

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

1. COMPANY BACKGROUND

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

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

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

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

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

On 26th October 2004, the Company entered into an agreement with Huaneng Group pursuant to which the Company acquired from Huaneng Group 60% equity interest in Huaneng Sichuan Hydropower Co., Ltd. (the "Sichuan Hydropower", formerly known as Sichuan Huaneng Hydropower Development Corporation) and 65% equity interest in the Gansu Huaneng Pingliang Power Generation Limited Liability Company (the "Pingliang Power Company") at considerations of RMB1,219 million and RMB806 million respectively. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership and control, the acquisitions were effective on 5th January 2005. Please refer to Note 5(27).

On 26th May 2005, the Company entered into an agreement with Jiangsu Yueda Investment Co., Ltd (the "Jiangsu Yueda") pursuant to which the Company acquired from Jiangsu Yueda 26.36% equity interest in Jiangsu Huaneng Huaiyin Power Limited Company (the "Huaiyin Power Company") at a consideration of RMB200.6 million. After this acquisition, the Company's equity interest in Huaiyin Power Company is up to 90%. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership, the Company obtained the above mentioned interest on 30th June 2005.

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

(1) Basis of preparation

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

(2) Accounting year

The financial year of the Company and its subsidiaries starts on 1st January and ends on 31st December.

(3) Reporting currency

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

(4) Basis of accounting and measurement bases

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

(5) Foreign currency translation

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

(6) Cash and cash equivalents

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

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

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

(7) Receivables and provision for bad debts

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

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

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

The company and its subsidiaries discounting notes receivables without recourse to financial institutions is considered as receiving cash from purchaser or service receiver, the difference between the received money and the carrying amount of written-off notes receivable and related taxation should be charged to the period when they are incurred.

(8) Inventories

Inventories include fuel for power generation, materials and supplies for repairs and maintenance. Inventories at balance sheet date are stated at lower of cost and net realizable values.

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

Inventory provision is accrued according to the difference by which one single inventory item's cost exceeds its net realizable value. For those inventories which have multitudinous categories and low unit price, provision is accrued based on categories. The net realizable value is the estimated selling price in the ordinary course of business, less the estimated sales expense and related taxation.

The company and its subsidiaries implement perpetual inventory system.

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

(9) Long-term investments

Long-term investments are investments excluding short-term investments, which comprise equity investments in subsidiaries, associates and other equity investments that the Company intends to hold for more than one year, bonds and other debt investments that are not readily convertible into cash or the Company intends to hold for more than one year (excluding one year).

(a) *Equity investment*

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

Long-term equity investments are recorded at the actual cost paid on acquisition less cash dividends which have been declared but unpaid at the time of acquisition. The Company accounts for long-term equity investments in subsidiaries and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

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

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the year is recognized as an investment income or loss and the carrying amount of the investment is adjusted accordingly. Cash dividends declared by an investee are accounted for as a reduction of the carrying amount of the investment. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

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

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

(b) *Debt investment*

Long-term debt investments are initially recognized at the actual cost less any interests due but unpaid. The interest receivable computed in the current period is recognized as interest income.

(c) *Impairment of long-term investment*

If the recoverable amount of an investment is lower than the carrying amount, as a result of a continuous decline in market value or adverse changes in operating condition of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment is recognised as a provision for impairment loss. The recoverable amount is the higher of net selling price and value in use. Net selling price is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting any incremental direct disposal cost. Value in use is the present value of the estimated future cash flows expected to be derived from continuing use of the asset and from its disposal at the end of its useful life.

When there is an indicator that the need for an impairment provision recorded in a prior year no longer exists or had decreased, the provision for impairment is reversed. The increased carrying amount of the long-term investment should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the long-term investment in prior years.

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(Prepared in accordance with PRC Accounting Standards)

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

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

(10) Fixed assets and depreciation

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

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

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. If land use rights used for buildings have longer estimated useful lives than those of buildings, the excessive portion's value is reflected in determination of the residual value of buildings. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

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

Categories	Estimated useful lives	Estimated residual value	Depreciation rate
Dam	45-55 years	0%	1.82%-2.22%
Buildings	8-55 years	0%-11%	1.81%-12.50%
Electric utility plant in service	4-40 years	0%-11%	2.43%-25.00%
Transportation and transmission facilities	5-27 years	5%-11%	3.30%-19.00%
Others	2.5-18 years	0%-11%	5.56%-40.00%

When fixed assets are sold, transferred, disposed of or damaged, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, adjusted by related taxes and expenses, and are included in non-operating income or expenses.

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

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

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

Individual fixed assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss.

When there is an indicator that the need for an impairment provision recorded in a prior year no longer exists or had decreased, the provision for impairment is reversed. The increased carrying amount of the fixed assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

(11) Construction-in-progress

Construction-in-progress represents fixed assets under construction or installation, which is recorded at the actual cost. Cost comprises original cost of machinery and equipment, installation, construction and other direct costs which include borrowing costs incurred on specific borrowings used to finance the fixed assets, prior to the date at which the asset reaches the expected usable condition. Construction-in-progress is transferred to the fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

Individual construction in process for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances is reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. When there is an indicator that the need for an impairment provision recorded in a prior year no longer exists or had decreased, the provision for impairment is reversed. The increased carrying amount of the construction in process should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

(12) Intangible assets and amortization

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

(a) *Land use rights*

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

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

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

(b) *Good will and negative goodwill*

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

(c) *Intangible assets provision*

Individual intangible assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. When there is an indicator that the need for an impairment provision recorded in a prior year no longer exists or had decreased, the provision for impairment is reversed. The increased carrying amount of the intangible assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the intangible assets in prior years.

(13) Long-term deferred expenses

Long-term deferred expenses include other deferred expenses that should be amortized over more than one year (exclude one year). Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

(14) Share floating right

Share floating right accounts for the various consideration paid for obtaining the floating right of non-tradable shares in a stock exchange. As the holders of non-tradable shares, if the Company obtained such right through cash payment, that cash consideration is recognized as an asset, i.e. share floating right. For the case of obtaining such right through shares disposals, the Company, who accounts such investment in cost method, will reclassify the proportionate costs of disposed shares to the original carrying amount of long-term equity investment to share floating rights. Such rights will proportionately transfer to the income statement upon disposal. Generally, no provision is made for this account.

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

(15) Borrowing costs

Interests incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the fixed assets when capital expenditures and borrowing costs are incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalization of borrowing costs ceases when the assets are ready for their intended use. Borrowing costs incurred thereafter are expensed.

The capitalization amount of interest for each accounting period is determined by using the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period and the relevant capitalization rate of the relevant borrowings. The amount of interest for each capitalization period shall not exceed the actual amount of interest incurred on the specific borrowings during that period.

Interests incurred in connection with other borrowings are expensed as incurred.

(16) Provisions

Provisions for external guarantees and pending litigation are recognized when the Company has a present obligation as a result of past transactions or events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are determined using best estimates based on historical experience.

(17) Short-term bonds

Proceeds received on issuance of short-term bonds are initially recorded as a liability. The difference (discount or premium) between the proceeds received and the face value of the short-term bonds is amortized using the effective interest rate method over the period of the bonds.

Interest on short-term bonds is accounted for on an accrual basis. Interest and issuance costs that do not meet the capitalization requirements are expensed.

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

(18) Employee social security benefits

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

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Company are calculated based on percentages (47% to 62.5%) of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities. Contributions to the plans are charged to the profit and loss account as incurred.

(19) Dividends appropriation

The cash dividends appropriation is recognized as a liability in the period in which the dividends are approved by the general meeting of shareholders, the stock dividends appropriation is recognized as share capital in the period in which the dividends are approved by the general meeting of shareholders.

(20) Revenue recognition

Revenue is recognized under the following methods:

(a) *Operating revenue*

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

(b) *Management service income*

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

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

(20) Revenue recognition *(Cont'd)*

(c) *Other income*

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

Subsidies are recognized when received.

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

(21) Lease

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

(22) Accounting for income tax

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

(23) Consolidation of financial statements

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

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

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

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

(23) Consolidation of financial statements (Cont'd)

When preparing consolidated financial statements, the amount of the Company's investments on subsidiaries using equity method should be offset by the Company's share in subsidiaries' equity. Consolidated difference in value caused by offsetting is separately shown as "Consolidated difference in value" item in long-term investment.

3. TAXATION

(1) Value added tax

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

(2) Income tax

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

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

In accordance with Guo Shui Han [1994] No.381, the head office, the Shandong branch (the former headquarters of Shandong Huaneng Power Development Company Limited ("Shandong Huaneng")) and all the individual power plants make their income tax payment to local tax bureau individually. The statutory income tax rates applicable to the head office, the Shandong branch and the operating individual power plants and the Company's subsidiaries after the expiration of tax holiday are summarized as follows:

	Income tax rate	Tax holiday period
Head Office	15.0%	None
Huaneng Dalian Power Plant (the "Dalian Power Plant")*	18.0%	Till 31st December 1994
Huaneng Dalian Power Plant Phase II (the "Dalian Power Plant Phase II")*	18.0%	Till 31st December 2006
Huaneng Shang'an Power Plant (the "Shang'an Power Plant")*	18.0%	Till 31st December 1996
Huaneng Shang'an Power Plant Phase II (the "Shang'an Power Plant Phase II")*	18.0%	Till 31st December 2003
Huaneng Nantong Power Plant (the "Nantong Power Plant")*	15.0%	Till 31st December 1996
Huaneng Nantong Power Plant Phase II (the "Nantong Power Plant Phase II")*	15.0%	Till 31st December 2007
Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant")*	15.0%	Till 31st December 1995
Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Power Plant Phase II")*	15.0%	Till 31st December 2007
Huaneng Shantou Oil-Fired Plant (the "Shantou Oil-Fired Power Plant")*	15.0%	Till 31st December 1994
Huaneng Shantou Coal-Fired Power Plant (the "Shantou Power Plant")*	18.0%	Till 31st December 2005
Huaneng Shantou Coal-Fired Power Plant Phase II (the "Shantou Power Plant Phase II")	18.0%	Applying
Huaneng Shanghai Shidongkou II Power Plant (the "Shidongkou II Power Plant")*	16.5%	Till 31st December 1998
Huaneng Dandong Power Plant (the "Dandong Power Plant")*	18.0%	Not commenced yet
Huaneng Nanjing Power Plant (the "Nanjing Power Plant")*	15.0%	Till 31st December 2004
Shandong Branch	17.0%	None
Huaneng Dezhou Power Plant (the "Dezhou Power Plant")	17.0%	None
Huaneng Jining Power Plant (the "Jining Power Plant")	15.0%	None
Huaneng Changxing Power Plant (the "Changxing Power Plant")	16.5%	None
Huaneng Shanghai Shidongkou Power Plant (the "Shidongkou I Power Plant")	18.0%	None
Huaneng Xindian Power Plant (the "Xindian Power Plant")	15.0%	None
Huaneng Yingkou Power Plant (the "Yingkou Power Plant")*	18.0%	Not commenced yet
Huaneng Jinggangshan Power Plant (the "Jinggangshan Power Plant")*	15.0%	Till 31st December 2008
Huaneng Weihai Power Limited Company (the "Weihai Power Company")	33.0%	None
Huaneng (Suzhou Industrial Park) Power Limited Liability Company (the "Taicang Power Company")	33.0%	None
Huaiyin Power Company	33.0%	None

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

	Income tax rate	Tax holiday period
Jiangsu Huaneng Huaiyin II Power Limited Company (the "Huaiyin II Power Company")	33.0%	None
Shanxi Huaneng Yushe Power Limited Company (the "Yushe Power Company")	33.0%	None
Hunan Huaneng Yueyang Power Limited Company (the "Yueyang Power Company")	33.0%	None
Huaneng Chongqing Luohuang Power Limited Company (the "Luohuang Power Company")*	15.0%	Till 31st December 2007
Henan Huaneng Qinbei Power Limited Company (the "Qinbei Power Company")	33.0%	None
Pingliang Power Company	33.0%	Till 31st December 2010
Sichuan Huaneng Taipingyi Hydropower Limited Liability Company (the "Taipingyi Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Baoxinghe Power Limited Liability Company (the "Baoxinghe Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company (the "Dongxiguan Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Kangding Hydropower Limited Liability Company (the "Kangding Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Mingtai Hydropower Limited Liability Company (the "Mingtai Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Fujiang Hydropower Limited Liability Company (the "Fujiang Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company (the "Jialingjiang Hydropower")	33.0%	Till 31st December 2010
Sichuan Hydropower	33.0%	None

* According to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", these 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 five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Approved File No.	2005	2004
Head Office (Note 1)	Guo Shui Han [1997]368	—	15.0%
Dalian Power Plant	Guo Shui Han [1994]381	18.0%	18.0%
Dalian Phase II (Note 2)	Guo Shui Zhi Shui Han [2004]12& Guo Shui Da Zhi Shui Han[2005]017	10.0%	15.0%
Shang'an Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	18.0%
Shang'an Phase II	Guo Shui Han [1994]381 & Guo Shui Han [2000]194	18.0%	18.0%
Nantong Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Nantong Phase II (Note 3)	Su Guo Shui Han [2003]248 & Tong Guo Shui Wai Zi [2003] 1 & Tong Guo Shui Wai Zi [2005] 1	10.0%	7.5%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Phase II (Note 4)	Min Guo Shui Han [2003]37& Chang Guo Shui Han [2005]2	10.0%	7.5%
Shantou Oil-Fired Plant (Note 1)	Guo Shui Han [1994]381	—	—
Shantou Power Plant (Note 5)	Approved by Shantou State Tax Bureau	10.0%	10.0%
Shantou Power Plant Phase II (Note 15)	Not applicable	18.0%	N/A
Shidongkou II Power Plant	Approved by Shanghai State Tax Bureau	16.5%	16.5%
Dandong Power Plant ((Note 6)	Dan Guo Shui She Wai [1999]7	—	—
Nanjing Power Plant (Note 7)	Ning Guo Shui Wai Zi [1997]039	15.0%	10.0%
Shandong Branch (Note 1)	Guo Shui Han [2001]866	—	—
Dezhou Power Plant	Guo Shui Han [2001]866	17.0%	17.0%
Jining Power Plant	Guo Shui Han [2002]1063 and Ji Guo Shui Han [2003]1	15.0%	15.0%
Changxing Power Plant	Guo Shui Han [2002]1030	16.5%	16.5%
Shidongkou I Power Plant	Hu Guo Shui Ba Shui [2003]31	18.0%	18.0%
Xindian Power Plant (Note 8)	Lin Guo Shui Han [2004]123	15.0%	15.0%
Yingkou Power Plant (Note 6)	Approved by Yingkou State Tax Bureau	—	—

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

	Approved File No.	2005	2004
Jinggangshan Power Plant (Note 9)	Ji An Shi Guo Shui Zhong Qi Fa [2004]20	—	—
Weihai Power Company	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	33.0%
Huaiyin Power Company	Not applicable	33.0%	33.0%
Huaiyin II Power Company	Not applicable	33.0%	33.0%
Yushe Power Company	Not applicable	33.0%	33.0%
Yueyang Power Company	Not applicable	33.0%	33.0%
Luohuang Power Company (Note 10)	Approved by Chongqing State Tax Bureau	7.5%	—
Qinbei Power Company (Note 11)	Not applicable	33.0%	—
Pingliang Power Company (Note 12,13)	Guo Shui Fa [2002]47	15.0%	N/A
Taipingyi Hydropower (Note 12,13)	Guo Shui Fa [2002]47	15.0%	N/A
Baoxinghe Hydropower (Note 12,13)	Guo Shui Fa [2002]47	15.0%	N/A
Dongxiguan Hydropower (Note 12,13)	Guo Shui Fa [2002]47	15.0%	N/A
Kangding Hydropower (Note 12,13,14)	Guo Shui Fa [2002]47	7.5%	N/A
Mingtai Hydropower (Note 6,12,13)	Guo Shui Fa [2002]47	—	N/A
Fujiang Hydropower (Note 12,13,14)	Guo Shui Fa [2002]47	—	N/A
Jialingjiang Hydropower (Note 12,13)	Guo Shui Fa [2002]47	15.0%	N/A
Sichuan Hydropower (Note 1,12)	Not applicable	—	N/A

Notes:

- 1 These entities encountered a tax-loss in 2005, so their effective income tax rates are zero.
- 2 In accordance with Guo Shui Zhi Shui Han 2004 No. 12, the tax holiday of the Dalian Power Plant Phase II is determined separately from the Dalian Power Plant. Dalian Phase II is granted an exemption of local income tax of 3% from 1st January 1999 to 31st December 2008. Pursuant to Guo Shui Da Zhi Shui Han 2005 No. 17, the Dalian Power Plant Phase II is also qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to a tax holiday for two years from 1st January 2005 to 31st December 2006. The applicable income tax rate during this period is 10%.
- 3 In accordance with Su Guo Shui Han 2003 No. 248 and Tong Guo Shui Wai Zi 2003 No. 1, the tax holiday of the Nantong Power Plant Phase II is determined separately from the Nantong Power Plant. The Nantong Power Plant Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January 2002 to 31st December 2004. In accordance with Guo Shui Wai Zi 2005 No.1, as foreign invested advanced technology enterprise, the Nantong Power Plant Phase II is entitled to a tax holiday with 10% income tax rate form 1st January 2005 to 31st December 2007.
- 4 In accordance with Min Guo Shui Han 2003 No. 37, the tax holiday of the Fuzhou Power Plant Phase II is determined separately from the Fuzhou Power Plant. The Fuzhou Power Plant Phase II is entitled to a 50% reduction of the applicable tax rate from 1st January 2002 to 31st December 2004. In accordance with Chang Guo Shui Han 2005 No. 2, as foreign invested advanced technology enterprise, the Fuzhou Power Plant Phase II is entitled to a tax holiday with 10% income tax rate form 1st January 2005 to 31st December 2007.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

- 5 In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated 16th January 2003, the Shantou Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January 2003 to 31st December 2005. The applicable tax rate during the extension period is 10%.
- 6 These plants have not finished offsetting accumulated loss, so the tax rate for them in 2005 is zero. The tax holiday of Dandong Power Plant and Yingkou Power Plant have not commenced yet.
- 7 In accordance with Ning Guo Shui Wai Zi 1997 No.39, the Nanjing Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January 2002 to 31st December 2004. The applicable tax rate during the extension period is 10%. From 1st January 2005, the applicable income tax rate of the Nanjing Power Plant is 15%.
- 8 In accordance with Lin Guo Shui Han 2004 No.123, the Xindian Power Plant is entitled to the preferential tax treatment applicable to Sino-foreign enterprises investing in energy industry at a reduced income tax rate of 15%.
- 9 In accordance with Ji An Shi Guo Shui Zhong Qi Fa 2004 No. 20, the Jinggangshan Power Plant is entitled to a tax holiday from 1st July 2004 to 31st December 2008. The applicable tax rate is zero during this period.
- 10 In accordance with the approval from Chongqing State Tax Bureau Shewai Branch, the Luohuang Power Company is entitled to a tax holiday from 1st January 2003 to 31st December 2007 with income tax exemption for first two years and 50% tax rate for the three years thereafter. The applicable income tax rate of Luohuang is zero in 2004 and 7.5% in 2005.
- 11 The effective tax rate in 2004 was zero as the Qinbei Power Company did not commence its commercial operations until November 2004 and no profit was made in 2004.
- 12 Not applicable in 2004 as they were not subsidiaries of the Company.
- 13 In accordance with Guo Shui Fa 2002 No.47 "The announcement about the opinion of carrying out specific taxation implementation according to West Development Policy" issued by the State Tax Bureau, and the approval of the relevant local tax bureaus, these plants are entitled to a 15% income tax rate from 1st January 2001 to 31st December 2010.
- 14 In accordance with Guo Shui Fa 2002 No.47 "The announcement about the opinion of carrying out specific taxation implementation according to West Development Policy" issued by the State Tax Bureau, the new founded domestic electricity enterprises in West region are entitled with tax holiday of income tax exemption for first two years and 50% tax rate for the three years thereafter.

Kangding Hydropower is in the 5th year of the above mentioned tax holiday. Therefore the applicable income tax rate is 7.5% in 2005. The tax rate was approved by the local tax bureau. Fujiang Hydropower is entitled to the above mentioned tax holiday from 1st January 2005. Therefore the applicable income tax rate is zero in 2005. Fujiang Hydropower's approval of the tax holiday is still in the application process.
- 15 Not applicable in 2004 as Shantou Power Plant Phase II did not commence its commercial operations until October 2005.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

4. SUBSIDIARIES

As at 31st December 2005, the detailed information of the Company's subsidiaries are as follows:

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held		Included in Consolidated Financial Statements
					Direct	Indirect	
Weihai Power Company	No. 58 Haifu road, Economic Development Zone, Weihai, Shandong province 22nd November 1993	RMB761,838,300	Power generation	RMB474,038,793	60%	—	Yes
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province 19th June 1997	RMB632,840,000	Power generation	RMB661,293,633	75%	—	Yes
Huaneng Taicang Power Co., Ltd. ("Taicang II Power Company")	Jinlanglanggang village, Fuqiao town, Taicang, Jiangsu province 18th June 2004	RMB894,410,000	Power generation	RMB603,110,000	75%	—	Yes
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu province 26th January 1995	RMB265,000,000	Power generation	RMB693,399,531	90%	—	Yes
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu province 22nd June 2004	RMB774,000,000	Power generation	RMB492,573,600	63.64%	—	Yes
Qinbei Power Company	Wulongkou town, Jiyuan city, Henan province 12th July 1995	RMB10,000,000	Power generation	RMB471,556,956	55%	—	Yes
Yushe Power Company	Dengyu village, Yushe county Shanxi province 29th November 1994	RMB615,760,000	Power generation	RMB380,385,896	60%	—	Yes

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

4. SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held		Included in Consolidated Financial Statements
					Direct	Indirect	
Shandong Huaneng Xindian Power Co., Ltd. ("Xindian II Power Company")	Dawu town, Linzi district, Zibo, Shandong province 14th March 2004	RMB100,000,000	Power generation	RMB251,100,000	95%	—	Yes
Yueyang Power Company	ChengLingji, Yueyang Hunan Province 16th December 2003	RMB560,000,000	Power generation	RMB770,451,197	55%	—	Yes
Luohuang Power Company	Luohuang County, JiangJin city, ChongQing 16th December 2003	RMB900,000,000	Power generation	RMB1,624,301,221	60%	—	Yes
Huaneng Shanghai Ranji Power Generation Limited Liability Company (the "Shanghai Ranji Power Company")	No.298 Shengshi Road, Baoshan district, Shanghai 13th January, 2005	RMB50,000,000	Power generation	RMB380,060,000	70%	—	Yes
Sichuan Hydropower	No.47 division 4 Renmin South Road, Wuhou district, Chengdu, Sichuan province 12th July 2004	RMB800,000,000	Investment holding and hydropower projects development	RMB1,173,893,278	60%	—	Yes
Baoxinghe Hydropower	No.18 Yanjiang North Road, Ya'an, Sichuan province 26th June 1994	RMB516,100,000	Power generation	RMB350,948,000	—	68%	Yes

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

4. SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held		Included in Consolidated Financial Statements
					Direct	Indirect	
Dongxiguan Hydropower	Li'an town, Wusheng county, Sichuan province 29th June 1994	RMB156,725,000	Power generation	RMB101,415,900	—	59.33%	Yes
Taipingyi Hydropower	Yingxiu town, Wenchuan county, Sichuan province 23rd April 1994	RMB100,000,000	Power generation	RMB60,000,000	—	60%	Yes
Kangding Hydropower	Yuanyang dam, Kangding county, Ganzi, Sichuan province 14th April 1997	RMB277,200,000	Power generation	RMB163,600,000	—	60%	Yes
Mingtai Hydropower	Donghe Road, Beiba Development zone, Santai county, Sichuan province 8th September 1994	RMB97,700,000	Power generation	RMB50,999,400	—	52.20%	Yes
Jialingjiang Hydropower	No.191 Liulin Road, Shunqing district, Nanchong city, Sichuan province 30th September 1998	RMB193,080,000	Power generation	RMB87,220,000	—	55%	Yes
Fujiang Hydropower	Baima village, Pingwu county, Sichuan province 22nd March 2002	RMB150,000,000	Power generation	RMB153,630,000	—	95%	Yes
Pingliang Power Company	No.7 Binhe middle Road, Qilihe district, Lanzhou, Gansu province 6th November 1996	RMB623,000,000	Power generation	RMB816,041,516	65%	—	Yes
Yushe Boyuan Power Industry Limited Liability Company (the "Boyuan Company")	Dengyu village, Yushe county, Shanxi province 25th July 2005	RMB2,000,000	Property management and leasing	RMB1,500,000	—	75%	Yes

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash

	31st December 2005			31st December 2004		
	Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash - RMB			1,042,022			620,687
Bank deposit - RMB			2,689,625,707			2,350,491,735
- USD	19,940,669	8.0702	160,925,226	19,301,268	8.2765	159,746,942
- Japanese yen	331	0.0687	23	325	0.0797	26
Sub-total			2,850,550,956			2,510,238,703
Total cash			2,851,592,978			2,510,859,390

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

	31st December 2005
Cash	2,851,592,978
Less: Time deposit with maturity beyond 3 months	(2,652,006)
Restricted cash	(201,274,975)
Cash as at 31st December 2005	2,647,665,997
Less: Cash as at 31st December 2004	(2,295,530,972)
Net increase in cash	352,135,025

(2) Notes receivable

	31st December 2005	31st December 2004
Banking notes receivable	519,813,416	430,181,845
Commercial notes receivable	597,720,000	812,490,000
	1,117,533,416	1,242,671,845

As at 31st December 2005, all the notes receivable were unsecured notes receivable.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(3) Accounts receivable and other receivables

(a) Accounts receivable

	31st December 2005	31st December 2004
Accounts receivable	5,214,902,662	4,080,533,818
Less: Bad Debt Provision	(310,010,050)	(350,102,662)
	4,904,892,612	3,730,431,156

The aging of accounts receivable and bad debt provision are as follows:

Aging	31st December 2005			31st December 2004		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	4,750,343,935	91	—	3,267,696,332	80	—
1-2 years	51,554,429	1	(10,000,000)	96,807,620	2	—
2-3 years	7,447,181	—	(1,243,990)	—	—	—
Over 3 years*	405,557,117	8	(298,766,060)	716,029,866	18	(350,102,662)
	5,214,902,662	100	(310,010,050)	4,080,533,818	100	(350,102,662)

* As at 31st December 2005, the major portion of the receivables aged over 3 years but not provided for was Yueyang Power Company's account receivables due from local grid companies. According to the acquisition agreement with HIPDC, HIPDC has agreed to compensate the Company's equity portion in Yueyang Power Company on any account of these receivable that remains uncollected by 31st December 2006. Therefore, the Company and its subsidiaries has not fully provided bad debt provision for these accounts receivables.

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

As at 31st December 2005, there was no accounts receivable from shareholders who held 5% or more of the equity interest in the Company (31st December 2004: Nil).

As at 31st December 2005, the five largest accounts receivable of the Company and its subsidiaries amounting to RMB2,876,584,321 (31st December 2004: RMB2,315,793,777), representing 55.16% of the total accounts receivable (31st December 2004: 56.75%).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

(b) Other receivables

	31st December 2005	31st December 2004
Other receivables	676,907,866	341,953,996
Less: bad debt provision	(79,134,238)	(49,108,057)
	597,773,628	292,845,939

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

Aging	31st December 2005			31st December 2004		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	504,005,838	75	(1,889,527)	187,298,876	55	(5,618,966)
1-2 years	7,480,530	1	(434,830)	49,794,157	15	(1,493,825)
2-3 years	30,136,018	4	(551,900)	22,263,956	6	(667,919)
Over 3 years	135,285,480	20	(76,257,981)	82,597,007	24	(41,327,347)
	676,907,866	100	(79,134,238)	341,953,996	100	(49,108,057)

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

(b) Other receivables (Cont'd)

Breakdown of other receivables is as follows:

	31st December 2005	31st December 2004
Prepayment for acquisition of China Huaneng Finance Company (the "Huaneng Finance")*	288,000,000	—
Receivable from employees for sales of staff quarters	14,518,166	11,142,227
Social insurance funds	14,539,748	31,859,569
Petty cash	9,838,541	9,571,945
Receivable from Gansu Guangda Real Estate Company	66,800,000	—
Prepayments for constructions	4,197,500	12,086,529
Others	279,013,911	277,293,726
	676,907,866	341,953,996

* 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, and was recorded as other receivables (Note 10).

As at 31st December 2005, there were no other receivables from shareholders who held 5% or more of the equity interest in the Company except for RMB21,847,346 from HIPDC (31st December 2004: Nil).

As at 31st December 2005, the five largest other receivables of the Company and its subsidiaries amounted to RMB422,637,262 (31st December 2004: RMB135,176,856), representing 62.44% of total other receivables (31st December 2004: 39.53%).

See Note 7 for related party transactions.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(4) Advance to suppliers

	31st December 2005	31st December 2004
Prepayments for coal	142,054,339	293,181,969
Prepayments for materials and spare parts	22,441,393	33,467,251
Prepayments for equipments	73,004,442	32,551,886
Prepayments for contractors	5,810,149	26,498,054
Others	25,295,736	55,671,615
	268,606,059	441,370,775

Aging for advance to suppliers is as follows:

Aging	31st December 2005		31st December 2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	239,576,900	90	434,116,293	98
1-2 years	26,691,042	9	5,512,106	2
2-3 years	1,905,613	1	208,500	—
Over 3 years	432,504	—	1,533,876	—
	268,606,059	100	441,370,775	100

As at 31st December 2005, there were no advances paid to shareholders who held 5% or more of the equity interest in the Company (As at 31st December 2005: Nil).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(5) Inventories

	31st December 2005	31st December 2004
Fuel (coal and oil) for power generation	1,498,483,819	732,834,080
Materials and spare parts	861,257,627	715,249,762
	2,359,741,446	1,448,083,842
Less: provision for inventory obsolescence-spare parts	(48,384,680)	(16,680,237)
	2,311,356,766	1,431,403,605

Provision for inventory obsolescence during the year are analyzed as follows:

	Spare parts
31st December 2004	(16,680,237)
Current year addition	(31,956,590)
Current year deduction	252,147
31st December 2005	(48,384,680)

The cost of inventories recognized as expenses and included in cost of sales amounting to RMB21,580,927,262 in 2005 (2004: RMB15,310,808,468).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(6) Long-term investments

	31st December 2004	Current year additions	Current year deductions	31st December 2005
Long-term equity investments				
Consolidated difference in value (a)	1,331,850,487	720,763,840	(242,129,601)	1,810,484,726
Associates (b)	3,217,902,086	669,062,977	(394,621,332)	3,492,343,731
Equity investment difference (c)	1,075,342,379	—	(122,946,008)	952,396,371
Other long-term equity investments (d)	263,131,226	3,462,583	(37,865,815)	228,727,994
Less: impairment of long-term investments	(1,987,660)	(2,962,583)	—	(4,950,243)
Sub-total	5,886,238,518	1,390,326,817	(797,562,756)	6,479,002,579
Long-term debt investments	58,700	—	(5,000)	53,700
Less: current portion of long-term debt investments	(5,000)	—	5,000	—
Long-term debt investments	53,700	—	—	53,700
Total long-term investments	5,886,292,218	1,390,326,817	(797,562,756)	6,479,056,279

As at 31st December 2005 and 31st December 2004, the Company's total long-term investments accounted for 16.58% and 15.83% of the Company's net assets respectively.

The long-term investments of the Company and its subsidiaries are not subject to restriction on conversion into cash or restriction on remittance of investment income because the Company and its subsidiaries have no investment abroad.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

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

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

Name	Original cost	Amortization period	Accumulated amortization	Balance at 31st December 2004	Current year additions	Current year amortization	Balance at 31st December 2005
Taicang Power Company	191,587,073	10 years	(66,090,005)	144,655,775	—	(19,158,707)	125,497,068
Huaiyin Power Company	211,580,733	10 years	(51,508,951)	118,274,556	59,957,428	(18,160,202)	160,071,782
Qinbei Power Company	96,461,357	10 years	(20,899,961)	85,207,532	—	(9,646,136)	75,561,396
Yushe Power Company	5,936,001	10 years	(1,187,200)	5,342,401	—	(593,600)	4,748,801
Yueyang Power Company	393,716,359	7.5years	(78,743,272)	367,468,602	—	(52,495,515)	314,973,087
Luohuang Power Company	649,082,972	8.5years	(114,544,054)	610,901,621	—	(76,362,703)	534,538,918
Sichuan Hydropower	451,067,215	10 years	(45,106,722)	—	451,067,215	(45,106,722)	405,960,493
Pingliang Power Company	205,324,362	10 years	(20,532,436)	—	205,324,362	(20,532,436)	184,791,926
Dongxiguan Hydropower	4,414,835	10 years	(73,580)	—	4,414,835	(73,580)	4,341,255
	2,209,170,907		(398,686,181)	1,331,850,487	720,763,840	(242,129,601)	1,810,484,726

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

(b) Investment in associates

Name	Places and dates of incorporation	Registered capital	Principal activities	Total investment contributed by the Company	Percentage of equity interest held	
					Direct	Indirect
<i>Associates:</i>						
Shandong Rizhao Power Limited Liability Company (the "Rizhao Power Company")	Rizhao, Shandong 20th March 1996	US\$150 million	Power generation	RMB231.87 million	25.5%	—
Shenzhen Energy Group Co., Ltd. (the "SEG")	Shenzhen, Guangdong 16th July 1997	RMB955.56 million	Development, production and sale of energy, and energy construction project	RMB2,390 million	25%	—
Hebei Huaneng Hanfeng Power Co., Ltd (the "Hanfeng Power Company")	Handan, Hebei 28th October 1996	RMB1,975 million	Power generation	RMB1,241.49 million	40%	—
Chongqing Huaneng Lime Company Limited (the "Lime Company")	Luohuang county, Jiangjin city, Chongqing 5th November 1996	RMB50 million	Lime production and sale	RMB12.5 million	—	25%

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

(b) Investment in associates (Cont'd)

	Investment period	Percentage of equity interest held		Investment cost		Accumulated equity pick-up movement			Net carrying value	
		31st December 2004	31st December 2005	31st December 2004	31st December 2005	31st December 2004	Current year additions/ (deductions)	31st December 2005	31st December 2004	31st December 2005
		Rizhao Power Company	20 years	25.5%	25.5%	231,868,800	231,868,800	(64,830,409)	40,247,844	(24,582,565)
SEG	No specific terms	25%	25%	1,595,902,576	1,595,902,576	362,700,789	285,475,476	648,176,265	1,958,603,365	2,244,078,841
Hanfeng Power Company	25 years	40%	40%	940,103,488	806,121,370	133,167,724	82,712,551	215,880,275	1,073,271,212	1,022,001,645
Lime Company	No specific terms	25%	25%	18,028,710	18,028,710	960,408	(12,108)	948,300	18,989,118	18,977,010
				2,785,903,574	2,651,921,456	431,998,512	408,423,763	840,422,275	3,217,902,086	3,492,343,731

(c) Equity investment difference

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

Name	Original cost	Amortization period	Accumulated amortization	Balance at	Current year additions	Current year amortization	Balance at
				31st December 2004			31st December 2005
SEG	794,097,424	10 years	(211,759,312)	661,747,854	—	(79,409,742)	582,338,112
Hanfeng Power Company	435,362,658	10 years	(65,304,399)	413,594,525	—	(43,536,266)	370,058,259
	1,229,460,082		(277,063,711)	1,075,342,379	—	(122,946,008)	952,396,371

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

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

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

(d) Other long-term equity investments

Other long-term equity investments mainly represents a 1.82% (31st December 2004: 2.11%) equity investment in China Yangtze Power Co., Ltd (the "Yangtze Power"), details are as follows:

Name	Investment period	Stock category	Stock amount	Balance at 31st December 2005
Yangtze Power	Starting from 22nd August 2002, with no specific terms	Tradable share	149.31Million	220,219,361

Pursuant to the approved shareholding structure reform plan of Yangtze Power, the company transferred all of the bonus shares received, part of its original shareholding and cash dividend income to the public shareholders in order to obtain the share floating right of its remaining shareholding. As a result of disposing certain original shareholding, the investment of the Company was decreased by approximately Rmb 34.77 million. The Company also recognized an asset, "share floating right" amounting to approximately Rmb 63.64 million simultaneously as a result of the above mentioned cash dividend and shares transfer transaction and recorded it as other assets.

As at 31st December 2005, based on the closing quotation of last transaction day of 2005 extracted from the Shanghai Stock Exchange, the market value of the remaining shareholding amounted to 1.033 billion.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(7) Fixed assets and accumulated depreciation

	Dam	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
Cost						
31st December 2004	—	2,554,360,403	75,380,590,710	540,248,325	2,090,105,664	80,565,305,102
Reclassification	—	(462,160,110)	630,742,409	(290,614,931)	122,032,632	—
Additions from acquisition	2,263,640,876	517,218,561	8,497,008,751	41,736,139	333,517,923	11,653,122,250
Transfer from construction-in-progress	459,022,142	31,392,183	3,893,690,562	4,726,165	1,838,292,306	6,227,123,358
Current year additions	—	13,005,569	35,650,104	31,000	94,208,059	142,894,732
Current year disposals	—	(15,753,522)	(585,200,041)	—	(92,487,097)	(693,440,660)
31st December 2005	2,722,663,018	2,638,063,084	87,852,482,495	296,126,698	4,385,669,487	97,895,004,782
Accumulated depreciation						
31st December 2004	—	562,520,489	31,359,289,541	240,598,360	1,083,723,842	33,246,132,232
Reclassification	—	(35,038,294)	49,579,018	(92,530,776)	77,990,052	—
Additions from acquisition	447,917,938	65,522,202	2,494,930,505	12,240,890	145,050,004	3,165,661,539
Current year depreciation	55,804,704	100,794,674	5,402,332,715	15,507,682	268,406,014	5,842,845,789
Current year disposals	—	(5,402,787)	(474,603,894)	—	(80,134,261)	(560,140,942)
31st December 2005	503,722,642	688,396,284	38,831,527,885	175,816,156	1,495,035,651	41,694,498,618
Impairment provision						
31st December 2004	—	—	—	—	—	—
Current year additions	—	—	(30,080,000)	—	—	(30,080,000)
31st December 2005	—	—	(30,080,000)	—	—	(30,080,000)
Net book value						
31st December 2005	2,218,940,376	1,949,666,800	48,990,874,610	120,310,542	2,890,633,836	56,170,426,164
31st December 2004	—	1,991,839,914	44,021,301,169	299,649,965	1,006,381,822	47,319,172,870

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For the year ended 31st December 2005

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

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

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

As at 31st December 2005, the company and its subsidiaries have pledged various assets as collateral against Rmb407 million loans (See Notes 5(18)). The summary of the pledged assets is as follows:

	31st December 2005	
	Original cost	Net book value
Dongxiguan hydropower		
- Dam	503,324,659	383,422,639
- Electric utility plant in service	405,201,454	190,305,425
- Buildings	2,907,922	1,933,414
- Others	47,880,703	10,484,548
Kangding hydropower		
- Electric utility plant in service	29,233,103	26,798,243
Mingtai hydropower		
- Electric utility plant in service	90,300,000	54,394,350
Total	1,078,847,841	667,338,619

As at 31st December 2004, there were no assets pledged as collateral assets.

(8) Construction materials

	31st December 2005	31st December 2004
Dedicated material and equipment	1,074,875,425	576,521,801
Prepayment for major equipment	5,196,100,762	3,299,543,606
Tools and instrument for production	18,175,660	—
Total	6,289,151,847	3,876,065,407

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(9) Construction-in-progress

Projects	Budget	31st December 2004	Additions from acquisition	Additions	Transfer to fixed assets	Other deductions*	31st December 2005	Percent of completion	Source of financing
Yuhuan Power Plant Project	9,669,320,000	868,047,247	—	1,839,890,737	—	—	2,707,937,984	28.0%	Funds borrowed from financial institutions and internal funds
Huaiyin II Power Company project	2,382,480,000	1,800,342,979	—	493,682,144	(2,240,832,414)	—	53,192,709	96.0%	Funds borrowed from financial institutions and internal funds
Taicang II Power Company project	4,612,820,000	655,869,433	—	2,804,059,777	—	—	3,459,929,210	75.0%	Funds borrowed from financial institutions and internal funds
Shantou Power Plant Phase II project	2,242,850,000	592,197,112	—	1,086,782,870	(1,678,134,411)	—	845,571	75.0%	Funds borrowed from financial institutions and internal funds
Xindian II Power Company project	2,431,930,000	92,853,529	—	223,759,785	—	—	316,613,314	13.0%	Funds borrowed from financial institutions and internal funds
Yushe Power Company Phase II project	2,678,810,000	14,199,676	—	94,544,657	(58,590,039)	—	50,154,294	85.0%	Funds borrowed from financial institutions and internal funds
Qinbei Power Company project	4,654,950,000	7,068,975	—	76,168,059	(72,678,509)	—	10,558,525	86.0%	Funds borrowed from financial institutions and internal funds
Yueyang Power Company Project	2,473,600,000	343,706,646	—	670,242,016	—	—	1,013,948,662	41.0%	Funds borrowed from financial institutions and internal funds
Luohuang Power Company Project	4,483,660,000	217,892,046	—	895,881,157	—	—	1,113,773,203	24.8%	Funds borrowed from financial institutions and internal funds
Yingkou power plant phase II project	4,539,960,000	10,848,075	—	289,649,277	—	—	300,497,352	6.6%	Funds borrowed from financial institutions and internal funds
Shanghai ranji power company project	3,319,690,000	27,853,497	—	827,776,521	—	—	855,630,018	25.8%	Funds borrowed from financial institutions and internal funds
Baoxinghe qiaoqi Hydropower station project	2,180,023,300	—	573,382,569	635,573,580	—	—	1,208,956,149	55.5%	Funds borrowed from financial institutions and internal funds

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

Projects	Budget	31st December 2004	Additions from acquisition	Additions	Transfer to fixed assets	Other deductions*	31st December 2005	Percent of completion	Source of financing
Kangding Xiaotiandu Hydropower station project	1,293,183,800	—	336,104,951	395,801,729	(500,893,082)	—	231,013,598	56.6%	Funds borrowed from financial institutions and internal funds
Fujiang Ziyili Hydropower station project	667,000,000	—	483,974,054	56,219,944	(540,193,998)	—	—	81.0%	Funds borrowed from financial institutions and internal funds
Fujiang Shuiniujia hydropower station project	966,510,100	—	295,009,067	227,125,211	—	—	522,134,278	54.0%	Funds borrowed from financial institutions and internal funds
Fujiang Muzuo hydropower station project	654,164,100	—	71,318,837	101,618,738	—	—	172,937,575	26.4%	Funds borrowed from financial institutions and internal funds
Other projects		497,346,025	221,189,785	2,438,325,065	(1,135,800,905)	(132,171,926)	1,888,888,044		Funds borrowed from financial institutions and internal funds
		5,128,225,240	1,980,979,263	13,157,101,267	(6,227,123,358)	(132,171,926)	13,907,010,486		
Include: Capitalized borrowing cost		190,746,909	77,411,735	550,075,698	(162,540,719)	—	655,693,623		

* For the year ended 31st December 2005, other deductions are mainly due to that the company dispose a subsidiary located in Nanjing.

For the year ended 31st December 2005, the interest capitalized for construction-in-progress was RMB550,075,698 and the capitalized rate per annum was 5.24% (2004: RMB272,225,256, at 4.56% per annum).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(10) Intangible assets

	Original cost	31st December 2004	Addition from acquisition	Current year addition	Current year amortization	Accumulated amortization	31st December 2005	Remaining amortization period	Obtained through
Land use rights	1,147,903,066	887,735,778	—	142,378,945	(23,468,794)	(141,257,137)	1,006,645,929	15 to 68.5 years	Purchase
Negative goodwill	(2,472,783,635)	(1,483,670,180)	—	—	247,278,363	1,236,391,818	(1,236,391,817)	5 years	Acquisition
Goodwill	39,036,491	36,104,680	—	—	(4,752,150)	(7,683,961)	31,352,530	5.5 to 8.5 years	Acquisition
Others	32,226,681	8,819,845	2,524,438	13,424,431	(4,155,612)	(11,613,579)	20,613,102	2 to 16 years	Purchase and acquisition
	(1,253,617,397)	(551,009,877)	2,524,438	155,803,376	214,901,807	1,075,837,141	(177,780,256)		

As at 31st December 2005 and 31st December 2004, there was no indication that the intangible assets of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was made. No intangible assets of the Company and its subsidiaries were pledged.

(11) Other long-term assets

Other long-term assets represent the Company and its subsidiaries' receivables due from Sichuan Power Grid Company resulting from the transfer of transmission facilities. Sichuan Power Grid Company entered into an agreement with Baoxinghe Hydropower, Dongxiguan Hydropower and Taipingyi Hydropower each on the transfer of transmission facilities from these plants to Sichuan Power Grid Company, pursuant to which Sichuan Power Grid Company agreed to return the principal and interest amount related to the construction of the transmission facilities over 12.5 years, 12.5 years and 9 years respectively. The interest rate should be determined according to the prevailing bank loan's interest rate while the principal is repaid.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(12) Short-term loans

	31st December 2005	31st December 2004
Credit loans	6,180,869,370	7,499,000,000
Guaranteed loans	400,000,000	600,000,000
Total	6,580,869,370	8,099,000,000

As at 31st December 2005, all of the short-term loans of the Company and its subsidiaries were dominated in RMB, with interest rates ranging from 4.30% to 5.51% per annum (31st December 2004: 4.30% to 5.02% per annum).

As at 31st December 2005, short-term loans amounting to RMB2,007.7 million were borrowed from Huaneng Finance, with interest rates ranging from 4.70% to 5.02% per annum. (31st December 2004: RMB3,694 million with interest rates from 4.54% to 5.02% per annum).

As at 31st December 2005, short-term loans amounting to RMB40 million were borrowed from Sichuan Electric Power Development Company ("Sichuan Power"), with interest rates 5.51% per annum. (31st December 2004: Nil).

As at 31st December 2005, short-term loans amounting to RMB400 million were guaranteed by the Beijing Branch of Industrial and Commercial Bank of China with interest rates 4.30% per annum. (31st December 2004: RMB600 million with interest rates 4.30% per annum).

(13) Short-term bond

On 27th May 2005, the Company issued short-term bonds in two batches and the face value were RMB4.5 billion (due in 1 year) and RMB0.5 billion (due in 9 months). These bonds were issued at a discount with per annum effective interest rates of 2.92% and 2.70% respectively. The proceeds received by the Company and its subsidiaries were RMB4,372 million and RMB490 million respectively. As at 31st December 2005, the accrued interest payable on the above short-term bonds was approximately RMB85 million.

(14) Accounts payable

Accounts payable mainly represents the amounts due to coal suppliers. As at 31st December 2005 and 31st December 2004, there was no accounts payable to any shareholder who held 5% or more of the equity interest in the Company, and there were no accounts aged over three years.

See Note 7 for related party transactions.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(15) Dividends payable

	31st December 2005	31st December 2004
Aba Hydro Power Development Co., Ltd. (the "Aba Hydro Power")	47,284,752	—
Sichuan Ganzi Hydropower Development Company	22,975,176	—
Sichuan Power	17,527,232	—
Ya'an State-Owned Assets Operation Limited Liability Company	10,739,989	—
Yangtze River Water and Electricity Development Company	8,591,991	—
Jiangsu Huai'an Investment Company	—	13,418,696
Shantou Electricity Power Development Company	—	8,250,000
Others	31,160,819	—
	138,279,959	21,668,696

The ending balance is the cash dividend that has not been drawn by shareholders.

(16) Taxes payable

Taxes payable comprised:

	31st December 2005	31st December 2004
Income tax payable	463,314,061	407,449,828
VAT payable	576,488,301	527,292,394
Others	91,481,998	65,049,963
	1,131,284,360	999,792,185

Notes to the Financial Statements

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For the year ended 31st December 2005

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

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

(17) Other payables

Other payables comprised:

	31st December 2005	31st December 2004
Payable to contractors	1,255,887,833	889,096,823
Payable for purchase of equipments	946,895,495	703,714,020
Other payable to contractors	778,487,539	237,912,047
Payable for purchase of materials	227,349,256	195,987,380
Payable to HIPDC	53,230,133	1,258,799,490
Payable to Huaneng Group	50,720,038	189,963
Accruals	70,128,842	35,828,532
Payable of social insurance fund	67,107,126	71,458,881
Project saving bonus	65,719,185	62,098,336
Payable of housing maintenance fund	87,652,045	49,231,372
Payable to Henan Electricity Industry Bureau	58,536,766	21,808,244
Payables of environment protection		
– exhaust emission fee	38,552,452	20,695,875
Others	429,079,389	159,991,783
	4,129,346,099	3,706,812,746

As at 31st December 2005, there was no other payable due to any shareholder who held 5% or more of the equity interest in the Company except for a payable due to HIPDC of RMB53,230,133 and a payable due to Huaneng Group of RMB50,720,038 (31st December 2004: Due to HIPDC: RMB1,258,799,490, Due to Huaneng Group: RMB189,963) as mentioned above. There was also no significant other payable aged over three years.

See Note 7 for related party transactions.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(18) Long-term loans

		31st December 2005	31st December 2004
Long-term loans from ultimate parent company	(a)	2,800,000,000	800,000,000
Long-term bank loans	(b)	28,364,593,943	15,986,747,027
Other long-term loans	(c)	863,649,094	711,779,897
		32,028,243,037	17,498,526,924
Less: current portion of long-term loans		(3,165,979,238)	(1,543,237,546)
		28,862,263,799	15,955,289,378

(a) Long-term loans from ultimate parent company

As at 31st December 2005, detailed information of the long-term loans from ultimate parent company was as follows:

Lender	31st December 2005	Loan period	Interest rate per annum	Current portion	Terms
Renminbi loans					
Entrusted loans from Huaneng Group through Huaneng Finance*	600,000,000	2004-2013	4.60%	—	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*	200,000,000	2004-2013	4.05%	—	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*	2,000,000,000	2005-2015	5.02%	—	Nil
	2,800,000,000			—	

* As at 31st December 2005, these loans were not repayable within one year and therefore there was no current portion.

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

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

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

(b) Long-term bank loans

31st December 2005						
	Original currency	Exchange rate	RMB	Less: current portion of long-term bank loans	Total	Interest rate per annum
Credit loans						
– Renminbi bank loans			14,194,348,300	(804,500,000)	13,389,848,300	3.60%-5.63%
– United States dollar bank loans	7,370,975	8.0702	59,483,482	(27,699,202)	31,784,280	5.40%-6.97%
– Euro dollar bank loans	73,319,218	9.5797	702,376,115	(67,544,896)	634,831,219	2.00%
Guaranteed loans*						
– Renminbi bank loans			7,639,490,000	(621,390,000)	7,018,100,000	5.18%-6.12%
– US dollar bank loans	664,406,836	8.0702	5,361,896,046	(815,205,045)	4,546,691,001	2.16%-6.60%
Secured Loans**						
– Renminbi bank loans			407,000,000	(317,000,000)	90,000,000	5.18%-5.76%
Total			28,364,593,943	(2,653,339,143)	25,711,254,800	

* The bank loans amounting to approximately Rmb3.311 billion and 7.127 billion (31st December 2004: approximately RMB3.937 billion and approximately RMB3.521 billion) were guaranteed by HIPDC and Huaneng Group respectively.

The bank loans of the subsidiaries of the Company were guaranteed by the Company amounting to approximately RMB1.352 billion (31st December 2004: RMB1.43 billion).

** These loans are secured by various fixed assets of the Company and its subsidiaries with the net book value of RMB667,338,619 (See Note 5(7)).

Notes to the Financial Statements

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

(18) Long-term loans *(Cont'd)*

(c) *Other long-term loans*

The detailed information of other long-term loans was as follows (including current portion):

	31st December 2005		
	Original currency	Exchange rate	RMB
Renminbi loans			646,846,428
United States dollar loans	15,714,286	8.0702	126,817,428
Japanese Yen loans	1,309,523,810	0.0687	89,985,238
			863,649,094
Less: current portion of other long-term loans			(512,640,095)
			351,008,999

Notes to the Financial Statements

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

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

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

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

As at 31st December 2005, the detailed information about other long-term loans was as follows:

Lender	31st December 2005	Loan period	Interest rate per annum	Current portion	Terms
Renminbi loans					
Huaneng Finance	30,000,000	2003-2006	5.18%	(30,000,000)	Nil
Huaneng Finance*	20,000,000	2004-2007	5.18%	—	Nil
Huaneng Finance*	20,000,000	2004-2007	5.18%	—	Loans amounting to Rmb 15,000,000 were guaranteed by Sichuan Yong'an Hydro Power Joint-Stock Limited Company (the "Sichuan Yong'an")
Huaneng Finance	10,000,000	2003-2006	5.18%	(10,000,000)	Nil
Loan by mandate of Weihai Power Development Bureau (the "WPDB")	40,000,000	2004-2006	5.02%	(40,000,000)	Nil
Loan by mandate of WPDB	26,388,822	2004-2006	5.02%	(26,388,822)	Nil
Loan by mandate of Shanxi International Power (Group) Company Limited (the "Shanxi International")	66,000,000	2003-2006	5.18%	(66,000,000)	Nil
Loan by mandate of Shanxi International	5,500,000	1994-2006	5.02%	(5,500,000)	Nil

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

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

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

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

Lender	31st December 2005	Loan period	Interest rate per annum	Current portion	Terms
Chongqing Construction and Investment Limited Liability Company	183,670,000	2004-2006	4.94%	(183,670,000)	Nil
Aba Hydro Power Gansa Provincial Power Construction Investment Corporation	38,037,606	1994-2006	5.51%	(38,037,606)	Nil
China Electric Power Finance Co., Ltd-Northwest branch	7,250,000	1996-2007	6.12%	(3,625,000)	Nil
	200,000,000	2003-2008	5.27%	(70,000,000)	Secured by 50% tariff collection right of Pingliang Power Company
Subtotal of RMB loans	646,846,428			(473,221,428)	
US dollar loan					
On-lent foreign loans of the Ministry of Finance	126,817,428	1996-2011	LIBOR+0.43%	(23,057,715)	Guaranteed by Huaneng Group
Japanese Yen loan					
On-lent foreign loans of the Ministry of Finance	89,985,238	1996-2011	LIBOR+0.3%	(16,360,952)	Guaranteed by Huaneng Group
Subtotal of foreign loans	216,802,666			(39,418,667)	
Total	863,649,094			(512,640,095)	

* As at 31st December 2005, these loans were not repayable within one year and therefore there was no current portion.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(19) Share capital

Par value 1 RMB per share

	31st December 2004	31st December 2005
Unlisted shares		
Promoters shares	8,500,000,000	8,500,000,000
Including: Domestic legal person shares	8,500,000,000	8,500,000,000
Sub-total of unlisted shares	8,500,000,000	8,500,000,000
Listed Shares		
Domestic shares listed in the PRC	500,000,000	500,000,000
Overseas Listed Shares	3,055,383,440	3,055,383,440
Sub-total of listed shares	3,555,383,440	3,555,383,440
Total shares	12,055,383,440	12,055,383,440

(20) Capital surplus

	31st December 2004	Current year addition	31st December 2005
Share premium	8,590,777,628	—	8,590,777,628
Equity investment provision*	21,734,582	136,011,317	157,745,899
Transfer from grants	3,470,000	13,358,937	16,828,937
	8,615,982,210	149,370,254	8,765,352,464

* The addition of capital surplus in 2005 mainly accounts for the proportionate increase as the result of capital surplus changes of an associate of the Company.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(21) Surplus reserves

	31st December 2004	Current year appropriation	Current year addition	Current year deduction	31st December 2005
Statutory capital surplus reserve fund	2,229,832,058	476,262,503	—	—	2,706,094,561
Statutory public welfare fund	1,863,280,308	357,196,878	—	(3,473,222)	2,217,003,964
Discretionary surplus reserve fund	19,102,462	—	3,473,222	—	22,575,684
	4,112,214,828	833,459,381	3,473,222	(3,473,222)	4,945,674,209

According to the Company Law of the PRC and the Company's articles of association, the Company appropriates 10% of each year's net profit to the statutory surplus reserve fund until the fund balance reaches 50% of the registered share capital. After obtaining the approval from the relevant authorities, this reserve can be used to make up any losses incurred or to increase share capital. Except for setting off against losses incurred, any other usage may not result in this reserve balance falling below 25% of the registered share capital. Pursuant to the decision of the Board of Directors, the Company appropriated 10% of the profit after taxation to the statutory capital surplus fund amounting to RMB476,262,503 in 2005 (2004: 10%, amounting to RMB538,905,705).

Each year, the Company appropriates 5% to 10% of net profits to the statutory public welfare fund. The use of this reserve is restricted to the provision of employees' collective welfare benefits. The statutory public welfare fund is not available for distribution to shareholders. When utilizing the statutory public welfare fund, the amount is transferred from this account to the discretionary surplus reserve funds account. Any amounts utilized are capitalized in the Company's balance sheet or expensed in the Company's profit and loss. For the year ended 31st December 2005, 7.5% of net profit was provided for as statutory public welfare fund amounting to RMB357,196,878 (2004: 7.5%, amounting to RMB404,179,279).

The Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for discretionary surplus reserve fund. This reserve can be used to make up any losses incurred or to increase the share capital after approval is obtained from the Board of Directors. For the year ended 31st December 2005, no provision was made to the discretionary surplus reserve fund (2004: nil).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(22) Unappropriated profit

	2005	2004
Unappropriated profit brought forward	12,399,822,057	13,981,531,454
Add: Net profit for the year	4,762,625,031	5,389,057,047
Less: Appropriations to statutory capital surplus reserve	(476,262,503)	(538,905,705)
Appropriations to statutory public welfare fund	(357,196,878)	(404,179,279)
Dividends payable to ordinary shareholders-cash dividends of prior year approved at the general meeting of the shareholders	(3,013,845,860)	(3,013,835,600)
Ordinary share dividend - bonus shares	—	(3,013,845,860)
Unappropriated profit carried forward	13,315,141,847	12,399,822,057

Pursuant to the resolution of the Board of Directors on 15th March 2005, on the basis of 12,055,383,440 ordinary shares outstanding as at 31st December 2004, the directors proposed a cash dividend of RMB2.5 (including tax) for every 10 existing ordinary shares. On 11th May 2005 the shareholders approved the profit distribution plan and declared the cash dividend amounting to 3,013,845,860 on the basis of 12,055,383,440 ordinary shares outstanding as at the distribution date.

Pursuant to the resolution of the Board of Directors on 28th March 2006, on the basis of 12,055,383,440 ordinary shares outstanding as at 31st December 2005, the directors proposed a cash dividend of RMB2.5 (including tax) for every 10 existing ordinary shares amounting to RMB3,013,845,860. This proposal is subject to the approval of the shareholders at the annual general meeting. Proposed dividends plan had not been reflected in the financial statements. Once the distribution plan is approved by the general meeting of the shareholders, the dividend distribution will be accounted for in the financial statements for the year ended 31st December 2006.

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

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

	For the year ended 31st December 2005		For the year ended 31st December 2004	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	40,247,775,556	31,374,075,751	30,292,698,696	22,548,970,713

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

For the year ended 31st December 2005, the revenue from the five largest customers of the Company and its subsidiaries amounting to RMB25,623,899,911 (2004: RMB23,917,433,339), representing 63.67% (2004: 78.95%) of the total revenue, respectively.

(24) Tax and levies on principal operations

	For the year ended 31st December 2005	For the year ended 31st December 2004
City maintenance and construction tax	65,125,793	17,111,787
Education levies	48,349,571	15,211,915
	113,475,364	32,323,702

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(25) Financial expenses

	For the year ended 31st December 2005	For the year ended 31st December 2004
Interest expenses	1,579,092,793	722,810,744
Less: Interest income	(53,685,310)	(43,091,888)
Exchange losses	6,747,998	93,849,334
Less: Exchange gain	(296,467,136)	(737,890)
Others	49,751,015	26,340,259
	1,285,439,360	799,170,559

(26) Investment income

	For the year ended 31st December 2005	For the year ended 31st December 2004
Investment income on bonds	—	11,322
Share of profit of associates accounted for under the equity method	532,867,940	383,037,279
Dividends declared by investees accounted for under the cost method	63,834,662	23,078,308
Amortization of equity investment differences	(365,075,609)	(210,167,757)
Impairment loss on long-term investments	(2,962,583)	—
	228,664,410	195,959,152

The long-term investments of the Company and its subsidiaries are not subject to restriction on remittance of investment income because the Company and its subsidiaries have no investment abroad.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(27) Acquisition

As mentioned in Note 1, on 26th October 2004, the Company entered an agreement with Huaneng Group. According to the agreement, the Company agreed to acquired 60% equity interest in Sichuan Hydropower, and 65% equity interest in the Pingliang Power Company. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of the relevant ownership and control, the acquisitions were effective on 5th January 2005 (the "effective date"). At the effective date, assets, liabilities and cash flows related to the acquisitions of these subsidiaries were as follows:

	As at 5th January 2005
Current assets	1,328,999,525
Fixed assets	10,658,011,842
Intangible assets	2,524,438
Other long-term assets	154,162,257
Less: Current liabilities	2,068,018,662
Long-term liabilities	7,190,341,383
Minority shareholders interest	681,333,676
Net assets	2,204,004,341
Net assets acquired	1,368,608,423
Premiums (Consolidated difference in value)	656,391,577
Total consideration	2,025,000,000
Less: cash inflow from acquisition	(566,703,654)
Net cash outflow for acquisition	1,458,296,346

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(27) Acquisition (Cont'd)

The condensed income statements of these subsidiaries for the period from the effective date of acquisition to 31st December 2005 are as follows:

	For the period from the effective date to 31st December 2005
Revenue from principal operations	2,715,213,104
Cost and tax from principal operations	(1,471,119,455)
Profit from principal operations	1,244,093,649
Net income before tax	811,792,590
Less: Income tax	(117,382,295)
Minority shareholders interest	(163,603,151)
Net profit	530,807,144

(28) Other cash paid relating to operating activities

	For the year ended 31st December 2005
Service fee paid to HIPDC	141,102,133
Payment of balance due to HIPDC	1,260,833,250
Others	1,047,390,197
	2,449,325,580

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

(1) Accounts receivable and other receivables

(a) Accounts receivable

	31st December 2005	31st December 2004
Accounts receivable	3,180,365,793	2,407,402,978
Less: Specific bad debt provision	(269,326)	(269,326)
	3,180,096,467	2,407,133,652

The aging of accounts receivable and bad debt provision are as follows:

Aging	31st December 2005			31st December 2004		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	3,167,773,343	99	—	2,394,810,528	99	—
1-2 years	—	—	—	6,203,191	—	—
2-3 years	6,203,191	—	—	—	—	—
Over 3 years	6,389,259	1	(269,326)	6,389,259	1	(269,326)
	3,180,365,793	100	(269,326)	2,407,402,978	100	(269,326)

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

As at 31st December 2005, there was no accounts receivable from any shareholder who held 5% or more of the equity interest in the Company (31st December 2004: Nil).

As at 31st December 2005, the five largest accounts receivable of the Company amounting to RMB2,349,625,834 (31st December 2004: RMB1,908,721,219), representing 73.88% of total accounts receivable (31st December 2004: 79.29%).

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

(b) Other receivables

	31st December 2005	31st December 2004
Other receivables	445,493,907	153,647,924
Less: bad debt provision	(24,869,766)	(27,557,208)
	420,624,141	126,090,716

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

Aging	31st December 2005			31st December 2004		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	375,398,636	84	(1,504,105)	80,738,203	53	(1,814,463)
1-2 years	781,531	—	(57,415)	19,491,130	13	(584,734)
2-3 years	3,275,608	1	(64,238)	8,496,078	5	(254,882)
Over 3 years	66,038,132	15	(23,244,008)	44,922,513	29	(24,903,129)
	445,493,907	100	(24,869,766)	153,647,924	100	(27,557,208)

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

(b) Other receivables (Cont'd)

Breakdown of other receivables is as follows:

	31st December 2005	31st December 2004
Prepayment for acquisition of Huaneng Finance*	288,000,000	—
Receivables from employees for sales of staff quarters	14,518,166	11,142,227
Petty cash	4,719,499	5,790,247
Prepayments for constructions	839,800	12,086,529
Due from management fee of subsidiaries	3,677,462	20,256,116
Due from sales of steam to Jining Duoqing Company	20,489,915	13,414,304
Others	113,249,065	90,958,501
	445,493,907	153,647,924

* 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, and was recorded as other receivables (Note 10).

As at 31st December 2005, there were no other receivables from shareholders who held 5% or more of the equity interest in the Company (31st December 2004: Nil).

As at 31st December 2005, the five largest other receivables of the Company amounting to RMB332,879,562 (31st December 2004: RMB37,899,319), representing 74.72% of total other receivables (31st December 2004: 24.67%).

See Note 7 for related party transactions.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

(2) Long-term Investments

	31st December 2004	Current year additions	Current year deductions	31st December 2005
Long-term equity investments				
Subsidiaries (a)	4,515,546,857	3,883,752,617	(399,892,903)	7,999,406,571
Associates	3,198,912,967	667,417,989	(392,964,235)	3,473,366,721
Equity investment difference	2,407,192,866	716,349,005	(365,002,029)	2,758,539,842
Other long-term equity investments	263,131,226	2,962,583	(37,865,815)	228,227,994
Impairment of long-term investments	(1,987,660)	(2,962,583)	—	(4,950,243)
	10,382,796,256	5,267,519,611	(1,195,724,982)	14,454,590,885

As at 31st December 2005 and 2004, the Company's total long-term investment accounted for 36.97% and 27.92% of the Company's net assets respectively.

(a) Long-term equity investments in subsidiaries

	Investment period	Percentage of equity interest held		Investment cost movement		Accumulated equity pick-up movement		Net carrying value		
		31st	31st	31st	31st	31st	31st	31st	31st	
		December	December	December	December	December	Current year additions/ (deductions)	December	December	December
		2004	2005	2004	2005	2004	2005	2004	2005	
Weihai Power Company	30 years	60%	60%	474,038,793	474,038,793	186,142,793	(17,980,244)	168,162,549	660,181,586	642,201,342
Taichang Power Company	No specific terms	75%	75%	469,706,560	469,706,560	251,715,687	(21,467,310)	230,248,377	721,422,247	699,954,937
Huaiyin Power Company	No specific terms	63.64%	90%	341,176,226	481,818,798	39,883,679	(3,776,041)	36,107,638	381,059,905	517,926,436
Huaiyin II Power Company	No specific terms	63.64%	63.64%	301,653,600	492,573,600	—	49,585,758	49,585,758	301,653,600	542,159,358
Yushe Power Company	No specific terms	60%	60%	374,449,895	374,449,895	34,743,691	16,728,080	51,471,771	409,193,586	425,921,666
Qinbei Power Company	50 years	55%	55%	325,095,599	375,095,599	(9,902,420)	101,089,612	91,187,192	315,193,179	466,282,791
Xindian II Power Company	20 years	95%	95%	140,100,000	251,100,000	—	—	—	140,100,000	251,100,000
Taichang II Power Company	No specific terms	75%	75%	335,410,000	603,110,000	—	—	—	335,410,000	603,110,000
Yueyang Power Company	No specific terms	55%	55%	266,734,838	376,734,838	44,633,685	27,154,474	71,788,159	311,368,523	448,522,997
Luohuang Power Company	No specific terms	60%	60%	820,218,249	975,218,249	119,745,982	217,734,617	337,480,599	939,964,231	1,312,698,848
Shanghai Ranji Power Company	No specific terms	—	70%	—	380,060,000	—	—	—	—	380,060,000
Sichuan Hydropower	20 years	—	60%	—	767,932,785	—	165,975,281	165,975,281	—	933,908,066
Pingliang Power Company	23 years	—	65%	—	610,717,154	—	164,842,976	164,842,976	—	775,560,130
				3,848,583,760	6,632,556,271	666,963,097	699,887,203	1,366,850,300	4,515,546,857	7,999,406,571

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

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

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

	For the year ended 31st December 2005		For the year ended 31st December 2004	
	Revenues from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	26,963,747,586	21,656,318,652	24,812,849,816	18,669,183,184

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

For the year ended 31st December 2005 and 2004, the revenue from the five largest customers of the Company amounting to RMB21,175,627,090 and RMB20,360,461,498, representing 78.53% and 82.06% of the total revenue of the company respectively.

(4) Investment income

	For the year ended 31st December 2005	For the year ended 31st December 2004
Investment income on bonds	—	11,322
Investment income on entrusted loans	—	14,374,088
Share of profit of subsidiaries and associates accounted for under the equity method	1,600,840,523	927,360,553
Dividend declared by investees accounted for under the cost method	63,820,993	23,078,308
Amortization of equity investment differences	(365,002,029)	(210,167,757)
Impairment loss on-long-term investments	(2,962,583)	—
	1,296,696,904	754,656,514

The long-term investments of the Company are not subject to restriction on remittance of investment income because the Company has no investment abroad.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

7. RELATED PARTY TRANSACTIONS

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Huaneng Group	Jia 23 Fuxing Road, Haidian district, Beijing	Investment in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber, and related industries	Ultimate parent company	State-owned enterprise	Li Xiaopeng
HIPDC	Bing 2 Fuxingmen South Road, Xicheng district, Beijing	Investment in power plants, development and investment in other export-oriented enterprises	Parent company	Sino-foreign equity limited liability company	Li Xiaopeng
Weihai Power Company	No. 58 Haifu Road, Economic Development Zone, Weihai, Shandong province	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Na Xizhi
Taicang II Power Company	Jinlanggang village, Fuqiao town, Taicang, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Na Xizhi
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Qinbei Power Company	Wulongkou town, Jiyuan, Henan province	Power generation	A subsidiary of the Company	Limited liability company	Zhang Hong

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Yushe Power Company	Dengyu village, Yushe county, Shanxi province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Xindian II Power Company	Dawu town, Linzi district, Zibo, Shandong province	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian
Yueyang Power Company	Cheng Lingji, Yueyang , Hunan province	Power generation	A subsidiary of the Company	Limited liability company	Zhang Hong
Luohuang Power Company	Luohuang town, Jiangjin , Chongqing	Power generation	A subsidiary of the Company	Limited liability company	Li Shiqi
Shanghai Ranji Power Company	No.298 Sheng Shi Road, Baoshan district, Shanghai	Power generation	A subsidiary of the Company	Limited liability company	Ye Daji
Sichuan Hydropower	No.47 Fourth south Renmin Road, Wuhou district, Chengdu , Sichuan province	Investment holding and hydropower project development	A subsidiary of the Company	Limited liability company	Zhang Tingke
Baoxinghe Hydropower	No.101 Yanjiang North Road,Ya'an , Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Dongxiguan Hydropower	Li'an Town, Wusheng county, Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei

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(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Taipingyi Hydropower	Yingxiu Town, Wenchuan county, Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Kangding Hydropower	Yuanyang dam, Kangding county, Ganzhi state, Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Mingtai Hydropower	East river Road, north dam district, Santai county, Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Jialingjiang Hydropower	No.191 Liulin Road, Shunqing district, Nanchong city, Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Fujiang Hydropower	Baima village, Pingwu county, Sichuan province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Pingliang Power Company	No.7 Binhe Middle Road Qilihe,Lanzhou city, Gansu province	Power generation	A subsidiary of the Company	Limited liability company	Li Shiqi
Boyuan Company	Dengyu village, Yushe county, Shanxi province	Property management and leasing	A subsidiary of the subsidiary of the Company	Limited liability company	Guo Zhanyuan

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	Currency	31st December 2004	Current year additions	31st December 2005
Huaneng Group	RMB	20,000,000,000	—	20,000,000,000
HIPDC	US\$	450,000,000	—	450,000,000
Weihai Power Company	RMB	761,838,300	—	761,838,300
Taicang Power Company	RMB	632,840,000	—	632,840,000
Taicang II Power Company	RMB	894,410,000	—	894,410,000
Huaiyin Power Company	RMB	265,000,000	—	265,000,000
Huaiyin II Power Company	RMB	474,000,000	300,000,000	774,000,000
Qinbei Power Company	RMB	10,000,000	—	10,000,000
Yushe Power Company	RMB	80,000,000	535,760,000	615,760,000
Xindian II Power Company	RMB	100,000,000	—	100,000,000
Yueyang Power Company	RMB	560,000,000	—	560,000,000
Luohuang Power Company	RMB	900,000,000	—	900,000,000
Shanghai Ranji Power Company	RMB	—	50,000,000	50,000,000
Sichuan Hydropower	RMB	800,000,000	—	800,000,000
Baoxinghe Hydropower	RMB	516,100,000	—	516,100,000
Dongxiguan Hydropower	RMB	156,725,000	—	156,725,000
Taipingyi Hydropower	RMB	100,000,000	—	100,000,000
Kangding Hydropower	RMB	194,000,000	83,200,000	277,200,000
Mingtai Hydropower	RMB	97,700,000	—	97,700,000
Jialingjiang Hydropower	RMB	193,080,000	—	193,080,000
Fujiang Hydropower	RMB	150,000,000	—	150,000,000
Pingliang Power Company	RMB	623,000,000	—	623,000,000
Boyuan Company	RMB	—	2,000,000	2,000,000

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(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	31st, December 2004		Current period additions/(deductions)		31st, December 2005	
	Amount	%	Amount	%	Amount	%
Huaneng Group*	1,675,660,547	51.98	—	—	1,675,660,547	51.98
HIPDC**	5,197,680,000	43.12	(40,000,000)	(0.34)	5,157,680,000	42.78
Weihai Power Company	457,102,980	60	—	—	457,102,980	60
Taicang Power Company	474,630,000	75	—	—	474,630,000	75
Taicang II Power Company	670,807,500	75	—	—	670,807,500	75
Huaiyin Power Company	168,646,000	63.64	69,854,000	26.36	238,500,000	90
Huaiyin II Power Company	301,653,600	63.64	190,920,000	—	492,573,600	63.64
Qinbei Power Company	5,500,000	55	—	—	5,500,000	55
Yushe Power Company	48,000,000	60	321,456,000	—	369,456,000	60
Xindian II Power Company	95,000,000	95	—	—	95,000,000	95
Yueyang Power Company	308,000,000	55	—	—	308,000,000	55
Luohuang Power Company	540,000,000	60	—	—	540,000,000	60
Shanghai Ranji Power Company	—	—	35,000,000	70	35,000,000	70
Sichuan Hydropower	—	—	480,000,000	60	480,000,000	60
Baoxinghe Hydropower***	—	—	350,948,000	68	350,948,000	68
Dongxiguan Hydropower***	—	—	92,984,943	59.33	92,984,943	59.33
Taipingyi Hydropower***	—	—	60,000,000	60	60,000,000	60
Kangding Hydropower***	—	—	166,320,000	60	166,320,000	60
Mingtai Hydropower***	—	—	50,999,400	52.20	50,999,400	52.20
Jialingjiang Hydropower***	—	—	106,194,000	55	106,194,000	55
Fujiang Hydropower***	—	—	142,500,000	95	142,500,000	95
Pingliang Power Company	—	—	404,950,000	65	404,950,000	65
Boyuan Company****	—	—	1,500,000	75	1,500,000	75

* Huaneng Group holds 51.98% equity interest in HIPDC.

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

*** Sichuan Hydropower directly holds 68%, 59.33%, 60%, 60%, 52.2%, 55% and 95% equity interest in Baoxinghe Hydropower, Dongxiguan Hydropower, Taipingyi Hydropower, Kangding Hydropower, Mingtai Hydropower, Jialingjiang Hydropower and Fujiang Hydropower respectively.

**** Yushe Power Company holds 75% equity interest in Boyuan Company.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Name of related parties	Relationship with the Company
Huaneng Finance	A subsidiary of Huaneng Group
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company ("Time Shipping")	A joint venture company of Huaneng Group
Rizhao Power Company	An associate of the Company
SEG	An associate of the Company
Hanfeng Power Company	An associate of the Company
Hebei Huaneng Jingyuan Coal Company Limited (the "Huaneng Jingyuan")	A subsidiary of Huaneng Group
Lime Company	An associate of Luohuang Power Company

(5) Related party transactions

- a. Pursuant to a service agreement entered into between the Company and HIPDC, HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. The total amount of service fees paid to HIPDC for the year ended 31st December 2005 was approximately RMB141 million (2004: approximately RMB134 million).
- b. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use right of Nanjing Power Plant is leased to the Company for 50 years from 1st January 1999 at an annual rental payment of RMB1.334 million.
- c. Pursuant to a leasing agreement between the Company and HIPDC, HIPDC renewed the lease of its office building to the Company at an annual rental of RMB26 million for five years effective from 1st January 2005 (2004: RMB25 million).
- d. As described in Note 5 (18)(a), certain long-term loans were on-lent from Huaneng Group through Huaneng Finance, and as described in Note 5 (18)(c), certain loans of the subsidiaries of the company were drawn from Huaneng Finance. In 2005, the interest paid by the Company and its subsidiaries to Huaneng Finance for these loans amounting to RMB41,278,460 (2004: Nil).

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(Prepared in accordance with PRC Accounting Standards)

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

(5) Related party transactions (Cont'd)

- e. As at 31st December 2005, Huaneng Finance had granted short-term loans amounting to RMB2,008 million (31st December 2004: RMB3,694 million) to the Company and its subsidiaries. The relevant interest rate ranges from 4.70% to 5.02% (2004:4.54% to 5.02%) per annum. The interest rates for such loans have no material difference with the prevailing market interest rate (see Note 5(12), 5(18)(c)). In 2005, the interest paid by the Company and its subsidiaries to Huaneng Finance for these loans amounting to RMB98,971,631 (2004: RMB87,739,224).
- f. Pursuant to Note 5(18), the long-term bank loans of the Company and its subsidiaries were guaranteed by HIPDC and Huaneng Group.
- g. As described in Note 8, certain bank loans of Rizhao Power Company were guaranteed by the Company and its subsidiaries.
- h. On 6th November 2002, the Company entered into a management service agreement with Huaneng Group and HIPDC. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC for five years. For the year ended 31st December 2005, the Company earned service fees amounting to RMB31,667,760 from Huaneng Group (2004: RMB45,864,600) and didn't pay expenses on behalf of Huaneng Group's power plants (2004: RMB2,317,194). In addition, the Company earned service fees amounting to RMB3,328,340 from HIPDC (for the year ended 31st December 2004: RMB11,678,300). For the year ended 31st December 2005, the related cost incurred for the management service provided was approximately RMB32.61 million (2004: RMB38.88 million).
- i. For the year ended 31st December 2005, the Company and its subsidiaries paid approximately RMB284 million for coal purchased from CHITEC (2004: RMB215 million).
- j. For the year ended 31st December 2005, the Company and its subsidiaries paid approximately RMB11.2 million for equipment purchased from CHITEC (2004: Nil).
- k. For the year ended 31st December 2005, the Company and its subsidiaries paid approximately RMB607 million for the fuel purchased and transportation services received from Time Shipping (2004: RMB563 million), including Rmb67.93 million for the fuel purchased and Rmb539 million for transportation services received.
- l. For the year ended 31st December 2005, the Company and its subsidiaries paid approximately RMB242 million for coal purchased from Huaneng Jingyuan (2004: RMB16.35 million).
- m. For the year ended 31st December 2005, the Company and its subsidiaries paid approximately RMB42.82 million for lime products purchased from Lime Company.(2004: RMB25.56 million)

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(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

(5) Related party transactions (Cont'd)

- n. As at 31st December 2005, HIPDC had provided guarantees on its equity portion of certain account receivable balances of the subsidiaries of the company totaling approximately RMB77.23 million (2004: RMB209 million) (see Note 5(3)(a)). In 2005, pursuant to the agreement the Company paid RMB31.27 million to HIPDC as compensation for receiving some accounts receivables which had been provided provisions for(2004: Nil).
- o. On 26th October 2004, the Company entered into an agreement with Huaneng Group pursuant to which the Company acquired from Huaneng Group 60% equity interest in Sichuan Hydropower and 65% equity interest in Pingliang Power Company at considerations of RMB1,219 million and RMB806 million respectively. After meeting all the necessary conditions, the payments of the purchase considerations and the transfer of relevant ownership and control, the acquisitions became effective on 5th January 2005.
- p. On 11st April 2005, the Company entered into an agreement with Huaneng Group, pursuant to which Huaneng Group provides management service to Sichuan Hydropower. The total amount of service fees is RMB2,420,100 per annum (2004: Nil).
- q. For the year ended 31st December 2005, the Company and its subsidiaries discounted approximately RMB298 million of notes receivable with Huaneng Finance. The discount charges of which were approximately RMB2.415 million (2004: 42.97 million, 0.298 million).
- r. For the year ended 31st December 2005, the Company sold a subsidiary in Nanjing at its net book value of RMB30 million to HIPDC (2004: Nil).

(6) Cash deposited with a related party

	31st December 2005	31st December 2004
Deposited at Huaneng Finance:		
– Current deposit	1,767,519,906	1,362,960,901

As at 31st December 2005, the interest rates per annum for the current deposits placed with Huaneng Finance ranged from 0.72% to 1.62% (31st December 2004: 0.72% to 1.44%).

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(Prepared in accordance with PRC Accounting Standards)

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

7. RELATED PARTY TRANSACTIONS (Cont'd)

(7) Receivables from/ payables to related parties

	31st December 2005		31st December 2004	
	Amount	%	Amount	%
Advance to suppliers				
Prepayment to CHITEC	—	—	5,000,000	1.13
Prepayment to Huaneng Jingyuan	—	—	6,000,000	1.36
Other receivables				
Other receivables from HIPDC	21,847,346	3.65	—	—
Other receivables from				
Huaneng Group's subsidiaries	—	—	2,317,194	0.79
Other receivables from				
Rizhao Power Company	—	—	1,652,353	0.56
Other receivables from				
Hanfeng Power Company	23,520	—	—	—
Accounts payable				
Accounts payable to CHITEC	(14,175,450)	1.23	—	—
Accounts payable to Time Shipping	(14,917,612)	1.30	(6,959,110)	0.94
Accounts payable to Lime Company	—	—	(3,799,628)	0.51
Other Payables				
Other payables to HIPDC	(53,230,133)	1.29	(1,258,799,490)	33.96
Other payables to CHITEC	(526,746)	0.01	(399,060)	0.01
Other payables to Huaneng Finance	(6,000,000)	0.15	(117,461)	—
Other payables to Huaneng Group	(50,720,038)	1.23	(189,963)	0.01
Interest payables				
Interest payables on loans				
from Huaneng Finance	(13,642,791)	6.90	(1,960,863)	1.62
Interest payables on loans				
from Huaneng Group	(10,000,000)	5.06	—	—
Other long-term payables*				
Interest payables on loans				
from Huaneng Group	(42,553,304)	66.34	—	—

* Interest will be paid before 2010 as agreed with Huaneng Group.

The above payables and receivables with related parties were unsecured, non-interest bearing, and the balances except the interest payables on loans from Huaneng Group, will be settled within one year.

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(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

8. CONTINGENT LIABILITY

Item	31st December 2005	
	The Company and its subsidiaries	The Company
Guarantee on the long-term bank loans of Rizhao Power Company	225,250,000	225,250,000
Guarantee on the long-term bank loans of Qinbei Power Company	—	740,000,000
Guarantee on the long-term bank loans of Yushe Power Company	—	612,000,000
	225,250,000	1,577,250,000

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

9. OBLIGATION AND COMMITMENTS

Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants. Expenditure which was contracted for but not incurred and thus was not recognized in the financial statements as at 31st December 2005 amounting to approximately RMB17.076 billion (31st December 2004: RMB11.483 billion).

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

Year	31st December 2005
2006	7,771,230,440
2007	7,771,230,440
2008	3,826,280,340
2009	3,826,280,340
	23,195,021,560

Notes to the Financial Statements

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For the year ended 31st December 2005

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

9. OBLIGATION AND COMMITMENTS (Cont'd)

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

	31st December 2005	31st December 2004
Land and buildings		
- within 1 year	33,495,000	1,334,000
- 1-2 years	7,372,000	1,334,000
- 2-3 years	6,335,000	1,334,000
- after 3 years	151,362,000	54,694,000
	198,564,000	58,696,000

In addition, in accordance with a 30-year operating lease agreement signed by the Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phase I and Phase II in June 1994, annual rental is approximately RMB29,874,000 effective from June 1994 and is subject to revision at the end of the fifth year from the contract date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended 31st December 2005, the rental was RMB29,952,590 (for the year ended 31st December 2004: RMB29,079,725).

10. SUBSEQUENT EVENTS

As at December 31st, 2005, the Company had paid a total consideration of Rmb288 million in cash to acquire 20% equity interest in Huaneng Finance. The transaction has been completed after the balance sheet date.

Notes to the Financial Statements

(Prepared in accordance with PRC Accounting Standards)

For the year ended 31st December 2005

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

11. NET PROFIT AFTER DEDUCTING NON- RECURRING ITEMS

	31st December 2005	31st December 2004
Net profit	4,762,625,031	5,389,057,047
Add (Less): non-recurring items		
- Net loss / (profit) from disposal of fixed assets and construction-in-progress	138,883,566	(20,136,960)
- Reversal of bad debt provision	(71,558,513)	(15,096,637)
- Reversal of Inventory impairment provision	(252,147)	(14,102,245)
- Non-operating income	(42,456,406)	(42,909,340)
- Non-operating expense	70,154,837	9,610,726
- Subsidy income	(27,836,622)	(8,000,000)
tax impact on non-recurring items	(2,577,665)	16,218,661
Net profit after deducting non-recurring items	4,826,982,081	5,314,641,252