

# 2006

INTERIM REPORT

P O W E R I N G

T O M O R R O W



華能國際電力股份有限公司  
HUANENG POWER INTERNATIONAL, INC.  
(Stock Code: 902)

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## INTERIM RESULTS

The Board of Directors of Huaneng Power International, Inc. (the "Company") announces the unaudited operating results for the six months ended 30th June 2006 (the "Accounting Period") and a comparison with the operating results for the same period of 2005. For the six months ended 30th June 2006, the Company recorded operating revenue of RMB19.835 billion and profit attributable to the equity holders of the Company of RMB2.167 billion, representing an increase of 5.20% and 29.04%, respectively, as compared to the same period of last year. Earnings per share was RMB0.18 and net asset value per share (excluding minority interests) was RMB3.25.

The Board of Directors is satisfied with the performance as mentioned above. Please refer to the unaudited financial information below for details of the operating results.

## BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

During the first half of 2006, the national economy continued to maintain steady and relatively fast growth which brought about a rapid increase in power demand. During the first half of the year, there was a significant number of newly added power generation capacity nationwide and power shortage was further eased. On the other hand, rainfalls in some regions were higher than last year generally and the average utilization hours of thermal power generating units nationwide decreased accordingly.

Through diligent work, the management and staff of the Company achieved satisfactory operating results under the unfavorable conditions including declining load rates of generating units, rising coal contract prices and surging costs in railway transportation.

### Power Generation

During the first half of the year, the power plants of the Company achieved power generation totaling 73.424 billion kWh on a consolidated basis, representing an increase of 2.2% over the same period of last year. The growth of power generation was mainly attributable to the stable generation capacity contributed by the new generating units at Shantou Power Plant, Taicang Power Plant, Yueyang Power Plant, Shanghai Combined Cycle Power Plant and Sichuan Hydro Power. On the other hand, continued growth of power demand in the regions where the Company's power plants are located and the sound and stable operations of the Company's generating units also provided favorable conditions for the Company to boost its power generation.

### Cost Control

During the first half of the year, the supply and demand of thermal coal was basically balanced and the inventory level in the market increased. Overall speaking, thermal coal prices remained at a high level and market prices of coal fluctuated within a small range and recorded a slight decline. The Company made proper analysis of the coal supply and demand situation, closely monitored market price trends and effectively controlled purchase prices. Accordingly, the unit price of the Company's standard coal during the first half of the year was lower than that of the same period of last year. The unit fuel cost of the Company was RMB155.98/MWh, a decrease of 1.67% when compared to the same period of last year.

## Project Development and Construction

The Company made smooth progress on its construction projects and preparation work of its power projects:

- (a) Up to 15th August 2006, 2 x 600MW coal-fired generating units at Taicang Power Plant, 2 x 300MW coal-fired generating units at Yueyang Power Plant, 3 x 390MW combined-cycle generating units at Shanghai Combined Cycle Power Plant and 1 x 80MW unit of Xiao Tian Dao Hydro Power Station of Sichuan Hydro Power have all commenced their commercial operations. As a result, newly added generation capacity on an equity basis reached 2,077.8 MW, raising the Company's generation capacity on an equity basis to 24,533 MW;
- (b) The projects of Huaneng Shangan Power Plant Phase III (2 x 600MW coal-fired generating units) and Huaneng Huaiyin Power Plant Phase III (2 x 330MW coal-fired generating units) have been approved by the State while the Fujiang Hongyan Project (2 x 12MW generating units) has already obtained the approval from the Sichuan Provincial government;
- (c) The projects-under-construction and other proposed projects of the Company progressed smoothly.

## PROSPECTS FOR THE SECOND HALF OF THE YEAR

For the second half of 2006, there are opportunities and challenges for the Company. On the one hand, a large number of new generating units will commence operations nationwide during the second half of the year and the country's power shortage is easing considerably and therefore, the utilization hours of thermal power generation will still decline. On the other hand, a new round of policies on the Coal-electricity Price Linkage Mechanism (the "Mechanism") has been promulgated and the tariff levels of the Company will increase accordingly. Basically, the balance in supply and demand of coal nationwide will create favorable conditions for the Company to control fuel costs. The Company has full confidence in seizing the opportunities and tackling the challenges to fully complete various tasks for this year.

The main tasks for the second half of the year include:

1. to ensure safe operation of all power plants and to strive to increase power generation;
2. to reinforce sales and marketing efforts, to further implement the tariff policy and to strive to raise the average tariff settlement level;
3. to strengthen fuel cost control and to contain the range of increase in unit fuel costs;
4. to ensure the project-under-construction to commence operation on schedule and to push forward the preliminary work of other proposed projects.

## OPERATING RESULTS

### Comparison and Analysis of Operating Results

Comparison of operating results between the first half of 2006 and 2005.

#### SUMMARY

During the first half of 2006, the power generation capacity of the Company was raised through putting new generating units into commercial operations as scheduled, and contributed to an increase in units of electricity sold by 6.20%. The utilization hours of our existing power plants at certain regions declined slightly as a result of relaxation of intense power supply and demand situation in these regions. This led to a decrease in volume of electricity sold by 3.97%. Overall, the volume of electricity sold increased by 2.23% from the same period of last year.

Meanwhile, as a result of the first round of the Mechanism effective from May 2005, the average settlement tariff rates of the original power plants have increased by RMB9.79 per MWh, amounting to RMB335.31 per MWh.

The Company has taken various measures in controlling the fuel cost which contributed to a decrease of average fuel cost per units of electricity sold by 1.67%.

The above factors contributed to an increase in operating revenue and profit attributable to equity holders of the Company of the first half of 2006 by 5.20% and 29.04% respectively.

#### Operating revenue and sales tax

Operating revenue represents receivable from electricity sold net of amounts received in advance. For the first half of 2006, consolidated operating revenue of the Company and its subsidiaries amounted to approximately RMB19.835 billion, representing an increase of 5.20% from approximately RMB18.855 billion for the same period of last year.

The increase in operating revenue was attributable to the new generating units putting into commercial operations. The newly operating generating units (including Shantou Coal-Fired Phase II, Yueyang Phase II, Taicang Phase II and Shanghai Combined Cycle Power Plant) and the increase in average settlement tariff rates of the original coal-fired power plants as a result of implementation of the Mechanism in May 2005 have led to increases in consolidated operating revenue by approximately RMB1.444 billion and RMB296 million, respectively. The decrease in volume of electricity sold of original coal-fired power plants has contributed to a decrease in consolidated operating revenue by approximately RMB816 million.

The average settlement tariff rate of the Company and its subsidiaries for the first half of 2006 was RMB335.31 per MWh, representing an increase of 3.01% from RMB325.52 per MWh for the same period of last year. Such an increase was primarily due to the increase in settlement tariff rates for various power plants following the implementation of the Mechanism in May 2005.

Sales tax mainly consists of additional levies on value-added tax ("VAT"). According to relevant administrative regulations, such additional taxes include the education surcharge and city construction tax. Such additional taxes are computed based on a specified percentage of actual VAT payments made by the Company. Such taxes are currently not applicable to direct foreign investments that have obtained approvals from the government and certain power plants of the Company do not need to pay such taxes. For the first half of 2006, the sales tax amounted to RMB67 million, representing an increase of RMB12 million from RMB55 million for the same period of last year, which was primarily caused by the higher levy basis as a result of the new generating units putting into commercial operations.

### **Operating expenses**

For the first half of 2006, consolidated operating expenses of the Company and its subsidiaries amounted to approximately RMB16.432 billion, representing an increase of 1.86% from RMB16.132 billion for the same period of last year.

The main reason for the increase in operating expenses was that newly operating plants contributed to an increase in total consolidated operating expenses of approximately RMB1.035 billion. Taking out the impact of the new generating units, operating expenses decreased by approximately RMB735 million compared to the same period of last year as a result of a decrease in power generation by the original power plants.

### **Fuel costs**

Fuel costs constituted the major component of operating costs of the Company and its subsidiaries. For the first half of 2006, fuel costs amounted to approximately RMB10.376 billion, representing an increase of approximately 0.22% from RMB10.354 billion for the same period of last year. The increase in fuel costs was mainly due to: newly operating plants led to an increase of approximately RMB750 million; the decrease in unit fuel costs at the original power plants resulted in a decrease in fuel costs by approximately RMB262 million; and the decrease in power generation at the original power plants resulted in a decrease in fuel costs by approximately RMB466 million.

For the first half of 2006, the weighted average unit price of natural coal of the Company and its subsidiaries increased by 0.76%, from RMB339.43 per ton for the same period of last year to RMB342.00 per ton. The improvement in the quality of natural coal contributed to a decrease in the unit fuel cost per MWh of electricity sold of 1.67% to RMB155.98.

### ***Depreciation***

For the first half of 2006, the Company and its subsidiaries incurred total depreciation of approximately RMB3.261 billion, representing an increase of approximately 2.72% from RMB3.174 billion for the same period of last year. The increase was also mainly attributable to the newly operating plants, which contributed to an increase of approximately RMB176 million.

### ***Labor cost***

The labor cost of the Company and its subsidiaries amounted to approximately RMB1.314 billion. As compared to the last year, a wider range of changes has to be considered to account for the labor cost, including: (1) the newly operated generating units raised labor cost of the Company to approximately RMB50 million; (2) the higher levy basis for employees' social insurance according to the relevant government regulations led to an increase of approximately RMB35 million; and (3) the establishment of a new branch, Shanghai Maintenance, contributed labor cost of approximately RMB45 million. The labor cost per unit of installation capacity for the first half of 2006 was RMB47.59/kW which was lower than that for the same period of last year of RMB47.90/kW.

### ***Other operating expenses***

The other operating expenses of the Company and its subsidiaries for the first half of 2006 totaled approximately RMB853 million, representing an increase of approximately RMB56 million compared with approximately RMB797 million for the same period of last year. The newly operating generating units contributed to an increase of approximately RMB39 million.

### ***Financial expenses, net***

The consolidated net financial expenses of the Company and its subsidiaries for the first half of 2006 totaled RMB712 million, representing an increase of approximately RMB107 million from approximately RMB605 million for the same period of last year. The major reason for this increase was attributable to the fluctuations in exchange gains/losses. For the first half of 2006, Luohuang Power Company recorded exchange losses of approximately RMB29 million. The net exchange gains for the same period of last year amounted to approximately RMB105 million, of which Luohuang Power Company achieved exchange gains of approximately RMB101 million as a result of the appreciation of RMB against Euro.

**Share of profit of associates**

Share of profit of associates of the Company and its subsidiaries for the first half of 2006 totaled approximately RMB352 million, representing an increase of RMB113 million from RMB239 million for the same period of last year. Investment income from Shenzhen Energy Group Co. Ltd., Hanfeng Power Company and Rizhao Power Company amounted to approximately RMB185 million, approximately RMB103 million and approximately RMB47 million, representing increases of RMB73 million, RMB3 million and RMB22 million respectively. Huaneng Finance contributed investment income of approximately RMB16 million.

**Enterprise income tax ("EIT")**

There is no change on the applicable preferential tax policies granted to the Company and its subsidiaries in the current period. The consolidated EIT of the Company and its subsidiaries for the first half of 2006 totaled approximately RMB512 million, representing an increase of 46.75% from approximately RMB349 million for the same period of last year. The main reason for the increase in EIT was due to the increase in proportion of profit generated from power plants with higher applicable tax rates.

**Profit attributable to equity holders of the Company ("net profit")**

The net profit of the Company and its subsidiaries for the first half of 2006 totaled approximately RMB2.167 billion, representing an increase of approximately 29.04% from RMB1.679 billion for the same period of last year. The increase in net profit was mainly attributable to newly operating plants that led to the increases in both volume of electricity sold and gross margin from the same period of last year. The implementation of the Mechanism since May 2005 and the lower unit fuel cost per unit of electricity sold also contributed to an increase in gross margin from the same period of last year.

**Comparison of financial positions**

As at 30th June 2006, total assets of the Company and its subsidiaries amounted to approximately RMB105.226 billion, which is the first time exceeding RMB100 billion, representing an increase of approximately 5.82% from RMB99.440 billion at last year's year end. Non-current assets increased by 7.16% to RMB93.634 billion while there was no substantial change in current assets compared to the beginning of the year. The major reason for the increase in total assets and non-current assets was attributable to the continuous investments in plants construction.

Total capital expenditures for new and renovation projects during the first half of 2006 amounted to approximately RMB7.548 billion, which was mainly financed by debts.



**Major financial position ratio**

Items	The Company and its subsidiaries	
	30th June 2006	31st December 2005
Ratio of liabilities and shareholders' equity	1.52	1.33
Current ratio	0.43	0.52
Quick ratio	0.35	0.42
	For the six months ended 30th June 2006	For the year ended 31st December 2005
Multiples of interest earned	3.29	3.77

Calculation formula of the financial ratios

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

The current ratio and quick ratio remained at a relatively low levels mainly due to the increase in short-term borrowings compared to last year's year end as a result of increasing capital investments during the first half of 2006. (A substantial portion of the financing requirements for capital expenditures was met by short-term borrowings.)

The ratio of liabilities and shareholders' equity increased from the beginning of the year, also mainly attributable to the increase in current liabilities and long-term loans.

The continuous increase in construction borrowings contributed to the increase in current period interest expenses (including interest capitalized) and the decrease in multiples of interest earned from last year.

During the first half of 2006, a substantial portion of capital expenditures of the Company and the subsidiaries was satisfied by short-term borrowings. Accordingly, as at 30th June 2006, the net current liabilities of the Company and its subsidiaries totaled RMB15.290 billion. Based on the successful financing history of the Company, the significant amount of undrawn banking facilities made available to the Company and the stable operating results, the Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital required for operations. In addition, the Company continued to minimize interest expenses by drawing short-term borrowings which bear relatively lower interest rates than long-term borrowings.

## Liquidity and Cash Resource

### Liquidity

	2006 (Jan. 1-Jun. 30) RMB million	2005 (Jan. 1-Jun. 30) RMB million	Variance (%)
Net cash provided by operating activities	5,353	1,972	171.54
Net cash used in investing activities	(7,578)	(7,065)	7.27
Net cash provided by financing activities	1,988	5,522	-64.00
Net (decrease) / increase in cash and cash equivalents	(237)	429	-155.08
Cash and cash equivalents, beginning of year	2,648	2,296	15.34
Cash and cash equivalents, end of period	2,411	2,725	-11.50

The net cash provided by operating activities amounted to RMB5.353 billion for the first half of 2006 which was higher than that of the prior year, mainly due to an increase in the scale of operations and the level of increase in average settlement tariffs which are higher than the level of increase in fuel costs. It is expected that cash flows from operating activities will continue to provide the major source of cash for the Company.

Net cash used in investing activities mainly consisted of capital expenditures for the purchases of property, plant and equipment.

Net cash provided by financing activities mainly consisted of repayments of the loans (including short-term bonds), dividends distribution to the shareholders and the new drawdowns for new projects financing. During the first half of 2006, the Company repaid loans of RMB7.319 billion, short-term bonds of RMB4.862 billion and dividends of RMB3.143 billion, whilst borrowing new loans of RMB12.142 billion, issuing short-term bonds of RMB4.980 billion, and receiving capital injection of RMB190 million from minority shareholders of its subsidiaries.

## Capital expenditures and cash resources

### *Capital expenditures*

#### *Capital expenditures on acquisitions*

On 14th December 2005, the Company entered into an agreement with Huaneng Group and other parties to pay RMB126 million to Huaneng Group for the acquisition of 10.5% equity interest in Huaneng Finance, equaling 8.75% equity interest of Huaneng Finance after subsequent additional capital injection. At the same time, Huaneng Finance increased its capital, and the Company subscribed for its 11.25% equity interest (after considering additional capital injection) at a consideration of RMB162 million. The Company obtained effective ownership of 20% upon completion of this acquisition in January 2006.

#### *Capital expenditures on construction and renovation*

Capital expenditures in the first half of 2006 amounted to RMB7.548 billion on construction and renovation, including RMB2,851 million for the Yuhuan project, RMB944 million for Luohuang expansion project, RMB732 million for Sichuan Hydropower project, RMB698 million for the Xindian expansion project, RMB607 million for Shanghai Combined-Cycle project, RMB590 million for Huaiyin expansion project, RMB440 million for the Yueyang expansion project, RMB299 million for the Yingkou expansion project and RMB248 million for the Qinbei expansion project and other construction and renovation expenditure.

The Company financed the above capital expenditures through debt financing and cash flows provided by operating activities.

The Company will continue to incur significant capital expenditures in the next few years based on the principles of commercial viability. On such basis, the Company will actively engage in new project developments to lay the foundation for the long-term development of the Company. The Company expects to use internal fundings, bank loans and cash provided by operating activities to finance the above capital expenditures.

***Cash resources and anticipated financing costs***

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

Good operating results and good credit status give the Company strong financing capabilities. As at 30th June 2006, the Company and its subsidiaries had available unsecured borrowing facilities from banks of RMB27.9 billion which provided the Company with a sufficient level of available cash and effectively raised the level of asset liquidity and repayment capabilities of the Company.

On 27th February and 29th May 2006, the Company and its subsidiaries repaid the unsecured zero coupon short-term bonds at par amounting to RMB0.5 billion and RMB4.5 billion with annual effective interest rates of 3.32% and 3.40% respectively.

On 23rd May and 26th June 2006, the Company and subsidiaries issued unsecured short-term bonds of RMB0.5 billion and RMB4.5 billion with annual effective interest rates of 3.53% and 3.77% respectively. Those bonds lasted 365 days from the issue dates. The issuance of bonds effectively lowered the overall cost of capital and formed a strong financial basis supporting safe and stable production and scale expansion.

As at 30th June 2006, the total interest-bearing debts of the Company and its subsidiaries amounted to RMB48.4 billion, including a current portion of RMB16.985 billion. The interest-bearing debts comprising foreign currency debts amounted to RMB5.9 billion, including USD635 million, EUR69 million and JPY1.190 billion. The current portion of foreign currency debts included USD107 million, EUR5 million and JPY238 million. In addition, 89% of these loans or RMB5.206 billion were fixed rate loans with an average annual interest rate of 5.64% while the remaining 11% of these loans or RMB652 million were floating rate loans with an average annual interest rate at LIBOR+0.17%

Long-term loans of the Company and its subsidiaries mainly comprised fixed rate loans (annual interest rates ranging from 2.00% to 6.97%). As at 30th June 2006, in accordance with original loan arrangements, floating rate loans of the Company and its subsidiaries included balances of USD71 million (annual interest rates between LIBOR+0.075% and LIBOR+0.43%) and JPY1.19 billion (annual interest rate at LIBOR+ 0.3%).

***Other financing requirements***

The objective of the Company is to bring long-term, stable and growing returns to the shareholders. In line with this objective, the Company follows a proactive, stable and balanced dividend policy. On 13th June 2006, the Company declared a cash dividend of RMB0.25 per ordinary share, with total dividends amounting to approximately RMB3.014 billion upon the approval of shareholders' general meeting. For the six months ended 30th June 2006, the Company has settled dividends of approximately RMB2.923 billion.

### Performance and Prospects of Significant Investments

On 22nd April 2003, the Company paid RMB2.39 billion to acquire a 25% equity interest in Shenzhen Energy Group. This investment brought to the Company a profit of RMB185 million for the first half of 2006 under the International Financial Reporting Standards. Shenzhen Energy Group is the largest power generation supplier in Shenzhen and its power plants are located in one of the prosperous provinces — Guangdong Province. With strong demand for electricity in that region, such an investment will bring stable returns to the Company in the future.

In July 2004, the Company paid RMB1.375 billion to acquire a 40% equity interest in Hanfeng Power Company. This investment brought to the Company a profit of RMB103 million for the first half of 2006 under the International Financial Reporting Standards. Hanfeng Power Company is located in Hebei Province in northern China where there is a strong demand for electricity. The Company expects that such an investment will also bring stable returns in the future.

### Employee Benefits

As at 30th June 2006, the Company and its subsidiaries had 23,346 employees. For the first half of 2006, total staff costs amounted to RMB1.314 billion. During the reporting period, there is no material change in remuneration policies and training programs from prior years.

### Related Party Transactions

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

Pursuant to the relevant agreement, the Company rendered management services to those power plants owned by Huaneng Group and HIPDC at standard fees covering its costs plus a reasonable profit. For the first half year of 2006, such service fees amounted to RMB18 million which was below 0.1% of the operating revenue of the Company.

On 14th December 2005, the Company entered into an agreement with Huaneng Group and other parties to pay RMB126 million to Huaneng Group for the acquisition of 10.5% equity interest in Huaneng Finance, equaling 8.75% equity interest of Huaneng Finance after subsequent additional capital injection. At the same time, Huaneng Finance increased its capital and the Company subscribed for its 11.25% equity interest (after considering additional capital injection) at a consideration of RMB162 million. The Company obtained effective ownership of 20% equity interest upon completion of this acquisition in January 2006.

Please refer to Note 18 to the unaudited condensed interim financial information prepared under IAS 34, "Interim Financial Reporting" for details of related party transactions.

### Guarantees on Loans

As at 30th June 2006, the balance of the guarantees provided by the Company to Rizhao Power Company, one of its associates, amounted to approximately RMB213 million. The Company had no contingent liabilities other than those described above. The Company also believes such guarantees do not have material financial impact on the Company.

### Pledge of Assets

As at 30th June 2006, certain subsidiaries of Sichuan Hydropower, including Dongxiguan Hydropower, Kangding Hydropower and Mingtai Hydropower had secured bank loans of RMB182 million, RMB20 million and RMB60 million respectively. Such loans were secured by certain properties, plants and equipment of these subsidiaries with net book values amounting to approximately RMB250 million, RMB19 million and RMB52 million respectively.

### Exchange Differences

As at 30th June 2006, foreign debts of the Company and its subsidiaries amounted to RMB5.9 billion, which accounted for 12% of total interest-bearing debts, of which Euro debts accounted for 12% of the foreign debts and US dollars loans accounted for 87%. The Renminbi Exchange Scheme Reform increases the flexibility of exchange rates and causes considerable impact upon the Company's profitability target due to exchange gains or losses. Nevertheless, it will not affect the cashflow of the Company. The Company pays close attention to the status and trends of the international foreign currency market, forecasts the future development tendencies and explores feasible risk management solutions with financial derivatives. When the time is right, the Company will approve and implement the relevant solutions according to the internal control process.

### SHARE CAPITAL STRUCTURE

As at 30th June, 2006, the entire issued share capital of the Company amounted to 12,055,383,440 shares, of which 9,000,000,000 shares were domestic shares, representing 74.66% of the total issued share capital, and 3,055,383,440 shares were foreign shares, representing 25.34% of the total issued share capital of the Company. In respect of domestic shares, Huaneng International Power Development Corporation ("HIPDC") owned a total of 5,066,662,118 shares, representing 42.03% of the total issued share capital of the Company while China Huaneng Group ("Huaneng Group") held 1,055,124,549 shares, representing 8.75% of the total issued share capital of the Company. Other domestic shareholders held a total of 2,878,213,333 shares, representing 23.88% of the total issued share capital.

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company and its subsidiaries did not sell any other types of securities and did not purchase or redeem its own shares or other securities in the first half of 2006.

## SHAREHOLDING STRUCTURE OF THE COMPANY

As at 30th June 2006, the shareholding positions of outstanding shares of the Company were as follows:

	Total Shareholdings	Percentage of total shares outstanding (%)
Domestic Shares		
Huaneng International Power Development Corporation*	5,066,662,118	42.03
China Huaneng Group*	1,055,124,549	8.75
Hebei Provincial Construction Investment Company	603,000,000	5.00
Jiangsu Provincial Investment & Management Limited Liability Company	416,500,000	3.45
Fujian Investment Enterprise Holdings Limited	338,466,667	2.81
Liaoning Energy Investment (Group) Limited Liability Company	332,913,333	2.76
Dalian Municipal Construction Investment Company	301,500,000	2.50
Minxin Group Limited	108,000,000	0.90
Nantong Investment & Management Limited Company	90,500,000	0.75
Shantou Power Development Joint Stock Company Limited	25,333,333	0.21
Dandong Energy Investment Development Centre	8,666,667	0.07
Shantou Electric Power Development Corporation	3,333,333	0.03
Domestic Public Shares*	650,000,000	5.39
Sub-total	9,000,000,000	74.66
Foreign Shares	3,055,383,440	25.34
<b>TOTAL</b>	<b>12,055,383,440</b>	<b>100</b>

\* Pursuant to the share reform proposal of the Company, each holder of circulating A shares received from Huaneng Group and HIPDC an aggregate of three shares for every 10 circulating A shares held by such holder.

The A share record date of the implementation of the share reform proposal was 17th April 2006. Each of the holders of circulating A shares whose name appeared on the share register upon the close of business on the record date was entitled to receive 3 circulating A shares for every 10 shares held. Total consideration shares amounted to 150,000,000 shares.

Before the payment of consideration shares, Huaneng Group held 1,114,106,667 shares of the Company, representing 9.24% of the total issued shares. The amount of consideration shares paid by Huaneng Group totaled 58,982,118 shares. Following the payment of the consideration shares, Huaneng Group held 1,055,124,549 shares, representing 8.75% of the total issued shares.

Before the payment of consideration shares, HIPDC held 5,157,680,000 shares, representing 42.78% of the total issued shares. The amount of consideration shares paid by HIPDC totaled 91,017,882 shares. Following the payment of the consideration shares, HIPDC held 5,066,662,118 shares, representing 42.03% of the total issued shares.

As at 30th June 2006, as far as the directors, the chief executive officer and the supervisors of the Company are aware, each of the following persons, not being a director, chief executive officer or supervisor of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance ("SFO"):

#### Shares Held/Approximate Shareholding Percentage

Name of shareholder	Class of shares	Number of shares held	Capacity	Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued domestic shares	Approximate percentage of shareholding in the Company's total issued H shares
Huaneng International Power Development Corporation <sup>#</sup>	Domestic shares	5,066,662,118 (L)	Beneficial owner	42.03%(L)	56.30%(L)	—
China Huaneng Group <sup>#</sup>	Domestic shares	1,055,124,549(L)	Beneficial owner	8.75%(L)	11.72%(L)	—
Hebei Provincial Construction Investment Company	Domestic shares	603,000,000(L)	Beneficial owner	5.00%(L)	6.7%(L)	—
Credit Suisse Group	H shares	240,475,309(L)	Interest of	1.99%(L)	—	7.87%(L)
		323,860,812(S)	controlled corporation/	2.69%(S)	—	10.60%(S)
		458,500(P)	Approved lending agent	0.003%(P)	—	0.02%(P)
JP Morgan Chase Bank	H shares	108,190,980(L)	Investment manager and custodian	0.90%(L)	—	3.54%(L)
Citigroup Inc.	H shares	201,835,850(L)	Interest of	1.67%(L)	—	6.61%(L)
		155,567,180(S)	controlled corporation/	1.29%(S)	—	5.09%(S)
		2,815,100(P)	Holder of security interest in shares	0.02%(P)	—	0.09%(P)



Name of shareholder	Class of shares	Number of shares held	Capacity	Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued domestic shares	Approximate percentage of shareholding in the Company's total issued H shares
J.P. Morgan Fleming Asset Management (Asia) Inc.	H shares	83,918,000(L)	Investment manager	0.70%(L)	—	2.75%(L)
J.P. Morgan Fleming Asset Management Holdings Inc.	H shares	83,198,000(L)	Investment manager	0.69%(L)	—	2.72%(L)
UBS AG	H shares	170,309,367(L)	Beneficial owner/	1.41%(L)	—	5.57%(L)
		82,311,000(S)	Interest of controlled corporation/ Holder of security interest in shares	0.68%(S)	—	2.69%(S)
JF Asset Management Limited	H shares	80,298,000(L)	Investment manager	0.67%(L)	—	2.63%(L)

Note: The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

# As of 30th June 2006, Huaneng Group holds 51.98% equity interests in HIPDC.

Save as disclosed above and as far as the directors, the chief executive officer and the supervisors of the Company are aware, as at 30th June 2006, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company.

**PUBLIC FLOAT**

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

**DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES**

The Company has adopted a code in relation to the securities transactions by the directors and supervisors with the standard not lower than that of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All Directors and Supervisors have complied with the code throughout the current period.

As at 30th June 2006, none of the directors, chief executive officer or supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, chief executive officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.

**DIVIDENDS**

It was resolved by the board of directors (the "Board") not to distribute interim dividends for 2006.

## MAJOR EVENTS

1. On 7th March 2006, the Company convened the fourth meeting of the Fifth Session of the Board to consider and approve the appointments and resignations of some of the directors and senior management: electing Mr. Huang Long as Vice Chairman; accepting the resignation of Mr. Wang Xiaosong as Director and Vice Chairman of the Company; appointing Mr. Na Xizhi as President of the Company while he would no longer act as Vice President of the Company; approving the resignation of Mr. Huang Yongda as President of the Company; approving the appointments of Mr. Qu Xiaojun, Mr. Huang Jian, Ms. Lu Dan and Mr. Fan Xi Xia as Vice Presidents of the Company, along with the appointment of Ms. Zhou Hui as Chief Accountant of the Company; accepting the resignations of Mr. Zhang Hong, Mr. Huang Long and Mr. Li Shiqi as Vice Presidents; and Mr. Huang Jian no longer acted as Chief Accountant of the Company.
2. In the first half of 2006, the Company completed the share reform in the A share market. The Company's share reform proposal was implemented after obtaining approval from the relevant governmental authorities of the State and the shareholders' approval at the general meeting for the relevant shareholders in the A share market in respect of the Company's share reform. The plan was as follows: Huaneng Group acquired an aggregate of 1,114,106,667 non-circulating shares of the Company from non-circulating shareholders other than HIPDC. Consideration arrangement for the share reform of non-circulating shareholders (other than HIPDC) were co-ordinated and executed by Huaneng Group. Each of the holders of circulating A shares whose name appeared on the share register upon the close of business on 17th April, 2006 was entitled to receive 3 circulating shares for every 10 circulating A shares held. The amount of total consideration shares amounted to 150,000,000 shares.

## CORPORATE GOVERNANCE

The Company has been consistently stressing the importance of corporate governance through promoting innovation on the Company's system management and strengthening the establishment of the Company's system. It strives to enhance the transparency of the Company's corporate governance standards and to maintain high-quality corporate governance on an ongoing basis. The Company insists on adopting the principle of "maximizing the benefits of the Company and of all shareholders" as the starting point and treats all shareholders fairly in order to ensure the generation of long-term, stable and growing returns for shareholders. The Company has included a corporate governance report in its annual report of 2005 ("2005 Corporate Governance Report") which was prepared in accordance with the requirements of the Listing Rules. During the reporting period, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The following sets out the status of corporate governance of the Company for the first half of this year pursuant to the relevant requirements of the Listing Rules and with reference to the provisions in Appendix 23 of the Listing Rules.

## Code of Corporate Governance

As stated in the 2005 Corporate Governance Report, in recent years the Company adopted the following measures in order to strengthen corporate governance and enhance the Company's operation quality:

- (1) Except from complying with the provisions of the applicable laws, as a public company listed in three markets both domestically and internationally, the Company is subject to the regulations of the securities regulatory authorities of the three listing places and the supervision of investors. Accordingly, our fundamental principles are to adopt a corporate governance structure balancing and coordinating the decision-making powers, supervisory powers and operating powers, to act with honesty and integrity, and to comply with the law and operating in accordance with the law.

Up to the present, the Board and the Supervisory Committee have acted in line with the requirements of the relevant laws and regulations in terms of scale of operations and personnel composition, thereby ensuring that the Board can make effective, scientific and quick decisions and that the Supervisory Committee can independently and effectively exercise its supervisory and inspection powers over the directors, managers and other senior management personnel as well as the Company's finances. At the same time, the rejuvenation adjustments to the management team have effected an innovative and dynamic development, ensuring an integral implementation of the resolutions of the Board and the Supervisory Committee and the establishment of a scientific and highly effective corporate governance structure.

Over the past years, the Company's Board formulated and implemented the Rules and Procedures of the Board of Directors Meetings; the Rules and Procedures of the Supervisory Committee Meetings; the Detailed Rules on the Work of President; the Detailed Rules on the Work of the Strategy Committee of the Board of Directors; the Detailed Rules on the Work of the Audit Committee of the Board of Directors; the Detailed Rules on the Work of the Nomination Committee of the Board of Directors; the Detailed Rules on the Work of the Remuneration and Appraisal Committee of the Board of Directors; and the System on Work of Independent Directors. The Board has also discussed and approved a number of proposals on the amendments to the Articles of Association. The Company has complied with the provisions of the Code on Corporate Governance Practices in Appendix 14 to the Hong Kong Listing Rules in the first half of this year.

- (2) The Company has been stressing the importance of external information disclosure. The Company has established the Information Disclosure Committee which comprises managers of various departments and headed by the Vice President and the Chief Accountant, and is responsible for examining the Company's regular reports. The Company has implemented the system of holding regular information disclosure meetings every Monday chaired by the Vice President and the Chief Accountant who will report on the Company's important matters of the week, thereby warranting the Company's performance of the relevant information disclosure. The Company has successively formulated and implemented a series of rules including the Provisions on the Management of External Information Disclosure Work, the Measures on Investor Relations Management, the Provisions on Internal Reporting of External Disclosure of Material Information, the Detailed Rules on the Work of the Information Disclosure Committee, the Interim Provisions on the Work Procedures of Capital Operation and the Rules and Procedures for the Shareholders' Meetings. Relevant departments of the Company compiled answers (and subsequent updates) to questions regarding the hot topics of market concerns, the Company's production, operation and operating results in a timely manner, which shall become the basis of external communication after being approved by the Company's management and the authorized representatives of the Information Disclosure Committee. Also, the Company engages US, Hong Kong and mainland lawyers to conduct professional training for the personnel of the Company responsible for information disclosure on an irregular basis in order to continuously enhance their level of professionalism. The implementation of the above rules and measures ensures that the Company completes various external disclosure work effectively, thereby increasing the transparency of the Company's operation and obtaining good social benefits.
- (3) The credibility of a listed company, to a large extent, relates to the quality of the preparation of financial statements and a regulated operation of financial activities. In order to regulate its financial management, the Company has completed a large amount of specific and detailed work, including:
1. In order to strictly implement the accounting rules, accounting standards and accounting systems; to strengthen management over financial accounting and review; and to truly and fairly reflect the financial position, operating results and cash flows, the Company has compiled the Measures on Financial Accounting, the Measures on Construction Financial Accounting, the Guidelines on Accounting Fundamentals of Construction Financial Accounting, the Measures on Fixed Assets Management, Fixed Assets Catalogue and the Measures on Cost Management. The Company's Board and the Audit Committee have examined the Company's financial reports on a quarterly basis and the Company has fulfilled the requirements of making the Chairman, President and Chief Accountants responsible for the authenticity and completeness of the financial reports.

2. In order to safeguard the independence of the listed company, the Company adopted the segregation of personnel in organizational structure and specifically established the Finance First Division and Funds Management First Division responsible for the entrusted business (the business related to the assets entrusted by the Group for management) so that the Company may realize the complete separation of the listed company and the controlling shareholder in terms of personnel, assets and finances according to the laws and regulations of the State and the requirements of regulatory rules.
3. In order to establish a sound internal control system, achieve expected operating results and efficiency, assure the credibility of the financial reporting, and effectively improve our capability in risk management, the Company has launched a project in 2003 to improve its internal control in a comprehensive manner. During the last three years, the Company developed a strategic plan and set objectives for internal control. The Company's long-term objective is to enhance its internal control in all aspects to constantly improve its capability to develop, compete and manage risk. The Company established an internal control organization system, and strengthened internal control at both the corporate and the power plant levels. The Company further strengthened its corporate governance and management system, and completed the annual evaluation of the effectiveness of the design of the Company's existing system at the end of 2005. The Company established its internal control procedures on the basis of the COSO control framework, which accommodates the Company's management characteristics. The Company designed and implemented the "Internal Control Manual", which is recognized by the Company as the "constitution" for the management of internal control. The Company has carried out several self-evaluations of internal control, identified certain deficiencies and remedied such deficiencies in a timely manner. The Company disseminated information to, and trained its employees with regard to internal control concepts and procedures.

After a full evaluation by the Company's CEO and CFO, they were of the view that the improvement work on the internal control and its procedures were effective and such improvement measures have enhanced the effectiveness of the internal control on financial reporting. Year 2006 is the first year that Sarbanes-Oxley Act applies to the foreign companies listed in the United States. It is a year of great significance for the Company to improve its internal control. The Company will continue to its internal control environment, and strengthen and consolidate its internal control improvement.

The Company has identified certain deficiencies in the internal control and procedures in respect of financial reporting through carrying out remedial measures in the past three years. Although the Company has made the relevant improvement, the Company is unable to guarantee that such remedial measures could effectively eliminate all the deficiencies. The Company is also unable to guarantee that some other deficiencies in the internal control and procedures in respect of financial reporting could not be found after the evaluation by the Company's management or auditors.

4. With regard to fund management, the Company has successfully formulated a number of management measures including the Measures on Financial Management, the Interim Measures on the Management of Funds Receipts and Expenses and the relevant examination measures, the Measures on Management of Fund Raising and the Measures on the Management of Bills of Exchange. Provisions relating to loans, guarantees and investments are also set out in the Company's Articles of Association. In the annual reports of the Company over the previous years, the Company has engaged registered accountants to conduct auditing on the use of funds by the controlling shareholders and other related parties and issue individual statements according to the requirements of China Securities Regulatory Commission (the "CSRC") and the Shanghai Stock Exchange, and there has not been any violation of rules relating to the use of funds. Moreover, the Company also conducted checking and clearing with related parties in a timely manner in relation to the operational fund transfers in order to ensure the safety of funds. At the same time, the Company has reported the fund use position to the Beijing Securities Regulatory Bureau on a quarterly basis and urged itself to comply with the relevant requirements at any time.

The above systems and measures have formed a sound management framework for our production and operations. In the first half of this year, the results of the contest of the Second Conference on Investors Relations of A Share Companies in China organized by Securities Market Weekly (a professional magazine for securities market in China) were announced. The Company has been awarded "The Best 50 Companies in Investors Relations Management" in the contest of Investors Relations of A Share Companies in China in 2005. Mr. Huang Long, the secretary of the Board of the Company, was awarded as "The Best Executor".

#### Securities Transactions by Directors

As the Company is listed in three places, the Company has strictly complied with the relevant binding clauses on securities transactions by directors imposed by the regulatory authorities of the US, Hong Kong and China and we insist on the principle of complying with the strictest clause, that is, implementing the strictest clause among three places. We have adopted a set of standards not lower than The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules as the model code for securities dealings by directors of the Company, that is, "The Administrative Rules on Securities Information and Transactions of Companies", prohibiting informed personnel of the insider information of securities transactions to conduct securities dealing activities, and we have formulated detailed regulations on the informed personnel of insider information. Following a specific enquiry on all the directors and senior management of the Company, all the directors and senior management personnel do not hold any shares in the Company and there is no material contract in which the directors directly or indirectly have material interests.

## Board of Directors

The Company's Board shall comprise 15 members (temporarily short of one after the resignation of Mr. Wang Xiaosong). During the reporting period, Mr. Li Xiaopeng acted as Chairman and Mr. Huang Yongda and Mr. Huang Long were the Vice Chairmen of the Board. The Executive Directors of the Company are Mr. Li Xiaopeng, Mr. Huang Long and Mr. Na Xizhi (President); other Non-executive Directors are Mr. Huang Yongda, Mr. Wu Dawei, Mr. Shan Qunying, Mr. Ding Shida, Mr. Xu Zujian and Mr. Liu Shuyuan. The Company has five Independent Non-executive Directors comprising one-third of the members of the Company's Board, namely, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning.

The Board of the Company has held four meetings during the reporting period including regular meetings and ad hoc meetings (including those with voting by communication). The resolutions passed at such meetings have been announced by way of public announcement domestically and overseas.

As stated in the 2005 Corporate Governance Report, the Company's Articles of Association set out in details the duties and operational procedures of the Board (please refer to the Company's Articles of Association for details). The Board of the Company holds regular meetings to hear the report on the Company's operating results and makes decision. Material decisions on operations shall be discussed and approved by the Board. Ad hoc meetings may be held if necessary. Board meetings include regular meetings and ad hoc meetings. Regular meetings of the Board include: annual meetings, half-yearly meetings, first quarterly and third quarterly meetings.

All arrangements for regular meetings have been notified to all directors at least 14 days in advance and the Company has ensured that each director thoroughly understood the agenda of the meeting and fully expressed his/her opinions, while all Independent Non-executive Directors expressed their independent directors' opinions. Minutes have been taken for all the meetings and filed at the Office of the Board of the Company.

Moreover, the Independent Directors of the Company have submitted their annual confirmation letters in relation to their independence in 2005 according to the requirements of the Listing Rules.

Apart from regular and ad hoc meetings, the Board obtained information through the Chairman Office in a timely manner in order to monitor the objectives and strategies of the management, the Company's financial position and operating results and clauses of material agreements. The Chairman Office discharged the duties on behalf of the Board when the Board was not in session.

The Chairman Office held meetings irregularly which were attended by the Chairman, Vice Chairmen, Secretary to the Board, President, relevant senior management and personnel of relevant departments, and they heard reports on the operating conditions of the Company and made decisions. The content of the meetings covered: (1) examined and approved the establishment or cancellation of proposals to develop construction projects; (2) examined and approved proposals of the President in relation to the appointment, removal and transfer of managers of various departments of the Company and managers external branches; (3) examined and approved plans on the use of significant funds; (4) examined and approved proposals on the establishment or cancellation of branch companies or branch organs; (5) studied issues regarding the power market reforms and power sales and marketing; (6) examined and approved other major issues.



The management of the Company shall be in charge of the production and operational management of the Company according to the Articles of Association; implement annual operation plans and investment proposals; and formulate the Company's management system.

The Chairman of the Company shall sign the management authorization letter to the President of the Company on behalf of the Board, and confirm the respective authorities and duties of the Board and senior management. The Company's senior management reports on the actual implementation of various authorizations each year.

#### Chairman and Chief Executive Officer

The Board of the Company shall have a Chairman and a President who shall perform their duties respectively according to the Articles of Association. During the reporting period, Mr. Li Xiaopeng acted as Chairman of the Board and Mr. Huang Yongda (from 1st January 2006 to 7th March 2006) and Mr. Na Xizhi (from 7th March 2006 to present) acted as President of the Company.

The division of duties of the Board and the senior management remained the same as mentioned in the 2005 Corporate Governance Report.

#### Non-Executive Directors

According to the provisions of the Articles of Association, the term of office of members of the Board of the Company shall not exceed three years (including three years) and the members may be eligible for re-election. However, the term of office of Independent Non-executive Directors shall not exceed six years (including six years) according to the relevant provisions of the China Securities Regulatory Commission.

The respective terms of office of the Non-executive Directors are as follows:

Name of Non-executive Director	Term of office
Huang Yongda	2006.3.7-2008.5
Wu Dawei	2005.5.11-2008.5
Shan Qunying	2005.5.11-2008.5
Ding Shida	2005.11.17-2008.5
Xu Zujian	2005.5.11-2008.5
Liu Shuyuan	2005.5.11-2008.5
Wang Xiaosong	2005.5.11-2006.3.7

## Directors' Remuneration

According to the provisions of the relevant laws of the State and the Articles of Association, the Board of the Company has established the Remuneration and Appraisal Committee mainly responsible for studying the appraisal standards of the directors and senior management personnel of the Company, conducting appraisals and making proposals; responsible for studying and examining the remuneration policies and proposals of the directors and senior management personnel of the Company and to be accountable to the Board. As the Executive Directors of the Company are senior management of the Company, their performance appraisals have been reflected in the assessment and appraisal conducted by the Board on the management team. During the reporting period, Mr. Huang Long and Mr. Na Xizhi has obtained remuneration of the Company in the capacity of executive directors and their remunerations are set out in the annual aggregate wages and calculated according to the internal wage system of the Company. The aggregate wages were submitted to the Board after having been examined by the Remuneration and Appraisal Committee. The executive directors have complied with the requirements of the Stock Exchange and entered into directors' service agreements by adopting the Stock Exchange's standard contract.

Members of the Remuneration and Appraisal Committee of the Fifth Session of the Board comprised seven directors, namely Mr. Liu Jipeng, Mr. Na Xizhi, Mr. Xu Zujian, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Wu Yusheng and Mr. Liu Shuyuan; of whom Mr. Liu Jipeng, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Wu Yusheng were Independent Non-executive Directors. Mr. Liu Jipeng acted as the Chief Member of the Remuneration and Appraisal Committee.

The Remuneration and Appraisal Committee operated properly in accordance with the Detailed Rules on the Work of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee of the Fifth Session of the Board held a meeting on 27th March 2006, at which the proposal regarding aggregate wages for 2006 has been discussed and approved while the examination report was submitted to the Board.

### Nomination of Directors

According to the provisions of the relevant laws of the State and the Articles of Association, the Board of the Company has established the Nomination Committee. The Committee is mainly responsible for studying the selection standards and procedures for candidates for directors and senior management personnel of the Company according to the requirements of the Company Law and Securities Law and in relation to directors' qualifications and the needs of the operational management of the Company, and making proposals thereon to the Board; searching for qualified candidates for directors and suitable persons for senior management personnel on a wide basis; and examining the candidates for directors and suitable persons for senior management personnel and making proposals thereon. At present, nomination of directors of the Company is mainly made by the shareholders of the Company and the names are submitted to the Board after the Nomination Committee has examined their qualifications; and candidates for the Vice President and senior management of the Company are nominated by the President and the names are submitted to the Board after the Nomination Committee has examined their qualifications.

Members of the Nomination Committee of the Fifth Session of the Board are Mr. Huang Long, Mr. Shan Qunying, Mr. Ding Shida, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning; of whom Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning are Independent Non-executive Directors. Mr. Qian Zhongwei acted as the Chief Member of the Nomination Committee.

Currently, the Nomination Committee of the Board has operated properly in accordance with the Detailed Rules on the Work of the Nomination Committee. The Nomination Committee of the fifth session of the Board convened a meeting on 7th March 2006, at which the report regarding the candidates of senior management which produced by the Human Resources Department of the Company was considered. It was unanimously agreed with the nomination of the candidates of the senior management and to submit the report to the Board.

### Remuneration of Auditors

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers were re-appointed as the PRC auditors and international auditors of the Company respectively for 2006 with an estimated remuneration of USD5.39 million. For the six months ended 30th June 2006, total remuneration to the auditors all related to audit services, amounted to approximately USD2.335 million.

## Audit Committee

According to the requirements of the regulatory authorities of the jurisdictions where the Company is listed and the relevant provisions of the Articles of Association, the Board of the Company has established the Audit Committee mainly responsible for:

- (1) proposing to appoint or change external auditing organizations;
- (2) examining and supervising the Company's internal audit system and its implementation;
- (3) communication between internal auditors and external auditors;
- (4) auditing the Company's financial information and its disclosure;
- (5) any other matters required by the Company's Board.

Such responsibilities are the same as those set out in the 2005 Corporate Governance Report.

Members of the Audit Committee of the Fifth Session of the Board comprised five directors, namely, Mr. Xia Donglin, Mr. Qian Zhongwei, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning. All the above members are Independent Non-executive Directors; and Mr. Xia Donglin acted as Chief Member of the Audit Committee.

The Company's Audit Committee held two meetings on 27th March 2006 and 24th April, 2006, respectively. As the duties of the Audit Committee, the members of the Audit Committee interviewed and discussed with the Company's legal counsels, external auditors, management and the department in respect of the applicable laws and regulations in the jurisdictions in which the Company's shares are listed, status of anti-fraud, staff appointment, the implementation of the internal control system as well as the audit conducted by the external auditors. The members raised their opinions and provided a number of suggestions in relation thereto. The following were approved at the meetings: the 2005 work report and the work proposal for 2006 (including the plan for usage of funds) of the Audit Department of the Company; the financial report of 2005; the financial budget for 2006; the profit distribution plan of 2005; the proposal regarding the appointment of external auditors; the application regarding auditors' fees for general service; the proposal regarding amendments to the Detailed Rules on the Work of the Audit Committee; and the First Quarterly Financial Report of 2006. The Audit Committee submitted to the Board a report summarizing their work in the past year and the reports on the matters examined by them.

The Regulations on Online and Mailbox Reporting and the amended Detailed Rules on the Work of the Audit Committee were announced on 27th February 2006 and 28th April 2006 respectively on the Company's website and were implemented accordingly.

### Strategy Committee

For compliance with the relevant requirements of the regulations in the jurisdictions in which the shares of the Company are listed as well as with the Articles of Association of the Company, the Board has established a Strategy Committee with the following key responsibilities:

- (1) reviewing and advising on the Company's long-term strategic development plan;
- (2) reviewing and advising on the major fund raising proposals that need to be approved by the Board;
- (3) reviewing and advising on the major production and operating projects that need to be approved by the Board;
- (4) studying and advising on the matters that would significantly affect the development of the Company;
- (5) examining the implementation of the above-mentioned matters;
- (6) attending to those matters at the requests of the Board.

The fifth session of the Board's Strategy Committee consisted of six directors, including Mr. Li Xiaopeng, Mr. Huang Yongda, Mr. Huang Long, Mr. Na Xizhi, Mr. Wu Dawei, Mr. Wu Yusheng and Mr. Wang Xiaosong (resigned from directorship on 7th March 2006). The Chairman of the Strategy Committee is Mr. Li Xiaopeng.

The Rules on Risks Management for Huaneng Power International, Inc. was approved by the Strategy Committee on 27th March 2006 and was then implemented accordingly. Pursuant to the rules, all functional departments, business departments and their respective supervising and management units provided their risk analysis reports. Currently, the rules has been executed effectively. The Company's internal control and risk managment systems have been continuously strengthened and improved.

### REVIEW BY THE AUDIT COMMITTEE

The interim results of 2006 have been reviewed by the Audit Committee of the Company.

### LEGAL PROCEEDINGS

As at 30th June 2006, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Company is aware of.

## DOCUMENTS FOR INSPECTION

The interim report for the first half of 2006 of the Company containing all the information required by the Listing Rules will be published on the Hong Kong Stock Exchange's website in due course. The Company will also file the interim report in Form 6-K with the US Securities and Exchange Commission. Copies of the interim report for 2006 will be available at the following addresses and website:

PRC  
 Huaneng Power International, Inc.  
 West Wing, Building C  
 Tianyin Mansion  
 2C Fuxingmennan Street  
 Xicheng District  
 Beijing  
 The People's Republic of China  
 Telephone Number: (8610) 6649 1999  
 Fax Number: (8610) 6649 1860  
 Postal code: 100031

Hong Kong  
 Rikes Communications Limited  
 Room 1312, Wing On Centre  
 111 Connaught Road Central  
 Hong Kong  
 Telephone No: (852) 2520 2201  
 Fax No: (852) 2520 2241

Website of the Company <http://www.hpi.com.cn>

By Order of the Board

**Li Xiaopeng**

*Chairman*

The directors of the Company are:

Li Xiaopeng (*Executive director*)  
 Huang Yongda (*Non-executive director*)  
 Na Xizhi (*Executive director*)  
 Huang Long (*Executive director*)  
 Wu Dawei (*Non-executive director*)  
 Shan Qunying (*Non-executive director*)  
 Ding Shida (*Non-executive director*)  
 Xu Zujian (*Non-executive director*)  
 Liu Shuyuan (*Non-executive director*)

Qian Zhongwei (*Independent non-executive director*)  
 Xia Donglin (*Independent non-executive director*)  
 Liu Jipeng (*Independent non-executive director*)  
 Wu Yusheng (*Independent non-executive director*)  
 Yu Ning (*Independent non-executive director*)

Beijing, the PRC

16th August 2006

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED)**

AS AT 30TH JUNE 2006

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Note	As at 30th June 2006	As at 31st December 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	4	84,849,271	78,997,297
Investments in associates		5,053,220	4,593,984
Available-for-sale investment		1,022,774	1,033,225
Land use rights		1,661,394	1,679,765
Other non-current assets		305,591	336,379
Deferred income tax assets		69,718	64,075
Goodwill		671,796	671,796
<b>Total non-current assets</b>		<b>93,633,764</b>	<b>87,376,521</b>
<b>Current assets</b>			
Inventories, net		2,261,297	2,311,357
Other receivables and assets, net		779,237	855,952
Accounts receivable, net	5	5,771,748	6,022,426
Dividend receivable		125,000	—
Financial assets at fair value through profit or loss		37,687	—
Due from HIPDC		—	21,847
Restricted cash		203,769	201,276
Temporary cash investment		2,652	2,652
Cash and cash equivalents		2,411,266	2,647,665
<b>Total current assets</b>		<b>11,592,656</b>	<b>12,063,175</b>
<b>Total assets</b>		<b>105,226,420</b>	<b>99,439,696</b>

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED) (Cont'd)**

AS AT 30TH JUNE 2006

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Note	As at 30th June 2006	As at 31st December 2005
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Domestic shares, par value of RMB1.00 each, in form of			
legal person shares	6	—	8,500,000
A shares, par value of RMB1.00 each	6	9,000,000	500,000
Overseas listed foreign shares, par value of			
RMB1.00 each	6	3,055,383	3,055,383
Additional paid-in capital		8,988,107	8,988,107
Dedicated capital	7	4,899,429	4,899,429
Available-for-sale investment revaluation reserve		631,786	636,964
Retained earnings			
Proposed dividend	8	—	3,013,846
Others		12,610,623	10,443,745
		39,185,328	40,037,474
<b>Minority interests</b>		6,458,636	6,106,713
<b>Total equity</b>		45,643,964	46,144,187
<b>Non-current liabilities</b>			
Long-term loans from Huaneng Group	9	2,800,000	2,800,000
Long-term bank loans	9	28,289,674	25,711,255
Other long-term loans	9	311,162	351,009
Deferred income tax liabilities		1,113,323	1,157,775
Other non-current liabilities		185,947	168,328
<b>Total non-current liabilities</b>		32,700,106	30,188,367



**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED) (Cont'd)**

AS AT 30TH JUNE 2006

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Note	As at 30th June 2006	As at 31st December 2005
<b>Current liabilities</b>			
Accounts payable and other liabilities	10	8,645,631	6,905,240
Dividends payable to shareholders of the Company		90,950	—
Taxes payables		726,323	1,131,284
Due to Huaneng Group		45,057	50,720
Due to HIPDC		109,654	53,230
Due to associates		4,669	—
Due to other related parties		50,932	29,620
Staff welfare and bonus payables		223,955	251,949
Short-term bonds	11	4,983,727	4,938,250
Short-term loans	12	9,054,390	6,580,870
Current portion of long-term bank loans	9	2,657,126	2,653,339
Current portion of other long-term loans	9	289,936	512,640
<b>Total current liabilities</b>		<b>26,882,350</b>	<b>23,107,142</b>
<b>Total equity and liabilities</b>		<b>105,226,420</b>	<b>99,439,696</b>

The notes on pages 36 to 55 are an integral part of these unaudited condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB, except per share data)

	Note	For the six months ended 30th June	
		2006	2005
<b>Operating revenue</b>		19,835,432	18,855,455
Sales tax		(67,324)	(54,981)
<b>Operating expenses:</b>			
Fuel		(10,376,099)	(10,353,644)
Maintenance		(558,068)	(606,883)
Depreciation		(3,260,860)	(3,174,402)
Labor		(1,313,664)	(1,129,565)
Service fees to HIPDC		(70,386)	(70,493)
Others		(853,369)	(797,341)
Total operating expenses		(16,432,446)	(16,132,328)
<b>Profit from operations</b>		3,335,662	2,668,146
Interest income		23,918	25,196
Interest expense		(726,125)	(723,260)
Bank charges and exchange (losses) / gain, net		(9,971)	93,144
Total financial expenses, net		(712,178)	(604,920)
Share of profits of associates		351,772	238,741
Investment income, net		65,962	34,839
Other income, net		1,670	3,472
<b>Profit before income tax</b>	14	3,042,888	2,340,278
<b>Income tax expense</b>	15	(511,823)	(348,774)
<b>Profit for the period</b>		2,531,065	1,991,504
<b>Attributable to:</b>			
- Equity holders of the Company		2,166,878	1,679,253
- Minority interests		364,187	312,251
		2,531,065	1,991,504
<b>Earnings per share for profit attributable to the equity holders of the Company, expressed in RMB per share</b>			
- basic and diluted	16	0.18	0.14

The notes on pages 36 to 55 are an integral part of these unaudited condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Company					Minority	Total
	Share capital	Additional paid-in capital	Dedicated capital	Available- for-sale investment revaluation reserve	Retained earnings	interests	equity
Balance as at 1st January 2006	12,055,383	8,988,107	4,899,429	636,964	13,457,591	6,106,713	46,144,187
Net capital injection from minority shareholders of subsidiaries	—	—	—	—	—	189,882	189,882
Dividends relating to 2005	—	—	—	—	(3,013,846)	(202,146)	(3,215,992)
Profit for the six months ended 30th June 2006	—	—	—	—	2,166,878	364,187	2,531,065
Fair value changes from available-for-sale investment - gross	—	—	—	(4,921)	—	—	(4,921)
Fair value changes from available-for-sale investment - tax	—	—	—	(257)	—	—	(257)
<b>Balance as at 30th June 2006</b>	<b>12,055,383</b>	<b>8,988,107</b>	<b>4,899,429</b>	<b>631,786</b>	<b>12,610,623</b>	<b>6,458,636</b>	<b>45,643,964</b>
Balance as at 1st January 2005	12,055,383	8,972,184	4,065,970	—	12,433,102	3,266,393	40,793,032
Minority interests arising on business combination	—	—	—	—	—	1,993,416	1,993,416
Capital injection from minority shareholders of subsidiaries	—	—	—	—	—	59,830	59,830
Dividends relating to 2004	—	—	—	—	(3,013,846)	(196,992)	(3,210,838)
Profit for the six months ended 30th June 2005	—	—	—	—	1,679,253	312,251	1,991,504
<b>Balance as at 30th June 2005</b>	<b>12,055,383</b>	<b>8,972,184</b>	<b>4,065,970</b>	<b>—</b>	<b>11,098,509</b>	<b>5,434,898</b>	<b>41,626,944</b>

The notes on pages 36 to 55 are an integral part of these unaudited condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Note	For the six months ended 30th June	
		2006	2005
Net cash provided by operating activities		5,353,555	1,971,538
Net cash used in investing activities	17	(7,578,263)	(7,064,748)
Net cash provided by financing activities	17	1,988,309	5,522,402
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(236,399)</b>	<b>429,192</b>
Cash and cash equivalents as at beginning of the year		2,647,665	2,295,531
<b>Cash and cash equivalents as at end of the period</b>		<b>2,411,266</b>	<b>2,724,723</b>

The notes on pages 36 to 55 are an integral part of these unaudited condensed consolidated interim financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

### 1. Company Organization and Principal Activities

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

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

### 2. Basis of Preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30th June 2006 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

During 2006, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as at 30th June 2006, the Company and its subsidiaries have a negative working capital balance of approximately RMB15.3 billion (31st December 2005: approximately RMB11.0 billion). The Company and its subsidiaries have significant undrawn available banking facilities amounting to approximately RMB28 billion (31st December 2005: approximately RMB23 billion), of which approximately RMB6 billion (31st December 2005: approximately RMB7 billion) are limited for short-term financing purpose. The Company and its subsidiaries may refinance and / or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The Directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these unaudited condensed consolidated interim financial statements on a going concern basis.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

**3. Principal Accounting Policies**

The principal accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31st December 2005. The following new standard, amendment to standards and interpretations are mandatory for financial year with annual period beginning on or after 1st January 2006.

- Amendments to IAS 39 and International Financial Reporting Standard (“IFRS”) 4, Amendments ‘Financial guarantee contracts’, effective for annual periods beginning on or after 1st January 2006. These amendments had no material impact to the accounting policies of the Company and its subsidiaries; and
- International Financial Reporting Interpretations Committee Interpretation (“IFRIC Interpretation”) 4, ‘Determining whether an arrangement contains a lease’, effective for annual periods beginning on or after 1st January 2006. This interpretation had no material impact on the accounting policies of the Company and its subsidiaries. Management will continue to assess the impact of this IFRIC Interpretation to the accounting policies of the Company and its subsidiaries for any future arrangements.

**4. Property, Plant and Equipment, Net**

	As at 30th June 2006	As at 31st December 2005
Beginning of the year	78,997,297	57,780,410
Acquisitions	—	12,061,897
Additions	9,160,712	15,620,397
Disposals	(2,220)	(191,786)
Disposal of a subsidiary	—	(60,029)
Depreciation	(3,264,518)	(6,183,512)
Impairment	(42,000)	(30,080)
End of the period / year	84,849,271	78,997,297

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**5. Accounts Receivable, Net**

Accounts receivable, net comprised:

	As at 30th June 2006	As at 31st December 2005
Accounts receivable	4,695,615	4,963,326
Notes receivable	1,132,889	1,117,533
	5,828,504	6,080,859
Less: provision for doubtful accounts	(56,756)	(58,433)
	<u>5,771,748</u>	<u>6,022,426</u>

The Company and its subsidiaries usually grant about one month's credit period to local power grid customers.

The aging analysis of accounts receivable was as follows:

	As at 30th June 2006	As at 31st December 2005
Within 1 year	5,618,217	5,864,038
Between 1 to 2 years	920	3,624
Between 2 to 3 years	51,880	59,217
Over 3 years	157,487	153,980
	<u>5,828,504</u>	<u>6,080,859</u>

As at 30th June 2006, HIPDC had provided guarantee to the Company on the Company's share of an account receivable balance of approximately RMB140 million (31st December 2005: approximately RMB140 million) recorded in the books of Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company") when it acquired the subsidiary from HIPDC in 2004.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

**6. Authorized Share Capital and Paid-in Capital**

	As at 31st December 2005	Impact of shareholding reform	As at 30th June 2006
Domestic shares, par value of RMB1.00 each, in form of legal person shares	8,500,000	(8,500,000)	—
A shares, par value of RMB1.00 each*	500,000	8,500,000	9,000,000
Overseas listed foreign shares, par value of RMB1.00 each	3,055,383	—	3,055,383
<b>Total</b>	<b>12,055,383</b>	<b>—</b>	<b>12,055,383</b>

- \* On 19th April 2006, the Company completed its shareholding reform process on domestic shares (including A shares), in which Huaneng Group and HIPDC, being the major shareholders of the Company, offered to give three Company's shares that they owned to the original Company's A share holders for every ten shares held by the A share holders. The total number of shares given out by Huaneng Group and HIPDC to the original A share holders in connection with this reform was 150,000,000 shares. As a result of this shareholding reform, all the previously non-tradeable domestic shares held by Huaneng Group, HIPDC and other founding shareholders become tradable subject to certain lock-up arrangements made by the holders of such shares. All of these domestic shares were reclassified as A shares. This shareholding reform did not affect the shareholding of overseas listed foreign shares.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

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

### 7. Dedicated Capital

The Board of Directors decided on an annual basis the percentages of the profit after tax, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory surplus reserve fund and, on an optional basis, the discretionary surplus reserve fund. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation will be optional. The statutory surplus reserve fund can be used to offset prior years' losses or increase share capital, provided that the balance after such an issue is not less than 25% of registered capital. The discretionary surplus reserve fund can be provided and used in accordance with the resolutions of the Directors and then approved by the shareholders.

Prior to 1st January 2006, the Board of Directors decided on an annual basis the percentages of the profit after tax, as determined under the PRC accounting standards and regulations, to be appropriated to the statutory public welfare fund. The statutory public welfare fund can only be utilized on capital items for the collective benefits of the Company's employees. Titles of these capital items will remain with the Company. This fund is non-distributable other than in liquidation. Starting from 1st January 2006 onward, the Company is prohibited from providing further appropriation out of net profit to statutory public welfare fund pursuant to the revised Company Law. The balance of statutory public welfare fund as at 31st December 2005 is converted into discretionary surplus reserve fund.

For the six months ended 30th June 2006 and 2005, the Company and its subsidiaries did not appropriate any amount into the statutory and discretionary surplus reserve funds.

### 8. Dividends

On 13th June 2006, the shareholders approved the cash dividends of RMB0.25 per ordinary share, totaling approximately RMB3,014 million in their general meeting. For the six months ended 30th June 2006, dividends of approximately RMB2,923 million (for the six months ended 30th June 2005: approximately RMB3,022 million) were paid.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 9. Long-term Loans

	As at 30th June 2006			As at 31st December 2005		
	Original currency (in thousand)	Annual interest rate	Amount	Original currency (in thousand)	Annual interest rate	Amount
Loans from Huaneng Group Unsecured						
RMB		4.05% -			4.05% -	
- Fixed rate	2,800,000	5.02%	2,800,000	2,800,000	5.02%	2,800,000
Bank loans						
Secured						
RMB		5.18% -			5.18% -	
- Fixed rate	262,000	5.76%	262,000	407,000	5.76%	407,000
Unsecured						
RMB		3.60% -			3.60% -	
- Fixed rate	25,023,948	6.12%	25,023,948	21,833,838	6.12%	21,833,838
US dollar ("US\$")		5.95% -			5.40% -	
- Fixed rate	563,709	6.97%	4,507,191	611,668	6.97%	4,936,284
- Variable rate	56,946	4.13% - 5.11%	455,316	60,109	2.155% - 3.385%	485,096
Euro						
- Fixed rate	68,929	2%	698,345	73,319	2%	702,376
			30,684,800			27,957,594
			30,946,800			28,364,594

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 9. Long-term Loans (Cont'd)

	As at 30th June 2006			As at 31st December 2005		
	Original currency	Annual interest rate	Amount	Original currency	Annual interest rate	Amount
	(in thousand)			(in thousand)		
Other loans						
Secured						
RMB						
- Fixed rate	200,000	5.27%	200,000	200,000	5.27%	200,000
Unsecured						
RMB		4.94% -			4.94% -	
- Fixed rate	204,176	6.12%	204,176	446,847	6.12%	446,847
US\$					2.99% -	
- Variable rate	14,286	5.055%	114,223	15,714	3.93%	126,817
Japanese yen						
- Variable rate	1,190,476	5.80%	82,699	1,309,524	5.80%	89,985
			401,098			663,649
			601,098			863,649

Certain bank loans totaling approximately RMB262 million (31st December 2005: RMB407 million) are secured by various property, plant and equipment of the Company and its subsidiaries (Note 19). A loan amount of RMB200 million (31st December 2005: RMB200 million) from other long-term loans is secured by tariff collection right. Please refer to Note 18(b)(ii) for details of certain loans guaranteed by state-owned enterprises.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

## 9. Long-term Loans (Cont'd)

The maturity of long-term loans is as follows:

	Loans from Huaneng Group		Bank loans		Other loans	
	As at	As at	As at	As at	As at	As at
	30th June 2006	31st December 2005	30th June 2006	31st December 2005	30th June 2006	31st December 2005
One year or less	—	—	2,657,126	2,653,339	289,936	512,640
More than one year but not more than two years	—	—	3,164,506	2,979,225	133,010	153,044
More than two years but not more than three years	—	—	5,806,193	3,189,885	99,384	99,419
More than three years but not more than four years	—	—	4,379,766	4,417,885	39,384	39,419
More than four years but not more than five years	—	—	3,355,257	3,386,732	39,384	39,419
More than five years	2,800,000	2,800,000	11,583,952	11,737,528	—	19,708
	2,800,000	2,800,000	30,946,800	28,364,594	601,098	863,649
Less: amount due within one year included under current liabilities	—	—	(2,657,126)	(2,653,339)	(289,936)	(512,640)
	2,800,000	2,800,000	28,289,674	25,711,255	311,162	351,009

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**10. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities comprised:

	As at 30th June 2006	As at 31st December 2005
Accounts and notes payable	1,350,033	1,231,162
Other payables and accrued liabilities	7,295,598	5,674,078
	<b>8,645,631</b>	<b>6,905,240</b>

The aging analysis of accounts and notes payable (including amounts due to other related parties of trading in nature) was as follows:

	As at 30th June 2006	As at 31st December 2005
Accounts and notes payable		
Within 1 year	1,342,444	1,223,004
Between 1 to 2 years	4,966	4,227
Over 2 years	2,623	3,931
Subtotal	1,350,033	1,231,162
Amounts due to other related parties of trading in nature		
Within 1 year	20,115	29,093
Total	<b>1,370,148</b>	<b>1,260,255</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**11. Short-term Bonds**

The Company and its subsidiaries repaid RMB500 million and RMB4.5 billion unsecured short-term zero-coupon bonds at par on 27th February 2006 and 29th May 2006 respectively. The effective interest rates of these bonds were 3.32% and 3.40% per annum, respectively.

Subsequently, the Company and its subsidiaries issued another RMB500 million and RMB4.5 billion of unsecured short-term bonds bearing coupon rates of 3.12% per annum and 3.35% per annum on 23rd May 2006 and 26th June 2006, respectively. These bonds are denominated in RMB and will mature in 365 days from their respective issue dates at their nominal values. Interest expense on these bonds is calculated using the effective interest rates of 3.53% and 3.77% per annum, respectively.

**12. Short-term Loans**

Short-term loans denominated in RMB are unsecured and bear interest from 4.30% to 5.51% per annum for the six months ended 30th June 2006 (for the six months ended 30th June 2005: 4.30% to 5.76% per annum).

**13. Additional Financial Information on Unaudited Condensed Consolidated Interim Balance Sheet**

As at 30th June 2006, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB15,290 million (31st December 2005: approximately RMB11,044 million). On the same date, the total assets less current liabilities of the Company and its subsidiaries were approximately RMB78,344 million (31st December 2005: approximately RMB76,333 million).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**14. Profit Before Income Tax**

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

	For the six months ended 30th June	
	2006	2005
Interest expense on		
- loans	1,088,705	949,669
- short-term bonds	56,507	13,523
Total interest expense on borrowings	1,145,212	963,192
Less: amounts capitalized in property, plant and equipment	(419,087)	(239,932)
Total interest expense	726,125	723,260
Depreciation on property, plant and equipment	3,261,549	3,174,402
(Gain) / Losses on disposals of property, plant and equipment, net	(695)	555
Amortization on land use rights	18,484	18,162
Amortization on other non-current assets	27,830	30,089
Write off of excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (Note 18(a)*)	(24,758)	—
Reversal of provision for doubtful debts	(1,494)	(2,367)
Bad debts recovery	(34,936)	—

**15. Income Tax Expense**

No Hong Kong profits tax was provided for the six months ended 30th June 2006 (for the six months ended 30th June 2005: nil) as the Company and its subsidiaries had no estimated assessable profit arising in or deriving from Hong Kong.

PRC income tax has been provided on the estimated assessable profit for the period at their prevailing rates of taxation. Certain of the power plants, being located in specially designated regions or cities, are subject to preferential income tax rates. In addition, certain power plants are exempted from the PRC income tax for two years starting from the first profit-making year (after covering any accumulated deficits) followed by a 50% exemption of the applicable tax rate for the next three years (the "tax holiday"). For the six months ended 30th June 2006, the weighted average effective tax rate applicable to the Company and its subsidiaries is approximately 17% (for the six months ended 30th June 2005: approximately 15%).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**16. Earnings Per Share**

The calculation of basic earnings per share is done based on the profit attributable to the equity holders of the Company of approximately RMB2,167 million (for the six months ended 30th June 2005: approximately RMB1,679 million) and the weighted average number of approximately 12,055 million (for the six months ended 30th June 2005: approximately 12,055 million) outstanding ordinary shares during the period.

There was no dilutive effect on earnings per share since the Company had no dilutive potential ordinary shares for the six months ended 30th June 2006 and 2005.



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**17. Supplementary Information to Unaudited Condensed Consolidated Interim Cash Flow Statement**

Cash flows used in investing and provided by financing activities included the following:

	For the six months ended 30th June	
	2006	2005
<b>Investing activities:</b>		
Cash inflows from the acquired power companies	—	566,704
Cash dividend received	132,220	304,460
Proceeds from disposal of Huaneng Nanjing Ranji Power Generation Limited Liability Company ("Nanjing Ranji")	—	30,000
Cash outflow from disposal of Nanjing Ranji	—	(10,479)
Prepayments of land use rights	(113)	(97,971)
Purchase of property, plant and equipment	(7,547,659)	(5,619,518)
Prepayment for an acquisition	(148,652)	—
Investment in an associate	(20,000)	—
Cash consideration paid for acquisitions	—	(2,225,600)
Direct transaction costs of acquisitions paid	—	(16,698)
Decrease in temporary cash investment	—	5,000
Others	5,941	(646)
<b>Net cash used in investing activities</b>	<b>(7,578,263)</b>	<b>(7,064,748)</b>
<b>Financing activities:</b>		
Drawdown of:		
- short-term loans	8,277,670	7,893,000
- long-term bank loans	3,865,070	4,714,309
- other long-term loans	—	66,389
Repayments of:		
- short-term loans	(5,804,149)	(7,771,000)
- long-term bank loans	(1,252,778)	(940,953)
- other long-term loans	(262,257)	(140,097)
Dividends paid to the shareholders of the Company	(2,922,896)	(3,022,096)
Net capital injection from minority shareholders of the subsidiaries	189,882	44,830
Dividend paid to minority shareholders of the subsidiaries	(220,033)	(161,680)
Issuance of short-term bonds	5,000,000	4,862,200
Repayment of short-term bonds	(4,862,200)	—
Bonds issuance expense paid	(20,000)	(22,500)
<b>Net cash provided by financing activities</b>	<b>1,988,309</b>	<b>5,522,402</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

**18. Related Party Transactions**

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

Name of related parties	Nature of relationship
Huaneng Group	Ultimate parent company
HIPDC	Parent company
Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan")	A subsidiary of Huaneng Group
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Huaneng Xinrui Controlled Technology Co., Ltd. ("Xinrui")	A subsidiary of Huaneng Group
Xi'an Thermal Power Research Institute Co., Ltd. ("Xi'an Thermal")	A subsidiary of Huaneng Group
Huaneng Capital Service Co., Ltd. ("Huaneng Capital Service")	A subsidiary of Huaneng Group
Greatwall Securities Co., Ltd. ("Greatwall Securities")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company Ltd. ("Time Shipping")	A jointly controlled entity of Huaneng Group
Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")	An associate of the Company
China Huaneng Finance Co., Ltd. ("Huaneng Finance")	An associate of the Company
Chongqing Huaneng Shifen Company Limited ("Shifen Company")	An associate of Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company")
State-owned enterprises*	Related parties of the Company

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**18. Related Party Transactions (Cont'd)**

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

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

In addition to the related party information shown elsewhere in the unaudited condensed consolidated interim financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its subsidiaries and their related parties during the period.

**(a) Related Party Transactions**

	For the six months ended 30th June	
	2006	2005
<b>Huaneng Group</b>		
Management service fee income	16,080	16,921
Interest expense on long-term loans	(71,489)	(17,887)
Acquisition of equity interest of Huaneng Finance*	(126,000)	—
<b>HIPDC</b>		
Management service fee income	1,920	1,644
Service fees expenses on transmission and transformer facilities	(70,386)	(70,493)
Rental charge on land use rights of Huaneng Nanjing Power Plant	(667)	(667)
Rental charge on office building	(13,000)	(13,000)
<b>Huaneng Finance</b>		
Discounting of notes receivable	—	119,664
Discounting charges	—	(1,044)
Drawdown of short-term loans	1,620,000	1,600,000
Issuance of short-term bonds	900,000	—
Interest expense on short-term and long-term loans	(57,961)	(84,244)
Capital injection*	(162,000)	—

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**18. Related Party Transactions (Cont'd)****(a) Related Party Transactions (Cont'd)**

	For the six months ended 30th June	
	2006	2005
<b>Huaneng Capital Service</b>		
Issuance of short-term bonds	250,000	—
<b>Greatwall Securities</b>		
Issuance of short-term bonds	300,000	—
<b>CHITEC</b>		
Purchase of coal from CHITEC	(103,866)	(276,310)
Purchase of equipment from CHITEC	(17,776)	(9,274)
<b>Time Shipping</b>		
Purchase of coal from Time Shipping and service fee paid for transportation	(336,161)	(274,000)
<b>Huaneng Jingyuan</b>		
Purchase of coal from Huaneng Jingyuan	(49,159)	(122,661)
<b>Shifen Company</b>		
Purchase of lime from Shifen Company	(22,555)	(27,296)
<b>Xinrui</b>		
Technical services and industry-specific technological project contracting services	(2,241)	(1,299)
<b>Xi'an Thermal</b>		
Technical services and industry-specific technological project contracting services	(13,308)	(3,675)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**18. Related Party Transactions (Cont'd)****(a) Related Party Transactions (Cont'd)**

	For the six months ended 30th June	
	2006	2005
	RMB million	RMB million
<b>State-owned enterprises</b>		
Sales of electricity	19,990	18,861
Purchases of fuel	(6,205)	(5,951)
Acquisition of property, plant and equipment	(2,889)	(3,328)
Purchases of raw materials and spare parts	(52)	(41)
Subcontracting labor for		
- construction and renovation	(1,918)	(1,033)
- maintenance	(45)	(52)
Interest income	9	11
Dividend income	28	35
Warrants granted	38	—
Issuance of short-term bonds	3,550	4,862
Drawdown of short-term loans	5,637	5,263
Drawdown of long-term loans	3,425	4,714
Interest expense on loans and bonds to banks and other financial institutions	(788)	(738)

- \* The Company acquired 20% equity interest of Huaneng Finance in January 2006 at total consideration of RMB288 million. The Company's share in the net fair value of identifiable assets, liabilities and contingent liabilities of Huaneng Finance amounted to approximately RMB313 million. The excess of acquired interest over the consideration was written off against income statement.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

**18. Related Party Transactions (Cont'd)****(b) Guaranteed Loans**

	As at 30th June 2006	As at 31st December 2005
(i) Short-term loan guaranteed by a state-owned enterprise	—	400,000
(ii) Long-term loans guaranteed by		
- Huaneng Group	7,354,924	7,343,525
- HIPDC	3,019,149	3,311,164
- State-owned enterprises	343,375	1,226,500
(iii) Long-term bank loans of Rizhao Power Company guaranteed by the Company	212,500	225,250

**(c) Key management personnel compensation**

	For the six months ended 30th June	
	2006	2005
Salaries and other short-term employee benefits	3,834	4,223
Post-employment benefits	595	502
<b>Total</b>	<b>4,429</b>	<b>4,725</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

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

**19. Pledge of Assets**

As mentioned in Note 9, the Company and its subsidiaries have pledged various assets as collateral against certain loans. A summary of the pledged assets is as follows:

	As at 30th June 2006	As at 31st December 2005
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company		
- Dam	209,842	383,423
- Buildings	1,902	1,933
- Electric utility plant in service	28,798	190,306
- Others	9,527	10,485
Sichuan Huaneng Kangding Hydroelectric Power Co., Ltd.		
- Electric utility plant in service	19,012	26,798
Huaneng Mingtai Power Limited Liability Company		
- Electric utility plant in service	51,712	54,394
<b>Total</b>	<b>320,793</b>	<b>667,339</b>

**20. Capital and Other Commitments****(a) Capital Commitments**

	As at 30th June 2006	As at 31st December 2005
Contracted but not provided for	15,530,530	17,076,451
Authorized but not contracted for	2,673,757	11,983
<b>Total</b>	<b>18,204,287</b>	<b>17,088,434</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

**20. Capital and Other Commitments (Cont'd)****(b) Other Commitments**

During 2004 and 2005, the Company entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from 2005 to 2009 for use in power generation. In most cases, these agreements contain provisions for price escalations and minimum purchase level clauses. Purchases for the periods ended 30th June 2006 and 30th June 2005 were approximately RMB2,856 million and RMB2,412 million, respectively. The future purchase commitments under the above agreements are as follows:

	As at 30th June 2006	As at 31st December 2005
2006	5,310,570	7,771,230
2007	8,166,230	7,771,230
2008	3,826,281	3,826,281
2009	3,826,281	3,826,281
	<b>21,129,362</b>	<b>23,195,022</b>

**21. Contingent Liabilities**

	As at 30th June 2006	As at 31st December 2005
Financial guarantees granted to an associate	212,500	225,250



**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED)**

(Amounts expressed in thousands of RMB unless otherwise stated)

The unaudited condensed consolidated interim financial statements of the Company and its subsidiaries prepared under IFRS differ in certain respects from those prepared under generally accepted accounting principles in the United States of America ("US GAAP"). Significant differences between IFRS and US GAAP, which affect the equity and net profit of the Company and its subsidiaries, are summarized below:

**(a) Effect of Acquisitions of Entities under Common Control**

Huaneng Group is the controlling parent company of HIPDC, which in turn is the controlling parent of the Company.

Under IFRS, the Company and its subsidiaries adopted the acquisition method to account for the acquisitions of:

- (i) 70% equity interest of Huaneng Shanghai Shidongkou I Power Plant ("Shidongkou I Power Plant"), 70% equity interest of Huaneng (Suzhou Industrial Park) Power Generation Co. Ltd. ("Taicang Power Company") and all of the assets and liabilities of Huaneng Changxing Power Plant ("Changxing Power Plant"), from Huaneng Group in July 2002;
- (ii) 55% equity interest of Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company"), 60% equity interest of Huaneng Yushe Power Generation Co., Ltd. ("Yushe Power Company") and all of the assets and liabilities of Huaneng Xindian Power Plant ("Xindian Power Plant") from Huaneng Group in October 2003;
- (iii) 60% equity interest of Luohuang Power Company, 55% equity interest of Yueyang Power Company, 90% equity interest of Huaneng Jinggangshan Power Plant ("Jinggangshan Power Plant") and all of the assets and liabilities of Huaneng Yingkou Power Plant ("Yingkou Power Plant") from HIPDC and from Huaneng Group in July 2004; and
- (iv) 60% equity interest of Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower") and 65% equity interest of Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company") from Huaneng Group in January 2005.

**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)**

(Amounts expressed in thousands of RMB unless otherwise stated)

**(a) Effect of Acquisitions of Entities under Common Control (Cont'd)**

Under the acquisition method, the results of the acquired businesses are included in the results of operations of the Company and its subsidiaries from the date of the acquisition. The difference between the purchase consideration and the fair value of the underlying net assets acquired is accounted for as goodwill. In prior years, goodwill arising from the acquisitions in (i) and (ii) above is amortized on a systematic basis to the income statement over its economic useful life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets while goodwill arising from the acquisitions in (iii) above is tested annually for impairment and carried at cost less accumulated impairment losses. From 1st January 2005 onwards, goodwill arising from all the acquisitions above is not amortized but is tested annually for impairment and carried at cost less accumulated impairment losses.

As the companies and power plants acquired were under the control of Huaneng Group prior to their acquisitions by the Company and its subsidiaries, these acquisition transactions were considered common control transactions. Under US GAAP, they are considered to be transfers of businesses under common control and the acquired assets and liabilities are accounted for at historical cost in a manner similar to the pooling of interests method. Accordingly, the consolidated financial statements for all periods presented have been retroactively restated as if the current structure and operations resulting from the acquisition had been in existence since the beginning of the earliest period presented, with financial data of previously separate entities combined. The cash consideration paid by the Company is accounted for as an equity transaction in the year of the acquisition for US GAAP reporting purposes. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

**(b) Effect of Acquisitions of 44.16% Equity Interest of Jiangsu Huaneng Huaiyin Power Generation Co. Ltd. ("Huaiyin Power Company"), 30% Additional Equity Interest of Shidongkou I Power Plant, 5% Additional Equity Interest of Taicang Power Company, 40% Equity Interest of Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company") and 20% Equity Interest of Huaneng Finance**

The Company has made the following acquisitions:

- (i) 44.16% equity interest of Huaiyin Power Company in July 2002;
- (ii) 30% additional equity interest of Shidongkou I Power Plant and 5% additional equity interest of Taicang Power Company in December 2002;
- (iii) 40% equity interest of Hanfeng Power Company in July 2004; and
- (iv) 20% equity interest of Huaneng Finance in January 2006.

**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)**

(Amounts expressed in thousands of RMB unless otherwise stated)

**(b) Effect of Acquisitions of 44.16% Equity Interest of Jiangsu Huaneng Huaiyin Power Generation Co. Ltd. ("Huaiyin Power Company"), 30% Additional Equity Interest of Shidongkou I Power Plant, 5% Additional Equity Interest of Taicang Power Company, 40% Equity Interest of Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company") and 20% Equity Interest of Huaneng Finance (Cont'd)**

Under IFRS, upon the completion of the above acquisitions, the relevant equity interests of the net assets of the acquired companies and power plants are recorded at fair value. The excess of the total cost of the acquisition over the fair value of the relevant portion of net assets of power plants acquired is accounted for as goodwill. In prior years, goodwill arising from the acquisitions of Shidongkou I Power Plant, Taicang Power Company and Huaiyin Power Company was amortized on a systematic basis to the income statement over its economic useful life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets, while goodwill arising from the acquisition of Hanfeng Power Company was tested annually for impairment and carried at cost less accumulated impairment losses. From 1st January 2005 onwards, goodwill arising from these acquisitions is not amortized and is tested annually for impairment and carried at cost less accumulated impairment losses and the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost were written off against income statement.

Under US GAAP, upon completion of the above acquisitions, Huaneng Group's proportionate shares in the net assets of Huaiyin Power Company, Shidongkou I Power Plant, Taicang Power Company, Hanfeng Power Company and Huaneng Finance being sold to the Company were recorded at the historical carrying value. The excess of the total cost of acquisition over the net assets acquired was recorded as a deemed distribution and the excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration was recorded as a capital contribution to the Company. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

**(c) Housing Benefits Provided by HIPDC**

HIPDC sold to certain qualified employees of the Company living quarters owned by HIPDC at preferential prices. The difference between the cost of living quarters and the sales proceeds received from the employees is considered to be housing benefits provided to the employees. Under IFRS, such housing benefits provided by HIPDC are not reflected in the financial statements of the Company. Under US GAAP, the amount of housing benefits provided by HIPDC to the employees of the Company are recognized as the operating expenses of the Company on a straight-line basis over the estimated remaining average service life of the employees. The corresponding amount is recorded as additional capital contribution from HIPDC.

**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)**

(Amounts expressed in thousands of RMB unless otherwise stated)

**(d) Acquisition of Shandong Huaneng Power Development Company Limited ("Shandong Huaneng")**

Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng, holding 33.09% equity interest in it before the Company's acquisition of Shandong Huaneng. Under IFRS, upon the completion of the acquisition of Shandong Huaneng, the entire net assets of Shandong Huaneng were recorded at fair value. In prior years, the excess of the fair value of the entire net assets acquired over the total cost of the acquisition was recorded as negative goodwill. On 1st January 2005, the ending balance of negative goodwill brought forward from 2004 is offset against opening retained earnings according to IFRS 3. Under US GAAP, upon completion of the acquisition of Shandong Huaneng, Huaneng Group's proportionate share of 33.09% in the net assets of Shandong Huaneng that was sold to the Company was recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration was recorded as a capital contribution to the Company. The book value of the remaining 66.91% of the net assets continues to be part of the recoverable rate base under the cost recovery formula of the tariff setting mechanism. Under US GAAP, the difference between these net asset values and the cash consideration was recorded as a reduction to the property, plant and equipment of the respective power plants.

As the amount of negative goodwill originally recognized under IFRS is different from the amount of the reduction to property, plant and equipment under US GAAP due to the 33.09% portion of the net assets previously owned by Huaneng Group as described above and that the negative goodwill under IFRS is offset against opening retained earnings in 2005 whereas, for US GAAP purposes, it was a reduction to the value of the property, plant and equipment described above, are depreciated over the respective assets' useful life, the net profit under IFRS and US GAAP is different.

**(e) Capitalization of Borrowing Costs**

In accordance with IAS 23, the Company and its subsidiaries capitalized interest on general borrowings used for the purpose of obtaining a qualifying asset in addition to the capitalization of interest on specific borrowings.

Under US regulatory accounting requirements, interest on funds borrowed generally and used for the purpose of obtaining qualifying assets are not capitalized if such interests cannot be taken into consideration when determining the recoverable rate base for tariff setting purposes. Consequently, under US GAAP, the Company did not capitalize interest on general borrowings used to obtaining regulatory assets. An adjustment is made to reverse the capitalized interest on general borrowings net of the related depreciation on property, plant and equipment.

**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)**

(Amounts expressed in thousands of RMB unless otherwise stated)

**(f) Reversal of Goodwill Amortization**

In accordance with IFRS 3, goodwill arising from acquisitions for which the agreement date was before 31st March 2004 is amortized using the straight-line method over its estimated useful life and recognized in the income statement as other operating expenses and subject to an impairment review whenever events or changes in circumstances indicate their carrying value may not be recoverable, and annually if the estimated useful life exceeds 20 years. Under US GAAP, in accordance with Statement of Financial Accounting Standard Number 142 "Goodwill and Other Intangible Assets", goodwill arising from acquisition is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances.

There is no such GAAP difference from 1st January 2005 onwards.

**(g) Reversal of impairment loss on property, plant and equipment and related depreciation impact**

The carrying amount of property, plant and equipment under IFRS is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flow generated by the asset discounted to their present value or the asset's net selling price. A subsequent increase in the recoverable amount is written back to the income statement when circumstances and events that led to the write-down cease to exist.

Under US GAAP, property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Subsequent reversal of impairment is not permitted. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

In prior year, the Company recognized impairment loss on certain property, plant and equipment under IFRS while such an amount was reversed under US GAAP as a result of the above GAAP difference. This also resulted in depreciation differences between these two GAAPs in the current period.

**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)**

(Amounts expressed in thousands of RMB unless otherwise stated)

**(h) Deferred Income Tax Impact**

This represents the deferred income tax effect on the above GAAP differences where applicable.

**CHANGES OF PRINCIPAL ACCOUNTING POLICIES**

In the current period, the Company and its subsidiaries have changed certain of their accounting policies following their adoption of the new Statements of Financial Accounting Standards ("SFAS"), Emerging Issues Task Force ("EITF") and Financial Accounting Standard Board Staff Position ("FSP") below, which are relevant to their operations.

- SFAS 153 Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29
- SFAS 154 Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3
- EITF 05-6 Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination
- FSP FAS 13-1 Accounting for Rental Costs Incurred during a Construction Period
- FSP APB 18-1 Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence

Management assessed the relevance of the adoption of SFAS 153, EITF 05-6 and FSP APB 18-1 with respect to the operations of the Company and its subsidiaries and concluded that they did not result in substantial changes to the accounting policies of the Company and its subsidiaries. In summary:

SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle and applies to all voluntary changes in accounting principle instead of including in net income of the period of the change the cumulative effect of changing to the new accounting principle governed previously by APB Opinion No. 20 and SFAS 3, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change, while SFAS 154 states the guidance for dealing with the impracticable situation above. SFAS 154 requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Management considered there was no material impact to the accounting policies for the current period.

**SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)**

(Amounts expressed in thousands of RMB unless otherwise stated)

**CHANGES OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)**

The adoption of FSP FAS 13-1 resulted in changes in accounting policy for rental cost incurred during a construction period. Until 31st December 2005, the Company and its subsidiaries capitalized all the amortization of land use rights into construction projects. From 1st January 2006 onwards, the Company and its subsidiaries expensed off such expenses. Management considered there was no material impact to the accounting policies for the current period.

## SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)

(Amounts expressed in thousands of RMB unless otherwise stated)

Differences between IFRS and US GAAP which affect the net assets and net profit of the Company and its subsidiaries are summarized below:

	Note	Net Assets	
		As at 30th June 2006	As at 31st December 2005
<b>Net assets under IFRS</b>		45,643,964	46,144,187
<b>Minority interests</b>	<i>i</i>	(6,458,636)	(6,106,713)
<b>Impact of US GAAP adjustments:</b>			
Effect of acquisitions of Sichuan Hydropower and Pingliang Power Company	(a)	(992,744)	(1,014,585)
Effect of acquisitions of Luohuang Power Company, Yueyang Power Company, Jinggangshan Power Plant and Yingkou Power Plant	(a)	(1,759,231)	(1,837,845)
Effect of acquisitions of Qinbei Power Company, Yushe Power Company and Xindian Power Plant	(a)	(328,666)	(342,555)
Effect of acquisitions of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant	(a)	(425,723)	(472,473)
Effect of acquisitions of 20% equity interest of Huaneng Finance, 40% equity of interest of Hanfeng Power Company, 30% additional equity interest of Shidongkou I Power Plant, 5% additional equity interest of Taicang Power Company and 44.16% equity interest of Huaiyin Power Company	(b)	(244,958)	(251,615)
Recording of capital contribution arising from acquisition of Shandong Huaneng	(d)	862,922	862,922
Difference in accounting treatment for acquisition of Shandong Huaneng	(d)	(1,590,554)	(1,671,048)
Difference in capitalization of borrowing costs	(e)	(104,840)	(109,227)
Reversal of goodwill amortization			
- Reversal of goodwill amortization of investment in Shenzhen Energy Group Co. Ltd.	(f)	136,599	136,599
- Reversal of goodwill amortization of investment in Huaiyin Power Company	(f)	34,740	34,740
Reversal of impairment loss on property, plant and equipment and related depreciation impact	(g)	28,647	30,080
Applicable deferred income tax impact on the above GAAP differences	(h)	1,012,743	1,054,142
<b>Net assets under US GAAP</b>		<b>35,814,263</b>	<b>36,456,609</b>



## SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (Cont'd)

(Amounts expressed in thousands of RMB unless otherwise stated)

Differences between IFRS and US GAAP which affect the net assets and net profit of the Company and its subsidiaries are summarized below (Cont'd):

	Note	Net profit	
		For the six months ended 30th June	
		2006	2005
<b>Profit under IFRS</b>		2,531,065	1,991,504
<b>Profit attributable to minority interests</b>	<i>i</i>	(364,187)	(312,251)
<b>Impact of US GAAP adjustments:</b>			
Effect of acquisitions of Sichuan Hydropower and Pingliang Power Company	(a)	21,841	2,025
Effect of acquisitions of Luohuang Power Company, Yueyang Power Company, Jinggangshan Power Plant and Yingkou Power Plant	(a)	78,614	81,315
Effect of acquisitions of Qinbei Power Company, Yushe Power Company and Xindian Power Plant	(a)	13,889	13,804
Effect of acquisitions of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant	(a)	46,750	55,319
Effect of acquisitions of 20% equity interest of Huaneng Finance, 40% equity interest of Hanfeng Power Company, 30% additional equity interest of Shidongkou I Power Plant, 5% additional equity interest of Taicang Power Company and 44.16% equity interest of Huaiyin Power Company	(b)	(15,727)	12,741
Recording housing benefits provided by HIPDC	(c)	(13,076)	(13,076)
Difference in accounting treatment for acquisition of Shandong Huaneng	(d)	80,494	80,493
Difference in capitalization of borrowing costs	(e)	4,387	3,233
Reversal of depreciation impact on impaired property, plant and equipment recognized under IFRS	(g)	(1,433)	—
Applicable deferred income tax impact on the above GAAP differences	(h)	(41,399)	(51,146)
<b>Net profit under US GAAP</b>		<b>2,341,218</b>	<b>1,863,961</b>

(Note i) Consistent with disclosure requirement of revised IAS 1 – Presentation of Financial Statements, minority interests in the unaudited consolidated net assets and unaudited consolidated profit under IFRS should be included as a portion of total equity and total profit attributable to shareholders respectively.

**BALANCE SHEET (UNAUDITED)**

AS AT 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

	Note	Consolidated		The Company	
		30th June 2006	31st December 2005	30th June 2006	31st December 2005
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	5(1)	2,617,686,771	2,851,592,978	1,133,581,277	889,902,906
Including: Cash & cash equivalents	5(1)	2,411,266,165	2,647,665,997	945,003,134	713,396,158
Short-term investment		—	13,200	—	13,200
Notes receivable	5(2)	1,132,889,310	1,117,533,416	494,050,683	622,462,278
Dividend receivable		125,000,000	—	360,895,394	—
Interest receivable		802,634	3,086,294	802,634	3,052,633
Accounts receivable	5(3), 6(1)	4,638,858,941	4,904,892,612	2,490,738,295	3,180,096,467
Other receivables	5(3), 6(1)	452,406,947	597,773,628	305,409,407	420,624,141
Advances to suppliers	5(4)	261,181,689	268,606,059	129,301,165	148,818,016
Inventories	5(5)	2,261,297,354	2,311,356,766	1,424,751,087	1,380,845,041
Deferred expenses		65,519,988	8,319,695	45,887,842	7,451,902
<b>Total current assets</b>		<b>11,555,643,634</b>	<b>12,063,174,648</b>	<b>6,385,417,784</b>	<b>6,653,266,584</b>
<b>LONG-TERM INVESTMENTS</b>					
Long-term equity investments	5(6), 6(2)	6,684,582,806	6,479,002,579	15,016,792,535	14,454,590,885
Long-term debt investments	5(6)	53,700	53,700	53,700	53,700
<b>Total long-term investments</b>		<b>6,684,636,506</b>	<b>6,479,056,279</b>	<b>15,016,846,235</b>	<b>14,454,644,585</b>
Including: Consolidated difference in value	5(6)	1,687,737,038	1,810,484,726	—	—
<b>FIXED ASSETS</b>					
Fixed assets, cost	5(7)	106,510,759,102	97,895,004,782	58,541,411,069	58,299,821,850
Less: Accumulated depreciation	5(7)	(44,745,197,728)	(41,694,498,618)	(27,957,804,901)	(25,971,327,299)
Fixed assets, net		61,765,561,374	56,200,506,164	30,583,606,168	32,328,494,551
Less: Provision for impairment on fixed assets	5(7)	(72,080,000)	(30,080,000)	(72,080,000)	(30,080,000)
Fixed assets, net book value	5(7)	61,693,481,374	56,170,426,164	30,511,526,168	32,298,414,551
Construction materials	5(8)	6,002,796,932	6,289,151,847	3,373,574,837	2,841,684,052
Construction-in-progress	5(9)	14,585,158,270	13,907,010,486	6,791,084,261	3,988,534,167
<b>Total fixed assets</b>		<b>82,281,436,576</b>	<b>76,366,588,497</b>	<b>40,676,185,266</b>	<b>39,128,632,770</b>
<b>INTANGIBLE AND OTHER ASSETS</b>					
Intangible assets	5(10)	(70,834,340)	(177,780,256)	(259,625,366)	(368,916,945)
Long-term deferred expenses		58,884,895	61,386,622	3,957,483	5,468,353
Share floating right	5(6)(d)	63,636,790	63,636,790	63,636,790	63,636,790
Other long-term assets	5(11)	88,620,890	91,875,899	—	—
<b>Total intangible and other assets</b>		<b>140,308,235</b>	<b>39,119,055</b>	<b>(192,031,093)</b>	<b>(299,811,802)</b>
<b>TOTAL ASSETS</b>		<b>100,662,024,951</b>	<b>94,947,938,479</b>	<b>61,886,418,192</b>	<b>59,936,732,137</b>

**BALANCE SHEET (UNAUDITED) (Cont'd)**

AS AT 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Consolidated		The Company	
		30th June 2006	31st December 2005	30th June 2006	31st December 2005
<b>CURRENT LIABILITIES</b>					
Short-term loans	5(12)	9,054,390,000	6,580,869,370	4,868,000,000	2,200,000,000
Notes payable		409,756,178	87,239,523	104,188,000	—
Short-term bonds	5(13)	5,003,321,667	4,946,814,783	5,003,321,667	4,946,814,783
Accounts payable	5(14)	1,360,147,813	1,151,850,940	835,766,881	708,685,787
Salary payable		103,827,022	98,338,245	75,729,397	60,992,291
Welfare payable		120,127,509	153,610,803	36,667,728	68,214,318
Interest payable		154,258,964	197,637,488	71,028,723	123,936,169
Dividends payable	5(15)	211,342,791	138,279,959	90,950,000	—
Taxes payable	5(16)	726,323,199	1,131,284,360	314,470,216	506,983,238
Other levies payable		32,298,417	42,350,052	19,609,499	18,756,496
Other payables	5(17)	5,311,722,493	4,129,346,099	1,940,414,976	1,609,893,354
Accrued expenses		240,111,358	90,859,085	115,543,146	50,617,043
Current portion of long-term loans	5(18)	2,947,062,195	3,165,979,238	1,149,818,843	1,005,555,185
Provisions		4,416,482	4,416,482	—	—
<b>Total current liabilities</b>		<b>25,679,106,088</b>	<b>21,918,876,427</b>	<b>14,625,509,076</b>	<b>11,300,448,664</b>
<b>LONG-TERM LIABILITIES</b>					
Long-term loans	5(18)	31,400,836,429	28,862,263,799	9,077,588,387	9,475,460,000
Specific payables		104,396,183	86,457,662	78,146,183	61,427,662
Other non-current liabilities		60,447,158	64,139,628	—	—
<b>Total long-term liabilities</b>		<b>31,565,679,770</b>	<b>29,012,861,089</b>	<b>9,155,734,570</b>	<b>9,536,887,662</b>
<b>TOTAL LIABILITIES</b>		<b>57,244,785,858</b>	<b>50,931,737,516</b>	<b>23,781,243,646</b>	<b>20,837,336,326</b>
<b>MINORITY INTERESTS</b>		<b>5,338,125,110</b>	<b>4,934,649,003</b>	<b>—</b>	<b>—</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	5(19)	12,055,383,440	12,055,383,440	12,055,383,440	12,055,383,440
Capital surplus	5(20)	8,790,509,897	8,765,352,464	8,790,509,897	8,765,352,464
Surplus reserves	5(21)	4,945,674,209	4,945,674,209	4,945,674,209	4,945,674,209
Including: Statutory public welfare fund	5(21)	—	2,217,003,964	—	2,217,003,964
Undistributed profits	5(22)	12,287,546,437	13,315,141,847	12,313,607,000	13,332,985,698
<b>Total shareholders' equity</b>		<b>38,079,113,983</b>	<b>39,081,551,960</b>	<b>38,105,174,546</b>	<b>39,099,395,811</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>100,662,024,951</b>	<b>94,947,938,479</b>	<b>61,886,418,192</b>	<b>59,936,732,137</b>

The accompanying notes form an integral part of these financial statements.

Legal representative:

Li Xiaopeng

Person in charge of  
accounting function:

Zhou Hui

Person in charge of  
accounting department:

Huang Lixin

**PROFIT AND LOSS ACCOUNT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

		For the six months ended 30th June			
		Consolidated		The Company	
	Note	2006	2005	2006	2005
<b>1. Revenue from principal operations</b>	5(23), 6(3)	19,862,116,060	18,860,674,631	12,701,269,262	12,465,249,767
Less: Cost of principal operations	5(23), 6(3)	(15,630,952,383)	(15,381,295,296)	(10,424,079,380)	(10,583,594,083)
Tax and levies on principal operations		(67,324,186)	(54,980,528)	(2,738,136)	(3,393,902)
<b>2. Profit from principal operations</b>		4,163,839,491	3,424,398,807	2,274,451,746	1,878,261,782
Add: Profit from other operations		18,564,257	30,598,625	16,154,619	24,682,764
Less: General and administrative expenses		(489,969,740)	(444,897,068)	(352,206,239)	(291,456,064)
Financial expenses, net	5(24)	(831,621,680)	(687,155,433)	(268,206,772)	(342,163,702)
<b>3. Operating profit</b>		2,860,812,328	2,322,944,931	1,670,193,354	1,269,324,780
Add: Investment income	5(25), 6(4)	136,271,764	98,672,174	654,219,064	560,728,153
Subsidy income		4,968,900	—	4,968,900	—
Non-operating income		8,671,047	13,328,952	5,493,298	12,888,342
Less: Non-operating expenses		(49,249,927)	(42,932,245)	(46,919,815)	(3,655,748)
<b>4. Profit before taxation and minority interests</b>		2,961,474,112	2,392,013,812	2,287,954,801	1,839,285,527
Less: Income tax		(560,351,325)	(400,460,328)	(293,487,639)	(218,997,378)
Minority interests		(414,872,337)	(371,265,335)	—	—
<b>5. Net profit</b>		1,986,250,450	1,620,288,149	1,994,467,162	1,620,288,149

**PROFIT AND LOSS ACCOUNT (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

Supplemental information:	For the six months ended 30th June			
	Consolidated		The Company	
	2006	2005	2006	2005
1. Profit from sale or disposal of business units or investments	—	—	—	—
2. Loss due to natural disaster	—	—	—	—
3. Increase / (Decrease) in profit before taxation and minority interests as a result of changes in accounting policies	—	—	—	—
4. Increase / (Decrease) in profit before taxation and minority interests as a result of changes in accounting estimates	—	—	—	—
5. Loss on debt restructuring	—	—	—	—
6. Others	—	—	—	—

The accompanying notes form an integral part of these financial statements.

Legal representative:

**Li Xiaopeng**

Person in charge of  
accounting function:

**Zhou Hui**

Person in charge of  
accounting department:

**Huang Lixin**

**STATEMENT OF INCOME APPROPRIATION (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

		For the six months ended 30th June			
		Consolidated		The Company	
	Note	2006	2005	2006	2005
1.	<b>Net profit</b>	1,986,250,450	1,620,288,149	1,994,467,162	1,620,288,149
	Add: Undistributed profit brought forward	13,315,141,847	12,399,822,057	13,332,985,698	12,399,822,057
2.	<b>Distributable profit</b>	15,301,392,297	14,020,110,206	15,327,452,860	14,020,110,206
	Less: Transfer to statutory surplus reserve fund	—	—	—	—
	Transfer to statutory public welfare fund	—	—	—	—
3.	<b>Profit distributable to shareholders</b>	15,301,392,297	14,020,110,206	15,327,452,860	14,020,110,206
	Less: Dividends	(3,013,845,860)	(3,013,845,860)	(3,013,845,860)	(3,013,845,860)
4.	<b>Undistributed profit carried forward</b>	12,287,546,437	11,006,264,346	12,313,607,000	11,006,264,346

The accompanying notes form an integral part of these financial statements.

Legal representative:

**Li Xiaopeng**

Person in charge of  
accounting function:

**Zhou Hui**

Person in charge of  
accounting department:

**Huang Lixin**

**CASH FLOW STATEMENT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

Items	Note	Consolidated	The Company
<b>1. Cash flows generated from operating activities</b>			
Cash received from sale of goods and services rendered		23,693,006,600	15,691,923,463
Other cash received relating to operating activities		98,606,034	56,953,545
<b>Sub-total of cash inflows</b>		<b>23,791,612,634</b>	<b>15,748,877,008</b>
Cash paid for goods and services received		(12,018,345,371)	(8,262,220,563)
Cash paid to and on behalf of employees		(1,379,354,159)	(961,970,922)
Payments of various types of taxes		(3,194,265,654)	(1,789,326,563)
Other cash paid relating to operating activities	5(26)	(623,438,037)	(425,144,943)
<b>Sub-total of cash outflows</b>		<b>(17,215,403,221)</b>	<b>(11,438,662,991)</b>
<b>Net cash flows generated from operating activities</b>		<b>6,576,209,413</b>	<b>4,310,214,017</b>
<b>2. Cash flows generated from investing activities</b>			
Cash received on disposals of investments		105,200	105,200
Cash received on investment income		132,233,666	308,540,716
Net cash received from disposals of fixed assets and other long-term assets		6,170,010	2,743,777
Other cash received relating to investing activities		26,141,213	13,691,057
<b>Sub-total of cash inflows</b>		<b>164,650,089</b>	<b>325,080,750</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(7,560,622,772)	(3,105,255,591)
Capital injection to subsidiaries		—	(269,260,000)
Cash paid for investments other than branches and subsidiaries		(168,651,510)	(148,651,510)
<b>Sub-total of cash outflows</b>		<b>(7,729,274,282)</b>	<b>(3,523,167,101)</b>
<b>Net cash flows used in investing activities</b>		<b>(7,564,624,193)</b>	<b>(3,198,086,351)</b>

**CASH FLOW STATEMENT (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

Items	Note	Consolidated	The Company
<b>3. Cash flows generated from financing activities</b>			
Cash received from investments		189,881,544	—
Including: Cash received from minority shareholders' equity investments in subsidiaries		189,881,544	—
Cash received from borrowings		12,142,740,293	6,563,070,292
Other cash received relating to financing activities		5,005,852,458	5,001,632,458
<b>Sub-total of cash inflows</b>		<b>17,338,474,295</b>	<b>11,564,702,750</b>
Cash paid on repayments of borrowings		(12,181,384,185)	(8,973,893,829)
Cash paid for dividends, profit appropriation or interest expense		(4,405,986,000)	(3,473,040,990)
Including: Dividends paid to minority shareholders of subsidiaries		(220,033,053)	—
<b>Sub-total of cash outflows</b>		<b>(16,587,370,185)</b>	<b>(12,446,934,819)</b>
<b>Net cash flows generated from / (used in) financing activities</b>		<b>751,104,110</b>	<b>(882,232,069)</b>
<b>4. Effect of foreign exchange rate changes on cash</b>		<b>910,838</b>	<b>1,711,379</b>
<b>5. Net (decrease) / increase in cash</b>	<b>5(1)</b>	<b>(236,399,832)</b>	<b>231,606,976</b>



**CASH FLOW STATEMENT (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

Supplementary Information	Consolidated	The Company
<b>1. Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	1,986,250,450	1,994,467,162
Add: Minority interests	414,872,337	—
Provision for asset impairment	9,358,538	45,768,963
Depreciation on fixed assets	3,099,500,124	1,997,005,988
Amortization on intangible assets	(106,485,016)	(109,080,179)
Amortization on long-term deferred expenses	5,249,857	1,510,870
Increase in deferred expenses	(57,200,293)	(38,435,940)
Increase in accrued expenses	129,654,125	57,055,217
Gain on disposal of fixed assets	(694,877)	(893,135)
Financial expenses	821,178,474	260,845,643
Investment income	(136,271,764)	(654,219,064)
Decrease / (Increase) in inventories	46,271,506	(47,535,094)
Decrease in operating receivable items	320,947,620	777,635,370
Increase in operating payable items	43,578,332	26,088,216
<b>Net cash flows generated from operating activities</b>	<b>6,576,209,413</b>	<b>4,310,214,017</b>
<b>2. Investing and financing activities that do not involve cash receipts or payments</b>		
Conversion of debt into capital	—	—
Reclassification of current portion of convertible notes	—	—
Fixed assets capitalized under finance leases	—	—
<b>3. Net increase in cash</b>		
Cash at end of period	2,411,266,165	945,003,134
Less: Cash at beginning of year	(2,647,665,997)	(713,396,158)
Cash equivalents at end of period	—	—
Less: Cash equivalents at beginning of year	—	—
<b>Net (decrease) / increase in cash</b>	<b>(236,399,832)</b>	<b>231,606,976</b>

The accompanying notes form an integral part of these financial statements.

Legal representative:

**Li Xiaopeng**Person in charge of  
accounting function:**Zhou Hui**Person in charge of  
accounting department:**Huang Lixin**

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**1. Company Background**

Huaneng Power International, Inc. (hereinafter referred to as 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 under Huaneng International Power Development Corporation ("HIPDC"), 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"). After the Reorganization, the Company continues to construct or acquire other operating plants.

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 Company issued to the public its A share upon its listing on the Shanghai Stock Exchange on 6th December 2001.

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

On 14th December 2005, the Company entered into an agreement with Huaneng Group and other relevant parties. The Company agreed to pay to Huaneng Group for 10.5% equity interest of China Huaneng Finance Co., Ltd. ("Huaneng Finance") (equals to 8.75% equity interest of Huaneng Finance after subsequent additional capital injection) at a cash consideration of RMB126 million. On the same date, registered capital of Huaneng Finance was increased which the Company subscribed for an additional equity interest of 11.25% paying cash consideration of RMB162 million. This acquisition became effective in January 2006 upon fulfillments of all the necessary conditions, payments of cash considerations and transfers of related ownership. Upon acquisition, the Company effectively owns 20% equity interest of Huaneng Finance.

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

### 2. Principal Accounting Policies, Accounting Estimates and Basis of Preparation of Consolidated Financial Statements

#### (1) Basis of preparation

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

#### (2) Fiscal year

The fiscal 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 ("RMB") as reporting currency.

#### (4) Basis of accounting and measurement bases

The Company and its subsidiaries apply accrual method as the basis of accounting. Assets are initially recorded at their costs; if they are subsequently impaired, provision for impairment is made accordingly.

#### (5) Foreign currency translation

Foreign currency transactions are translated into and recorded using RMB at the prevailing exchange rates stipulated by People's Bank of China (the "PBOC") on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the prevailing exchange rates stipulated by the PBOC on the balance sheet date. Exchange differences arising from translations are taken to the profit and loss account, except for those attributable to foreign currency borrowings that have been specifically drawn 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 cash on hand and deposits held at call with banks while 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, fixed deposits with maturities beyond three months and restricted cash are not considered as cash and cash equivalents.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)****(7) Receivables and provision for bad debts**

Receivables include accounts receivable and other receivables. The Company and its subsidiaries apply "provision method" for any potential bad debts. Receivables are presented after netting off the provision for bad debts.

Provisions for bad debts are made based on the assessment of the collectibility of the receivables. The Company and its subsidiaries provided bad debts on those receivables with difficulties in collection after considering the actual circumstances and historical experience.

For those balances which there are clear evidence that they are not recoverable, such as when a debtor has been deregistered, bankrupt, inability in meeting its liabilities when they fall due, serious cash shortage, etc., bad debts are recognized and related balances are written off against the provision.

The Company and its subsidiaries discount notes receivables without recourse to financial institutions is considered as receiving cash from purchasers or service receivers. Difference between the cash received and the carrying amount of notes receivable written-off and related taxation is charged to the profit and loss account as incurred.

**(8) Inventories**

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

Inventories are initially recorded at 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.

Provision for inventory obsolescence is made according to the difference by which cost of one single inventory item exceeds its net realizable value. For those inventories which are voluminous and low in unit prices, provision is made based on individual categories. The net realizable value is determined based on the estimated selling price less the estimated selling expenses and related taxation in the ordinary course of business.

The Company and its subsidiaries use perpetual inventory system.

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)

#### (9) Long-term investments

Long-term investments are investments other than 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 and bonds and other debt investments that are not readily convertible into cash or the Company does not intend to liquidate within one year (excluding one year).

##### (a) *Equity investments*

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

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

When applying equity method for those long-term equity investments acquired prior to 17th March 2003, 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 applying equity method for those long-term equity investments acquired after 17th March 2003, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is recorded in 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 period of not more than 10 years.

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

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

Long-term debt investments are initially recognized at the actual cost less any interests due but unpaid. Interest receivable is recognized as interest income as incurred.

**(c) Impairment of long-term investments**

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 conditions of the investee, the difference between the recoverable amount and the carrying amount of the investment is recognised as a provision for impairment loss. 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 attributes of an impairment provision recording in prior year change, contributing to recoverable amount larger than its carrying amount, the provision for impairment is reversed to the extent of provision made in prior years.

**(10) Fixed assets and depreciation**

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

Purchased or newly constructed fixed assets are initially recorded at cost. Fixed assets obtained upon the Reorganization were initially recorded at their appraisal value approved by relevant stated-owned assets administration authorities.

Fixed assets are depreciated using the straight-line method based on cost less estimated residual values over their estimated useful lives. If land use rights have longer estimated useful lives than those of buildings, the excess portion is included in the residual value. For those fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based on the adjusted carrying amounts over their remaining useful lives.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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 (Cont'd)**

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

	Estimated useful lives	Estimated residual value	Annual 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 or losses on disposals 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, improvements 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 and its subsidiaries. Capitalized expenditures arising from major reconstruction, expansion and improvements 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.

Individual fixed assets for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its subsidiaries will perform impairment test on such assets. If the carrying amount of such assets is higher than its recoverable amount, the excess is recognized as an impairment loss.

If there is any indication showing those factors that led to impairment provision in prior years change, which the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent impairment recognized in prior years. The carrying amount of the fixed assets upon impairment reversal does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)****(11) Construction-in-progress**

Construction-in-progress represents fixed assets under construction or installation, which is recorded at the actual cost. Cost comprises construction and other direct costs, original cost of machinery and equipment, installation and those borrowing costs arising from specific borrowings for the purpose of preparing the assets for their intended use. 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-progress for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its subsidiaries will perform impairment test on such assets. If the carrying amount of such assets is higher than recoverable amount, the excess is recognized as an impairment loss. If there is any indication showing those factors that led to impairment provision in prior years change, which the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent impairment recognized in prior years.

**(12) Intangible assets and amortization***(a) Land use rights*

Land use rights acquired through payments of land use fees, are initially recorded at cost 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 own use of the Company and its subsidiaries, the carrying amount of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January 2001 and being used in construction projects remain presenting in intangible assets and are not reclassified.

*(b) Goodwill and negative goodwill*

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



## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)

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

##### (c) Intangible assets provision

Individual intangible assets for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its subsidiaries will perform impairment test on such assets. If the carrying amount of such assets is higher than its recoverable amount, the excess is recognized as an impairment loss. If there is any indication showing those factors that led to impairment provision in prior years change, which the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent impairment recognized in prior years. The carrying amount of the intangible assets upon impairment reversal does 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 represent deferred expenses with amortization period over one year (excluding one year). Such 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 holder of non-tradable shares, the Company obtained such a right through cash payment and the cash consideration is recognized as share floating right. In the case of obtaining such a right through giving away of shares, the Company, who accounts for such an investment using cost method, reclassifies the costs of disposed shares to share floating right. Generally, no provision is made for this account and such a right will be proportionately transferred to the profit and loss account upon disposal.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)****(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. Capitalization of borrowing costs ceases when the assets are ready for their intended use and all subsequent borrowing costs are expensed as incurred.

The capitalization amount of interest for each period is determined by using the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset of the current period and the weighted average interest rate of the relevant borrowings to the extent borrowing cost arising from specific borrowings incurred in the 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 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 the best estimates based on historical experience.

**(17) Short-term bonds**

Short-term bonds are initially recorded as liabilities at proceeds received on issuance. 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 terms of the bonds.

Interest on short-term bonds is accounted for on an accrual basis. Unless meeting capitalization requirements, interest and issuance costs are expensed as incurred.

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)

#### (18) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, established and managed by the local government authorities. 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 housing fund contributions that should be borne by the Company and its subsidiaries are calculated based on certain percentages of the total salary of employees, subject to caps, and are paid to the labor and social security authorities. Contributions to the plans are charged to the cost of principal operations or general and administration expenses as incurred.

#### (19) Dividends appropriation

Cash dividends appropriation is recognized as a liability in the period in which the proposed dividends are approved by the general meeting of shareholders while stock dividends appropriation is recognized as share capital in the period in which the dividends are approved.

#### (20) Revenue recognition

Revenue is recognized under the following methods:

##### (a) Revenue from principal operations

Revenue from principal operations 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.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)****(20) Revenue recognition (Cont'd)***(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 management service income as other income when service is rendered in accordance with the management service agreement.

*(c) Other income is recognized on the following basis:*

Interest income from deposits and entrusted loans is recognized on a time proportion basis that reflects 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) Leases**

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. Operating lease expenses 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 income tax using the tax payable method. Tax expense is recognized based on current period taxable income and tax rates.

**(23) Consolidation of financial statements**

The scope of consolidated financial statements includes the Company and its subsidiaries. Such consolidated financial statements are prepared in accordance with Cai Kuai Zi(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.

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)

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

The revenue, costs and profit of a subsidiary is consolidated from the date on which control is obtained by the Company and should not be consolidated once the control is lost. All material intercompany balances, transactions and unrealized gains among 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 has material impact on the consolidated financial statements, accounting policies of subsidiaries are adjusted to ensure consistency with the policies adopted by the Company.

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" in long-term investments.

### 3. Taxation

#### (1) VAT

The electricity sales of the Company and its subsidiaries are subjected to VAT. VAT payable is determined by applying 17% on the taxable revenue after offsetting deductible input VAT of the period.

#### (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, lower tax rates 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. Operating branches of the Company applied this rule after obtaining the approvals from the State Tax Bureau.

In accordance with Guo Shui Han [1994]381, the head office, Shandong Branch (the former headquarters of Shandong Huaneng Power Development Company Limited ("Shandong Huaneng")) and all of the operating power plants make their income tax payment to local tax bureau individually.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**3. Taxation (Cont'd)****(2) Income tax (Cont'd)**

The statutory income tax rates applicable to the head office, Shandong Branch, individual operating power plants and the subsidiaries of the Company 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 ("Dalian Power Plant")*	18.0%	Till 31st December 1994
Huaneng Dalian Power Plant Phase II ("Dalian Power Plant Phase II")*	18.0%	Till 31st December 2006
Huaneng Shang'an Power Plant ("Shang'an Power Plant")*	18.0%	Till 31st December 1996
Huaneng Shang'an Power Plant Phase II ("Shang'an Power Plant Phase II")*	18.0%	Till 31st December 2003
Huaneng Nantong Power Plant ("Nantong Power Plant")*	15.0%	Till 31st December 1996
Huaneng Nantong Power Plant Phase II ("Nantong Power Plant Phase II")*	15.0%	Till 31st December 2007
Huaneng Fuzhou Power Plant ("Fuzhou Power Plant")*	15.0%	Till 31st December 1995
Huaneng Fuzhou Power Plant Phase II ("Fuzhou Power Plant Phase II")*	15.0%	Till 31st December 2007
Huaneng Shantou Oil-Fired Plant ("Shantou Oil-Fired Power Plant")*	15.0%	Till 31st December 1994
Huaneng Shantou Coal-Fired Power Plant ("Shantou Power Plant")*	18.0%	Till 31st December 2006
Huaneng Shantou Coal-Fired Power Plant Phase II ("Shantou Power Plant Phase II")*	18.0%	Till 31st December 2010
Huaneng Shanghai Shidongkou II Power Plant ("Shidongkou II Power Plant")*	16.5%	Till 31st December 1998
Huaneng Dandong Power Plant ("Dandong Power Plant")*	18.0%	Not commenced yet

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**3. Taxation (Cont'd)****(2) Income tax (Cont'd)**

	Income tax rate	Tax holiday period
Huaneng Nanjing Power Plant ("Nanjing Power Plant")*	15.0%	Till 31st December 2004
Shandong Branch	17.0%	None
Huaneng Dezhou Power Plant ("Dezhou Power Plant")	17.0%	None
Huaneng Jining Power Plant ("Jining Power Plant")	15.0%	None
Huaneng Changxing Power Plant ("Changxing Power Plant")	16.5%	None
Huaneng Shanghai Shidongkou Power Plant ("Shidongkou I Power Plant")	18.0%	None
Huaneng Xindian Power Plant ("Xindian Power Plant")	15.0%	None
Huaneng Yingkou Power Plant ("Yingkou Power Plant")*	18.0%	Till 31st December 2010
Huaneng Jinggangshan Power Plant ("Jinggangshan Power Plant")*	15.0%	Till 31st December 2008
Huaneng Weihai Power Limited Liability Company ("Weihai Power Company")	33.0%	None
Huaneng (Suzhou Industrial Park) Power Generation Co. Ltd. ("Taicang Power Company")	33.0%	None
Huaneng Taicang Power Co., Ltd. ("Taicang II Power Company")	33.0%	None
Jiangsu Huaneng Huaiyin Power Generation Co. Ltd. ("Huaiyin Power Company")	33.0%	None
Jiangsu Huaneng Huaiyin II Power Limited Company ("Huaiyin II Power Company")	33.0%	None
Huaneng Yushe Power Generation Co., Ltd. ("Yushe Power Company")	33.0%	None
Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")	33.0%	None

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**3. Taxation (Cont'd)****(2) Income tax (Cont'd)**

	Income tax rate	Tax holiday period
Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company")*	15.0%	Till 31st December 2007
Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company")	33.0%	None
Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company")	33.0%	Till 31st December 2010
Sichuan Huaneng Taipingyi Hydropower Limited Liability Company ("Taipingyi Hydropower")	33.0%	Till 31st December 2010
Sichuan HuaNeng BaoXing River Power Co. Ltd. ("Baoxinghe Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company ("Dongxiguan Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Kangding Hydroelectric Power Co., Ltd. ("Kangding Hydropower")	33.0%	Till 31st December 2010
Huaneng Mingtai Power Limited Liability Company ("Mingtai Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Fujiang Hydropower Limited Liability Company ("Fujiang Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company ("Jialingjiang Hydropower")	33.0%	Till 31st December 2010
Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower")	33.0%	None
Huaneng Shanghai Combined Cycle Power Limited Liability Company ("Shanghai Combined Cycle Power Company")	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.



## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

## 3. Taxation (Cont'd)

## (2) Income tax (Cont'd)

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

	Approved File No.	For the six months ended 30th June	
		2006	2005
Head Office (Note 1)	Guo Shui Han [1997]368	—	15.0%
Dalian Power Plant	Guo Shui Han [1994]381	18.0%	18.0%
Dalian Power Plant Phase II (Note 2)	Guo Shui Zhi Shui Han [2004]12 & Guo Shui Da Zhi Shui Han [2005]017	10.0%	10.0%
Shang'an Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	18.0%
Shang'an Power Plant 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 Power Plant Phase II (Note 3)	Tong Guo Shui Wai Zi [2005]1	10.0%	10.0%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Power Plant Phase II (Note 4)	Chang Guo Shui Han [2005]2	10.0%	10.0%
Shantou Oil-Fired Plant (Note 1)	Guo Shui Han [1994]381	—	15.0%
Shantou Power Plant (Note 5)	Shan Guo Shui Zhi Han [2006]004	15.0%	10.0%
Shantou Power Plant Phase II (Note 6)	Shan Guo Shui Zhi Han [2006]014	—	N/A
Shidongkou II Power Plant	Approved by Shanghai Tax Bureau Shewai Branch	16.5%	16.5%
Dandong Power Plant (Note 7)	Dan Guo Shui She Wai [1999]7	—	—
Nanjing Power Plant	Ning Guo Shui Wai Zi [1997]039	15.0%	15.0%
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 & 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%

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**3. Taxation (Cont'd)****(2) Income tax (Cont'd)**

	Approved File No.	For the six months ended 30th June	
		2006	2005
Yingkou Power Plant (Note 1)	Approved by New Economic Technology Development Zone Branch of Yingkou State Tax Bureau	—	—
Jinggangshan Power Plant (Note 9)	Ji An Shi Guo Shui Zhong Qi Fa [2004]20	7.5%	—
Weihai Power Company	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	33.0%
Taicang II Power Company (Note 11)	Not applicable	33.0%	N/A
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 Shewai Branch	7.5%	7.5%
Qinbei Power Company	Not applicable	33.0%	—
Pingliang Power Company (Note 12)	Guo Shui Fa [2002]47	15.0%	15.0%
Taipingyi Hydropower (Note 12)	Guo Shui Fa [2002]47	15.0%	15.0%
Baoxinghe Hydropower (Note 12)	Guo Shui Fa [2002]47	15.0%	15.0%
Dongxiguan Hydropower (Note 12)	Guo Shui Fa [2002]47	15.0%	15.0%
Kangding Hydropower (Notes 12, 13)	Guo Shui Fa [2002]47	15.0%	7.5%
Mingtai Hydropower (Notes 1, 12)	Guo Shui Fa [2002]47	—	—
Fujian Hydropower (Notes 12, 13)	Guo Shui Fa [2002]47 & Ping Guo Shui Han [2006]38	—	—
Jialingjiang Hydropower (Note 12)	Guo Shui Fa [2002]47	15.0%	15.0%
Sichuan Hydropower (Note 1)	Not applicable	—	—
Shanghai Combined Cycle Power Company (Note 14)	Not applicable	33.0%	N/A

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

### 3. Taxation (Cont'd)

#### (2) Income tax (Cont'd)

Note:

- (1) These entities encountered tax-losses during the first half of 2006, their effective income tax rates are zero.
- (2) In accordance with Guo Shui Zhi Shui Han [2004]12, Dalian Power Plant Phase II can exercise the tax holiday separately and is granted an exemption of local income tax of 3% from 1st January 1999 to 31st December 2008. Meanwhile, pursuant to Guo Shui Da Zhi Shui Han [2005]17, Dalian Power Plant Phase II is also qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to preferential tax treatment with applicable income tax rate of 10%.
- (3) In accordance with Tong Guo Shui Wai Zi [2005]1, Nantong Power Plant Phase II is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to preferential tax treatment from 1st January 2005 to 31st December 2007 of 10%.
- (4) In accordance with Chang Guo Shui Han [2005]2, Fuzhou Power Plant Phase II is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to preferential tax treatment from 1st January 2005 to 31st December 2007 of 10%.
- (5) In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated 16th January 2003, 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 was 10%. Pursuant to Shan Guo Shui Zhi Han [2006]4, Shantou Power Plant is granted an exemption of local income tax from 1st January 2006 to 31st December 2006. The applicable income tax rate during this period is 15%.
- (6) Shantou Power Plant Phase II commenced its commercial operations from October 2005 and so no applicable tax rate for the first half of 2005. In accordance with Shan Guo Shui Zhi Han [2006]14, Shantou Power Plant Phase II enjoys tax holiday from 1st January 2006 to 31st December 2010 with income tax exemption for the first two years and 50% tax rate deduction for the three years thereafter.
- (7) These plants have not finished offsetting accumulated loss, so the tax rate is zero. The tax holiday of Dandong Power Plant has not commenced yet.
- (8) In accordance with Lin Guo Shui Han [2004]123, 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]20, Jingtangshan Power Plant is entitled to a tax holiday with income tax exempted from 1st July 2004 to 31st December 2005 following by a 50% reduction of the applicable tax rate from 1st January 2006 to 31st December 2008 for 7.5%.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**3. Taxation (Cont'd)****(2) Income tax (Cont'd)**

(10) In accordance with the approval from Chongqing State Tax Bureau Shewai Branch, Luohuang Power Company is entitled to a tax holiday from 1st January 2003 to 31st December 2007 with income tax exemption for the first two years and 50% tax rate for the three years thereafter. The applicable income tax rate is 7.5% for 2005 and 2006.

(11) Not applicable for the first half of 2005 as the two generators of Taicang II Power Company commenced commercial operations from January and February 2006 respectively.

(12) In accordance with Guo Shui Fa [2002]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 bureaux, these plants are entitled to a 15% income tax rate from 1st January 2001 to 31st December 2010.

(13) In accordance with Guo Shui Fa [2002]47 "The announcement about the opinion of carrying out specific taxation implementation according to West Development Policy" issued by the State Tax Bureau, the newly founded domestic electricity enterprises in West region are entitled to tax holiday of full income tax exemption for the first two years and a reduced 50% tax rate for the three years thereafter.

Kangding Hydropower is in the fifth year of the above-mentioned tax holiday. The applicable income tax rate was 7.5% in 2005 and becomes 15% in 2006. Fujiang Hydropower is entitled the above-mentioned tax holiday from 1st January 2005 and so it is exempted from income tax during this period.

(14) Not applicable for the first half of 2005 as the two generators of Shanghai Combined Cycle Power Company commenced commercial operations from May and June 2006 respectively.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**4. Subsidiaries**

Subsidiaries of the Company and respective consolidation scope are as follows:

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company and its subsidiaries	Percentage of equity interest held by the Company		Included in consolidated financial statements
					Direct	Indirect	
Weihai Power Company	No. 58 Haibu Road, Weihai Economic Development Zone, 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
Taicang II Power Company	Jinlanggang 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	RMB477,816,956	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 (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

## 4. Subsidiaries (Cont'd)

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company and its subsidiaries	Percentage of equity interest held by the Company		Included in consolidated financial statements
					Direct	Indirect	
Huaneng Xindian Power Co., Ltd. ("Xindian II Power Company")	Qilu Chemical Industrial Park, Linzi District, Zibo, Shandong Province 24th March 2004	RMB100,000,000	Power generation	RMB301,100,000	95%	—	Yes
Yueyang Power Company	ChengLingJi, Yueyang, Hunan Province 16th December 2003	RMB560,000,000	Power generation	RMB883,451,197	55%	—	Yes
Luohuang Power Company	Luohuang Town, JiangJin City, ChongQing 16th December 2003	RMB900,000,000	Power generation	RMB1,624,301,221	60%	—	Yes
Shanghai Combined Cycle Power Company	No. 298 Shengshi Road, Baoshan District, Shanghai 13th January 2005	RMB50,000,000	Power generation	RMB480,060,000	70%	—	Yes
Sichuan Hydropower	No. 47 Division 4 Renmin South Road, Wuhou District, Chengdu, Sichuan Province 12th July 2004	RMB800,000,000	Development, investment, construction, operation and management of hydropower projects	RMB1,219,000,000	60%	—	Yes
Baoxinghe Hydropower	No. 101 Yanjiang North Road, Ya'an, Sichuan Province 26th June 1994	RMB516,100,000	Power generation	RMB482,868,000	—	68%	Yes
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

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**4. Subsidiaries (Cont'd)**

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company and its subsidiaries	Percentage of equity interest held by the Company		Included in consolidated financial statements
					Direct	Indirect	
Kangding Hydropower	Yuanyang Dam, Kangding County, Ganzi, Sichuan Province 14th April 1997	RMB194,000,000	Power generation	RMB212,400,000	—	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	RMB106,194,000	—	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 ("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 (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements****(1) Cash**

	30th June 2006			31st December 2005		
	Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash - RMB			1,180,083			1,042,022
Bank deposits - RMB			2,455,526,440			2,689,625,707
- USD	20,127,468	7.9956	160,980,225	19,940,669	8.0702	160,925,226
- Japanese yen	331	0.0695	23	331	0.0687	23
Sub-total			2,616,506,688			2,850,550,956
Total cash			2,617,686,771			2,851,592,978

Cash and cash equivalents stated in the cash flow statement comprised:

	30th June 2006
Cash	2,617,686,771
Less: Time deposit with original maturity beyond 3 months	(2,652,006)
Restricted cash	(203,768,600)
Cash and cash equivalents as at 30th June 2006	2,411,266,165
Less: Cash and cash equivalents as at 31st December 2005	(2,647,665,997)
Net decrease in cash	(236,399,832)

Please refer to Note 7 for cash deposits in a related party.



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(2) Notes receivable**

	30th June 2006	31st December 2005
Banking notes receivable	578,109,310	519,813,416
Commercial notes receivable	554,780,000	597,720,000
	<b>1,132,889,310</b>	<b>1,117,533,416</b>

As at 30th June 2006, all the notes receivable of the Company and its subsidiaries were unsecured notes receivable.

**(3) Accounts receivable and other receivables****(a) Accounts receivable**

	30th June 2006	31st December 2005
Accounts receivable	4,912,255,857	5,214,902,662
Less: specific bad debt provision	(273,396,916)	(310,010,050)
	<b>4,638,858,941</b>	<b>4,904,892,612</b>

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)****(a) Accounts receivable (Cont'd)**

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

Aging	30th June 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	4,486,413,223	91	—	4,750,343,935	91	—
1-2 years	—	—	—	51,554,429	1	(10,000,000)
2-3 years	51,715,167	1	(10,160,738)	7,447,181	—	(1,243,990)
Over 3 years*	374,127,467	8	(263,236,178)	405,557,117	8	(298,766,060)
	4,912,255,857	100	(273,396,916)	5,214,902,662	100	(310,010,050)

\* As at 30th June 2006, the major portion of unprovided accounts receivables aged over 3 years was an account receivable of Yueyang Power Company due from a local grid company. According to the acquisition agreement between the Company and HIPDC, HIPDC agreed to compensate the Company's equity portion in Yueyang Power Company on any of these receivables that remains uncollected by 31st December 2006. Hence, the Company and its subsidiaries do not fully provide bad debt provision on these accounts receivable.

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

As at 30th June 2006, there were no accounts receivables from shareholders who held 5% or more of the equity interest in the Company (31st December 2005: Nil).

As at 30th June 2006, the five largest accounts receivable of the Company and its subsidiaries amounting to RMB2,811,784,772 (31st December 2005: RMB2,876,584,321), representing 57.24% (31st December 2005: 55.16%) of the total accounts receivable.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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*

	30th June 2006	31st December 2005
Other receivables	531,724,952	676,907,866
Less: bad debt provision	(79,318,005)	(79,134,238)
	<b>452,406,947</b>	<b>597,773,628</b>

Aging analysis of other receivables and bad debt provision is as follows:

Aging	30th June 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	327,856,305	62	(2,058,866)	504,005,838	75	(1,889,527)
1-2 years	76,148,824	14	(72,216)	7,480,530	1	(434,830)
2-3 years	9,581,196	2	(453,321)	30,136,018	4	(551,900)
Over 3 years	118,138,627	22	(76,733,602)	135,285,480	20	(76,257,981)
	<b>531,724,952</b>	<b>100</b>	<b>(79,318,005)</b>	<b>676,907,866</b>	<b>100</b>	<b>(79,134,238)</b>

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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:

	30th June 2006	31st December 2005
Prepayment for acquisition of Huaneng Finance*	—	288,000,000
Prepayment for additional acquisition of Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")**	148,651,510	—
Receivable from Administration Center of Housing Fund for sales of staff quarters	14,518,166	14,518,166
Social insurance funds	5,204,184	14,539,748
Staff advances	15,857,087	9,838,541
Receivable from Gansu Guangda Real Estate Company	66,800,000	66,800,000
Others	280,694,005	283,211,411
	<b>531,724,952</b>	<b>676,907,866</b>

\* 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 relevant authorities, and was recorded as an other receivable (see Note 7(5)(p)).

\*\* This represented the prepayment of the consideration to acquire a 8.5% equity interest in Rizhao Power Company. As at 30th June 2006, the investment was still not effective and so was recorded as an other receivable.

As at 30th June 2006, the five largest other receivables of the Company and its subsidiaries amounted to RMB275,900,957 (31st December 2005: RMB422,637,262), representing 51.89% (31st December 2005: 62.44%) of total other receivables.

As at 30th June 2006, there were no other receivables from shareholders who held 5% or more of the equity interest in the Company (31st December 2005: RMB21,847,346 from HIPDC).

See Note 7 for related party transactions.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(4) Advances to suppliers**

	30th June 2006	31st December 2005
Prepayments for coal	41,589,933	142,054,339
Prepayments for materials and spare parts	75,143,282	22,441,393
Prepayments for equipment	102,256,067	73,004,442
Prepayments for contractors	17,897,848	5,810,149
Others	24,294,559	25,295,736
	<b>261,181,689</b>	<b>268,606,059</b>

Aging analysis for advances to suppliers is as follows:

Aging	30th June 2006		31st December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	217,623,644	83	239,576,900	90
1-2 years	26,213,435	10	26,691,042	9
2-3 years	15,786,739	6	1,905,613	1
Over 3 years	1,557,871	1	432,504	—
	<b>261,181,689</b>	<b>100</b>	<b>268,606,059</b>	<b>100</b>

As at 30th June 2006, there were no advances paid to shareholders who held 5% or more of the equity interest in the Company (31st December 2005: Nil).

See Note 7 for related party transactions.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(5) Inventories**

	30th June 2006	31st December 2005
Fuel (coal and oil) for power generation	1,401,209,588	1,498,483,819
Materials and spare parts	912,260,352	861,257,627
	2,313,469,940	2,359,741,446
Less: provision for inventory obsolescence - spare parts	(52,172,586)	(48,384,680)
	<u>2,261,297,354</u>	<u>2,311,356,766</u>

Movement of provision for inventory obsolescence is analyzed as follows:

	Provision for inventory obsolescence - spare parts
	<hr/>
31st December 2005	(48,384,680)
Current period additions	(3,800,021)
Current period deductions	12,115
	<hr/>
30th June 2006	<u>(52,172,586)</u>

For the six months ended 30th June 2006, the cost of inventories recognized as expenses and included in cost of sales amounted to RMB10,535,760,636 (for the six months ended 30th June 2005: RMB10,518,697,137).

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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 2005	Current period additions	Current period deductions	30th June 2006
Long-term equity investments				
Consolidated difference in value (a)	1,810,484,726	—	(122,747,688)	1,687,737,038
Associates (b)	3,492,343,731	622,979,049	(233,128,130)	3,882,194,650
Equity investment difference (c)	952,396,371	—	(61,473,004)	890,923,367
Other long-term equity investments (d)	228,727,994	—	(92,000)	228,635,994
Less: Provision for impairment on long-term equity investments	(4,950,243)	—	42,000	(4,908,243)
Long-term equity investments	6,479,002,579	622,979,049	(417,398,822)	6,684,582,806
Long-term debt investment	53,700	—	—	53,700
Total long-term investments	6,479,056,279	622,979,049	(417,398,822)	6,684,636,506

As at 30th June 2006 and 31st December 2005, total long-term investments of the Company and its subsidiaries accounted for 17.55% and 16.58% of the consolidated 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.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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) 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 shares of the net assets of these companies. Details are summarized as follows:

Name of investee	Original cost	Amortization period	Accumulated amortization	31st December 2005	Current period additions	Current period amortization	30th June 2006
Taicang Power Company	191,587,073	10 years	(75,669,359)	125,497,068	—	(9,579,354)	115,917,714
Huaiyin Power Company	211,580,733	10 years	(62,087,988)	160,071,782	—	(10,579,037)	149,492,745
Qinbei Power Company	96,461,357	10 years	(25,723,029)	75,561,396	—	(4,823,068)	70,738,328
Yushe Power Company	5,936,001	10 years	(1,484,000)	4,748,801	—	(296,800)	4,452,001
Yueyang Power Company	393,716,359	7.5 years	(104,991,029)	314,973,087	—	(26,247,757)	288,725,330
Luohuang Power Company	649,082,972	8.5 years	(152,725,405)	534,538,918	—	(38,181,351)	496,357,567
Sichuan Hydropower	451,067,215	10 years	(67,660,083)	405,960,493	—	(22,553,361)	383,407,132
Pingliang Power Company	205,324,362	10 years	(30,798,654)	184,791,926	—	(10,266,218)	174,525,708
Dongxiguan Hydropower	4,414,835	10 years	(294,322)	4,341,255	—	(220,742)	4,120,513
	<u>2,209,170,907</u>		<u>(521,433,869)</u>	<u>1,810,484,726</u>	<u>—</u>	<u>(122,747,688)</u>	<u>1,687,737,038</u>



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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) Associates**

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company	Percentage of equity interest held	
					Direct	Indirect
<b>Associates:</b>						
Rizhao Power Company	Rizhao, Shandong 20th March 1996	US\$150 million	Power generation	RMB231.87 million	25.5%	—
Shenzhen Energy Group Co., Ltd. ("SEG")	Shenzhen, Guangdong 16th July 1997	RMB955.56 million	Development, production and sale of regular energy, new energy and energy construction project, etc.	RMB2,390 million	25%	—
Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company")	Handan, Hebei 28th October 1996	RMB1,975 million	Power generation	RMB1,241.49 million	40%	—
Chongqing Huaneng Lime Company Limited ("Lime Company")	Luohuang Town, JiangJin City, ChongQing 5th November 1996	RMB50 million	Lime production and sale of materials and bio-chemical products	RMB12.5 million	—	25%

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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) Associates (Cont'd)**

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company	Percentage of equity interest held	
					Direct	Indirect
Huaneng Finance	Xicheng District, Beijing 26th June 2006	RMB1,200 million	Advisory service in financing and credit appraisal	RMB288 million	20%	—
Sichuan Jialingjiang Tourism Development Company Inc. ("Jialingjiang Tourism Company")	Nanchong, Sichuan Province 25th April 2006	RMB80 million	Tourism development and entertainment in Nanchong water area	RMB20 million	—	25%

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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) Associates (Cont'd)**

	Investment period	Percentage of equity interest held		Amount of investment		Accumulated equity movement			Carrying amount	
		31st December 2005	30th June 2006	31st December 2005	30th June 2006	31st December 2005	Current period		31st December 2005	30th June 2006
							additions	//deductions		
Rizhao Power Company	20 years	25.5%	25.5%	231,868,800	231,868,800	(24,582,565)	(4,128,130)	(28,710,695)	207,286,235	203,158,105
SEG	No specific terms	25%	25%	1,595,902,576	1,595,902,576	648,176,265	47,578,081	695,754,346	2,244,078,841	2,291,656,922
Hanfeng Power Company	25 years	40%	40%	806,121,370	806,121,370	215,880,275	3,855,963	219,736,238	1,022,001,645	1,025,857,608
Lime Company	No specific terms	25%	25%	18,028,710	18,028,710	948,300	542,770	1,491,070	18,977,010	19,519,780
Huaneng Finance	No specific terms	—	20%	—	306,634,130	—	15,368,105	15,368,105	—	322,002,235
Jialingjiang Tourism Company	No specific terms	—	25%	—	20,000,000	—	—	—	—	20,000,000
				2,651,921,456	2,978,555,586	840,422,275	63,216,789	903,639,064	3,492,343,731	3,882,194,650

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)***(c) Equity investment difference*

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

Name of investee	Original cost	Amortization period	Accumulated amortization	31st December 2005	Current period additions	Current period amortization	30th June 2006
SEG	794,097,424	10 years	(251,464,183)	582,338,112	—	(39,704,871)	542,633,241
Hanfeng Power Company	435,362,658	10 years	(87,072,532)	370,058,259	—	(21,768,133)	348,290,126
	<u>1,229,460,082</u>		<u>(338,536,715)</u>	<u>952,396,371</u>	<u>—</u>	<u>(61,473,004)</u>	<u>890,923,367</u>

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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)***(d) Other long-term equity investments*

Other long-term equity investments mainly represent a 1.82% (31st December 2005: 1.82%) equity investment in China Yangtze Power Co., Ltd. ("Yangtze Power"), details are as follows:

Name of investee	Investment period	Stock category	Stock quantity	Balance as at 30th June 2006
Yangtze Power	Starting from 22nd August 2002, with no specific terms	Tradable shares	149.31 million	220,219,361

In 2005, pursuant to the approved shareholding structure reform plan of Yangtze Power, the Company gave away 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 RMB34.77 million. The Company also recognized an asset, "share floating right" amounting to approximately RMB63.64 million simultaneously as a result of the above-mentioned cash dividend and shares transfer transactions and recorded it as other assets.

As at 30th June 2006, based on the closing quotation of last transaction day of June 2006 extracted from the Shanghai Stock Exchange, the market value of the remaining shareholding amounted to RMB1.023 billion.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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**

Movement of cost and accumulated depreciation of fixed assets is as follows:

	Dam	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
<b>Cost</b>						
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
Reclassification	—	(249,634,858)	1,863,011,445	(8,785,895)	(1,604,590,692)	—
Transfers from						
construction-in-progress	62,131,196	15,532,238	8,526,903,667	—	21,485,843	8,626,052,944
Current period additions	—	5,471,415	6,958,113	—	31,777,413	44,206,941
Current period disposals	—	(651,748)	(25,619,199)	—	(28,234,618)	(54,505,565)
30th June 2006	2,784,794,214	2,408,780,131	98,223,736,521	287,340,803	2,806,107,433	106,510,759,102
<b>Accumulated depreciation</b>						
31st December 2005	503,722,642	688,396,284	38,831,527,885	175,816,156	1,495,035,651	41,694,498,618
Reclassification	—	(62,460,455)	75,114,088	(626,630)	(12,027,003)	—
Current period depreciation	38,610,869	46,690,767	2,885,938,471	7,303,036	124,441,408	3,102,984,551
Current period disposals	—	(254,765)	(24,581,504)	—	(27,449,172)	(52,285,441)
30th June 2006	542,333,511	672,371,831	41,767,998,940	182,492,562	1,580,000,884	44,745,197,728
<b>Impairment provision</b>						
31st December 2005	—	—	(30,080,000)	—	—	(30,080,000)
Current period additions	—	—	(42,000,000)	—	—	(42,000,000)
30th June 2006	—	—	(72,080,000)	—	—	(72,080,000)
<b>Net book value</b>						
30th June 2006	2,242,460,703	1,736,408,300	56,383,657,581	104,848,241	1,226,106,549	61,693,481,374
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

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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 30th June 2006, the Company and its subsidiaries have pledged various assets as collateral against RMB262 million loans. The summary of the pledged assets is as follows:

	30th June 2006	
	Original cost	Net book value
Dongxiguan Hydropower		
- Dam	285,477,457	209,841,589
- Electric utility plant in service	80,485,111	28,797,940
- Buildings	2,907,922	1,902,482
- Others	47,880,703	9,526,934
Kangding Hydropower		
- Electric utility plant in service	29,233,103	19,012,437
Mingtai Hydropower		
- Electric utility plant in service	90,300,000	51,712,440
<b>Total</b>	<b>536,284,296</b>	<b>320,793,822</b>

For the detailed information of the long-term loans against which the above fixed assets are pledged, please refer to Note 5(18).

**(8) Construction materials**

	30th June 2006	31st December 2005
Specific materials and equipment	1,824,438,455	1,074,875,425
Prepayments for major equipment	4,150,665,107	5,196,100,762
Tools and instruments for production	27,693,370	18,175,660
	<b>6,002,796,932</b>	<b>6,289,151,847</b>

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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 2005	Current period additions	Transfers to fixed assets during current period	30th June 2006	Percentage of completion	Sources of financing
Yuhuan Power Plant project	18,010,580,000	3,266,894,935	2,471,846,110	—	5,738,741,045	31.9%	Funds borrowed from financial institutions and internal funds
Huaiyin II Power Company Phase III project	2,554,630,000	529,418,441	987,899,361	—	1,517,317,802	59.4%	Funds borrowed from financial institutions and internal funds
Taicang II Power Company project	4,619,890,000	3,459,929,210	389,326,756	(3,764,367,753)	84,888,213	84.9%	Funds borrowed from financial institutions and internal funds
Xindian II Power Company project	2,431,930,000	316,613,314	748,083,729	—	1,064,697,043	43.8%	Funds borrowed from financial institutions and internal funds
Yueyang Power Company Phase II project	2,473,600,000	1,013,948,662	1,406,916,201	(2,398,904,789)	21,960,074	97.0%	Funds borrowed from financial institutions and internal funds
Luohuang Power Company Phase III project	4,483,660,000	1,113,773,203	692,090,482	—	1,805,863,685	40.3%	Funds borrowed from financial institutions and internal funds
Yingkou Power Plant Phase II project	4,539,960,000	300,497,352	335,337,611	(664,900)	635,170,063	15.0%	Funds borrowed from financial institutions and internal funds
Shanghai Combined Cycle Power Company project	3,319,690,000	855,630,018	1,032,541,194	(1,788,156,326)	100,014,886	88.5%	Funds borrowed from financial institutions and internal funds
Baoxinghe Qiaoqi Hydropower Station project	2,164,023,300	1,208,956,149	285,865,269	—	1,494,821,418	69.1%	Funds borrowed from financial institutions and internal funds



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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 2005	Current period additions	Transfers to fixed assets during current period	30th June 2006	Percentage of completion	Sources of financing
Baoxing Hydropower Station project	955,690,000	135,265,081	110,439,730	—	245,704,811	25.7%	Funds borrowed from financial institutions and internal funds
Kangding Xiaotiandu Hydropower Station project*	1,293,183,800	231,013,598	155,513,337	(241,095,004)	145,431,931	73.0%	Funds borrowed from financial institutions and internal funds
Fujiang Shuiniujia Hydropower Station project	966,510,100	522,134,278	122,630,382	(211,230)	644,553,430	66.7%	Funds borrowed from financial institutions and internal funds
Fujiang Muzuo Hydropower Station project	656,164,100	172,937,575	79,681,775	(38,430)	252,580,920	38.5%	Funds borrowed from financial institutions and internal funds
Other projects		779,998,670	486,028,791	(432,614,512)	833,412,949		Funds borrowed from financial institutions and internal funds
		<u>13,907,010,486</u>	<u>9,304,200,728</u>	<u>(8,626,052,944)</u>	<u>14,585,158,270</u>		
Including: Capitalized borrowing costs		<u>655,693,623</u>	<u>310,672,635</u>	<u>(332,474,129)</u>	<u>633,892,129</u>		

\* There are three generators in Kangding Xiaotiandu Hydropower Station project with total budget cost of RMB1.293 billion, and two of them have transferred to fixed assets as at 30th June 2006. One is still in the progress of constructing.

For the six months ended 30th June 2006, the interest capitalized for construction-in-progress was RMB310,672,635 and the capitalization rate was 5.33% per annum (for the six months ended 30th June 2005: RMB176,985,883 at 4.71% per annum).

As at 30th June 2006 and 31st December 2005, there was no indication that construction-in-progress of the Company and its subsidiaries were impaired and therefore no provision for impairment loss was made.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(10) Intangible assets**

Intangible assets comprised land use rights, goodwill and negative goodwill, their respective movements are as follows:

	Original cost	31st December 2005	Current period additions	Current period amortization	Accumulated amortization	30th June 2006	Remaining amortization period	Acquisition method
Land use rights	1,148,016,066	1,006,645,929	113,000	(11,740,662)	(152,997,799)	995,018,267	14.5 to 68 years	Purchase
Negative goodwill	(2,472,783,635)	(1,236,391,817)	—	123,639,182	1,360,031,000	(1,112,752,635)	4.5 years	Acquisition
Goodwill	39,036,491	31,352,530	—	(2,376,075)	(10,060,036)	28,976,455	5 to 8 years	Acquisition
Others	32,574,581	20,613,102	347,900	(3,037,429)	(14,651,008)	17,923,573	1.5 to 15.5 years	Purchase and acquisition
	(1,253,156,497)	(177,780,256)	460,900	106,485,016	1,182,322,157	(70,834,340)		

As at 30th June 2006 and 31st December 2005, 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 receivables due from Sichuan Power Grid Company resulting from the transfers of transmission facilities of certain subsidiaries of the Company. Sichuan Power Grid Company entered into agreements with Baoxinghe Hydropower, Dongxiguan Hydropower and Taipingyi Hydropower on the transfers of transmission facilities from these plants to Sichuan Power Grid Company, pursuant to which Sichuan Power Grid Company agreed to repay the principal and interest over 12.5 years, 12.5 years and 9 years, respectively. The interest rates are determined according to the prevailing bank loan's interest rate when the principal is repaid.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(12) Short-term loans**

	30th June 2006	31st December 2005
Credit loans	9,054,390,000	6,180,869,370
Guaranteed loans	—	400,000,000
<b>Total</b>	<b>9,054,390,000</b>	<b>6,580,869,370</b>

As at 30th June 2006, all of the short-term loans of the Company and its subsidiaries were denominated in RMB, with interest rates ranging from 4.70% to 5.51% per annum (31st December 2005: 4.30% to 5.51% per annum).

As at 30th June 2006, short-term loans amounting to RMB2,676.7 million were borrowed from Huaneng Finance, with interest rates ranging from 4.70% to 5.27% per annum (31st December 2005: RMB2,007.7 million with interest rates from 4.70% to 5.02% per annum), see Note 7(5).

As at 30th June 2006, short-term loans amounting to RMB16.72 million were borrowed from Sichuan Electric Power Development Company ("Sichuan Power"), with interest rate of 5.51% per annum (31st December 2005: RMB40 million with interest rate of 5.51% per annum).

As at 30th June 2006, short-term loans amounting to RMB183.67 million were borrowed from Chongqing Construction and Investment Company ("Chongqing Construction"), with interest rate of 4.70% per annum (31st December 2005: Nil).

As at 30th June 2006, there was no guaranteed loan (31st December 2005: short-term loan amounting to RMB400 million was guaranteed by Beijing Branch of Industrial and Commercial Bank of China, with interest rate of 4.30% per annum).

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(13) Short-term bonds**

On 27th May 2005, the Company issued short-term bonds in two batches and the face value were RMB4,500 million (due in 1 year) and RMB500 million (due in 9 months). These bonds were issued at a discount with annual 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 30th June 2006, the above short-term bonds were repaid.

On 23rd May 2006 and 26th June 2006, the Company issued short-term bonds maturing in 1 year in two batches and the face value were RMB500 million and RMB4,500 million. These bonds were issued with annual effective interest rates of 3.12% and 3.35% respectively. The proceeds received by the Company and its subsidiaries were RMB500 million and RMB4,500 million respectively. As at 30th June 2006, the accrued interest payable on the above short-term bonds was approximately RMB3.32 million.

**(14) Accounts payable**

Accounts payable mainly represents the amounts due to coal suppliers. As at 30th June 2006 and 31st December 2005, there was no accounts payable to any shareholder who held 5% or more of the equity interest in the Company, and there was no significant accounts payable aged over three years.

See Note 7 for related party transactions.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(15) Dividends payable**

	30th June 2006	31st December 2005
Aba Hydro Power Development Co., Ltd. ("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
Fujian Investment Enterprise Holdings Company	84,616,667	—
Shantou Power Development Joint Stock Company Limited	6,333,333	—
Jiangsu Guoxin Assets Management Co. Ltd.	16,430,926	—
Jiangsu Power Development, Inc.	10,258,480	—
Gansu Provincial Power Construction Investment Corporation ("GPPCI")	70,000,000	—
Weihai Power Development Bureau ("WPDB")	20,000,000	—
Others	3,703,385	31,160,819
	<b>211,342,791</b>	<b>138,279,959</b>

**(16) Taxes payable**

Taxes payable comprised:

	30th June 2006	31st December 2005
EIT payables	233,223,365	463,314,061
VAT payables	435,441,488	576,488,301
Others	57,658,346	91,481,998
	<b>726,323,199</b>	<b>1,131,284,360</b>

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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:

	30th June 2006	31st December 2005
Payables to contractors	1,314,995,423	1,255,887,833
Payables for purchases of equipment	1,895,585,786	946,895,495
Retention monies	732,210,847	778,487,539
Payables for purchase of materials	328,900,088	227,349,256
Payables to HIPDC	109,653,966	53,230,133
Payables to Huaneng Group	45,057,372	50,720,038
Accruals	53,718,046	70,128,842
Payables of social insurance funds	69,780,377	67,107,126
Project saving bonus	68,096,917	65,719,185
Payables of housing maintenance funds	52,958,810	87,652,045
Payable to Henan Electricity Industry Bureau	58,536,766	58,536,766
Payables of environment protection - pollutants discharge fees	48,866,629	38,552,452
Others	533,361,466	429,079,389
	5,311,722,493	4,129,346,099

As at 30th June 2006, there was no other payable due to any shareholder who held 5% or more of the equity interest in the Company except for payables due to HIPDC of RMB109,653,966 and payables due to Huaneng Group of RMB45,057,372 (31st December 2005: due to HIPDC of RMB53,230,133, due to Huaneng Group of RMB50,720,038) as mentioned above.

As at 30th June 2006, significant other payables aged over 3 years amounting to approximately RMB229.25 million (31st December 2005: Nil) mainly comprised payables to contractors that was not settled due to disagreement in quantity or quality of construction.

See Note 7 for related party transactions.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(18) Long-term loans**

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

		30th June 2006	31st December 2005
Long-term loans from ultimate parent company	(a)	2,800,000,000	2,800,000,000
Long-term bank loans	(b)	30,946,800,530	28,364,593,943
Other long-term loans	(c)	601,098,094	863,649,094
		34,347,898,624	32,028,243,037
Less: current portion of long-term loans		(2,947,062,195)	(3,165,979,238)
		<u>31,400,836,429</u>	<u>28,862,263,799</u>

**(a) Long-term loans from ultimate parent company**

As at 30th June 2006, detailed information of the long-term loans from ultimate parent company was as follows:

Lender	30th June 2006	Terms of loan	Annual interest rate	Current portion	Terms
<b>Renminbi loans</b>					
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
	<u>2,800,000,000</u>			<u>—</u>	

\* As at 30th June 2006, these loans were not repayable within one year and therefore there was no current portion.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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*

Details of long-term bank loans (including the current portion) are as follows:

30th June 2006						
	Foreign currency amount	Exchange rate	RMB equivalent	Less: Current portion	Total	Annual interest rate
<b>Credit loans</b>						
- Renminbi loans			19,426,918,592	(1,102,750,000)	18,324,168,592	3.60%-5.75%
- United States dollar loans	6,754,725	7.9956	54,010,719	(27,447,536)	26,563,183	6.40%-6.97%
- Euro dollar loans	68,929,418	10.1313	698,344,616	(53,919,514)	644,425,102	2.00%
<b>Guaranteed loans*</b>						
- Renminbi loans			5,597,030,000	(493,340,000)	5,103,690,000	5.51%-6.12%
- US dollar loans	613,899,720	7.9956	4,908,496,603	(807,669,384)	4,100,827,219	4.13%-6.60%
<b>Secured loans**</b>						
- Renminbi loans			262,000,000	(172,000,000)	90,000,000	5.18%-5.76%
<b>Total</b>			<b>30,946,800,530</b>	<b>(2,657,126,434)</b>	<b>28,289,674,096</b>	

\* Bank loans amounting to approximately RMB3.019 billion and RMB7.158 billion (31st December 2005: approximately RMB3.311 billion and RMB7.127 billion) were guaranteed by HIPDC and Huaneng Group respectively.

There is no bank loan of the subsidiaries of the Company were guaranteed by the Company (31st December 2005: RMB1.352 billion).

\*\* These loans are secured by various fixed assets of the Company and its subsidiaries with net book value amounting to RMB320,793,822 (See Note 5(7)).



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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*

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

	30th June 2006		
	Foreign currency amount	Exchange rate	RMB equivalent
Renminbi loans			404,176,428
United States dollar loans	14,285,714	7.9956	114,222,856
Japanese yen loans	1,190,476,191	0.0695	82,698,810
			601,098,094
Less: Current portion of other long-term loans			(289,935,761)
Total			311,162,333

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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 30th June 2006, the detailed information about other long-term loans was as follows:

Lender	30th June 2006	Terms of Loan	Annual interest rate	Current portion	Terms
<b>Renminbi loans</b>					
Huaneng Finance	30,000,000	2003-2006	5.18%	(30,000,000)	Nil
Huaneng Finance	20,000,000	2004-2007	5.18%	(20,000,000)	Nil
Huaneng Finance	10,000,000	2003-2006	5.18%	(10,000,000)	Nil
Huaneng Finance*	20,000,000	2004-2007	5.18%	—	Loan amounting to RMB15 million was guaranteed by Sichuan Yong'an Hydro Power Joint-Stock Limited Company
WPDB	26,388,822	2004-2006	5.02%	(26,388,822)	Nil
Loan by mandate of Shanxi International Power (Group) Company Limited ("Shanxi International")	5,500,000	1994-2006	5.02%	(5,500,000)	Nil
Loan by mandate of Shanxi International	66,000,000	2003-2006	5.18%	(66,000,000)	Nil
Aba Hydro Power	19,037,606	1994-2006	5.51%	(19,037,606)	Nil
GPPCI	7,250,000	1996-2007	6.12%	(3,625,000)	Nil
China Electric Power Finance Co., Ltd. – Northwest Branch	200,000,000	2003-2008	5.27%	(70,000,000)	Secured by 50% tariff collection right of Pingliang Power Company
Subtotal of RMB loans	404,176,428			(250,551,428)	

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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	30th June 2006	Terms of Loan	Annual interest rate	Current portion	Terms
United States dollar loan					
On-lent foreign loans of the Ministry of Finance	114,222,856	1996-2011	LIBOR+0.43%	(22,844,571)	Guaranteed by Huaneng Group
Japanese yen loan					
On-lent foreign loans of the Ministry of Finance	82,698,810	1996-2011	LIBOR+0.3%	(16,539,762)	Guaranteed by Huaneng Group
Subtotal of foreign loans	196,921,666			(39,384,333)	
Total	601,098,094			(289,935,761)	

\* As at 30th June 2006, this loan was not repayable within one year and therefore there was no current portion.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(19) Share capital**

	30th June 2006	31st December 2005
Unlisted shares		
Promoters shares	—	8,500,000,000
Including: Domestic legal person shares	—	8,500,000,000
Sub-total of unlisted shares	—	8,500,000,000
Listed Shares		
Domestic shares listed in the PRC		
- listed shares (with lock-up limitation)	8,350,000,000	—
- listed shares (without lock-up limitation)	650,000,000	500,000,000
Overseas listed shares	3,055,383,440	3,055,383,440
Sub-total of listed shares	12,055,383,440	3,555,383,440
Total shares	12,055,383,440	12,055,383,440

On 19th April 2006, the Company completed its shareholding reform process on domestic shares (including A share), in which Huaneng Group and HIPDC, being the major shareholders of the Company, offered to give three Company's shares that they owned to the original Company's A share holders for every ten shares held by the A share holders. The total number of shares given out by Huaneng Group and HIPDC to the original A share holders in connection with this reform was 150,000,000 shares. As a result of this shareholding reform, all the previously non-tradeable domestic shares held by Huaneng Group, HIPDC and other founding shareholders become tradeable subject to certain lock-up arrangements made by the holders of such shares. All of these domestic shares were reclassified as A shares. This shareholding reform did not affect the shareholding of overseas listed foreign shares.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(20) Capital surplus**

Movement of capital surplus is as follows:

	31st December 2005	Current period additions	30th June 2006
Share premium	8,590,777,628	—	8,590,777,628
Restricted reserve arising from equity investments	157,745,899	20,250,696	177,996,595
Transfers from grants	16,828,937	4,848,937	21,677,874
Others	—	57,800	57,800
	<u>8,765,352,464</u>	<u>25,157,433</u>	<u>8,790,509,897</u>

**(21) Surplus reserves**

	31st December 2005	Current period additions/ (deductions)	30th June 2006
Statutory surplus reserve fund	2,706,094,561	—	2,706,094,561
Statutory public welfare fund	2,217,003,964	(2,217,003,964)	—
Discretionary surplus reserve fund	22,575,684	2,217,003,964	2,239,579,648
	<u>4,945,674,209</u>	<u>—</u>	<u>4,945,674,209</u>

No provision was made to the surplus reserves in the current reporting period. The Company is prohibited from providing further appropriation out of net profit to statutory public welfare fund pursuant to the revised Company Law. The balance of statutory public welfare fund as at 31st December 2005 is converted into discretionary surplus reserve fund.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(22) Unappropriated profit**

	For the six months ended 30th June	
	2006	2005
Undistributed profit brought forward	13,315,141,847	12,399,822,057
Add: Net profit for the period	1,986,250,450	1,620,288,149
Less: Dividends payable to ordinary shareholders-cash dividends of prior year approved at the general meeting of the shareholders	(3,013,845,860)	(3,013,845,860)
Undistributed profit carried forward	12,287,546,437	11,006,264,346

Pursuant to the resolution of the Board of Directors on 28th March 2006, the proposed 2005 profit appropriation was on the basis of 12,055,383,440 ordinary shares outstanding as at 31st December 2005, a cash dividend of RMB2.5 (including tax) of every 10 existing ordinary shares amounting to RMB3,013,845,860 to be distributed to the shareholders. On 13th June 2006, the shareholders approved and declared the profit distribution plan on the basis of 12,055,383,440 ordinary shares outstanding as at the distribution date. As at 30th June 2006, the Company paid the cash dividend amounting to RMB2,922,895,860.

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 (which is prohibited from 1st January 2006)) determined under the PRC accounting standards and the International Financial Reporting Standards ("IFRS").

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(23) Revenue from principal operations and costs of principal operations**

	For the six months ended 30th June 2006		For the six months ended 30th June 2005	
	Revenue from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	19,862,116,060	15,630,952,383	18,860,674,631	15,381,295,296

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

For the six months ended 30th June 2006 and 2005, the revenue from the five largest customers of the Company and its subsidiaries amounted to RMB12,449,978,079 and RMB11,860,159,760, representing 62.68% and 62.88% of the total revenue, respectively.

**(24) Financial expenses**

	For six months ended 30th June 2006	For six months ended 30th June 2005
Interest expense	834,539,385	784,070,806
Less: Interest income	(23,917,527)	(25,195,552)
Exchange losses	30,833,135	5,009,254
Less: Exchange gain	(40,276,517)	(109,659,451)
Others	30,443,204	32,930,376
	831,621,680	687,155,433

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**5. Notes to the Consolidated Financial Statements (Cont'd)****(25) Investment income**

	For six months ended 30th June 2006	For six months ended 30th June 2005
Investment income on bonds	4,950	—
Share of profit of investees accounted for under the equity method	292,216,790	244,835,252
Dividends declared by investees accounted for under the cost method	28,270,716	34,839,000
Amortization of equity investment differences	(184,220,692)	(181,002,078)
	<b>136,271,764</b>	<b>98,672,174</b>

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

**(26) Other cash paid relating to operating activities**

	For the six months ended 30th June 2006
Service fees paid to HIPDC	70,385,525
Others	553,052,512
	<b>623,438,037</b>



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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**

	30th June 2006	31st December 2005
Accounts receivable	2,491,007,621	3,180,365,793
Less: specific bad debt provision	(269,326)	(269,326)
	<b>2,490,738,295</b>	<b>3,180,096,467</b>

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

Aging	30th June 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	2,480,424,067	99	—	3,167,773,343	99	—
1-2 years	—	—	—	—	—	—
2-3 years	—	—	—	6,203,191	—	—
Over 3 years	10,583,554	1	(269,326)	6,389,259	1	(269,326)
	<b>2,491,007,621</b>	<b>100</b>	<b>(269,326)</b>	<b>3,180,365,793</b>	<b>100</b>	<b>(269,326)</b>

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

As at 30th June 2006, there were no accounts receivables from shareholders who held 5% or more of the equity interest in the Company (31st December 2005: Nil).

As at 30th June 2006, the five largest accounts receivable of the Company amounting to RMB1,971,879,737 (31st December 2005: RMB2,349,625,834), representing 79.16% (31st December 2005: 73.88%) of total accounts receivable.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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*

	30th June 2006	31st December 2005
Other receivables	330,419,088	445,493,907
Less: bad debt provision	(25,009,681)	(24,869,766)
	<b>305,409,407</b>	<b>420,624,141</b>

Aging analysis of other receivables and bad debt provision is as follows:

Aging	30th June 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	277,873,885	84	(1,645,111)	375,398,636	84	(1,504,105)
1-2 years	5,808,319	2	(56,698)	781,531	—	(57,415)
2-3 years	3,068,179	1	(64,238)	3,275,608	1	(64,238)
Over 3 years	43,668,705	13	(23,243,634)	66,038,132	15	(23,244,008)
	<b>330,419,088</b>	<b>100</b>	<b>(25,009,681)</b>	<b>445,493,907</b>	<b>100</b>	<b>(24,869,766)</b>

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

(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*

Breakdown of other receivables is as follows:

		30th June 2006	31st December 2005
Prepayment for acquisition of Huaneng Finance	5(3)	—	288,000,000
Prepayment for additional acquisition of Rizhao Power Company	5(3)	148,651,510	—
Receivables from Administration Center of Housing Fund for sales of staff quarters		14,518,166	14,518,166
Social insurance funds		5,204,184	1,224,962
Staff advances		8,414,655	4,719,499
Management fees from subsidiaries		11,581,438	3,677,462
Others		142,049,135	133,353,818
		<b>330,419,088</b>	<b>445,493,907</b>

As at 30th June 2006, the five largest other receivables of the Company amounting to RMB196,210,302 (31st December 2005: RMB332,879,562), representing 59.38% (31st December 2005: 74.72%) of total other receivables.

As at 30th June 2006 and 31st December 2005, there were no other receivables from shareholders who held 5% or more of the equity interest in the Company.

See Note 7 for related party transactions.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**6. Notes to the Company Only Financial Statements (Cont'd)****(2) Long-term equity investments**

	31st December 2005	Current period additions	Current period deductions	30th June 2006
Long-term equity investments				
Subsidiaries (a)	7,999,406,571	790,543,107	(413,599,656)	8,376,350,022
Associates	3,473,366,721	602,436,279	(233,128,130)	3,842,674,870
Equity investment difference	2,758,539,842	—	(183,999,950)	2,574,539,892
Other long-term equity investments	228,227,994	—	(92,000)	228,135,994
Provision for impairment on long-term equity investments	(4,950,243)	—	42,000	(4,908,243)
	14,454,590,885	1,392,979,386	(830,777,736)	15,016,792,535

As at 30th June 2006 and 31st December 2005, the Company's total long-term investments accounted for 39.41% and 36.97% of the Company's net assets respectively.

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

## 6. Notes to the Company Only Financial Statements (Cont'd)

## (2) Long-term equity investments (Cont'd)

## (a) Long-term equity investments in subsidiaries

	Investment period	Percentage of equity interest held		Cost of investment		Accumulated equity movement		Carrying amount		
		31st December 2005	30th June 2006	31st December 2005	30th June 2006	31st December 2005	Current period (deductions)/ additions	30th June 2006	31st December 2005	30th June 2006
Weihai Power Company	30 years	60%	60%	474,038,793	474,038,793	168,162,549	(29,150,109)	139,012,440	642,201,342	613,051,233
Taicang Power Company	No specific terms	75%	75%	469,706,560	469,706,560	230,248,377	(45,993,911)	184,254,466	699,954,937	653,961,026
Huaiyin Power Company	No specific terms	90%	90%	481,818,798	481,818,798	36,107,638	(16,113,033)	19,994,605	517,926,436	501,813,403
Huaiyin II Power Company	No specific terms	63.64%	63.64%	492,573,600	492,573,600	49,585,758	(40,882,373)	8,703,385	542,159,358	501,276,985
Yushe Power Company	No specific terms	60%	60%	374,449,895	374,449,895	51,471,771	(35,049,909)	16,421,862	425,921,666	390,871,757
Qinbei Power Company	50 years	55%	55%	375,095,599	381,355,599	91,187,192	56,822,545	148,009,737	466,282,791	529,365,336
Xindian II Power Company	20 years	95%	95%	251,100,000	301,100,000	—	—	—	251,100,000	301,100,000
Taicang II Power Company	No specific terms	75%	75%	603,110,000	603,110,000	—	52,900,355	52,900,355	603,110,000	656,010,355
Yueyang Power Company	No specific terms	55%	55%	376,734,838	489,734,838	71,788,159	1,810,259	73,598,418	448,522,997	563,333,256
Luohuang Power Company	No specific terms	60%	60%	975,218,249	975,218,249	337,480,599	96,675,571	434,156,170	1,312,698,848	1,409,374,419
Shanghai Combined Cycle Power Company	No specific terms	70%	70%	380,060,000	480,060,000	—	1,085,561	1,085,561	380,060,000	481,145,561
Sichuan Hydropower	20 years	60%	60%	767,932,785	767,932,785	165,975,281	116,732,090	282,707,371	933,908,066	1,050,640,156
Pingliang Power Company	23 years	65%	65%	610,717,154	610,717,154	164,842,976	(51,153,595)	113,689,381	775,560,130	724,406,535
				6,632,556,271	6,901,816,271	1,366,850,300	107,683,451	1,474,533,751	7,999,406,571	8,376,350,022

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**6. Notes to the Company Only Financial Statements (Cont'd)****(3) Revenue from principal operations and costs of principal operations**

	For the six months ended 30th June 2006		For the six months ended 30th June 2005	
	Revenue from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	12,701,269,262	10,424,079,380	12,465,249,767	10,583,594,083

The Company is principally engaged in the sale of electric power in the PRC.

For the six months ended 30th June 2006 and 2005, the revenue from the five largest customers of the Company amounted to RMB9,797,843,575 and RMB9,902,938,076, representing 77.14% and 79.44% of the total revenue, respectively.

**(4) Investment income**

	For the six months ended 30th June 2006	For the six months ended 30th June 2005
Investment income on bonds	4,950	—
Share of profit of investees accounted for under the equity method	809,943,348	706,891,231
Dividends declared by investees accounted for under the cost method	28,270,716	34,839,000
Amortization of equity investment differences	(183,999,950)	(181,002,078)
	654,219,064	560,728,153

The long-term investments of the Company are not subject to restriction on remittance of investment income.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and 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	Investments in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber and related industries	Ultimate parent company of the Company	State-owned enterprise	Li Xiaopeng
HIPDC	Bing 2 Fuxingmen South Road, Xicheng District, Beijing	Investments, construction and operations of power plants and development, investments and operations of other export-oriented enterprises	Parent company of the Company	Sino-foreign equity joint stock limited liability company	Li Xiaopeng
Weihai Power Company	No. 58 Haibu Road, Weihai Economic Development Zone, 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	Lu Dan
Taicang II Power Company	Jinlanglanggang Village, Fuqiao Town, Taicang, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and 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
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Qinbei Power Company	Wulongkou town, Jiyuan City, Henan Province	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
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	Qilu Chemical Industrial Park, Linzi District, Zibo, Shandong Province	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian
Yueyang Power Company	ChengLingji, Yueyang, Hunan Province	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Luohuang Power Company	Luohuang Town, JiangJin City, ChongQing	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Shanghai Combined Cycle Power Company	No. 298 Shengshi Road, Baoshan District, Shanghai	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and 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
Sichuan Hydropower	No. 47 Division 4 Renmin South Road, Wuhou District, Chengdu, Sichuan Province	Development, investment, construction and management of hydropower projects	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
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, Ganzi, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Mingtai Hydropower	Donghe Road, Beiba Development Zone, 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

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and 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
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 District, Lanzhou, Gansu Province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
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 (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and Transactions (Cont'd)****(2) Registered capital of related parties that control / are controlled by the Company and respective changes**

Name	Currency	31st December 2005	Current period additions/ (deductions)	30th June 2006
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	774,000,000	—	774,000,000
Qinbei Power Company	RMB	10,000,000	—	10,000,000
Yushe Power Company	RMB	615,760,000	—	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 Combined Cycle 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	—	194,000,000
Mingtai Hydropower	RMB	97,700,000	—	97,700,000
Jialingjiang Hydropower	RMB	193,080,000	—	193,080,000
Fujian 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

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

## 7. Related Party Relationships and Transactions (Cont'd)

## (3) Equity shares held by parties that control / are controlled by the Company and respective changes

Name	31st December 2005		Current period additions/ (deductions)		30th June 2006	
	Amount	%	Amount	%	Amount	%
Huaneng Group*	—	—	1,055,124,549	8.75	1,055,124,549	8.75
HIPDC**	5,157,680,000	42.78	(91,017,882)	(0.75)	5,066,662,118	42.03
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	238,500,000	90	—	—	238,500,000	90
Huaiyin II Power Company	492,573,600	63.64	—	—	492,573,600	63.64
Qinbei Power Company	5,500,000	55	—	—	5,500,000	55
Yushe Power Company	369,456,000	60	—	—	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 Combined Cycle 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***	116,400,000	60	—	—	116,400,000	60
Mingtai Hydropower***	50,999,400	52.2	—	—	50,999,400	52.2
Jialingjiang Hydropower***	106,194,000	55	—	—	106,194,000	55
Fujian 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 8.75% equity interest in the Company upon the completion shareholding reform plan. In addition, Huaneng Group holds 51.98% equity interest in HIPDC.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and Transactions (Cont'd)****(3) Equity shares held by parties that control / are controlled by the Company and respective changes (Cont'd)**

\*\* HIPDC holds 42.03% equity interest in the Company upon the completion of shareholding reform plan in 2006. In addition, promoters of the Company entered into a supplementary agreement pursuant to which HIPDC would no longer to be granted the voting rights of the promoters. However, HIPDC still controls the Company due to Huaneng Group and HIPDC obtain 50.78% equity interest in the Company.

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

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

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

Names of related parties	Relationship with the Company
Huaneng Finance	An associate of the Company
China Huaneng International Trade Economics Corporation ("CHITEC")	A subsidiary of Huaneng Group
Shanghai Time Shipping Company ("Time Shipping")	A jointly controlled entity of Huaneng Group
Huaneng Xinrui Control Technology Company Ltd. ("Huaneng Xinrui")	A subsidiary of Huaneng Group
Xi'an Thermal Power Research Institute Co., Ltd. ("Xi'an Thermal")	A subsidiary of Huaneng Group
Rizhao Power Company	An associate of the Company
Hanfeng Power Company	An associate of the Company
Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan")	A subsidiary of Huaneng Group
Huaneng Capital Service Co., Ltd. ("Huaneng Capital")	A subsidiary of Huaneng Group
Greatwall Securities Co., Ltd. ("Greatwall Securities")	A subsidiary of Huaneng Group
Lime Company	An associate of Luohuang Power Company

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and Transactions (Cont'd)****(5) Related party transactions**

- a. Pursuant to the service agreement entered into by the Company and HIPDC, HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. For the six months ended 30th June 2006, the total amount of service fees paid to HIPDC was approximately RMB70 million (for the six months ended 30th June 2005: RMB70 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. For the six months ended 30th June 2006, total rental payments of the land use right are RMB0.667 million (for the six months ended 30th June 2005: RMB0.667 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. For the six months ended 30th June 2006, the total rental payment of office building is about RMB13 million (for the six months ended 30th June 2005: RMB13 million).
- d. Please see Notes 5(18)(a) and 5(18)(c) for details of bank loans on-lent from Huaneng Group through Huaneng Finance and bank loans of the Company and its subsidiaries drawn from Huaneng Finance. For the six months ended 30th June 2006, total amount of long-term loan interest paid by the Company and its subsidiaries to Huaneng Finance amounting to RMB73,586,028 (for the six months ended 30th June 2005: RMB19,956,085).
- e. As at 30th June 2006, Huaneng Finance granted short-term loans amounting to RMB2,677 million (31st December 2005: RMB2,008 million) to the Company and its subsidiaries. The relevant interest rates range from 4.70% to 5.27% (2005: 4.70% to 5.02%) per annum. The interest rates for such loans have no material difference from the prevailing market interest rates (see Note 5(12)). For the six months ended 30th June 2006, the interest paid by the Company and its subsidiaries to Huaneng Finance for these short-term loans amounting to RMB55,864,585 (for the six months ended 30th June 2005: RMB82,175,594).
- f. Please see Note 5(18) for details of the long-term bank loans of the Company and its subsidiaries guaranteed by HIPDC and Huaneng Group.
- g. Please see Note 8 for details of bank loans of Rizhao Power Company guaranteed by the Company and its subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

### 7. Related Party Relationships and Transactions (Cont'd)

#### (5) Related party transactions (Cont'd)

- 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 5 years. For the six months ended 30th June 2006, the Company earned service fees amounting to RMB16,080,000 from Huaneng Group (for the six months ended 30th June 2005: RMB16,921,200). While the Company earned service fees amounting to RMB1,920,000 from HIPDC (for the six months ended 30th June 2005: RMB1,644,000). For the six months ended 30th June 2005, the related costs incurred for the management services rendered amounted to approximately RMB16.33 million (for the six months ended 30th June 2005: RMB14.16 million).
- i. For the six months ended 30th June 2006, the Company and its subsidiaries paid approximately RMB103.87 million for coal purchased from CHITEC (for the six months ended 30th June 2005: RMB276.31 million).
- j. For the six months ended 30th June 2006, the Company and its subsidiaries paid approximately RMB17.78 million for equipment purchased from CHITEC (for the six months ended 30th June 2005: RMB9.27 million).
- k. For the six months ended 30th June 2006, the Company and its subsidiaries paid approximately RMB336 million for the fuel purchased and transportation services received from Time Shipping (for the six months ended 30th June 2005: RMB274 million).
- l. For the six months ended 30th June 2006, the Company and its subsidiaries paid approximately RMB49.16 million for coal purchased from Huaneng Jingyuan (for the six months ended 30th June 2005: RMB122.66 million).
- m. For the six months ended 30th June 2006, the Company and its subsidiaries paid approximately RMB22.56 million for lime products from Lime Company (for the six months ended 30th June 2005: RMB27.30 million).
- n. For the six months ended 30th June 2006, the Company and its subsidiaries paid approximately RMB15.55 million for information and technology supporting to Huaneng Xinrui and Xi'an Thermal and its subsidiaries (for the six months ended 30th June 2005: RMB4.97 million).

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and Transactions (Cont'd)****(5) Related party transactions (Cont'd)**

- o. As at 30th June 2006, HIPDC had provided guarantee to the Company on the Company's share of an account receivable balance of approximately RMB140 million (31st December 2005: approximately RMB140 million) recorded in the books of Yueyang Power Company when it acquired the subsidiary from HIPDC in 2004 (see Note 5(3)(a)).
- p. On 14th December 2005, the Company entered into an agreement with Huaneng Group and other relevant parties pursuant to which the Company subscribed certain additional shares of Huaneng Finance and acquired from Huaneng Group certain equity interest in Huaneng Finance at consideration of RMB288 million. Such an acquisition became effective in January 2006 upon fulfillments of all necessary conditions, payments of cash considerations and transfers of related ownership.
- q. For the six months ended 30th June 2006, the Company and its subsidiaries have no discounted notes receivable with Huaneng Finance and any related discounted charge (for the six months ended 30th June 2005: RMB120 million, RMB1.04 million).
- r. On 26th June 2006, the Company issued RMB4.5 billion unsecured short-term bonds (see Note 5(13)). Huaneng Finance, Huaneng Capital and Greatwall Securities subscribed for RMB0.9 billion, RMB0.25 billion and RMB0.3 billion respectively.

**(6) Cash deposits in a related party**

	30th June 2006	31st December 2005
Deposits in Huaneng Finance:		
- Current deposits	1,570,456,678	1,767,519,906

As at 30th June 2006, the annual interest rates for these current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% (31st December 2005: from 0.72% to 1.62%).



**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and Transactions (Cont'd)****(7) Receivables from / payables to related parties**

	30th June 2006		31st December 2005	
	Amount	Percentage attributable to related balance	Amount	Percentage attributable to related balance
Other receivables				
Receivables from HIPDC	—	—	21,847,346	3.65%
Receivables from Hanfeng Power Company	—	—	23,520	—
Accounts payable				
Payables to CHITEC	—	—	(14,175,450)	1.23%
Payables to Time Shipping	(16,277,540)	1.20%	(14,917,612)	1.30%
Payables to Lime Company	(3,353,198)	0.25%	—	—
Payables to Huaneng Xinrui	(288,800)	0.02%	(108,200)	—
Payables to Xi'an Thermal	(195,175)	0.01%	(197,393)	—
Other Payables				
Payables to HIPDC	(109,653,966)	2.06%	(53,230,133)	1.29%
Payables to CHITEC	(16,354,204)	0.31%	(526,746)	0.01%
Payables to Huaneng Finance	—	—	(6,000,000)	0.15%
Payables to Huaneng Group	(45,057,372)	0.85%	(50,720,038)	1.23%
Payables to Rizhao Power Company	(679,487)	0.01%	—	—
Payables to Hanfeng Power Company	(636,527)	0.01%	—	—
Payables to subsidiaries of Huaneng Group	(1,295,504)	0.02%	—	—
Payables to Huaneng Xinrui	(2,063,574)	0.04%	—	—
Payables to Xi'an Thermal	(14,457,050)	0.27%	(108,000)	—

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**7. Related Party Relationships and Transactions (Cont'd)****(7) Receivables from / payables to related parties (Cont'd)**

	30th June 2006		31st December 2005	
	Amount	Percentage attributable to related balance	Amount	Percentage attributable to related balance
Interest payables				
Interest payables on loans from Huaneng Finance	(8,649,105)	5.61%	(13,642,791)	6.90%
Interest payables on loans from Huaneng Group	(10,000,000)	6.48%	(10,000,000)	5.06%
Other non-current liabilities*				
Interest payables on loans from Huaneng Group	(42,553,304)	70.40%	(42,553,304)	66.34%

\* Interest will be paid before 2010 as agreed with Huaneng Group by a subsidiary of the Company.

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

**8. Contingent Liability**

Item	30th June 2006	
	The Company and its subsidiaries	The Company
Guarantees on the long-term bank loans of Rizhao Power Company	212,500,000	212,500,000

Guarantees on the long-term bank loans of Rizhao Power Company by the Company had no significant financial impact on the Company's operations.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**9. Commitments**

Commitments mainly relate to the construction of new power projects, renovation projects for existing power plants and the purchases of coal. Expenditure which was contracted but not provided for as at 30th June 2006 amounting to approximately RMB21.737 billion (31st December 2005: RMB17.076 billion).

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

	30th June 2006
2006	5,310,570,440
2007	8,166,230,440
2008	3,826,280,340
2009	3,826,280,340
	21,129,361,560

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

	30th June 2006	31st December 2005
Land and buildings		
Within 1 year	20,443,490	33,495,000
1-2 years	6,853,370	7,372,000
2-3 years	6,334,650	6,335,000
After 3 years	148,194,043	151,362,000
	181,825,553	198,564,000

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared in accordance with PRC Accounting Standards)

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

**9. Commitments (Cont'd)**

In addition, in accordance with a 30-year operating lease agreement signed by Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phases I and II in June 1994, annual rental amounted to 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% of the previous annual rental amount.

**10. Net Profit after Deducting Non-recurring Items**

	For the six months ended 30th June	
	2006	2005
Net profit	1,986,250,450	1,620,288,149
Add (Less): Non-recurring items		
- Net (gain) / loss on disposal of fixed assets	(694,877)	555,426
- Reversal of bad debt provision	(36,726,334)	(3,208,923)
- Reversal of provision for inventory obsolescence	(12,115)	(64,584)
- Non-operating income	(7,249,603)	(13,081,152)
- Non-operating expenses	48,523,360	42,129,019
- Subsidy income	(4,968,900)	—
Add (Less): Tax impact on non-recurring items	6,067,089	(833,294)
Net profit after deducting non-recurring items	1,991,189,070	1,645,784,641

**SUPPLEMENTAL INFORMATION (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared on consolidation basis; all amounts are stated in RMB Yuan unless otherwise stated)

**Net Profit and Net Assets Reconciliation Between PRC GAAP and International Financial Reporting Standards ("IFRS")**

The consolidated financial statements, which are prepared by the Company and its subsidiaries in conformity with the Accounting Standards for Business Enterprises and "Accounting Systems for Business Enterprises" (the "PRC GAAP"), differ in certain respects from IFRS. Major differences between PRC GAAP and IFRS, which affect the net income and net assets of the Company and its subsidiaries, are summarized as follow:

	Net Income	
	For the six months ended 30th June	
	2006	2005
<b>Net profit under PRC GAAP</b>	1,986,250,450	1,620,288,149
<b>Impact of IFRS adjustments:</b>		
Minority interests ( <i>Note 1</i> )	414,872,337	371,265,335
Effect of recording the amounts received in advance based on rate making process (a)	(26,683,723)	(5,220,452)
Difference in the recognition policy on housing benefits to the employees of the Company and its subsidiaries (b)	(19,542,641)	(20,041,371)
Difference in capitalization of borrowing costs (c)	103,753,858	60,571,750
Effect of recording negative goodwill and amortization (d)	(98,881,318)	(123,639,182)
Difference in accounting treatment for issuance cost of short-term bonds (e)	11,029,847	19,289,589
Difference in recognition of professional fees incurred on acquisitions (f)	—	16,698,000
Stock warrants issued by China Yangtze Power Co., Ltd. ("Yangtze Power") valued at fair value (i)	37,686,591	—
Applicable deferred income tax impact of the above GAAP differences (j)	101,277,338	51,864,681
Others	21,302,112	427,222
<b>Profit under IFRS</b>	<b>2,531,064,851</b>	<b>1,991,503,721</b>

**SUPPLEMENTAL INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared on consolidation basis; all amounts are stated in RMB Yuan unless otherwise stated)

	Net Assets	
	30th June 2006	31st December 2005
<b>Net assets under PRC GAAP</b>	38,079,113,983	39,081,551,960
<b>Impact of IFRS adjustments:</b>		
Minority interests ( <i>Note 1</i> )	5,338,125,110	4,934,649,003
Effect of recording the amounts received in advance based on rate making process (a)	(1,223,035,733)	(1,196,352,010)
Difference in the recognition policy on housing benefits to the employees of the Company and its subsidiaries (b)	8,366,070	27,908,711
Difference in capitalization of borrowing costs (c)	383,917,974	280,164,117
Effect of recording negative goodwill and amortization (d)	1,118,876,371	1,236,391,819
Difference in accounting treatment for issuance cost of short-term bonds (e)	19,594,521	8,564,674
Difference in recognition of professional fees incurred on acquisitions (f)	59,510,756	59,510,756
Effect on minority interests of recording fair value adjustments upon acquisitions (g)	1,636,361,612	1,636,361,612
Record the book value of Yangtze Power according to the fair value (h)	738,917,349	749,369,049
Stock warrants issued by Yangtze Power valued at fair value (i)	37,686,591	—
Applicable deferred income tax impact of the above GAAP differences (j)	(427,313,847)	(530,158,940)
Others	(126,157,432)	(143,773,947)
<b>Net assets under IFRS</b>	<b>45,643,963,325</b>	<b>46,144,186,804</b>

*Note (1):* Consistent with disclosure requirement of revised IAS 1-Presentation of Financial Statements, minority interests in the consolidated net assets and profit under IFRS should be included as a portion of total equity and total profit attributable to shareholders respectively.

**SUPPLEMENTAL INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared on consolidation basis; all amounts are stated in RMB Yuan unless otherwise stated)

**(a) Recording of the amounts received in advance**

In accordance with the tariff setting mechanism applicable to certain power plants, the Company and its subsidiaries receive advance payments (calculated at 1% of the original costs of fixed assets) as the major repairs and maintenance cost requirements of the relevant power plants. Such receipts in advance are recognized as liabilities under IFRS and are recognized as revenue when the repairs and maintenance is performed and the liabilities extinguish. For PRC statutory financial reporting purposes, these amounts are not recorded as liabilities and are recognized as revenue.

**(b) Difference in the recognition policy on housing benefits to the employees of the company and its subsidiaries**

The Company and its subsidiaries provided housing benefits to certain qualified employees of the Company and its subsidiaries whereby the living quarters owned by the Company and its subsidiaries were sold to these employees at preferential prices. The housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees, which are borne by the Company and its subsidiaries.

For PRC statutory reporting purposes, in accordance with the relevant regulations issued by the Ministry of Finance, the total housing benefits provided by the Company and its subsidiaries are charged to non-operating expenses as incurred. Under IFRS, such housing benefits provided by the Company and its subsidiaries are recognized on a straight-line basis over the estimated remaining average service lives of the employees.

**(c) Capitalization of borrowing costs**

Under PRC GAAP, the capitalization of interests is limited to specific borrowings. No interest can be capitalized on general borrowings. In accordance with IAS 23, the Company and its subsidiaries capitalized interest on general borrowings used for the purpose of obtaining a qualifying asset in addition to the capitalization of interest on specific borrowings.

**(d) Reversal of negative goodwill and amortization**

Under PRC GAAP, the excess of the equity portion of the net assets acquired over the total cost of the acquisition of branches in prior years was recorded as negative goodwill and amortized over 10 years on a straight-line basis. After 17th March 2003, the excess of the equity portion of the net assets over the cost of the acquisition of an associate was recorded as a capital surplus and is not amortized.

In accordance with revised IFRS 3, from 1st January 2005 onwards, negative goodwill arising from the acquisition of branches in prior years is derecognized and written off against opening retained earnings and any subsequent amortization under PRC GAAP is reversed. The excess of the equity portion of the net assets over the cost of the acquisition of an associate in the current period was written off against income statement.

**SUPPLEMENTAL INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared on consolidation basis; all amounts are stated in RMB Yuan unless otherwise stated)

**(e) Difference in accounting treatment on issuance cost of short-term bonds**

Under PRC GAAP, the issuance cost of short-term bonds is expensed as incurred. In accordance with IAS 39, issuance cost is included in the computation of the effective interest rate and amortized over the expected life of the short-term bonds.

**(f) Difference in recognition of professional fees incurred on acquisition**

Under PRC GAAP, the professional fees directly attributable to the acquisition of subsidiaries and associates should be expensed as incurred. In accordance with IFRS 3, such professional fees should be included in the costs of the business combination and therefore capitalized.

**(g) Effect on minority interests of recording fair value adjustments upon acquisitions**

Under PRC GAAP, the acquired subsidiaries are recorded in the consolidated financial statements of the Company and its subsidiaries at historical cost.

In accordance with IFRS 3, the acquiree's identified assets, liabilities and contingent liabilities, except for non-current assets that are classified as held for sale in accordance with IFRS 5, are recorded at their fair value on the acquisition date. The differences between the fair value and historical cost of the acquiree's such identifiable assets, liabilities and contingent liabilities affect the acquiree's net assets on the acquisition date and therefore, affect the minority interests (shown as a portion of the net assets) in the consolidated financial statements of the Company and its subsidiaries.

**(h) Recording investment in Yangtze Power at fair value**

Under PRC GAAP, the Company's long-term investment in Yangtze Power is accounted for using cost method. The carrying amount of this long-term investment remains unchanged except for additions or withdrawal of investment.

In accordance with IAS 39, given that the shares held by the Company and its subsidiaries can now be freely traded, they have been revalued at year end based on the closing market rate. A gain or loss on the available-for-sale investment shall be recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the investment is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss.



**SUPPLEMENTAL INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(Prepared on consolidation basis; all amounts are stated in RMB Yuan unless otherwise stated)

**(i) Record the stock warrants of Yangtze Power according to the fair value**

Under IFRS, the stock warrants of Yangtze Power held by the Company are treated as derivatives and measured at fair value. Such amounts are not recorded under PRC GAAP.

**(j) Deferred income tax impact**

This represents deferred income tax effect on the above GAAP differences where applicable.