(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of 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. As at 31st December, 2004, the Company and its subsidiaries had 22,129 employees (2003: 17,886 employees).

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

The parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group Corporation ("Huaneng Group"), respectively. Both companies are incorporated in the PRC.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

During 2004, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as at 31st December, 2004, the Company and its subsidiaries have a negative working capital balance of approximately RMB7 billion. The Company and its subsidiaries have significant undrawn available banking facilities as disclosed in Note 35 and may refinance and/or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these consolidated financial statements on a going concern basis.

The Company and its subsidiaries adopted IFRS 3 Business Combinations and International Accounting Standard ("IAS") 36 Impairment of Assets in relation to acquisitions with respective agreements dated on or after 31st March, 2004 (Notes 2(f) & (g)). Goodwill arising from acquisition with the agreement date before 31st March, 2004 is amortized using the straight-line method over their estimated useful lives and recognized in the income statement until 31st December, 2004. In accordance with the provisions of IFRS 3, goodwill arising from acquisitions on or after 31st March, 2004 is not amortized but instead is tested annually for impairment and carried at cost less accumulated impairment losses. There is no impact on opening retained earnings as at 1st January, 2004 from the adoption of these standards.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(b) Consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued and liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of subsidiaries acquired is recorded as goodwill. See Note 2(f) for the accounting policy on goodwill. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method.

(ii) Associates

Associates are entities over which the Company and its subsidiaries generally have between 20% and 50% of the voting rights, or over which the Company and its subsidiaries have significant influence, but which they do not control. Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Company and its subsidiaries and its associates are eliminated to the extent of the Company and its subsidiaries' interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company and its subsidiaries' investments in associates include goodwill (net of accumulated amortization) on acquisition. When the Company and its subsidiaries' share of losses in an associate equals or exceeds their interest in the associate, further losses are not recognised, unless the Company and its subsidiaries have incurred obligations or made payments on behalf of the associates.

In the Company's financial statements, investments in associates are accounted for using the equity method.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Company and its subsidiaries are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the measurement currency of the Company and its subsidiaries.

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement.

(d) Property, plant and equipment, net

Property, plant and equipment, net is stated at historical cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is determined by comparing proceeds with the carrying amount and is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their estimated residual values over their estimated useful lives as follows:

Buildings	8-35 years
Electric utility plant in service	4-30 years
Transportation facilities	6-27 years
Others	2.5-18 years

The useful lives and depreciation methods are reviewed periodically to ensure that the methods and periods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(d) Property, plant and equipment, net *(Cont'd)*

Construction-in-progress ("CIP") represents property, plant and equipment under construction and is stated at cost. This includes the costs of construction, plant and machinery and other direct costs. CIP is not depreciated until such time as the relevant asset is completed and ready for its intended use.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(e) Investments

The Company and its subsidiaries classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short-term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Company and its subsidiaries commits to purchase or sell the investment. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortized cost using the effective yield method. Realized and unrealized gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(f) Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising from acquisitions dated before 31st March, 2004 is amortized to the income statement using the straight-line method over its estimated useful life until 31st December, 2004 and will be tested annually for impairment effective from 1st January, 2005. Management determines the estimated useful life of goodwill based on the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets of the respective business at the time of the acquisition. In accordance with the provisions of IFRS 3, goodwill arising from acquisitions on or after 31st March, 2004 is not amortized but tested annually for impairment (see Note 2(g)) and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating unit ("CGUs") for the purpose of impairment testing.

Negative goodwill represents the excess of the fair value of the Company's share of the net assets of the acquired subsidiary/ associate over the cost of an acquisition. Negative goodwill arising from acquisitions dated before 31st March, 2004 is amortized using the straight-line method over their estimated useful lives and recognized in the income statement until 31st December, 2004 and will be derecognized on 1st January, 2005, with a corresponding adjustment to retained earnings as at 1st January, 2005. Management determines the estimated useful lives of negative goodwill based on the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets of the respective business at the time of the acquisition. For negative goodwill arising from acquisitions dated on or after 31st March, 2004, the Company reassesses the identification and measurement of the identifiable assets and liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess of the fair value of the Company's share of net assets of the subsidiary/associate over the cost of the acquisition after that reassessment is recognized immediately in profit or loss.

(g) Impairment of assets

Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(h) Inventories

Inventories consist of fuel, materials and supplies. They are stated at the lower of weighted average costs or net realizable values after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate. Cost of inventories includes direct material cost and transportation expenses incurred in bringing the inventories to the working locations.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(i) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of receivables.

(j) Temporary cash investments

Temporary cash investments comprise cash invested in fixed-term deposits with original maturities ranging from more than 3 months to one year. Temporary cash investments are classified as held-to-maturity investments and are carried at amortized cost (see Note 2(e)).

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(l) Borrowings

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

(m) Provisions

Provisions are recognized when the Company and its subsidiaries have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company and its subsidiaries expect a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(n) Revenue and income recognition

Revenue and income are recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries and the amount of the revenue and income can be measured reliably.

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial grid companies (net of value added tax ("VAT") and amounts received in advance). Revenue is earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective grid companies.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis that reflects the effective yield on the deposits.

(iii) Management service income

As mentioned in Note 5, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC. The Company recognizes the service income as other income when service is provided in accordance with the management service agreement.

(o) Borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized as part of the cost of property, plant and equipment, if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

(p) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the periods of the leases.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(q) Taxation

(i) VAT

Under the relevant PRC tax laws, the Company and its subsidiaries are subject to VAT. The Company and its subsidiaries are subject to output VAT levied at 17% of the Company's and its subsidiaries' operating revenue. The input VAT can be used to offset the output VAT levied on operating revenue to determine the net VAT payable. Because VAT is a tax on the customer and the Company and its subsidiaries collect such tax from the customers and pay such tax to the suppliers on behalf of the tax authority, the VAT has not been included in operating revenues or operating expenses.

(ii) Income tax

In accordance with the practice notes on the PRC income tax laws applicable to foreign investment enterprises investing in energy and transportation infrastructure businesses, the reduced income tax rate of 15% (after the approval of State Tax Bureau) is applicable across the country.

All the power plants (except for Huaneng Dezhou Power Plant (the "Dezhou Power Plant"), Huaneng Jining Power Plant (the "Jining Power Plant"), Huaneng Changxing Power Plant (the "Changxing Power Plant"), Huaneng Shanghai Shidongkou I Power Plant (the "Shidongkou I Power Plant"), Huaneng Xindian Power Plant (the "Xindian Power Plant"), Huaneng Weihai Power Limited Liability Company (the "Weihai Power Company"), Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company"), Jiangsu Huaneng Huaiyin Power Limited Company ("the Huaiyin Power Company"), Shanxi Huaneng Yushe Power Limited Liability Company (the "Yushe Power company"), Henan Huaneng Qinbei Power Limited Company (the "Qinbei Power Company") and Huaneng Hunan Yueyang Power Generation Limited Liability Company (the "Yueyang Power Company") 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").

The tax holiday of Huaneng Dalian Power Plant (the "Dalian Power Plant"), Huaneng Dalian Power Plant Phase II ("the Dalian phase II"), Huaneng Shangan Power Plant (the "Shangan power plant"), Huaneng Nantong Power Plant (the "Nantong Power Plant"), Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant"), Huaneng Shantou Oil-Fired Power Plant (the "Shantou Oil-Fired Power Plant"), Huaneng Shanghai Shidongkou Second Power Plant (the "Shidongkou II Power Plant"), Huaneng Nanjing Power Plant (the "Nanjing Power Plant") and Huaneng Shangan Power Plant Phase II (the "Shangan Phase II") had already expired prior to 2004. The tax holiday of Huaneng Nantong Power Plant Phase II (the "Nantong Phase II") and Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II") expired in 2004, the tax holiday of the Huaneng Shantou Coal-Fired Power Plant ("the Shantou Power Plant") will expire in 2005, the tax holiday of Huaneng Chongqing Luohuang Power Generation Limited Liability Company (the "Luohuang Power Company") will expire in 2007 and the tax holiday of Huaneng Jinggangshan Power Plant (the "Jinggangshan Power Plant") will expire in 2008.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(q) Taxation *(Cont'd)*

(ii) Income tax *(Cont'd)*

The statutory income tax is assessed on an individual power plant basis, based on each of their results of operations. The commencement dates of the tax holiday period of each power plant are individually determined. The statutory income tax rates applicable to the head office, Shandong branch and the operating power plants, after taking the effect of tax holidays into consideration, are summarized below:

	2004	2003
Head Office	**15.0%**	15.0%
Dalian Power Plant	**18.0%**	18.0%
Dalian Phase II [1]	**15.0%**	7.5%
Shangan Power Plant	**18.0%**	18.0%
Shangan Phase II	**18.0%**	9.0%
Nantong Power Plant	**15.0%**	15.0%
Nantong Phase II [2]	**7.5%**	7.5%
Fuzhou Power Plant	**15.0%**	15.0%
Fuzhou Phase II [3]	**7.5%**	7.5%
Shantou Oil-Fired Plant	**15.0%**	15.0%
Shantou Power Plant [4]	**10.0%**	10.0%
Shidongkou II Power Plant	**16.5%**	16.5%
Huaneng Dandong Power Plant (the "Dandong Power Plant") [5]	**—**	—
Nanjing Power Plant [6]	**10.0%**	10.0%
Shandong Branch	**17.0%**	17.0%
Dezhou Power Plant	**17.0%**	17.0%
Jining Power Plant	**15.0%**	15.0%
Changxing Power Plant	**16.5%**	16.5%
Shidongkou I Power Plant	**18.0%**	18.0%
Xindian Power Plant [7]	**15.0%**	18.0%
Huaneng Yingkou Power Plant (the "Yingkou Power Plant") [5,10]	**—**	N/A
Jinggangshan Power Plant [8,10]	**—**	N/A
Weihai Power Company	**33.0%**	33.0%
Taicang Power Company	**33.0%**	33.0%
Huaiyin Power Company	**33.0%**	33.0%
Yushe Power Company	**33.0%**	33.0%
Yueyang Power Company [10]	**33.0%**	N/A
Luohuang Power Company [9,10]	**—**	N/A
Qinbei Power Company [11]	**—**	N/A

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(q) Taxation *(Cont'd)*

(ii) Income tax *(Cont'd)*

1 In accordance with Guo Shui Zhi Shui Han [2004] No. 12, the tax holiday of Dalian Phase II is determined separately from the Dalian Power Plant. The Dalian Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January, 2001 to 31st December, 2003 and an exemption of local income tax of 3% from 1st January, 1999 to 31st December, 2008.

2 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.

3 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.

4 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%.

5 The tax holidays of Dandong Power Plant and Yingkou Power Plant have not commenced yet.

6 In accordance with Ning Guo Shui Wai Zi [1997] No.39, the Nanjing Power Plant qualifies as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January, 2002 to 31st December, 2004. The applicable tax rate during the extension is 10%. Nanjing Power Plant is currently negotiating with the Jiangsu State Tax Bureau for a refund of the overpaid income tax for the year of 2002 and 2003.

7 The Company acquired all of the assets and liabilities of the Xindian Power Plant on 27th, October, 2003 and the Xindian Power Plant became a branch of the Company. In accordance with Lin Guo Shui Han [2004] No.123, the Xindian Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises investing in energy industry at a reduced income tax rate of 15%.

8 In accordance with Ji An Shi Guo Shui Zhong Qi Fa [2004] No. 20, the Jinggangshan Power Plant is entitled to a tax holiday from 1st July, 2004 to 31st December, 2008.

9 In according with the approval from Chongqing State Tax Bureau Shewai Branch, the Luohuang Power Company is entitled to a tax holiday from 1st January, 2003 to 31st December, 2007.

10 Not applicable in 2003 as they were not branches or subsidiaries of the Company.

11 Not applicable in 2003 as the Qinbei Power Company did not commence its commercial operations until November, 2004.

The income tax charge is based on profit for the year and after considering deferred taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(r) Employee benefits

(i) Pension obligations

The Company and its subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate.

Under these defined contribution plans, the Company and its subsidiaries pay contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company and its subsidiaries have no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(ii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and its subsidiaries recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy which has been accepted. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(t) Financial instruments

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortized cost, whenever it is probable that the Company and its subsidiaries will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognized in the income statement. Reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognized to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES *(Cont'd)*

(u) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statement but disclosed when an inflow of economic benefits is probable.

(v) Dividends

Dividends are recorded in the financial statements of the Company and its subsidiaries in the period in which they are approved by the shareholders of the Company and its subsidiaries.

(w) Comparatives

A long-term loan of approximately RMB32 million have been reclassified from other Long-term Loans to Long-term Loans from shareholders in the Consolidated balance sheet to conform with the presentation in the current year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS

During 2003 and 2004, the Company acquired a number of power plants from the Huaneng Group, HIPDC as well as other parties. These acquisitions have been accounted for under the purchase method of accounting. These acquisitions became effective when, amongst other things, the Company obtained minority shareholders' approval, where applicable, and all necessary government approvals, and has paid the purchase consideration. The consideration for all of these acquisitions was in the form of cash.

Details of these acquisitions are shown in the table below:

	For the year ended 31st December, 2004		
	Acquisition of subsidiaries and net assets	**Acquisition of subsidiaries and net assets**	**Acquisition of an associate**
Equity interest acquired	55% equity interest in the Yueyang Power Company, 60% equity interest in the Luohuang Power Company and all of the assets and liabilities of the Yingkou Power Plant*	All of the assets and liabilities of the Jinggangshan Power Plant*	40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company (the "Hanfeng Power Company") (Note 11)*
Original equity holder	HIPDC	90% equity interest from Huaneng Group and 10% equity interest from Jiangxi Province Investment Company	Huaneng Group
Effective date of acquisition	1st July, 2004	1st July, 2004	1st July, 2004
Consideration paid	RMB2,564 million	RMB636 million	RMB1,375 million
Direct transaction costs of acquisitions	RMB12 million	RMB3 million	RMB7 million
Fair value of net assets acquired	RMB2,475 million	RMB628 million	RMB1,089 million
Goodwill	RMB101 million	RMB11 million	RMB293 million

The above acquisitions contributed net operating revenue of approximately RMB2,573 million and net profit of approximately RMB397 million to the Company and its subsidiaries for the period from 1st July, 2004 to 31st December, 2004. If the acquisitions had occurred on 1st January, 2004, the unaudited net operating revenue of the Company and its subsidiaries would have been approximately RMB33 billion, and unaudited profit before allocations would have been approximately RMB6 billion.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS *(Cont'd)*

	For the year ended 31st December, 2003	
	Acquistion of subsidiaries and net assets	**Acquisition of an associate**
Equity interest acquired	55% equity interest in the Qinbei Power Company, 60% equity interest in the Yushe Power Company and all of the assets and liabilities of the Xindian Power Plant*	25% equity interest.in Shenzhen Energy Group Co. Ltd.'s ("SEG") enlarged share capital (Note 11)
Original equity holder	Huaneng Group	Shenzhen Investment Holding Corporation ("SIH") and SEG
Effective date of acquisition	27th October, 2003	22nd April, 2003
Consideration paid	RMB550 million	RMB2,390 million
Direct transaction costs of acquisitions	RMB12 million	RMB15 million
Fair value of net assets acquired	RMB374 million	RMB1,585 million
Goodwill	RMB188 million	RMB820 million

Goodwill arising from the acquisitions in 2003 and 2004 is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the Company's acquisitions of the branches, subsidiaries and associated companies stated above.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS *(Cont'd)*

* The aggregated assets and liabilities arising from these acquisitions in 2003 and 2004 were as follows:

	2004		2003
	Fair value	Acquirees' carrying amounts	Fair value
Property, plant and equipment, net	9,392,195	7,691,230	3,085,503
Deferred income tax assets	81,082	81,082	19,603
Long-term investments in associates (Note 11)	1,400,239	967,244	—
Other non-current assets	752,418	219,106	18,667
Inventories	218,118	218,118	35,608
Other current assets	114,084	114,084	96,608
Accounts receivable	1,348,007	1,348,007	88,556
Cash and cash equivalents	659,174	659,174	215,585
Minority interest	(1,336,936)	(655,869)	(121,575)
Long-term loans, unsecured	(4,700,696)	(4,700,696)	(1,706,104)
Due to HIPDC	(1,224,554)	(1,224,554)	—
Due to Huaneng Group	—	—	(13,968)
Deferred income tax liabilities	(478,189)	(67,826)	—
Other current liabilities	(1,739,219)	(1,739,219)	(1,344,842)
Net assets acquired	4,485,723	2,909,881	373,641
Add: Goodwill	111,710		188,139
Less: Direct transaction costs of acquisitions	(22,433)		(11,780)
Total consideration paid	4,575,000		550,000
Add: Direct transaction costs of acquisitions	22,433		2,528
Less: Cash inflow from the acquired power plants	(659,174)		(215,585)
Net cash outflow for the acquisitions	3,938,259		336,943

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

(1) Financial risk factors

The Company and its subsidiaries' activities expose them to a variety of financial risks including the effects of changes in debt and equity market price, foreign currency exchange rates and interest rates. The Company and its subsidiaries' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company and its subsidiaries. The Company and its subsidiaries use derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

(a) Interest rate risk

The Company's floating rate bank loans expose the Company to interest rate risk. The Company uses derivative instruments when considered appropriate, to manage exposures arising from changes in interest rates by entering into interest rate swap agreements with PRC 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 cash flow interest rate risk.

The interest rates and terms of repayment of shareholder loans, bank loans, and other loans are disclosed in Notes 23, 24, 25 and 28.

(b) Foreign currency risk

The Company and its subsidiaries have foreign currency risk as a significant portion of its long-term loans from shareholders, long-term bank loans and other long-term loans are denominated in foreign currencies, principally US dollar ("US$") and Euro, as described in Notes 23, 24(b), 24(c) and 25. When considered appropriate, the Company and its subsidiaries manage exposures arising from changes in exchange rate of Euro by entering into currency swap agreements. Fluctuation of exchange rates of RMB against foreign currencies could affect the Company and its subsidiaries' results of operation.

(c) Credit risk

Significant portion of the Company and its subsidiaries' cash and cash equivalents and temporary cash investment maturing over 3 months are deposited with the four largest state-owned banks of the PRC and a non-bank financial institution in the PRC, which is a related party of the Company.

Each power plant of the Company and its subsidiaries sells the electricity generated to its sole customer (the provincial or regional grid companies) in the province or region where the power plant is situated.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT *(Cont'd)*

(2) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company and its subsidiaries use a variety of methods and make assumption that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair values for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company and its subsidiaries for similar financial instruments.

5. OTHER INCOME, NET

Pursuant to a management service agreement entered into with Huaneng Group and HIPDC, the Company has provided management services to certain power plants owned by Huaneng Group and HIPDC in return for a service fee. Net other income represented the management service fee income net of relevant expenses.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROFIT BEFORE TAX

Profit before tax was determined after charging and (crediting) the following:

	2004	2003
Interest expenses on long-term bank loans, unsecured:		
- wholly repayable within 5 years	**370,461**	104,012
- not wholly repayable within 5 years	**521,654**	422,809
Interest expenses on long-term loans from shareholders, unsecured:		
- wholly repayable within 5 years	**16,551**	22,053
- not wholly repayable within 5 years	**36,586**	—
Interest expenses on other long-term loans, unsecured:		
- wholly repayable within 5 years	**37,083**	57,493
- not wholly repayable within 5 years	**12,692**	—
Interest expenses on convertible notes	**26**	3,248
	995,053	609,615
Less: Amount capitalized in property, plant and equipment	**(331,629)**	(40,467)
Total interest expenses	**663,424**	569,148
Interest income	**(43,092)**	(53,044)
Bank charges and exchange losses, net	**119,452**	28,181
Change in fair value on financial instruments:		
- Gains of interest rate swaps	**(925)**	(11,771)
Auditors' remuneration	**17,239**	19,359
(Gain)/Loss on disposals of property, plant and equipment, net	**(29,176)**	138,726
Loss/(Gain) from disposals of investment	**1,988**	(10,705)
Operating leases:		
- Buildings	**30,067**	25,985
- Land use rights	**40,272**	44,100
Depreciation of property, plant and equipment	**4,706,992**	4,117,478
Amortization of prepaid land use rights	**28,074**	19,136
Amortization of other non-current assets	**39,731**	41,566
Amortization of goodwill	**42,002**	25,170
Amortization of negative goodwill	**(247,279)**	(247,278)
Cost of inventories	**15,302,929**	9,222,583
(Reversal of)/Provision for doubtful accounts	**(10,654)**	12,567
Provision for/(Reversal of) inventory obsolescence	**1,521**	(751)
Staff costs:		
- Wages and staff welfare	**1,249,836**	1,020,444
- Retirement benefits (Note 8)	**299,120**	235,950
- Termination benefits	**18,546**	—
- Staff housing benefits (Note 31)	**100,751**	72,163
- Other staff costs	**209,011**	111,116

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY TRANSACTIONS

The related parties of the Company and its subsidiaries include:

Name of related parties	Nature of relationship
Huaneng Group	Ultimate parent
HIPDC	Parent
China Huaneng Finance Company ("Huaneng Finance")	A subsidiary of Huaneng Group
Weihai Power Development Bureau ("WPDB")	Minority shareholder of the Weihai Power Company
Chongqing Construction and Investment Limited Liability Company ("CCI")	Minority shareholder of the Luohuang Power Company
Henan Construction Investment Company ("Henan Investment")	Minority shareholder of the Qinbei Power Company
Jiangsu Electric Power Development Co., Ltd. ("JEPDC")	Minority shareholder of the Huaiyin Power Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company Ltd. ("Time Shipping")	A joint venture of Huaneng Group
Shandong Rizhao Power Company Ltd. (the "Rizhao Power Company")	An associate of the Company
Chongqing Huaneng Shifen Company Limited (the "Shifen Company")	An associate of the Luohuang Power Company
Jiyuan Construction & Investment Company (the "Jiyuan Investment")	Minority shareholder of the Qinbei Power Company
Shanxi International Power (Group) Company Limited (the "Shanxi International")	Minority shareholder of the Yushe Power Company
Hebei Huaneng Jingyuan Coal Company Limited (the "Huaneng Jingyuan")	A subsidiary of Huaneng Group

a. Pursuant to the relevant service agreements entered into between the Company and HIPDC on 30th June, 1994, HIPDC provides transmission services and transformer facilities to some of the power plants of the Company and receives service fees. The agreements cover a period of 10 years. The total amount of service fees paid to HIPDC for the year ended 31st December, 2004 was approximately RMB134 million (2003: approximately RMB215 million) and was included in operating expenses.

b. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use rights of the Nanjing Power Plant is leased to the Company for 50 years with an annual rental payment of approximately RMB1.3 million, starting from 1st January, 1999.

c. As at 31st December, 2004, current deposits of approximately RMB1,363 million (2003: approximately RMB2,792 million) were placed with a non-bank PRC financial institution, Huaneng Finance.

   As at 31st December, 2004, the interest rate per annum of the current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% (2003: 0.72% to 1.44%) per annum. The interest earned from these deposits amounted to approximately RMB9 million in 2004 (2003: approximately RMB14 million).

d. Pursuant to the leasing agreement between the Company and HIPDC, HIPDC agreed to lease its office building to the Company for 5 years at an annual rental of RMB25 million effective from 1st January, 2000.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY TRANSACTIONS *(Cont'd)*

e. As described in Notes 23 and 25, certain loans of the Company and its subsidiaries were borrowed from Huaneng Group, CCI, WPDB and JEPDC.

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f. As at 31st December, 2004, short-term loans amounting to approximately RMB3,694 million (2003: approximately RMB1,130 million) were borrowed from Huaneng Finance, which bore interest at 4.54% to 5.02% (2003: 4.78% to 5.05%) per annum.

g. As at 31st December, 2004, the balances with HIPDC, the subsidiaries and other related parties are unsecured, non-interest bearing and receivable or repayable within one year.

h. As at 31st December, 2004, long-term bank loans of approximately RMB3,937 million, RMB3,798 million, RMB100 million, RMB200 million, RMB545 million and RMB125 million (2003: approximately RMB4,648 million, RMB1,096 million, RMB280 million, RMB34 million, nil and nil) were guaranteed by HIPDC, Huaneng Group, WPDB, Henan Investment, the Shanxi International and the Jiyuan Investment, respectively.

i. As at 31st December, 2004, the Company had provided guarantees on certain long-term bank loans of the Rizhao Power Company totaling approximately RMB305 million (2003: approximately RMB339 million).

j. During the years ended 31st December, 2004 and 2003, the Company entered into several agreements with Huaneng Group and HIPDC to acquire equity interests or net assets of certain power plants (see Note 3).

k. 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 5 years. For the year ended 31st December, 2004, the service fee earned from Huaneng Group and HIPDC amounted to approximately RMB46 million and RMB12 million (2003: approximately RMB33 million and RMB17 million), respectively. The Company incurred total costs of services of approximately RMB39 million (2003: approximately RMB38 million), and recorded the management service fee, net of relevant expenses, as other income.

l. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB215 million for coal purchased from CHITEC (2003: approximately RMB145 million).

m. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB563 million for the fuel purchased and transportation services received from Time Shipping (2003: approximately RMB457 million).

n. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB26 million for lime purchased from the Shifen Company (2003: N/A).

o. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB16 million for coal purchased from Huaneng Jingyuan (2003: nil).

p. As at 31st December, 2004, HIPDC had provided guarantees on the equity portion of certain accounts receivable balances of the Company and its subsidiaries totaling approximately RMB360 million (2003: nil) (see Note 18).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension on their retirement dates. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the state-sponsored retirement plan at a specified rate, currently set at 18% to 20%, of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31st December, 2004 were approximately RMB167 million (2003: approximately RMB132 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31st December, 2004 totaled approximately RMB132 million (2003: approximately RMB111 million).

The Company and its subsidiaries have no further obligation for post-retirement benefits beyond the above annual contributions made.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SENIOR MANAGEMENTS' AND SUPERVISORS' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2004	2003
Fees for directors	—	—
Fees for independent non-executive directors	300	—
Fees for supervisors	—	—
Other emoluments for directors		
Basic salaries and allowances	674	1,452
Discretionary bonuses	889	264
Contributions to pension schemes for directors (and past directors):		
- as directors	—	—
- for other offices	—	42
Other emoluments for independent non-executive directors:		
Basic salaries and allowances	—	—
Discretionary bonuses	—	—
Contributions to pension schemes for directors (and past directors):		
- as directors	—	—
- for other offices	—	—
Other emoluments for supervisors		
Basic salaries and allowances	223	850
Discretionary bonuses	277	—
Contributions to pension schemes for supervisors (and past supervisors):		
- as supervisors	—	—
- for other offices	—	—
	2,363	2,608

During the year, no option was granted to the directors or the supervisors (2003: nil).

During the year, no emolument was paid to the directors or the supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (2003: nil).

The annual emoluments paid during the years 2003 and 2004 to each of the directors and the supervisors fell within the range of nil to RMB1 million.

No director or supervisors had waived or agreed to waive any emoluments during the years 2003 and 2004.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SENIOR MANAGEMENTS' AND SUPERVISORS' EMOLUMENTS *(Cont'd)*

(b) Five highest paid individuals

For the year ended 31st December, 2004, two of the five individuals, whose emoluments were the highest in the Company and its subsidiaries, were directors (2003: none of the five individuals, whose emoluments were the highest in the Company and its subsidiaries, were directors or supervisors). The emoluments payable to the five highest paid individuals during the year are as follows:

	2004	2003
Basic salaries and allowances	**1,455**	516
Discretionary bonuses	**1,977**	1,835
Contributions to pension schemes	**372**	192
	3,804	2,543

The annual emoluments paid during the years 2003 and 2004 to each of the five highest paid individuals fell within the range of nil to RMB1 million.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised:

	The Company and its subsidiaries 2004						2003
	Buildings	Electric Utility Plant in Service	Transportation Facilities	Others	Construction-in-progress	Total	Total
Cost							
Beginning of year	1,356,782	55,015,630	604,068	1,294,891	4,190,164	62,461,535	57,052,734
Reclassifications	(18,668)	209,690	(205,053)	14,031	—	—	—
Acquisition (Note 3)	259,253	8,372,033	444	217,547	542,918	9,392,195	3,085,503
Additions	10,726	20,291	2,840	66,318	10,352,279	10,452,454	2,733,279
Transfer from CIP	435,766	5,537,895	12,755	72,371	(6,058,787)	—	—
Disposals	(788)	(88,145)	(1,800)	(14,029)	—	(104,762)	(409,981)
End of year	2,043,071	69,067,394	413,254	1,651,129	9,026,574	82,201,422	62,461,535
Accumulated Depreciation							
Beginning of year	332,300	18,776,233	145,094	549,543	—	19,803,170	15,949,266
Reclassifications	(5,566)	72,770	(62,903)	(4,301)	—	—	—
Charge for the year	75,004	4,421,906	30,469	187,145	—	4,714,524	4,117,478
Disposals	(171)	(85,073)	(1,787)	(9,651)	—	(96,682)	(263,574)
End of year	401,567	23,185,836	110,873	722,736	—	24,421,012	19,803,170
Net Book Value							
End of year	1,641,504	45,881,558	302,381	928,393	9,026,574	57,780,410	42,658,365
Beginning of year	1,024,482	36,239,397	458,974	745,348	4,190,164	42,658,365	41,103,468

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET *(Cont'd)*

	The Company 2004						2003
	Buildings	Electric Utility Plant in Service	Transportation Facilities	Others	Construction-in-progress	Total	Total
Cost							
Beginning of year	1,078,033	49,127,712	488,727	1,200,754	950,598	52,845,824	51,118,511
Reclassifications	(145,671)	311,219	(179,524)	13,976	—	—	—
Acquisition (Note 3)	132,709	3,587,634	—	62,722	20,027	3,803,092	813,303
Additions	11,536	13,791	1,655	45,107	2,537,524	2,609,613	1,272,458
Transfer from CIP	25,090	86,449	65	36,634	(148,238)	—	—
Disposals	(457)	(71,600)	—	(6,184)	—	(78,241)	(358,448)
End of year	1,101,240	53,055,205	310,923	1,353,009	3,359,911	59,180,288	52,845,824
Accumulated Depreciation							
Beginning of year	306,902	17,573,848	123,094	551,469	—	18,555,313	15,166,086
Reclassifications	(5,893)	64,437	(56,420)	(2,124)	—	—	—
Charge for the year	45,452	3,625,869	24,940	142,515	—	3,838,776	3,609,766
Disposals	(115)	(69,721)	—	(5,920)	—	(75,756)	(220,539)
End of year	346,346	21,194,433	91,614	685,940	—	22,318,333	18,555,313
Net Book Value							
End of year	754,894	31,860,772	219,309	667,069	3,359,911	36,861,955	34,290,511
Beginning of year	771,131	31,553,864	365,633	649,285	950,598	34,290,511	35,952,425

Borrowing costs capitalized to CIP for the year ended 31st December, 2004 amounted to approximately RMB332 million (2003: approximately RMB40 million). An average capitalization rate of 4.38% (2003: 5.06%) per annum was used, representing the average borrowing cost of the loans used to finance the project.

There was no write-down of any property, plant and equipment during the year (2003: nil).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVESTMENTS IN ASSOCIATES

	2004	2003
Beginning of year	2,766,031	200,960
Acquisition of 25% equity interest of SEG (Note 3)	—	2,404,562
Acquisition of 40% equity interest of the Hanfeng Power Company (Note 3)	1,382,210	—
Acquisition of 25% equity interest of the Shifen Company (Note 3)	18,029	—
Share of profit before tax	377,565	212,091
Share of income tax expense (Note 32)	(65,528)	(51,582)
Share of dividends	(150,000)	—
End of year	4,328,307	2,766,031

The share of profit before tax included the amortization charge of goodwill of approximately RMB82 million (2003: approximately RMB55 million) in respect of the acquisition of an associate. Investment in associates at 31st December, 2004 included goodwill with a carrying amount of approximately RMB976 million (2003: approximately RMB765 million).

As at 31st December, 2004, details of the Company's investment in associates are as follows:

Name	Country and date of incorporation	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Rizhao Power Company	PRC 20th March, 1996	25.5%	—	US$150,000,000	Power generation
SEG	PRC 16th July, 1997	25%	—	RMB955,555,556	Power generation
Hanfeng Power Company	PRC 28th October,1996	40%	—	RMB1,975,000,000	Power generation
Shifen Company	PRC 5th November,1996	—	25%	RMB50,000,000	Lime production and sale

There were no changes in the interests held in the Rizhao Power Company and SEG in 2004. The Company acquired 40% equity interest of the Hanfeng Power Company in 2004 and an indirect interest of 25% of the Shifen Company through the acquisition of the 60% equity interest in the Luohuang Power Company in the current year (see Note 3).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES

As at 31st December, 2004, the Company had equity interests in the following subsidiaries:

Name of subsidiaries	Country, date of incorporation and type of legal entity	Percentage of equity interest held Direct	Indirect	Registered and fully paid capital	Principal activities
Weihai Power Company	PRC 22nd November, 1993 Limited liability company	60%	—	RMB761,838,300	Power generation
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%	—	Registered capital of RMB894,410,000 with total paid-in capital of RMB447,210,000	Power generation
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
Qinbei Power Company	PRC 12th July, 1995 Limited liability company	55%	—	RMB10,000,000	Power generation
Yushe Power Company	PRC 29th November, 1994 Limited liability company	60%	—	RMB80,000,000	Power generation
Shanxi Huaneng Yushe Yuanheng Power Industry Limited Liability Company	PRC 17th September, 2002 Limited liability company	—	95%	RMB3,000,000	Logistic services
Shandong Huaneng Xindian Power Co., Ltd. (the "Xindian II Power Company")	PRC 14th March, 2004 Limited liability company	95%	—	RMB100,000,000	Power generation

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

Name of subsidiaries	Country, date of incorporation and type of legal entity	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Yueyang Power Company	PRC 16th December, 2003 Limited liability company	55%	—	RMB560,000,000	Power generation
Luohuang Power Company	PRC 16th December, 2003 Limited liability company	60%	—	RMB900,000,000	Power generation

Summarized financial information of the Yueyang Power Company and the Luohuang Power Company acquired in 2004 (2003: the Qinbei Power Company and the Yushe Power Company) is as follows:

	As at 31st December, 2004	As at 31st December, 2003
Balance sheet		
Current assets	**2,087,010**	323,032
Non-current assets	**6,715,295**	2,739,414
Total assets	**8,802,305**	3,062,446
Current liabilities	**2,074,894**	1,073,960
Non-current liabilities	**3,062,157**	1,641,484
Total liabilities	**5,137,051**	2,715,444

	For the period from the effective date of the acquisition to 31st December, 2004	2003
Income statement		
Revenue	**1,463,127**	57,348
Expenses	**(1,280,712)**	(54,282)
Net profit	**182,415**	3,066

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

13. AVAILABLE-FOR-SALE INVESTMENT

Available-for sale investment represents a 3% equity interest (unlisted) in a power generation company China Yangtze Power Co., Ltd. ("Yangtze Power") in the PRC.

There was no disposal of available-for-sale investment in 2004 and 2003.

14. LAND USE RIGHTS

Details of the prepaid land use rights are as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Outside Hong Kong, held on:				
Leases of over 50 years	**10,539**	3,022	**7,562**	—
Leases of between 10 to 50 years	**1,535,487**	828,004	**1,083,566**	763,483
	1,546,026	831,026	**1,091,128**	763,483

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

15. GOODWILL AND NEGATIVE GOODWILL

Goodwill and negative goodwill arose from acquisitions. The movements in the carrying amount of goodwill and negative goodwill during the year are as follows:

	The Company and its subsidiaries		
	Goodwill	Negative goodwill	Total
Year ended 31st December, 2003:			
Beginning of year	126,560	(1,978,227)	(1,851,667)
Addition from acquisitions (Note 3)	197,486	—	197,486
Amortization for the year	(25,170)	247,278	222,108
End of year	298,876	(1,730,949)	(1,432,073)
As at 31st December, 2003			
Cost	325,196	(2,472,784)	(2,147,588)
Accumulated amortization	(26,320)	741,835	715,515
Net book value	298,876	(1,730,949)	(1,432,073)
Year ended 31st December, 2004:			
Beginning of year	298,876	(1,730,949)	(1,432,073)
Addition from acquisitions (Note 3)	111,710	—	111,710
Adjustment	8,142	—	8,142
Amortization for the year	(42,002)	247,279	205,277
End of year	376,726	(1,483,670)	(1,106,944)
As at 31st December, 2004			
Cost	445,048	(2,472,784)	(2,027,736)
Accumulated amortization	(68,322)	989,114	920,792
Net book value	376,726	(1,483,670)	(1,106,944)
Year ended 31st December, 2003:			
Beginning of year	45,612	(1,978,227)	(1,932,615)
Addition from acquisitions (Note 3)	67,916	—	67,916
Amortization for the year	(6,297)	247,278	240,981
End of year	107,231	(1,730,949)	(1,623,718)

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

15. GOODWILL AND NEGATIVE GOODWILL *(Cont'd)*

	The Company and its subsidiaries		
	Goodwill	Negative goodwill	Total
As at 31st December, 2003			
Cost	113,632	(2,472,784)	(2,359,152)
Accumulated amortization	(6,401)	741,835	735,434
Net book value	107,231	(1,730,949)	(1,623,718)
Year ended 31st December, 2004:			
Beginning of year	107,231	(1,730,949)	(1,623,718)
Addition from acquisitions (Note 3)	10,803	—	10,803
Adjustment	2,206	—	2,206
Amortization for the year	(11,302)	247,279	235,977
End of year	108,938	(1,483,670)	(1,374,732)
As at 31st December, 2004			
Cost	126,641	(2,472,784)	(2,346,143)
Accumulated amortization	(17,703)	989,114	971,411
Net book value	108,938	(1,483,670)	(1,374,732)

Goodwill is allocated to the Company and its subsidiaries' CGUs identified according to their operations in different provinces.

The carrying amounts of significant portion of goodwill allocated to CGUs are as follows:

	2004
Yueyang Power Company	100,907
Hanfeng Power Company*	293,070
	393,977

* The goodwill on acquisition of the Hanfeng Power Company is included in investments in associates (see Note 11). In respect of the amount of goodwill from acquisitions made on or after 31st March, 2004, the Company and its subsidiaries have undertaken an impairment review and have determined that no provision for impairment is required as at 31st December, 2004.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. The Company expects cash flows beyond the three-year period will be similar to that of the third year based on existing production capacity. The pre-tax discount rates applied to the cash flow projections of the Yueyang Power Company and the Hanfeng Power Company were 12% and 11% respectively. Such discount rates used reflect specific risks relating to the power plants. Other key assumptions used are based on past performance and the Company's expectations for the market development.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

16. INVENTORIES, NET

Inventories comprised:

	The Company and its subsidiaries		The Company	
	2004	2003	2004	2003
Fuel (coal and oil) for power generation	**732,834**	308,861	**326,060**	219,974
Material and other supplies	**715,250**	505,041	**507,654**	414,478
	1,448,084	813,902	**833,714**	634,452
Less: Provision for inventory obsolescence	**(16,680)**	(13,621)	**(11,370)**	(9,690)
	1,431,404	800,281	**822,344**	624,762

As at 31st December, 2004, approximately RMB556 million of the total carrying amount of inventories were carried at net realizable value (2003: approximately RMB406 million).

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

	The Company and its subsidiaries		The Company	
	2004	2003	2004	2003
Beginning of year	**(13,621)**	(12,239)	**(9,690)**	(10,400)
Addition from acquisitions	**(12,329)**	(2,133)	**(271)**	—
Provision	**(1,712)**	(129)	**(1,546)**	(129)
Write-offs	**10,791**	—	**—**	—
Reversal	**191**	880	**137**	839
End of year	**(16,680)**	(13,621)	**(11,370)**	(9,690)

During the year, the Company and its subsidiaries reversed part of the previous inventory write-downs as the Company has utilized such inventories in the current year. The amount reversed has been included in operating expenses in the income statement.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Prepayments for inventories	**328,181**	76,543	**196,948**	51,713
Prepayments for contractors	**168,616**	42,282	**92,001**	29,833
Interest receivable on temporary cash investments	**1,982**	3,291	**1,982**	2,388
Current portion of long-term entrusted loan to the Weihai Power Company	**—**	—	**—**	470,663
Others	**273,645**	191,190	**64,491**	85,500
	772,424	313,306	**355,422**	640,097
Less: Provision for doubtful accounts	**(49,108)**	(53,885)	**(27,557)**	(28,653)
	723,316	259,421	**327,865**	611,444

Movements in the provision for doubtful accounts during the year are analyzed as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Beginning of year	**(53,885)**	(21,444)	**(28,653)**	(21,104)
Additions from acquisitions	**(15,086)**	(19,874)	**(6,791)**	—
Provision	**(2,405)**	(12,567)	**(739)**	(7,549)
Write-offs	**9,209**	—	**581**	—
Reversal	**13,059**	—	**8,045**	—
End of year	**(49,108)**	(53,885)	**(27,557)**	(28,653)

18. ACCOUNTS RECEIVABLE

Accounts receivable comprised:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Accounts receivable	**3,730,431**	2,356,826	**2,407,134**	2,005,024
Notes receivable	**1,242,672**	447,200	**682,937**	336,180
	4,973,103	2,804,026	**3,090,071**	2,341,204

The Company and its subsidiaries usually grant about one month's credit period to local power grid customers from the end of the month in which the sales are made.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

18. ACCOUNTS RECEIVABLE *(Cont'd)*

As at 31st December, 2004, the aging analysis of accounts receivable was as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Within 1 year	**4,510,368**	2,800,330	**3,077,748**	2,337,508
Between 1 to 2 years	**96,808**	—	**6,203**	—
Between 2 to 3 years	**—**	3,696	**—**	3,696
Over 3 years	**365,927**	—	**6,120**	—
	4,973,103	2,804,026	**3,090,071**	2,341,204

As at 31st December, 2004, HIPDC had provided guarantees on the equity portion of certain accounts receivable balances of the Company and its subsidiaries of approximately RMB360 million. These receivable balances were acquired as part of the acquisition of the Luohuang Power Company and the Yueyang Power Company as disclosed in Note 3.

As at 31st December, 2004, the maturity period of the notes receivable ranged from one month to six months (2003: one month to six months).

19. TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of fixed-term deposits denominated in RMB (2003: RMB and US$) with original maturities ranging from more than three months to one year. The effective interest rate on short-term bank deposits was 1.98% to 2.25% (2003: 0.01% to 1.71%) per annum.

20. CAPITALIZATION

Authorized Share Capital and Paid-in Capital

As at 31st December, 2004, the authorized share capital of the Company was RMB12,055,383,440 (2003: RMB6,027,671,200), divided into 12,055,383,440 shares (2003: 6,027,671,200 shares) of RMB1.00 each (2003: RMB1.00 each). In addition, the issued and fully paid share capital of the Company as at 31st December, 2004 was RMB12,055,383,440 (2003: RMB6,027,671,200) comprising of 9,000,000,000 Domestic Shares (2003: 4,500,000,000 Domestic Shares) and 3,055,383,440 Overseas Listed Foreign Shares (2003: 1,527,671,200 Overseas Listed Foreign Shares). The holders of Domestic Shares and Overseas Listed Foreign Shares, with minor exceptions, are entitled to the same economic and voting rights.

Conversion of Convertible Notes to Share Capital

During the year, the noteholders converted the convertible notes with principal of US$15,000 (2003: US$ 20million) to 513 American Depository shares ("ADS") (20,520 H shares equivalent) (2003: 684,931 ADS; 27,397,240 H shares equivalent).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

20. CAPITALIZATION *(Cont'd)*

Ordinary Shares Split

On 11th May, 2004, the shareholders approved a ten-for-ten stock split of the Company's ordinary shares 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 shares split was completed on 9th August, 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 and discretionary surplus reserve fund in the amount of approximately RMB1,808 million and approximately RMB1,206 million respectively. The basic and diluted earnings per share included in this consolidated financial statements have been adjusted retrospectively to reflect the shares split (see Note 34).

21. APPROPRIATION AND DISTRIBUTION OF PROFIT

The Board of Directors decides on an annual basis the percentages of the profit after tax, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory surplus reserve fund, the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be optional. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such an issue is not less than 25% of registered capital. The statutory public welfare fund can only be utilized on capital items for the collective benefits of the Company's employees. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the shareholders.

For the year ended 31st December, 2004, the Board of Directors resolved the following on 15th March, 2005:

(i) to appropriate 10% and 7.5% (2003: 10% and 7.5%), respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund. The total amount of appropriation is approximately RMB943 million (2003: approximately RMB955 million).

(ii) to make no appropriation to the discretionary surplus reserve fund (2003: nil).

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lowest of the amounts determined in accordance with (a) the PRC accounting standards and regulations, and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31st December, 2004 was approximately RMB4.38 billion (2003: approximately RMB4.48 billion). The cumulative balance of distributable profit as at 31st December, 2004 was approximately RMB11.17 billion (2003: approximately RMB12.82 billion).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. DIVIDENDS

On 15th March, 2005, the Board of Directors proposed a cash dividend of RMB0.25 per share, totaling approximately RMB3,014 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31st December, 2005.

On 11th May, 2004, the shareholders approved the declaration of cash dividends of RMB0.50 per ordinary share (RMB0.25 per adjusted ordinary share after the ordinary shares split as mentioned in Note 20), totaling approximately RMB3,014 million, together with an issue of bonus shares accounted for as a stock split on the basis of 5 bonus shares for every 10 existing ordinary shares in respect of the year ended 31st December, 2003, based on the 6,027,671,200 outstanding shares on the date in their annual general meeting.

23. LONG-TERM LOANS FROM SHAREHOLDERS, UNSECURED

As at 31st December, 2004, long-term loans borrowed from shareholders represented loans from Huaneng Group. These loans are unsecured, bear both fixed and floating interest rates that ranged from 3.78% to 4.60% per annum for the year ended 31st December, 2004 and are repayable in accordance with the repayment schedules set by the contracts.

As at 31st December, 2003, long-term loans from shareholders represented the US$ denominated bank loans on lent by HIPDC and an RMB loan borrowed from Jiangsu Province International Trust & Investment Company. These loans were unsecured, bore both fixed and floating interest rates that ranged from 3.60% to 5.76% per annum for the year ended 31st December, 2004 (2003: 3.62% to 5.76%), and had been fully repaid as at 31st December, 2004.

Long-term loans from shareholders, unsecured are repayable as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Within 1 year	—	420,380	—	388,875
Between 1 to 2 years	—	—	—	—
Between 2 to 5 years	—	—	—	—
Over 5 years	**800,000**	—	—	—
	800,000	420,380	—	388,875
Less: Amount due within 1 year included under current liabilities	—	(420,380)	—	(388,875)
	800,000	—	—	—

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

24. LONG-TERM BANK LOANS, UNSECURED

Long-term bank loans, unsecured comprised:

	The Company and its subsidiaries			The Company		
	2004		2003	2004		2003
	Original currency '000			Original currency '000		
Renminbi loans (a)		8,805,069	4,064,499		2,369,000	500,000
Foreign currency loans						
US$ (b)	778,474	6,443,044	6,650,061	597,034	4,941,351	6,573,878
Euro (c)	76,699	863,834	—	—	—	—
		16,111,947	10,714,560		7,310,351	7,073,878

a. RMB bank loans were borrowed from PRC banks to finance the construction of the power plants of the Company and its subsidiaries. These loans bear fixed interest rates from 3.60% to 5.76% per annum for the year ended 31st December, 2004 (2003: 4.94% to 6.21%) and are repayable in accordance with the agreed repayment schedules set by the banks.

b. US$ bank loans were borrowed to finance the construction of the power plants of the Company and its subsidiaries. These loans bear interest at lending rates (both fixed and floating) ranging from 1.225% to 6.97% per annum for the year ended 31st December, 2004 (2003: 1.18% to 6.60%), and are repayable in accordance with the agreed repayment schedules set by the banks. The Company had entered into interest rate swap agreements with PRC banks to convert certain floating rate bank loans into fixed rate debts to hedge against the interest rate risk (see Note 38).

c. Euro bank loans were borrowed to finance the construction of the Phase I of the Luohuang Power Company before its acquisition by the Company. These loans bear fixed interest at 2% per annum for the year ended 31st December, 2004 and are repayable in accordance with the agreed repayment schedule set by the banks.

The long-term bank loans are unsecured and are repayable as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	2004	2003
Within 1 year	1,257,476	2,409,240	825,142	1,756,074
Between 1 to 2 years	1,362,697	1,058,155	921,521	723,832
Between 2 to 5 years	7,639,071	2,940,506	2,852,409	1,920,313
Over 5 years	5,852,703	4,306,659	2,711,279	2,673,659
	16,111,947	10,714,560	7,310,351	7,073,878
Less: Amount due within 1 year included under current liabilities	(1,257,476)	(2,409,240)	(825,142)	(1,756,074)
	14,854,471	8,305,320	6,485,209	5,317,804

As at 31st December, 2004, approximately RMB4,052 million of long-term bank loans are wholly repayable within five years (2003: approximately RMB2,258 million) while approximately RMB12,060 million are not wholly repayable within five years (2003: approximately RMB8,457 million).

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

25. OTHER LONG-TERM LOANS, UNSECURED

Other long-term loans, unsecured comprised:

	The Company and its subsidiaries			The Company		
	2004		2003	2004		2003
	Original currency '000			Original currency '000		
Renminbi loans		**309,526**	744,837		—	575,000
Foreign currency loans						
US$	**18,571**	**153,706**	177,358	—	—	—
Japanese Yen ("JPY")	**1,547,619**	**123,347**	137,970	—	—	—
		586,579	1,060,165		—	575,000

The other long-term loans were drawn from:

	The Company and its subsidiaries		The Company	
	2004	2003	2004	2003
Long-term loan from WPDB	**106,389**	106,389	—	—
Long-term loan from Huaneng Finance	—	610,000	—	575,000
Long-term loan from Huaian Investment Company	—	8,980	—	-
Long-term loan from JEPDC	**19,468**	19,468	—	-
Long-term foreign loans on lent by Ministry of Finance	**277,052**	315,328	—	—
Long-term loan from CCI	**183,670**	—	—	—
	586,579	1,060,165	—	575,000

The other long-term loans are unsecured, bear both fixed and floating interest rates that ranged from 1.70% to 5.93% per annum for the year ended 31st December, 2004 (2003: 4.94% to 6.21%), and are repayable in accordance with the repayment schedules set by the contracts.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

25. OTHER LONG-TERM LOANS, UNSECURED *(Cont'd)*

Other long-term loans, unsecured are repayable as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Within 1 year	**285,761**	211,881	**—**	—
Between 1 to 2 years	**109,012**	267,044	**—**	225,000
Between 2 to 5 years	**127,871**	476,131	**—**	350,000
Over 5 years	**63,935**	105,109	**—**	—
	586,579	1,060,165	**—**	575,000
Less: Amounts due within one year included under current liabilities	**(285,761)**	(211,881)	**—**	—
	300,818	848,284	**—**	575,000

As at 31st December, 2004, approximately RMB310 million of other long-term loans are wholly repayable within five years (2003: approximately RMB955 million) while approximately RMB277 million are not wholly repayable within five years (2003: approximately RMB105 million).

26. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Accounts and notes payable	**761,689**	635,860	**517,626**	470,676
Received in advance	**1,129,598**	987,500	**1,129,598**	987,500
Payable to contractors for construction	**1,592,621**	846,473	**556,052**	805,378
Other payables to contractors	**237,513**	207,257	**120,774**	157,603
Accrued interest	**116,322**	96,127	**88,192**	96,097
Others	**713,415**	569,300	**432,745**	389,262
	4,551,158	3,342,517	**2,844,987**	2,906,516

As at 31st December, 2004, the aging analysis of accounts and notes payable was as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Within 1 year	**754,406**	595,994	**513,922**	438,352
Between 1 to 2 year	**2,911**	36,188	**1,559**	28,843
Over 2 years	**4,372**	3,678	**2,145**	3,481
	761,689	635,860	**517,626**	470,676

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

27. TAXES PAYABLE

Taxes payable comprises:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
VAT payable	**527,292**	415,147	**306,679**	314,158
Income tax payable	**407,450**	472,850	**208,626**	272,394
Others	**65,050**	29,365	**32,240**	14,785
	999,792	917,362	**547,545**	601,337

28. SHORT-TERM LOANS, UNSECURED

Short-term loans denominated in RMB are unsecured, bear interest from 4.30% to 5.02% per annum for the year ended 31st December, 2004 (2003: 4.54% to 5.05%), and are repayable within one year (see Note 7(f)).

29. DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the applicable tax rates for the respective operating units.

The movement in the deferred income tax account is as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
As at 1st January	**81,803**	121,853	**789**	15,030
Acquisitions (Note 3)	**399,313**	(21,809)	**2,206**	(13,261)
Charged to the income statement (Note 32)	**(31,938)**	(18,241)	**(225)**	(980)
As at 31st December	**449,178**	81,803	**2,770**	789

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

29. DEFERRED INCOME TAXES *(Cont'd)*

The temporary differences that gave rise to deferred taxation arose primarily from the acquisition of power plants, which resulted in the tax bases of certain assets and liabilities being different from the fair value basis that are used in recording these assets and liabilities in the financial statements. Details of the movements in deferred income tax assets and liabilities are as follows:

	The Company and its subsidiaries					The Company		
	Difference in					Difference in		
Deferred income tax assets	**Amortization of prepaid land use rights**	**Provisions for doubtful debts**	**Termin-ation benefits**	**Others**	**Total**	**Amortization of prepaid land use rights**	**Termin-ation benefits**	**Total**
As at 1st January, 2003	—	—	—	—	—	—	—	—
Acquisition of power plants	13,261	3,288	—	5,260	21,809	13,261	—	13,261
Charged to the income statement	(22)	(69)	—	(407)	(498)	(22)	—	(22)
As at 31st December, 2003	13,239	3,219	—	4,853	21,311	13,239	—	13,239
Acquisition of power plants	(2,206)	60,172	17,032	3,878	78,876	(2,206)	—	(2,206)
(Charged)/Credited to the income statement	(221)	(2,215)	1,019	(1,231)	(2,648)	(221)	1,724	1,503
As at 31st December, 2004	10,812	61,176	18,051	7,500	97,539	10,812	1,724	12,536

Deferred income tax liabilities arising from differences in depreciation	**The Company and its subsidiaries**	**The Company**
As at 1st January, 2003	121,853	15,030
Credited to the income statement	(18,739)	(1,002)
As at 31st December, 2003	103,114	14,028
Acquisition of power plants (Note 3)	478,189	—
(Credited)/Charged to the income statement	(34,586)	1,278
As at 31st December, 2004	546,717	15,306

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

29. DEFERRED INCOME TAXES *(Cont'd)*

Deferred income tax assets are recognized for tax loss carried-forwards to the extent that the realization of the related tax benefits through the future taxable profits is probable. The Company and its subsidiaries did not recognize any deferred income tax assets in respect of losses that can be carried forward against future taxable income with expiry dates as follows:

	The Company and its subsidiaries		The Company	
Year of expiry	**2004**	2003	**2004**	2003
2004	**N/A**	62,104	**N/A**	62,104
2005	**111,441**	154,678	**111,441**	154,678
2006	**177,197**	177,197	**177,197**	177,197
2007	**71,125**	71,125	**71,125**	71,125
As at 31st December	**359,763**	465,104	**359,763**	465,104

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Deferred income tax assets	**(97,539)**	(21,311)	**(12,536)**	(13,239)
Deferred income tax liabilities	**546,717**	103,114	**15,306**	14,028
	449,178	81,803	**2,770**	789
The amounts shown in the consolidated balance sheet include the following:				
Deferred income tax assets to be recovered after more than 12 months	**(93,941)**	(21,311)	**(11,981)**	(13,239)
Deferred income tax liabilities to be settled after more than 12 months	**491,122**	84,375	**14,304**	1,003

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

30. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 31st December, 2004, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB7,079 million (2003: approximately RMB939 million). On the same date, the total assets less current liabilities was approximately RMB56,047 million (2003: approximately RMB44,367 million).

31. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the State-sponsored housing fund at 7%-11% of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company's and its subsidiaries' contribution out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31st December, 2004, the Company and its subsidiaries contributed approximately RMB101 million (2003: approximately RMB77 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees. For the year ended 31st December, 2004, the housing benefits provided by the Company and its subsidiaries to the employees amounted to approximately RMB34 million (2003: approximately RMB29 million) which is recorded as a long-term deferred asset and amortized over the remaining average service life of the relevant employees which is estimated to be about 10 years.

The Company and its subsidiaries have no further obligation for housing benefits.

32. INCOME TAX EXPENSE

Income tax expense comprised:

	2004	2003
Current income tax expense	**980,672**	1,116,100
Deferred income tax (Note 29)	**(31,938)**	(18,241)
Share of income tax expense of associates (Note 11)	**65,528**	51,582
	1,014,262	1,149,441

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

32. INCOME TAX EXPENSE *(Cont'd)*

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (2003: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

	2004	2003
Average statutory tax rate	18%	18%
Effect of tax holiday	(2%)	(1%)
Others	(1%)	—
Effective tax rate	15%	17%

The average statutory tax rate for the year ended 31st December, 2004 represented the weighted average tax rate of the head office and the individual power plants calculated on the basis of the relative amounts of net profit before tax and the applicable statutory tax rates.

The aggregate effect of the tax holiday was approximately RMB122 million for the year ended 31st December, 2004 (2003: approximately RMB61 million).

33. MINORITY INTERESTS

	2004	2003
As at 1st January	1,155,197	910,704
Acquisitions (Note 3)	1,342,872	115,639
Minority shares in net profit of subsidiaries	257,053	183,894
Capital injection from minority shareholders of subsidiaries	677,034	77,632
Dividends paid	(165,763)	(132,672)
As at 31st December	3,266,393	1,155,197

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

34. EARNINGS PER SHARE

	2004			2003		
	Net Profit	**Weighted Average Shares '000**	**Per Share Amount RMB**	Net Profit	Weighted Average Shares '000	Per Share Amount RMB
Earnings per Share						
Net profit attributable to shareholders	**5,323,876**	**12,055,368**	**0.44**	5,430,408	12,038,228	0.45
Finance costs in relation to convertible notes and the relevant put option (net of tax effect)	**22**	**—**		2,746	—	
Effect of assumed conversion	**—**	**121**		—	17,430	
Diluted Earnings per Share						
Net profit attributable to shareholders plus effect of assumed conversion	**5,323,898**	**12,055,489**	**0.44**	5,433,154	12,055,658	0.45

Basic earnings per share was computed by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year (Note 20).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares at the beginning of the year. The Company had one category of potential ordinary share: convertible notes. The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

As the number of ordinary shares outstanding increased as a result of a stock split in 2004 (Note 20), the computation of basic and diluted earnings per share have been adjusted retroactively for the proportional change in the number of ordinary shares outstanding for all the periods presented to reflect the stock split.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

35. NOTES TO CASH FLOW STATEMENT

a. Analysis of cash and cash equivalents

As at 31st December, 2004, cash and cash equivalents consisted of:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Cash in RMB	**621**	726	**485**	352
Current deposits				
RMB	**2,284,551**	3,763,015	**1,200,516**	3,088,565
US$ denominated	**10,359**	234,468	**10,177**	203,006
JPY denominated	**—**	130,439	**—**	—
Total cash and cash equivalents	**2,295,531**	4,128,648	**1,211,178**	3,291,923

b. Undrawn borrowing facilities

As at 31st December, 2004, the Company and its subsidiaries had available unsecured borrowing facilities from banks of approximately RMB30 billion (2003: approximately RMB32 billion) of which undrawn borrowing facilities amounted to approximately RMB28 billion (2003: approximately RMB32 billion). Out of these available undrawn borrowing facilities, RMB20 billion relates to medium to long-term loan facilities, the drawdown of which is subject to application and approval procedures. Management expects to drawdown the available facilities in accordance with the level of working capital and/or planned capital expenditure of the Company and its subsidiaries.

c. Non-cash transactions

The principal non-cash transactions were the conversion of convertible notes to share capital and the ordinary shares split discussed in Note 20.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

36. COMMITMENTS

a. Capital and Operational Commitments

(i) 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. Commitments outstanding as at 31st December, 2004 not provided for in the balance sheet were as follows:

	The Company and its subsidiaries		The Company	
	2004	2003	**2004**	2003
Contracted but not provided for				
- purchase of inventories	**3,560,175**	2,279,191	**2,950,935**	1,829,854
- construction	**7,923,087**	9,793,244	**7,082,386**	5,183,916
Sub-total	**11,483,262**	12,072,435	**10,033,321**	7,013,770
Authorized but not contracted for				
- construction	**236,501**	—	**41,377**	—
Sub-total	**236,501**	—	**41,377**	—
Total	**11,719,763**	12,072,435	**10,074,698**	7,013,770

(ii) During 2004, the Company entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from year 2005 to 2009 for use in generation. In most cases, these contracts contain provisions for price escalations and minimum purchase level clauses. The future commitments under contracts are as follows:

	Total
2005	5,768,657
2006	5,941,717
2007	6,119,968
2008	2,801,770
2009	2,801,770
	23,433,882

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

36. COMMITMENTS *(Cont'd)*

b. Operating Lease Commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 7). Some of the leases contain renewal options and most of the leases contain escalation clauses. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debts or further leasing.

Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Nanjing Power Plant are as follows:

	2004	2003
Land and buildings		
- not later than one year	**1,334**	32,334
- later than one year and not later than two years	**1,334**	7,334
- later than two years and not later than five years	**4,002**	22,002
- later than five years	**52,026**	284,360
	58,696	346,030

In accordance with the land use operating lease agreement signed by the Dezhou Power Plant and the relevant land management authorities for the land occupied by Dezhou Phase I and Phase II, annual rental is approximately RMB30 million effective from June, 1994 and is subject to revision of five years after the said 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 year ended 31st December, 2004, the annual rental is approximately RMB29 million (2003: approximately RMB30 million).

37. CONTINGENT LIABILITIES

	The Company and its subsidiaries		The Company	
	2004	2003	2004	2003
Guarantee for loan facilities				
- granted to an associate	**305,250**	339,250	**305,250**	339,250
- granted to subsidiaries	**—**	—	**1,430,000**	2,460,613
	305,250	339,250	**1,735,250**	2,799,863

38. INTEREST RATE SWAPS

As at 31st December, 2004, there was no outstanding interest rate swap agreement (2003: approximately US$20.5 million). For the year ended 31st December, 2004, there was a gain amounting to approximately RMB1 million (2003: approximately RMB11.8 million) arising from changes in the fair value of the interest rate swaps subsequent to initial recognition. Since the hedging relationship did not meet the conditions required for special hedge accounting as set out in IAS 39 Financial Instruments: Recognition and Measurement, the gain was credited to income in the current year.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company and its subsidiaries' financial instruments not carried at fair value are cash and cash equivalents, temporary cash investments, accounts receivables, other current assets, other non-current assets, accounts payable and other liabilities, short-term loans, unsecured, long-term loans, unsecured and held-to-maturity investments.

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, temporary cash investments, short-term investments, short-term loans, unsecured and other current financial assets and liabilities approximated their fair values due to the short-term maturities of these instruments.

Similarly, the historical cost carrying amounts of receivables and payables which are all subject to normal trade credit terms approximate their fair values.

Available-for-sale investment is measured at fair value unless the fair values cannot be measured reliably.

The estimated fair value of long-term debt including current maturities was approximately RMB17.05 billion as at 31st December, 2004 (2003: approximately RMB12.43 billion). The fair value of long-term debt is determined by discounting the stream of future payments of interest and principals at the prevailing market interest rates for comparable instruments. The aggregate book value of these liabilities was approximately RMB17.5 billion as at 31st December, 2004 (2003: approximately RMB12.20 billion).

40. BUSINESS RISK

The Company and its subsidiaries conduct their operations in the PRC and accordingly investing in the shares of the Company and its subsidiaries are subject to the risks of, among others, the PRC's political, economic and legal environment, restructuring of the PRC electric power industry and regulatory reform, new regulation pertaining to setting of power tariff and availability of fuel supply at stable price.

For the year ended 31st December, 2004, the Company and its subsidiaries sold electricity to five major customers (2003: five), each of which amounted to approximately 10% or more of the operating revenue. In aggregation, these customers represented approximately 79% (2003: approximately 77%) of the net operating revenue of the Company and its subsidiaries.

(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

41. EVENTS AFTER THE BALANCE SHEET DATE

On 26th October, 2004, the Company entered into agreements with Huaneng Group under which the Company agreed to acquire from Huaneng Group 60% equity interest in Sichuan Huaneng Hydropower Development Corporation, Ltd. (the "Sichuan Hydropower") and 65% equity interest in the Gansu Huaneng Pingliang Power Generation Limited Liability Company (the "Pingliang Power Company").

The total consideration for the acquisition of the two power companies was RMB2,025 million, which was paid in cash in January, 2005. Direct transaction cost related to the acquisition amounted to approximately RMB17 million.

The acquisition of the two power companies became effective in January 2005 when the Company obtained the ownership and control over the relevant assets after obtaining the necessary approval.

Details of net assets acquired and preliminary goodwill are as followings:

Purchase consideration	
- Cash paid	2,025,000
- Direct transaction cost relating to the acquisition	16,698
Total purchase consideration	2,041,698
Preliminary fair value of assets acquired	(1,731,191)
Preliminary goodwill	310,507

Goodwill arising from the acquisitions is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the Company's acquisitions of the subsidiaries stated above.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Property, plant and equipment, net	11,992,009	10,652,359
Deferred income tax assets	12,533	12,533
Available-for-sale investment	500	500
Other non-current assets	178,841	156,187
Inventories, net	54,801	54,801
Other current assets	176,238	176,238
Accounts receivable	569,672	569,672
Cash and cash equivalents	566,704	566,704
Minority interest	(2,063,434)	(1,480,354)
Long-term loans, unsecured	(7,572,346)	(7,572,346)
Long-term loans, secured	(367,000)	(367,000)
Due to Huaneng Group	(18,517)	(18,517)
Deferred income tax liabilities	(459,898)	(81,109)
Other current liabilities	(1,338,912)	(1,338,912)
Net assets acquired	1,731,191	1,330,756