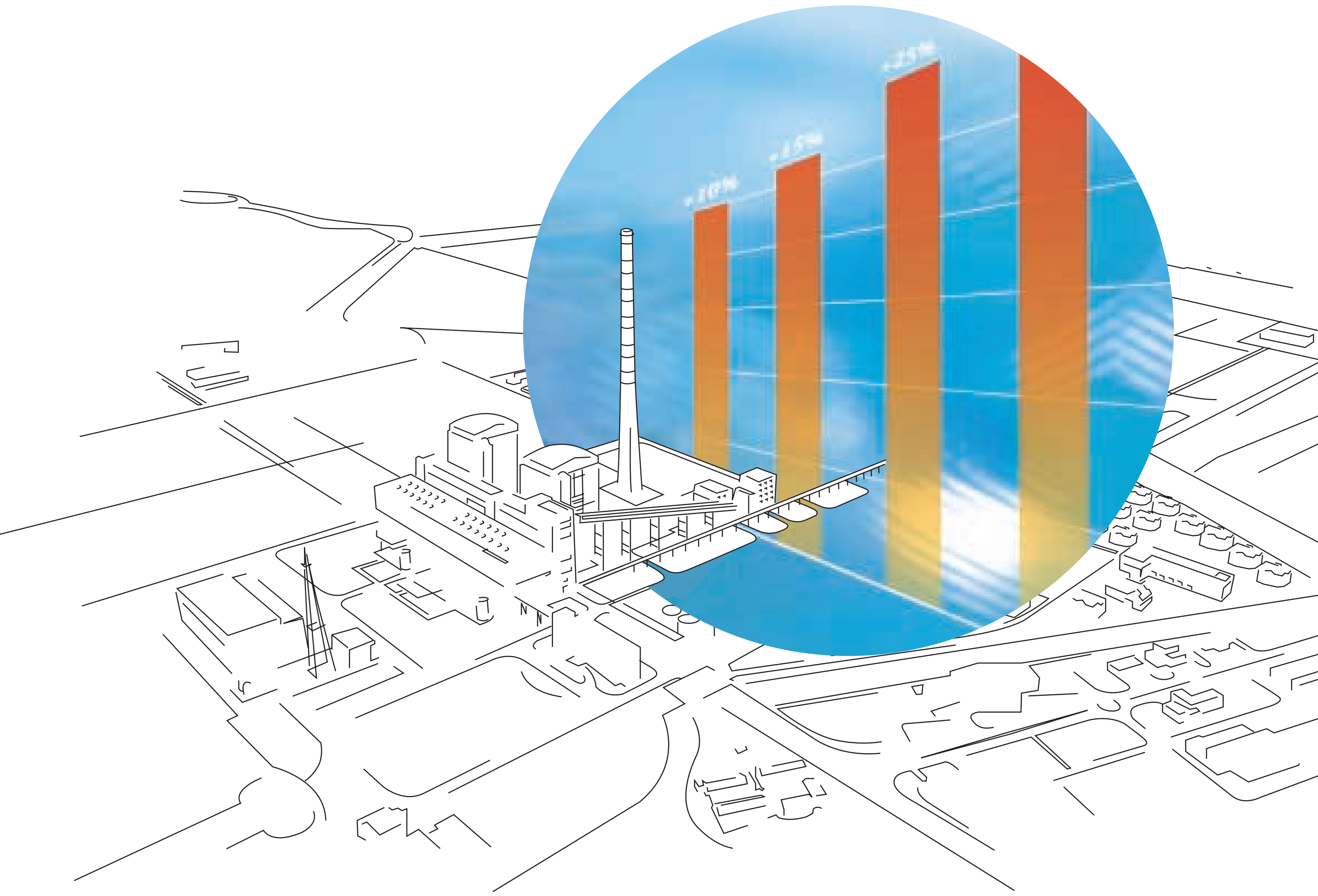


Enhancing Market Sales to Achieve

Operating Cost Efficiency

Management's Discussion and Analysis

Operating and Financial Reviews and Prospects

Summary

The Company's main business is investment, construction, operation and management of power plants. We provide stable and reliable electricity supply to customers through the grid companies where our operating plants are located. The Company insists on scientific development and focuses on increasing economic efficiency, improving return for shareholders, conserving resources and protecting the environment.

Huaneng Power International, Inc. is China's largest listed power producer. The Company now wholly owns 16 operating power plants, have controlling interests in 12 operating power companies and minority interests in 4 power companies, the Company has 23,549 MW of generation capacity on an equity basis, among which 97.7% is coal-fired generation capacity, and 2.3% is hydropower generation capacity. The generation capacity under construction is 7,040 MW. The Company's electricity generation business is widely located, covering the Northeast China Grid, the North China Grid, the Northwest China Grid, the East China Grid and the South China Grid.

Looking back on 2005, China's national economy continues to develop at a very fast pace. China's electricity industry thus had very good development opportunities and gained significant development. Over the year, the Company oversaw the overall operation of the Company by using a scientific development view. The Company actively opened up new markets, strived hard, caught every opportunity that it came across and overcame various difficulties. The Company reached its targets in various areas, such as safe production, operation, management, construction, facility renovation and environmental protection. The Company's corporate presence continued to grow, its sales revenue continued to increase, its competitiveness and its ability to generate profits and manage resources effectively continued to improve, and its environmental protection standards continued to maintain at an advanced level when compared to its competitors. Although the Company's profit was lower than the previous year because of high coal prices, the Company's cash flow was healthy, its financing channels were readily available and its financial condition was very good.

Looking forward to 2006, the electricity market and the coal market, which have significant impact upon the Company's operation management and operating results, are full of opportunities and challenges. In the electricity market, the rapid development of the national economy and the increase in residential electricity consumption will cause China's electricity industry to continue to develop rapidly, providing opportunities for the Company to expand and develop more projects, and for the Company's projects that are going to be completed to gain market shares. However, because there are quite a number of electricity projects going into operation in the coming years, the short supply of electricity is going to ease, market competition may be more fierce, and the power plants in certain areas which currently have relatively high utilization hours will be affected. In the coal market, coal supply and demand is basically balanced, and it is hopeful that the situation of short supply of coal resources and coal transportation will be eased, hence providing a favourable condition for the supply of coal for power plants. But the coal price trend is not very predictable, hence bringing challenges to the Company to control its fuel costs. However, the Company is confident that it can seize the opportunities, face challenges, enhance management and increase and enhance its competitiveness, thereby generating profits, getting better return for its shareholders and maintaining its good financial condition.

I. Operating Results

1. In 2005, the Company has achieved expected operating results

(1) The overall safe production has protected and increased the Company's ability to generate power, with productions operation achieving exceptional results again.

In 2005, the national economy developed at a rapid pace and there was strong demand for electricity. The rate of increase of electricity production and consumption exceeds the rate of increase of the GDP, hence providing the external conditions for the Company to generate more electricity and increase its income. However, under the context of a rapidly developing national economy, demand for coal was very strong. Lack of coal resources, shortage of transportation capacity, inadequate coal stock, high coal prices and low coal quality have caused considerable problems for the Company to organize coal supply, generate electricity safely and stably, control cost or realize its profit target.

For the year ended 31st December 2005, the total amount of power generated by our operating power plants was 150.505 billion kWh, an increase of 31.70% from the previous year.

(2) Construction projects exceeded the annual plan. Completion of projects creates a solid foundation for the Company to expand its scale of operation, consolidate and increase its market share, and increase its revenue.

In 2005, two 300MW generating units of Huaiyin Power Plant Phase II went into commercial operation in January and March respectively. A 600MW generating units at Shantou Power Plant also went into commercial operation in October.

The generation capacity that the Company is currently constructing amounts to 7,040 MW, for which the work progress, quality and related investment are all under control.

(3) Capital utilization has gained new progress

In January 2005, the Company paid Rmb 2.025 billion in consideration for a 60% shareholding in Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower") and a 65% shareholding in Gansu Huaneng Pingliang Power Generation Limited Liability Company ("Pingliang Power Company"). These acquisitions are a continuation of the Company's strategy of "Consolidating

coastal areas, developing central areas, venturing into western areas", it expands the scale of operation of the Company and improves the power structure of the Company.

(4) Utilization of the Company's resources and environmental protection standards remain at the forefront of the industry

The Company has always been very concerned about social benefits and harmonious development. In 2005, the average consumption of coal for power generation was 317.8 g/kWh, and average self consumption rate of power plants was 5.4%, both at an advanced level when compared to the rest of the electricity generation industry, hence resources were utilized more efficiently and energy was conserved. The Company has always put strong emphasis on environmental protection and we effectively reduced the emission of sulphur dioxide, nitrogen oxides, dust and other pollutants by using advanced technology and facilities, such as installing desulphurization facilities and other facilities.

2. Comparative analysis of operating results

2.1 Operating revenue and sales tax

Operating revenue represents consideration receivable or received from electricity sold net of amounts received in advance. For the year ended 31st December 2005, the consolidated operating revenue of the Company and its subsidiaries amounted to Rmb 40.190 billion, representing an increase of 33.30% over the Rmb 30.151 billion in the prior year. The increase in operating revenue is mainly due to the acquisition of power plants and newly operated power plants, which increased the scale of operation of the Company. The acquired power plants (including the acquisition project in mid-2004 and the acquisition project in early 2005, the reference applies to below as well) contributed Rmb 5.7 billion to the increase in revenue, newly operated power plants (including the Qinbei Phase II and Yushe Phase II which went into operation in late 2004, the Huaiyin Phase II and Shantou generating unit No.3 which went into operation in 2005, the reference applies to below as well) contributed Rmb 3.8 billion to the increase in revenue.

Tariff Rates

Power Plant	Average tariff rate (VAT inclusive) *(Rmb/MWh)* 2004	2005	Change
Dalian	283.62	317.58	11.97%
Fuzhou	365.00	367.06	0.56%
Nantong	325.18	343.00	5.48%
Shang'an	303.25	319.91	5.49%
Shantou Combined Cycle	604.08	610.73	1.10%
Shantou Coal-fired	446.86	459.12	2.74%
Dandong	289.05	301.67	4.37%
Shidongkou II	342.56	357.60	4.39%
Nanjing	321.67	340.65	5.90%
Dezhou	332.58	349.56	5.11%
Weihai	394.06	398.93	1.24%
Jining	299.89	323.41	7.84%
Shidongkou I	285.43	320.30	12.22%
Taicang	341.10	360.00	5.54%
Changxing	351.94	392.83	11.62%
Huaiyin Phase I	330.88	346.43	4.70%
Huaiyin Phase II	—	373.77	N/A
Xindian	320.83	337.25	5.12%
Yushe Phase I	293.09	319.37	8.97%
Yushe Phase II	250.01	256.00	2.40%
Yingkou	315.48	360.09	14.14%
Jinggangshan	325.67	353.49	8.54%
Luohuang	286.74	300.90	4.94%
Yueyang	316.52	341.34	7.84%
Qinbei	273.11	299.77	9.76%
Pingliang	—	211.43	N/A
Sichuan Hydropower	—	262.52	N/A
Consolidated average	327.88	331.41	1.08%

The average tariff rate of the Company and its subsidiaries increased by approximately 1.08% from Rmb 327.88 per MWh in 2004 to Rmb 331.41 per MWh. The major reason was the implementation of the "Coal-electricity price linkage mechanism" starting from May 2005, the tariff of each power plant was adjusted accordingly. However, the consolidated tariff is lower for the Pingliang Power Company and Sichuan Hydropower, which the Company acquired in 2005, therefore, the effect of the adjustment of the tariff was not very obvious in the average tariff rate. If excluding Pingliang Power Company and Sichuan Hydropower, the average tariff rate would have increased by 4.24% to Rmb 13.89 per MWh.

Sales tax mainly consists of additional levies on value-added tax. According to relevant administrative regulations, such additional taxes include the City Construction Tax and Education Tax. The additional taxes are based on the value-added tax that the Company paid, a percentage of which will be taken as the additional taxes according to regulations. Such taxes are currently not applicable to direct foreign investments that are approved by the government, hence certain power plants of the Company do not have to pay such taxes. In 2005, the sales tax increased 251.05%, from Rmb 32 million of prior year to Rmb 113 million, the main reason for the increase was increased number of power plants that needed to pay such taxes due to the acquired and newly operated power plants.

2.2 Operating expenses

The total operating expenses of the Company and its subsidiaries increased by 42.53% from Rmb 23.2 billion in 2004 to Rmb 33.068 billion in 2005. The increase was attributable to the expansion of the scale of operations and the increase in fuel costs. The acquired power plants accounted for Rmb 4.404 billion of the increase, while newly operated power plants accounted for Rmb 2.981 billion of the increase.

The growth of operating expenses outweighed both the growth of power generation and operating revenue. The significant increase in fuel prices is considered to be the primary reason for such outweighed growth of power generation. At the same time, as the increase of average tariff rate was lower than the increase of unit fuel cost, the increase of operating expenses were then higher than the increase of the operating revenue.

2.2.1 Fuel

Fuel cost represented the major operating expenses of the Company and its subsidiaries, which has increased by 40.71%, up from Rmb 15.068 billion in 2004 to Rmb 21.203 billion in 2005. The increase in fuel cost was due to expansion of the scale of operation and increase in fuel price. In 2005, Rmb 3.896 billion or 25.84% of the increase in fuel cost was due to the increase in the amount of electricity generated; while the increase in fuel price accounted for Rmb 2.239 billion or 14.99% of the increase.

As the average price of natural coal increased by 9.78%, from Rmb 307.92 in 2004 to Rmb 338.03 in 2005, the unit fuel cost hence increased by 11.77% to Rmb 156.13.

2.2.2 Maintenance

The maintenance expense of the Company and its subsidiaries amounted to Rmb 1.165 billion, representing an increase of 44.28% from Rmb 808 million in the prior year. The increase in the maintenance expense was mainly due to the expansion of scale of operation of the Company and the maintenance arrangements and fees for existing machines are greater than last year.

2.2.3 Depreciation

Depreciation expenses of the Company and its subsidiaries have increased by 31.03%, from Rmb 4.707 billion in 2004 to Rmb 6.168 billion in 2005. The acquired power plants accounted for Rmb 1.163 billion of the increase, while newly operated power plants accounted for Rmb 404 million of the increase. Depreciation of the remaining power plants has decreased by 2.54% from the prior year, representing a decrease of Rmb 106 million.

2.2.4 Labour

Labour costs of the Company and its subsidiaries amounted to Rmb 2.487 billion in 2005, representing an increase of 32.49% from Rmb 1.877 billion in 2004. The main reason for the increase in labour costs was because of the acquisition of Yingkou Power Plant, Luohuang Power Company, Yueyang Power Company and Jinggangshan Power Plant into the Company in July 2004 and Pingliang Power Company and Sichuan Hydropower in January 2005, the number of employees and cost of human resources increased as a result. Moreover, as a result of newly operated power plants, the expense which was originally accounted for as salary for employees in construction cost has now been charged into labour cost, hence increasing the labour costs as well.

2.2.5 Service fees to HIPDC

The service fees paid to HIDPC refer to fees paid for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit. The service fees that were paid to HIPDC in 2005 did not have significant changes when compared with the previous year.

2.2.6 Other operating expenses

Other operating expenses include expenses such as environmental protection, insurance fee, administrative expenses, and amortization. The other operating expenses of the Company and its subsidiaries amounted to Rmb 1.903 billion, representing an increase of 213.90% from Rmb 606 million in 2005. Because of changes in accounting policies, there was no negative goodwill amortization in 2005, hence increasing the other operating expenses by approximately Rmb 250 million (The negative goodwill amortization in 2004 was approximately Rmb 250 million); the expansion of scale of operation of the Company and the increase in environmental protection fee standards caused the environmental protection

fee to increase by Rmb 211 million. Besides environmental protection, the main reasons for the increase in other operating expenses were the expansion of scale of operation as a result of acquisition and new power plants going into operation, which led to increase in electricity generation and the corresponding increase in expenses.

2.3 *Financial expenses*

Financial expenses include the net of interest income, interest expenses, bank charges and the net exchange differences.

2.3.1 *Interest Expenses*

The interest expenses of the Company and its subsidiaries in 2005 amounted to Rmb 1.427 billion, a relatively large increase from Rmb 663 million in the previous year. This is because of the increase in loans borrowed for acquisition and increase in interest expenses arising from financing of new power plants.

2.3.2 *Bank charges and net exchange differences*

Bank charges and net exchange differences of the Company and its subsidiaries amounted to Rmb 249 million in 2005, a relatively big change from the net loss position of Rmb 119 million in 2004. In 2005, Rmb appreciated in relation to US dollar and Euro. As a result, loans denominated in US dollar and Euro generated approximately Rmb 290 million in foreign exchange gain, while in 2004, an exchange loss of Rmb 93 million was resulted, giving rise to a foreign exchange gain of Rmb 383 million.

2.4 *Share of profit of associates*

Share of profit of associates in 2005 was Rmb 644 million, a relatively large increase from Rmb 312 million in 2004. The increase of share of profit of associates has benefited from the increase in investment income from Shenzhen Energy Group Co. Ltd. and investment income from Hanfeng Power Company when the latter entity being acquired since July 2004. Furthermore, because of the change of accounting policies, goodwill was no longer amortized (and there was no impairment identified from annual testings), which also contributed to the increase of share of profit of associates when compared with the prior year.

2.5 *Enterprise income tax ("EIT")*

The EIT of the Company and its subsidiaries amounted to Rmb 1.044 billion, representing an increase of 10.07% from Rmb 949 million in 2004. The main reason for the increase in EIT was the increase in ratio of profit from power plants with higher applicable tax rates.

2.6 Profit for the year, profit attributable to equity holders of the Company and minority interests

The profit of the Company and its subsidiaries amounted to Rmb 5.548 billion in 2005, similar to the profit of Rmb 5.581 billion in 2004, showing that the actual effective implementation of the Company's acquisition and development strategy plays a pivotal role in increasing revenue and maintaining profit level. However, the increase in revenue from acquisition and newly operated power plants was offset by the increase in cost as a result of the rising coal price and so did the fuel cost. Therefore, the 2005 profit did not grow at the same pace with the revenue. Furthermore, acquisition increased the proportion of minority interests in the overall equity of the Company, as a result, minority shareholding diluted the contribution of the acquired projects to the Company's shareholders' equity's profit, hence the profit for minority interests increased in proportion, while the profit for the Company's shareholders' equity decreased, from Rmb 5.324 billion in 2004 to Rmb 4.872 billion in 2005, representing a decrease of 8.49%.

2.7 Comparison of financial positions

Compared with prior year, the assets and liabilities of the Company and its subsidiaries had a larger change because of the increase in spending on projects construction in 2005 and the impact of acquisitions.

2.7.1 Comparison of asset items

As at 31st December 2005, the total assets of the Company and its subsidiaries amounted to Rmb 99.440 billion, representing an increase of 36.63%, from Rmb 72.780 billion in 2004. Non-current asset increased by 38.42%, to Rmb 87.377 billion, current asset increased by 24.96%, to Rmb 12.063 billion. The major reason for the increase in total assets and non-current asset was because of asset acquisition and capital injection. Asset acquisition contributed Rmb 14.496 billion to the total asset, non-current asset increased by Rmb 13.275 billion. Besides that, because of the change in accounting policies, there was a one time credit of the unamortized balance of the negative goodwill of Rmb 1.484 billion at the beginning of 2005 to retained earnings at the beginning of the year. Current assets increased by Rmb 2.410 billion since the beginning of 2005. Among them, net increase of inventory amounted to Rmb 880 million, the majority of which was coal used for generating electricity; net increase of accounts receivable amounted to Rmb 1.049 billion, the majority of which was receivable for electricity sold. The above changes are all normal occurrence with the expansion of the scale of operation of a corporation.

As at 31st December 2005, the Company and its subsidiaries carried out an assessment of the carrying value of property, plant and equipments that have impairment indicators and discovered that an impairment provision is required for the property, plant and equipment

of Dandong Power Plant. Although the estimated useful lives of property, plant and equipment of the Dandong Power Plant remained the same, the value-in-use based on a discounted cash flow analysis shows that there is an impairment in the property, plant and equipment of the Dandong Power Plant of Rmb 30 million as a result of the external operating conditions (including demand and supply of electricity, pricing policy, coal market, etc.) applicable to this plant.

2.7.2 Comparison of liability items

As at 31st December 2005, the total liabilities of the Company and its subsidiaries amounted to Rmb 53.296 billion, which represent an increase of 60.30% from Rmb 33.248 billion in the end of 2004. The increase in loans for the financing of construction projects and liabilities assumed during acquisition were the main causes for the increases in liabilities. The non-current liabilities of the Company and its subsidiaries mainly consisted of bank loans and shareholder's loans with similar terms as bank loans. The current liabilities at year end had a relatively large increase when compared to the beginning of the year, this is because the Company issued Rmb 5 billion short-term financing bonds in 2005, which have not matured yet.

As at 31st December 2005, total interest-bearing debts of the Company amounted to Rmb 43.539 billion, which included long-term loans (including long-term loans that would mature within one year), short-term loans, short-term bonds and certain notes payables. Among these, liabilities denominated in foreign currencies amounted to approximately Rmb 6.343 billion.

2.7.3 Comparison of shareholders' equity items

Excluding the effect of current year profit and dividend distribution, there was a relatively large change in equity from the beginning to the end of the year. This mainly includes: 1) Starting from 2005, our available-for-sale investment (investment in China Yangtze Power Co., Ltd.) has gained the right to be traded in the stock market subject to certain conditions. The difference between the market value and the net book value of the investment as at 31st December 2005 of Rmb 749 million was recorded as a fair value reserve with corresponding decrease for deferred taxation recognized; 2) Starting from 2005, the balance of the unamortized negative goodwill, after taking into account the deferred tax impact, has been charged to opening retained earnings.

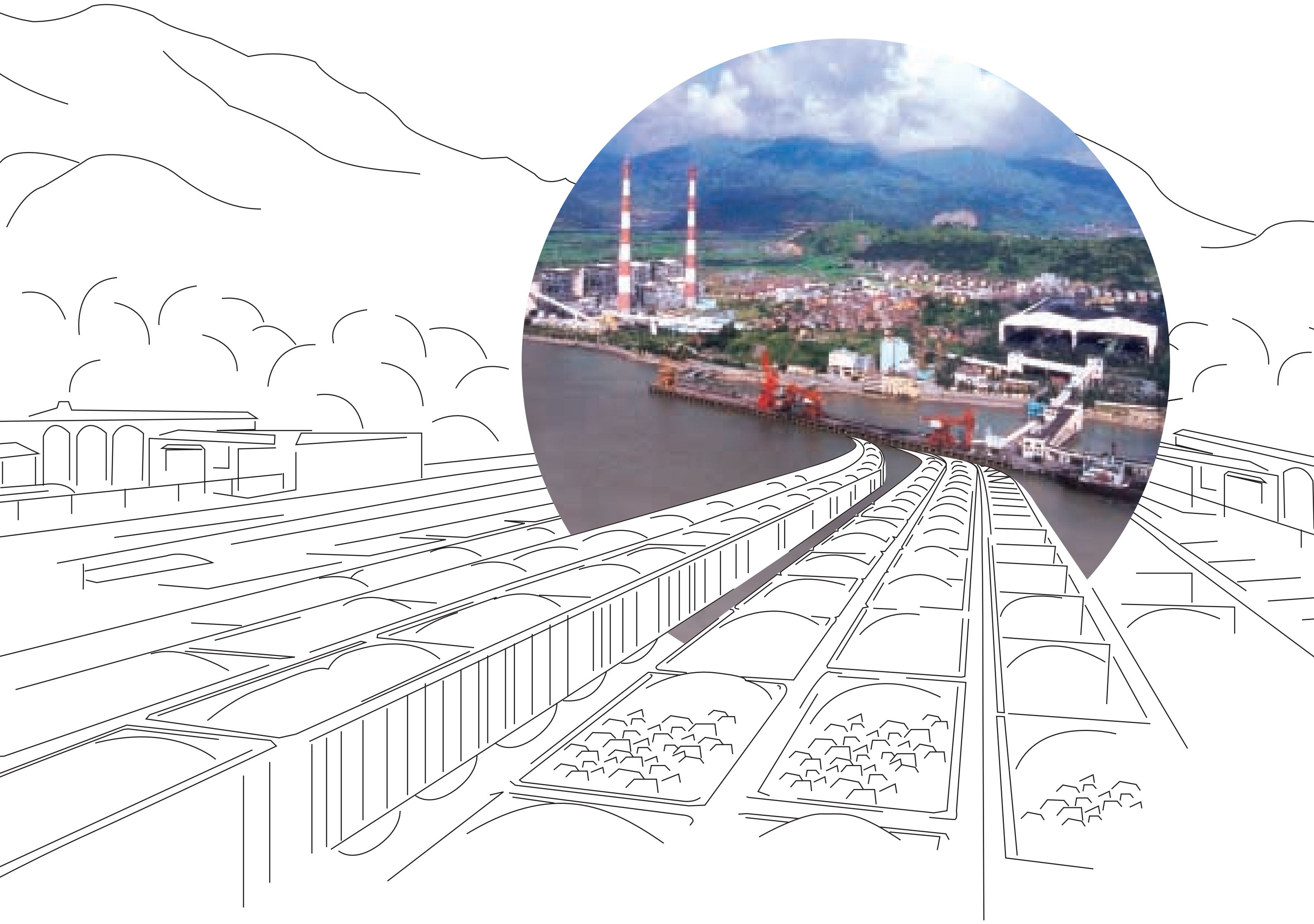
2.7.4 Major financial position ratio

	2005	2004
Current ratio	0.52	0.58
Quick ratio	0.42	0.49
Ratio of liability and equity holders of the Company	1.33	0.92
Multiples of interest earned	3.77	7.23

Calculation formula of the financial ratios

Current ratio	=	balance of the current assets at the end of the year / balance of current liabilities at the end of the year
Quick ratio	=	(balance of current assets at the end of the year - net amounts of inventories at the end of the year) / balance of current liabilities at the end of the year
Ratio of liabilities and shareholders' equity	=	balance of liabilities at the end of the year / balance of shareholders' equity (excluding minority interests) at the end of the year
Multiples of interest earned	=	(profit before tax + interest expenses) / interest expenditure (including capitalized interest)

The current ratio and quick ratio remained at a relatively low level and decreased at the year end when compared to the beginning of the year, which was mainly due to increase in current liabilities as a result of issuance of short-term bonds by the Company in 2005. The significant increase in the ratio of liabilities and shareholders' equity at the year end when compared to the beginning of the year was mainly due to significant increases in construction borrowings and the relatively high ratio of liabilities and equity holders of the Company of Sichuan Hydropower and Pingliang Power Company which were acquired into the Company in 2005. The multiples of interest earned decreased significantly from that of the same period of the prior year mainly due to: 1) acquisitions enlarged the consolidated liability scale and total interest expenses. However, the profit before tax did not increase along with the enlargement of scale due to the coal price factor. 2) The successive commencement of construction projects led to the continuous increase in construction borrowings and total capitalized interest when compared with the prior year. However, no profit contribution will be available before completion and operation of these construction projects.



Controlling Fuel Costs with

Flexible Coal Purchase Strategies

II. Liquidity and Cash Resources

1. *Liquidity*

	2005 Rmb billion	2004 Rmb billion	Variance (%)
Net cash provided by operating activities	**8.681**	8.163	6.35
Net cash used in investing activities	**(15.413)**	(13.650)	12.92
Net cash provided by financing activities	**7.084**	3.654	93.86
Net increase / (decrease) in cash and cash equivalents	**0.352**	(1.833)	(119.21)
Cash and cash equivalents, beginning of year	**2.296**	4.129	(44.39)
Cash and cash equivalents, end of year	**2.648**	2.296	15.34

Net cash provided by operating activities is the main source of cash for the Company. The net cash provided by operating activities amounted to Rmb 8.681 billion in 2005 which was higher than that of the prior year mainly because of an increase in the sale of operations. Net cash used in investing activities mainly consisted of capital expenditures for the purchase of property, plant and equipment and cash paid for the considerations of acquisitions. In 2006, the Company will remain in a comparatively concentrated period of capital expenditures for construction projects with comparatively substantial amounts.

As at 31st December 2005, the net current liabilities of the Company and its subsidiaries totalled Rmb 11.044 billion. Based on the successful financing history of the Company, the significant amount of undrawn banking facilities available to the Company and the stable operating results, the Company believes that it will be able to meet their liabilities as and when they fall due and meet the capital required for operations. Moreover, the Company will continue to minimize interest expenses by issuing short-term bonds and asset-backed bills of exchange. The Company is confident in controlling the scale of liabilities and the financial risks.

2. *Capital expenditures and cash resources*

2.1 *Capital expenditures*

2.1.1 *Capital expenditures on acquisitions*

In January 2005, the Company paid a consideration of Rmb 2.025 billion to acquire a 65% equity interest in Pingliang Power Company and a 60% equity interest in Sichuan Hydropower. These power plants are located in Gansu and Sichuan Provinces in Western China. The acquisition enables the Company to enter a fast growing power market in Western China, achieving the market

development strategy of "consolidating our positions in the coastal regions, expanding into Central China and entering into Western China". This is also one of the milestones of the Company in realizing the development strategy of "combining hydro and coal-fired power", and represents a continuation of the established development strategy of a balance between development and acquisitions.

Pursuant to an agreement, the Company paid a consideration of Rmb 126 million to Huaneng Group at the end of 2005 and advanced a payment (which will represent an injection of capital) of Rmb 162 million to Huaneng Finance in order to acquire a totally 20% equity interest in Huaneng Finance. As such shareholding transfer and capital injection are still pending approval by the regulatory departments at the end of 2005, they are recorded as "other receivables and assets, net" under current assets.

The Company will continue to follow the strategy of a balance between development and acquisition by proactively seeking new acquisition opportunities to ensure the sustainable growth of profitability and shareholders' value. Since there are uncertainties associated with asset acquisition projects and scales, the amount of capital expenditures required is also uncertain. However, the significant cash flows from operating activities, the available undrawn borrowing facilities and the implementation of a plan to issue of short-term financing bonds and asset-backed bills of exchange which has been approved at the shareholders' meeting

should provide the Company with a sufficient level of cash to support asset acquisition projects.

2.1.2 Capital expenditures on construction and renovation

The capital expenditures in 2005 amounted to Rmb 13.984 billion, including Rmb 707 million for the Huaiyin Phase II project, Rmb 647 million for the Shantou Phase II project, Rmb 1.669 billion for the Taicang Phase II project, Rmb 938 million for the Yueyang Phase II project, Rmb 1.107 billion for the Shanghai Combined-Cycle project, Rmb 995 million for the Luohuang Phase III project, Rmb 494 million for the Xindian Phase III project, Rmb 1.055 billion for the Yingkou Phase II project and Rmb 2.975 billion for the Yuhuan project. Other expenditure consists mainly of Rmb 2.536 billion of prepaid construction and Rmb 861 million for routine renovation expenditure.

The Company will continue to incur significant capital expenditures in 2006. The construction projects of the Company in 2006 include two 1,000MW ultra-supercritical coal-fired generating units (the first in the PRC) for the

Yuhuan Power Plant Phase I project, two 300MW coal-fired generating units for the Yueyang Phase II project, three 390MW gas-fired units for the Shanghai Combined Cycle project, two 600MW coal-fired generating units of the Taicang Power Plant Phase II project (commence operation in the first quarter of 2006), two 600MW coal-fired generating units for the Luohuang Phase III project, two 300MW coal-fired project for the Xindian Phase III project and two 600MW coal-fired generating units for the Yingkou Phase II project. On such basis, the Company will actively engage in new project developments to lay the foundation for the long-term development of the Company.

The Company expects to finance the above capital expenditures through internal funding, debt financing and cash flows provided by operating activities.

2.2 Cash resources and anticipated financing costs

The Company expects the cash resources for capital expenditures and acquisition expenditure to be principally generated from internal funds, cash flow from operating activities and future debt and equity financing.

Good operating results and good credit status give the Company strong financing capabilities. As at 31st December 2005, the Company and its subsidiaries had available unsecured borrowing facilities from banks of Rmb 34.857 billion which provided the Company with a sufficient level of available cash and raised the level of asset liquidity and repayment capabilities of the Company effectively.

As at 31st December 2005, the total short-term borrowings of the Company and its subsidiaries amounted to Rmb 6.581 billion with interest charged between 4.3% and 5.51% per annum (2004: Rmb 8.099 billion with interest charged between 4.3% and 5.02% per annum); the total amount of the short-term bonds of the Company and its subsidiaries amounted to Rmb 4.938 billion.

As at 31st December 2005, the total long-term bank borrowings of the Company and its subsidiaries amounted to approximately Rmb 28.365 billion (2004: approximately Rmb 15.987 billion). These loans include bank borrowings denominated in Renminbi of approximately Rmb 22.241 billion (2004: approximately Rmb 8.680 billion); US dollar of approximately US$672 million (2004: approximately US$778 million) and Euro of approximately Euro 73 million (2004: approximately Euro 77 million). Included in these borrowings were approximately US dollar 60 million of floating-rate borrowings. For the year ended 31st December 2005, the long-term bank borrowings bore interest that ranged from 2.00% to 6.97% (2004: 1.225% to 6.97%) per annum.

As at 31st December 2005, the total long-term shareholder's loans to the Company and its subsidiaries amounted to Rmb 2.8 billion (2004: approximately Rmb 800 million). For the year ended 31st December 2005, these borrowings bore interest that ranged from 4.05% to 5.02% (2004: 3.78% to 4.60%) per annum.

As at 31st December 2005, other long-term loans of the Company and its subsidiaries amounted to approximately Rmb 864 million (2004: approximately Rmb 712 million). These loans include borrowings denominated in Renminbi of approximately Rmb 647 million (2004: approximately Rmb 435 million), US dollar of approximately US$16 million (2004: approximately US$19 million) and Japanese Yen of approximately JPY1.31 billion (2004: approximately JPY1.548 billion). The US dollar and Japanese Yen borrowings were at floating rates. For the year ended 31st December 2005, these borrowings bore interest that ranged from 2.99% to 6.12% (2004: 1.67% to 5.8%) per annum. The Company and its subsidiaries will closely monitor changes in the exchange rate and interest rate markets and cautiously assess the exchange rate and interest rate risks.

Combining the current development of the power industry and the growth of the Company, the Company will make continuous efforts to not only meet cash requirements of daily operations, construction and acquisition, but also establish an optimal capital structure to minimize the cost of capital and manage financial risks through effective financial management activities thereby maintaining sustainable and stable returns to the shareholders.

2.3 Other financing requirements

The objective of the Company is to bring long-term, stable and growing returns to the shareholders. In line with this objective, the Company follows a proactive, stable and balanced dividend policy. In 2006, in accordance with the profit appropriation plan of the board of directors of the Company (subject to the approval of the shareholders' meeting), the Company expects to pay a cash dividend of approximately Rmb 3.014 billion.

2.4 Maturity table of borrowings

Unit: Rmb billion

Item	2006	2007	2008	2009	2010
Principal proposed to be repaid	15.1	3.3	4.1	5.1	3.9
Interest proposed to be repaid	2.1	1.7	1.5	1.2	1.0
Total	17.2	5.0	5.6	6.3	4.9

Note: (1) This table is prepared according to the amounts in the contracts which have been entered into; (2) the amount of the principal to be repaid in 2006 is relatively large because it includes short-term borrowings and short-term bonds.

III. Trend Analysis

1. *Impact of power demand and supply on the Company*

   The tight power supply and demand in 2006 is expected to be eased and there may be an excess of production capacity in certain regions. Accordingly, the utilization hours of the generating units of the Company may decline. However, as a result of good functionality of the generating units, the Company is confident in maintaining high utilization hours in the long-term.

2. *Impact of coal demand and supply on the Company*

   In 2006, there will primarily be a balance of coal demand and supply and the tense situation of coal resources and coal transportation will be eased when compared to the previous year, thereby providing advantageous conditions for the Company to manage coal supply. However, as coal prices will still remain at a high level, the Company will face challenges in controlling fuel costs. The Company is confident about maintaining the unit fuel cost at a competitive level by improving coal quality and controlling coal prices.

3. *Impact of the financial foreign exchange market on the Company*

   There are sufficient funds in the domestic financial market and there are not much fluctuations in funding costs. In addition, the financial market successively launched new financial products including short-term financing bonds and asset-backed bills of exchange, and usually the funding costs are lower than ordinary commercial bank borrowings. The Company is confident about raising funds for construction of power plants and daily operations by way of various financial products on the basis of good debt service capability and good credit status.

   The reforms of the Renminbi exchange rate formation mechanism increased exchange rate flexibility. However, as both the scales of the use of foreign exchange for the import of equipment and materials and foreign exchange payment in servicing foreign currency borrowings are not significant, it is anticipated that the above will not have a significant impact on the cash flow of the Company.

IV. Performance of Significant Investments and Their Prospects

On 22nd April 2003, the Company paid Rmb 2.39 billion to acquire a 25% equity interest in Shenzhen Energy Group. This investment brought the Company a profit of Rmb 396 million in 2005 under the International Financial Reporting Standards. Shenzhen Energy Group is the largest power generation supplier in Shenzhen and its power plants are located in one of the prosperous provinces — Guangdong Province. With strong demand for electricity in that region, such an investment will bring stable returns to the Company in the future.

In July 2004, the Company paid Rmb 1.375 billion to acquire a 40% equity interest in Hanfeng Power Company. This investment brought the Company a profit of Rmb 207 million in 2005 under the International Financial Reporting Standards. The Hanfeng Power Company is located in Hebei Province in northern China and there is a strong demand for electricity in that region. Through this acquisition, the Company increased the equity share of production capacity in Hebei Province from 1,300MW to 1,828MW or 40.6%. The Company expects this investment will contribute stable returns in the future.

V. Employee Benefits

As at 31st December 2005, the Company and its subsidiaries had 23,531 employees. In 2005, total staff costs incurred amounted to Rmb 2.487 billion. The Company and its subsidiaries provided the employees competitive remunerations and pegged such remunerations to operating results as working incentives for the employees. Currently, the Company and its subsidiaries do not have any non-cash remuneration packages.

Based on the development plans of the Company and its subsidiaries and the requirements of individual positions, together with consideration of specific characteristics of individual employees, the Company and its subsidiaries tailor-made various training programs on management skills, technical skills, marketing skills and incentives. These programs enhanced both the knowledge of the employees and the standards of operations.

VI. Related Party Transactions

The Company entered into various transactions with Huaneng Group, HIPDC and their group companies during daily operations, including operating leases on land use rights and property, electricity transmission and fuel purchases, etc. Such transactions were for daily operations at prices no different from transactions conducted with other third parties and do not have a material impact on the business and operations of the Company. Moreover, Huaneng Group, HIPDC and the minority shareholders of other subsidiaries have committed or agreed through contracts to providing guarantees on loans of the Company and its subsidiaries.

Pursuant to the relevant agreements, the Company rendered management services to those power plants owned by Huaneng Group and HIPDC at standard fees covering its costs and a reasonable profit. In 2005, such service fees amounted to Rmb 34.996 million which was below 1% of the operating revenue of the Company.

Please refer to Note 8 to the financial statements prepared under International Financial Reporting Standards ("IFRS") for details of related party transactions.

VII. Guarantees on Loans and Restricted Assets

As at 31st December 2005, the balance of the guarantees provided by the Company to its subsidiaries and associated companies totalled Rmb 1.577 billion. These included guarantees granted to Qinbei Power Company, Yushe Power Company and Rizhao Power Company amounting to Rmb 740 million, Rmb 612 million and Rmb 225 million respectively. The Company had no contingent liabilities other than those described above.

As at 31st December 2005, certain assets of Sichuan Hydropower, a controlling subsidiary of the Company, were used to secure borrowings. The original acquisition cost of such pledged assets was approximately Rmb 1.10 billion.

As at 31st December 2005, restricted bank deposits amounted to Rmb 201 million which were mainly deposits for letters of credits.

VIII. Accounting standards having a significant impact on the financial statements of the Company and other matters

Please refer to Note 2(a) to the financial statements prepared under IFRS for details on the changes in accounting policies which have a significant impact on the financial statements of the Company for the year.

At an extraordinary general meeting of the Company held on 18th January 2006, it was approved to issue asset-backed debt financing products with a principal amount totalling not more than Rmb 15 billion in one or more phases inside the PRC and short-term financing bonds with a principal amount totalling not more than Rmb 5 billion in one or more phases.