

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)
For the year ended 31st December, 2004
(All amounts are stated in RMB Yuan unless otherwise stated)

1. COMPANY BACKGROUND

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

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

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

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

The Company’s ultimate parent company is China Huaneng Group (“Huaneng Group”). Huaneng Group is a state-owned enterprise registered in the PRC. For details, please refer to Note 7(1).

On 16th April, 2004, the Company entered into an agreement with Huaneng Group, pursuant to which the Company acquired from Huaneng Group 40% equity interest in Hebei Huaneng Hanfeng Power Co.,Ltd (the “Hanfeng Power Company”), 90% equity interest in Jinggangshan Huaneng Power Generation Limited Liability Company (“Jinggangshan Power Company”). The total consideration for the acquisition of the two power plants was RMB1,949 million.

On the same date, the Company entered into an agreement with HIPDC under which the Company agreed to acquire from HIPDC 55% equity interest in Huaneng Hunan Yueyang Power Co.,Ltd (the “Yueyang Power Company”), 60% equity interest in Huaneng Chongqing Luohuang Power Co.,Ltd (the “Luohuang Power Company”) and all of the assets and liabilities of Huaneng Yingkou Power Plant (the “Yingkou Power Plant”), at a total consideration of RMB2,564 million.

In addition, on 16th April, 2004, the Company entered into an agreement with Jiangxi Provincial Investment Company, pursuant to which the Company acquired the remaining 10% equity interest in Jinggangshan Power Company at a consideration of RMB62 million. Jinggangshan Power Company was subsequently deregistered to become a branch of the Company.

After obtaining all necessary government approvals on the transactions and the payments of the considerations, the above acquisitions became effective on 1st July, 2004.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of preparation

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

(2) Accounting year

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

(3) Reporting currency

The Company and its subsidiaries use the Renminbi as reporting currency.

(4) Basis of accounting and measurement bases

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

(5) Foreign currency translation

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

(6) Cash and cash equivalents

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

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

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

(7) Receivables and provision for bad debts

Receivables include accounts receivable and other receivables.

The Company and its subsidiaries make provision for bad debts using the "allowance method". Receivables are netted with the provision for bad debts.

Provisions for bad debts are made based on the assessment of the collectibility of the receivables. Based on the actual circumstances and experiences, the Company and its subsidiaries made provisions against balances that have been assessed to be uncollectible.

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

(8) Inventories

Inventories include fuel for power generation, materials and supplies for repairs and maintenance. Inventories are recorded at actual cost and are charged to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate, using weighted average cost basis. Cost of inventories includes costs of purchase and transportation costs.

Inventories at balance sheet date are stated at lower of cost and net realizable values. When their costs exceed their net realizable value, the excess of their original cost over their net realizable value is taken as a "provision for loss on realization of inventories". Net realizable value is the estimated replacement cost.

The company and its subsidiaries implement perpetual inventory system.

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

(9) Long-term investments

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

(a) Equity investment

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

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

When long-term equity investments acquired prior to 17th March, 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over ten years. When long-term equity investments acquired after 17th March, 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over a certain period of not more than 10 years.

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

(b) Debt investment

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

Entrusted loans refer to loans that the Company provides to related parties via intermediary financial institutions with maturities over one year. Interest income is accrued based on the interest rate agreed in the contract and recorded as income in each period. Interest receivable that has been accrued, but cannot be collected when due, is written off.

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

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

(c) Impairment of long-term investment

If the recoverable amount of an investment is lower than the carrying amount, as a result of a continuous decline in market value or adverse changes in operating condition of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment is recognised as a provision for impairment loss.

If there are indications that the factors, based on which a provision for impairment loss of a long-term investment was recognized in prior years, have changed, resulting in the recoverable amount of the long-term investment higher than its carrying amount, the provision for impairment is reversed up to the amount of the impairment loss being recognized in prior years.

(10) Fixed assets and depreciation

Fixed assets are tangible assets that are used in power production or held for management purposes, which have useful lives over one year and have relatively high unit price. Effective from 1st January, 2001, when construction takes place on the Company's land and the construction is for its own use, the carrying value of land use right is capitalized as part of the cost of buildings within fixed assets.

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

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

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

Categories	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	8-35 years	0%-11%	2.54%-12.50%
Electric utility plant in service	4-30 years	0%-11%	2.97%-25.00%
Transportation and transmission facilities	6-27 years	5%-11%	3.30%-17.00%
Others	2.5-18 years	0%-11%	5.56%-40.00%

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

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

(10) Fixed assets and depreciation (Cont'd)

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

Fixed assets at balance sheet date are stated at lower of the recoverable amount and the carrying amount. If there are indications that the carrying amount of the fixed assets is higher than their recoverable amount, an impairment test is carried out. If the carrying amount of the fixed assets exceeds their recoverable amount, the excess is recognized as an impairment loss.

If there are indications that the factors, based on which an impairment loss for a fixed assets was recognized in prior years, have changed, resulting in the recoverable amount of the fixed assets higher than their carrying amount, the provision for fixed assets impairment is reversed up to the amount of the impairment loss being recognized in prior years.

(11) Construction-in-progress

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

If there are indications showing that the carrying amount of an individual construction-in-progress is higher than its recoverable amount, an impairment test is carried out. If the carrying amount of the construction-in-progress exceeds its recoverable amount, the excess is recognized as an impairment loss. If there are indications that the factors, based on which an impairment loss for a construction-in-progress was recognized in prior years, have changed, resulting in the recoverable amount of the construction-in-progress higher than its carrying amount, the provision for impairment loss recognized in prior years is reversed up to the amount of the impairment loss being recognized in prior years.

(12) Intangible assets and amortization

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

The land use rights acquired through payment of land use fees, are initially recorded at cost. They are recorded as intangible assets and amortized, before the construction takes place on land, using the straight-line method over the land use rights period of 20 to 70 years. Effective from 1st January, 2001, when construction takes place on the land and the construction is for the Company's own use, then the carrying value of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January, 2001 on which construction of fixed assets has already completed are not reclassified.

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

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

(12) Intangible assets and amortization (Cont'd)

Intangible assets at balance sheet date are stated at lower of the recoverable amount and the carrying amount. If there are indications that the carrying amount of the intangible asset is higher than their recoverable amount, an impairment test is carried out. If the carrying amount of the intangible asset exceeds its recoverable amount, the excess is recognized as an impairment loss.

If there are indications that the factors, based on which an impairment loss for an intangible asset was recognized in prior years, have changed, resulting in the recoverable amount of the intangible asset higher than its carrying amount, the impairment loss recognized in prior years is reversed up to the amount of the impairment loss being recognized in prior years.

(13) Long-term deferred expenses

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

(14) Borrowing costs

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

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

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

(15) Convertible notes

Convertible notes are stated as liability at practical issuing price.

Interest on convertible notes is accounted for on an accrual basis. Interest and issuance costs are capitalized or expensed depending upon the way the convertible notes are used.

When convertible notes are converted into shares, the paid-in capital is recorded at the amount equal to the par value per share multiplied by the number of convertible notes converted. The difference between the carrying value of the convertible notes and the par value of the shares issued is recognized as capital surplus.

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

(16) Employee social security benefits

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

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on certain percentages (47% to 62.5%) of the total salary of employees, subject to specified ceilings. Contributions to the plans are charged to the profit and loss account as incurred.

(17) Dividends appropriation

Dividends appropriation is recognized as a liability in the period in which the dividends are approved by the board of directors.

(18) Revenue recognition

Revenue is recognized under the following methods:

(a) Operating revenue

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

(b) Management service income

As mentioned in Note 7(5)(h), the Company provides management service to certain power plants owned by Huaneng Group and HIPDC. The Company recognizes a management service income as other income when service is rendered in accordance with the management service agreement.

(c) Other income

Interest income from deposits and entrusted lending is recognized on a time proportion basis that reflect the effective yield on the assets.

Subsidies are recognized when received.

Rental income under operating leases is recognized on a straight-line basis over the relevant lease term.

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

(19) Lease

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

(20) Accounting for income tax

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

(21) Consolidation of financial statements

The consolidated financial statements, including the financial statements of the Company and its subsidiaries, are prepared in accordance with the CaiKuaiZi(1995)11 "Tentative Regulations for Consolidated Financial Statements", "Accounting System for Business Enterprises" and relevant regulations issued by the Ministry of Finance of the PRC.

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

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

3. TAXATION

(1) Value added tax

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

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3. TAXATION (Cont'd)

(2) Income tax

According to the relevant income tax law, Sino-foreign enterprises are, in general, subject to statutory income tax of 33% (30% of Enterprise Income Tax ("EIT") and 3% of local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by the State Tax Bureau, a lower tax rate would be applied. Effective from 1st January, 1999, in accordance with the practice notes on the PRC income tax laws applicable to Sino-foreign enterprises investing in energy and transportation infrastructure businesses, a reduced income tax rate of 15% (after the approval of State Tax Bureau) is applicable across the country. The Company applied this rule to all of its directly owned operating power plants after obtaining the approval of the State Tax Bureau.

Pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", all power plants (except for the 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 Power Plant (the "Shidongkou I Power Plant") and Huaneng Xindian Power Plant (the "Xindian Power Plant")) are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

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

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Income tax rate	Tax holiday period
Head Office	15.0%	None
Huaneng Dalian Power Plant (the "Dalian Power Plant")	18.0%	Till 31st December, 1994
Huaneng Dalian Power Plant Phase II (the "Dalian Power Plant Phase II")	15.0%	Till 31st December, 2008
Huaneng Shang'an Power Plant (the "Shang'an Power Plant")	18.0%	Till 31st December, 1996
Huaneng Shang'an Power Plant Phase II (the "Shang'an Power Plant Phase II")	18.0%	Till 31st December, 2003
Huaneng Nantong Power Plant (the "Nantong Power Plant")	15.0%	Till 31st December, 1996
Huaneng Nantong Power Plant Phase II (the "Nantong Power Plant Phase II")	15.0%	Till 31st December, 2004
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")	15.0%	Till 31st December, 1995
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Power Plant Phase II")	15.0%	Till 31st December, 2004
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")	15.0%	Till 31st December, 1994
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")	15.0%	Till 31st December, 2005
Huaneng Shanghai Shidongkou Second Power Plant (the "Shidongkou II Power Plant")	16.5%	Till 31st December, 1998
Huaneng Dandong Power Plant (the "Dandong Power Plant")	18.0%	Not commenced yet
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")	15.0%	Till 31st December, 2004
Shandong Branch	17.0%	None
Dezhou Power Plant	17.0%	None
Jining Power Plant	15.0%	None
Changxing Power Plant	16.5%	None
Shidongkou I Power Plant	18.0%	None
Xindian Power Plant	15.0%	None
Yingkou Power Plant	18.0%	Not commenced yet
Huaneng Jinggangshan Power Plant (the "Jinggangshan Power Plant")	15.0%	Till 31st December, 2008
Huaneng Weihai Power Company (the "Weihai Power Company")	33.0%	None
Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company")	33.0%	None
Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company")	33.0%	None
Shanxi Huaneng Yushe Power Company (the "Yushe Power Company")	33.0%	None
Yueyang Power Company	33.0%	None
Luohuang Power Company	15.0%	Till 31st December, 2007
Henan Huaneng Qinbei Power Company (the "Qinbei Power Company")	33.0%	None

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Approved File No.	2004	2003
Head Office	Guo Shui Han [1997]368	15.0%	15.0%
Dalian Power Plant	Guo Shui Han [1994]381	18.0%	18.0%
Dalian Phase II (Note 1)	Guo Shui Zhi Shui Han [2004]12	15.0%	7.5%
Shangan Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	18.0%
Shangan Phase II	Guo Shui Han [1994]381 & Guo Shui Han [2000]194	18.0%	9.0%
Nantong Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Nantong Phase II (Note 2)	Su Guo Shui Han [2003]248 & Tong Guo Shui Wai Zi [2003] 1	7.5%	7.5%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Phase II (Note 3)	Min Guo Shui Han [2003]37	7.5%	7.5%
Shantou Oil-Fired Plant	Guo Shui Han [1994]381	15.0%	15.0%
Shantou Power Plant (Note 4)	Approved by Shantou State Tax Bureau	10.0%	10.0%
Shidongkou II Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant ((Note 5)	Dan Guo Shui She Wai [1999]7	—	—
Nanjing Power Plant (Note 6)	Ning Guo Shui Wai Zi [1997]039	10.0%	10.0%
Shandong Branch	Guo Shui Han [2001]866	17.0%	17.0%
Dezhou Power Plant	Guo Shui Han [2001]866	17.0%	17.0%
Jining Power Plant	Guo Shui Han [2002]1063 and Ji Guo Shui Han [2003]1	15.0%	15.0%
Changxing Power Plant	Guo Shui Han [2002]1030	16.5%	16.5%
Shidongkou I Power Plant	Hu Guo Shui Ba Shui [2003]31	18.0%	18.0%
Xindian Power Plant (Note 7)	Lin Guo Shui Han [2004]123	15.0%	18.0%
Yingkou Power Plant (Note 5, 10)	Approved by Yingkou State Tax Bureau	—	Not applicable
Jinggangshan Power Plant (Note 8, 10)	Ji An Shi Guo Shui Zhong Qi Fa [2004]20	—	Not applicable
Weihai Power Company	Not applicable	33.0%	33.0%
Taichang Power Company	Not applicable	33.0%	33.0%
Huaiyin Power Company	Not applicable	33.0%	33.0%
Yushe Power Company	Not applicable	33.0%	33.0%
Yueyang Power Company (Note 10)	Not applicable	33.0%	Not applicable
Luohuang Power Company (Note 9,10)	Approved by Chongqing State Tax Bureau	—	Not applicable
Qinbei Power Company (Note 11)	Not applicable	—	Not applicable

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

Note:

- (1) In accordance with Guo Shui Zhi Shui Han [2004], the tax holiday of the 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 a 3% reduction of the local applicable tax rate 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 holiday of Dandong Power Plant and Yingkou Power Plant has not commenced yet.
- (6) In accordance with Ning Guo Shui Wai Zi [1997] No.39, the Nanjing 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, 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 the 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 accordance 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.

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4. SUBSIDIARIES

As at 31st December, 2004, the detailed information of the Company's subsidiaries are as follows:

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held		Included in Consolidated Financial Statements
					Direct	Indirect	
Weihai Power Company	No.58 Haifu road, Economic Development Zone, Weihai, Shandong province 22nd November, 1993	RMB761,832,800	Power generation	RMB474,038,793	60%		Yes
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province 19th June, 1997	RMB632,840,000	Power generation	RMB661,293,633	75%		Yes
Huaneng Taicang Power Limited Company ("Taicang II Power Company")	Fuqiao town Jinlanggang village, Taicang, Jiangsu province 18th June, 2004	RMB894,410,000	Power generation	RMB335,410,000	75%		Yes
Huaiyin Power Company	No.291 Huaihai West Road, Huai'an, Jiangsu province 26th January, 1995	RMB265,000,000	Power generation	RMB492,799,531	63.64%		Yes
Jiangsu Huaneng Huaiyin Second Power Limited Company ("Huaiyin II Power Company")	No.291 Huaihai West Road, Huai'an, Jiangsu province 22nd June, 2004	RMB474,000,000	Power generation	RMB301,653,600	63.64%		Yes
Qinbei Power Company	Wulongkou town, Jiyuan city, Henan province 12th July, 1995	RMB10,000,000	Power generation	RMB421,556,956	55%		Yes
Yushe Power Company	Dengyu village, Yushe county, Shanxi province 29th November, 1994	RMB80,000,000	Power generation	RMB380,385,896	60%		Yes
Shandong Xindian Power Limited Company ("Xindian II Power Company")	Qilu Chemical Industrial Park, Linzi district, Zibo, Shandong province 14th March, 2004	RMB100,000,000	Power generation	RMB140,100,000	95%		Yes
Yueyang Power Company	ChengLingJi, Yueyang Hunan Province 16th December, 2003	RMB560,000,000	Power generation	RMB660,451,197	55%		Yes
Luohuang Power Company	Luohuang County, JiangJin city, ChongQing 16th December, 2003	RMB900,000,000	Power generation	RMB1,469,301,221	60%		Yes
Shanxi Huaneng Yushe County Yuanheng Service Company ("Yuanheng Company")	Dengyu village, Yushe county, Shanxi province 31st December, 2003	RMB3,000,000	Services	RMB2,950,000		95%	No

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4. SUBSIDIARIES (Cont'd)

As at 31st December, 2004, Yushe Power Company, one of the Company's subsidiaries, had 95% equity interest in Yuanheng Company. The registered capital of Yuanheng Company was RMB3,000,000, and Yushe Power Company's investment in Yuanheng Company was RMB2,950,000. The principal operating activities of Yuanheng Company is the provision of logistic services and other services to Yushe Power Company. As at 31st December, 2004, the total assets of Yuanheng Company amounted to RMB33,096,066, and net liability amounted to RMB1,351,372. For the year ended 31st December, 2004, the net profit of Yuanheng Company amounted to RMB1,060,748. Since the assets, liabilities and operating results of Yuanheng Company are immaterial to the Company, they have not been included in these consolidated financial statements.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash

		31st December, 2004			31st December, 2003		
		Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash	- RMB			620,687			726,410
Bank deposit	- RMB			2,350,491,735			4,018,311,639
	- USD	19,301,268	8.2765	159,746,942	34,328,609	8.2767	284,127,729
	- Japanese yen	325	0.0797	26	1,688,242,236	0.0773	130,438,660
Sub-total				2,510,238,703			4,432,878,028
Total cash				2,510,859,390			4,433,604,438

Cash as stated in the cash flow statement comprised the following:

		31st December, 2004
Cash		2,510,859,390
Less: Time deposit with maturity beyond 3 months		(12,640,652)
Restricted cash		(202,687,766)
Cash as at 31st December, 2004		2,295,530,972
Less: Cash as at 31st December, 2003		(4,128,648,014)
Net decrease in cash		(1,833,117,042)

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

(2) Notes receivable

	31st December, 2004	31st December, 2003
Banking notes receivable	430,181,845	149,940,000
Commercial notes receivable	812,490,000	297,260,000
	1,242,671,845	447,200,000

As at 31st December 2004, all the notes receivable were unsecured notes receivable.

(3) Accounts receivable and other receivables

(i) Accounts receivable

	31st December, 2004	31st December, 2003
Accounts receivable	4,080,533,818	2,356,825,998
Less: Specific bad Debt Provision	(350,102,662)	—
	3,730,431,156	2,356,825,998

Accounts receivable's aging and bad debt provision are as follows:

Aging	31st December, 2004			31st December, 2003		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	3,267,696,332	80	—	2,353,129,998	100	—
1-2 years	96,807,620	2	—	—	—	—
2-3 years	—	—	—	3,696,000	—	—
Over 3 years*	716,029,866	18	(350,102,662)	—	—	—
	4,080,533,818	100	(350,102,662)	2,356,825,998	100	—

* As at 31st December, 2004, the major portion of the receivables aged over 3 years but not provided for was Yueyang Power Company and Luohuang Power Company's receivables due from local grid companies. According to the acquisition agreement with HIPDC (see Note 1), HIPDC has agreed to compensate its equity portion of these accounts receivable to the Company if these amounts remain uncollected by 31st December, 2006. Therefore, no bad debt provision has been provided for these accounts receivable by the Company and its subsidiaries.

All receivable balances represent receivables from the provincial or regional grid companies for the sales of electric power.

As at 31st December, 2004, the five largest accounts receivable of the Company and its subsidiaries amounted to RMB2,315,793,777 (31st December, 2003: RMB1,966,974,945), representing 56.75% of the total accounts receivable (31st December, 2003: 83.46%).

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

(3) Accounts receivable and other receivables (Cont'd)

(ii) Other receivables

	31st December, 2004	31st December, 2003
Other receivables	341,953,996	214,605,918
Less: bad debt provision	(49,108,057)	(53,885,032)
	292,845,939	160,720,886

Other receivables' aging and bad debt provision are as follows:

Aging	31st December, 2004			31st December, 2003		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	187,298,876	55	(5,618,966)	88,240,614	41	(2,647,218)
1-2 years	49,794,157	15	(1,493,825)	18,827,094	9	(1,564,813)
2-3 years	22,263,956	6	(667,919)	55,952,155	26	(1,678,565)
Over 3 years	82,597,007	24	(41,327,347)	51,586,055	24	(47,994,436)
	341,953,996	100	(49,108,057)	214,605,918	100	(53,885,032)

Breakdown of other receivables is as follows:

	31st December, 2004	31st December, 2003
Receivable from employees for sales of staff quarters	11,142,227	10,272,586
Social insurance funds	31,859,569	14,680,384
Petty cash	9,571,945	11,103,320
Transmission fee refund receivable from Shandong Electric Power Corporation	—	19,067,120
Payment of steam on behalf of Jining Duoijing Company	13,414,304	—
Payment on behalf of Huai'an Huaneng Shiye Company	20,064,009	21,735,192
Prepayments for constructions	12,086,529	19,726,451
Others*	243,815,413	118,020,865
	341,953,996	214,605,918

* Others include a prepayment amounting to RMB79,107,856 for the land use right of one of the Company's subsidiaries.

As at 31st December, 2004, the five largest other receivables of the Company and its subsidiaries amounted to RMB135,176,856 (31st December, 2003: RMB82,448,358), representing 39.53% of total other receivables (31st December, 2003: 38.42%).

As at 31st December, 2004, there were no accounts receivable and other receivables from shareholders who held 5% or more of the equity interest in the Company.

See Note 7 for related party transactions.

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

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

(4) Advance to suppliers

	31st December, 2004	31st December, 2003
Prepayments for coal	293,181,969	64,325,931
Prepayments for materials and spare parts	33,467,251	7,549,431
Prepayments for equipments	32,551,886	11,179,768
Prepayments for contractors	26,498,054	—
Others	55,671,615	5,139,683
	441,370,775	88,194,813

Aging for advance to suppliers is as follows:

Aging	31st December, 2004		31st December, 2003	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	434,116,293	98	82,788,921	94
1-2 years	5,512,106	2	4,096,343	5
2-3 years	208,500	—	—	—
Over 3 years	1,533,876	—	1,309,549	1
	441,370,775	100	88,194,813	100

As at 31st December, 2004, there were no advances paid to shareholders who held 5% or more of the equity interest in the Company.

(5) Inventories

	31st December, 2004	31st December, 2003
Fuel (coal and oil) for power generation	732,834,080	308,861,120
Materials and spare parts	715,249,762	512,919,617
	1,448,083,842	821,780,737
Less: provision for inventory obsolescence-spare parts	(16,680,237)	(13,621,461)
	1,431,403,605	808,159,276

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

(5) Inventories (Cont'd)

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

	Provision for inventory obsolescence-spare parts
31st December, 2003	(13,621,461)
Current year addition	(14,041,426)
Current year deduction	10,982,650
31st December, 2004	(16,680,237)

The cost of inventories recognized as expenses and included in cost of sales amounted to RMB15,310,808,468 in 2004 (2003: RMB10,303,016,769).

(6) Long-term investments

	31st December, 2003	Current year additions	Current year deductions	31st December, 2004
Long-term equity investments				
Consolidated difference in value (i)	392,105,037	1,048,735,332	(108,989,882)	1,331,850,487
Associates (ii)	2,012,939,632	1,384,053,996	(179,091,542)	3,217,902,086
Equity investment difference (iii)	741,157,596	435,362,658	(101,177,875)	1,075,342,379
Other long-term equity investments (iv)	260,832,266	357,500	(46,200)	261,143,566
Sub-total	3,407,034,531	2,868,509,486	(389,305,499)	5,886,238,518
Long-term debt investments	95,560	46,200	(83,060)	58,700
Less: current portion of long-term debt investments	(83,060)	—	78,060	(5,000)
Long-term debt investments	12,500	46,200	(5,000)	53,700
Total long-term investments	3,407,047,031	2,868,555,686	(389,310,499)	5,886,292,218

As at 31 December 2004 and 31 December 2003, the Company's total long-term investments accounted for 15.83% and 9.79% of the Company's net assets respectively.

As at 31st December, 2004 and 31st December, 2003, there was no indication of impairment of long-term investments of the Company and its subsidiaries and therefore no provision of impairment of long-term investments was made.

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

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

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

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

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

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

Name	Amortization period	Original cost	Balance at 31st December, 2003	Current year additions	Current year amortization	Accumulated amortization	Balance at 31st December, 2004
Taicang Power Company	10 years	191,587,073	163,814,482	—	(19,158,707)	(46,931,298)	144,655,775
Huaiyin Power Company	10 years	151,623,305	133,436,887	—	(15,162,331)	(33,348,749)	118,274,556
Qinbei Power Company	10 years	96,461,357	94,853,668	—	(9,646,136)	(11,253,825)	85,207,532
Yushe Power Company	10 years	5,936,001	—	5,936,001	(593,600)	(593,600)	5,342,401
Yueyang Power Company	7.5years	393,716,359	—	393,716,359	(26,247,757)	(26,247,757)	367,468,602
Luohuang Power Company	8.5years	649,082,972	—	649,082,972	(38,181,351)	(38,181,351)	610,901,621
		1,488,407,067	392,105,037	1,048,735,332	(108,989,882)	(156,556,580)	1,331,850,487

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

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

(ii) Investment in associates

Name	Places and dates of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held
Associates:					
Shandong Rizhao Power Limited liability Company (the "Rizhao Power Company")	Rizhao, Shandong 20th March, 1996	US\$150 million	Power generation	RMB317.5 million	25.5%
Shenzhen Energy Group Co., Ltd. (the "SEG")	Shenzhen, Guangdong 16th July, 1997	RMB955.56 million	Development, production and sale of energy, and energy construction project	RMB239 million	25%
Hanfeng Power Company	Yijing villiage, Fengfeng mine, Handan City, Hebei province 28th October, 1996	RMB1,975 million	Power generation	RMB1,375.47 million	40%
Chongqing Huaneng Lime Company Limited (the "Lime Company")	Luohuang county, Jiangjin city, Chongqing 5th Nov, 1996	RMB50 million	Lime production and sale	RMB12.5 million	25%

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

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

(ii) Investment in associates (Cont'd)

	Investment period	Percentage of equity interest held		Investment cost	
		31st January, 2003	31st December, 2004	31st December, 2003	31st December, 2004
Rizhao Power Company	20 years	25.5%	25.5%	231,868,800	231,868,800
SEG	No specific terms	25%	25%	1,595,902,576	1,595,902,576
Hanfeng Power Company	25 years	—	40%	—	940,103,488
Lime Company	No specific terms	—	25%	—	18,028,710
				1,827,771,376	2,785,903,574

	Accumulated equity pick-up movement			Net carrying value	
	31st December, 2003	Current year additions (deductions)	31st December, 2004	31st December, 2003	31st December, 2004
Rizhao Power Company	(35,738,867)	(29,091,542)	(64,830,409)	196,129,933	167,038,391
SEG	220,907,123	141,793,666	362,700,789	1,816,809,699	1,958,603,365
Hanfeng Power Company	—	133,167,724	133,167,724	—	1,073,271,212
Lime Company	—	960,408	960,408	—	18,989,118
	185,168,256	246,830,256	431,998,512	2,012,939,632	3,217,902,086

(iii) Equity investment difference

Other equity investment difference mainly represents the difference between the considerations paid for the acquisitions of SEG and Hanfeng Power Company, and the proportionate share of the net assets of these two companies. Details are summarized as follows:

Name	Amortization period	Original cost	Balance at	Current year additions	Current year amortization	Accumulated amortization	Balance at
			31st December, 2003				31st December, 2004
SEG	10 years	794,097,424	741,157,596	—	(79,409,742)	(132,349,570)	661,747,854
Hanfeng Power Company	10 years	435,362,658	—	435,362,658	(21,768,133)	(21,768,133)	413,594,525
		1,229,460,082	741,157,596	435,362,658	(101,177,875)	(154,117,703)	1,075,342,379

(Prepared in accordance with PRC Accounting Standards)
For the year ended 31st December, 2004
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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

(iv) Other long-term equity investments

Other long-term equity investments mainly represents the equity investment in China Yangtze Power Co., Ltd (the "Yangtze Company") 2.11 % (2003: 3%), details are as follows:

Name	Investment period	Total investment contributed by the Company	Percentage of equity interest held
Yangtze Company	Starting from 22nd August, 2002, with no specific terms	RMB254,989,551	2.11%

(7) Fixed assets and accumulated depreciation

The movement of cost of fixed assets and accumulated depreciation is as follows:

	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
Cost					
31st December, 2003	1,680,071,154	56,868,645,506	718,642,537	1,464,450,850	60,731,810,047
Reclassification	(18,667,896)	209,690,343	(205,053,099)	14,030,652	—
Additions from acquisition	442,986,987	12,813,198,424	12,863,638	487,533,006	13,756,582,055
Transfer from construction-in-progress	436,163,430	5,556,909,031	12,754,792	72,609,842	6,078,437,095
Current year additions	14,594,436	20,292,379	2,840,702	65,510,428	103,237,945
Current year disposals	(787,708)	(88,144,973)	(1,800,245)	(14,029,114)	(104,762,040)
31st December, 2004	2,554,360,403	75,380,590,710	540,248,325	2,090,105,664	80,565,305,102
Accumulated depreciation					
31st December, 2003	421,174,862	21,016,536,628	262,772,436	630,438,571	22,330,922,497
Reclassification	(5,566,067)	72,770,473	(62,903,595)	(4,300,811)	—
Additions from acquisition	67,987,327	6,091,176,012	12,420,015	284,656,560	6,456,239,914
Current year depreciation	79,095,510	4,263,879,453	30,095,979	182,580,697	4,555,651,639
Current year disposals	(171,143)	(85,073,025)	(1,786,475)	(9,651,175)	(96,681,818)
31st December, 2004	562,520,489	31,359,289,541	240,598,360	1,083,723,842	33,246,132,232
Net book value					
31st December, 2004	1,991,839,914	44,021,301,169	299,649,965	1,006,381,822	47,319,172,870
31st December, 2003	1,258,896,292	35,852,108,878	455,870,101	834,012,279	38,400,887,550

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

(7) Fixed assets and accumulated depreciation (Cont'd)

As at 31st December, 2004 and 31st December, 2003, there was no indication of impairment of fixed assets of the Company and its subsidiaries and therefore no impairment provision of fixed assets was made. No fixed assets were pledged as at 31st December, 2004.

As at 31st December, 2004, cost of the fixed assets which had been fully depreciated but still in use amounted to RMB645.24 million (31st December 2003: RMB413.81 million), and the related net book value amounted to RMB18.22 million (31st December 2003: RMB7.86 million)

(8) Construction materials

	31st December, 2004	31st December, 2003
Dedicated material & equipment	576,521,801	165,740,734
Prepayment for major equipment	3,299,543,606	939,069,664
Tools & instrument for production	—	6,844,406
	3,876,065,407	1,111,654,804

(9) Construction-in-progress

Projects	Budget	31st December, 2003	Additions from acquisition	Additions	Transfer to fixed assets	Other deductions*	31st December, 2004	Percent of completion	Source of financing
Yuhuan Power Plant Project	1,225,000,000	264,847,686	—	603,199,561	—	—	868,047,247	71%	Funds borrowed from financial institutions and internal funds
Huaiyin II Power Company project	2,382,480,000	245,205,149	—	1,555,137,830	—	—	1,800,342,979	76%	Funds borrowed from financial institutions and internal funds
Taicang II Power Company project	4,472,050,000	135,803,681	—	520,065,752	—	—	655,869,433	15%	Funds borrowed from financial institutions and internal funds
Shantou Power Plant Phase II project	2,264,030,000	60,120,169	—	532,076,943	—	—	592,197,112	26%	Funds borrowed from financial institutions and internal funds
Xindian II Power Company project	2,431,933,416	—	—	92,853,529	—	—	92,853,529	4%	Funds borrowed from financial institutions and internal funds

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

(9) Construction-in-progress (Cont'd)

Projects	Budget	31st December, 2003	Additions from acquisition	Additions	Transfer to fixed assets	Other deductions*	31st December, 2004	Percent of completion	Source of financing
Yushe Power Company Phase II project	2,686,250,000	556,744,978	—	1,583,054,498	(2,125,599,800)	—	14,199,676	80%	Funds borrowed from financial institutions and internal funds
Qinbei Power Company project	4,654,950,000	1,535,532,743	—	2,151,805,054	(3,680,268,822)	—	7,068,975	79%	Funds borrowed from financial institutions and internal funds
Yueyang Power Company Project	2,460,000,000	—	189,296,363	154,410,283	—	—	343,706,646	14%	Funds borrowed from financial institutions and internal funds
Luohuang Power Company Project	4,459,120,000	—	54,089,906	163,802,140	—	—	217,892,046	5%	Funds borrowed from financial institutions and internal funds
Other projects		292,705,775	61,388,286	641,636,163	(272,568,473)	(187,114,154)	536,047,597	5%	Funds borrowed from financial institutions and internal funds
		3,090,960,181	304,774,555	7,998,041,753	(6,078,437,095)	(187,114,154)	5,128,225,240		
Include: Capitalized borrowing cost		148,546,755	5,107,416	272,225,256	(235,132,518)	—	190,746,909		

* For the year ended 31st December, 2004, other deductions are due to the transfer of Xindian II Power Company project and Taicang II Power Company project to Xindian II Power Company and Taicang II Power Company when these two companies were incorporated.

For the year ended 31st December, 2004, the interest capitalized for construction-in-progress was RMB272,225,256 and the capitalized rate per annum was 4.56% (2003: RMB21,224,053, at 4.83% per annum).

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

(Prepared in accordance with PRC Accounting Standards)
For the year ended 31st December, 2004
(All amounts are stated in RMB Yuan unless otherwise stated)

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

(10) Intangible assets

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

	Original cost	31st December, 2003	Addition from acquisition	Current year addition	Current year amortization	Accumulated amortization	31st December, 2004	Remaining amortization period	Obtained through
Land use rights	1,005,524,121	662,228,414	160,012,200	85,545,300	(20,050,136)	(117,788,343)	887,735,778	16 to 69.5 years	Purchase
Negative goodwill	(2,472,783,635)	(1,730,948,544)	—	—	247,278,364	989,113,455	(1,483,670,180)	6 years	Acquisition
Goodwill	39,036,491	2,361,909	36,257,779	—	(2,515,008)	(2,931,811)	36,104,680	6.5 to 9.5 years	Acquisition
Others	16,277,812	8,951,492	—	2,808,384	(2,940,031)	(7,457,967)	8,819,845	1 to 17 years	Purchase
	(1,411,945,211)	(1,057,406,729)	196,269,979	88,353,684	221,773,189	860,935,334	(551,009,877)		

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

(11) Short-term loans

	31st December, 2004	31st December, 2003
Credit loans	8,099,000,000	1,600,000,000

As at 31st December, 2004, all of the short-term loans of the Company and its subsidiaries were dominated in RMB, with interest rates ranging from 4.30% to 5.02% per annum (31st December 2003: 4.54% to 5.05% per annum).

As at 31st December, 2004, short-term loans amounted to RMB3,694 million were borrowed from China Huaneng Finance Company ("Huaneng Finance"), with interest rates ranging from 4.54% to 5.02% per annum. (31st December, 2003: RMB1,130 million with interest rates from 4.78% to 5.05% per annum).

(12) Accounts payable

Accounts payable represents mainly the amounts due to coal suppliers. As at 31st December, 2004 and 31st December, 2003, there was no accounts payable to any shareholder who held 5% or more of the equity interest in the Company, and there were no accounts aged over three years.

See Note 7 for related party transactions.

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

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

(13) Taxes payable

Taxes payable comprised:

	31st December, 2004	31st December, 2003
Income tax payable	407,449,828	472,850,018
VAT payable	527,292,394	415,147,473
Others	65,049,963	29,365,201
	999,792,185	917,362,692

(14) Other payables

Other payables comprised:

	31st December, 2004	31st December, 2003
Payable to contractors	889,096,823	572,459,421
Payable for purchase of equipments	703,714,020	274,014,049
Other payable to contractors	237,912,047	207,257,299
Payable to HIPDC	1,258,799,490	87,507,580
Project saving bonus	62,098,336	26,541,527
Payable of housing maintenance fund	49,231,372	66,807,932
Payables of environment protection		
- exhaust emission fee	20,695,875	3,909,817
Others	485,264,783	432,443,992
	3,706,812,746	1,670,941,617

As at 31st December, 2004, there was no other payable due to any shareholder who held 5% or more of the equity interest in the Company except for a payable due to HIPDC of RMB1,258,799,490 as mentioned in Note 7. (31st December, 2003: Due to HIPDC: RMB87,507,580). There was also no significant other payable aged over three years.

See Note 7 for related party transactions.

(Prepared in accordance with PRC Accounting Standards)
For the year ended 31st December, 2004
(All amounts are stated in RMB Yuan unless otherwise stated)

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

(15) Long-term loans

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

		31st December, 2004	31st December, 2003
Long-term loans from ultimate parent company and shareholders	(i)	800,000,000	420,380,445
Long-term bank loans	(ii)	16,111,947,027	10,714,560,499
Other long-term loans	(iii)	586,579,897	1,060,164,434
		17,498,526,924	12,195,105,378
Less: current portion of long-term loans		(1,543,237,546)	(3,041,501,169)
		15,955,289,378	9,153,604,209

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

As at 31st December, 2004, detailed information of the long-term loans from ultimate parent company and shareholders was as follows:

Lender	31st December, 2004	Loan period	Interest rate per annum	Current portion	Terms
Renminbi loans	600,000,000	2004 - 2013	4.60%	—	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*					
Entrusted loans from Huaneng Group through Huaneng Finance*	200,000,000	2004 - 2013	Lump-sum Deposit for Lump-sum withdrawal rate (one year)+1.8%	—	Nil
	800,000,000			—	

* As at 31st December, 2004, these loans were not repayable within one year and therefore there was no current portion.

(Prepared in accordance with PRC Accounting Standards)
For the year ended 31st December, 2004
(All amounts are stated in RMB Yuan unless otherwise stated)

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

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

(ii) Long-term bank loans

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

	31st December, 2004		
	Original currency	Exchange rate	RMB
Renminbi bank loans			8,805,069,370
United States dollar bank loans	778,474,449	8.2765	6,443,043,776
Euro dollar bank loans	76,698,650	11.2627	863,833,881
			16,111,947,027
Less: current portion of long-term bank loans			(1,257,476,111)
			14,854,470,916

As at 31st December, 2004, detailed information of the long-term bank loans was as follows:

Lenders	31st December, 2004	Loan period	Interest rate per annum	Current portion	Terms
Renminbi bank loans:					
China Construction Bank-Shantou branch*	200,000,000	2004-2007	4.94%	—	Nil
China Construction Bank-Shantou branch*	188,000,000	2004-2009	5.02%	—	Nil
China Construction Bank-Weihai branch	30,000,000	1999-2005	5.76%	30,000,000	Guaranteed by the Company
China Construction Bank-Weihai branch *	100,000,000	1999-2007	5.76%	—	Guaranteed by the Weihai Power Development Bureau ("WPDB")
Bank of China**	194,000,000	1998-2010	5.18%	—	Nil
Bank of China**	47,000,000	1999-2011	5.18%	—	Nil
Bank of China-Taicang branch*	574,000,000	1998-2010	5.18%	—	Nil
Bank of China-Taicang branch*	20,000,000	1999-2011	5.18%	—	Nil
Bank of China-Suzhou branch**	73,000,000	1999-2011	5.18%	—	Nil
China Commercial Bank-Nanjing branch*	100,000,000	2003-2006	4.94%	—	Nil
China Development Bank-Jiangsu branch	510,000,000	2003-2008	5.02%	20,000,000	Nil
China Development Bank *	100,000,000	2004-2009	3.60%	—	Nil
China Construction Bank- Huai'an Branch*	1,000,000,000	2004-2009	5.02%	—	Nil

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

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

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

Lenders	31st December, 2004	Loan period	Interest rate per annum	Current portion	Terms
Bank of Communication- Nanjing Branch*	200,000,000	2004-2007	5.18%	—	Nil
China Construction Bank-Jiyuan sub branch*	1,065,000,000	2004-2019	5.18%	—	740,000,000 Guaranteed by the Company, 200,000,000 Guaranteed by Henan Construction Investment Company ("Henan Investment"), 125,000,000 Guaranteed by Jiyuan Construction Investment Company ("Jiyuan Investment").
China Construction Bank-Ji'an branch	1,123,000,000	2000-2010	5.39%	185,000,000	Guaranteed by Huaneng Group
China Construction Bank-Yueyang Linji sub branch*	100,000,000	2004-2014	5.18%	—	Nil
China Construction Bank-Yueyang Lingji sub branch*	230,000,000	2004-2009	5.02%	—	Nil
Bank of China-Yueyang branch *	225,000,000	2004-2009	5.27%	—	Nil
China Development Bank-Henan branch*	200,000,000	2004-2006	5.02%	—	Nil
China Development Bank-Henan branch*	455,000,000	2004-2007	5.02%	—	Nil
China Development Bank-Henan branch*	45,000,000	2004-2008	5.02%	—	Nil
Bank of China-Jinzhong branch**	1,050,000,000	2003-2019	5.18%	—	60% Guaranteed by the Company, 40% Guaranteed by Shanxi International Power (Group) Company Limited (the "Shanxi International")
China Construction Bank-Yushe sub branch*	66,000,000	2003-2006	4.91%	—	Guaranteed by Shanxi International
China Construction Bank-Yushe sub branch***	30,000,000	2002-2005	4.91%	—	Guaranteed by the Company

(Prepared in accordance with PRC Accounting Standards)
For the year ended 31st December, 2004
(All amounts are stated in RMB Yuan unless otherwise stated)

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

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

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

Lenders	31st December, 2004	Loan period	Interest rate per annum	Current portion	Terms
China Construction Bank-Yuhuan sub branch*	758,000,000	2004-2014	5.18%	—	Nil
China Construction Bank-Yushe sub branch	49,869,370	2004-2005	4.78%	49,869,370	Nil
China Construction Bank-Yushe sub branch***	53,700,000	1991-2005	5.76%	32,000,000	Guaranteed by Shanxi international
China Construction Bank-Yushe sub branch*	5,500,000	1994-2006	5.76%	—	Guaranteed by Shanxi international
China Construction Bank-Yushe sub branch*	13,000,000	2004-2007	4.94%	—	Nil
Sub-total of Renminbi bank loans	8,805,069,370			316,869,370	
United States dollar bank loans:					
Banque Nationale de Paris	1,397,380,111	1995-2011	5.95%	199,625,730	Guaranteed by Huaneng Group
Mitsubishi Corporation	52,998,361	1996-2010	6.97%	10,200,786	Nil
Bank of Communication- Shanghai branch	3,723,659	2000-2005	LIBOR+1.1%	3,723,659	Nil
Bank of China-Taicang branch	51,314,300	1999-2011	2.85%	33,106,000	Nil
On-lent loans by Bank of China					
American I&E Bank	1,037,872,146	1997-2011	5.95%	148,267,548	Guaranteed by HIPDC
American I&E Bank	898,316,907	1995-2011	5.95%	128,330,983	Guaranteed by HIPDC
American I&E Bank	1,062,069,199	1997-2011	6.54%	141,609,230	Guaranteed by HIPDC
American I&E Bank	263,019,693	1997-2012	6.60%	32,877,461	Guaranteed by HIPDC
KFW Bank	675,709,168	1996-2012	6.60%	90,094,569	Guaranteed by HIPDC
On-lent loans by China Construction Bank					
KFW Bank	450,775,931	1999-2015	6.36%	42,870,731	Guaranteed by Huaneng Group
Citibank	549,864,301	1999-2015	LIBOR+0.075%	52,368,029	Guaranteed by Huaneng Group
Euro dollar bank loans:					
French bank	863,833,881	1994-2024	2.00%	57,532,015	Nil
Sub-total of foreign bank loans	7,306,877,657			940,606,741	
Total	16,111,947,027			1,257,476,111	

* As at 31st December, 2004, these loans were not repayable within one year and therefore there was no current portion.

** In accordance with the repayment schedules, these loans are not due within one year and therefore there is no current portion.

*** These loans would be due in 2005, but the Company's subsidiary is currently renewing the loan agreements with the bank that would extend the repayment dates beyond one year and therefore, all or a portion of these loans were not reflected as current.

(Prepared in accordance with PRC Accounting Standards)
 For the year ended 31st December, 2004
 (All amounts are stated in RMB Yuan unless otherwise stated)

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

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

(iii) Other long-term loans

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

	31st December, 2004		
	Original currency	Exchange rate	RMB
Renminbi bank loans			309,526,684
United States dollar bank loans	18,571,429	8.2765	153,706,428
Japanese Yen bank loans	1,547,638,457	0.0797	123,346,785
			586,579,897
Less: current portion of long-term bank loans			(285,761,435)
			300,818,462

As at 31st December, 2004, detail information of the other long-term loans was as follow:

Lender	31st December, 2004	Loan period	Interest rate per annum	Current portion	Terms
Renminbi loans:					
WPDB*	106,388,822	1998-2004	5.02%	40,000,000	Nil
Chongqing Construction and investment Company ("CCI")	183,670,000	2004-2005	4.94%	183,670,000	Nil
Jiangsu Electric Power Development Company Limited ("JEPDC")	19,467,862	1997-2005	5.76%	19,467,862	Nil
Subtotal of RMB loans	309,526,684			243,137,862	
United States dollar loans:					
On-lent foreign loans of the Ministry of Finance	153,706,428	1996-2011	LIBOR+0.43%	23,647,143	Guaranteed by Huaneng Group
Japanese Yen loan:					
On-lent foreign loans of the Ministry of Finance	123,346,785	1996-2011	LIBOR+0.3%	18,976,430	Guaranteed by Huaneng Group
Subtotal of foreign loans	277,053,213			42,623,573	
Total	586,579,897			285,761,435	

* Pursuant to the related loan contracts, these loans were due to mature in 2004. However, the Company's subsidiary is currently negotiating with the banks to extend the above loans with a new agreement.

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

(16) Share capital

	31st December, 2003	Bonus shares	Conversion of capital surplus and surplus reserve	Conversion of convertible notes	31st December, 2004
Unlisted shares					
Promoters shares	4,250,000,000	2,125,000,000	2,125,000,000	—	8,500,000,000
Including: Domestic legal person shares	4,250,000,000	2,125,000,000	2,125,000,000	—	8,500,000,000
Sub-total of unlisted shares	4,250,000,000	2,125,000,000	2,125,000,000	—	8,500,000,000
Listed shares					
Domestic shares listed in the PRC	250,000,000	125,000,000	125,000,000	—	500,000,000
Overseas listed shares	1,527,671,200	763,835,600	763,835,600	41,040	3,055,383,440
Sub-total of listed shares	1,777,671,200	888,835,600	888,835,600	41,040	3,555,383,440
Total shares	6,027,671,200	3,013,835,600	3,013,835,600	41,040	12,055,383,440

As mentioned in Note 5(19), the increase of share capital during the year is mainly due to the profit distribution plan approved by the shareholders at their annual general meeting. According to the plan, on the basis of 6,027,671,200 ordinary shares as at 31st December, 2003, the shareholders approved a cash dividend of RMB5.0 (including tax) and 5 bonus shares for every 10 existing ordinary shares. The issued bonus shares amounted to RMB3,013,835,600. In addition, on the basis of 6,027,671,200 ordinary shares as at 31st December, 2003, the Company issued 5 conversion shares for every 10 existing ordinary shares (3 of which converted from capital surplus and 2 from surplus reserve fund). The conversion shares, amounted also to RMB3,013,835,600, were charged to capital surplus and surplus reserve in the amount of RMB1,808,301,360 and RMB1,205,534,240 respectively.

Furthermore, on 5th June, 2004, the noteholders converted convertible notes with principal of US\$15,000 into 513 American Depository shares ("ADS") (equivalent to 20,520 overseas Listed Foreign Shares). Due to the impact of issuing bonus shares and conversion shares from capital surplus and surplus reserve mentioned above, on 10th August, 2004, the Company issued bonus shares amounting to RMB10,260, and issued conversion shares also amounting to RMB10,260. The conversion shares were charged to capital surplus and surplus reserve in the amount of RMB6,156 and RMB4,104 respectively.

PricewaterhouseCoopers Zhongtian has verified the capital increase mentioned above and issued a capital verification report on 21st October, 2004(PwC Zhong Tian Yan Zi(2004) No.197).

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

(17) Capital surplus

Movement of capital surplus was as follow:

	31st December, 2003	Conversion of convertible notes	Conversion of capital surplus to share capital	Other additions/ (deductions)	31st December, 2004
Share premium (1)	10,398,981,515	103,629	(1,808,301,360)	(6,156)	8,590,777,628
Equity investment provision	4,247,846	—	—	17,486,736	21,734,582
Transfer from grants	—	—	—	3,470,000	3,470,000
	10,403,229,361	103,629	(1,808,301,360)	20,950,580	8,615,982,210

- (1) As mentioned in Note 5(19), the decrease of capital surplus during the year is mainly due to the profit distribution plan approved by the shareholders at their annual general meeting. According to the plan, the Company issued 3 conversion shares from capital surplus, which amounted to RMB1,808,301,360, for every 10 existing ordinary shares, on the basis of 6,027,671,200 ordinary shares as at the distribution date.

In addition, on 5th June, 2004, the noteholders converted convertible notes with principal of US\$15,000 into 513 American Depository shares ("ADS") (equivalent to 20,520 overseas Listed Foreign Shares). Due to the impact of issuing bonus shares and conversion shares from capital surplus and surplus reserve mentioned above, on 10th August, 2004, the Company issued bonus shares amounting to RMB10,260, and issued conversion shares amounting to RMB10,260, of which RMB6,156 were charged to capital surplus.

(18) Surplus reserves

	Statutory capital surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Total
31st December, 2003	2,896,464,697	1,460,700,799	17,502,692	4,374,668,188
Current year addition	538,905,705	404,179,279	1,599,770	944,684,754
Current year deduction	(1,205,538,344)	(1,599,770)	—	(1,207,138,114)
31st December, 2004	2,229,832,058	1,863,280,308	19,102,462	4,112,214,828

According to the Company Law of the PRC and the Company's articles of association, the Company appropriates 10% of each year's net profit to the statutory surplus reserve fund until the fund balance reaches 50% of the registered share capital. After obtaining the approval from the relevant authorities, this reserve can be used to make up any losses incurred or to increase share capital. Except for setting off against losses incurred, the usage of surplus reserves to increase share capital may not result in this reserve balance falling below 25% of the registered share capital. Pursuant to the decision of the Board of Directors, the Company appropriated 10% of the profit after taxation to the statutory capital surplus fund, which amounted to RMB538,905,705 in 2004 (2003: 10%, amounted to RMB545,714,255).

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

(18) Surplus reserves (Cont'd)

Each year, the Company appropriates 5% to 10% of net profits to the statutory public welfare fund. The use of this reserve is restricted to the provision of employees' collective welfare benefits. The statutory public welfare fund is not available for distribution to shareholders. When utilizing the statutory public welfare fund, the amount is transferred from this account to the discretionary surplus reserve funds account. Any amount utilized is capitalized in the Company's balance sheet or expensed in the Company's profit and loss. For the year ended 31st December, 2004, 7.5% of the net profit was provided for as statutory public welfare fund, which amounted to RMB404,179,279 (2003: 7.5%, amounted to RMB409,285,691).

The Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for discretionary surplus reserve fund. This reserve can be used to make up any losses incurred or to increase the share capital after approval is obtained from the Board of Directors. For the year ended 31st December, 2004, no provision was made to the discretionary surplus reserve fund (2003: nil).

As mentioned in Note 5(19), the decrease of surplus reserve fund during the year is mainly due to the profit distribution plan approved by the shareholders at their annual general meeting. According to the plan, the Company approved 2 conversion shares, which amounted to RMB1,205,534,240, for every 10 existing ordinary shares, on the basis of 6,027,671,200 ordinary shares as at the distribution date.

In addition, on 5th June, 2004, the noteholders converted convertible notes with principal of US\$15,000 into 513 American Depository shares ("ADS") (equivalent to 20,520 overseas Listed Foreign Shares). Due to the impact of issuing bonus shares and conversion shares from capital surplus and surplus reserve mentioned above, on 10th August, 2004, the Company issued bonus shares amounting to RMB10,260, of which RMB4,104 were charged to surplus reserve.

(19) Unappropriated profit

	2004	2003
Unappropriated profit brought forward	13,981,531,454	11,528,797,057
Add: Net profit for the year	5,389,057,047	5,457,142,551
Less: Appropriations to statutory capital surplus reserve	(538,905,705)	(545,714,255)
Appropriations to statutory public welfare fund	(404,179,279)	(409,285,691)
Dividends payable to ordinary shareholders - cash dividends of prior year approved at the general meeting of the shareholders	(3,013,835,600)	(2,049,408,208)
Ordinary share dividend - bonus shares	(3,013,845,860)	—
Unappropriated profit carried forward	12,399,822,057	13,981,531,454

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

(19) Unappropriated profit (Cont'd)

Pursuant to the resolution of the Board of Directors on 16th March, 2004, on the basis of 6,027,671,200 ordinary shares outstanding as at 31st December, 2003, the directors proposed a cash dividend of RMB5.0 (including tax) and 5 bonus shares for every 10 existing ordinary shares. In addition, on the basis of 6,027,671,200 ordinary shares outstanding as at 31st December, 2003, the Board of Directors proposed to convert part of the capital surplus and statutory surplus reserve fund into share capital by issuing new shares to its shareholders on the basis of 5 new shares for every 10 existing ordinary shares (3 of which from capital surplus and 2 of which from statutory surplus reserve fund). On 11th May, 2004 the shareholders approved the profit distribution plan and declared the cash dividend and bonus shares amounting to 3,013,835,600 and 3,013,835,600 respectively, on the basis of 6,027,671,200 ordinary shares outstanding as at the distribution date.

In addition, on 5th June, 2004, the noteholders converted convertible notes with principal of US\$15,000 into 513 American Depository shares ("ADS") (equivalent to 20,520 overseas Listed Foreign Shares). Due to the impact of issuing bonus shares and conversion shares from capital surplus and surplus reserve mentioned above, on 10th August, 2004, the Company issued bonus shares amounting to RMB10,260, and issued conversion shares amounting to RMB10,260. The conversion shares were charged to capital surplus and surplus reserve in the amount of RMB6,156 and RMB4,104 respectively.

Pursuant to the resolution of the Board of Directors on 15th March, 2005, on the basis of 12,055,383,440 ordinary shares outstanding as at 31st December, 2004, the directors proposed a cash dividend of RMB2.5 (including tax). This proposal is subjected to the approval of the shareholders at the annual general meeting. Proposed dividends plan had not been reflected in the financial statements. Once the distribution plan is approved by the general meeting of the shareholders, the dividend distribution will be accounted for in the financial statements for the year ended 31st December, 2005.

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

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

	For the year ended 31st December, 2004		For the year ended 31st December, 2003	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	30,292,698,696	22,548,970,713	23,479,646,958	15,690,199,491

The Company and its subsidiaries are principally engaged in the generation and sale of electric power in China.

For the year ended 31st December, 2004 and 2003, the revenue from the five largest customers of the Company and its subsidiaries amounted to RMB23,917,433,339 and RMB18,115,304,793, representing 78.95% and 77.15% of the total revenue, respectively.

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

(21) Financial expenses

	For the year ended 31st December, 2004	For the year ended 31st December, 2003
Interest expenses	722,810,744	584,499,789
Less: Interest income	(43,091,888)	(53,044,361)
Exchange losses	93,849,334	630,164
Less: Exchange gain	(737,890)	(154,820)
Others	26,340,259	27,705,695
	799,170,559	559,636,467

(22) Investment income

	For the year ended 31st December, 2004	For the year ended 31st December, 2003
Investment income on bonds	11,322	906,302
Investment income on other debt investments	—	9,213,072
Share of profit of associates accounted for under the equity method	383,037,279	211,829,167
Dividends declared by investees accounted for under the cost method	23,078,308	585,342
Amortization of equity investment differences	(210,167,757)	(88,648,197)
	195,959,152	133,885,686

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

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

(23) Acquisition

As mentioned in Note 1, on 16th April, 2004, the Company acquired all of the assets and liabilities of Yingkou Power Plant and Jinggangshan Power Company, 55% equity interest in Yueyang Power Company and 60% equity interest in Luohuang Power Company. After obtaining all the necessary government approvals on the acquisitions and the payments of the purchase considerations, the acquisitions became effective on July 1st, 2004. As at 1st July, 2004, assets, liabilities and cash flows related to the acquisitions of these branches and subsidiaries were as follows:

	1st July, 2004		
	Branches	Subsidiaries	Total
Current assets	668,769,636	1,805,891,050	2,474,660,686
Fixed assets	3,952,604,713	3,934,979,971	7,887,584,684
Intangible assets	160,012,200	—	160,012,200
Other long-term assets	—	18,028,710	18,028,710
Current liabilities	1,951,125,978	1,104,310,130	3,055,436,108
Long-term loan	1,644,775,497	3,055,920,086	4,700,695,583
Net assets	1,185,485,074	1,598,669,515	2,784,154,589
Net assets acquired	1,185,485,074	940,953,087	2,126,438,161
Add: premiums(goodwill or equity investment difference)	36,257,779	1,042,799,331	1,079,057,110
Less: agent fee for acquisition	(5,961,417)	—	(5,961,417)
Total consideration	1,215,781,436	1,983,752,418	3,199,533,854
Less: cash flow from acquisition	(163,160,819)	(496,013,314)	(659,174,133)
Net cash outflow for acquisition	1,052,620,617	1,487,739,104	2,540,359,721

The condensed income statements of these branches and subsidiaries for the six months from the effective date of acquisition to 31st December, 2004 are as follows:

	For the six months from 1st July, 2004 to 31st December, 2004		
	Branches	Subsidiaries	Total
Revenue from principal operations	1,114,331,289	1,444,816,267	2,559,147,556
Cost and tax from principal operations	(903,804,140)	(1,009,018,769)	(1,912,822,909)
Profit from principal operations	210,527,149	435,797,498	646,324,647
Net income before tax	166,006,281	269,714,079	435,720,360
Add: Income tax refund	—	4,858,447	4,858,447
Net profit	166,006,281	274,572,526	440,578,807

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

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

(24) Other cash paid relating to operating activities

	For the year ended 31st December, 2004
Cash paid for repairs and maintenance expenses	783,685,783
Service fee paid to HIPDC	133,609,088
Payment of balance due to HIPDC	25,338,871
Others	1,296,810,905
	2,239,444,647

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

(1) Accounts receivable and other receivables

(i) Accounts receivable

	31st December, 2004	31st December, 2003
Accounts receivable	2,407,402,978	2,005,023,640
Less: Specific bad debt provision	(269,326)	—
	2,407,133,652	2,005,023,640

Accounts receivable's aging and bad debt provision are as follows:

Aging	31st December, 2004			31st December, 2003		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	2,394,810,528	99	—	2,001,327,640	100	—
1-2 years	6,203,191	—	—	—	—	—
2-3 years	—	—	—	3,696,000	—	—
Over 3 years	6,389,259	1	(269,326)	—	—	—
	2,407,402,978	100	(269,326)	2,005,023,640	100	—

All accounts receivable represented receivables from the provincial or regional grid companies for the sales of electric power.

As at 31st December, 2004, the five largest accounts receivable of the Company amounted to RMB1,908,721,219 (31st December, 2003: RMB1,636,534,781), representing 79.29% of total accounts receivable (31st December, 2003: 81.62%).

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

(1) Accounts receivable and other receivables (Cont'd)

(ii) Other receivables

	31st December, 2004	31st December, 2003
Other receivables	153,647,924	116,142,277
Less: bad debt provision	(27,557,208)	(28,652,566)
	126,090,716	87,489,711

Other receivables' aging and bad debt provision are as follows:

Aging	31st December, 2004			31st December, 2003		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	80,738,203	53	(1,814,463)	65,168,643	56	(1,955,059)
1-2 years	19,491,130	13	(584,734)	7,931,460	7	(237,944)
2-3 years	8,496,078	5	(254,882)	9,896,662	8	(296,900)
Over 3 years	44,922,513	29	(24,903,129)	33,145,512	29	(26,162,663)
	153,647,924	100	(27,557,208)	116,142,277	100	(28,652,566)

Breakdown of other receivables is as follows:

	31st December, 2004	31st December, 2003
Receivables from employees for sales of staff quarters	11,142,227	10,272,586
Petty cash	5,790,247	8,566,762
Transmission fee refund receivable from Shandong Electric Power Corporation	—	19,067,120
Prepayments for constructions	12,086,529	—
Due from management fee of subsidiaries	20,256,116	—
Due from sales of steam to Jining Duoqing Company	13,414,304	—
Others	90,958,501	78,235,809
	153,647,924	116,142,277

As at 31st December, 2004, the five largest other receivables of the Company amounted to RMB37,899,319 (31st December, 2003: RMB57,070,487), representing 24.66% of total other receivables (31st December, 2003: 49.14%).

As at 31st December, 2004 and 31st December, 2003, there was no balance of accounts receivable and other receivables from shareholders who held 5% or more of the equity interest in the Company.

See Note 7 for related party transactions.

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

(2) Long-term Investments

	31st December, 2003	Current year additions	Current year deductions	31st December, 2004
Long-term equity investments				
Subsidiaries (i)	2,065,440,907	2,795,886,794	(345,780,844)	4,515,546,857
Associates *	2,012,939,632	1,365,064,877	(179,091,542)	3,198,912,967
Equity investment difference *	1,133,262,633	1,484,097,990	(210,167,757)	2,407,192,866
Other long-term equity investments *	260,832,268	357,498	(46,200)	261,143,566
	5,472,475,440	5,645,407,159	(735,086,343)	10,382,796,256

* Please refer to Note 5(6) for details.

(i) Long-term equity investments in subsidiaries

	Investment period	Percentage of capital in cash of the invest company		Investment cost movement		Accumulated equity pick-up movement		Net carrying value		
		31st December, 2003	31st December, 2004	31st December, 2003	31st December, 2004	31st December, 2003	Current year additions (deductions)	31st December, 2004	31st December, 2003	31st December, 2004
Weihai Power Company	No specific terms	60%	60%	474,038,793	474,038,793	180,400,332	5,742,461	186,142,793	654,439,125	660,181,586
Taicang Power Company	No specific terms	75%	75%	507,206,560	469,706,560	228,945,075	22,770,612	251,715,687	736,151,635	721,422,247
Huaiyin Power Company	No specific terms	63.64%	63.64%	417,544,226	341,176,226	35,950,457	3,933,222	39,883,679	453,494,683	381,059,905
Huaiyin II Power Company	No specific terms	63.64%	63.64%	—	301,653,600	—	—	—	—	301,653,600
Yushe Power Company	No specific terms	60%	60%	134,085,896	374,449,895	3,795,726	30,947,965	34,743,691	137,881,622	409,193,586
Qimbei Power Company	50 years	55%	55%	84,055,599	325,095,599	(581,757)	(9,320,663)	(9,902,420)	83,473,842	315,193,179
Xindian II Power Company	No specific terms	95%	95%	—	140,100,000	—	—	—	—	140,100,000
Taicang II Power Company	No specific terms	75%	75%	—	335,410,000	—	—	—	—	335,410,000
Yueyang Power Company	No specific terms	—	55%	—	266,734,838	—	44,633,685	44,633,685	—	311,368,523
Luohuang Power Company	No specific terms	—	60%	—	820,218,249	—	119,745,982	119,745,982	—	939,964,231
				1,616,931,074	3,848,583,760	448,509,833	218,453,264	666,963,097	2,065,440,907	4,515,546,857

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

(3) Long-term Debt Investments

	31st December, 2003	Current year additions	Current year deductions	31st December, 2004
Long-term entrusted loans to a subsidiary*	470,662,956		(470,662,956)	—
Others	95,560	46,200	(83,060)	58,700
	470,758,516	46,200	(470,746,016)	58,700
Less: Current portion of long-term debt investments	(470,746,016)			(5,000)
	12,500			53,700

* Long-term entrusted loans to a subsidiary

In order to finance the construction of Weihai Power Company Phase II, the Company had granted entrusted loans to Weihai Power Company through a financial institution in September 1995. These loans were unsecured, not guaranteed and bore interest at 6.21% per annum. As at 31st December, 2004, all the entrusted loans had been repaid off.

For the year ended 31st December, 2004, the Company received interest income of approximately RMB14.37million (For the year ended 31st December, 2003: RMB33.6million) from Weihai Power Company. For the year ended 2004, the outstanding entrusted loans, the related investment income and interest expense were eliminated in the consolidated financial statements.

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

	For the year ended 31st December, 2004		For the year ended 31st December, 2003	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	24,812,849,816	18,669,183,184	20,287,987,380	13,698,115,361

The Company and its subsidiaries are principally engaged in the generation and sale of electric power in China.

For the year ended 31st December, 2004 and 2003, the revenue from the five largest customers of the Company amounted to RMB 20,360,461,498 and RMB16,098,304,242, representing 82.06% and 79.35% of the total revenue of the company respectively.

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

(5) Investment income

	For the year ended 31st December, 2004	For the year ended 31st December, 2003
Investment income on bonds	11,322	906,302
Investment income on entrusted loans	14,374,088	40,769,124
Investment income on other debt investments	—	61,067
Share of profit of subsidiaries and associates accounted for under the equity method	927,360,553	614,296,383
Dividend declared by investees accounted for under the cost method	23,078,308	585,342
Amortization of equity investment differences	(210,167,757)	(88,648,197)
	754,656,514	567,970,021

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

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7. RELATED PARTY TRANSACTIONS

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Huaneng Group	Jia 23 Fuxing Road, Haidian District, Beijing	Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber, and related industries	Ultimate parent company	State-owned enterprise	Li Xiaopeng
HIPDC	40 Xueyuan South Road, Haidian District, Beijing	Investment in power plants, development and investment in other export-oriented enterprises	Parent company	Sino-foreign equity limited liability company	Li Xiaopeng
Weihai Power Company	No. 58 Haifu road, Economic Development Zone, Weihai, Shandong province	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Na Xizhi
Taicang II Power Company	Fuqiao town , Jinlanggang village, Taicang, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability Company	Na Xizhi
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Qinbei Power Company	Wulongkou town, Jiyuan city, Henan Province	Power generation	A subsidiary of the Company	Limited liability company	Ye Daji
Yushe Power Company	Dengyu village, Yushe county, Shanxi Province	Power generation	A subsidiary of the Company	Limited liability company	Na Xizhi
Xindian II Power Company	Qilu Chemical Industrial Park, Linzi district, Zibo, Shandong province	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei

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7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Yueyang Power Company	Cheng Lingji, Yueyang City, Hunan province	Power generation	A subsidiary of the Company	Limited liability company	Zhang Hong
Luohuang Power Company	Luohuang town, Jiangjin City, Chongqing	Power generation	A subsidiary of the Company	Limited liability company	Li Shiqi
Yuanheng Company	Dengyu village, Yushe county, Shanxi province	Services	A subsidiary of the subsidiary of the Company	Limited liability company	Wu Jinqiang

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

Name	Currency	31st December, 2003	Current year additions	31st December, 2004
Huaneng Group	RMB	20,000,000,000	—	20,000,000,000
HIPDC	US\$	450,000,000	—	450,000,000
Weihai Power Company	RMB	761,838,300	—	761,838,300
Taicang Power Company	RMB	632,840,000	—	632,840,000
Taicang II Power Company	RMB	—	894,410,000	894,410,000
Huaiyin Power Company	RMB	265,000,000	—	265,000,000
Huaiyin II Power Company	RMB	—	474,000,000	474,000,000
Qinbei Power Company	RMB	10,000,000	—	10,000,000
Yushe Power Company	RMB	80,000,000	—	80,000,000
Xindian II Power Company	RMB	—	100,000,000	100,000,000
Yueyang Power Company	RMB	560,000,000	—	560,000,000
Luohuang Power Company	RMB	900,000,000	—	900,000,000
Yuanheng Company	RMB	3,000,000	—	3,000,000

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7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	31st December, 2003		Current year additions		31st December, 2004	
	Amount	%	Amount	%	Amount	%
Huaneng Group*	1,675,660,547	51.98	—	—	1,675,660,547	51.98
HIPDC**	2,554,840,000	42.39	2,642,840,000	0.73	5,197,680,000	43.12
Weihai Power Company	457,102,980	60	—	—	457,102,980	60
Taicang Power Company	474,630,000	75	—	—	474,630,000	75
Taicang II Power Company	—	—	670,807,500	75	670,807,500	75
Huaiyin Power Company	168,646,000	63.64	—	—	168,646,000	63.64
Huaiyin II Power Company	—	—	301,653,600	63.64	301,653,600	63.64
Qinbei Power Company	5,500,000	55	—	—	5,500,000	55
Yushe Power Company	48,000,000	60	—	—	48,000,000	60
Xindian II Power Company	—	—	95,000,000	95	95,000,000	95
Yueyang Power Company	308,000,000	55	—	—	308,000,000	55
Luohuang Power Company	540,000,000	60	—	—	540,000,000	60
Yuanheng Company***	2,850,000	95	—	—	2,850,000	95

* Huaneng Group holds 51.98% equity interest in HIPDC.

** In accordance with a shareholders' agreement entered into by certain founding shareholders, during the operating period of the Company, the voting rights of seven founding shareholders are given to HIPDC. Thus, HIPDC holds an effective 70.09% voting rights in the shareholders' meetings.

*** Yushe Power Company holds 95% equity interest in Yuanheng Company.

(4) Nature of related parties that do not control/are not controlled by the Company:

Name of related parties	Relationship with the Company
Huaneng Finance	A subsidiary of Huaneng Group
WPDB	Minority shareholder of Weihai Power Company
Henan Investment	Minority shareholder of Qinbei Power Company
Jiyuan Investment	Minority shareholder of Qinbei Power Company
Shanxi International	Minority shareholder of Yushe Power Company
CCI	Minority shareholder of Luohuang Power Company
JEPDC	Minority shareholder of Huaiyin Power Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company ("Time Shipping")	A joint venture company of Huaneng Group
Rizhao Power Company	An associate of the Company
SEG	An associate of the Company
Hanfeng Power Company	An associate of the Company
Hebei Huaneng Jingyuan Coal Company Limited (the "Huaneng Jingyuan")	A subsidiary of Huaneng Group
Lime Company	An associate of Luohuang Power Company

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7. RELATED PARTY TRANSACTIONS (Cont'd)

(5) Related party transactions

- a. On 30th June, 1994, the Company and HIPDC entered into a service agreement pursuant to which HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. The agreement covers a period of 10 years. The total amount of service fees paid to HIPDC for the year ended 31st December, 2004 was approximately RMB134 million (2003: RMB215 million). The agreement expired during the year, but the Company has not signed a new agreement with HIPDC.
- b. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use right of Nanjing Power Plant is leased to the Company for 50 years from 1st January, 1999 at an annual rental payment of RMB1.334 million.
- c. Pursuant to a leasing agreement between the Company and HIPDC, HIPDC agreed to lease its office building to the Company at an annual rental of RMB25 million for five years from 1st January, 2000.
- d. As described in Note 5 (15)(i), certain bank loans were on-lent from Huaneng Group through Huaneng Finance, and as described in Note 5 (15)(iii), certain bank loans of the Company and its subsidiaries were drawn from WPDB, CCI and JEPDC.
- e. As at 31st December, 2004, Huaneng Finance had granted short-term loans amounted to RMB3,694 million (31st December, 2003: RMB1,130 million) to the Company and its subsidiaries. The relevant interest rate ranges from 4.54% to 5.02% (2003: 4.78% to 5.05%) per annum. The interest rates for such loans have no material difference with the prevailing market interest rate (see Note 5(11)). In 2004, the interest paid by the Company and its subsidiaries to HIPDC for these loans amounted to RMB87,739,224 (2003: RMB20,578,391).
- f. 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 were guaranteed by HIPDC, Huaneng Group, WPDB, Henan Investment, Shanxi International and Jiyuan Investment respectively (31st December, 2003: RMB4,648 million, RMB1,096 million, RMB280 million, RMB34.49 million, Nil, Nil, respectively) (see Note 5(15)).
- g. As described in Note 8, certain bank loans of Rizhao Power Company were guaranteed by the Company.
- h. On 6th November, 2002, the Company entered into a management service agreement with Huaneng Group and HIPDC. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC for five years. For the year ended 31st December, 2004, the Company earned service fees amounted to RMB 45,864,600 from Huaneng Group (2003: RMB33,294,800) and paid expenses on behalf of Huaneng Group's power plants amounted to RMB2,317,194 (2003: 6,839,017). In addition, the Company earned service fees amounted to RMB11,678,300 from HIPDC (for the year ended 31st December, 2003: RMB17,305,200). For the year ended 31st December, 2004, the related cost incurred for the management service provided was approximately RMB38.88 million (2003: RMB38 million).
- i. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB214.94 million for coal purchased from CHITEC (2003: RMB145.06 million).
- j. 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: RMB457 million).

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7. RELATED PARTY TRANSACTIONS (Cont'd)

(5) Related party transactions (Cont'd)

- k. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB16.35 million for coal purchased from Huaneng Jingyuan (2003: Nil).
- l. For the year ended 31st December, 2004, the Company and its subsidiaries paid approximately RMB25.56 million for lime products purchased from Lime Company (2003: Nil).
- m. As at 31st December, 2004, HIPDC had provided guarantees on its equity portion of certain account receivable balances of the Company and its subsidiaries totaling approximately RMB360 million (2003: Nil) for two subsidiaries of the Company (see Note 5(3)(i)).
- n. On 16th April, 2004, the Company entered into an agreement with Huaneng Group. According to the agreement, the Company agreed to acquire 40% equity interest in the Hanfeng Power Company and 90% equity interest in the Huaneng Jingtangshan Power Company from Huaneng Group. The total consideration for the acquisition above was RMB 1,949 million.

On the same date, the Company also entered into an agreement with HIPDC. According to the agreement, the Company agreed to acquire 55% equity interest in the Yueyang Power Company and 60% equity interest in the Luohuang Power Company and all the equity interest in the Yingkou Power Plant from HIPDC. The total consideration for the acquisition above was RMB 2,564 million.

After the Company obtaining all the necessary government approvals on the acquisitions and making the payment of the purchase considerations, the acquisitions became effective on 1st July, 2004.

(6) Cash deposited with a related party

	31st December, 2004	31st December, 2003
Deposited at Huaneng Finance:		
-Current deposit	1,362,960,901	2,791,770,168

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

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7. RELATED PARTY TRANSACTIONS (Cont'd)

(7) Receivables from/payables to related parties

	31st December, 2004		31st December, 2003	
	Amount	Percentage	Amount	Percentage
Advance to suppliers				
Prepayment to CHITEC	5,000,000	1.13%	—	—
Prepayment to Huaneng Jingyuan	6,000,000	1.36%	—	—
Other receivables				
Other receivables from Huaneng Group's subsidiaries	2,317,194	0.79%	5,286,705	3.29%
Other receivables from HIPDC's subsidiaries	—	—	575,120	0.36%
Other receivables from Rizhao Power Company	1,652,353	0.56%	—	—
Accounts payable				
Accounts payable to CHITEC	—	—	(14,484,416)	2.22%
Accounts payable to Time Shipping	(6,959,110)	0.94%	(11,434,522)	1.75%
Accounts payable to Lime Company	(3,799,628)	0.51%	—	—
Other Payable				
Other payables to HIPDC	(1,258,799,490)	33.96%	(87,507,580)	5.24%
Other payable to CHITEC	(399,060)	0.01%	—	—
Other payables to Huaneng Finance	(117,461)	—	—	—
Other payables to Huaneng Group	(189,963)	0.01%	—	—
Interest payables				
Interest payables on loans from Huaneng Finance	(1,960,863)	1.62%	(1,418,954)	1.51%

The above balances with related parties were unsecured, non-interest bearing and to be settled within one year.

8. CONTINGENT LIABILITY

Item	31st December, 2004	
	The Company and its subsidiaries	The Company
Guarantee on the long-term bank loans of Rizhao Power Company	305,250,000	305,250,000
Guarantee on the long-term bank loans of Weihai Power Company	—	30,000,000
Guarantee on the long-term bank loans of Qinbei Power Company	—	740,000,000
Guarantee on the long-term bank loans of Yushe Power Company	—	660,000,000
	305,250,000	1,735,250,000

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

(Prepared in accordance with PRC Accounting Standards)
 For the year ended 31st December, 2004
 (All amounts are stated in RMB Yuan unless otherwise stated)

9. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Expenditure which was contracted for but not incurred and thus was not recognized in the financial statements as at 31st December, 2004 amounted to approximately RMB11.483 billion (31st December, 2003: RMB12.07 billion).

In addition, during 2004, the Company entered into various long-term agreements for the procurement of coal from year 2005 to 2009, for power generation. These agreements are subject to termination only under certain limited circumstances. In most cases, these agreements contain provisions for price escalation and minimum purchase level clauses. The future commitments under these agreements are as follows:

Year	31st December, 2004
2005	5,768,657,000
2006	5,941,717,000
2007	6,119,968,000
2008	2,801,770,000
2009	2,801,770,000
	23,433,882,000

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

	31st December, 2004	31st December, 2003
Land and buildings		
- within 1 year	1,334,000	32,334,000
- 1-2 years	1,334,000	7,334,000
- 2-3 years	1,334,000	7,334,000
- after 3 years	54,694,000	299,028,000
	58,696,000	346,030,000

In addition, in accordance with a 30-year operating lease agreement signed by the Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phase I and Phase II in June 1994, annual rental is approximately RMB29,874,000 effective from June 1994 and is subject to revision at the end of the fifth year from the contract date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended 31st December, 2004, the rental was RMB29,079,725 (for the year ended 31st December, 2003: RMB29,902,347).

(Prepared in accordance with PRC Accounting Standards)
 For the year ended 31st December, 2004
 (All amounts are stated in RMB Yuan unless otherwise stated)

10. Net profit after deducting non-recurring items

Net profit	5,389,057,047
Add (Less): non-recurring items	
- Net profit from disposal of fixed assets	(20,136,960)
- Reversal of bad debt provision	(15,096,637)
- Reversal of Inventory impairment provision	(14,102,245)
- Non-operating income	(42,909,340)
- Non-operating expense	9,610,726
- Allowance income	(8,000,000)
Add: tax impact on non-recurring items	16,218,661
<hr/>	
Net profit after deducting non-recurring items	<hr/> 5,314,641,252 <hr/>

11. SUBSEQUENT EVENTS

On 26th October, 2004, the Company entered into an agreement with Huaneng Group pursuant to which the Company acquired from Huaneng Group 60% equity interest in Sichuan Huaneng Hydropower Development Corporation, Ltd at a consideration of RMB1,219 million.

On the same date, the Company also entered into another agreement with Huaneng Group pursuant to which the Company acquired from Huaneng Group 65% equity interest in the Gansu Huaneng Pingliang Power Generation Limited Liability Company at a consideration of RMB806 million.

After the Company obtaining all the necessary government approvals on the acquisitions and making the payments of the purchase considerations, the acquisitions were effective in January, 2005.