For the year ended 31st December 2005

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on 30th June 1994. The Company and its subsidiaries are principally engaged in the generation and sale of electric power to the respective regional or provincial grid companies in the PRC.

The Directors consider that the parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation ("HIPDC") and China Huaneng Group Corporation ("Huaneng Group"), respectively. Both companies are incorporated in the PRC. Neither Huaneng Group nor HIPDC produced financial statements available for public use.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies of the Company and its subsidiaries. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

During 2005, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as at 31st December 2005, the Company and its subsidiaries have a negative working capital balance of approximately RMB11 billion (31st December 2004: approximately RMB7 billion). The Company and its subsidiaries have significant undrawn available banking facilities amounting to approximately RMB23 billion (31st December 2004: approximately RMB28 billion) and may refinance and/or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The Directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these financial statements on a going concern basis.

(Amounts expressed in thousands of RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (a) Basis of preparation *(Cont'd)*

In 2005, the Company and its subsidiares has changed certain of its accounting policies following its adoptation of the revised / new IFRS, International Accounting Standard ("IAS") and IFRIC Interpretations below, which are relevant to its operations. The 2004 comparative have been reclassified / restated as required, in accordance with the relevant requirements.

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements |
| IAS 2 | Inventories |
| IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 | Events after the Balance Sheet Date |
| IAS 16 | Property, Plant, and Equipment |
| IAS 17 | Leases |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates |
| IAS 24 | Related Party Disclosures |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 28 | Investments in Associates |
| IAS 32 | Financial Instruments: Disclosure and Presentation |
| IAS 33 | Earnings per Share |
| IAS 36 | Impairment of Assets |
| IAS 38 | Intangible Assets |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IFRS 3 | Business Combinations |
| IFRS 4 | Insurance Contracts |
| IFRIC Interpretation 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities |

Management assessed the relevance of the adoption of IASs 1, 2, 8, 10, 16, 17, 21, 32, 33, 38 and 39, IFRS 4 and IFRIC Interpretation 1 with respect to the operations of the Company and its subsidiaries and concluded that they did not result in substantial changes to the accounting policies of the Company and its subsidiaries. In summary:

IAS 1 has affected the presentation of minority interests, share of profit of associates and other disclosures.

IASs 2, 8, 10, 16, 17, 32, 33, 38 and 39, IFRS 4 and IFRIC Interpretation 1 had no material effect on the policies of the Company and its subsidiaries.

IAS 21 had no material effect on the policy of the Company and its subsidiaries. The functional currency of each of the entities of the Company and its subsidiaries has been re-evaluated based on the guidance to the revised standard. All the entities used Renminbi ("RMB") as their functional currency as well as their presentation currency.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (a) Basis of preparation *(Cont'd)*

IAS 24 has extended the identification and disclosure of related parties to include state-owned enterprises. Related parties include Huaneng Group, HIPDC and their related parties, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government (other than those shown on the face of financial statements as other related parties), other entities and corporations in which the Company is able to control, jointly control or exercise significant influence and key management personnel of the Company, HIPDC and Huaneng Group as well as their close family members.

The adoptions of IASs 27 and 28 have resulted in changes in accounting policies for investments in subsidiaries and associates at company level. Until 31st December 2004, investments in subsidiaries and associates at company level are accounted for using the equity method. Subsequent to that date, the Company and its subsidiaries, at the entity level, restated such investments at cost less any accumulated impairment losses.

The adoption of IFRS 3 and IAS 36 results in changes in the accounting policies for goodwill and negative goodwill and the assessment by management of asset impairment.

In accordance with the provisions of IFRS 3 (Note 2(f)):

- the Company and its subsidiaries ceased amortization of goodwill and negative goodwill from 1st January 2005;
- accumulated amortization as at 31st December 2004 has been eliminated with a corresponding decrease in the costs of goodwill and negative goodwill; and
- from 1st January 2005 onwards, goodwill arising from all acquisitions is tested annually for impairment, as well as when there are indications of impairment while negative goodwill is derecognized as at 1st January 2005 with a corresponding adjustment to the opening balance of retained earnings.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All of the revised / new standards adopted by the Company and its subsidiaries require retrospective application other than:

- IAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- IAS 39 – the derecognition of financial assets is applied prospectively;
- IFRS 3 – prospectively after 31st March 2004; and
- IFRS 4 – prospective application of the disclosure requirements of this standard except for disclosures required about accounting policies, recognized liabilities and expenses.

For the year ended 31st December 2005

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (a) Basis of preparation *(Cont'd)*

The adoption of IAS 1 resulted in the following changes:

| | For the year ended 31st December 2005 | For the year ended 31st December 2004 |
|---|---|---|
| Decrease in share of profit of associates | **(109,295)** | (65,528) |
| Decrease in income tax expenses | **109,295** | 65,528 |

The adoption of IFRS 3 resulted in an increase in opening retained earnings as at 1st January 2005 by approximately RMB1,261 million. Changes to other items in the financial statements are as follows:

| | As at 31st December 2005 |
|---|---|
| Increase in investments in associates | **81,959** |
| Increase in goodwill | **42,002** |
| Decrease in negative goodwill | **1,483,670** |
| Increase in deferred income tax liability | **(185,459)** |

| | For the year ended 31st December 2005 |
|---|---|
| Increase in operating expenses – others | (205,277) |
| Decrease in income tax expense | 37,091 |
| Decrease in basic and diluted earnings per share (RMB) | (0.01) |

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (a) Basis of preparation *(Cont'd)*

The adoption of IASs 27 and 28 resulted in the following changes at the company level:

| | As at 31st December | |
|---|---|---|
| | 2005 | 2004 |
| Decrease in investments in associates | **(690,348)** | (290,678) |
| Decrease in investments in subsidiaries | **(1,019,672)** | (502,477) |
| Decrease in additional paid-in capital | **15,923** | — |
| Decrease in opening retained earnings | **793,155** | 532,538 |

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| Decrease in operating expense – others | **—** | 112,659 |
| Decrease in investment income | **(900,942)** | (373,276) |

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (b) Consolidation

*(i) Subsidiaries*

Subsidiaries are all entities over which the Company and its subsidiaries have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and its subsidiaries. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company and its subsidiaries (including acquisitions from common control shareholders). The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the Company and its subsidiaries on the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income (Note 2(f)).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiaries.

At company level, investments in subsidiaries are stated at costs less any accumulated impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

*(ii) Transactions with minority interests*

The Company and its subsidiaries apply a policy of treating transactions with minority interests as transactions with parties external to the Company and its subsidiaries. Disposals to minority interests result in gains and losses for the Company and its subsidiaries that are recorded in the statement of income. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the fair value of net assets of the subsidiaries.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (b) Consolidation *(Cont'd)*

*(iii) Associates*

Associates are all entities over which the Company and its subsidiaries have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The investments in associates of the Company and its subsidiaries include goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2(f)).

The shares of the Company and its subsidiaries on post-acquisition profits or losses of associates are recognized in the statement of income and their shares of post-acquisition movements in reserves are recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the shares of the Company and its subsidiaries on losses in an associate equals or exceeds their interest in the associate, including any other unsecured receivables, the Company and its subsidiaries do not recognize further losses, unless they have incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its subsidiaries and their associates are eliminated to the extent of the interest of the Company and its subsidiaries in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiaries.

At company level, investments in associates are stated at costs less any accumulated impairment loss. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (c) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each entity of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company and its subsidiaries.

*(ii) Transactions and balances*

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

### (d) Property, plant and equipment, net

Property, plant and equipment, net is stated at historical cost less accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

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

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and its subsidiaries and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off their costs to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Dam | 45 – 55 years |
| Buildings | 8– 55 years |
| Electric utility plant in service | 4 – 40 years |
| Transportation facilities | 5 – 27 years |
| Others | 2.5 – 18 years |

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

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

The residual values, useful lives and depreciation method of the assets are reviewed, and adjusted if appropriate, at each financial year-end.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount (Note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

### (e) Financial assets

The Company and its subsidiaries classify their financial assets in the following categories: loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are primarily classified as 'accounts receivable', 'other receivables and assets' and 'other non-current assets' in the balance sheets (Note 2(i)).

*(ii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management of the Company and its subsidiaries has the positive intention and ability to hold to maturity. If the Company and its subsidiaries were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

*(iii) Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (e) Financial assets *(Cont'd)*

*(iv) Recognition and derecognition of financial assets*

Regular purchases and sales of investments are recognized on trade-date – the date on which the Company and its subsidiaries commit to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all the above financial assets. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company and its subsidiaries have transferred substantially all risks and rewards of ownership. Available-for-sale investments are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized costs using the effective interest method.

Changes in the fair value of monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income as 'investment income, net'. Dividends on available-for-sale equity instruments are recognized in the statement of income when the right of the Company and its subsidiaries to receive payments is established.

The fair values of quoted investments are based on current bid prices.

The Company and its subsidiaries assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that financial asset previously recognized in statement of income – is removed from equity and recognized in the statement of income. Impairment loss recognized in the statement of income on equity instrument is not reversed through the statement of income. Impairment testing of receivables is described in Note 2(i).

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the Company and its subsidiaries on the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost less any accumulated impairment loss. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Any excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost in any business combination, the Company and its subsidiaries will reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognize immediately in profit or loss any excess remaining after that reassessment.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company and its subsidiaries allocate goodwill to CGUs or groups of CGUs in each region in which they operate (Note 2(g)).

### (g) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Inventories

Inventories consist of fuel, materials and supplies. They are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of inventories includes direct material cost and transportation expenses incurred in bringing the inventories to the working locations. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (i) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts. A provision for doubtful accounts of receivable is established when there is objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the statement of income within operating expenses – others.

### (j) Related parties

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

### (k) Temporary cash investments

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

### (l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### (m) Borrowings

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

Borrowings are classified as current liabilities unless the Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (n) Taxation

*(i) Value-added tax ("VAT")*

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

*(ii) 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 and 3% of local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by 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 fully owned operating power plants after obtaining the approval of State Tax Bureau.

Certain power plants 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 of five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

The statutory income tax is assessed on an individual entity basis, based on each of their results of operations. The commencement dates of the tax holiday period of each power plant are individually determined.

The income tax charges are based on profit for the year and after considering deferred taxation.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (n) Taxation *(Cont'd)*

*(iii) Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using income tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

### (o) Employee benefits

*(i) Pension obligations*

The Company and its subsidiaries operate various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Company and its subsidiaries pay fixed contributions into a separate publicly administered pension insurance plan on mandatory and voluntary bases. The Company and its subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

*(ii) Termination benefits*

Termination benefits are payable when employment is terminated by the Company and its subsidiaries before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and its subsidiaries recognize termination benefits when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (p) Revenue and income recognition

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

*(i) Operating revenue*

Operating revenue represents the fair value of the consideration received or receivable for electricity sold in the ordinary course of the activities of the Company and its subsidiaries (net of VAT and amounts received in advance). Revenue is earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective regional or provincial grid companies.

*(ii) Management service income*

As mentioned in Note 6, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC. The Company recognizes the service income as other income when service is rendered in accordance with the management service agreement.

*(iii) Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method.

*(iv) Dividend income*

Dividend income is recognized when the right to receive payment is established.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (q) Operating leases

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

### (r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets (including in property, plant and equipment) are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

### (s) Financial guarantee contracts

*(i) Classification*

The Company issues financial guarantee contracts that transfer significant insurance risk.

Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holders for losses they incur because specified debtors fail to make payments when due in accordance with the original or modified terms of debt instruments.

*(ii) Liability adequacy test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and related administrative expenses are used. Any deficiency is immediately charged to statement of income.

### (t) Dividend distribution

Dividend distribution to the shareholders of the Company and its subsidiaries is recognized as a liability in the financial statements of the Company and its subsidiaries in the period in which the dividends are approved by the shareholders of the Company and its subsidiaries.

### (u) Contingencies

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (v) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods of the Company and its subsidiaries beginning on or after 1st January 2006 or later periods but which the Company and its subsidiaries have not early adopted. These are summarized as follows:

- IAS 39 (Amendment), The Fair Value Option and a complementary Amendment to IAS 32, Financial Instruments: Disclosure and Presentation (effective from annual periods beginning on or after 1st January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company and its subsidiaries believe that this amendment should not have a significant impact on the classification of financial instruments, as the Company and its subsidiaries should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Company and its subsidiaries will apply this amendment from annual periods beginning 1st January 2006.

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts and a complementary Amendment to IAS 32, Financial Instruments: Disclosure and Presentation (effective from annual periods beginning on or after 1st January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Company and its subsidiaries.

- IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from annual periods beginning on or after 1st January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and the amendment to IAS 1 on the operations of the Company and its subsidiaries. The Company and its subsidiaries will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1st January 2007.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (v) Standards, interpretations and amendments to published standards that are not yet effective *(Cont'd)*

- IFRIC Interpretation 4, Determining whether an Arrangement contains a Lease (effective from annual periods beginning on or after 1st January 2006). IFRIC Interpretation 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (ii) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC Interpretation 4 on the operations of the Company and its subsidiaries.

## 3. FINANCIAL AND INSURANCE RISKS MANAGEMENT

### (a) Financial risk factors

The activities of the Company and its subsidiaries expose them to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The overall risk management programme of the Company and its subsidiaries focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company and its subsidiaries.

Risk management, including the management on the financial risks, is carried out under the instruction of the Risk Management Team. The Company works out written principles for overall management as well as written policies covering specific areas. In considering the importance of risks, the Company identifies and evaluates risks at head office and individual power companies level, and requires analysis and proper communication for the information collected periodically. To avoid, mitigate and manage such risks, the Company takes all reasonable steps, including but not limited to pays constant attention on international foreign exchanges market to make forecast based on the understand of the market trend as well as uses appropriate derivative instruments. The Company also maintains a close watch on the debt ratio and refinances and / or restructures its liabilities to ensure liquidity and optimize the capital structure.

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## 3. FINANCIAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

### (a) Financial risk factors *(Cont'd)*

*(i) Market risk*

(1) Foreign exchange risk

Foreign exchange risk arises from a significant portion of long-term bank loans and other loans denominated in foreign currencies, including US dollar ("US$"), Euro ("€") and Japanese yen ("JPY") described in Note 24. Fluctuations of exchange rates of RMB against these foreign currencies could affect the operating results of the Company and its subsidiaries.

(2) Price risk

The Company and its subsidiaries are exposed to equity security price risk because of investments held by the Company and its subsidiaries and classified on the balance sheets as available-for-sale. The Company and its subsidiaries have entered into several long-term coal purchase contracts (Note 36(a)(ii)) to reduce its exposure to fluctuations in the price of coal.

*(ii) Credit risk*

The Company and its subsidiaries are exposed to significant concentrations of credit risk, in terms of cash and cash equivalents, temporary cash investments and power sales respectively.

Significant portions of cash and cash equivalents and temporary cash investments of the Company and its subsidiaries are deposited with certain large state-owned banks of the PRC and a non-bank financial institution in the PRC which are related parties of the Company.

The power plants of the Company and its subsidiaries sell electricity generated to their sole customers, the power grid companies of their respective provinces or regions where the power plants operate (Note 38).

The Company and its subsidiaries are also exposed to credit risks from financial guarantees provided to subsidiaries and an associate. The risk exposure relates to the relevant subsidiaries and the associate being unable to settle liabilities in full when due (Note 3(b)).

## 3. FINANCIAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

### (a) Financial risk factors *(Cont'd)*

*(iii) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Company and its subsidiaries aim to maintain flexibility in funding by keeping committed credit lines available.

*(iv) Cash flow and fair value interest rate risk*

As the Company and its subsidiaries have no significant interest-bearing assets, the income and operating cash flows of the Company and its subsidiaries are substantially independent of changes in market interest rates.

The interest rate risk of the Company and its subsidiaries arises from long-term loans. Loans issued at variable rates expose the Company and its subsidiaries to cash flow interest rate risk. Bonds and loans issued at fixed rates expose the Company and its subsidiaries to fair value interest rate risk. The Company uses derivative instruments when considered appropriate, to manage exposures arising from changes in interest rates by entering into interest rate swap agreements with PRC banks to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against cash flow interest rate risk.

### (b) Insurance risk

The Company and its subsidiaries issue contracts that transfer insurance risk.

The risk relates to the financial guarantees provided to banks by the Company on the borrowings of certain subsidiaries and an associate. The risk under any one financial guarantee contract is the possibility that the insured event (default of a specified debtor) occurs and the uncertainty of the amount of the resulting claims. By the nature of a financial guarantee contract, this risk is predictable.

Experience shows credit risks from specified debtors are relatively remote. The Company and its subsidiaries maintain a close watch on the financial position and liquidity of the subsidiaries and the associate for which financial guarantees have been granted in order to mitigate such risks (Note 2(s)(ii)). The Company and its subsidiaries take all reasonable steps to ensure that they have appropriate information regarding any claim exposures. Please refer to Note 37 for details of claim history.

## 3. FINANCIAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

### (c) Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale investments) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company and its subsidiaries is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company and its subsidiaries use a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows, are used to determine fair value for long-term loans.

The nominal value less impairment provision of accounts receivable, accounts payable, other receivables and assets, other liabilities and short-term loans are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company and its subsidiaries for similar financial instruments.

The estimated fair value of long-term loans including current maturities was approximately RMB31.82 billion as at 31st December 2005 (31st December 2004: approximately RMB17.05 billion). The aggregate book value of these liabilities was approximately RMB32.03 billion as at 31st December 2005 (31st December 2004: approximately RMB17.50 billion).

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company and its subsidiaries make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Estimated impairment of goodwill

The Company and its subsidiaries test annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(f). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of goodwill.

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## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Cont'd)*

### (b) Income tax expenses

The Company and its subsidiaries are subject to income tax expenses in various provinces and regions within the PRC. Judgment is required in determining the income tax expenses. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company and its subsidiaries recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses and deferred income tax provisions in the period in which such determination is made. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amounts of taxes payable, deferred income tax assets and liabilities.

### (c) Useful lives of property, plant and equipment

The management of the Company and its subsidiaries determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on projected wear and tear incurred during power generation. It could change significantly as a result of technical innovations on power generators. Management will adjust the depreciation charge where useful lives vary with previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

### (d) Estimated impairment of property, plant and equipment

The Company and its subsidiaries test annually whether property, plant and equipment suffered any impairment. In accordance with the Note 2(g), an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

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## 5. MATERIAL ACQUISITIONS

During 2004 and 2005, the Company acquired a number of power plants from Huaneng Group, HIPDC as well as other parties for business expansion purposes. These acquisitions have been accounted for under the purchase method of accounting.

These acquisitions became effective when, amongst other things, the Company obtained minority shareholders' approval, where applicable, and all necessary government approvals, and paid the purchase consideration. The purchase consideration for all of these acquisitions was in the form of cash.

Details of these acquisitions are shown in the table below:

| | For the year ended 31st December 2005 | | |
|---|---|---|---|
| | Acquisitions of subsidiaries | | |
| Equity interest acquired | 60% equity interest in Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower") (formerly known as Sichuan Huaneng Hydropower Development Corporation, Ltd.) | 65% equity interest in Gansu Huaneng Pingliang Power Generation Limited Liability Company ("Pingliang Power Company") | 26.36% additional equity interest in Jiangsu Huaneng Huaiyin Power Limited Company ("Huaiyin Power Company")* |
| Original equity holder | Huaneng Group | Huaneng Group | Jiangsu Yueda Investment Co., Ltd. ("Jiangsu Yueda") |
| Effective date of acquisition | 5th January 2005 | 5th January 2005 | 30th June 2005 |
| Consideration paid | RMB1,219.00 million | RMB806.00 million | RMB200.60 million |
| Direct transaction costs of acquisitions paid | RMB10.05 million | RMB6.65 million | — |
| Fair value of net assets acquired | RMB1,099.32 million | RMB704.91million | RMB143.50 million |
| Goodwill | RMB129.73 million | RMB107.74 million | RMB57.10 million |

* The Company previously held equity interest of 63.64% in this entity.

(Amounts expressed in thousands of RMB unless otherwise stated)

## 5. MATERIAL ACQUISITIONS *(Cont'd)*

The above acquisitions contributed operating revenue, profit for the year and profit attributable to equity holders of the Company of approximately RMB2,715 million, RMB617 million and RMB296 million for the period from the dates of their acquisitions to 31st December 2005 respectively. If the acquisitions had occurred on 1st January 2005, there would have been no material impact on operating revenue, profit for the year and profit attributable to equity holders of the Company because the Sichuan Hydropower and the Pingliang Power Company acquisitions took place in early January 2005 and Huaiyin Power Company was already a subsidiary of the Company prior to the acquisition of the additional interest and therefore, its operating results were already consolidated.

| | For the year ended 31st December 2004 | | |
|---|---|---|---|
| | Acquisitions of subsidiaries and net assets | | Acquisition of an associate |
| Equity interest acquired | 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company"), 60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company") and all of the assets and liabilities of Huaneng Yingkou Power Plant ("Yingkou Power Plant") | All of the assets and liabilities of Huaneng Jinggangshan Power Plant ("Jinggangshan Power Plant") | 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company") (Note 12) |
| Original equity holder | HIPDC | 90% equity interest from Huaneng Group and 10% equity interest from Jiangxi Province Investment Company | Huaneng Group |
| Effective date of acquisition | 1st July 2004 | 1st July 2004 | 1st July 2004 |
| Consideration paid | RMB2,564.00 million | RMB635.53 million | RMB1,375.47 million |
| Direct transaction costs of acquisitions paid | RMB12.57 million | RMB3.12 million | RMB6.74 million |
| Fair value of net assets acquired | RMB2,475.66 million | RMB627.85 million | RMB1,089.14 million |
| Goodwill | RMB100.91 million | RMB10.80 million | RMB293.07 million |

## 5. MATERIAL ACQUISITIONS *(Cont'd)*

The above acquisitions contributed operating revenue, profit for the year and profit attributable to equity holders of the Company of approximately RMB2,559 million, approximately RMB472 million and net profit of approximately RMB397 million to the Company and its subsidiaries for the period from 1st July 2004 to 31st December 2004 respectively. If the acquisitions had occurred on 1st January 2004, the operating revenue, profit for the year and profit attributable to equity holders of the Company would have been approximately RMB32,604 million, approximately RMB5,749million and approximately RMB5,660million on an unaudited basis respectively.

Goodwill arising from the acquisitions in 2004 and 2005 is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the acquisitions of the Company on the equity interests in the branches, subsidiaries and an associate stated above.

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## 5. MATERIAL ACQUISITIONS *(Cont'd)*

The aggregated assets and liabilities arising from the acquisitions from Huaneng Group and minority interests of acquirees in 2004 and 2005 were as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Fair value | Acquirees' carrying amounts | Fair value | Acquirees' carrying amounts |
| Property, plant and equipment, net | 12,061,897 | 10,652,359 | 1,919,401 | 1,854,174 |
| Deferred income tax assets | 33,475 | 33,475 | — | — |
| Long-term investment in an associate (Note 12) | — | — | 1,382,210 | 949,215 |
| Other non-current assets | 179,341 | 156,686 | 149,511 | 30,673 |
| Inventories | 54,801 | 54,801 | 31,438 | 31,438 |
| Other current assets | 176,237 | 176,238 | 29,876 | 29,876 |
| Accounts receivable | 569,672 | 569,672 | 85,905 | 85,905 |
| Cash and cash equivalents | 566,704 | 566,704 | 64,331 | 64,331 |
| Minority interests | (1,993,416) | (1,385,875) | — | — |
| Long-term loans, unsecured | (7,286,880) | (7,286,880) | (1,030,500) | (1,030,500) |
| Long-term loans, secured | (567,000) | (567,000) | — | — |
| Due to HIPDC | — | — | — | — |
| Deferred income tax liabilities | (404,205) | (25,416) | — | — |
| Other non-current liabilities | (75,466) | (75,466) | — | — |
| Other current liabilities | (1,367,429) | (1,367,429) | (622,114) | (622,114) |
| Net assets acquired | 1,947,731 | 1,501,869 | 2,010,058 | 1,392,998 |
| Add: goodwill | 294,567 | | 10,803 | |
| Less: direct transaction costs of acquisitions | (16,698) | | (9,861) | |
| Total consideration paid | 2,225,600 | | 2,011,000 | |
| Add: direct transaction costs of acquisitions paid | 16,698 | | 9,861 | |
| Less: cash from the power plants acquisitions | (566,704) | | (64,331) | |
| Net cash outflow for the acquisitions | 1,675,594 | | 1,956,530 | |

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## 5. MATERIAL ACQUISITIONS *(Cont'd)*

The aggregated assets and liabilities arising from the acquisition from HIPDC in 2004 were as follows (cont'd):

| | Fair value | Acquirees' carrying amounts |
|---|---|---|
| Property, plant and equipment, net | 7,472,794 | 5,837,056 |
| Deferred income tax assets | 81,082 | 81,082 |
| Long-term investment in an associate (Note 12) | 18,029 | 18,029 |
| Other non-current assets | 602,907 | 188,433 |
| Inventories | 186,680 | 186,680 |
| Other current assets | 84,208 | 84,208 |
| Accounts receivable | 1,262,102 | 1,262,102 |
| Cash and cash equivalents | 594,843 | 594,843 |
| Minority interests | (1,336,936) | (655,869) |
| Long-term loans, unsecured | (3,670,196) | (3,670,196) |
| Due to HIPDC | (1,224,554) | (1,224,554) |
| Deferred income tax liabilities | (478,189) | (67,826) |
| Other current liabilities | (1,117,105) | (1,117,105) |
| Net assets acquired | 2,475,665 | 1,516,883 |
| Add: goodwill | 100,907 | |
| Less: direct transaction costs of acquisitions | (12,572) | |
| Total consideration paid | 2,564,000 | |
| Add: direct transaction costs of acquisitions paid | 12,572 | |
| Less: cash from the power plants acquisitions | (594,843) | |
| Net cash outflow for the acquisitions | 1,981,729 | |

## 6. OTHER INCOME, NET

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

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## 7. PROFIT BEFORE TAX

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

| | For the year ended 31st December 2005 | 2004 |
|---|---|---|
| Interest expenses on long-term bank loans: | | |
| - wholly repayable within five years | 881,823 | 363,679 |
| - not wholly repayable within five years | 1,021,467 | 521,654 |
| Interest expenses on long-term loans from shareholders: | | |
| - wholly repayable within five years | — | 16,551 |
| - not wholly repayable within five years | 84,506 | 36,586 |
| Interest expenses on other long-term loans: | | |
| - wholly repayable within five years | 44,262 | 43,865 |
| - not wholly repayable within five years | 12,495 | 12,692 |
| Interest expenses on short-term bonds | 84,615 | — |
| Interest expenses on convertible notes | — | 26 |
| Total interest expenses | 2,129,168 | 995,053 |
| Less: amount capitalized in property, plant and equipment | (702,559) | (331,629) |
| | 1,426,609 | 663,424 |
| Change in fair value on financial instruments: | | |
| - Gains of interest rate swaps | — | (925) |
| Auditors' remuneration | 33,781 | 17,239 |
| Loss / (Gain) on disposals / write-off of property, plant and equipment, net | 145,762 | (29,176) |
| Operating leases: | | |
| - Property, plant and equipment | 33,077 | 30,067 |
| - Land use rights | 42,402 | 40,272 |
| Depreciation of property, plant and equipment | 6,172,866 | 4,706,992 |
| Impairment loss of property, plant and equipment | 30,080 | — |
| Amortization of prepaid land use rights | 36,429 | 28,074 |
| Amortization of other non-current assets | 54,555 | 39,731 |
| Amortization of goodwill | — | 42,002 |
| Amortization of negative goodwill | — | (247,279) |
| Cost of inventories consumed | 21,580,927 | 15,302,929 |
| Provision for / (Reversal of) doubtful accounts | 49,869 | (10,654) |
| Bad debts recovery | (59,740) | — |
| Provision for inventory obsolescence | 31,724 | 1,521 |
| Staff costs: | | |
| - Wages and staff welfare | 1,735,065 | 1,249,836 |
| - Retirement benefits (Note 9) | 407,846 | 299,120 |
| - Termination benefits | — | 18,546 |
| - Staff housing benefits (Note 31) | 147,479 | 100,751 |
| - Other staff costs | 196,708 | 209,011 |

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## 8. RELATED PARTY BALANCES AND TRANSACTIONS

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

| Names of related parties | Nature of relationship |
|---|---|
| Huaneng Group | Ultimate parent |
| HIPDC | Parent |
| China Huaneng Finance Corporation Ltd. ("Huaneng Finance") | A subsidiary of Huaneng Group |
| Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan") | A subsidiary of Huaneng Group |
| China Huaneng International Trade Economics Corporation ("CHITEC") | A subsidiary of Huaneng Group |
| Shanghai Time Shipping Company Ltd. ("Time Shipping") | A jointly controlled entity of Huaneng Group |
| Shandong Rizhao Power Company Ltd. ("Rizhao Power Company") | An associate of the Company |
| Chongqing Huaneng Shifen Company Limited ("Shifen Company") | An associate of Luohuang Power Company |
| Jiangsu Yueda | A minority shareholder of Huaiyin Power Company |
| State-owned enterprises* | Related parties of the Company |

* Huaneng Group is a state-owned enterprise. In accordance with the revised IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under Huaneng Group, directly or indirectly controlled by the PRC government are also defined as related parties of the Company and its subsidiaries.

The majority of the business activities of the Company and its subsidiaries are conducted with state-owned enterprises. For the purpose of the related party transactions disclosure in accordance with IAS 24, the Company and its subsidiaries have established procedures to determine, to the extent possible, the identification of the ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that all material related party balances and transactions have been adequately disclosed.

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(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 8. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its subsidiaries and their related parties during the year and significant balances arising from related party transactions as at year end.

### (a) Related party balances

(i) As at 31st December 2005, current deposits of approximately RMB1,768 million (31st December 2004: RMB1,363 million) were placed with a non-bank PRC financial institution, Huaneng Finance, which bore interest that ranged from 0.72% to 1.62% (for the year ended 31st December 2004: from 0.72% to 1.44%) per annum.

(ii) As described in Note 24, certain loans of the Company and its subsidiaries were borrowed from Huaneng Group.

(iii) As at 31st December 2005, long-term loans (including current portion) from Huaneng Finance amounted to RMB80 million (31st December 2004: nil), with interest at 5.18% (for the year ended 31st December 2004: N/A) per annum.

(iv) As at 31st December 2005, short-term loans amounting to approximately RMB2,008 million (31st December 2004: approximately RMB3,694 million) were borrowed from Huaneng Finance, which bore interest that ranged from 4.70% to 5.02% (for the year ended 31st December 2004: from 4.54% to 5.02%) per annum.

(v) As at 31st December 2005, balances with Huaneng Group, HIPDC, associates and other related parties are unsecured, non-interest bearing and receivable / repayable within one year. As at 31st December 2005, no provision is made on receivable balances from these parties (31st December 2004: approximately RMB12 million).

(vi) As at 31st December 2005, HIPDC had provided guarantees on certain accounts receivable balances of the Company and its subsidiaries totaling approximately RMB77 million (31st December 2004: approximately RMB209 million).

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(Prepared in accordance with International Financial Reporting Standards)

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## 8. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

### (a) Related party balances *(Cont'd)*

(vii) Included in the balance sheets, the balances with state-owned enterprises are as follows:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 RMB million | 2004 RMB million | 2005 RMB million | 2004 RMB million |
| **Non-current assets** | | | | |
| Available-for-sale investment | 1,033 | 255 | 1,033 | 255 |
| Other non-current assets | 50 | — | — | — |
| **Current assets** | | | | |
| Other receivable and assets, net | 195 | 216 | 111 | 121 |
| Accounts receivable, net | 5,333 | 4,067 | 3,108 | 2,752 |
| Temporary cash investments | 3 | 13 | 3 | 3 |
| Cash at banks | 851 | 752 | 814 | 461 |
| **Non-current liabilities** | | | | |
| Long-term bank loans | 19,445 | 8,506 | 3,281 | 2,184 |
| Other long-term loans | 130 | — | — | — |
| **Current liabilities** | | | | |
| Accounts payable and other liabilities | 2,777 | 1,781 | 1,879 | 973 |
| Short-term bonds | 4,780 | — | 4,780 | — |
| Short-term loans | 4,973 | 3,921 | 2,100 | 2,100 |
| Current portion of long-term bank loans | 1,761 | 354 | 385 | 189 |
| Current portion of other long-term loans | 70 | — | — | — |

Except for available-for-sale investment, other non-current assets, temporary cash investments, cash at banks, loans and short-term bonds stated above, all the balances of assets and liabilities are unsecured, non-interest bearing and receivable or repayable within one year. Long-term receivables included in other non-current assets are unsecured, interest-bearing at 5.508% (for the year ended 31st December 2004: N/A) per annum and receivable in accordance with specified repayment schedules. Terms of the long-term loans are described in Note 24. As at 31st December 2005, approximately RMB58 million provision has been made on the receivable balances (31st December 2004: nil).

For the year ended 31st December 2005, the interest rates of short-term loans and long-term loans from state-owned enterprises is from 4.54% to 5.76% and from 3.60% to 5.12% (for the year ended 31st December 2004: from 4.30% to 5.02% and from 3.60% to 5.76%) per annum respectively.

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## 8. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

### (b) Related party transactions

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| **Huaneng Group** | | |
| Management service fee income for management services rendered to certain power plants | 31,668 | 45,865 |
| Less: related expenses | (29,510) | (30,987) |
| Management service fee income, net | 2,158 | 14,878 |
| Management service expense for management services received on Sichuan Hydropower | 2,420 | — |
| Consideration paid for the acquisitions (Note 5) | (2,025,000) | (1,949,000) |
| **HIPDC** | | |
| Proceeds from disposal of Nanjing Ranji | 30,000 | — |
| Management service fee income for management services rendered to certain power plants | 3,328 | 11,678 |
| Less: related expenses | (3,101) | (7,890) |
| Management service fee income, net | 227 | 3,788 |
| Service fees expenses on transmission and transformer facilities | (141,102) | (133,609) |
| Rental charge on land use rights of Huaneng Nanjing Power Plant ("Nanjing Power Plant") for 50 years from 1st January 1999 | (1,334) | (1,334) |
| Rental charge on office building | (26,000) | (25,000) |
| Compensation paid for doubtful accounts recoveries of Luohuang Power Company | (31,269) | — |
| **Huaneng Finance** | | |
| Discounting of notes receivable | 298,098 | 42,968 |
| Discounting charges | (2,415) | (298) |
| Drawdown of short-term loans | 2,127,700 | 3,694,000 |
| Interest on short-term and long-term loans | (140,250) | (87,739) |
| **CHITEC** | | |
| Coal purchased from CHITEC | (284,301) | (214,941) |
| Equipment purchased from CHITEC | (11,200) | — |
| **Time Shipping** | | |
| Coal purchased from Time Shipping and service fee paid for transportation | (606,753) | (562,567) |
| **Shifen Company** | | |
| Lime purchased from Shifen Company | (42,817) | (25,563) |

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(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 8. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

### (b) Related party transactions *(Cont'd)*

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| **Huaneng Jingyuan** | | |
| Coal purchased from Huaneng Jingyuan | (241,960) | (16,355) |
| **Jiangsu Yueda** | | |
| Consideration paid for the acquisition of additional equity interest in Huaiyin Power Company (Note 5) | (200,600) | — |
| **Other related party** | | |
| Reversal of provision for a doubtful account | 11,639 | — |

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| | RMB million | RMB million |
| **State-owned enterprises** | | |
| Sales of electricity | 40,977 | 32,546 |
| Purchases of fuel | 13,763 | 7,638 |
| Acquisition of property, plant and equipment | 5,578 | 5,110 |
| Purchases of raw materials and spare parts | 365 | 145 |
| Subcontracting labor for | | |
| - construction and renovation | 2,088 | 1,307 |
| - maintenance | 140 | 89 |
| Interest income | 20 | 30 |
| Dividend income | 35 | 23 |
| Drawdown of short-term loans | 6,650 | 2,375 |
| Drawdown of long-term bank loans | 9,465 | 2,713 |
| Other charges | | |
| - interest expenses of loans and bonds to banks and other financial institutions | 881 | 289 |

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 8. RELATED PARTY BALANCES AND TRANSACTIONS *(Cont'd)*

### (c) Guaranteed loans

| | As at 31st December 2005 | 2004 |
|---|---|---|
| (i) Short-term loan guaranteed by a state-owned enterprise | **400,000** | 600,000 |
| (ii) Long-term loans guaranteed by | | |
| - Huaneng Group | **7,343,525** | 3,798,074 |
| - HIPDC | **3,311,164** | 3,936,987 |
| - State-owned enterprises | **1,226,500** | 845,000 |
| (iii) Certain long-term bank loans of Rizhao Power Company guaranteed by the Company | **225,250** | 305,250 |

### (d) Key management personnel compensation

| | For the year ended 31st December 2005 | 2004 |
|---|---|---|
| Salaries and other short-term employee benefits | **6,049** | 7,367 |
| Post-employment benefits | **1,413** | 1,119 |
| Total | **7,462** | 8,486 |

## 9. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension on their retirement dates. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the publicly administered retirement plan at a specified rate, currently set at 18% to 22% (for the year ended 31st December 2004: 18% to 20%), of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31st December 2005 were approximately RMB227 million (for the year ended 31st December 2004: approximately RMB167 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31st December 2005 totaled approximately RMB181 million (for the year ended 31st December 2004: approximately RMB132 million).

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

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 10. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

### (a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor of the Company for the year ended 31st December 2005 is set out below:

| | Fees | Basic salaries and allowances | Discretionary bonuses | Employer's contributions to pension schemes | Total |
|---|---|---|---|---|---|
| **Name of Director** | | | | | |
| Mr. Li Xiaopeng[1] | — | — | — | — | — |
| Mr. Huang Yongda[1] | — | — | — | — | — |
| Mr. Wang Xiaosong[1] | — | — | — | — | — |
| Mr. Na Xizhi[1] | — | 96 | 313 | 108 | 517 |
| Mr. Ye Daji[2] | — | 78 | 66 | 65 | 209 |
| Mr. Huang Jinkai[2] | — | 43 | 195 | 71 | 309 |
| Mr. Liu Jinlong[2] | — | — | — | — | — |
| Mr. Huang Long[3] | — | 91 | 375 | 109 | 575 |
| Mr. Wu Dawei[3] | — | — | 147 | — | 147 |
| Mr. Shan Qunying[1] | 40 | — | — | — | 40 |
| Mr. Yang Shengming[5] | 20 | — | — | — | 20 |
| Mr. Xu Zujian[1] | 40 | — | — | — | 40 |
| Mr. Liu Shuyuan[1] | 40 | — | — | — | 40 |
| Mr. Gao Zongze[2] | 30 | — | — | — | 30 |
| Mr. Zheng Jianchao[2] | 30 | — | — | — | 30 |
| Mr. Qian Zhongwei[1] | 60 | — | — | — | 60 |
| Mr. Xia Donglin[1] | 60 | — | — | — | 60 |
| Mr. Liu Jipeng[1] | 60 | — | — | — | 60 |
| Mr. Wu Yusheng[3] | 60 | — | — | — | 60 |
| Mr. Yu Ning[3] | 60 | — | — | — | 60 |
| Mr. Ding Shida[5] | 20 | — | — | — | 20 |
| Sub-total | 520 | 308 | 1,096 | 353 | 2,277 |

For the year ended 31st December 2005

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 10. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS *(Cont'd)*

### (a) Directors' and Supervisors' emoluments *(Cont'd)*

| | Fees | Basic salaries and allowances | Discretionary bonuses | Employer's contributions to pension schemes | Total |
|---|---|---|---|---|---|
| **Name of Supervisor** | | | | | |
| Mr. Wei Yunpeng[2] | — | — | — | — | — |
| Mr. Li Yonglin[2] | 20 | — | — | — | 20 |
| Mr. Pan Jianmin[2] | — | — | — | — | — |
| Mr. Zhao Xisheng[2] | — | 35 | 128 | 45 | 208 |
| Mr. Ye Daji[3 and 4] | — | 155 | 165 | 132 | 452 |
| Mr. Shen Weibing[5] | 20 | — | — | — | 20 |
| Mr. Shen Zongmin[1] | 40 | — | — | — | 40 |
| Ms. Yu Ying[3] | 40 | — | — | — | 40 |
| Ms. Zou Cui[3] | — | 83 | 282 | 88 | 453 |
| Mr. Wang Zhaobin[3] | — | 80 | 259 | 77 | 416 |
| Mr. Gu Jianguo[5] | 20 | — | — | — | 20 |
| Sub-total | 140 | 353 | 834 | 342 | 1,669 |
| Total | 660 | 661 | 1,930 | 695 | 3,946 |

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 10. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS *(Cont'd)*

### (a) Directors' and Supervisors' emoluments *(Cont'd)*

The remuneration of every Director and Supervisor of the Company for the year ended 31st December 2004 is set out below:

| | Fees | Basic salaries and allowances | Discretionary bonuses | Employer's contributions to pension schemes | Total |
|---|---|---|---|---|---|
| **Name of Director** | | | | | |
| Mr. Li Xiaopeng | — | — | — | — | — |
| Mr. Huang Yongda | — | — | — | — | — |
| Mr. Wang Xiaosong | — | — | — | — | — |
| Mr. Ye Daji | — | 135 | 579 | 107 | 821 |
| Mr. Huang Jinkai | — | 147 | 702 | 120 | 969 |
| Mr. Liu Jinlong | — | — | — | — | — |
| Mr. Shan Qunying | 40 | — | — | — | 40 |
| Mr. Yang Shengming | 40 | — | — | — | 40 |
| Mr. Xu Zujian | 40 | — | — | — | 40 |
| Mr. Liu Shuyuan | 20 | — | — | — | 20 |
| Mr. Gao Zongze | 60 | — | — | — | 60 |
| Mr. Zheng Jianchao | 60 | — | — | — | 60 |
| Mr. Qian Zhongwei | 60 | — | — | — | 60 |
| Mr. Xia Donglin | 60 | — | — | — | 60 |
| Mr. Liu Jipeng | 30 | — | — | — | 30 |
| Sub-total | 410 | 282 | 1,281 | 227 | 2,200 |

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 10. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS *(Cont'd)*

### (a) Directors' and Supervisors' emoluments *(Cont'd)*

| | Fees | Basic salaries and allowances | Discretionary bonuses | Employer's contributions to pension schemes | Total |
|---|---|---|---|---|---|
| **Name of Supervisor** | | | | | |
| Mr. Wei Yunpeng | — | — | — | — | — |
| Mr. Li Yonglin | 40 | — | — | — | 40 |
| Mr. Pan Jianmin | — | — | — | — | — |
| Mr. Shen Weibing | 40 | — | — | — | 40 |
| Mr. Shen Zongmin | 40 | — | — | — | 40 |
| Mr. Zhao Xisheng | — | 120 | 380 | 87 | 587 |
| Mr. Liu Shuyuan | 20 | — | — | — | 20 |
| Sub-total | 140 | 120 | 380 | 87 | 727 |
| Total | 550 | 402 | 1,661 | 314 | 2,927 |

1 Retired and re-appointed on 11th May 2005.

2 Retired on 11th May 2005.

3 Appointed on 11th May 2005.

4 Mr. Ye Daji resigned from the capacity of Supervisor on 30th November 2005.

5 Mr. Yang Shenming and Mr. Shen Weibing retired and re-appointed on 11th May 2005 in the capacities of Director and Supervisor respectively. They resigned on 9th August 2005 and Mr. Ding Shida and Mr. Gu Jianguo filled their roles of Director and Supervisor on 17th November 2005 respectively.

During the year, no option was granted to the Directors or the Supervisors (for the year ended 31st December 2004: nil).

During the year, no emolument was paid to the Directors or the Supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (for the year ended 31st December 2004: nil).

No Director or Supervisors had waived or agreed to waive any emoluments during the years 2004 and 2005.

For the year ended 31st December 2005

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 10. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS *(Cont'd)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiaries for the year include one (for the year ended 31st December 2004: two) Director whose emoluments is reflected in the analysis presented above. The emoluments payable to the remaining four (for the year ended 31st December 2004: three) individuals during the year are as follows:

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| Basic salaries and allowances | 510 | 370 |
| Discretionary bonuses | 2,233 | 1,499 |
| Employer's contributions to pension schemes | 614 | 294 |
| | 3,357 | 2,163 |

The annual emoluments paid to these individuals (excluding Directors) during the years 2004 and 2005 fell within the range of nil to RMB1 million.

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 11. PROPERTY, PLANT AND EQUIPMENT, NET

The Company and its subsidiaries

| | Dam | Buildings | Electric utility plant in service | Transportation facilities | Others | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|
| **As at 1st January 2004** | | | | | | | |
| Cost | — | 1,356,782 | 55,015,630 | 604,068 | 1,294,891 | 4,190,164 | 62,461,535 |
| Accumulated depreciation | — | (332,300) | (18,776,233) | (145,094) | (549,543) | — | (19,803,170) |
| Net book value | — | 1,024,482 | 36,239,397 | 458,974 | 745,348 | 4,190,164 | 42,658,365 |
| **Year ended 31st December 2004** | | | | | | | |
| Beginning of the year | — | 1,024,482 | 36,239,397 | 458,974 | 745,348 | 4,190,164 | 42,658,365 |
| Reclassification | — | (13,102) | 136,920 | (142,150) | 18,332 | — | — |
| Acquisitions (Note 5) | — | 259,253 | 8,372,033 | 444 | 217,547 | 542,918 | 9,392,195 |
| Additions | — | 10,726 | 20,291 | 2,840 | 66,318 | 10,352,279 | 10,452,454 |
| Transfer from CIP | — | 435,766 | 5,537,895 | 12,755 | 72,371 | (6,058,787) | — |
| Disposals | — | (617) | (3,072) | (13) | (4,378) | — | (8,080) |
| Depreciation charge | — | (75,004) | (4,421,906) | (30,469) | (187,145) | — | (4,714,524) |
| End of the year | — | 1,641,504 | 45,881,558 | 302,381 | 928,393 | 9,026,574 | 57,780,410 |
| **As at 31st December 2004** | | | | | | | |
| Cost | — | 2,043,071 | 69,067,394 | 413,254 | 1,651,129 | 9,026,574 | 82,201,422 |
| Accumulated depreciation | — | (401,567) | (23,185,836) | (110,873) | (722,736) | — | (24,421,012) |
| Net book value | — | 1,641,504 | 45,881,558 | 302,381 | 928,393 | 9,026,574 | 57,780,410 |
| **Year ended 31st December 2005** | | | | | | | |
| Beginning of the year | — | 1,641,504 | 45,881,558 | 302,381 | 928,393 | 9,026,574 | 57,780,410 |
| Reclassification | — | (313,831) | 382,632 | (186,118) | 117,317 | — | — |
| Acquisitions (Note 5) | 2,100,903 | 443,531 | 7,080,422 | 35,415 | 211,763 | 2,189,863 | 12,061,897 |
| Additions | — | 9,032 | 64,715 | 676 | 94,217 | 15,451,757 | 15,620,397 |
| Transfer from CIP | 464,950 | 31,393 | 3,935,984 | 4,726 | 1,838,292 | (6,275,345) | — |
| Disposals / Write-off | — | (10,626) | (117,592) | — | (11,047) | (52,521) | (191,786) |
| Disposal of a subsidiary | — | — | — | — | (687) | (59,342) | (60,029) |
| Depreciation charge | (74,187) | (99,905) | (5,720,294) | (16,328) | (272,798) | — | (6,183,512) |
| Impairment charge | — | — | (30,080) | — | — | — | (30,080) |
| End of the year | 2,491,666 | 1,701,098 | 51,477,345 | 140,752 | 2,905,450 | 20,280,986 | 78,997,297 |
| **As at 31st December 2005** | | | | | | | |
| Cost | 2,565,853 | 2,168,543 | 80,113,023 | 223,816 | 3,910,861 | 20,280,986 | 109,263,082 |
| Accumulated depreciation | (74,187) | (467,445) | (28,605,598) | (83,064) | (1,005,411) | — | (30,235,705) |
| Accumulated impairment loss | — | — | (30,080) | — | — | — | (30,080) |
| Net book value | 2,491,666 | 1,701,098 | 51,477,345 | 140,752 | 2,905,450 | 20,280,986 | 78,997,297 |

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(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

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

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | Buildings | Electric utility plant in service | Transportation facilities | Others | Construction-in-progress | Total |
| **As at 1st January 2004** | | | | | | |
| Cost | 1,078,033 | 49,127,712 | 488,727 | 1,200,754 | 950,598 | 52,845,824 |
| Accumulated depreciation | (306,902) | (17,573,848) | (123,094) | (551,469) | — | (18,555,313) |
| Net book value | 771,131 | 31,553,864 | 365,633 | 649,285 | 950,598 | 34,290,511 |
| **Year ended 31st December 2004** | | | | | | |
| Beginning of the year | 771,131 | 31,553,864 | 365,633 | 649,285 | 950,598 | 34,290,511 |
| Reclassification | (139,778) | 246,782 | (123,104) | 16,100 | — | — |
| Acquisitions (Note 5) | 132,709 | 3,587,634 | — | 62,722 | 20,027 | 3,803,092 |
| Additions | 11,536 | 13,791 | 1,655 | 45,107 | 2,537,524 | 2,609,613 |
| Transfer from CIP | 25,090 | 86,449 | 65 | 36,634 | (148,238) | — |
| Disposals | (342) | (1,879) | — | (264) | — | (2,485) |
| Depreciation charge | (45,452) | (3,625,869) | (24,940) | (142,515) | — | (3,838,776) |
| End of the year | 754,894 | 31,860,772 | 219,309 | 667,069 | 3,359,911 | 36,861,955 |
| **As at 31st December 2004** | | | | | | |
| Cost | 1,101,240 | 53,055,205 | 310,923 | 1,353,009 | 3,359,911 | 59,180,288 |
| Accumulated depreciation | (346,346) | (21,194,433) | (91,614) | (685,940) | — | (22,318,333) |
| Net book value | 754,894 | 31,860,772 | 219,309 | 667,069 | 3,359,911 | 36,861,955 |
| **Year ended 31st December 2005** | | | | | | |
| Beginning of the year | 754,894 | 31,860,772 | 219,309 | 667,069 | 3,359,911 | 36,861,955 |
| Reclassification | 72,009 | (33,906) | (126,754) | 88,651 | — | — |
| Additions | 1,657 | 41,509 | 676 | 55,941 | 6,164,694 | 6,264,477 |
| Transfer from CIP | 3,838 | 763,341 | 824 | 1,718,174 | (2,486,177) | — |
| Disposals / Write-off | (6,826) | (62,555) | — | (11,707) | (52,278) | (133,366) |
| Transfer to a subsidiary | — | — | — | (687) | (59,342) | (60,029) |
| Depreciation charge | (53,332) | (3,719,894) | (12,112) | (170,309) | — | (3,955,647) |
| Impairment charge | — | (30,080) | — | — | — | (30,080) |
| End of the year | 772,240 | 28,819,187 | 81,943 | 2,347,132 | 6,926,808 | 38,947,310 |
| **As at 31st December 2005** | | | | | | |
| Cost | 1,148,389 | 53,524,140 | 177,193 | 3,170,730 | 6,926,808 | 64,947,260 |
| Accumulated depreciation | (376,149) | (24,674,873) | (95,250) | (823,598) | — | (25,969,870) |
| Accumulated impairment loss | — | (30,080) | — | — | — | (30,080) |
| Net book value | 772,240 | 28,819,187 | 81,943 | 2,347,132 | 6,926,808 | 38,947,310 |

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

Interest expenses of approximately RMB703 million (for the year ended 31st December 2004: approximately RMB332 million) arising on financing specifically entered into for the construction of power plants were capitalized during the year and are included in 'Additions' in property plant and equipment. A capitalization rate of approximately 5.27% (for the year ended 31st December 2004: approximately 4.38%) per annum was used, representing the interest expenses of the loan used to finance the projects.

In 2005, there were impairment losses of certain property, plant and equipment recorded in Huaneng Dandong Power Plant. The continuous increase in coal price and changes in the local power market contributed to such impairment losses. The recoverable amount is determined based on value-in-use calculations. A discount rate of approximately 7.20% was applied in arriving at the impairment loss amount for the power plant. The Company and its subsidiaries have also reassessed the depreciation policies of their property, plant and equipment in this power plant and have determined that the estimated useful lives will not be affected.

There was no impairment of any property, plant and equipment in 2004.

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(Prepared in accordance with International Financial Reporting Standards)
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## 12. INVESTMENTS IN ASSOCIATES

| | 2005 | 2004 |
|---|---|---|
| Beginning of the year | 4,328,307 | 2,766,031 |
| Acquisition of 40% equity interest of Hanfeng Power Company (Note 5) | — | 1,382,210 |
| Acquisition of 25% equity interest of Shifen Company (Note 5) | — | 18,029 |
| Share of additional paid-in-capital | 15,923 | — |
| Share of profit before tax | 753,671 | 377,565 |
| Share of income tax expense (Note 2(a)) | (109,295) | (65,528) |
| Share of dividends | (394,622) | (150,000) |
| End of the year | 4,593,984 | 4,328,307 |

Investment in associates as at 31st December 2005 included goodwill of approximately RMB976 million (31st December 2004: approximately RMB976 million).

As at 31st December 2005, the interest in associates of the Company and its subsidiaries, all of which are unlisted, were as follows:

| Name of associates | Country and date of incorporation | Percentage of equity interest held Direct | Indirect | Registered and fully paid capital | Principal activities |
|---|---|---|---|---|---|
| Rizhao Power Company | PRC 20th March 1996 | 25.5% | — | US$ 150,000,000 | Power generation |
| Shenzhen Energy Group Co. Ltd. ("SEG") | PRC 16th July 1997 | 25% | — | RMB 955,555,556 | Power generation |
| Hanfeng Power Company | PRC 28th October 1996 | 40% | — | RMB 1,975,000,000 | Power generation |
| Shifen Company | PRC 5th November1996 | — | 25% | RMB 50,000,000 | Lime production and sale |

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## 12. INVESTMENTS IN ASSOCIATES *(Cont'd)*

The gross amounts of operating results, assets and liabilities (excluding goodwill) of the associates of the Company and its subsidiaries were as follows:

| | 2005 | 2004 |
|---|---|---|
| Assets | **33,231,354** | 30,525,810 |
| Liabilities | **15,299,661** | 13,970,553 |
| Operating revenue | **14,515,393** | 10,100,102 |
| Profit before allocation | **2,934,693** | 2,214,292 |
| Profit attributable to equity holders of the associate | **2,224,783** | 1,411,933 |

## 13. INVESTMENTS IN SUBSIDIARIES

As at 31st December 2005, the interest in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows:

| Name of subsidiaries | Country, date of incorporation and type of legal entity | Percentage of equity interest held | | Registered and fully paid capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Huaneng Weihai Power Limited Liability Company | PRC<br>22nd November 1993<br>Limited liability company | 60% | — | RMB 761,838,300 | Power generation |
| Huaiyin Power Company | PRC<br>26th January 1995<br>Limited liability company | 90% | — | RMB 265,000,000 | Power generation |
| Jiangsu Huaneng Huaiyin II Power Limited Company | PRC<br>22nd June 2004<br>Limited liability company | 63.64% | — | RMB 774,000,000 | Power generation |

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

## 13. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

As at 31st December 2005, the Company had equity interests in the following subsidiaries (cont'd):

| Name of subsidiaries | Country, date of incorporation and type of legal entity | Percentage of equity interest held | | Registered and fully paid capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Huaneng (Suzhou Industrial Park) Power Limited Liability Company ("Taicang Power Company") | PRC<br>19th June 1997<br>Limited liability company | 75% | — | RMB 632,840,000 | Power generation |
| Huaneng Taicang Power Co., Ltd. | PRC<br>18th June 2004<br>Limited liability company | 75% | — | Registered capital of RMB 894,410,000 with total paid-in capital of RMB 808,110,000 | Power generation |
| Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company") | PRC<br>12th July 1995<br>Limited liability company | 55% | — | RMB 10,000,000 | Power generation |
| Shanxi Huaneng Yushe Power Limited Liability Company ("Yushe Power Company") | PRC<br>29th November 1994<br>Limited liability company | 60% | — | RMB 615,760,000 | Power generation |

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 13. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

As at 31st December 2005, the Company had equity interests in the following subsidiaries (cont'd):

| Name of subsidiaries | Country, date of incorporation and type of legal entity | Percentage of equity interest held Direct | Indirect | Registered and fully paid capital | Principal activities |
|---|---|---|---|---|---|
| Yushe Boyuan Power Industry Limited Liability Company | PRC 25th July 2005 Limited liability company | — | 75% | RMB 2,000,000 | Property management and leasing |
| Shandong Huaneng Xindian Power Co., Ltd. ("Xindian II Power Company") | PRC 14th March 2004 Limited liability company | 95% | — | RMB 100,000,000 | Power generation |
| Yueyang Power Company | PRC 16th December 2003 Limited liability company | 55% | — | RMB 560,000,000 | Power generation |
| Luohuang Power Company | PRC 16th December 2003 Limited liability company | 60% | — | RMB 900,000,000 | Power generation |
| Huaneng Shanghai Ranji Power Generation Limited Liability Company | PRC 13th January 2005 Limited liability company | 70% | — | RMB 50,000,000 | Power generation |
| Sichuan Hydropower | PRC 12th July 2004 Limited liability company | 60% | — | RMB 800,000,000 | Investments holding and hydropower projects development |
| Sichuan Huaneng Taipingyi Hydropower Limited Liability Company | PRC 23rd April 1994 Limited liability company | — | 60% | RMB 100,000,000 | Power generation |

For the year ended 31st December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

## 13. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

As at 31st December 2005, the Company had equity interests in the following subsidiaries (cont'd):

| Name of subsidiaries | Country, date of incorporation and type of legal entity | Percentage of equity interest held | | Registered and fully paid capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Sichuan Huaneng Baoxinghe Power Limited Liability Company | PRC 26th June 1994 Limited liability company | — | 68% | RMB 516,100,000 | Power generation |
| Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company | PRC 29th June 1994 Limited liability company | — | 59.33% | RMB 156,725,000 | Power generation |
| Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company | PRC 30th September 1998 Limited liability company | — | 55% | Registered capital of RMB 193,080,000 and fully paid capital of RMB 157,119,800 | Power generation |
| Sichuan Huaneng Kangding Hydropower Limited Liability Company | PRC 14th April 1997 Limited liability company | — | 60% | RMB 277,200,000 | Power generation |
| Sichuan Huaneng Fujiang Hydropower Limited Liability Company | PRC 22nd March 2002 Limited liability company | — | 95% | RMB 150,000,000 | Power generation |

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## 13. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

As at 31st December 2005, the Company had equity interests in the following subsidiaries (cont'd):

| Name of subsidiaries | Country, date of incorporation and type of legal entity | Percentage of equity interest held Direct | Percentage of equity interest held Indirect | Registered and fully paid capital | Principal activities |
|---|---|---|---|---|---|
| Sichuan Huaneng Mingtai Hydropower Limited Liability Company | PRC<br>8th September 1994<br>Limited liability company | — | 52.20% | RMB 97,700,000 | Power generation |
| Pingliang Power Company | PRC<br>6th November 1996<br>Limited liability company | 65% | — | RMB 623,000,000 | Power generation |

## 14. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents a 1.82% (31st December 2004: 2.11%) equity interest in a power generation company China Yangtze Power Co., Ltd. ("Yangtze Power") incorporated and listed in the PRC.

| | 2005 | 2004 |
|---|---|---|
| Beginning of the year | **254,990** | 254,990 |
| Additions (Note) | **28,866** | — |
| Revaluation surplus transfer to equity (Note) | **749,369** | — |
| End of the year | **1,033,225** | 254,990 |

Note: During the year, Yangtze Power has undergone a process of shareholding structure reform pursuant to related government circulars issued by China Securities Regulatory Commission on implementation of shareholding structure reform of listed companies. Upon the completion of the process, the legal person shares held by the Company were allowed to trade in the open market. The additions represent the additional costs paid by the Company to effectively exchange for the right to trade in the open market. Given that the shares held by the Company and its subsidiaries can be freely traded, they have been revalued at year end based on the closing market rate.

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## 15. LAND USE RIGHTS

Details of land use rights are as follows:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Outside Hong Kong, held on: | | | | |
| Leases of over 50 years | 117,037 | 10,539 | 7,453 | 7,562 |
| Leases of between 10 to 50 years | 1,562,728 | 1,535,487 | 1,125,677 | 1,083,566 |
| | 1,679,765 | 1,546,026 | 1,133,130 | 1,091,128 |

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## 16. GOODWILL AND NEGATIVE GOODWILL

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

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | Goodwill | Negative goodwill | Goodwill | Negative goodwill |
| **As at 1st January 2004** | | | | |
| Cost | 325,196 | (2,472,784) | 113,632 | (2,472,784) |
| Accumulated amortization | (26,320) | 741,835 | (6,401) | 741,835 |
| Net book value | 298,876 | (1,730,949) | 107,231 | (1,730,949) |
| **Year ended 31st December 2004:** | | | | |
| Beginning of the year | 298,876 | (1,730,949) | 107,231 | (1,730,949) |
| Acquisitions (Note 5) | 111,710 | — | 10,803 | — |
| Adjustment | 8,142 | — | 2,206 | — |
| Amortization charge | (42,002) | 247,279 | (11,302) | 247,279 |
| End of the year | 376,726 | (1,483,670) | 108,938 | (1,483,670) |
| **As at 31st December 2004** | | | | |
| Cost | 445,048 | (2,472,784) | 126,641 | (2,472,784) |
| Accumulated amortization | (68,322) | 989,114 | (17,703) | 989,114 |
| Net book value | 376,726 | (1,483,670) | 108,938 | (1,483,670) |

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## 16. GOODWILL AND NEGATIVE GOODWILL *(Cont'd)*

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | Goodwill | Negative goodwill | Goodwill | Negative goodwill |
| **As at 1st January 2005** | | | | |
| Cost, as previously reported | 445,048 | (2,472,784) | 126,641 | (2,472,784) |
| Effect of change in accounting policy (Note 2(a)) | (68,322) | 2,472,784 | (17,703) | 2,472,784 |
| Cost, as restated | 376,726 | — | 108,938 | — |
| Accumulated amortization, as previously reported | 68,322 | (989,114) | 17,703 | (989,114) |
| Effect of change in accounting policy (Note 2(a)) | (68,322) | 989,114 | (17,703) | 989,114 |
| Accumulated amortization, as restated | — | — | — | — |
| **Year ended 31st December 2005:** | | | | |
| Beginning of the year, as restated | 376,726 | — | 108,938 | — |
| Acquisitions | 295,070 | — | — | — |
| End of the year | 671,796 | — | 108,938 | — |
| **As at 31st December 2005** | | | | |
| Cost | 671,796 | — | 108,938 | — |

### Impairment tests for goodwill

Goodwill is allocated to the CGUs of the Company identified according to their operations in different regions.

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

| | 2005 | 2004 |
|---|---|---|
| Huaneng Shanghai Shidongkou I Power Plant ("Shidongkou I Power Plant") | **33,854** | 33,854 |
| Jinggangshan Power Plant | **10,803** | 10,803 |
| Huaneng Xindian Power Plant ("Xindian Power Plant") | **62,198** | 62,198 |
| Huaiyin Power Company | **118,596** | 61,493 |
| Qinbei Power Company | **97,552** | 97,552 |
| Yueyang Power Company | **100,907** | 100,907 |
| Sichuan Hydropower | **129,729** | N/A |
| Pingliang Power Company | **107,735** | N/A |
| SEG[1] | **682,993** | 682,993 |
| Hanfeng Power Company[1] | **293,070** | 293,070 |
| | **1,637,437** | 1,342,870 |

[1] Included in investments in associates.

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## 16. GOODWILL AND NEGATIVE GOODWILL *(Cont'd)*

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. The Company expects cash flows beyond the three-year period will be similar to that of the third year based on existing production capacity.

Pre-tax discount rates used for value-in-use calculations:

| | | | |
|---|---|---|---|
| Shidongkou I Power Plant | 10.00% | Yueyang Power Company | 8.10% |
| Jinggangshan Power Plant | 9.09% | Sichuan Hydropower | 12.32% |
| Xindian Power Plant | 10.00% | Pingliang Power Company | 7.92% |
| Huaiyin Power Company | 10.74% | SEG | 10.56% |
| Qinbei Power Company | 7.67% | Hanfeng Power Company | 8.35% |

Key assumptions used for value-in-use calculations:

Key assumptions applied in the impairment tests include the expected tariff rates, demands of electricity in specific regions where these power plants are located and fuel cost. Management determined these key assumptions based on past performance and its expectations on market development. The discount rates used are pre-tax and reflect specific risks relating to individual CGUs. Management believes that any reasonably possible change in any of these key assumptions on which recoverable amounts of individual CGUs are based may or may not cause carrying amounts of individual CGUs to exceed their recoverable amounts (Note 4(a)).

No goodwill was impaired.

## 17. INVENTORIES, NET

Inventories comprised:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Fuel (coal and oil) for power generation | **1,498,484** | 732,834 | **850,255** | 326,060 |
| Material and spare parts | **857,605** | 711,578 | **551,846** | 507,383 |
| | **2,356,089** | 1,444,412 | **1,402,101** | 833,443 |
| Less: provision for inventory obsolescence | **(44,732)** | (13,008) | **(21,256)** | (11,099) |
| | **2,311,357** | 1,431,404 | **1,380,845** | 822,344 |

As at 31st December 2005, approximately RMB670 million of the total carrying amount of inventories were carried at fair value less cost to sell (31st December 2004: approximately RMB556 million).

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## 17. INVENTORIES, NET *(Cont'd)*

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

| | The Company and its subsidiaries For the year ended 31st December | | The Company For the year ended 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Beginning of the year | (13,008) | (13,621) | (11,099) | (9,690) |
| Provision | (31,924) | (1,712) | (10,356) | (1,546) |
| Write-offs | — | 2,134 | — | — |
| Reversal | 200 | 191 | 199 | 137 |
| End of the year | (44,732) | (13,008) | (21,256) | (11,099) |

## 18. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Prepayments for inventories | 163,435 | 328,181 | 74,417 | 196,948 |
| Prepayments for contractors | 137,505 | 168,616 | 98,289 | 92,001 |
| Prepayment for acquisition of Huaneng Finance (Note) | 288,000 | — | 288,000 | — |
| Receivable from a property developer | 66,800 | — | — | — |
| Others | 233,435 | 268,781 | 118,379 | 59,682 |
| | 889,175 | 765,578 | 579,085 | 348,631 |
| Less: provision for doubtful accounts | (33,223) | (42,262) | (22,840) | (20,766) |
| | 855,952 | 723,316 | 556,245 | 327,865 |

Note: This represented the prepayment of the consideration to Huaneng Group and Huaneng Finance of RMB126 million and RMB162 million respectively to acquire a 20% equity interest in Huaneng Finance. As at 31st December 2005, the investment was still subject to approvals from the relevant authorities. Please refer to Note 39 for details of subsequent event in relation to this investment.

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## 18. OTHER RECEIVABLES AND ASSETS, NET *(Cont'd)*

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

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Beginning of the year | (42,262) | (53,885) | (20,766) | (28,653) |
| Provision | (3,242) | (2,405) | (2,920) | (739) |
| Write-offs | 475 | 969 | 475 | 581 |
| Reversal | 11,806 | 13,059 | 371 | 8,045 |
| End of the year | (33,223) | (42,262) | (22,840) | (20,766) |

## 19. ACCOUNTS RECEIVABLE, NET

Accounts receivable comprised:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Accounts receivable | 4,963,326 | 3,730,431 | 3,180,097 | 2,407,134 |
| Notes receivable | 1,117,533 | 1,242,672 | 622,462 | 682,937 |
| | 6,080,859 | 4,973,103 | 3,802,559 | 3,090,071 |
| Less: provision for doubtful accounts | (58,433) | — | — | — |
| | 6,022,426 | 4,973,103 | 3,802,559 | 3,090,071 |

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

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

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Beginning of the year | — | — | — | — |
| Provision | (58,433) | — | — | — |
| End of the year | (58,433) | — | — | — |

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## 19. ACCOUNTS RECEIVABLE, NET *(Cont'd)*

As at 31st December 2005, the aging analysis of accounts receivable was as follows:

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Within 1 year | **5,864,038** | 4,510,368 | **3,789,939** | 3,077,748 |
| Between 1 to 2 years | **3,624** | 96,808 | **297** | 6,203 |
| Between 2 to 3 years | **59,217** | — | **6,203** | — |
| Over 3 years | **153,980** | 365,927 | **6,120** | 6,120 |
| | **6,080,859** | 4,973,103 | **3,802,559** | 3,090,071 |

As at 31st December 2005, HIPDC provided guarantees on certain accounts receivable balances of the Company and its subsidiaries of approximately RMB77 million (31st December 2004: approximately RMB209 million).

As at 31st December 2005, the maturity period of the notes receivable ranged from one month to twenty-six months (31st December 2004: one month to six months).

## 20. TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of fixed-term deposits denominated in RMB with original maturities ranging from more than three months to one year. The effective interest rate is 1.62% (for the year ended 31st December 2004: 1.98% to 2.25%) per annum.

## 21. AUTHORIZED SHARE CAPITAL AND PAID-IN CAPITAL

As at 31st December 2005, the authorized share capital of the Company was RMB12,055,383,440 (31st December 2004: RMB12,055,383,440), divided into 12,055,383,440 shares (31st December 2004: 12,055,383,440 shares) of RMB1.00 each (31st December 2004: RMB1.00 each). The issued and fully paid share capital of the Company as at 31st December 2005 was RMB12,055,383,440 (31st December 2004: RMB12,055,383,440) comprising of 9,000,000,000 domestic shares (31st December 2004: 9,000,000,000 domestic shares) and 3,055,383,440 overseas listed foreign shares (31st December 2004: 3,055,383,440 overseas listed foreign shares). The holders of domestic shares and overseas listed foreign shares, with minor exceptions, are entitled to the same economic and voting rights.

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## 22. APPROPRIATION AND DISTRIBUTION OF PROFIT

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

For the year ended 31st December 2005, the Board of Directors resolved the following on 28th March 2006:

(a) to appropriate 10% and 7.5% (for the year ended 31st December 2004: 10% and 7.5%), respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund. The total amount of appropriation is approximately RMB833 million (for the year ended 31st December 2004: approximately RMB943 million).

(b) to make no appropriation to the discretionary surplus reserve fund (for the year ended 31st December 2004: nil).

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lower of the amounts determined in accordance with (a) the PRC accounting standards and regulations and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31st December 2005 was approximately RMB3.93 billion (for the year ended 31st December 2004: approximately RMB4.38 billion). The cumulative balance of distributable profit as at 31st December 2005 was approximately RMB13.32 billion (31st December 2004: approximately RMB11.17 billion).

## 23. DIVIDENDS

On 28th March 2006, the Board of Directors proposed a cash dividend of RMB0.25 per share, totaling approximately RMB3,014 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividends payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31st December 2006.

On 11th May 2005, the shareholders approved the declaration of cash dividends of RMB0.25 per ordinary share, totaling approximately RMB3,014 million in their annual general meeting.

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## 24. LONG-TERM LOANS

| | The Company and its subsidiaries | | | | | |
|---|---|---|---|---|---|---|
| | As at 31st December 2005 | | | As at 31st December 2004 | | |
| | Original currency '000 | Interest rate | Amount | Original currency '000 | Interest rate | Amount |
| Shareholder's loans | | | | | | |
| Unsecured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 2,800,000 | 4.05% - 5.02% | 2,800,000 | 800,000 | 3.78% - 4.60% | 800,000 |
| Bank loans | | | | | | |
| Secured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 407,000 | 5.18% - 5.76% | 407,000 | — | — | — |
| Unsecured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 21,833,838 | 3.60% - 6.12% | 21,833,838 | 8,679,869 | 3.60% - 5.76% | 8,679,869 |
| US$ | | | | | | |
| - Fixed rate | 611,668 | 5.40% - 6.97% | 4,936,284 | 712,037 | 1.225% - 6.97% | 5,893,180 |
| - Variable rate | 60,109 | 2.155% - 3.385% | 485,096 | 66,437 | | 549,864 |
| € | | | | | | |
| - Fixed rate | 73,319 | 2% | 702,376 | 76,699 | 2% | 863,834 |
| | | | 27,957,594 | | | 15,986,747 |
| | | | 28,364,594 | | | 15,986,747 |

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## 24. LONG-TERM LOANS *(Cont'd)*

| | The Company and its subsidiaries | | | | | |
|---|---|---|---|---|---|---|
| | As at 31st December 2005 | | | As at 31st December 2004 | | |
| | Original currency '000 | Interest rate | Amount | Original currency '000 | Interest rate | Amount |
| Other loans | | | | | | |
| Secured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 200,000 | 5.27% | 200,000 | — | — | — |
| Unsecured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 446,847 | 4.94% - 6.12% | 446,847 | 434,726 | 4.94% - 5.76% | 434,726 |
| US$ | | | | | | |
| - Variable rate | 15,714 | 2.99% - 3.93% | 126,817 | 18,571 | 1.67% - 2.055% | 153,706 |
| JPY | | | | | | |
| - Variable rate | 1,309,524 | 5.80% | 89,985 | 1,547,619 | 5.80% | 123,347 |
| | | | 663,649 | | | 711,779 |
| | | | 863,649 | | | 711,779 |

Certain loans totaling approximately RMB407 million (31st December 2004: nil) are secured by various property, plant and equipment of the Company and its subsidiaries (Note 35) while an other long-term loan of RMB200 million (31st December 2004: nil) is secured by tariff collection right. Please refer to Note 8(c)(ii) for details of certain loans guaranteed by state-owned enterprises.

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(Amounts expressed in thousands of RMB unless otherwise stated)

## 24. LONG-TERM LOANS *(Cont'd)*

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | As at 31st December 2005 | | | As at 31st December 2004 | | |
| | Original currency '000 | Interest rate | Amount | Original currency '000 | Interest rate | Amount |
| Shareholder's loan | | | | | | |
| Unsecured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 2,000,000 | 5.02% | 2,000,000 | — | — | — |
| Bank loans | | | | | | |
| Unsecured | | | | | | |
| RMB | | | | | | |
| - Fixed rate | 4,287,018 | 3.60% - 5.63% | 4,287,018 | 2,369,000 | 3.60% - 5.814% | 2,369,000 |
| US$ | | | | | | |
| - Fixed rate | 459,580 | 5.95% - 6.60% | 3,708,901 | 530,597 | 1.225% - 6.60% | 4,391,487 |
| - Variable rate | 60,109 | 2.155% - 3.385% | 485,096 | 66,437 | | 549,864 |
| | | | 8,481,015 | | | 7,310,351 |

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(Amounts expressed in thousands of RMB unless otherwise stated)

## 24. LONG-TERM LOANS *(Cont'd)*

The maturity of long-term loans is as follows:

| | The Company and its subsidiaries | | | | | |
|---|---|---|---|---|---|---|
| | Shareholder's loans | | Bank loans | | Other loans | |
| | As at 31st December | | As at 31st December | | As at 31st December | |
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| One year or less | — | — | **2,653,339** | 1,225,476 | **512,640** | 317,761 |
| More than one year but not more than two years | — | — | **2,979,225** | 1,409,497 | **153,044** | 202,212 |
| More than two years but not more than three years | — | — | **3,189,885** | 1,834,237 | **99,419** | 42,624 |
| More than three years but not more than four years | — | — | **4,417,885** | 2,043,237 | **39,419** | 42,624 |
| More than four years but not more than five years | — | — | **3,386,732** | 3,621,597 | **39,419** | 42,623 |
| More than five years | **2,800,000** | 800,000 | **11,737,528** | 5,852,703 | **19,708** | 63,935 |
| | **2,800,000** | 800,000 | **28,364,594** | 15,986,747 | **863,649** | 711,779 |
| Less: amount due within one year included under current liabilities | — | — | **(2,653,339)** | (1,225,476) | **(512,640)** | (317,761) |
| | **2,800,000** | 800,000 | **25,711,255** | 14,761,271 | **351,009** | 394,018 |

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## 24. LONG-TERM LOANS *(Cont'd)*

The Company

| | Shareholder's loans As at 31st December | | Bank loans As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| One year or less | — | — | 1,005,555 | 825,142 |
| More than one year but not more than two years | — | — | 1,105,555 | 921,521 |
| More than two years but not more than three years | — | — | 1,085,555 | 1,021,470 |
| More than three years but not more than four years | — | — | 1,205,555 | 821,470 |
| More than four years but not more than five years | — | — | 1,587,574 | 1,009,469 |
| More than five years | 2,000,000 | — | 2,491,221 | 2,711,279 |
| | 2,000,000 | — | 8,481,015 | 7,310,351 |
| Less: Amount due within one year included under current liabilities | — | — | (1,005,555) | (825,142) |
| | 2,000,000 | — | 7,475,460 | 6,485,209 |

The analysis of the above is as follows:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Shareholder's loans | | | | |
| - Not wholly repayable within five years | 2,800,000 | 800,000 | 2,000,000 | — |
| Bank loans | | | | |
| - Wholly repayable within five years | 8,429,132 | 3,926,907 | 2,887,018 | 491,724 |
| - Not wholly repayable within five years | 19,935,462 | 12,059,840 | 5,593,997 | 6,818,627 |
| | 28,364,594 | 15,986,747 | 8,481,015 | 7,310,351 |
| Other loans | | | | |
| - Wholly repayable within five years | 686,265 | 434,726 | — | — |
| - Not wholly repayable within five years | 177,384 | 277,053 | — | — |
| | 863,649 | 711,779 | — | — |

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(Prepared in accordance with International Financial Reporting Standards)
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## 25. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Accounts and notes payable | 1,231,162 | 761,689 | 700,757 | 517,626 |
| Amounts received in advance | 1,196,352 | 1,129,598 | 1,196,352 | 1,129,598 |
| Payable to contractors for construction | 2,430,133 | 1,592,621 | 1,079,947 | 556,052 |
| Other payables to contractors | 778,488 | 237,513 | 113,609 | 120,774 |
| Accrued interest | 197,637 | 116,322 | 123,936 | 88,192 |
| Others | 1,071,468 | 713,415 | 419,841 | 432,745 |
| | 6,905,240 | 4,551,158 | 3,634,442 | 2,844,987 |

As at 31st December 2005, the aging analysis of accounts and notes payable was as follows:

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Within 1 year | 1,223,004 | 754,406 | 696,921 | 513,922 |
| Between 1 to 2 year | 4,227 | 2,911 | 2,921 | 1,559 |
| Over 2 years | 3,931 | 4,372 | 915 | 2,145 |
| | 1,231,162 | 761,689 | 700,757 | 517,626 |

## 26. TAXES PAYABLE

Taxes payable comprises:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| VAT payable | 576,488 | 527,292 | 290,200 | 306,679 |
| Income tax payable | 458,982 | 407,450 | 194,492 | 208,626 |
| Others | 95,814 | 65,050 | 22,291 | 32,240 |
| | 1,131,284 | 999,792 | 506,983 | 547,545 |

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## 27. SHORT-TERM BONDS

On 27th May 2005, the Company and its subsidiaries issued RMB4.5 billion and RMB0.5 billion unsecured short-term zero-coupon bonds with maturity of one year and nine months and will be redeemed at par respectively. The unit face value of such bonds was RMB100 each and issue prices were RMB97.16 and RMB98.00 respectively with effective interest rates of 3.40% per annum and 3.32% per annum respectively.

## 28. SHORT-TERM LOANS

Short-term loans denominated in RMB are unsecured, bear interest from 4.30% to 5.51% per annum for the year ended 31st December 2005 (for the year ended 31st December 2004: 4.30% to 5.02% per annum) (Note 8(a)(iv) and (vii)).

## 29. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Deferred income tax assets: | | | | |
| - Deferred income tax assets to be recovered after more than 12 months | 51,874 | 93,941 | 12,640 | 11,981 |
| - Deferred income tax assets to be recovered within 12 months | 12,201 | 3,598 | 621 | 555 |
| | 64,075 | 97,539 | 13,261 | 12,536 |
| Deferred income tax liabilities: | | | | |
| - Deferred income tax liabilities to be recovered after more than 12 months | (1,056,412) | (491,122) | (297,475) | (14,304) |
| - Deferred income tax liabilities to be recovered within 12 months | (101,363) | (55,595) | (38,966) | (1,002) |
| | (1,157,775) | (546,717) | (336,441) | (15,306) |
| | (1,093,700) | (449,178) | (323,180) | (2,770) |

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

The gross movement on the deferred income tax accounts is as follows:

| | The Company and its subsidiaries | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Beginning of the year, as previously reported | **(449,178)** | (81,803) | **(2,770)** | (789) |
| Effect of changes in accounting policy (Note 2(a)) | **(222,551)** | — | **(222,551)** | — |
| Beginning of year, as restated | **(671,729)** | (81,803) | **(225,321)** | (789) |
| Acquisitions (Note 5) | **(370,730)** | (399,313) | **—** | (2,206) |
| Charged to statement of income (Note 32) | **61,164** | 31,938 | **14,546** | 225 |
| Charged to equity | **(112,405)** | — | **(112,405)** | — |
| End of the year | **(1,093,700)** | (449,178) | **(323,180)** | (2,770) |

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, are as follows:

Deferred income tax assets:

| | The Company and its subsidiaries | | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amortization of prepaid land use rights | Provisions for doubtful debts | Termination benefits | Others | Total | Amortization of prepaid land use rights | Termination benefits | Others | Total |
| As at 1st January 2004 | 13,239 | 3,219 | — | 4,853 | 21,311 | 13,239 | — | — | 13,239 |
| Acquisitions (Note 5) | (2,206) | 60,172 | 17,032 | 3,878 | 78,876 | (2,206) | — | — | (2,206) |
| (Charged) / Credited to the statement of income | (221) | (2,215) | 1,019 | (1,231) | (2,648) | (221) | 1,724 | — | 1,503 |
| As at 31st December 2004 | 10,812 | 61,176 | 18,051 | 7,500 | 97,539 | 10,812 | 1,724 | — | 12,536 |
| Acquisitions (Note 5) | — | 20,942 | — | 12,533 | 33,475 | — | — | — | — |
| (Charged) / Credited to the statement of income | (221) | (13,466) | (4,085) | 39,240 | 21,468 | (221) | (334) | 1,280 | 725 |
| As at 31st December 2005 | 10,591 | 68,652 | 13,966 | 59,273 | 152,482 | 10,591 | 1,390 | 1,280 | 13,261 |

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(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

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

Deferred income tax liabilities:

| | The Company and its subsidiaries | | | | | | The Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fair value gains | Amortization of goodwill and negative goodwill | Amortization of land use rights | Depreciation | Others | Total | Fair value gains | Amortization of goodwill and negative goodwill | Depreciation | Others | Total |
| As at 1st January 2004 | — | — | — | (103,114) | — | (103,114) | — | — | (14,028) | — | (14,028) |
| Acquisitions (Note 5) | — | — | (53,172) | (425,017) | — | (478,189) | — | — | — | — | — |
| (Charged) / Credited to the statement of income | — | — | — | 34,586 | — | 34,586 | — | — | (1,278) | — | (1,278) |
| As at 31st December 2004 | — | — | (53,172) | (493,545) | — | (546,717) | — | — | (15,306) | — | (15,306) |
| Effect of changes in accounting policy (Note 2(a)) | — | (222,551) | — | — | — | (222,551) | — | (222,551) | — | — | (222,551) |
| As at 31st December 2004, as restated | — | (222,551) | (53,172) | (493,545) | — | (769,268) | — | (222,551) | (15,306) | — | (237,857) |
| Acquisitions (Note 5) | — | — | — | (404,205) | — | (404,205) | — | — | — | — | — |
| (Charged) / Credited to the statement of income | — | 36,330 | 358 | 10,372 | (7,364) | 39,696 | — | 36,330 | (15,145) | (7,364) | 13,821 |
| Charge to equity | (112,405) | — | — | — | — | (112,405) | (112,405) | — | — | — | (112,405) |
| As at 31st December 2005 | (112,405) | (186,221) | (52,814) | (887,378) | (7,364) | (1,246,182) | (112,405) | (186,221) | (30,451) | (7,364) | (336,441) |

The deferred income tax charged to equity during the year represented the tax impact of a fair value reserve for an available-for-sale investment recognized in shareholders' equity (for the year ended 31st December 2004: nil).

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

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

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Year of expiry | | | | |
| 2005 | **N/A** | 111,441 | **N/A** | 111,441 |
| 2006 | **177,197** | 177,197 | **177,197** | 177,197 |
| 2007 | **71,125** | 71,125 | **71,125** | 71,125 |
| 2008 | **—** | — | **—** | — |
| 2009 | **12,970** | — | **12,970** | — |
| 2010 | **80,754** | N/A | **80,754** | N/A |
| | **342,046** | 359,763 | **342,046** | 359,763 |

## 30. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEETS

As at 31st December 2005, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB11,044 million (31st December 2004: approximately RMB7,079 million). On the same date, total assets less current liabilities was approximately RMB76,333 million (31st December 2004: approximately RMB56,047 million).

As at 31st December 2005, the net current liabilities of the Company amounted to approximately RMB5,835 million (31st December 2004: approximately RMB4,339 million). On the same date, total assets less current liabilities was approximately RMB48,236 million (31st December 2004: approximately RMB41,973 million).

## 31. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at 7%-15% (for the year ended 31st December 2004: 7%-11%) of the specified salary amount of the PRC employees. At the same time, the employees are required to make contributions out of their payroll equal to the contributions of the Company and its subsidiaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31st December 2005, the Company and its subsidiaries contributed approximately RMB147 million (for the year ended 31st December 2004: approximately RMB101 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees. For the year ended 31st December 2005, the housing benefits provided by the Company and its subsidiaries to the employees amounted to approximately RMB39 million (for the year ended 31st December 2004: approximately RMB34 million) which is recorded as other non-current assets and amortized over the remaining average service life of the relevant employees which is estimated to be about 10 years.

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

For the year ended 31st December 2005

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 32. INCOME TAX EXPENSES

Income tax expenses comprised:

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 Restated |
| Current income tax expense | 1,105,461 | 980,672 |
| Deferred income tax (Note 29) | (61,164) | (31,938) |
| | 1,044,297 | 948,734 |

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (for the year ended 31st December 2004: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| Average statutory tax rate | 21% | 18% |
| Effect of tax holiday | (4%) | (2%) |
| Others | (1%) | (1%) |
| Effective tax rate | 16% | 15% |

The average statutory tax rate for the year ended 31st December 2005 represented the weighted average tax rate of the head office and the individual power plants calculated on the basis of the relative amounts of net profit before tax and the applicable statutory tax rates. The acquisitions of domestic enterprises in the current year contributed to the increase of average statutory tax rate.

The aggregated effect of the tax holiday was approximately RMB255 million for the year ended 31st December 2005 (for the year ended 31st December 2004: approximately RMB122 million). The granting of further preferential treatments to existing power plants existed before 2005 and those acquired in 2005 contributed to such an increase in the percentage.

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(Prepared in accordance with International Financial Reporting Standards)
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## 33. EARNINGS PER SHARE

| | For the year ended 31st December | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | |
| | Profit attributable to the equity holders of the Company | Weighted average shares '000 | Per share amount RMB | Profit attributable to the equity holders of the Company | Weighted average shares '000 | Per share amount RMB |
| Earnings per Share | 4,871,794 | 12,055,383 | 0.40 | 5,323,876 | 12,055,368 | 0.44 |
| Finance costs in relation to convertible notes and the relevant put option (net of tax effect) | — | — | | 22 | — | |
| Effect of assumed conversion | — | — | | — | 121 | |
| Diluted Earnings per Share | | | | | | |
| Net profit attributable to shareholders plus effect of assumed conversion | 4,871,794 | 12,055,383 | 0.40 | 5,323,898 | 12,055,489 | 0.44 |

### Basic

The calculation of basic earnings per share is computed by dividing profit attributable to the equity holders of the Company by weighted average number of outstanding ordinary shares during the year.

### Diluted

Diluted earnings per share is calculated by adjusting both profit attributable to the equity holders of the Company and weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares at the beginning of the year. In 2005, the Company had no potential ordinary shares (for the year ended 31st December 2004: convertible notes, being a category of potential ordinary shares). The convertible notes in 2004 are assumed to have been converted into ordinary shares and the profit attributable to equity holders of the Company is adjusted eliminating interest expenses less respective tax effect for the purpose of calculating diluted earnings per share for 2004.

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(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 34. NOTES TO CASH FLOW STATEMENT

### (a) Analysis of cash and cash equivalents

As at 31st December 2005, cash and cash equivalents consisted of:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Cash in RMB | 1,042 | 621 | 412 | 485 |
| Current deposits | | | | |
| RMB | 2,632,493 | 2,284,551 | 699,022 | 1,200,516 |
| US$ | 14,130 | 10,359 | 13,962 | 10,177 |
| Total cash and cash equivalents | 2,647,665 | 2,295,531 | 713,396 | 1,211,178 |

### (b) Undrawn borrowing facilities

As at 31st December 2005, the Company and its subsidiaries had available unsecured borrowing facilities from banks of approximately RMB34.86 billion (31st December 2004: approximately RMB30 billion) of which undrawn borrowing facilities amounted to approximately RMB23 billion (31st December 2004: approximately RMB28 billion). Out of these available undrawn borrowing facilities, approximately RMB10 billion (31st December 2004: approximately RMB20 billion) relates to medium to long-term loan facilities, the drawdown of which is subject to application and approval procedures. Management expects to drawdown the available facilities in accordance with the level of working capital and / or planned capital expenditure of the Company and its subsidiaries.

### (c) Non-cash transactions

During the year, there is no material non-cash transaction. In 2004, the principal non-cash transaction was the conversion of convertible notes to share capital and the ordinary shares split.

(Amounts expressed in thousands of RMB unless otherwise stated)

## 35. PLEDGE OF ASSETS

As mentioned in Note 24, the Company and its subsidiaries have pledged various assets as collateral against certain loans. A summary of the pledged assets is as follows:

| | As at 31st December 2005 |
|---|---|
| Dongxiguan Hydropower | |
| - Dam | 383,423 |
| - Buildings | 1,933 |
| - Electric utility plant in service | 190,306 |
| - Others | 10,485 |
| Kangding Hydropower | |
| - Electric utility plant in service | 26,798 |
| Mingtai Hydropower | |
| - Electric utility plant in service | 54,394 |
| Total | 667,339 |

As at 31st December 2004, the Company and its subsidiaries did not have any asset pledged as collateral.

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## 36. COMMITMENTS

### (a) Capital and operational commitments

(i) Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Commitments outstanding as at 31st December 2005 not provided for in the balance sheet were as follows:

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Contracted but not provided for | | | | |
| - purchase of inventories | **—** | 3,560,175 | **—** | 2,950,935 |
| - construction | **17,076,451** | 7,923,087 | **12,323,448** | 7,082,386 |
| Sub-total | **17,076,451** | 11,483,262 | **12,323,448** | 10,033,321 |
| Authorized but not contracted for | | | | |
| - construction | **11,983** | 236,501 | **10,810** | 41,377 |
| Sub-total | **11,983** | 236,501 | **10,810** | 41,377 |
| Total | **17,088,434** | 11,719,763 | **12,334,258** | 10,074,698 |

(ii) During 2004 and 2005, the Company entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from 2005 to 2009 for use in power generation. In most cases, these contracts contain provisions for price escalations and minimum purchase level clauses. Purchases for the years ended 31st December 2005 and 2004 were approximately RMB4,619 million and nil respectively. The future purchase commitments under contracts are as follows:

| | As at 31st December | |
|---|---|---|
| | **2005** | 2004 |
| 2005 | **N/A** | 5,768,657 |
| 2006 | **7,771,230** | 5,941,717 |
| 2007 | **7,771,230** | 6,119,968 |
| 2008 | **3,826,281** | 2,801,770 |
| 2009 | **3,826,281** | 2,801,770 |
| | **23,195,022** | 23,433,882 |

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(Amounts expressed in thousands of RMB unless otherwise stated)

## 36. COMMITMENTS *(Cont'd)*

### (b) Operating lease commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 8(b)). Some of the leases contain renewal options and most of the leases contain escalation clauses. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debts or further leasing.

Total future minimum lease payments under non-cancellable operating leases are as follows:

| | As at 31st December | |
|---|---|---|
| | 2005 | 2004 |
| Land and buildings | | |
| - not later than one year | **33,495** | 1,334 |
| - later than one year and not later than two years | **7,372** | 1,334 |
| - later than two years and not later than five years | **19,639** | 4,002 |
| - later than five years | **138,058** | 52,026 |
| | **198,564** | 58,696 |

Including in the commitments above was the commitment on land use rights of Huaneng Dezhou Power Plant ("Dezhou Power Plant"). The related operating lease agreement was signed by Dezhou Power Plant and the relevant land management authorities for the land occupied by Dezhou Phase I and Phase II, annual rental is approximately RMB30 million effective from June 1994 and is subject to revision of five years after the said date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended 31st December 2005, the annual rental is approximately RMB30 million (for the year ended 31st December 2004: approximately RMB29 million).

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(Prepared in accordance with International Financial Reporting Standards)
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## 37. CONTINGENT LIABILITIES

| | The Company and its subsidiaries As at 31st December | | The Company As at 31st December | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Financial guarantees | | | | |
| - granted to an associate | 225,250 | 305,250 | 225,250 | 305,250 |
| - granted to subsidiaries | — | — | 1,352,000 | 1,430,000 |
| | 225,250 | 305,250 | 1,577,250 | 1,735,250 |

Based on historical experience, no claims have been made against the Company and its subsidiaries since the dates of granting the financial guarantees described above.

## 38. BUSINESS RISK

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

For the year ended 31st December 2005, the Company and its subsidiaries sold electricity to four major customers (for the year ended 31st December 2004: five), each of which amounted to approximately 10% or more of the operating revenue. In aggregation, these customers accounted for approximately 57% (for the year ended 31st December 2004: approximately 79%) of the operating revenue of the Company and its subsidiaries.

## 39. EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the year end, the Company and its subsidiaries completed its acquisition of 20% of the registered capital of Huaneng Finance at a consideration of RMB288 million.

## 40. COMPARATIVES

Certain prior year comparative figures have been reclassified to conform to the current year presentation. Specifically, certain bank loans have been reclassified as other long-term loans in the current year.