of land use rights and other assets	27,021	27,572
Gain on interest rate swaps	(574)	(4,207)
Amortization of negative goodwill	(123,639)	(123,639)
Interest income	(27,893)	(32,329)

10. 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, 2004, the weighted average effective tax rate applicable to the Company is 17% (for the six months ended 30th June, 2003: 18%).

On 27th October, 2003, the Company acquired all of the assets and liabilities of Huaneng Xindian Power Plant (the "Xindian Power Plant"). Xindian Power Plant became a branch of the Company. As such, Xindian Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises investing in energy and is in the process of applying to the relevant tax bureau for such preferential tax treatment.

11. Dividends Declared

On 11th May, 2004, the shareholders approved the declaration of cash dividends of Rmb0.5 per ordinary share (Rmb0.25 per adjusted ordinary shares after the common stock split as mentioned in Note 12), totalling Rmb3,014 million in their general meeting. As at 30th June, 2004, dividends of approximately Rmb3,006 million had been paid.

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

(Prepared in accordance with International Financial Reporting Standards)

*(Amounts expressed in Rmb unless otherwise stated)***12. Common Stock Split**

On 11th May, 2004, the shareholders approved a ten-for-ten stock split of the Company's common stock effected in the form of a) 5 bonus shares for every 10 existing ordinary shares, and b) 5 conversion shares for every 10 existing ordinary shares. The stock split had been completed as at 30th June, 2004.

The bonus shares amounting to approximately Rmb3,014 million were charged to retained earnings. The conversion shares issued, amounting to also approximately Rmb3,014 million, were charged to additional paid-in capital and statutory reserve fund in the amount of Rmb1,808 million and Rmb1,206 million respectively. The basic and diluted earnings per share included in this condensed consolidated financial statements have been adjusted retroactively to reflect the stock split (see Note 13).

13. Earnings Per Share

When calculating the basic and diluted earnings per share, the number of ordinary shares outstanding before the common stock split (Note 12), without a corresponding change in resources, have been adjusted for the proportional change in the number of ordinary shares outstanding as if the transaction had occurred at the beginning of the earliest period presented.

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately Rmb2,481 million (for the six months ended 30th June, 2003: Rmb2,285 million) and the weighted average number of 12,055 million (for the six months ended 30th June, 2003: 12,021 million) outstanding ordinary shares during the period.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders of Rmb2,481 million (for the six months ended 30th June, 2003: Rmb2,288 million) and the adjusted weighted average number of 12,056 million (for the six months ended 30th June, 2003: 12,056 million) outstanding ordinary shares during the period. The calculation assumes that the convertible notes had been fully converted at the beginning of the period.

14. 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 risks 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, 2004, the notional amount of the outstanding interest rate swap agreements was approximately US\$10.3 million (as at 31st December, 2003, approximately US\$20.5 million). For the six months ended 30th June, 2004, there was a gain amounting to approximately Rmb0.6 million (for the six months ended 30th June, 2003: a gain amounting to approximately Rmb4.2 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 39, such gain was credited to earnings in current period.

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

15. Supplementary Information to Condensed Consolidated Statement of Cash Flow

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

	For the six months ended 30th June,	
	2004 '000	2003 '000
Investing activities:		
Capital expenditures on power plant construction and improvement	(3,979,081)	(913,555)
Consideration paid to acquire 25% equity interest of Shenzhen Energy Group Co., Ltd. (the "SEG")	—	(2,390,000)
Proceeds from disposal of other assets	—	79,152
Decrease in temporary cash investments	88,229	207,250
Financing activities:		
Drawdown of:		
- Short-term loans	5,685,000	—
- Long-term loans from ultimate parent company	800,000	—
- Long-term bank loans	1,330,000	105,542
- Other long-term loans	—	350,000
Repayment of:		
- Short-term loans	(790,000)	(350,000)
- Long-term loans from shareholders	(194,500)	(194,486)
- Long-term bank loans	(1,474,593)	(961,211)
- Other long-term loans	(21,022)	(36,060)
Payment of dividends to the shareholders of the Company	(3,005,586)	(2,033,598)
Capital injection from minority shareholders of the subsidiaries	247,419	—
Dividend paid to minority shareholders of the subsidiaries	(123,564)	(99,548)

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

16. Related Party Transactions

The related parties of the Company and its subsidiaries that had transactions with the Company and its subsidiaries are as follows:

Name of related parties	Nature of relationship
Huaneng International Power Development Corporation ("HIPDC")	Parent company
China Huaneng Group ("Huaneng Group")	Ultimate parent company
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of Huaneng Group
Weihai Power Development Bureau ("WPDB")	Minority shareholder of Weihai Power Company
Henan Construction Investment Company ("Henan Investment")	Minority shareholder of Qinbei Power Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Time Shipping Company ("Time Shipping")	A joint venture company of Huaneng Group
Shangdong Rizhao Power Company Ltd. ("Rizhao Power Company")	An associate of the Company
SEG	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, 2004:

	For the six months ended 30th June,	
	2004	2003
	'000	'000
Service fees on transmission and transformer facilities	105,039	105,220
Rental charge on the land of Shidongkou II 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	8,653	8,653

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

16. Related Party Transactions (Cont'd)

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

(ii) Balances as at 30th June, 2004:

	As at 30th June, 2004	As at 31st December, 2003
	'000	'000
Long-term loans guaranteed by HIPDC	4,292,442	4,647,947
Bank loans on-lent from HIPDC to the Company	194,441	388,875
Due from HIPDC (unsecured and non-interest bearing)	93,184	—
Due to HIPDC (unsecured and non-interest bearing)	—	87,508

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

(i) Transactions during the six months ended 30th June, 2004:

	For the six months ended 30th June, 2004	2003
	'000	'000
Huaneng Group		
Management service fee income	16,647	16,647
CHITEC		
Coal purchased from CHITEC	100,354	22,897
Time Shipping		
Coal purchased from Time Shipping and service fee paid for transportation	212,585	165,867

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

16. 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, 2004:

	As at 30th June, 2004	As at 31st December, 2003
	'000	'000
Huaneng Group		
Long-term loans guaranteed by Huaneng Group	1,048,272	1,095,905
Long-term loans borrowed from Huaneng Group **	800,000	—
Due from Huaneng Group	6,991	—
Huaneng Finance		
Current deposits in Huaneng Finance *	2,248,315	2,791,770
Short-term loan borrowed from Huaneng Finance *	1,005,000	1,130,000
Long-term loan borrowed from Huaneng Finance *	610,000	610,000
Interest payable to Huaneng Finance	18,607	1,419
CHITEC		
Payable for coal purchased from CHITEC	6,450	14,484
WPDB		
Long-term loans borrowed from WPDB *	106,609	106,389
Long-term bank loans guaranteed by WPDB	100,000	280,000
Dividend payable to WPDB	32,233	—
Henan Investment		
Long-term loan guaranteed by Henan Investment	231,820	34,492
Short-term loan borrowed from Henan Investment *	1,300,000	1,300,000
Time Shipping		
Payable for coal purchase from and transportation service provided by Time Shipping	10,691	11,434
Rizhao Power Company		
Guarantee on the long-term bank loan of Rizhao Power Company ***	326,500	339,250
Due from Rizhao Power Company	1,652	—
SEG		
Due to SEG	50,000	—
Others		
Due from the subsidiaries of Huaneng Group	2,855	5,287
Due from the subsidiaries of HIPDC	575	575

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

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in Rmb unless otherwise stated)

16. 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, 2004: (Cont'd)

- * The interest rates have no material difference with the prevailing market interest rate. The terms of these loans have been disclosed in the financial statements as at 31st December, 2003.
- ** The long-term loans borrowed from Huaneng Group bear fixed interest rates, which ranged from 3.78% to 4.6% per annum for the six months ended 30th June, 2004 and are repayable before 2013, in accordance with the repayment schedules set by the contracts.
- *** Guarantee on the long-term bank loan of Rizhao Power Company by the Company had no significant financial impact on the Company's operation.

17. Commitment

Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Expenditure which was contracted for but not incurred and thus was not recognized in the financial statements as at 30th June, 2004 amounted to approximately Rmb15.86 billion.

18. Subsequent Event

On 16th April, 2004, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company, 90% equity interest in Jinggangshan Huaneng Power Generation Limited Liability Company ("Jinggangshan Power Company"). The total consideration for the acquisition of the two power plants was Rmb1,949 million.

On the same date, the Company entered into an agreement with HIPDC under which the Company agreed to acquire from HIPDC 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company, 60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and all of the assets and liabilities of Huaneng International Power Development Corporation Yingkou Branch. The total consideration for the acquisition of the three power plants was Rmb2,564 million.

In addition, on 16th April, 2004, the Company entered into an agreement with Jiangxi Provincial Investment Company and agreed to acquire the remaining 10% equity interest in Jinggangshan Power Company at a consideration of Rmb62 million.

After obtaining all the necessary government approvals on the acquisitions and the payment of the purchase considerations, the Company took over the control or significant influence of the above power companies and power plants in July 2004.

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, 2004	As at 31st December, 2003
		Rmb'000	Rmb'000
Net assets under IFRS		33,422,771	33,955,355
Impact of US GAAP adjustments Note i:			
Effect of acquisition of Qinbei Power Company, Yushe Power Company and Xindian Power Plant	(a)	(398,953)	(417,368)
Effect of acquisition of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant	(a)	(829,713)	(886,116)
Effect of acquisition of 30% additional equity interests in Shidongkou I Power Plant, 5% additional equity interests in Taicang Power Company and 44.16% equity interests in Huaiyin Power Company	(b)	(286,842)	(296,717)
Recording of capital contribution arising from acquisition of Shandong Huaneng	(d)	862,922	862,922
Difference in accounting treatment for acquisition of Shandong Huaneng	(d)	(304,419)	(261,273)
Difference in accounting treatment of convertible notes	(e)	—	(8,652)
Difference in capitalization of borrowing costs	(f)	(90,657)	(93,890)
Reversal of goodwill amortization			
- Reversal of goodwill amortization of equity investment in SEG	(g)	95,619	54,639
- Reversal of goodwill amortization of investment in Huaiyin Power Company	(g)	26,055	17,370
Applicable deferred tax impact on the above GAAP differences	(h)	189,350	200,674
Net assets under US GAAP Note i		32,686,133	33,126,944

	Note	Net profit	
		For the six months ended 30th June,	
		2004	2003
		Rmb'000	Rmb'000
Net profit under IFRS		2,481,127	2,285,205
Impact of US GAAP adjustments Note i :			
Effect of acquisition of Qinbei Power Company, Yushe Power Company and Xindian Power Plant	(a)	24,350	24,050
Effect of acquisition of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant	(a)	56,403	61,088
Effect of acquisition of 30% additional equity interests in Shidongkou I Power Plant, 5% additional equity interests in Taicang Power Company and 44.16% equity interests in Huaiyin Power Company	(b)	9,875	11,801
Recording housing benefits provided by HIPDC	(c)	(13,076)	(13,076)
Difference in accounting treatment for acquisition of Shandong Huaneng	(d)	(43,146)	(43,545)
Difference in accounting treatment of convertible notes	(e)	8,652	14,310
Difference in capitalization of borrowing costs	(f)	3,233	(7,180)
Reversal of goodwill amortization			
- Reversal of goodwill amortization of equity investment in SEG	(g)	40,980	13,996
- Reversal of goodwill amortization of investment in Huaiyin Power Company	(g)	8,685	8,685
Applicable deferred tax impact on the above GAAP differences	(h)	(11,324)	(84,376)
Net profit under US GAAP Note i		2,565,759	2,270,958
Basic earnings per ordinary share under US GAAP (Rmb) Note ii		0.21	0.19
Basic earnings per ADS under US GAAP (Rmb) Note ii		8.51	7.56
Diluted earnings per ordinary share under US GAAP (Rmb) Note ii		0.21	0.19
Diluted earnings per ADS under US GAAP (Rmb) Note ii		8.49	7.50

(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 periods presented have been retroactively restated as if the current structure and operations resulted from the acquisition of the Qinbei Power Company, the Yushe Power Company and the Xindian Power Plant 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 period. On a diluted basis, both net profit for the period and the weighted average number of ordinary shares and ADS outstanding for the period were adjusted on the assumption that the convertible notes had been fully converted at the beginning of the period.

The number of ordinary shares outstanding before the common stock split, without a corresponding change in resources, have been adjusted for the proportional change in the number of ordinary shares outstanding as if the transaction had occurred at the beginning of the earliest period presented.

(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 I Power Plant, 70% equity interest in Taicang Power Company and all of the assets and liabilities of Changxing Power Plant in July, 2002 and the acquisition of 55% equity interest in Qinbei Power Company, 60% equity interest in Yushe Power Company and all of the assets and liabilities of Xindian Power Plant in October, 2003. Under the acquisition method, the results of the acquired businesses are included in the results of operations of the Company and its subsidiaries from the dates of the acquisitions. The difference between the purchase consideration and the fair value of the underlying net assets acquired is treated as goodwill and amortized on a systematic basis to the income statement over its useful economic life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets.

As the Company and its subsidiaries, Shidongkou I Power Plant, Taicang Power Company, Changxing Power Plant, Qinbei Power Company, Yushe Power Company, and Xindian Power Plant were under the common control of the Huaneng Group prior to the acquisition, under US GAAP, the acquisition is considered to be a transfer of businesses under common control and the acquired assets and liabilities are accounted for 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 resulting from the acquisition had been in existence since the beginning of the earliest period presented, with financial data of previously separate entities combined. The cash consideration paid by the Company is treated as an equity transaction in the year of the acquisition for US GAAP purposes. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

(b) Effect of Acquisition of 30% Additional Equity Interests in Shidongkou I 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 I 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 I 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 its useful economic life, being 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 I Power Plant, Taicang Power Company and Huaiyin Power Company was recorded by the Company at the historical carrying value. The excess of the total cost of acquisition over the net assets acquired was recorded as a reduction of deemed 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 to be housing benefits. 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) Acquisition of Shandong Huaneng Power Development Company Limited ("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, holding 33.09% equity interest in it before the Company's acquisition of Shandong Huaneng. Under IFRS, upon the completion of the acquisition of Shandong Huaneng by the Company, the entire net assets of Shandong Huaneng were recorded at fair value. The excess of the fair value of the entire net assets acquired over the total cost of the acquisition was 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 that was sold 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. Under US GAAP, the difference between these net asset values and the cash consideration was recorded as a reduction to the property, plant and equipment value of the respective power plants.

As the amount of negative goodwill under IFRS is different from the amount of the reduction to property, plant and equipment under US GAAP due to the 33.09% portion of the net assets previously owned by Huaneng Group as described above and also that the negative goodwill under IFRS is recognized as income over the remaining weighted average useful life of the acquired depreciable or amortizable assets whereas, for US GAAP purpose, the property, plant and equipment, after the reduction described above, are depreciated over the respective assets' useful life, the net income under IFRS and US GAAP is 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 liabilities without distinguishing between the equity and liability components.

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

Under US regulatory accounting requirements, interests on funds borrowed generally and used for the purpose of obtaining a qualifying asset are not capitalized if such interests cannot be taken into consideration when determining the recoverable rate base for tariff setting purposes. Consequently, under US regulatory accounting requirement, the Company did not capitalize interest on general borrowings.

(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 SHEET (UNAUDITED)

AS AT 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

ASSETS	Notes	Consolidated		The Company	
		30th June, 2004	31st December, 2003	30th June, 2004	31st December, 2003
CURRENT ASSETS					
Cash	6(1)	6,586,400,881	4,433,604,438	5,845,991,515	3,520,203,732
Short-term investment		—	13,200	—	13,200
Notes receivable	6(2)	—	447,200,000	—	336,180,000
Interest receivable		1,502,330	3,291,154	1,502,330	2,387,688
Accounts receivable	6(3), 7(1)	2,835,012,883	2,356,825,998	2,422,101,269	2,005,023,640
Other receivables	6(3), 7(1)	289,993,876	160,720,886	193,152,654	87,489,711
Advance to suppliers	6(4)	486,808,906	88,194,813	360,676,223	54,736,358
Inventories	6(5)	984,883,520	808,159,276	792,769,021	632,641,423
Deferred expenses		31,776,755	4,779,340	30,118,039	4,594,883
Current portion of long-term debt investments	6(6), 7(3)	48,660	83,060	270,711,616	470,746,016
Total current assets		11,216,427,811	8,302,872,165	9,917,022,667	7,114,016,651
LONG-TERM INVESTMENTS					
Long-term equity investments	6(6), 7(2)	3,470,232,631	3,407,034,531	5,967,380,487	5,472,475,440
Including: Consolidated difference in value	6(6)	375,760,651	392,105,037	—	—
Long-term debt investments	6(6), 7(3)	25,700	12,500	25,700	12,500
Total long-term investment		3,470,258,331	3,407,047,031	5,967,406,187	5,472,487,940
FIXED ASSETS					
Fixed assets, cost	6(7)	60,846,993,388	60,731,810,047	52,206,011,602	52,100,413,665
Less: Accumulated depreciation	6(7)	(24,429,368,957)	(22,330,922,497)	(20,403,960,866)	(18,556,962,398)
Fixed assets, net book value	6(7)	36,417,624,431	38,400,887,550	31,802,050,736	33,543,451,267
Construction materials	6(8)	2,014,673,929	1,111,654,804	663,788,328	325,349,997
Construction-in-progress	6(9)	6,001,267,443	3,090,960,181	983,080,772	618,045,031
Total fixed assets		44,433,565,803	42,603,502,535	33,448,919,836	34,486,846,295
INTANGIBLE AND OTHER ASSETS					
Intangible assets	6(10)	(935,785,329)	(1,057,406,729)	(1,004,725,328)	(1,127,369,140)
Long-term deferred expenses		21,832,454	20,950,014	7,321,128	8,374,230
Total intangible and other assets		(913,952,875)	(1,036,456,715)	(997,404,200)	(1,118,994,910)
TOTAL ASSETS		58,206,299,070	53,276,965,016	48,335,944,490	45,954,355,976

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 SHEET (UNAUDITED) (Cont'd)

AS AT 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Consolidated		Amounts: In Rmb Yuan The Company	
		30th June, 2004	31st December, 2003	30th June, 2004	31st December, 2003
CURRENT LIABILITIES					
Short-term loans	6(11)	6,495,000,000	1,600,000,000	4,230,000,000	280,000,000
Accounts payable	6(12)	699,006,842	653,100,248	536,294,359	486,384,541
Salary payable		1,380,008	10,157,597	89,216	7,209,340
Welfare payable		162,845,006	214,006,684	149,044,873	203,101,081
Interest payable		96,016,646	94,083,122	81,731,756	92,823,122
Dividends payable		65,233,386	14,780,096	8,250,000	—
Taxes payable	6(13)	545,424,030	917,362,692	321,558,921	601,337,983
Other levies payable		27,231,287	2,955,512	11,361,262	12,748,584
Other payables	6(14)	1,839,726,084	1,670,941,617	1,650,134,803	1,418,213,280
Accrued expenses		59,314,119	26,733,205	40,767,012	26,733,205
Current portion of long-term loans	6(15)	2,074,884,244	3,041,501,169	1,694,755,524	2,144,948,831
Convertible notes		—	951,821	—	951,821
Total current liabilities		12,066,061,652	8,246,573,763	8,723,987,726	5,274,451,788
LONG-TERM LIABILITIES					
Long-term loans	6(15)	10,559,100,163	9,153,604,209	5,307,603,487	5,892,803,985
Total long-term liabilities		10,559,100,163	9,153,604,209	5,307,603,487	5,892,803,985
TOTAL LIABILITIES		22,625,161,815	17,400,177,972	14,031,591,213	11,167,255,773
MINORITY INTERESTS		1,276,783,978	1,089,686,841	—	—
SHAREHOLDERS' EQUITY					
Share capital	6(16)	12,055,362,920	6,027,671,200	12,055,362,920	6,027,671,200
Capital surplus	6(17)	8,595,031,630	10,403,229,361	8,595,031,630	10,403,229,361
Surplus reserves	6(18)	3,169,133,948	4,374,668,188	3,169,133,948	4,374,668,188
Including: Statutory public welfare fund	6(18)	1,459,101,029	1,460,700,799	1,459,101,029	1,460,700,799
Undistributed profits	6(19)	10,484,824,779	13,981,531,454	10,484,824,779	13,981,531,454
Total shareholders' equity		34,304,353,277	34,787,100,203	34,304,353,277	34,787,100,203
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		58,206,299,070	53,276,965,016	48,335,944,490	45,954,355,976

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, 2004
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

	Notes	For the six months ended 30th June,				
		Consolidated		The Company		
		2004	2003	2004	2003	
1.	Revenues from principal operations	6(20), 7(4)	13,040,289,339	10,618,086,009	11,104,641,146	9,193,411,044
	Less: Cost of principal operations	6(20), 7(4)	(9,498,640,593)	(7,203,913,330)	(8,157,868,496)	(6,296,734,893)
	Tax and levies on principal operations		(25,297,711)	(27,469,565)	(3,139,092)	(10,194,034)
2.	Profit from principal operations		3,516,351,035	3,386,703,114	2,943,633,558	2,886,482,117
	Add: Profit from other operations		13,054,772	22,836,671	12,316,201	22,581,519
	Less: General and administrative expenses		(210,090,841)	(202,878,405)	(156,908,707)	(158,816,205)
	Financial expenses, net	6(21)	(255,383,895)	(290,999,870)	(186,597,160)	(225,703,753)
3.	Operating profit		3,063,931,071	2,915,661,510	2,612,443,892	2,524,543,678
	Add: Investment income	6(22), 7(5)	79,858,472	42,116,524	281,650,229	230,022,688
	Non-operating income		1,428,338	10,611,425	1,433,597	1,324,530
	Less: Non-operating expenses		(4,544,990)	(5,295,816)	(3,194,339)	(4,528,775)
4.	Profit before taxation and minority interests		3,140,672,891	2,963,093,643	2,892,333,379	2,751,362,121
	Less: Income tax		(510,203,778)	(521,882,186)	(361,368,854)	(395,690,127)
	Minority interests		(99,504,588)	(85,539,463)	—	—
5.	Net profit		2,530,964,525	2,355,671,994	2,530,964,525	2,355,671,994

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Supplemental information:	For the six months ended 30th June,			
	Consolidated		The Company	
	2004	2003	2004	2003
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, 2004
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

	For the six months ended 30th June, Consolidated		The Company	
	2004	2003	2004	2003
1. Net profit	2,530,964,525	2,355,671,994	2,530,964,525	2,355,671,994
Add: Unappropriated profit brought forward	13,981,531,454	11,528,797,057	13,981,531,454	11,528,797,057
2. Unappropriated profit	16,512,495,979	13,884,469,051	16,512,495,979	13,884,469,051
Less: Transfer to statutory surplus reserve fund	—	—	—	—
Transfer to statutory public welfare fund	—	—	—	—
3. Profit distributable to shareholders	16,512,495,979	13,884,469,051	16,512,495,979	13,884,469,051
Less: Dividends	(3,013,835,600)	(2,049,408,208)	(3,013,835,600)	(2,049,408,208)
Bonus shares	(3,013,835,600)	—	(3,013,835,600)	—
4. Unappropriated profit carried forward	10,484,824,779	11,835,060,843	10,484,824,779	11,835,060,843

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, 2004
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Items	Note	Consolidated	The Company
1. Cash flows from operating activities			
Cash received from sale of goods and services		15,219,365,153	12,904,184,815
Other cash received relating to operating activities		301,477,205	573,165,885
Sub-total of cash inflows		15,520,842,358	13,477,350,700
Cash paid for goods and services		(6,863,348,514)	(5,925,801,989)
Cash paid to and on behalf of employees		(657,828,052)	(551,614,449)
Payment of all types of taxes		(2,402,283,910)	(1,905,091,211)
Other cash paid relating to operating activities	6(23)	(1,491,452,684)	(1,233,935,459)
Sub-total of cash outflows		(11,414,913,160)	(9,616,443,108)
Net cash flows from operating activities		4,105,929,198	3,860,907,592
2. Cash flows from investing activities			
Cash received on disposal of investments		74,957,559	269,744,600
Cash received on investments income		23,680,821	362,480,781
Net cash received from disposals of fixed assets		1,325,922	935,047
Other cash received relating to investing activities		13,675,459	—
Sub-total of cash inflows		113,639,761	633,160,428
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(3,986,669,036)	(1,175,434,414)
Cash paid to acquire investments other than the equity interest in subsidiaries		—	(508,285,601)
Cash paid to acquire equity interest in subsidiaries		—	—
Sub-total of cash outflows		(3,986,669,036)	(1,683,720,015)
Net cash flows used in investing activities		(3,873,029,275)	(1,050,559,587)

CASH FLOW STATEMENT (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Items	Note	Consolidated	The Company
3. Cash flows from financing activities			
Cash received from investments		247,419,400	—
Including: cash received from equity investment in subsidiaries of minority shareholders		247,419,400	—
Cash received from borrowings		7,715,000,000	4,240,000,000
Sub-total of cash inflow		7,962,419,400	4,240,000,000
Cash paid on repayment of borrowings		(2,381,066,035)	(1,326,614,201)
Cash payments of interest expenses and appropriation of dividends or profit		(3,422,195,574)	(3,179,942,124)
Including: Dividends paid to minority shareholders of subsidiaries		(122,050,613)	—
Sub-total of cash outflows		(5,803,261,609)	(4,506,556,325)
Net cash flows from/(used in) financing activities		2,159,157,791	(266,556,325)
4. Effect of foreign exchange rate changes on cash		(79,241)	1,269,827
5. Net increase of cash and cash equivalents	6(1)	2,391,978,473	2,545,061,507

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, 2004
(Prepared in accordance with PRC Accounting Standards)

Amounts: In Rmb Yuan

Supplementary Information	Consolidated	The Company
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	2,530,964,525	2,530,964,525
Add: Minority interests	99,504,588	—
Reversal for asset impairment	(10,226,042)	(6,502,378)
Depreciation of fixed assets	2,098,973,555	1,848,607,947
Amortization of intangible assets	(114,228,896)	(115,251,308)
Amortization of long-term deferred expenses	1,063,602	1,063,602
Decrease in deferred expenses	17,530,605	16,691,178
Increase in accrued expenses	25,988,415	14,033,808
Gain on disposal of fixed assets	(924,961)	(924,961)
Financial expenses	229,574,221	162,263,907
Gains arising from investments	(79,858,472)	(281,650,229)
Increase in inventories	(176,692,374)	(160,106,002)
Increase in operating receivables items	(101,339,274)	(64,525,291)
Decrease in operating payables items	(412,650,364)	(83,757,206)
Others	(1,749,930)	—
Net cash flows from operating activities	4,105,929,198	3,860,907,592
2. Investing and financing activities that do not involve cash receipts or payments		
Conversion of debt into capital	124,149	124,149
Reclassification of current portion of convertible notes to current liabilities	—	—
Fixed assets capitalized under finance leases	—	—
3. Net increase in cash and cash equivalents		
Cash at end of period	6,520,626,487	5,836,983,724
Less: cash at beginning of period	(4,128,648,014)	(3,291,922,217)
Cash equivalents at end of period	—	—
Less: cash equivalents at beginning of period	—	—
Net increase in cash and cash equivalents	2,391,978,473	2,545,061,507

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, 2004

(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 ultimate consumers through the respective provincial or regional grid companies.

Five of the power plants had always been 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 branches 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 other 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 A shares of the Company issued to the public were listed on the Shanghai Stock Exchange on 6th December, 2001.

The Company’s ultimate parent company is China Huaneng Group (“Huaneng Group”). Huaneng Group is a state-owned enterprise registered in People Republic of China. For details, please refer to Note 8(1).

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(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")	704	704	Jiangsu
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	700	700	Fujian
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	103	103	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 "Shidongkou II 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")	640	640	Jiangsu
Huaneng Dezhou Power Plant (the "Dezhou Power Plant")	2,520	2,520	Shandong
Huaneng Jining Power Plant (the "Jining Power Plant")	595	595	Shandong
Huaneng Changxing Power Plant (the "Changxing Power Plant")	250	250	Zhejiang
Shanghai Shidongkou Power Plant (the "Shidongkou I Power Plant")	1,200	1,200	Shanghai
Huaneng Xindian Power Plant (the "Xindian Power Plant")	450	450	Shandong
Subsidiaries:			
Huaneng Weihai Power Company (the "Weihai Power Company")	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
Huaneng Yushe Power Company (the "Yushe Power Company")	200	120	Shanxi
Associates:			
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	700	178	Shandong
Shenzhen Energy Group Co., Ltd. (the "SEG")	1,844	461	Guangdong
	18,356	15,736	

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Effective 1st July 2003, the Company has adopted the revised “Accounting Standards for Business Enterprises - Events Occurring After the Balance Sheet Date”. Prior to the adoption of the revised standard, profit distribution was transferred out of shareholders’ equity and cash dividends were recognized as payables in the period related to which the Board of Directors proposed the distribution plan. Subsequent to 1st July 2003, profit distribution is recognized as a liability in the period when the distribution plan is approved at the general meeting of the shareholders. This change in accounting policy has been accounted for retrospectively, and as a result, the net assets as at 1st January, 2003 have been increased by Rmb2,040,093,146.

3. 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 as promulgated by the government 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 as reporting currency.

(4) Basis of accounting and measurement bases

Accrual method is used as the basis of accounting. Assets are initially recorded at their costs. Subsequently, if they are impaired, 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 that 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.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(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, restricted cash and time deposits with maturity beyond three months are not considered as cash and cash equivalents. Their movements are considered as cash flow from investing activities.

(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”. Receivables are netted with the provision for bad debts.

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 provisions against balances that have been assessed to be uncollectible.

For balances where there are clear 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 serious cash-flow issues), then bad debts are 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 and taxes necessary to conclude the sale.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(g) 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.

(a) Equity investment

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% (excluding 50%) of the voting rights, or otherwise has power to govern the investees' financial and operating policies. Associates generally represent investees in which the Company has an interest of between 20% to 50% (excluding 20% and 50%) of the voting rights or otherwise has significant influence over the financial and operating policies.

Long-term equity investments are recorded at the actual cost of acquisition. The Company accounts for long-term equity investments in subsidiaries and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When long-term equity investments acquired prior to 17th March, 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over ten years. When long-term equity investments acquired after 17th March, 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over a certain period.

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the period is recognized as an investment income or loss. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

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

Long-term debt investments are recorded at cost on acquisition, less unpaid interest which has been accrued. Interest receivable from investments is computed for each period.

Entrusted loans refer 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, should be 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 include buildings, plant and other equipment related to the production and operation of the Company and its subsidiaries with useful lives over one year. Effective from 1st January, 2001, when construction takes place on the Company's land and the construction is for its own use, the carrying value of land use right is capitalized as part of the cost of buildings within fixed assets.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets obtained upon the 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.

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	8-35 years	0%-11%	2.54%-12.50%
Electric utility plant in service	4-30 years	0%-11%	2.97%-25.00%
Transportation and transmission facilities	13-27 years	5%-11%	3.30%-7.31%
Others	5-13 years	0%-11%	6.85%-20.00%

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

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

When fixed assets are sold, transferred, disposed of or destroyed, proceeds reduced by the carrying amount of the assets, related taxes and expenses, are included in non-operating income or expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

(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 and depreciation commences when the assets has been substantially completed and reaches the expected usable condition.

(12) Intangible assets

Intangible assets include land use rights, goodwill and negative goodwill, and are stated at cost net of accumulated amortization.

The land use rights acquired through payment of land use fees, are initially recorded at cost. They are recorded as intangible assets and amortized, before the construction takes place on land, using the straight-line method over the land use rights period of 20 to 70 years. 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 arisen from acquisitions are amortized over 10 years on a straight-line basis.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(13) Long-term deferred expenses**

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

(14) Asset impairment

The recognition of impairment provisions against entrusted loans, receivables and loss on realization of inventories are described in the respective accounting policies mentioned above. 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 provision for asset impairment is reversed to the extent of impairment loss being recognized in the previous years.

(15) Borrowing costs

The borrowings are initially recognized at the amount of the proceeds received. Ancillary costs incurred in connection with the borrowing arrangement are expensed as incurred.

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 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 differences 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.

Interest incurred in connection with other borrowings is recognized as expenses in the period in which it is incurred.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

3. 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 payable.

(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 as disclosed, the Company and its subsidiaries have no additional material commitment for 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 (47% to 62.5%) 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) Profit distribution

Cash dividend is transferred out of owners' equity in the period when the plan of cash dividend is approved by the shareholders at their annual general meeting.

(19) Revenue recognition

Revenue is recognized under the following methods:

(a) Operating revenue

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

(b) 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, 2004

(Prepared in accordance with PRC Accounting Standards)

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

3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(19) Revenue recognition (Cont'd)****(c) Management service income**

As mentioned in Note 8(5)(i), 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.

(20) Lease

Leases of fixed assets where all the risks and rewards of ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases. Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

(21) Accounting for income tax

The Company and its subsidiaries account for enterprise and local income taxes using the tax payable method. Tax expense is recognized based on current period taxable income and tax rates.

(22) 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.

The revenue, costs and profit of a subsidiary is 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 adjusted to ensure consistency with the policies adopted by the Company.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

4. TAXATION**(1) Value added tax**

The electricity sales of the Company and its subsidiaries are 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, Changxing Power Plant, Shidongkou I Power Plant and Xindian Power Plant) 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 Power Development Company Limited (“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, 2004

(Prepared in accordance with PRC Accounting Standards)

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

4. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Income tax rate	Tax holiday period
Head Office	15.0%	None
Dalian Power Plant	18.0%	Till 31st December, 1994
Dalian Phase II	15.0%	Till 31st December, 2008
Shangan Power Plant	18.0%	Till 31st December, 1996
Shangan Phase II	18.0%	Till 31st December, 2003
Nantong Power Plant	15.0%	Till 31st December, 1996
Nantong Phase II	15.0%	Till 31st December, 2004
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
Shidongkou II Power Plant	16.5%	Till 31st December, 1998
Dandong Power Plant	18.0%	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
Changxing Power Plant	16.5%	None
Shidongkou I Power Plant	18.0%	None
Xindian Power Plant*	15.0%	None
Weihai Power Company	33.0%	None
Taicang Power Company	33.0%	None
Huaiyin Power Company	33.0%	None
Yushe Power Company	33.0%	None

* The Company acquired all of the assets and liabilities of Xindian Power Plant on 27th October 2003 and Xindian Power Plant became a branch of the Company. As such, Xindian Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises investing in energy and is in the process of applying to the relevant tax bureau for such preferential treatment, and pay EIT based on a reduced income tax rate of 15%. At present, Xindian Power Plant is in the progress of filing the relevant tax holiday application in relevant tax authority.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in Rmb Yuan unless otherwise stated)

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

The statutory income tax rates applicable to the head office, the Shandong branch and the operating 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,	
		2004	2003
Head Office	Guo Shui Han [1997]368	15.0%	15.0%
Dalian Power Plant	Guo Shui Han [1994]381	18.0%	18.0%
Dalian Phase II	Guo Shui Zhi Shui Han [2004]12	15.0%	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	18.0%	9.0%
Nantong Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Nantong Phase II (i)	Su Guo Shui Han [2003]248 & Tong Guo Shui Wai Zi [2003]1	7.5%	7.5%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Phase II (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 (iii)	Approved by Shantou State Tax Bureau	10.0%	10.0%
Shidongkou II Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant (v)	Dan Guo Shui She Wai [1999]7	—	—
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%	15.0%
Changxing Power Plant	Guo Shui Han [2002]1030	16.5%	16.5%
Shidongkou I Power Plant	Hu Guo Shui Ba Shui [2003]31	18.0%	33.0%
Xindian Power Plant (iv)	In process of application	15.0%	Not applicable
Weihai Power Company	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	33.0%
Huaiying Power Company	Not applicable	33.0%	33.0%
Yushe Power Company (iv)	Not applicable	33.0%	Not applicable

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

4. TAXATION (Cont'd)

(2) Income tax (Cont'd)

- (i) In accordance with Su Guo Shui Han [2003] No. 248 and Tong Guo Shui Wai Zi [2003] No.1, the tax holiday of the Nantong Phase II is determined separately from the Nantong Power Plant. The Nantong Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January, 2002 to 31st December, 2004.
- (ii) In accordance with Min Guo Shui Han [2003] No. 37 the tax holiday of the Fuzhou Phase II is determined separately from the Fuzhou Power Plant. The Fuzhou Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January 2002 to 31st December, 2004.
- (iii) In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated 16th January, 2003, the Shantou Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January, 2003 to 31st December, 2005. The applicable tax rate during the extension is 10%.
- (iv) Not applicable for the six months ended 30th June, 2003 as they were not subsidiaries or branches of the Company.
- (v) The tax holiday of Dandong Power Plant has not commenced yet as it has not recovered all of the accumulated deficits.

5. SUBSIDIARIES

As at 30th June, 2004, the Company had equity interests in the following subsidiaries, which are included in the consolidated financial statements:

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Weihai Power Company	No. 58 Haifu road, Economic Development Zone, Weihai, Shandong province 22nd November, 1993	Rmb761,832,800	Power generation	Rmb457,103,040	60%
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province 19th June, 1997	Rmb632,840,000	Power generation	Rmb474,630,000	75%
Huaneng Taicang Power Limited Company ("Taicang II Power Company")	Fuqiao town Jinlanggang village, Taicang, Jiangsu province 18th June, 2004	Rmb894,410,000	Power generation	Rmb670,807,500	75%

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

5. SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Huaiyin Power Company	No. 291 Huaihai West Road, Huaian, Jiangsu province 26th January, 1995	Rmb265,000,000	Power generation	Rmb168,646,000	63.64%
Jiangsu Huaneng Huaiyin Second Power Limited Company ("Huaiyin II Power Company")	No. 291 Huaihai West Road, Huaian, Jiangsu province 22nd June, 2004	Rmb474,000,000	Power generation	Rmb301,653,600	63.64%
Qinbei Power Company	Wulongkou town, Jiyuan city, Henan province 12th July, 1995	Rmb10,000,000	Power generation	Rmb148,200,000	55%
Yushe Power Company	Dengyu village, Yushe county, Shanxi province 29th November, 1994	Rmb80,000,000	Power generation	Rmb48,000,000	60%
Shandong Xindian Power Limited Company ("Xindian II Power Company")	Qilu Chemical Industrial Park, Linzi district, Zibo, Shandong province 14th March, 2004	Rmb100,000,000	Power generation	Rmb95,000,000	95%

As at 30th June, 2004, Yushe Power Company, one of the Company's subsidiaries, had 95% equity interests in Shanxi Huaneng Yushe Yuanheng Service Company ("Yuanheng Company"). As at 30th June, 2004, the registered capital of Yuanheng Company was Rmb3,000,000, and Yushe Power Company's investment in Yuanheng Company was Rmb2,850,000. The principal operating activities of Yuanheng Company is providing logistic services and other services to Yushe Power Company. As at 30th June, 2004, the total assets of Yuanheng Company amounted to Rmb25,241,474, and net liability amounted to Rmb339,304. For the six months ended 30th June, 2004, the net profit of Yuanheng Company amounted to Rmb1,882,816. Since the assets, liabilities and operating result of Yuanheng Company are immaterial to the Company, it is not included in the consolidated financial statements.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(1) Cash**

	30th June, 2004			31st December, 2003		
	Original currency amount	Exchange rate	Rmb equivalent	Original currency amount	Exchange rate	Rmb equivalent
Cash - RMB			736,689			726,410
Bank deposit - RMB			6,291,738,950			4,018,311,639
- USD	21,622,604	8.2766	178,961,642	34,328,609	8.2767	284,127,729
- Japanese yen	1,504,759,162	0.0764	114,963,600	1,688,242,236	0.0773	130,438,660
Sub-total			6,585,664,192			4,432,878,028
Total cash			6,586,400,881			4,433,604,438

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

	30th June, 2004
Cash	6,586,400,881
Less: Time deposit with maturity beyond 3 months	(56,766,603)
Restricted cash	(9,007,791)
Cash and cash equivalents as at 30th June, 2004	6,520,626,487
Less: Cash and cash equivalents as at 1st January, 2004	(4,128,648,014)
Net increase in cash and cash equivalents	2,391,978,473

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)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(2) Notes receivable**

	30th June, 2004	31st December, 2003
Banking notes receivable	—	149,940,000
Commercial notes receivable	—	297,260,000
	—	447,200,000

As at 31st December, 2003, all the notes receivable were unsecured notes receivable.

(3) Accounts receivable and other receivables**(i) Accounts receivable**

	30th June, 2004	31st December, 2003
Accounts receivable	2,835,012,883	2,356,825,998

Aging of the accounts receivable was as follows:

Aging	30th June, 2004		31st December, 2003	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,831,316,883	100	2,353,129,998	100
1 - 2 years	—	—	—	—
2 - 3 years	—	—	3,696,000	—
Over 3 years	3,696,000	—	—	—
	2,835,012,883	100	2,356,825,998	100

All accounts receivable represented receivables from the provincial or regional grid companies for the sales 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, 2004, the five largest accounts receivable of the Company and its subsidiaries amounted to Rmb2,384,828,465 (31st December, 2003: Rmb1,966,974,945), representing 84.12% of total accounts receivable (31st December, 2003: 83.46%).

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

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

	30th June, 2004	31st December, 2003
Other receivables	333,684,739	214,605,918
Less: bad debt provision	(43,690,863)	(53,885,032)
	289,993,876	160,720,886

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

Aging	30th June, 2004			31st December, 2003		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	221,676,516	66	(1,082,876)	88,240,614	41	(2,647,218)
1-2 years	43,407,976	13	(50,329)	18,827,094	9	(1,564,813)
2-3 years	3,317,430	1	(1,107,629)	55,952,155	26	(1,678,565)
Over 3 years	65,282,817	20	(41,450,029)	51,586,055	24	(47,994,436)
	333,684,739	100	(43,690,863)	214,605,918	100	(53,885,032)

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. 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, 2004	31st December, 2003
Receivable from employees for sales of staff quarters	10,304,165	10,272,586
Social insurance funds	14,718,591	14,680,384
Petty cash	10,353,683	11,103,320
Transmission fee refund receivable from Shandong Electric Power Corporation	—	19,067,120
Payment on behalf of Huai'an Huaneng Shiye Company	19,930,470	21,735,192
Due from HIPDC	93,184,330	—
Prepayments for constructions	28,113,988	19,726,451
Others	157,079,512	118,020,865
	333,684,739	214,605,918

As at 30th June, 2004, the five largest other receivables of the Company and its subsidiaries amounted to Rmb120,688,546 (31st December, 2003: Rmb82,448,358), representing 36.17% of total other receivables (31st December, 2003: 38.42%).

As at 30th June, 2004, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company except for the receivable from HIPDC amounted to Rmb93,184,330 as mentioned in Note 8(7).

See Note 8 for related party transactions.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(4) Advance to suppliers**

	30th June, 2004	31st December, 2003
Prepayments for coal	228,958,294	64,325,931
Prepayments for materials and spare parts	17,221,323	7,549,431
Prepayments for equipment	235,249,778	11,179,768
Others	5,379,511	5,139,683
	486,808,906	88,194,813

(5) Inventories

	30th June, 2004	31st December, 2003
Fuel (coal and oil) for power generation	477,808,905	308,861,120
Materials and spare parts	520,664,203	512,919,617
	998,473,108	821,780,737
Less: provision for inventory obsolescence-spare parts	(13,589,588)	(13,621,461)
	984,883,520	808,159,276

Movements of provision for inventory obsolescence during the period are analyzed as follows:

	Provision for inventory obsolescence – spare parts
1st January, 2004	(13,621,461)
Current period addition	(154,092)
Current period reversal	185,965
30th June, 2004	(13,589,588)

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

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

	1st January, 2004	Current period additions	Current period deductions	30th June, 2004
Long-term equity investments				
Consolidated difference in value (i)	392,105,037	5,936,001	(22,280,387)	375,760,651
Equity investment difference (ii)	741,157,596	—	(39,704,872)	701,452,724
Sub-total	1,133,262,633	5,936,001	(61,985,259)	1,077,213,375
Associates (iii)	2,012,939,632	137,799,745	(18,502,387)	2,132,236,990
Other long-term equity investments (iv)	260,832,266	—	(50,000)	260,782,266
Long-term equity investments	3,407,034,531	143,735,746	(80,537,646)	3,470,232,631
Long-term debt investments	95,560	13,200	(34,400)	74,360
Less: current portion of long-term debt investments	(83,060)	—	34,400	(48,660)
Long-term debt investments	12,500	13,200	—	25,700
Total long-term investments	3,407,047,031	143,748,946	(80,537,646)	3,470,258,331

As at 30th June, 2004 and 31st December, 2003, 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.

There was no significant restriction on the realizability of the investments or remittance of investment income.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in Rmb Yuan unless otherwise stated)

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

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

(i) Equity investment difference that resulted in consolidated difference in value

Consolidated difference in value mainly represents the difference between the considerations paid for the acquisitions of Taicang Power Company, Huaiyin Power Company and Qinbei Power Company and the proportionate share of the net assets of these three companies. Details are summarized as follows:

Name	Amortization period	Original cost	Balance at 1st January, 2004	Current period additions	Current period amortization	Accumulated amortization	Balance at 30th June, 2004
Taicang Power Company	10 years	191,587,073	163,814,482	—	(9,579,354)	(37,351,945)	154,235,128
Huaiyin Power Company	10 years	151,623,305	133,436,887	—	(7,581,165)	(25,767,583)	125,855,722
Qinbei Power Company	10 years	96,461,357	94,853,668	—	(4,823,068)	(6,430,757)	90,030,600
Yushe Power Company	10 years	5,936,001	—	5,936,001	(296,800)	(296,800)	5,639,201
		445,607,736	392,105,037	5,936,001	(22,280,387)	(69,847,085)	375,760,651

(ii) Equity investment difference

Equity investment difference represents the difference between the consideration paid for the acquisition of SEG and the proportionate share of the net assets of the companies. Details are summarized as follows:

Name	Amortization period	Original cost	Balance at 1st January, 2004	Current period additions	Current period amortization	Accumulated amortization	Balance at 30th June, 2004
SEG	10 years	794,097,424	741,157,596	—	(39,704,872)	(92,644,700)	701,452,724

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(6) Long-term investments** (Cont'd)(iii) *Investment in associates*

Name	Place 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	Rmb317.5 million	25.5%
SEG	Shenzhen, Guangdong 16th July, 1997	Rmb955.56 million	Generation and sale of electric power	Rmb2,390 million	25%

Name	Investment period	Investment cost movement	
		1st January, 2004	30th June, 2004
Rizhao Power Company	20 years	231,868,800	231,868,800
SEG	No specific terms	1,595,902,576	1,595,902,576
		1,827,771,376	1,827,771,376

Name	Accumulated equity pick-up movement		
	1st January, 2004	Current period profit / (loss)	30th June, 2004
Rizhao Power Company	(35,738,867)	(18,502,387)	(54,241,254)
SEG	220,907,123	137,799,745	358,706,868
	185,168,256	119,297,358	304,465,614

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(6) Long-term investments (Cont'd)****(iii) Investment in associates (Cont'd)**

Name	Net carrying value	
	1st January, 2004	30th June, 2004
Rizhao Power Company	196,129,933	177,627,546
SEG	1,816,809,699	1,954,609,444
	<u>2,012,939,632</u>	<u>2,132,236,990</u>

There was no significant difference in accounting policies used by the associates and the Company and its subsidiaries. There was no significant restriction on the realizability of the investments or the remittance of investment income.

(iv) Other long-term equity investment

Other long-term equity investment mainly represents the equity investment in China Yangtze Co., Limited (the "Yangtze Company") (2.11%), details are as follows:

Name	Investment period	Total investment contributed by the Company	Percentage of equity interest held
Yangtze Company	Starting from 22nd August, 2002, with no specific terms	<u>Rmb254,989,551</u>	2.11%

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)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(7) Fixed assets and accumulated depreciation**

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

	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
Cost					
1st January, 2004	1,680,071,154	56,868,645,506	718,642,537	1,464,450,850	60,731,810,047
Reclassification	34,450,952	54,972,601	(79,175,352)	(10,248,201)	—
Transfer from					
construction- in-progress	3,855,509	73,390,758	63,500	8,304,602	85,614,369
Current period additions	5,325,079	7,601,539	435,625	19,121,297	32,483,540
Current period disposals	(139,318)	(842,481)	—	(1,932,769)	(2,914,568)
30th June, 2004	1,723,563,376	57,003,767,923	639,966,310	1,479,695,779	60,846,993,388
Accumulated depreciation					
1st January, 2004	421,174,862	21,016,536,628	262,772,436	630,438,571	22,330,922,497
Reclassification	13,482,746	34,500,511	(45,850,527)	(2,132,730)	—
Current period depreciation	39,658,093	1,971,849,881	13,274,782	76,167,665	2,100,950,421
Current period disposals	(43,405)	(638,110)	—	(1,822,446)	(2,503,961)
30th June, 2004	474,272,296	23,022,248,910	230,196,691	702,651,060	24,429,368,957
Net book value					
30th June, 2004	1,249,291,080	33,981,519,013	409,769,619	777,044,719	36,417,624,431
1st January, 2004	1,258,896,292	35,852,108,878	455,870,101	834,012,279	38,400,887,550

As at 30th June, 2004 and 31st December, 2003, 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. No fixed assets were pledged as at 30th June, 2004.

As at 30th June, 2004, fixed assets amounted to Rmb416.33 million had been fully depreciated but still in use (31st December 2003: Rmb413.81 million).

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)
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6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(8) Construction materials

	30th June, 2004	31st December, 2003
Dedicated material & equipment	288,388,432	165,740,734
Prepayment for major equipment	1,408,327,516	939,069,664
Tools & instrument for production	317,957,981	6,844,406
	2,014,673,929	1,111,654,804

(9) Construction-in-progress

Projects	Budget	1st January, 2004	Current period additions	Transfer to fixed assets	Other deduction	30th June, 2004	Percent of completion	Source of financing
Yuhuan Power Plant	1,225,000,000	264,847,686	169,627,394	—	—	434,475,080	35%	Funds borrowed from financial institutions and internal funds
Huaiyin II Power Company project	2,382,480,000	245,205,149	234,554,125	—	—	479,759,274	20%	Funds borrowed from financial institutions and internal funds
Taicang II Power Company project	4,472,050,000	135,803,681	203,596,912	(718,890)	—	338,681,703	8%	Funds borrowed from financial institutions and internal funds
Shantou Power Plant Phase II project	2,264,030,000	60,120,169	68,095,253	—	—	128,215,422	6%	Funds borrowed from financial institutions and internal funds
Xindian II Power Company project	619,160,000	—	156,867,724	—	—	156,867,724	25%	Funds borrowed from financial institutions and internal funds
Yushe Power Company Phase II project	4,676,310,000	556,744,978	940,568,480	—	—	1,497,313,458	32%	Funds borrowed from financial institutions and internal funds
Qinbei Power Company project	2,686,250,000	1,535,532,743	1,104,358,504	—	—	2,639,891,247	98%	Funds borrowed from financial institutions and internal funds
Other projects	—	292,705,775	147,457,292	(84,895,479)	(29,204,053)	326,063,535		Funds borrowed from financial institutions and internal funds
		3,090,960,181	3,025,125,684	(85,614,369)	(29,204,053)	6,001,267,443		

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(9) Construction-in-progress** (Cont'd)

For the six months ended 30th June, 2004, the interest capitalized for construction-in-progress was Rmb83,048,332 and the capitalized rate per annum was 4.87% (2003: Rmb21,224,053, at 4.83% per annum).

As at 30th June, 2004 and 31st December, 2003, there was no indication of impairment of construction-in-progress of the Company and its subsidiaries. Accordingly, no provision for impairment loss was made.

(10) Intangible assets

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

	Original cost	1st January, 2004	Current period addition	Current period amortization	Accumulated amortization	30th June, 2004	Remaining amortization period	Obtained through
Land use rights	765,599,862	662,228,414	5,633,241	(7,777,865)	(105,516,072)	660,083,790	16.5-64.5 years	Purchase
Negative goodwill	(2,472,783,635)	(1,730,948,544)	—	123,639,182	865,474,273	(1,607,309,362)	6.5 year	Acquisition
Goodwill	2,778,712	2,361,909	—	(138,934)	(555,737)	2,222,975	7 year	Acquisition
Others	15,228,691	8,951,492	1,759,263	(1,493,487)	(6,011,423)	9,217,268	1.5-17.5years	Purchase
	(1,689,176,370)	(1,057,406,729)	7,392,504	114,228,896	753,391,041	(935,785,329)		

As at 30th June, 2004 and 31st December, 2003, there was no indication that the intangible assets of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was made. No intangible assets of the Company and its subsidiaries were pledged.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(11) Short-term loans**

	30th June, 2004	31st December, 2003
Credit loans	6,495,000,000	1,600,000,000

As at 30th June, 2004, all of the short-term loans of the Company and its subsidiaries were dominated in Rmb, with the interest rate of 4.54% to 5.05% per annum (31st December 2004: 4.54% to 5.05% per annum).

As at 30th June, 2004, short-term loans amounted to Rmb1,005 million was borrowed from China Huaneng Finance Company ("Huaneng Finance"), with the interest rate of 4.78% to 5.05% per annum. (31st December, 2003: Rmb1,130 million, with interest rate of 4.78% to 5.05% per annum); Short-term loans amounted to Rmb130 million was borrowed from Henan Construction Investment Company ("Henan Investment"), with the interest rate of 4.78% (31st December, 2003: Rmb130 million, with interest rate of 4.78%).

(12) Accounts payable

Accounts payable were mainly the amounts due to coal suppliers. As at 30th June, 2004 and 31st December, 2003, there was no accounts payable that were due to the shareholders who were holding 5% or more of the equity interest in the Company, and there was no accounts payable aged over three years.

See Note 8 for related party transactions.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(13) Taxes payable**

Taxes payable comprised:

	30th June, 2004	31st December, 2003
Income tax payable	283,648,446	472,850,018
VAT payable	236,570,624	415,147,473
Others	25,204,960	29,365,201
	545,424,030	917,362,692

(14) Other payables

Other payables comprised:

	30th June, 2004	31st December, 2003
Payable to contractors	1,128,848,040	572,459,421
Other payable to contractors	134,839,531	207,257,299
Payable to HIPDC	—	87,507,580
Project saving bonus	23,897,870	26,541,527
Payable of housing maintenance fund	51,429,663	66,807,932
Payables to SEG	50,000,000	—
Others	450,710,980	710,367,858
	1,839,726,084	1,670,941,617

As at 30th June, 2004, there was no other payable that were due to the shareholders who were holding 5% or more of the equity interest in the Company (31st December, 2003: Due to HIPDC: Rmb87,507,580), and there was no significant other payable aged over three years.

See Note 8 for related party transactions.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(15) Long-term loans**

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

		30th June, 2004	31st December, 2003
Long-term loans from shareholders and ultimate parent company	(i)	994,441,137	388,875,071
Long-term bank loans	(ii)	10,570,170,628	10,714,560,499
Other long-term loans	(iii)	1,069,372,642	1,091,669,808
		12,633,984,407	12,195,105,378
Less: current portion of long-term loans		(2,074,884,244)	(3,041,501,169)
		10,559,100,163	9,153,604,209

(i) Long-term loans from shareholders and ultimate parent company

Long-term loans from shareholders and ultimate parent company (including current portion) comprised:

	30th June, 2004
Renminbi loans	800,000,000
United States dollar loans	194,441,137
	994,441,137
Less: current portion of long-term loans	(194,441,137)
	800,000,000

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

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

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

(i) Long-term loans from shareholders and ultimate parent company (Cont'd)

As at 30th June, 2004, detailed information of the long-term loans from shareholders and ultimate parent company was as follow:

Lender	30th June, 2004	Loan period	Interest rate per annum	Current portion	Terms
Renminbi loans					
Entrusted loans from Huaneng Group through Huaneng Finance	600,000,000	2004-2013	4.6%	—	Nil
Entrusted loans from Huaneng Group through Huaneng Finance	200,000,000	2004-2013	3.78%	—	Nil
Subtotal	800,000,000			—	
United States dollar loans					
Loans from Bank of China on-lent by HIPDC*	194,441,137	1997-2004	LIBOR+0.9%	194,441,137	Nil
	994,441,137			194,441,137	

* The foreign currency bank loans bore interest at the prevailing lending rates (both fixed and floating), prescribed by the loan contracts, which ranged from 3.60% to 3.62% per annum for the six months ended 30th June, 2004 (2003: 3.62% to 4.01%). These loans 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, 2004
Renminbi bank loans	4,801,069,370
United States dollar bank loans	5,769,101,258
	10,570,170,628
Less: current portion of long-term bank loans	(1,412,050,757)
	9,158,119,871

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FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

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

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

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

As at 30th June, 2004, detailed information of the long-term bank loans was as follows:

Lenders	30th June, 2004	Loan period	Interest rate per annum	Current portion	Terms
Renminbi bank loans					
China Construction Bank-Shantou branch*	20,000,000	2004-2007	4.94%	—	Nil
China Construction Bank-Shantou branch*	20,000,000	2004-2009	5.02%	—	Nil
China Construction Bank-Weihai branch	30,000,000	1999-2005	5.76%	30,000,000	Guaranteed by the Company
China Construction Bank-Weihai branch*	100,000,000	1999-2007	5.76%	—	Guaranteed by the Weihai Power Development Bureau ("WPDB")
Bank of China**	241,000,000	1999-2009	5.18%	—	Guaranteed by the Company
Bank of China-Taicang branch*	664,000,000	1999-2014	5.18%	—	Guaranteed by the Company
Bank of China-Suzhou branch**	73,000,000	1999-2009	5.18%	—	Guaranteed by the Company
China Commercial Bank-Nanjing branch*	100,000,000	2003-2006	4.94%	—	Nil
China Development Bank-Jiangsu branch*	400,000,000	2003-2008	5.02%	—	Nil
China Construction Bank- Huaian Branch*	450,000,000	2004-2009	5.02%	—	Nil
China Construction Bank-Jiyuan sub branch*	740,000,000	2003-2019	5.18%	—	Guaranteed by the Company
China Construction Bank-Jiyuan sub branch*	125,000,000	2003-2019	5.18%	—	Guaranteed by Jiyuan Investment Company
China Construction Bank-Jiyuan sub branch*	200,000,000	2003-2019	5.18%	—	Guaranteed by Henan Investment
China Construction Bank-Linzi sub branch*	50,000,000	2000-2009	6.21%	—	Guaranteed by the Company
China Construction Bank-Linzi sub branch*	250,000,000	2001-2009	6.21%	—	Guaranteed by the Company
China Construction Bank-Linzi sub branch	80,000,000	2002-2005	5.94%	80,000,000	Guaranteed by the Company
China Construction Bank-Linzi sub branch	120,000,000	2001-2004	5.94%	120,000,000	Guaranteed by the Company
China Construction Bank-Yushe sub branch*	5,500,000	1994-2006	5.76%	—	Nil
China Construction Bank-Yushe sub branch	53,700,000	1991-2005	5.76%	32,000,000	Nil
Bank of China-Jinzhong branch*	920,000,000	2003-2019	5.17%	—	Nil
China Construction Bank-Yushe sub branch*	30,000,000	2002-2005	4.94%	—	Guaranteed by the Company
China Construction Bank-Yushe sub branch	49,869,370	2003-2005	4.78%	49,869,370	Nil
China Construction Bank-Yushe sub branch *	66,000,000	2003-2006	5.76%	—	Nil
China Construction Bank-Yushe sub branch*	13,000,000	2004-2007	4.94%	—	Nil
Sub-total of Renminbi bank loans	4,801,069,370			311,869,370	
United States dollar bank loans					
Bank of China	346,573,958	2002-2004	LIBOR+0.6%	346,573,958	Nil
Bank of Communications	5,630,129	2000-2005	LIBOR+1.1%	3,808,800	Nil
Bank of China-Taicang branch*	76,183,384	1999-2006	Interest rate of foreign currency loan prescribed by Bank of China-0.5%	24,867,000	Guaranteed by the Company
	428,387,471			375,249,758	

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

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

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

Lenders	30th June, 2004	Loan period	Interest rate per annum	Current portion	Terms
On-lent loans by Bank of China					
American I&E Bank	1,132,887,512	1997-2011	6.54%	145,230,033	Guaranteed by HIPDC
American I&E Bank	962,494,027	1995-2011	5.95%	128,332,534	Guaranteed by HIPDC
American I&E Bank	1,111,997,875	1997-2011	5.95%	148,269,339	Guaranteed by HIPDC
American I&E Bank	279,461,789	1997-2012	6.60%	32,877,859	Guaranteed by HIPDC
KFW Bank	720,765,158	1996-2012	6.60%	90,096,998	Guaranteed by HIPDC
Japan Fuji Bank	84,835,150	1996-2004	LIBOR+0.38%	84,835,150	Guaranteed by HIPDC
On-lent loans by China Construction Bank					
KFW Bank	472,217,002	1999-2015	6.36%	42,871,249	Guaranteed by Huaneng Group
Citibank	576,055,274	1999-2015	LIBOR+0.075%	52,418,467	Guaranteed by Huaneng Group
	5,340,713,787			724,931,629	
Sub-total of US\$ bank loans	5,769,101,258			1,100,181,387	
Total	10,570,170,628			1,412,050,757	

* As at 30th June, 2004, these loans were not repayable within one year and therefore there were no current portion.

** In accordance with repayment schedules, these loans were not repayable within one year and therefore there was no current portion.

(iii) Other long-term loans

Other long-term loans (including current portion) comprised:

	30th June, 2004
Renminbi loans	776,562,309
United States dollar loans	165,532,000
Japanese Yen loans	127,278,333
	1,069,372,642
Less: current portion of other long-term loans	(468,392,350)
	600,980,292

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

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

(iii) Other long-term loans (Cont'd)

As at 30th June, 2004, other long-term loans comprised:

Lender	30th June, 2004	Loan period	Annual interest rate	Current portion	Terms
Renminbi loans					
WPDB	106,608,822	1994-2004	5.76%	106,608,822	Nil
Huaneng Finance	225,000,000	2002-2005	5.64%	225,000,000	Nil
Huaneng Finance	350,000,000	2003-2006	4.94%	—	Nil
Jiangsu International Trust and Investment Company*					
Jiangsu Huaian Investment Company*	31,505,374	1997-2003	5.76%	31,505,374	Nil
Jiangsu Electric Power Development Company Limited*	8,980,253	1997-2003	5.76%	8,980,253	Nil
	19,467,860	1999-2003	5.76%	19,467,860	Nil
Huaneng Finance	35,000,000	2001-2004	5.22%	35,000,000	Guaranteed by the Company
Subtotal of RMB loans	776,562,309			426,562,309	
US\$ loan:					
On-lent foreign loans of the Ministry of Finance	165,532,000	1996-2011	LIBOR+0.43%	23,647,422	US\$15 million of the loan were guaranteed by Hua Zhong Power Group Finance Company
Japanese Yen loan:					
On-lent foreign loans of the Ministry of Finance	127,278,333	1996-2011	LIBOR+0.3%	18,182,619	Rmb31,819,583 of the loan were guaranteed by Henan Investment
Subtotal of foreign loans	292,810,333			41,830,041	
Total	1,069,372,642			468,392,350	

* Pursuant to the related loan contracts, these loans were matured in 2003. However, Huaiyin Power Company had reached agreements with the lenders to extend these loans to later 2004.

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

(16) Share capital

	1st January, 2004	Bonus shares	Conversion of capital surplus	Conversion of convertible notes	30th June, 2004
Unlisted shares					
Promoters shares	4,250,000,000	2,125,000,000	2,125,000,000	—	8,500,000,000
Including: Domestic legal person shares	4,250,000,000	2,125,000,000	2,125,000,000	—	8,500,000,000
Sub-total of unlisted shares	4,250,000,000	2,125,000,000	2,125,000,000	—	8,500,000,000
Listed shares					
Domestic shares listed in the PRC	250,000,000	125,000,000	125,000,000	—	500,000,000
Overseas listed shares	1,527,671,200	763,835,600	763,835,600	20,520	3,055,362,920
Sub-total of listed shares	1,777,671,200	888,835,600	888,835,600	20,520	3,555,362,920
Total shares	6,027,671,200	3,013,835,600	3,013,835,600	20,520	12,055,362,920

As mentioned in Note 6(19) (ii), the increase of share capital in this period mainly because of the shareholders had approved the profit distribution plan at their annual general meeting. According to the plan, the Company issued conversion shares and charged to capital surplus and surplus reserve, amounting to Rmb1,808,301,360 and Rmb1,205,534,240 respectively, and issued bonus shares amounting to Rmb3,013,835,600, on the basis of 6,027,671,200 ordinary shares as at the distribution date.

(17) Capital surplus

Movement of capital surplus was as follow:

	1st January, 2004	Conversion of convertible notes	Conversion of capital surplus to share capital	30th June, 2004
Share premium (i)	10,398,981,515	103,629	(1,808,301,360)	8,590,783,784
Equity investment provision	4,247,846	—	—	4,247,846
	10,403,229,361	103,629	(1,808,301,360)	8,595,031,630

(i) As mentioned in Note 6(19)(ii), the decrease of capital surplus in this period mainly because that the shareholders had approved the profit distribution plan at their annual general meeting. According to the plan, the Company issued conversion shares and charged to capital surplus amounting to Rmb1,808,301,360 on the basis of 6,027,671,200 ordinary shares as at the distribution date.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
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6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(18) Surplus reserves**

	Statutory capital surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Total
1st January, 2004	2,896,464,697	1,460,700,799	17,502,692	4,374,668,188
Current period addition	—	—	1,599,770	1,599,770
Current period deduction	(1,205,534,240)	(1,599,770)	—	(1,207,134,010)
30th June, 2004	1,690,930,457	1,459,101,029	19,102,462	3,169,133,948

As mentioned in Note 6(19) (ii), the increase of share capital in this period mainly because that the shareholders had approved the profit distribution plan at their annual general meeting. According to the plan, the Company issued conversion shares and charged to surplus reserve amounting to Rmb1,205,534,240 on the basis of 6,027,671,200 ordinary shares as at the distribution date.

For the six months ended 30th June, 2004, the Company and its subsidiaries did not make appropriation to surplus reserves fund.

(19) Unappropriated profit

	For the six months ended	
	30th June, 2004	30th June, 2003
Unappropriated profit brought forward	13,981,531,454	9,488,703,911
Add: Retrospective adjustments-cash dividends approved by the general meeting of the shareholders subsequent to the balance sheet date (Note 2)(i)	—	2,040,093,146
Adjusted unappropriated profit brought forward	13,981,531,454	11,528,797,057
Add: Net profit of the period	2,530,964,525	2,355,671,994
Less: Dividends payable to ordinary shareholders-cash dividends of prior year approved by the general meeting of the shareholders (i) (ii)	(3,013,835,600)	(2,049,408,208)
Dividends payable to ordinary shareholders-bonus share approved the general meeting of the shareholders	(3,013,835,600)	—
Unappropriated profit carried forward	10,484,824,779	11,835,060,843

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**(19) Unappropriated profit** (Cont'd)

- (i) 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 ordinary shares of the Company was 6,000,273,960 as at 12th March, 2003, the Company recorded dividends payable amounted to Rmb2,040,093,146 in the financial statements of 2002. On 24th April, 2003, the noteholders converted the convertible notes with principal amount of US\$20,000,000 to 6,84,931 ADSs (equivalent to 27,397,240 Overseas Listed Foreign Shares), resulted in the increase of ordinary shares from 6,000,273,960 to 6,027,671,200. As at 28th May, 2003, the shareholders approved the declaration of above dividends in the annual general meeting. As there were 6,027,671,200 shares outstanding on that date, the total dividends payable amounted to Rmb2,049,408,208.

As mentioned in Note 2, effective from 1 July, 2003, the Company has adopted the revised "Accounting Standards for Business Enterprise - Events Occurring After the Balance Sheet Date". Cash dividends are recognized as a liability in the period in which a profit distribution plan is approved by the general meeting of the shareholders. The retrospective adjustments of the accounting changes were required upon the adoption of this standard and resulted in an increase of unappropriated profit amounting to Rmb2,040,093,146 as at 1st January, 2003.

- (ii) Pursuant to the resolution of the Board of Directors on 16th March, 2004, on the basis of 6,027,671,200 ordinary shares outstanding as at 31st December, 2003, the directors proposed a cash dividend of Rmb5.0 (including tax) and 5 bonus shares for every 10 existing ordinary shares. In addition, on the basis of 6,027,671,200 ordinary shares outstanding as at 31st December, 2003, the Board of Directors proposed to convert part of the capital surplus and statutory surplus reserve fund into the share capital by issuing new shares to its shareholders on the basis of 5 new shares for every 10 existing ordinary shares (3 of which from capital surplus and 2 of which from statutory surplus reserve fund). On 11th May, 2004 the shareholders approved the profit distribution plan and declared the cash dividend and bonus shares amounting to 3,013,835,600 and 3,013,835,600 respectively, on the basis of 6,027,671,200 ordinary shares outstanding as at the distribution date.

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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6. 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, 2004		For the six months ended 30th June, 2003	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	13,040,289,339	9,498,640,593	10,618,086,009	7,203,913,330

The Company and its subsidiaries have contractual arrangements for the sales of electric power with the provincial or regional grid companies.

For the six months ended 30th June, 2004 and 2003, the revenue from the five largest customers of the Company and its subsidiaries amounted to Rmb10,419,558,242 and Rmb8,626,328,328, representing 79.90% and 81.24% of the total revenue, respectively.

(21) Financial expenses

	For the six months ended	
	30th June, 2004	31st December, 2003
Interest expenses	271,142,138	312,889,862
Less: Interest income	(26,242,330)	(32,329,035)
Exchange losses	1,000,525	580,720
Less: Exchange gain	(191,465)	(3,312)
Others	9,675,027	9,861,635
	255,383,895	290,999,870

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

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

	For the six months ended	
	30th June, 2004	31st December, 2003
Investment income on bonds	4,392	430,794
Investment income on other debt investments	—	9,152,305
Share of profit(loss) of associates accounted in equity method	119,297,358	62,233,380
Dividend declared by investees accounted in cost method	22,541,980	585,342
Amortization of equity investment differences	(61,985,258)	(30,285,297)
	79,858,472	42,116,524

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

(23) Other cash paid relating to operating activities

	For the six months ended 30th June, 2004
Cash paid for repairs and maintenance expenses	402,319,841
Service fee paid to HIPDC	105,039,266
Payment of balance due to HIPDC	221,544,888
Others	762,548,689
	1,491,452,684

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
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7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS**(1) Accounts receivable and other receivables**(i) *Accounts receivable*

	30th June, 2004	31st December, 2003
Accounts receivable	2,422,101,269	2,005,023,640

Aging of the accounts receivable was as follow:

Aging	30th June, 2004		31st December, 2003	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,418,405,269	100	2,001,327,640	100
1-2 years	—	—	—	—
2-3 years	—	—	3,696,000	—
Over 3 years	3,696,000	—	—	—
	2,422,101,269	100	2,005,023,640	100

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

As at 30th June, 2004, the five largest accounts receivable of the Company amounted to Rmb2,015,856,369 (31st December, 2003: Rmb1,636,534,781), representing 83.23% of total accounts receivable (31st December, 2003: 81.62%).

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

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

	30th June, 2004	31st December, 2003
Other receivables	215,324,439	116,142,277
Less: bad debt provision	(22,171,785)	(28,652,566)
	193,152,654	87,489,711

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

Aging	30th June, 2004			31st December, 2003		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	164,465,787	77	(1,064,346)	65,168,643	56	(1,955,059)
1-2 years	4,428,386	2	(50,329)	7,931,460	7	(237,944)
2-3 years	2,614,391	1	(751,961)	9,896,662	8	(296,900)
Over 3 years	43,815,875	20	(20,305,149)	33,145,512	29	(26,162,663)
	215,324,439	100	(22,171,785)	116,142,277	100	(28,652,566)

Breakdown of other receivables was as follows:

	30th June, 2004	31st December, 2003
Receivables from employees for sales of staff quarters	10,304,165	10,272,586
Petty cash	6,519,680	8,566,762
Transmission fee refund receivable from Shandong Electric Power Corporation	—	19,067,120
Due from HIPDC	93,184,330	—
Others	105,316,264	78,235,809
	215,324,439	116,142,277

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

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

As at 30th June, 2004, the five largest other receivables of the Company amounted to Rmb111,069,097 (31st December, 2003: Rmb57,070,487), representing 51.58% of total other receivables (31st December, 2003: 49.14%).

As at 30th June, 2004 and 31st December, 2003, there were no accounts receivable and other receivables from shareholders who hold 5% or more of the equity interest in the Company, except for the receivable from HIPDC amounted to Rmb93,184,330 as at 30th June, 2004.

See Note 8 for related party transactions.

(2) Long-term equity Investments

	1st January, 2004	Current period additions	Current period deductions	30th June, 2004
Long-term equity investments				
Subsidiaries (i)	2,065,440,907	771,845,230	(340,138,283)	2,497,147,854
Associates*	2,012,939,632	137,799,745	(18,502,387)	2,132,236,990
Equity investment difference*	1,133,262,633	5,936,001	(61,985,259)	1,077,213,375
Other long-term equity investments*	260,832,268	—	(50,000)	260,782,268
	5,472,475,440	915,580,976	(420,675,929)	5,967,380,487

* Please refer to Note 6 for details.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

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7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)**(2) Long-term equity Investments** (Cont'd)

(i) Long-term equity investments in subsidiaries

Name	Investment period	Investment cost movement		
		1st January, 2004	Current period additions	30th June, 2004
Weihai Power Company	No specific terms	474,038,793	—	474,038,793
Taichang Power Company	No specific terms	507,206,560	(37,500,000)	469,706,560
Huaiyin Power Company	No specific terms	417,544,226	(76,368,000)	341,176,226
Huaiyin II Power Company	No specific terms	—	301,653,600	301,653,600
Yushe Power Company	No specific terms	134,085,896	44,063,999	178,149,895
Qinbei Power Company	50 years	84,055,599	100,000,000	184,055,599
Xindian II Power Company	No specific terms	—	100,500,000	100,500,000
Taichang II Power Company	No specific terms	—	137,500,000	137,500,000
		1,616,931,074	569,849,599	2,186,780,673
Name	1st January, 2004	Accumulated equity pick-up movement		
		Current period profit/(loss)	Profit appropriation	30th June, 2004
Weihai Power Company	180,400,332	70,804,810	(120,349,935)	130,855,207
Taichang Power Company	228,945,075	75,157,706	(145,599,795)	158,502,986
Huaiyin Power Company	35,950,457	32,937,944	(63,440,000)	5,448,401
Huaiyin II Power Company	—	—	—	—
Yushe Power Company	3,795,726	17,159,170	(1,134,449)	19,820,447
Qinbei Power Company	(581,757)	(3,678,103)	—	(4,259,860)
Xindian II Power Company	—	—	—	—
Taichang II Power Company	—	—	—	—
	448,509,833	192,381,527	(330,524,179)	310,367,181

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

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

(2) Long-term equity Investments (Cont'd)

(i) Long-term equity investments in subsidiaries (Cont'd)

Name	Net carrying amount	
	1st January, 2004	30th June, 2004
Weihai Power Company	654,439,125	604,894,000
Taicang Power Company	736,151,635	628,209,546
Huaiyin Power Company	453,494,683	346,624,627
Huaiyin II Power Company	—	301,653,600
Yushe Power Company	137,881,622	197,970,342
Qinbei Power Company	83,473,842	179,795,739
Xindian II Power Company	—	100,500,000
Taicang II Power Company	—	137,500,000
	2,065,440,907	2,497,147,854

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

(3) Long-term Debt Investments

	1st January, 2004	Current period additions	Current period deductions	30th June, 2004
Long-term entrusted loans				
to a subsidiary*	470,662,956	—	(200,000,000)	270,662,956
Others	95,560	13,200	(34,400)	74,360
	470,758,516	13,200	(200,034,400)	270,737,316
Less: Current portion of long-term debt investments	(470,746,016)	—	200,034,400	(270,711,616)
	12,500	13,200	—	25,700

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)**(3) Long-term Debt Investments** (Cont'd)

- * Long-term entrusted loans to a subsidiary

In order to finance the construction of Weihai Power Company Phase II, the Company had granted entrusted loans to Weihai Power Company through a financial institution in September 1995. These loans were unsecured, not guaranteed and bore interests at 6.21% per annum. As at 30th June, 2004, the entrusted loans will be matured within one year.

For the six months ended 30th June, 2004, the Company received interest income of approximately Rmb9.41 million (For the six months ended 30th June, 2003: Rmb17.24 million) from Weihai Power Company. As at 30th June, 2004, the outstanding entrusted loans, the related interest income and interest expense were eliminated in the consolidated financial statements.

(4) Revenues from principal operations

	For the six months ended 30th June, 2004		For the six months ended 30th June, 2003	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	11,104,641,146	8,157,868,496	9,193,411,044	6,296,734,893

The Company has contractual arrangements for the sales of electric power with the provincial or regional grid companies.

For the six months ended 30th June, 2004 and 2003, the revenue from the five largest customers of the Company amounted to Rmb8,663,463,317 and Rmb7,201,653,363, representing 78.02% and 78.33% of the total revenue of the Company, respectively.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in Rmb Yuan unless otherwise stated)

7. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)**(5) Investment income**

	For the six months ended	
	30th June, 2004	31st December, 2003
Investment income on bonds	4,392	430,794
Investment income on entrusted loans	9,410,230	17,237,506
Investment income on other debt investments	—	9,152,305
Share of profit of subsidiaries and associates accounted in equity method	311,678,885	232,902,038
Dividend declared by investees accounted in cost method	22,541,980	585,342
Amortization of equity investment differences	(61,985,258)	(30,285,297)
	281,650,229	230,022,688

There was no material restriction on remittance of the investment income of the Company.

8. RELATED PARTY TRANSACTIONS**(1) Related parties that control/are controlled by the Company:**

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Huaneng Group	40 Xueyuan South Road, Haidian District, Beijing	Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber and related industries and others	Ultimate parent company	State-owned enterprise	Li Xiaopeng
HIPDC	40 Xueyuan South Road, Haidian District, Beijing	Investment in power plants, development and investment in other export-oriented enterprises	Parent company	Sino-foreign equity limited liability company	Li Xiaopeng
Weihai Power Company	No. 58 Haibu road, Economic Development Zone, Weihai, Shandong province	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

8. RELATED PARTY TRANSACTIONS (Cont'd)**(a) Related parties that control/are controlled by the Company:** (Cont'd)

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Hu Jianmin
Taicang II Power Company	Fuqiao town, Jinlanggang village, Taicang, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Na Xizhi
Huaiyin Power Company	No. 291 Huaihai West Road, Huaian, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Huaiyin II Power Company	No. 291 Huaihai West Road, Huaian, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Qinbei Power Company	Wulongkou town, Jiyuan city, Henan Province	Power generation	A subsidiary of the Company	Limited liability company	Xiao An
Yushe Power Company	Dengyu village, Yushe county, Shanxi Province	Power generation	A subsidiary of the Company	Limited liability company	Na Xizhi
Xindian II Power Company	Qilu Chemical Industrial Park, Linzi district, Zibo, Shandong province	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in Rmb Yuan unless otherwise stated)

8. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	Currency	1st January, 2004	Current period additions	30th June, 2004
Huaneng Group	Rmb	1,900,000,000	100,000,000	2,000,000,000
HIPDC	US\$	450,000,000	—	450,000,000
Weihai Power Company	Rmb	761,832,800	—	761,832,800
Taicang Power Company	Rmb	632,840,000	—	632,840,000
Taicang II Power Company	Rmb	—	894,410,000	894,410,000
Huaiyin Power Company	Rmb	265,000,000	—	265,000,000
Huaiyin II Power Company	Rmb	—	474,000,000	474,000,000
Qinbei Power Company	Rmb	10,000,000	—	10,000,000
Yushe Power Company	Rmb	80,000,000	—	80,000,000
Xindian II Power Company	Rmb	—	100,000,000	100,000,000

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

Name	1st January, 2004		Current period additions		30th June, 2004	
	Amount	%	Amount	%	Amount	%
Huaneng Group*	1,675,660,547	51.98	—	—	1,675,660,547	51.98
HIPDC**	2,554,840,000	42.39	2,614,840,000	0.49	5,169,680,000	42.88
Weihai Power Company	457,103,040	60	—	—	457,103,040	60
Taicang Power Company	474,630,000	75	—	—	474,630,000	75
Taicang II Power Company	—	—	670,807,500	75	670,807,500	75
Huaiyin Power Company	168,646,000	63.64	—	—	168,646,000	63.64
Huaiyin II Power Company	—	—	301,653,600	63.64	301,653,600	63.64
Qinbei Power Company	148,200,000	55	—	—	148,200,000	55
Yushe Power Company	48,000,000	60	—	—	48,000,000	60
Xindian II Power Company	—	—	95,000,000	95	95,000,000	95

* Huaneng Group holds 51.98% equity interest in HIPDC.

** 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 70.09% voting rights in the shareholders' meetings.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

8. RELATED PARTY TRANSACTIONS (Cont'd)**(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 Company
Henan Investment	Minority shareholder of Qinbei Power Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company ("Time Shipping")	A joint venture company of Huaneng Group
Rizhao Power Company	An associate of the Company
SEG	An associate of the Company

(5) Related party transactions

- a. On 30th June, 1994, the Company and HIPDC entered into a service agreement pursuant to which HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. The agreement covers a period of 10 years. The total amount of service fees paid to HIPDC for the six months ended 30th June, 2004 were approximately Rmb105 million (for the six months ended 30th June, 2003: Rmb105 million).
- b. In accordance with the leasing agreement entered into between the Company and HIPDC, the land use right of Shidongkou II Power Plant is leased to the Company for a period of 50 years from 30th June, 1997 at an annual rental payment of Rmb6 million.
- c. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use right of Nanjing Power Plant is leased to the Company for 50 years from 1st January, 1999 at 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 at an annual rental of Rmb25 million for five years from 1st January, 2000.
- e. Please refer to Note 6 (15)(i), in connection to certain bank loans were on-lent from HIPDC and drawn from Huaneng Group through Huaneng Finance, and as described in Note 6 (15)(iii), in connection to certain bank loans were drawn from WPDB and Huaneng Finance.
- f. As at 30th June, 2004, Huaneng Finance had granted short-term loans amounted to Rmb1,005 million (31st December, 2003: Rmb1,130 million) to the Company and its subsidiaries, and Henan Investment had granted short-term loans amounted to Rmb 130 million (31st December, 2003: Rmb 130 million) to the Company and its subsidiaries. The interest rates for such loans have no material difference with the prevailing market interest rate (see Note 6(11)).

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

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

- g. As at 30th June, 2004, long-term bank loans of approximately Rmb4,292 million, Rmb 1,048 million, Rmb100 million and Rmb232 million were guaranteed by HIPDC, Huaneng Group, WPDB and Henan Investment, respectively (31st December, 2003: Rmb4,648 million, Rmb1,096 million, Rmb280 million and Rmb34.49 million, respectively) (see Note 6(15)).
- h. As described in Note 9, certain bank loans of Rizhao Power Company were guaranteed by the Company.
- i. On 6th November, 2002, the Company 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 five years. For the six months ended 30th June, 2004, the Company earned service fees amounted to Rmb16,647,400 from Huaneng Group (for the six months ended 30th June, 2003: Rmb16,647,400) and paid expenses on behalf of Huaneng Group's power plants amounted to Rmb9,845,845 (for the six months ended 30th June, 2003: nil). In addition, the Company earned service fees amounted to Rmb8,652,600 from HIPDC (for the six months ended 30th June, 2003: Rmb8,652,600) and paid expenses on behalf of HIPDC's power plants amounted to Rmb2,017,220 (for the six months ended 30th June, 2003: nil). For the six months ended 30th June, 2004, the related cost incurred for the management service provided was approximately Rmb18,000,000 (for the six months ended 30th June, 2003: Rmb14,000,000).
- j. For the six months ended 30th June, 2004, the Company and its subsidiaries paid approximately Rmb100.35 million for coal purchased from CHITEC (for the six months ended 30th June, 2003: Rmb22.90 million).
- k. For the six months ended 30th June, 2004, the Company and its subsidiaries paid approximately Rmb213 million for the fuel purchased and transportation services received from Time Shipping (for the six months ended 30th June, 2003: Rmb166 million).

(6) Cash deposited with a related party

	30th June, 2004	31st December, 2003
Deposited in Huaneng Finance:		
-Current deposit	2,248,315,147	2,791,770,168

As at 30th June, 2004, the interest rates per annum for the current deposits placed with Huaneng Finance ranged from 0.72% to 1.71% (31st December, 2003: 0.72% to 1.44%).

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

8. RELATED PARTY TRANSACTIONS (Cont'd)**(7) Receivables from/ payables to related parties**

	30th June, 2004		31st December, 2003	
	Amount	Percentage	Amount	Percentage
Other receivables				
Other receivables from				
Huaneng Group's subsidiaries	2,854,545	0.98%	5,286,705	3.29%
Other receivables from				
HIPDC's subsidiaries	575,120	0.20%	575,120	0.36%
Other receivables from				
Huaneng Group	6,991,300	2.41%	—	—
Other receivables from				
HIPDC	93,184,330	32.13%	—	—
Other receivables from				
Rizhao Power Company	1,652,353	0.57%	—	—
Accounts payable				
Accounts payable to CHITEC	(6,450,048)	0.92%	(14,484,416)	2.22%
Accounts payable to				
Time Shipping	(10,691,346)	1.53%	(11,434,522)	1.75%
Other Payable				
Other payables to HIPDC	—	—	(87,507,580)	5.24%
Other payables to SEG	(50,000,000)	2.72%	—	—
Interest payables				
Interest payables on loans				
from Huaneng Finance	(18,607,163)	19.38%	(1,418,954)	1.51%

The balances with Huaneng Group's subsidiaries, HIPDC's subsidiaries, Huaneng Group, HIPDC, SEG, CHITEC and Time Shipping were unsecured, non-interest bearing and to be settled within one year.

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004
 (Prepared in accordance with PRC Accounting Standards)
 (All amounts are stated in Rmb Yuan unless otherwise stated)

9. CONTINGENT LIABILITY

Item	30th June, 2004	
	The Company and its subsidiaries	The Company
Guarantee on the long-term bank loans of Rizhao Power Company	326,500,000	326,500,000
Guarantee on the long-term bank loans of Weihai Power Company	—	30,000,000
Guarantee on the long-term bank loans of Taicang Power Company	—	1,054,183,384
Guarantee on the long-term bank loans of Qinbei Power Company	—	740,000,000
Guarantee on the long-term bank loans of Yushe Power Company	—	65,000,000
	<u>326,500,000</u>	<u>2,215,683,384</u>

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

10. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Expenditure which was contracted for but not incurred and thus was not recognized in the financial statements as at 30th June, 2004 amounted to approximately Rmb15.86 billion (31st December, 2003: Rmb12.07 billion).

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, 2004	31st December, 2003
Land and buildings		
- within 1 year	19,839,250	32,334,000
- 1-2 years	7,336,250	7,334,000
- 2-3 years	7,334,000	7,334,000
- after 3 years	295,361,000	299,028,000
	<u>329,870,500</u>	<u>346,030,000</u>

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 Rmb29,874,000 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, 2004, the rental was Rmb14,975,227 (for the six months ended 30th June, 2003: Rmb15,352,004).

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

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

(Prepared in accordance with PRC Accounting Standards)

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

11. INTEREST RATE SWAP CONTRACT

The Company entered into interest rate swap agreements with the 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, 2004, the notional amount of the outstanding interest swap agreements were approximately US\$10.25 million (31st December, 2003: US\$20.50 million).

12. Net profit after deducting non-recurring items

Net profit	2,530,964,525
Add (Less): non-recurring items	
- Loss from disposal of fixed assets	(1,076,961)
- Reversal of bad debit provision	(6,076,496)
- Non-operating income	(409,420)
- Non-operating expense	4,603,033
Add: tax impact on non-recurring items	464,949
Net profit after deducting non-recurring items	<u>2,528,469,630</u>

13. SUBSEQUENT EVENTS

On 16th April, 2004, the Company entered into an agreement with Huaneng Group under which the Company agreed to acquire from Huaneng Group 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company, 90% equity interest in Jinggangshan Huaneng Power Generation Limited Liability Company ("Jinggangshan Power Company"). The total consideration for the acquisition of two power plants was Rmb1,949 million.

On the same date, the Company entered into an agreement with HIPDC under which the Company agreed to acquire from HIPDC 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company, 60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and all of the assets and liabilities of Huaneng International Power Development Corporation Yingkou Branch. The total consideration for the acquisition of the three power plants was Rmb2,564 million.

In addition, on 16th April, 2004, the Company entered into an agreement with Jiangxi Provincial Investment Company and agreed to acquire the remaining 10% equity interest in Jinggangshan Power Company at a consideration of Rmb62 million.

After obtaining all the necessary government approvals on the acquisitions and the payment of the purchase considerations, the Company took over the control or obtained a significant influence of the above power companies and power plants in July 2004.

14. 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, 2004

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

NET PROFIT AND NET ASSETS RECONCILIATION AMONG PRC GAAP, AND 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 International Financial Reporting Standards (“IFRS”). Major differences among PRC GAAP and IFRS, which affect the net income and net assets of the Company and its subsidiaries, are summarized as follows:

	Net Income	
	For the six months ended 30th June,	
	2004	2003
Net profit under PRC GAAP	2,530,964,525	2,355,671,994
Impact of IFRS adjustments:		
Effect of recording deferred revenue (a)	(52,844,749)	(76,509,744)
Difference in the basis of determining the amount of materials and supplies (b)	792,624	1,143,688
Difference in the recognition policy on housing benefits to the employees of the Company (c)	(12,826,849)	(13,244,487)
Difference in accounting treatment of the convertible notes (d)	(17,268)	(3,206,700)
Difference in capitalization of borrowing costs (e)	26,539,580	7,179,863
Difference in the recognition of financial liabilities (f)	573,746	4,206,206
Applicable deferred tax impact on the above GAAP differences (g)	4,823,755	6,451,513
Others	(16,878,387)	3,512,919
Net profit under IFRS	2,481,126,977	2,285,205,252

	Net Assets	
	As at 30th, June 2004	As at 31st December, 2003
Net assets under PRC GAAP	34,304,353,277	34,787,100,203
Impact of IFRS adjustments:		
Effect of recording deferred revenue (a)	(1,040,344,871)	(987,500,122)
Difference in the basis of determining the amount of materials and supplies (b)	(7,086,617)	(7,879,241)
Difference in the recognition policy on housing benefits to the employees of the Company (c)	50,899,207	63,726,056
Difference in accounting treatment of convertible notes (d)	—	17,268
Difference in capitalization of borrowing costs (e)	127,633,367	101,093,787
Difference in the recognition of financial liabilities (f)	(350,940)	(924,686)
Applicable deferred tax impact on the above GAAP differences (g)	12,392,101	7,568,346
Others	(24,725,565)	(7,847,178)
Net assets under IFRS	33,422,769,959	33,955,354,433

(a) Recording of deferred revenue

Under the rate making process applicable to the Company and its subsidiaries except for certain power plants, major repair and maintenance expenses determined on the basis of 1% of the fixed asset cost is recovered through the current power rates. 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 is recorded as deferred revenue under IFRS. For PRC statutory financial reporting purposes, in accordance with the requirements 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 materials 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 liabilities without distinguishing between the equity and liability components.

In accordance with IAS 39, 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. The GAAP difference of capitalized interests on general borrowing also causes the difference of depreciation expense of relevant fixed assets.

(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, 2004, the notional amount of the outstanding interest rate swap agreement was approximately US\$10.3 million. For the period ended 30th June, 2004, there was a gain amounted to approximately Rmbo.6 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) Deferred Tax Impact

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