

Notes to the Financial Statements

For the year ended 31st December, 2006
(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 Huaneng International Power Development Corporation (“HIPDC”) and China Huaneng Group (“Huaneng Group”) as the parent company and ultimate parent company of the Company, respectively. Both companies are incorporated in the PRC. Neither Huaneng Group nor HIPDC produced financial statements available for public use.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and financial assets at fair value through profit or loss.

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

During 2006, a significant portion of the Company and its subsidiaries’ funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as at 31st December 2006, the Company and its subsidiaries have a negative working capital balance of approximately RMB13.3 billion (2005: RMB11.0 billion). The Company and its subsidiaries have significant undrawn available banking facilities amounting to approximately RMB25.61 billion (2005: RMB22.57 billion). 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 financial statements on a going concern basis.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

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

The principal accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31st December 2005. The following new interpretation is mandatory for financial year with annual period beginning on or after 1st January 2006.

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.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31st December.

(i) *Subsidiaries*

Subsidiaries are all entities over which the Company and its subsidiaries have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company and its subsidiaries controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and its subsidiaries. They are de-consolidated from the date that control ceases.

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

(b) Consolidation *(Cont'd)*

(i) Subsidiaries *(Cont'd)*

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

In the balance sheet of the Company, the investments in subsidiaries are stated at costs less provision for impairment losses (Note 2(f)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions with minority interests

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

(iii) Associates

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

(b) Consolidation *(Cont'd)*

(iii) Associates (Cont'd)

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

In the balance sheet of the Company, the investments in associates are stated at costs less provision for impairment losses (Note 2(f)). The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(d) Property, plant and equipment, net

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognized within operating expenses - others in the income statement.

(e) Goodwill

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

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing (Note 15). The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company and its subsidiaries allocate goodwill to CGUs or groups of CGUs in the region in which they operate.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

(f) Impairment of investments in subsidiaries, associates and non-financial assets

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

(g) Financial assets

The Company and its subsidiaries classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) *Loans and receivables*

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

(iii) *Held-to-maturity investments*

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Financial assets (Cont'd)

(iv) Available-for-sale investments

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

(v) Recognition and derecognition of financial assets

Regular purchases and sales of investments are recognized on trade-date – the date on which the Company and its subsidiaries commit to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction cost are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company and its subsidiaries have transferred substantially all risks and rewards of ownership. Available-for-sale investment and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized costs using the effective interest method.

Changes in the fair value of monetary securities classified as available-for-sale are recognized in equity. Gains or loss arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within ‘investment income, net’ in the period in which they arise.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Company and its subsidiaries establish fair value by using valuation techniques, such as the option pricing model, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
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2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets *(Cont'd)*

(v) *Recognition and derecognition of financial assets (Cont'd)*

The Company and its subsidiaries assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment loss recognized in the income statement on equity instrument is not reversed through the income statement. The impairment loss of held-to-maturity investments is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of such an asset shall be reduced either directly or through use of an allowance account while the amount of such losses shall be recognised in the income statement. Impairment testing of receivables is described in Note 2(i).

(h) Inventories

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

(i) Receivables

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
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2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(j) Related parties

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

(k) Cash and cash equivalents

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

(l) Accounts payables

Accounts payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(m) Borrowings

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

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

(n) Taxation

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
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2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(n) Taxation *(Cont'd)*

(ii) Income tax expense

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

Certain power plants are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most of five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

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

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

(iii) Deferred income tax

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits

(i) Pension obligations

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

(ii) Termination benefits

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

(p) Revenue and income recognition

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

(i) Operating revenue

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

(ii) Management service income

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
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2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Revenue and income recognition *(Cont'd)*

(iii) Interest income

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

(iv) Dividend income

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

(q) Operating leases

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

(r) Borrowing costs

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

(s) Financial guarantee contracts

(i) Classification

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

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

(ii) Liability adequacy test

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

(t) Dividend distribution

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

(u) Contingencies

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods of the Company and its subsidiaries beginning on or after 1st January, 2007 or later periods but which the Company and its subsidiaries have not early adopted. These are summarized as follows:

- IFRS 7, Financial Instruments: Disclosures and a complementary amendment to International Accounting Standard (“IAS”) 1, Presentation of Financial Statements – Capital Disclosures (effective from annual periods beginning on or after 1st January, 2007). IFRS 7 introduces new disclosures relating to financial instruments. This standard introduces certain revised disclosure requirements, including the mandatory disclosures on sensitivity analysis for each type of market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation and is applicable to all entities reporting under IFRS. The amendment to IAS 1 introduces disclosures on the objectives, policies and processes for managing capital. Except for an extension of disclosures, management considered there was no significant impact from adopting IFRS 7 and the amendment to IAS 1 on the financial statements of the Company and its subsidiaries and will apply these standards from 1st January, 2007.
- IFRS 8, Operating Segments (effective from periods beginning on or after 1st January 2009). This standard replaces IAS 14, Segment Reporting and specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. This standard also sets out requirements for related disclosures about products and services, geographical areas and major customers. Management is currently assessing the impact of this IFRS on the accounting policies of the Company and its subsidiaries. The Company and its subsidiaries will apply IFRS 8 from 1st January, 2009.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
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2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

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

- IFRIC Interpretation 10, Interim Financial Reporting and Impairment (effective from annual periods beginning on or after 1st November 2006). This interpretation prohibits the impairment losses recognized in a previous interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at subsequent balance sheet dates. Management considered there will be no significant impact from adopting IFRIC Interpretation 10 on the financial statements of the Company and its subsidiaries. The Company and its subsidiaries will apply IFRIC Interpretation 10 from 1st January, 2007.

3. FINANCIAL AND INSURANCE RISKS MANAGEMENT

(a) Financial risk factors

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
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3. FINANCIAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

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

(i) Market risk

(1) Foreign exchange risk

Foreign exchange risk arises from a significant amount of long-term bank loans and other loans denominated in foreign currencies, including US dollar (“US\$”), Euro (“€”) and Japanese yen (“JPY”) described in Note 22. Fluctuations of exchange rates of RMB against these foreign currencies could affect the operating results of the Company and its subsidiaries.

(2) Price risk

The Company and its subsidiaries are exposed to equity security price risk because of investments held by the Company and its subsidiaries and classified on the balance sheets either as available-for-sale or at fair value through profit or loss. The Company and its subsidiaries are also exposed to commodity price risk, including the coal price risk. The Company and its subsidiaries have entered into several long-term coal purchase contracts (Note 34(a)(ii)) to reduce its exposure to fluctuations in the price of coal.

(ii) Credit risk

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

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

Most of the power plants of the Company and its subsidiaries sell electricity generated to their sole customers, the power grid companies of their respective provinces or regions where the power plants operate (Note 36).

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company and its subsidiaries aim to maintain flexibility in funding by maintaining availability under committed credit facilities.

Notes to the Financial Statements

For the year ended 31st December, 2006
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3. FINANCIAL AND INSURANCE RISKS MANAGEMENT *(Cont'd)*

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

(iv) Cash flow and fair value interest rate risk

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

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

(b) Insurance risk factor

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

(c) Fair value estimation

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

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

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

The estimated fair value of long-term loans including current maturities was approximately RMB38.16 billion as at 31st December, 2006 (2005: RMB31.82 billion). The aggregate book value of these liabilities was approximately RMB38.43 billion as at 31st December, 2006 (2005: RMB32.03 billion).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of goodwill

The Company and its subsidiaries test annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(e). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of goodwill.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

(b) Useful lives of property, plant and equipment

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

(c) Estimated impairment of property, plant and equipment

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

(d) Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of financial assets at fair value through profit or loss.

5. OTHER INCOME, NET

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

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

6. PROFIT BEFORE TAX

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

	For the year ended	
	31st December,	
	2006	2005
Interest expense on bank loans:		
– wholly repayable within five years	1,327,990	881,823
– not wholly repayable within five years	833,739	1,021,467
Interest expense on long-term loans from Huaneng Group:		
– not wholly repayable within five years	140,194	84,506
Interest expense on other long-term loans:		
– wholly repayable within five years	40,483	44,262
– not wholly repayable within five years	—	12,495
Interest expense on short-term bonds	140,275	84,615
Total interest expense	2,482,681	2,129,168
Less: amounts capitalized in property, plant and equipment	(891,648)	(702,559)
	1,591,033	1,426,609
Change in fair value on financial instruments:		
– Financial assets at fair value through profit and loss	(100,180)	—
Write off of excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	(24,758)	—
Auditors' remuneration	48,315	33,781
Loss on disposals/write-off of property, plant and equipment, net	100,018	145,762
Operating leases:		
– Property, plant and equipment	33,724	33,077
– Land use rights	41,090	42,402
Depreciation of property, plant and equipment	6,721,684	6,172,866
Impairment loss of property, plant and equipment	11,920	30,080
Amortization of land use rights	42,484	36,429
Amortization of other non-current assets	15,719	15,297
Cost of inventories consumed	23,034,903	21,580,927
(Reversal of)/Provision for doubtful accounts	(4,853)	49,869
Bad debts recovery	(35,035)	(59,740)
Provision for inventory obsolescence	1,808	31,724
Staff costs:		
– Wages and staff welfare	1,936,908	1,735,065
– Retirement benefits (Note 8)	503,592	407,846
– Staff housing benefits (Note 29)	198,212	147,479
– Other staff costs	248,054	196,708

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS

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

Names of related parties	Nature of relationship
Huaneng Group	Ultimate parent 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") and its subsidiaries	Subsidiaries 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 Corporation Ltd. ("Huaneng Finance")	An associate of the Company
Chongqing Huaneng Shifen Company Limited ("Shifen Company")	An associate of a subsidiary
State-owned enterprises*	Related parties of the Company

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

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

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

(a) Related party balances

- (i) As at 31st December, 2006, current deposits of approximately RMB2,247 million (2005: RMB1,768 million) were placed with Huaneng Finance, a non-bank PRC financial institution, which bore interest that ranged from 0.72% to 1.62% (2005: from 0.72% to 1.62%) per annum.
- (ii) As described in Note 22, certain loans of the Company and its subsidiaries were borrowed from Huaneng Group.
- (iii) As at 31st December, 2006, long-term loans (including current portion) from Huaneng Finance amounted to RMB80 million (2005: RMB80 million), with interest at 5.18% and 5.67% (2005: 5.18%) per annum.
- (iv) As at 31st December, 2006, short-term loans amounting to approximately RMB2,485 million (2005: RMB2,008 million) were borrowed from Huaneng Finance, which bore interest that ranged from 4.70% to 5.51% (2005: from 4.70% to 5.02%) per annum.
- (v) As at 31st December, 2006, balances with Huaneng Group, HIPDC, subsidiaries and other related parties are unsecured, non-interest bearing and receivable/repayable within one year. As at and for the years ended 31st December, 2005 and 2006, no provision is made on receivable balances from these parties.
- (vi) Including in balances with associates, a balance with an associate amounted to approximately RMB77 million is unsecured, interest bearing at 5.265% (2005: nil) per annum and repayable within one year as at 31st December, 2006 (2005: nil). All the remaining balances are unsecured, non-interest bearing and repayable within one year.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Cont'd)

(a) Related party balances (Cont'd)

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million
Non-current assets				
Available-for-sale investment	1,459	1,033	1,459	1,033
Other non-current assets	69	50	—	—
Current assets				
Other receivable and assets, net	348	195	197	111
Accounts receivable, net	6,914	5,333	4,082	3,108
Temporary cash investment	—	3	—	3
Cash at banks	856	851	782	814
Non-current liabilities				
Long-term bank loans	27,133	19,445	6,325	3,281
Other long-term loans	60	130	—	—
Current liabilities				
Accounts payable and other liabilities	2,822	2,777	1,242	1,879
Short-term bonds	5,078	4,780	5,078	4,780
Short-term loans	4,071	4,973	2,793	2,100
Current portion of long-term bank loans	2,272	1,761	485	385
Current portion of other long-term loans	114	70	—	—

Except for available-for-sale investment, other non-current assets, temporary cash investment, cash at banks, loans and short-term bonds stated above, all the balances of assets and liabilities with state-owned enterprises mentioned above are unsecured, non-interest bearing and receivable or repayable within one year. Available-for-sale investment is unsecured and non-interest bearing. Except for long-term receivables including in other non-current assets which are unsecured, interest-bearing at 5.832% (2005: 5.508%) per annum and is receivable in accordance with specified repayment schedules, all the remaining balances of other non-current assets are unsecured, non-interest bearing and receivable after more than 12 months. As at 31st December, 2006, approximately RMB51 million provision has been made on receivable balances (2005: RMB58 million).

Terms of the long-term loans, short-term bonds, short-term loans and cash at banks, are described in Notes 22, 25, 26 and 32(a). For the year ended 31st December, 2006, the interest rates of notes payable, short-term loans and long-term loans from state-owned enterprises are from 2.70% to 3.24%, from 4.30% to 5.51% and from 3.60% to 6.84% (2005: nil, from 4.54% to 5.76% and from 3.60% to 5.12%) per annum respectively.

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Cont'd)

(b) Related party transactions

	For the year ended	
	31st December,	
	2006	2005
Huaneng Group		
Management service fee income for management services rendered to certain power plants	39,099	31,668
Less: related expenses	(29,708)	(29,510)
Management service fee income, net	9,391	2,158
Acquisition of equity interest in Huaneng Finance from Huaneng Group	(126,000)	—
Interest expense on long-term loans	(139,946)	(35,700)
HIPDC		
Management service fee income for management services rendered to certain power plants	4,378	3,328
Less: related expenses	(3,327)	(3,101)
Management service fee income, net	1,051	227
Service fees expenses on transmission and transformer facilities	(140,771)	(141,102)
Rental charge on land use rights of Huaneng Nanjing Power Plant	(1,334)	(1,334)
Rental charge on office building	(26,000)	(26,000)
Huaneng Finance		
Discounting of notes receivable	114,150	298,098
Discounting charges	(1,086)	(2,415)
Drawdown of short-term loans	3,374,700	2,127,700
Drawdown of long-term loans	40,000	—
Issuance of short-term bonds	900,000	—
Interest on short-term and long-term loans	(128,414)	(104,550)
Huaneng Capital Service		
Issuance of short-term bonds	250,000	—
Greatwall Securities		
Issuance of short-term bonds	300,000	—

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Cont'd)

(b) Related party transactions (Cont'd)

	For the year ended	
	31st December,	
	2006	2005
CHITEC		
Purchase of coal from CHITEC	(139,972)	(284,301)
Purchase of equipment from CHITEC	(34,055)	(11,200)
Time Shipping		
Purchase of coal from Time Shipping and service fee paid for transportation	(735,081)	(606,753)
Huaneng Jingyuan		
Purchase of coal from Huaneng Jingyuan	(49,159)	(241,960)
Shifen Company		
Purchase of lime from Shifen Company	(47,235)	(42,817)
Xinrui		
Technical services and industry-specific technological project contracting services	(9,425)	(24,521)
Xi'an Thermal and its subsidiaries		
Technical services and industry-specific technological project contracting services	(94,723)	(55,605)

	For the year ended	
	31st December,	
	2006	2005
	RMB million	RMB million
State-owned enterprises		
Sales of electricity	44,646	40,977
Purchases of fuel	12,499	13,763
Acquisition of property, plant and equipment	7,568	5,578
Purchases of materials and supplies	139	365
Subcontracting labor for		
– construction and renovation	3,621	2,088
– maintenance	118	140
Interest income	17	20
Dividend income	28	35
Warrants granted	38	—
Drawdown of short-term bonds	3,550	4,862
Drawdown of short-term loans	9,033	6,650
Drawdown of long-term bank loans	9,453	9,465
Interest expense of loans and bonds to banks and other financial institutions	1,797	881
Reversal of/(Provision for) doubtful accounts	5	(58)

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Cont'd)

(c) Guarantees

	As at 31st December,	
	2006	2005
(i) Short-term loan guaranteed by a state-owned bank	1,000,000	400,000
(ii) Long-term loans guaranteed by		
– Huaneng Group	6,249,089	7,343,525
– HIPDC	2,693,280	3,311,164
– State-owned enterprises	353,250	1,226,500
(iii) Certain long-term bank loans of Rizhao Power Company guaranteed by the Company	(123,250)	(225,250)
(iv) Purchase settlements guaranteed by a state-owned bank	80,000	—

(d) Key management personnel compensation

	For the year ended	
	2006	2005
Salaries and other short-term employee benefits	5,670	6,049
Post-employment benefits	1,616	1,413
Total	7,286	7,462

8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension upon their retirements. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the publicly administered retirement plan at a specified rate, currently set at 18% to 22% (2005: 18% to 22%), of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended 31st December, 2006 were approximately RMB278 million (2005: RMB227 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended 31st December, 2006 totaled approximately RMB238 million (2005: approximately RMB181 million).

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

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The remuneration of every director and supervisor of the Company for the year ended 31st December, 2006 is set out below:

Name of director	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Mr. Li Xiaopeng	—	—	—	—	—
Mr. Huang Yongda	—	—	—	—	—
Mr. Wang Xiaosong ¹	—	—	—	—	—
Mr. Na Xizhi	—	225	310	173	708
Mr. Huang Long	—	150	350	166	666
Mr. Wu Dawei	—	21	121	21	163
Mr. Shan Qunying	40	—	—	—	40
Mr. Xu Zujian	40	—	—	—	40
Mr. Liu Shuyuan	40	—	—	—	40
Mr. Qian Zhongwei	60	—	—	—	60
Mr. Xia Donglin	60	—	—	—	60
Mr. Liu Jipeng	60	—	—	—	60
Mr. Wu Yusheng	60	—	—	—	60
Mr. Yu Ning	60	—	—	—	60
Mr. Ding Shida	40	—	—	—	40
Sub-total	460	396	781	360	1,997
Name of supervisor					
Mr. Guo Junming ²	—	—	—	—	—
Mr. Shen Zongmin	40	—	—	—	40
Ms. Yu Ying	40	—	—	—	40
Ms. Zou Cui	—	128	398	152	678
Mr. Wang Zhaobin	—	126	382	139	647
Mr. Gu Jianguo	40	—	—	—	40
Sub-total	120	254	780	291	1,445
Total	580	650	1,561	651	3,442

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(Cont'd)

(a) Directors' and supervisors' emoluments (Cont'd)

The remuneration of every director and supervisor of the Company for the year ended 31st December, 2005 is set out below:

Name of director	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Mr. Li Xiaopeng ³	—	—	—	—	—
Mr. Huang Yongda ³	—	—	—	—	—
Mr. Wang Xiaosong ³	—	—	—	—	—
Mr. Na Xizhi ³	—	96	313	108	517
Mr. Ye Daji ⁴	—	78	66	65	209
Mr. Huang Jinkai ⁴	—	43	195	71	309
Mr. Liu Jinlong ⁴	—	—	—	—	—
Mr. Huang Long ⁵	—	91	375	109	575
Mr. Wu Dawei ⁵	—	—	147	—	147
Mr. Shan Qunying ³	40	—	—	—	40
Mr. Yang Shengming ⁷	20	—	—	—	20
Mr. Xu Zujian ³	40	—	—	—	40
Mr. Liu Shuyuan ³	40	—	—	—	40
Mr. Gao Zongze ⁴	30	—	—	—	30
Mr. Zheng Jianchao ⁴	30	—	—	—	30
Mr. Qian Zhongwei ³	60	—	—	—	60
Mr. Xia Donglin ³	60	—	—	—	60
Mr. Liu Jipeng ³	60	—	—	—	60
Mr. Wu Yusheng ⁵	60	—	—	—	60
Mr. Yu Ning ⁵	60	—	—	—	60
Mr. Ding Shida ⁷	20	—	—	—	20
Sub-total	520	308	1,096	353	2,277

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(Cont'd)

(a) Directors' and supervisors' emoluments (Cont'd)

The remuneration of every director and supervisor of the Company for the year ended 31st December, 2005 is set out below (Cont'd):

Name of supervisor	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Mr. Wei Yunpeng ⁴	—	—	—	—	—
Mr. Li Yonglin ⁴	20	—	—	—	20
Mr. Pan Jianmin ⁴	—	—	—	—	—
Mr. Zhao Xisheng ⁴	—	35	128	45	208
Mr. Ye Daji ^{5 and 6}	—	155	165	132	452
Mr. Shen Weibing ⁷	20	—	—	—	20
Mr. Shen Zongmin ³	40	—	—	—	40
Ms. Yu Ying ⁵	40	—	—	—	40
Ms. Zou Cui ⁵	—	83	282	88	453
Mr. Wang Zhaobin ⁵	—	80	259	77	416
Mr. Gu Jianguo ⁷	20	—	—	—	20
Sub-total	140	353	834	342	1,669
Total	660	661	1,930	695	3,946

¹ Mr. Wang Xiaosong resigned from the capacity of director on 7th March, 2006.

² Appointed on 18th January, 2006.

³ Retired and re-appointed on 11th May, 2005.

⁴ Retired on 11th May, 2005.

⁵ Appointed on 11th May, 2005.

⁶ Mr. Ye Daji resigned from the capacity of supervisor on 30th November, 2005.

⁷ Mr. Yang Shengming and Mr. Shen Weibing retired and re-appointed on 11th May, 2005 in the capacities of director and supervisor respectively. They resigned on 9th August, 2005 and Mr. Ding Shida and Mr. Gu Jianguo filled their roles of director and supervisor on 17th November, 2005 respectively.

During the year, no option was granted to the directors or the supervisors (2005: nil).

During the year, no emolument was paid to the directors or the supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (2005: nil).

No director or supervisor had waived or agreed to waive any emoluments during the years 2005 and 2006.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS

(Cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiaries for the year include one (2005: one) director whose emoluments is reflected in the analysis presented above. The emoluments payable to the remaining four (2005: four) individuals during the year are as follows:

	For the year ended	
	31st December,	
	2006	2005
Basic salaries and allowances	551	510
Discretionary bonuses	1,776	2,233
Employer's contributions to pension schemes	702	614
	3,029	3,357

The annual emoluments paid to these individuals during the years 2005 and 2006 fell within the range of nil to RMB1 million.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET

	The Company and its subsidiaries						
	Dam	Buildings	Electric utility plant in service	Transportation facilities	Others	Construction-in-progress	Total
As at 1st January, 2005							
Cost	—	2,043,071	69,067,394	413,254	1,651,129	9,026,574	82,201,422
Accumulated depreciation	—	(401,567)	(23,185,836)	(110,873)	(722,736)	—	(24,421,012)
Net book value	—	1,641,504	45,881,558	302,381	928,393	9,026,574	57,780,410
Year ended 31st December, 2005							
Beginning of the year	—	1,641,504	45,881,558	302,381	928,393	9,026,574	57,780,410
Reclassification	—	(313,831)	382,632	(186,118)	117,317	—	—
Acquisitions	2,100,903	443,531	7,080,422	35,415	211,763	2,189,863	12,061,897
Additions	—	9,032	64,715	676	94,217	15,451,757	15,620,397
Transfer from CIP	464,950	31,393	3,935,984	4,726	1,838,292	(6,275,345)	—
Disposals/Write-off	—	(10,626)	(117,592)	—	(11,047)	(52,521)	(191,786)
Disposal of a subsidiary	—	—	—	—	(687)	(59,342)	(60,029)
Depreciation charge	(74,187)	(99,905)	(5,720,294)	(16,328)	(272,798)	—	(6,183,512)
Impairment charge	—	—	(30,080)	—	—	—	(30,080)
End of the year	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
As at 31st December, 2005							
Cost	2,565,853	2,168,543	80,113,023	223,816	3,910,861	20,280,986	109,263,082
Accumulated depreciation	(74,187)	(467,445)	(28,605,598)	(83,064)	(1,005,411)	—	(30,235,705)
Accumulated impairment loss	—	—	(30,080)	—	—	—	(30,080)
Net book value	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
Year ended 31st December, 2006							
Beginning of the year	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
Reclassification	—	(84,198)	1,748,053	(1,167)	(1,662,688)	—	—
Additions	—	8,295	21,886	39	98,117	18,306,849	18,435,186
Transfer from CIP	987,317	50,504	24,967,179	276	84,012	(26,089,288)	—
Disposals/Write-off	—	(16,284)	(225,963)	(59)	(5,936)	—	(248,242)
Depreciation charge	(95,558)	(97,878)	(6,270,573)	(15,932)	(248,155)	—	(6,728,096)
Impairment charge	—	—	(42,000)	—	—	—	(42,000)
Reversal of impairment charge	—	—	30,080	—	—	—	30,080
End of the year	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
As at 31st December, 2006							
Cost	3,553,170	2,053,942	106,111,993	224,007	2,386,701	12,498,547	126,828,360
Accumulated depreciation	(169,745)	(492,405)	(34,363,986)	(100,098)	(1,215,901)	—	(36,342,135)
Accumulated impairment loss	—	—	(42,000)	—	—	—	(42,000)
Net book value	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET (Cont'd)

	The Company					Total
	Buildings	Electric utility plant in service	Transportation facilities	Others	Construction-in-progress	
As at 1st January, 2005						
Cost	1,101,240	53,055,205	310,923	1,353,009	3,359,911	59,180,288
Accumulated depreciation	(346,346)	(21,194,433)	(91,614)	(685,940)	—	(22,318,333)
Net book value	754,894	31,860,772	219,309	667,069	3,359,911	36,861,955
Year ended 31st December, 2005						
Beginning of the year	754,894	31,860,772	219,309	667,069	3,359,911	36,861,955
Reclassification	72,009	(33,906)	(126,754)	88,651	—	—
Additions	1,657	41,509	676	55,941	6,164,694	6,264,477
Transfer from CIP	3,838	763,341	824	1,718,174	(2,486,177)	—
Disposals/Write-off	(6,826)	(62,555)	—	(11,707)	(52,278)	(133,366)
Transfer to a subsidiary	—	—	—	(687)	(59,342)	(60,029)
Depreciation charge	(53,332)	(3,719,894)	(12,112)	(170,309)	—	(3,955,647)
Impairment charge	—	(30,080)	—	—	—	(30,080)
End of the year	772,240	28,819,187	81,943	2,347,132	6,926,808	38,947,310
As at 31st December, 2005						
Cost	1,148,389	53,524,140	177,193	3,170,730	6,926,808	64,947,260
Accumulated depreciation	(376,149)	(24,674,873)	(95,250)	(823,598)	—	(25,969,870)
Accumulated impairment loss	—	(30,080)	—	—	—	(30,080)
Net book value	772,240	28,819,187	81,943	2,347,132	6,926,808	38,947,310
Year ended 31st December, 2006						
Beginning of the year	772,240	28,819,187	81,943	2,347,132	6,926,808	38,947,310
Reclassification	(15,466)	1,646,963	—	(1,631,497)	—	—
Additions	7,645	10,452	39	54,710	8,937,553	9,010,399
Transfer from CIP	32,771	7,892,018	276	39,495	(7,964,560)	—
Disposals/Write-off	(15,851)	(154,876)	(59)	(3,849)	—	(174,635)
Depreciation charge	(54,514)	(3,771,544)	(11,655)	(146,053)	—	(3,983,766)
Impairment charge	—	(42,000)	—	—	—	(42,000)
Reversal of impairment charge	—	30,080	—	—	—	30,080
End of the year	726,825	34,430,280	70,544	659,938	7,899,801	43,787,388
As at 31st December, 2006						
Cost	1,145,669	62,729,239	177,384	1,590,033	7,899,801	73,542,126
Accumulated depreciation	(418,844)	(28,256,959)	(106,840)	(930,095)	—	(29,712,738)
Accumulated impairment loss	—	(42,000)	—	—	—	(42,000)
Net book value	726,825	34,430,280	70,544	659,938	7,899,801	43,787,388

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET (Cont'd)

Interest expense of approximately RMB892 million (2005: RMB703 million) arising on borrowings for the construction of power plants were capitalized during the year and are included in 'Additions' in property plant and equipment. A capitalization rate of approximately 5.25% (2005: 5.27%) per annum was used, representing the interest rate of the loan used to finance the projects.

In 2006, there were impairment losses of certain property, plant and equipment in Huaneng Shantou Oil-Fired Power Plant amounting to RMB42 million. The recoverable amount is determined based on fair value less costs to sell based on the bidding price and the valuation performed by an independent valuer.

In 2005, there were impairment losses of certain property, plant and equipment amounting to RMB30 million in Huaneng Dandong Power Plant ("Dandong Power Plant") due to the continued loss incurred in the operations. In 2006, as a result of changes in the local power market regulations, the tariff of Dandong Power Plant increased and this led to an increase in recoverable amount of related property, plant and equipment based on the value-in-use calculations as at year end. An impairment charge of RMB30 million recorded in 2005 was, thus, reversed. A discount rate of approximately 7.76% was applied.

11. INVESTMENTS IN ASSOCIATES

	The Company and its subsidiaries		The Company	
	2006	2005	2006	2005
Beginning of the year	4,593,984	4,328,307	3,884,659	4,018,641
Additional investments	487,676	—	436,651	—
Share of other equity movement	157	15,923	—	—
Share of profit before tax	896,186	753,671	—	—
Share of taxation	(105,557)	(109,295)	—	—
Dividends	(454,233)	(394,622)	—	—
Recovery of investment cost	—	—	—	(133,982)
End of the year	5,418,213	4,593,984	4,321,310	3,884,659

Investments in associates as at 31st December, 2006 included goodwill of approximately RMB976 million (2005: RMB976 million).

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

11. INVESTMENTS IN ASSOCIATES (Cont'd)

As at 31st December, 2006, the interest in associates of the Company and its subsidiaries, all of which are unlisted, were as follows:

Name of associate	Country and date of incorporation	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Rizhao Power Company	PRC 20th March, 1996	34%	—	US\$150,000,000	Power generation
Shenzhen Energy Group Co. Ltd. ("SEG")	PRC 15th July, 1985	25%	—	RMB955,555,556	Power generation
Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company")	PRC 28th October, 1996	40%	—	RMB1,975,000,000	Power generation
Shifen Company	PRC 5th November, 1996	—	25%	RMB50,000,000	Lime production and sale
Sichuan Jialingjiang Tourism Development Company Inc.	PRC 25th April, 2006	—	25%	RMB80,000,000	Tourism development and entertainment in Nanchong water area
Huaneng Finance	PRC 21st May, 1988	20%	—	RMB1,200,000,000	Advisory service in financing and credit appraisal

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVESTMENTS IN ASSOCIATES (Cont'd)

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

	2006	2005
Assets	52,651,063	33,231,354
Liabilities	(31,138,182)	(15,299,661)
Operating revenue	14,204,353	14,515,393
Profit attributable to equity holders of associates	2,768,300	2,224,783

12. INVESTMENTS IN SUBSIDIARIES

As at 31st December, 2006, the interest in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows:

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Huaneng Weihai Power Limited Liability Company	PRC 22nd November, 1993 Limited liability company	60%	—	RMB761,838,300	Power generation
Huaneng Huaiyin Power Generation Co. Ltd ("Huaiyin Power Company")	PRC 26th January, 1995 Limited liability company	90%	—	RMB265,000,000	Power generation
Huaneng Huaiyin II Power Limited Company	PRC 22nd June, 2004 Limited liability company	63.64%	—	RMB774,000,000	Power generation
Huaneng (Suzhou Industrial Park) Power Generation Co. Ltd. ("Taicang Power Company")	PRC 19th June, 1997 Limited liability company	75%	—	RMB632,840,000	Power generation

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

As at 31st December, 2006, the interest in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows (Cont'd):

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Huaneng Taicang Power Co., Ltd.	PRC 18th June, 2004 Limited liability company	75%	—	RMB894,410,000 and fully paid capital of RMB804,146,700	Power generation
Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company")	PRC 12th July, 1995 Limited liability company	55%	—	RMB810,000,000	Power generation
Huaneng Yushe Power Generation Co., Ltd. ("Yushe Power Company")	PRC 29th November, 1994 Limited liability company	60%	—	RMB615,760,000	Power generation
Huaneng Xindian Power Co., Ltd.	PRC 24th March, 2004 Limited liability company	95%	—	RMB100,000,000	Power generation
Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")	PRC 16th December, 2003 Limited liability company	55%	—	RMB1,055,000,000	Power generation
Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company")	PRC 16th December, 2003 Limited liability company	60%	—	RMB1,291,650,000	Power generation

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

As at 31st December, 2006, the interest in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows (Cont'd):

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Huaneng Shanghai Combined Cycle Power Limited Liability Company	PRC 13th January, 2005 Limited liability company	70%	—	RMB685,800,000	Power generation
Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower")	PRC 12th July, 2004 Limited liability company	60%	—	RMB800,000,000	Investments holding and hydropower projects development
Sichuan Huaneng Taipingyi Hydropower Limited Liability Company	PRC 23rd April, 1994 Limited liability company	—	60%	RMB100,000,000	Power generation
Sichuan Huaneng BaoXing River Power Co. Ltd.	PRC 26th June, 1994 Limited liability company	—	68%	RMB516,100,000	Power generation
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company ("Dongxiguan Hydropower")	PRC 29th June, 1994 Limited liability company	—	59.33%	RMB156,725,000	Power generation
Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company	PRC 30th September, 1998 Limited liability company	—	55%	RMB193,080,000	Power generation
Sichuan Huaneng Kangding Hydroelectric Power Co., Ltd. ("Kangding Hydropower")	PRC 14th April, 1997 Limited liability company	—	60%	RMB194,000,000	Power generation

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

As at 31st December, 2006, the interest in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows (Cont'd):

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Sichuan Huaneng Fujiang Hydropower Limited Liability Company	PRC 22nd March, 2002 Limited liability company	—	95%	RMB150,000,000	Power generation
Huaneng Mingtai Power Limited Liability Company ("Mingtai Hydropower")	PRC 8th September, 1994 Limited liability company	—	52.20%	RMB97,700,000	Power generation
Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company")	PRC 6th November, 1996 Limited liability company	65%	—	RMB924,050,000	Power generation

13. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents a 1.82% (2005: 1.82%) equity interest in a power generation company, China Yangtze Power Co., Ltd. ("Yangtze Power") incorporated and listed in the PRC.

	2006	2005
Beginning of the year	1,033,225	254,990
Additions (Note)	—	28,866
Revaluation surplus transfer to equity (Note)	425,534	749,369
End of the year	1,458,759	1,033,225

Note:

During 2005, Yangtze Power has gone through a process of shareholding structure reform pursuant to related government circulars issued by China Securities Regulatory Commission on implementation of shareholding structure reform of listed companies. The legal person shares held by the Company were allowed to trade in the open market after the completion of the process.

Given that the shares held by the Company and its subsidiaries can be freely traded, they have been revalued at year end based on the closing market rate.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

14. LAND USE RIGHTS

Details of land use rights are as follows:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	1,977,738	1,562,728	1,163,623	1,125,677
Leases of over 50 years	35,742	117,037	18,656	7,453
	2,013,480	1,679,765	1,182,279	1,133,130

15. GOODWILL

The movements in the carrying amount of goodwill during the years are as follows:

	The Company and its subsidiaries	The Company
As at 1st January, 2005		
Cost	376,726	108,938
Year ended 31st December, 2005:		
Opening net book value	376,726	108,938
Acquisitions	295,070	—
Closing net book value	671,796	108,938
As at 31st December, 2005		
Cost	671,796	108,938
As at 31st December, 2006		
Cost	671,796	108,938

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

15. GOODWILL (Cont'd)

Impairment tests for goodwill

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

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

	2006	2005
Huaiyin Power Company	118,596	118,596
Yueyang Power Company	100,907	100,907
Sichuan Hydropower	129,729	129,729
Pingliang Power Company	107,735	107,735
SEG ¹	682,993	682,993
Hanfeng Power Company ¹	293,070	293,070

¹ Included in investments in associates.

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

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

Huaiyin Power Company	10.80%	Yueyang Power Company	8.90%
Sichuan Hydropower	13.53%	Pingliang Power Company	9.26%
SEG	10.99%	Hanfeng Power Company	9.40%

Key assumptions used for value-in-use calculations:

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

Based on the assessments, no goodwill was impaired.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

16. INVENTORIES, NET

Inventories comprised:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Fuel (coal and oil) for power generation	1,241,838	1,498,484	677,961	850,255
Material and supplies	926,191	857,605	579,383	551,846
	2,168,029	2,356,089	1,257,344	1,402,101
Less: provision for inventory obsolescence	(46,540)	(44,732)	(22,485)	(21,256)
	2,121,489	2,311,357	1,234,859	1,380,845

As at 31st December, 2006, approximately RMB606 million of the total carrying amount of inventories were carried at fair value less cost to sell (2005: RMB670 million).

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Beginning of the year	(44,732)	(13,008)	(21,256)	(11,099)
Provision	(4,235)	(31,924)	(3,656)	(10,356)
Reversal	2,427	200	2,427	199
End of the year	(46,540)	(44,732)	(22,485)	(21,256)

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Prepayments for inventories	285,465	163,435	95,794	74,417
Prepayments to contractors	149,596	137,505	77,602	98,289
Prepayment for acquisition of Huaneng Finance	—	288,000	—	288,000
Receivable from a property developer	—	66,800	—	—
Others	213,650	233,435	136,035	118,379
	648,711	889,175	309,431	579,085
Less: provision for doubtful accounts	(33,223)	(33,223)	(22,797)	(22,840)
	615,488	855,952	286,634	556,245

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Beginning of the year	(33,223)	(42,262)	(22,840)	(20,766)
Provision	(3,732)	(3,242)	(3,689)	(2,920)
Reversal	3,474	11,806	3,474	371
Write-off	258	475	258	475
End of the year	(33,223)	(33,223)	(22,797)	(22,840)

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

18. ACCOUNTS RECEIVABLE, NET

Accounts receivable comprised:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Accounts receivable	6,232,275	4,963,326	3,757,011	3,180,097
Notes receivable	795,791	1,117,533	328,476	622,462
	7,028,066	6,080,859	4,085,487	3,802,559
Less: provision for doubtful accounts	(50,573)	(58,433)	—	—
	6,977,493	6,022,426	4,085,487	3,802,559

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

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

	The Company and its subsidiaries		The Company	
	2006	2005	2006	2005
Beginning of the year	(58,433)	—	—	—
Provision	—	(58,433)	—	—
Reversal	5,111	—	—	—
Write-off	2,749	—	—	—
End of the year	(50,573)	(58,433)	—	—

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

18. ACCOUNTS RECEIVABLE, NET (Cont'd)

As at 31st December, 2006, the aging analysis of accounts receivable was as follows:

	The Company and its subsidiaries		The Company	
	2006	2005	2006	2005
Within 1 year	6,716,090	5,864,038	3,967,929	3,789,939
Between 1 to 2 years	114,121	3,624	112,371	297
Between 2 to 3 years	51,554	59,217	—	6,203
Over 3 years*	146,301	153,980	5,187	6,120
	7,028,066	6,080,859	4,085,487	3,802,559

* During 2005 and 2006, HIPDC had provided guarantee to the Company on the Company's share of an account receivable balance of approximately RMB140 million recorded in the books of Yueyang Power Company when the Company acquired the subsidiary from HIPDC in 2004. The Company received the guarantee payment from HIPDC as at 31st December 2006.

As at 31st December, 2006, the maturity period of the notes receivable ranged from 1 month to 23 months (2005: 1 month to 26 months).

19. AUTHORIZED SHARE CAPITAL AND PAID-IN CAPITAL

	As at 31st December 2005	Adjustment from shareholding reform	As at 31st December 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
Total	12,055,383	—	12,055,383

As at 31st December, 2006, the authorized share capital of the Company was RMB12,055,383,440 (2005: RMB12,055,383,440), divided into 12,055,383,440 shares (2005: 12,055,383,440 shares) of RMB1.00 each (2005: RMB1.00 each).

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

19. AUTHORIZED SHARE CAPITAL AND PAID-IN CAPITAL *(Cont'd)*

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.

All shares issued by the Company were fully paid. The holders of domestic shares and overseas listed foreign shares, with minor exceptions, are entitled to the same economic and voting rights.

20. DEDICATED CAPITAL

The Board of Directors decided on an annual basis the percentages of profit attributable to equity holders of the Company, 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 profit attributable to equity holders of the Company, 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. Pursuant to the revised Company Law, the Company stopped providing further appropriation out of profit attributable to equity holders of the Company to statutory public welfare fund starting from 1st January 2006. The balance of statutory public welfare fund as at 31st December 2005 is transferred into statutory surplus reserve fund.

In relation to the profit appropriation plan for the year ended 31st December, 2006, the Board of Directors resolved the following on 3rd April, 2007:

- (a) appropriate 10% (2005: 10%) of profit attributable to equity holders of the Company as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund.
- (b) make no appropriation to the discretionary surplus reserve fund (2005: nil).

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

20. DEDICATED CAPITAL *(Cont'd)*

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lower of the amounts determined in accordance with (a) the PRC accounting standards and regulations and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended 31st December, 2006 was approximately RMB5.00 billion (2005: RMB3.93 billion). The cumulative balance of distributable profit as at 31st December, 2006 was approximately RMB15.30 billion (2005: RMB13.32 billion).

21. DIVIDENDS

On 3rd April, 2007, the Board of Directors proposed a cash dividend of RMB0.28 per share, totaling approximately RMB3,376 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividends payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31st December, 2007.

On 13th June, 2006, the shareholders approved the declaration of cash dividends of RMB0.25 per share, totaling approximately RMB3,014 million in their annual general meeting.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS

	The Company and its subsidiaries					
	As at 31st December, 2006			As at 31st December, 2005		
	Original currency '000	Annual interest rate	Amount	Original currency '000	Annual interest rate	Amount
Loans from Huaneng Group						
Unsecured RMB						
– Fixed rate	2,800,000	4.05% - 5.02%	2,800,000	2,800,000	4.05% - 5.02%	2,800,000
Bank loans						
Secured RMB						
– Fixed rate	60,000	5.18% - 6.16%	60,000	407,000	5.18% - 5.76%	407,000
Unsecured RMB						
– Fixed rate	30,035,770	3.60% - 6.84%	30,035,770	21,833,838	3.60% - 6.12%	21,833,838
US\$						
– Fixed rate	513,549	5.95% - 6.97%	4,010,150	611,668	5.40% - 6.97%	4,936,284
– Variable rate	53,782	4.13% - 5.49%	419,969	60,109	2.155% - 3.385%	485,096
€						
– Fixed rate	66,268	2%	680,344	73,319	2%	702,376
			35,146,233			27,957,594
			35,206,233			28,364,594
Other loans						
Secured RMB						
– Fixed rate	130,000	5.27%	130,000	200,000	5.27%	200,000
Unsecured RMB						
– Fixed rate	123,625	4.94% - 6.12%	123,625	446,847	4.94% - 6.12%	446,847
US\$						
– Variable rate	12,857	5.80%	100,398	15,714	2.99% - 3.93%	126,817
JPY						
– Variable rate	1,071,429	5.80%	70,318	1,309,524	5.80%	89,985
			294,341			663,649
			424,341			863,649

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS (Cont'd)

The interest rates of all variable rate loans are subject to adjustment once every six months (2005: six months).

Certain bank loans totaling approximately RMB60 million (2005: RMB407 million) are secured by various property, plant and equipment of the Company and its subsidiaries while an other long-term loan of RMB130 million (2005: RMB200 million) is secured by tariff collection right.

	The Company					
	As at 31st December, 2006			As at 31st December, 2005		
	Original	Annual	Amount	Original	Annual	Amount
	currency	interest rate		currency	interest rate	
'000			'000			
Loans from Huaneng Group						
Unsecured						
RMB						
– Fixed rate	2,000,000	5.02%	2,000,000	2,000,000	5.02%	2,000,000
Bank loans						
Unsecured						
RMB						
– Fixed rate	6,810,250	3.60% - 5.832%	6,810,250	4,287,018	3.60% - 5.63%	4,287,018
US\$						
– Fixed rate	389,013	5.95% - 6.60%	3,037,682	459,580	5.95% - 6.60%	3,708,901
– Variable rate	53,782	4.13% - 5.49%	419,969	60,109	2.155% - 3.385%	485,096
			10,267,901			8,481,015

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS (Cont'd)

The maturity of long-term loans is as follows:

The Company and its subsidiaries						
	Loans from		Bank loans		Other loans	
	Huaneng Group		As at		As at	
	As at		As at		As at	
	31st December,		31st December,		31st December,	
	2006	2005	2006	2005	2006	2005
1 year or less	—	—	3,140,393	2,653,339	191,562	512,640
More than 1 year but not more than 2 years	—	—	3,956,803	2,979,225	98,259	153,044
More than 2 years but not more than 3 years	—	—	9,687,803	3,189,885	78,259	99,419
More than 3 years but not more than 4 years	—	—	3,849,141	4,417,885	38,259	39,419
More than 4 years but not more than 5 years	—	—	3,405,639	3,386,732	18,002	39,419
More than 5 years	2,800,000	2,800,000	11,166,454	11,737,528	—	19,708
	2,800,000	2,800,000	35,206,233	28,364,594	424,341	863,649
Less: amount due within 1 year included under current liabilities	—	—	(3,140,393)	(2,653,339)	(191,562)	(512,640)
	2,800,000	2,800,000	32,065,840	25,711,255	232,779	351,009

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS (Cont'd)

The maturity of long-term loans is as follows (Cont'd):

	The Company			
	Loans from		Bank loans	
	Huaneng Group		Bank loans	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
1 year or less	—	—	1,085,447	1,005,555
More than 1 year but not more than 2 years	—	—	1,065,447	1,105,555
More than 2 years but not more than 3 years	—	—	3,912,447	1,085,555
More than 3 years but not more than 4 years	—	—	1,748,697	1,205,555
More than 4 years but not more than 5 years	—	—	600,447	1,587,574
More than 5 years	2,000,000	2,000,000	1,855,416	2,491,221
	2,000,000	2,000,000	10,267,901	8,481,015
Less: Amount due within 1 year included under current liabilities	—	—	(1,085,447)	(1,005,555)
	2,000,000	2,000,000	9,182,454	7,475,460

The analysis of the above is as follows:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Loans from Huaneng Group				
– Not wholly repayable within five years	2,800,000	2,800,000	2,000,000	2,000,000
Bank loans				
– Wholly repayable within five years	19,307,871	8,429,132	6,715,074	2,887,018
– Not wholly repayable within five years	15,898,362	19,935,462	3,552,827	5,593,997
	35,206,233	28,364,594	10,267,901	8,481,015
Other loans				
– Wholly repayable within five years	424,341	686,265	—	—
– Not wholly repayable within five years	—	177,384	—	—
	424,341	863,649	—	—

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

23. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Accounts and notes payable	2,037,447	1,231,162	1,334,156	700,757
Amounts received in advance	1,207,776	1,196,352	1,207,776	1,196,352
Payable to contractors for construction	2,993,257	2,430,133	1,367,048	1,079,947
Other payables to contractors	914,856	778,488	171,957	113,609
Accrued interest	195,643	197,637	119,864	123,936
Others	1,026,726	1,071,468	517,295	419,841
	8,375,705	6,905,240	4,718,096	3,634,442

As at 31st December, 2006, balances of accounts payable and other liabilities include accrued interest to Huaneng Finance and Huaneng Group amounting to approximately RMB7.6 million and RMB10 million (2005: RMB13.6 million and RMB10 million) respectively.

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Accounts and notes payable				
Within 1 year	2,028,121	1,223,004	1,330,927	696,921
Between 1 to 2 years	6,170	4,227	2,346	2,921
Over 2 years	3,156	3,931	883	915
Subtotal	2,037,447	1,231,162	1,334,156	700,757
Amounts due to other related parties of trading in nature				
Within 1 year	38,336	29,093	20,952	14,918
Over 2 years	108	—	108	—
Subtotal	38,444	29,093	21,060	14,918
Total	2,075,891	1,260,255	1,355,216	715,675

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

24. TAXES PAYABLE

Taxes payable comprises:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
VAT payable	718,602	576,488	412,535	290,200
Income tax payable	373,573	458,982	234,473	194,492
Others	88,143	95,814	18,014	22,291
	1,180,318	1,131,284	665,022	506,983

25. SHORT-TERM BONDS

The Company and its subsidiaries repaid RMB500 million and RMB4.5 billion unsecured short-term zero-coupon bonds at par in February 2006 and 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 in May 2006 and 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.

26. SHORT-TERM LOANS

Short-term loans denominated in RMB are unsecured, bear interest from 4.30% to 5.51% per annum for the year ended 31st December, 2006 (2005: 4.30% to 5.76% per annum).

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

27. DEFERRED INCOME TAXES

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Deferred income tax assets:				
– Deferred income tax assets to be recovered after more than 12 months	34,501	51,874	12,068	12,640
– Deferred income tax assets to be recovered within 12 months	63,928	12,201	36,248	621
	98,429	64,075	48,316	13,261
Deferred income tax liabilities:				
– Deferred income tax liabilities to be recovered after more than 12 months	(945,193)	(1,056,412)	(316,147)	(297,475)
– Deferred income tax liabilities to be recovered within 12 months	(133,704)	(101,363)	(53,471)	(38,966)
	(1,078,897)	(1,157,775)	(369,618)	(336,441)
	(980,468)	(1,093,700)	(321,302)	(323,180)

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Beginning of the year	(1,093,700)	(671,729)	(323,180)	(225,321)
Acquisitions	—	(370,730)	—	—
Credited to the income statement (Note 30)	177,062	61,164	65,708	14,546
Charged directly to equity	(63,830)	(112,405)	(63,830)	(112,405)
End of the year	(980,468)	(1,093,700)	(321,302)	(323,180)

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

27. DEFERRED INCOME TAXES (Cont'd)

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

Deferred income tax assets:

	The Company and its subsidiaries							The Company						
	Amortization		Staff	Provision for		Accrued	Others	Amortization		Provision for		Accrued	Others	Total
	of land	impairment		losses	Depreciation			expenses	of land	Staff	impairment			
use rights		benefits				Total	use rights	benefits	Depreciation	losses	expenses			
As at 1st January, 2005	10,812	61,176	18,051	—	—	7,500	97,539	10,812	1,724	—	—	—	—	12,536
Acquisitions	—	20,942	—	—	—	12,533	33,475	—	—	—	—	—	—	—
(Charged)/Credited to the income statement	(221)	(13,466)	(4,085)	—	—	39,240	21,468	(221)	(334)	—	—	—	1,280	725
As at 31st December, 2005	10,591	68,652	13,966	—	—	59,273	152,482	10,591	1,390	—	—	—	1,280	13,261
(Charged)/Credited to the income statement	(221)	10,027	26,195	33,164	6,449	(14,859)	60,755	(221)	17,996	18,215	13,507	4,153	4,928	58,578
As at 31st December, 2006	10,370	78,679	40,161	33,164	6,449	44,414	213,237	10,370	19,386	18,215	13,507	4,153	6,208	71,839

Deferred income tax liabilities:

	The Company and its subsidiaries						The Company					
	Fair value	Amortization		Depreciation	Others	Total	Fair value	Amortization		Depreciation	Others	Total
		gains	negative					of land	gains			
		goodwill	use rights					goodwill				
As at 1st January, 2005	—	(222,551)	(53,172)	(493,545)	—	(769,268)	—	(222,551)	(15,306)	—	—	(237,857)
Acquisitions	—	—	—	(404,205)	—	(404,205)	—	—	—	—	—	—
(Charged)/Credited to the income statement	—	36,330	358	10,372	(7,364)	39,696	—	36,330	(15,145)	(7,364)	—	13,821
Charged directly to equity	(112,405)	—	—	—	—	(112,405)	(112,405)	—	—	—	—	(112,405)
As at 31st December, 2005	(112,405)	(186,221)	(52,814)	(887,378)	(7,364)	(1,246,182)	(112,405)	(186,221)	(30,451)	(7,364)	—	(336,441)
(Charged)/Credited to the income statement	(15,027)	36,528	(5,405)	100,211	—	116,307	(15,027)	36,528	(14,371)	—	—	7,130
Charged directly to equity	(63,830)	—	—	—	—	(63,830)	(63,830)	—	—	—	—	(63,830)
As at 31st December, 2006	(191,262)	(149,693)	(58,219)	(787,167)	(7,364)	(1,193,705)	(191,262)	(149,693)	(44,822)	(7,364)	—	(393,141)

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

27. DEFERRED INCOME TAXES *(Cont'd)*

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

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Year of expiry				
2006	N/A	177,197	N/A	177,197
2007	71,125	71,125	71,125	71,125
2008	—	—	—	—
2009	12,970	12,970	12,970	12,970
2010	183,127	183,127	183,127	183,127
2011	176,934	N/A	150,686	N/A
	444,156	444,419	417,908	444,419

28. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEETS

As at 31st December, 2006, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB13,278 million (2005: RMB11,044 million). On the same date, total assets less current liabilities was approximately RMB87,096 million (2005: RMB76,333 million).

As at 31st December, 2006, the net current liabilities of the Company amounted to approximately RMB7,919 million (2005: RMB5,835 million). On the same date, total assets less current liabilities was approximately RMB52,695 million (2005: RMB48,236 million).

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

29. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at 7% - 15% (2005: 7% - 15%) of the specified salary amount of the PRC employees. At the same time, the employees are required to make contributions out of their payroll equal to the contributions of the Company and its subsidiaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31st December, 2006, the Company and its subsidiaries contributed approximately RMB198 million (2005: RMB147 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees and is recorded as other non-current assets and amortized over the remaining average service life of the relevant employees which is estimated to be approximately 10 years. For the year ended 31st December, 2006, the housing benefits being amortized by the Company and its subsidiaries to the employees amounted to approximately RMB39 million (2005: RMB39 million).

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

30. INCOME TAX EXPENSE

Income tax expense comprised:

	For the year ended	
	31st December,	
	2006	2005
Current income tax expense	1,304,761	1,105,461
Deferred income tax (Note 27)	(177,062)	(61,164)
	1,127,699	1,044,297

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

30. INCOME TAX EXPENSE (Cont'd)

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (2005: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

	For the year ended	
	31st December,	
	2006	2005
Average statutory tax rate	19.73%	20.83%
Effect of tax holiday	(4.60%)	(3.84%)
Others	(1.06%)	(1.15%)
Effective tax rate	14.07%	15.84%

The average statutory tax rate for the years ended 31st December, 2005 and 2006 represented the weighted average tax rate of the Company and its subsidiaries calculated on the basis of the relative amounts of profit before tax and the applicable statutory tax rates.

The aggregated effect of the tax holiday was approximately RMB369 million for the year ended 31st December, 2006 (2005: RMB255 million).

31. 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 RMB6,071 million (2005: approximately RMB4,872 million) and the weighted average number of approximately 12,055 million (2005: 12,055 million) outstanding ordinary shares during the year.

There was no dilutive effect on earnings per share since the Company had no dilutive potential ordinary shares for the years ended 31st December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31st December, 2006
 (Prepared in accordance with International Financial Reporting Standards)
 (Amounts expressed in thousands of RMB unless otherwise stated)

32. NOTES TO CASH FLOW STATEMENT

(a) Analysis of cash and cash equivalents

Cash and cash equivalents consisted of:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Cash in RMB	1,327	1,042	326	412
Current deposits				
RMB	3,203,712	2,632,493	1,430,851	699,022
US\$ (RMB equivalent)	2,153	14,130	1,988	13,962
Total cash and cash equivalents	3,207,192	2,647,665	1,433,165	713,396

(b) Undrawn borrowing facilities

As at 31st December, 2006, the Company and its subsidiaries had undrawn unsecured borrowing facilities amounting to approximately RMB25.61 billion (2005: RMB22.57 billion). Management expects to drawdown the available facilities in accordance with the level of working capital and/or planned capital expenditure of the Company and its subsidiaries.

(c) Non-cash transactions

There is no material non-cash transaction for the years ended 31st December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

33. PLEDGE OF ASSETS

As mentioned in Note 22, the Company and its subsidiaries have pledged various assets as collateral against certain loans. A summary of the pledged assets is as follows:

	As at 31st December, 2006	As at 31st December, 2005
Dongxiguan Hydropower		
– Dam	—	383,423
– Buildings	—	1,933
– Electric utility plant in service	—	190,306
– Others	—	10,485
Kangding Hydropower		
– Electric utility plant in service	—	26,798
Mingtai Hydropower		
– Electric utility plant in service	48,976	54,394
Total	48,976	667,339

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

34. COMMITMENTS

(a) Capital and operational commitments

- (i) Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Details of such commitments are as follows:

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Contracted but not provided for				
– purchase of inventories	2,829,393	—	2,484,723	—
– construction	14,558,971	17,076,451	9,310,116	12,323,448
Sub-total	17,388,364	17,076,451	11,794,839	12,323,448
Authorized but not contracted for				
– purchase of inventories	531,360	—	531,360	—
– construction	2,166,046	11,983	2,166,046	10,810
Sub-total	2,697,406	11,983	2,697,406	10,810
Total	20,085,770	17,088,434	14,492,245	12,334,258

- (ii) In addition, from 2004 to 2006, the Company also 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 years ended 31st December, 2006 and 2005 were approximately RMB5,701 million and RMB4,619 million respectively. The future purchase commitments under the above agreements are as follows:

	As at 31st December,	
	2006	2005
2006	N/A	7,771,230
2007	9,457,131	7,771,230
2008	5,512,180	3,826,281
2009	5,512,180	3,826,281
	20,481,491	23,195,022

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

34. COMMITMENTS (Cont'd)

(b) Operating lease commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 7(b)). Some of the leases contain renewal options and most of the leases contain escalation clauses. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debts or further leasing.

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

	As at 31st December,	
	2006	2005
Land and buildings		
– not later than one year	29,254	33,495
– later than one year and not later than two years	3,253	7,372
– later than two years and not later than five years	9,760	19,639
– later than five years	111,138	138,058
	153,405	198,564

In addition, in accordance with a 30-year operating lease agreement signed by Huaneng Dezhou Power Plant ("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 RMB30 million 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. For the year ended 31st December, 2006 and 2005, the annual rental were approximately RMB30 million and RMB30 million respectively.

35. FINANCIAL GUARANTEES

	The Company and its subsidiaries		The Company	
	As at 31st December,		As at 31st December,	
	2006	2005	2006	2005
Financial guarantees				
– granted to an associate	123,250	225,250	123,250	225,250
– granted to subsidiaries	—	—	—	1,352,000
	123,250	225,250	123,250	1,577,250

Notes to the Financial Statements

For the year ended 31st December, 2006
(Prepared in accordance with International Financial Reporting Standards)
(Amounts expressed in thousands of RMB unless otherwise stated)

35. FINANCIAL GUARANTEES *(Cont'd)*

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

36. BUSINESS RISK

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

For the year ended 31st December, 2006, the Company and its subsidiaries sold electricity to three major customers (2005: four), each of which amount to approximately 10% or more of the operating revenue. In aggregation, these customers accounted for approximately 45% (2005: approximately 57%) of the operating revenue of the Company and its subsidiaries.

37. EVENT AFTER THE BALANCE SHEET DATE

In March 2007, the Chinese government promulgated the Corporate Income Tax Law which will be effective from 1st January, 2008. The Corporate Income Tax Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprise. The existing Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the People's Republic of China on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the power plants of the Company and its subsidiaries applied the tax rates under the existing tax laws. The Corporate Income Tax Law has provided of a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years. As there are still no detailed implementation rulings released, the Company will continue to assess the impact of such new law in the future.

In January 2007, Huaneng Group injected an additional capital of RMB615 million in Sichuan Hydropower, thus increasing its direct equity interest in Sichuan Hydropower to 51% from 40%. The Company's equity interest in Sichuan Hydropower is diluted to 49% from 60%. As Sichuan Hydropower is controlled by Huaneng Group, its financial statements will no longer be consolidated into the Company's financial statements starting from 2007. In addition, the Company also acquired 5% additional equity interest in Qinbei Power Company for a consideration of RMB65.75 million from Huaneng Group. As a result of the acquisition, the Company held 60% of equity interest in Qinbei Power Company.