

Notes to the Financial Statements

For the year ended 31st December 2006
(Prepared in accordance with PRC Accounting Standards)
(All amounts are stated in RMB Yuan unless otherwise stated)

1. COMPANY BACKGROUND

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

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

Five of the power plants had already been in commercial operations at time of incorporation of the Company in 1994 (hereinafter collectively referred to as the “five original operating plants”). The five original operating plants were previously under Huaneng International Power Development Corporation (“HIPDC”), a Sino-foreign equity joint venture established in the PRC. In accordance with the reorganization agreement dated 30th June 1994, the Company acquired the assets, liabilities and businesses of the five original operating plants from HIPDC which in return received an equity interest in the Company (the “Reorganization”). After the Reorganization, the Company continues to construct or acquire other operating plants.

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

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

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

(1) Basis of preparation

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

(2) Fiscal year

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

(3) Reporting currency

The Company and its subsidiaries use the Renminbi (“RMB”) as reporting currency.

(4) Basis of accounting and measurement bases

The Company and its subsidiaries apply accrual method as the basis of accounting. Assets are initially recorded at their costs, except the fixed assets obtained upon the Reorganization were initially recorded at their appraisal value approved by relevant stated-owned assets administration authorities; if they are subsequently impaired, provision for impairment is made accordingly.

(5) Foreign currency translation

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

(6) Cash and cash equivalents

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

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

(7) Receivables and provision for bad debts

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

Based on the assessment of the collectibility of the receivables, the Company and its subsidiaries provided bad debts on those receivables with difficulties in collection after considering the actual circumstances and historical experience.

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

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

(8) Inventories

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

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

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

The Company and its subsidiaries use perpetual inventory system.

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

(9) Long-term investments

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

(a) *Equity investments*

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

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

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

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

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

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

(b) Debt investments

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

(c) Impairment of long-term investments

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

When there is an indicator that the attributes of an impairment provision recording in prior year change, contributing to recoverable amount larger than its carrying amount, the provision for impairment is reversed to the extent of provision made in prior years.

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

(10) Fixed assets and depreciation

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

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

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

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

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

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

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

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

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

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

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

(11) Construction-in-progress

Construction-in-progress represents fixed assets under construction or installation, which is recorded at the actual cost. Cost comprises construction and other direct costs, original cost of machinery and equipment, installation and those borrowing costs arising from specific borrowings for the purpose of preparing the assets for their intended use. Construction-in-progress is transferred to the fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

Individual construction-in-progress for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its subsidiaries will perform impairment test on such assets. If the carrying amount of such assets is higher than recoverable amount, the excess is recognized as an impairment loss. If there is any indication showing those factors that led to impairment provision in prior years changes, which the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent impairment recognized in prior years.

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

(12) Intangible assets and amortization

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

(a) Land use rights

Land use rights acquired through payments of land use fees, are initially recorded at cost and amortized using the straight-line method over the land use rights period of 20 to 70 years. Effective from 1st January 2001, when construction takes place on the land and the construction is for the own use of the Company and its subsidiaries, the carrying amount of the land use rights is transferred into the construction-in-progress account. Land use rights acquired prior to 1st January 2001 and being used in construction projects remain presenting in intangible assets and are not reclassified.

(b) Goodwill and negative goodwill

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

(c) Intangible assets provision

Individual intangible assets for which there are indications or changes in circumstances showing that the carrying amounts are higher than their recoverable amounts, the Company and its subsidiaries will perform impairment test on such assets. If the carrying amount of such assets is higher than its recoverable amount, the excess is recognized as an impairment loss. If there is any indication showing those factors that led to impairment provision in prior years changes, which the recoverable amount of the assets becomes larger than its carrying amount, the provision for impairment is reversed to the extent impairment recognized in prior years. The carrying amount of the intangible assets upon impairment reversal do not exceed the carrying amount that would have been determined had no impairment loss been recognized for the intangible assets in prior years.

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

(13) Long-term deferred expenses

Long-term deferred expenses represent deferred expenses with amortization period over one year (excluding one year). Such expenses are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

(14) Share floating right

Share floating right accounts for the various consideration paid for obtaining the floating right of non-tradable shares in a stock exchange. As the holder of non-tradable shares, the Company obtained such a right through cash payment and the cash consideration is recognized as share floating right. In the case of obtaining such a right through giving away of shares, the Company, who accounts for such an investment using cost method, reclassifies the costs of disposed shares to share floating right. No provision is made for this account and such a right will be proportionately transferred to the profit and loss account upon disposal.

(15) Borrowing costs

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

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

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

(16) Provisions

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

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

(17) Short-term bonds

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

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

(18) Employee social security benefits

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

According to the relevant regulations, the premiums and housing fund contributions that should be borne by the Company and its subsidiaries are calculated based on certain percentages of the total salary of employees or on other basis, subject to caps. Contributions to the plans are charged to the cost of principal operations or general and administration expenses as incurred.

(19) Dividends appropriation

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

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

(20) Revenue recognition

Revenue is recognized under the following methods:

(a) Revenue from principal operations

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

(b) Management service income

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

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

Interest income from deposits is recognized on a time proportion basis that reflects the effective yield on the deposits.

Subsidies are recognized when received.

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

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

(21) Leases

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

(22) Accounting for income tax

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

(23) Consolidation of financial statements

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

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

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

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

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3. TAXATION

(1) VAT

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

(2) Income tax

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

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Income tax rate	Tax holiday period
Head Office	15.0%	None
Huaneng Dalian Power Plant (“Dalian Power Plant”)*	18.0%	Till 31st December 1994
Huaneng Dalian Power Plant Phase II (“Dalian Power Plant Phase II”)*	18.0%	Till 31st December 2006
Huaneng Shang’an Power Plant (“Shang’an Power Plant”)*	18.0%	Till 31st December 1996
Huaneng Shang’an Power Plant Phase II (“Shang’an Power Plant Phase II”)*	18.0%	Till 31st December 2003
Huaneng Nantong Power Plant (“Nantong Power Plant”)*	15.0%	Till 31st December 1996
Huaneng Nantong Power Plant Phase II (“Nantong Power Plant Phase II”)*	15.0%	Till 31st December 2007
Huaneng Fuzhou Power Plant (“Fuzhou Power Plant”)*	15.0%	Till 31st December 1995
Huaneng Fuzhou Power Plant Phase II (“Fuzhou Power Plant Phase II”)*	15.0%	Till 31st December 2007
Huaneng Shantou Oil-Fired Plant (“Shantou Oil-Fired Power Plant”)*	15.0%	Till 31st December 1994
Huaneng Shantou Coal-Fired Power Plant (“Shantou Power Plant”)*	18.0%	Till 31st December 2006
Huaneng Shantou Coal-Fired Power Plant Phase II (“Shantou Power Plant Phase II”)*	18.0%	Till 31st December 2010
Huaneng Shanghai Shidongkou II Power Plant (“Shidongkou II Power Plant”)*	16.5%	Till 31st December 1998
Huaneng Dandong Power Plant (“Dandong Power Plant”)*	18.0%	Not commenced yet
Huaneng Nanjing Power Plant (“Nanjing Power Plant”)*	15.0%	Till 31st December 2004
Shandong Branch	17.0%	None
Huaneng Dezhou Power Plant (“Dezhou Power Plant”)	17.0%	None
Huaneng Jining Power Plant (“Jining Power Plant”)	15.0%	None
Huaneng Changxing Power Plant (“Changxing Power Plant”)	16.5%	None
Huaneng Shanghai Shidongkou I Power Plant (“Shidongkou I Power Plant”)	18.0%	None
Huaneng Xindian Power Plant (“Xindian Power Plant”)	15.0%	None
Huaneng Yingkou Power Plant (“Yingkou Power Plant”)*	18.0%	Till 31st December 2009
Huaneng Jinggangshan Power Plant (“Jinggangshan Power Plant”)*	15.0%	Till 31st December 2008
Huaneng Weihai Power Limited Liability Company (“Weihai Power Company”)	33.0%	None
Huaneng (Suzhou Industrial Park) Power Generation Co., Ltd. (“Taicang Power Company”)	33.0%	None
Huaneng Taicang Power Co., Ltd. (“Taicang II Power Company”)	33.0%	None

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

	Income tax rate	Tax holiday period
Huaneng Huaiyin Power Generation Co. Ltd. ("Huaiyin Power Company")	33.0%	None
Huaneng Huaiyin II Power Limited Company ("Huaiyin II Power Company")	33.0%	None
Huaneng Yushe Power Generation Co., Ltd. ("Yushe Power Company")	33.0%	None
Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")	33.0%	None
Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company")*	15.0%	Till 31st December 2007
Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company")	33.0%	None
Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company")	33.0%	Till 31st December 2010
Sichuan Huaneng Taipingyi Hydropower Limited Liability Company ("Taipingyi Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng BaoXing River Power Co. Ltd. ("Baoxinghe Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company ("Dongxiguan Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Kangding Hydroelectric Power Co., Ltd. ("Kangding Hydropower")	33.0%	Till 31st December 2010
Huaneng Mingtai Power Limited Liability Company ("Mingtai Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Fujiang Hydropower Limited Liability Company ("Fujiang Hydropower")	33.0%	Till 31st December 2010
Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company ("Jialingjiang Hydropower")	33.0%	Till 31st December 2010
Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower")	33.0%	None
Huaneng Shanghai Combined Cycle Power Limited Liability Company ("Shanghai Combined Cycle Power Company")	33.0%	None
Huadong Branch	15.0%	None
Dongbei Branch	15.0%	None
Huaneng Yuhuan Power Plant ("Yuhuan Power Plant")	15.0%	Till 31st December 2011
Huaneng Xindian Power Co., Ltd. ("Xindian II Power Company")	33.0%	None

* According to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", these power plants are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction of the applicable tax rates for the next three years.

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

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

	Approved File No.	2006	2005
Head Office (Note 1)	Guo Shui Han [1997]368	—	—
Dalian Power Plant	Guo Shui Han [1994]381	18.0%	18.0%
Dalian Power Plant Phase II (Note 2)	Guo Shui Zhi Shui Han [2004]12 & Guo Shui Da Zhi Shui Han [2005]017	10.0%	10.0%
Shang'an Power Plant	Guo Shui Han [1994]381 & Guo Shui Han [1999]604	18.0%	18.0%
Shang'an Power Plant Phase II	Guo Shui Han [1994]381 & Guo Shui Han [2000]194	18.0%	18.0%
Nantong Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Nantong Power Plant Phase II (Note 3)	Tong Guo Shui Wai Zi [2005]1	10.0%	10.0%
Fuzhou Power Plant	Guo Shui Han [1994]381	15.0%	15.0%
Fuzhou Power Plant Phase II (Note 4)	Chang Guo Shui Han [2005]2	10.0%	10.0%
Shantou Oil-Fired Plant (Note 1)	Guo Shui Han [1994]381	—	—
Shantou Power Plant (Note 5)	Shan Guo Shui Zhi Han [2006]004	15.0%	10.0%
Shantou Power Plant Phase II (Note 6)	Shan Guo Shui Zhi Han [2006]014	—	18.0%
Shidongkou II Power Plant	Approved by Shanghai Tax Bureau Shewai Branch	16.5%	16.5%
Dandong Power Plant (Note 7)	Dan Guo Shui She Wai [1999]7	—	—
Nanjing Power Plant	Guo Shui Wai Zi [1997]039	15.0%	15.0%
Shandong Branch (Note 1)	Guo Shui Han [2001]866	—	—
Dezhou Power Plant	Guo Shui Han [2001]866	17.0%	17.0%
Jining Power Plant	Guo Shui Han [2002]1063 & Ji Guo Shui Han [2003]1	15.0%	15.0%
Changxing Power Plant	Guo Shui Han [2002]1030	16.5%	16.5%
Shidongkou I Power Plant	Hu Guo Shui Ba Shui [2003]31	18.0%	18.0%
Xindian Power Plant (Note 8)	Lin Guo Shui Han [2004]123	15.0%	15.0%
Yingkou Power Plant (Note 9)	Approved by New Economic Technology Development Zone Branch of Yingkou State Tax Bureau	—	—
Jinggangshan Power Plant (Note 10)	Ji An Shi Guo Shui Zhong Qi Fa [2004]20	7.5%	—
Weihai Power Company	Not applicable	33.0%	33.0%
Taicang Power Company	Not applicable	33.0%	33.0%
Taicang II Power Company (Note 11)	Not applicable	33.0%	N/A
Huaiyin Power Company	Not applicable	33.0%	33.0%
Huaiyin II Power Company	Not applicable	33.0%	33.0%
Yushe Power Company	Not applicable	33.0%	33.0%
Yueyang Power Company	Not applicable	33.0%	33.0%

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

	Approved File No.	2006	2005
Luohuang Power Company (Note 12)	Approved by Chongqing State Tax Bureau Shewai Branch	7.5%	7.5%
Qinbei Power Company	Not applicable	33.0%	33.0%
Pingliang Power Company (Note 13)	Guo Shui Fa [2002]47	15.0%	15.0%
Taipingyi Hydropower (Note 13)	Guo Shui Fa [2002]47	15.0%	15.0%
Baoxinghe Hydropower (Note 13)	Guo Shui Fa [2002]47	15.0%	15.0%
Dongxiguan Hydropower (Note 13)	Guo Shui Fa [2002]47	15.0%	15.0%
Kangding Hydropower (Notes 13, 14)	Guo Shui Fa [2002]47	15.0%	7.5%
Mingtai Hydropower (Notes 1, 13)	Guo Shui Fa [2002]47	—	—
Fujian Hydropower (Notes 13, 14)	Guo Shui Fa [2002]47 & Ping Guo Shui Han [2006]38	—	—
Jialingjiang Hydropower (Note 13)	Guo Shui Fa [2002]47	15.0%	15.0%
Sichuan Hydropower (Note 1)	Not applicable	—	—
Shanghai Combined Cycle Power Company (Note 15)	Not applicable	33.0%	N/A
Huadong Branch (Note 1)	Not applicable	—	—
Dongbei Branch (Note 1)	Not applicable	—	—
Yuhuan Power Plant (Note 16)	Not applicable	33.0%	N/A
Xindian II Power Company (Note 17)	Not applicable	33.0%	N/A

Note:

- (1) These entities encountered a tax-loss in 2006 and 2005, their effective income tax rates are zero.
- (2) In accordance with Guo Shui Zhi Shui Han [2004]12, Dalian Power Plant Phase II can exercise the tax holiday separately and is granted an exemption of local income tax of 3% from 1st January 1999 to 31st December 2008. Meanwhile, pursuant to Guo Shui Da Zhi Shui Han [2005]17, Dalian Power Plant Phase II is also qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to preferential tax treatment with applicable income tax rate of 10% from 1st January 2005 to 31st December 2006.
- (3) In accordance with Tong Guo Shui Wai Zi [2005]1, Nantong Power Plant Phase II is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to preferential tax treatment from 1st January 2005 to 31st December 2007 of 10%.
- (4) In accordance with Chang Guo Shui Han [2005]2, Fuzhou Power Plant Phase II is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to preferential tax treatment from 1st January 2005 to 31st December 2007 of 10%.
- (5) In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated 16th January 2003, Shantou Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from 1st January 2003 to 31st December 2005. The applicable tax rate during the extension period was 10%. Pursuant to Shan Guo Shui Zhi Han [2006]4, Shantou Power Plant is granted an exemption of local income tax from 1st January 2006 to 31st December 2006. The applicable income tax rate during this year is 15%.

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3. TAXATION (Cont'd)

(2) Income tax (Cont'd)

- (6) In accordance with Shan Guo Shui Zhi Han [2006]014, Shantou Power Plant Phase II enjoys tax holiday from 1st January 2006 to 31st December 2010 with income tax exemption for the first two years and 50% tax rate deduction for the three years thereafter.
- (7) This plant has not finished offsetting accumulated loss, so the tax rate is zero. The tax holiday of Dandong Power Plant has not commenced yet.
- (8) In accordance with Lin Guo Shui Han [2004]123, Xindian Power Plant is entitled to the preferential tax treatment applicable to Sino-foreign enterprises investing in energy industry at a reduced income tax rate of 15%.
- (9) Yingkou Power Plant is exempted from income tax for it is in the second profit-making year after offsetting all tax losses carried forward from the previous years.
- (10) In accordance with Ji An Shi Guo Shui Zhong Qi Fa [2004]20, Jinggangshan Power Plant is entitled to a tax holiday with income tax exempted from 1st July 2004 to 31st December 2005 following by a 50% reduction of the applicable tax rate from 1st January 2006 to 31st December 2008 for 7.5%.
- (11) Not applicable in 2005 as the two generators of Taicang II Power Company commenced commercial operations from January and February 2006 respectively.
- (12) In accordance with the approval from Chongqing State Tax Bureau Shewai Branch, Luohuang Power Company is entitled to a tax holiday from 1st January 2003 to 31st December 2007 with income tax exemption for the first two years and 50% tax rate for the three years thereafter. The applicable income tax rate is 7.5% for 2005 and 2006.
- (13) In accordance with Guo Shui Fa [2002]47 "The announcement about the opinion of carrying out specific taxation implementation according to West Development Policy" issued by the State Tax Bureau and the approval of the relevant local tax bureaux, these plants are entitled to a 15% income tax rate from 1st January 2001 to 31st December 2010.
- (14) In accordance with Guo Shui Fa [2002]47 "The announcement about the opinion of carrying out specific taxation implementation according to West Development Policy" issued by the State Tax Bureau, the newly founded domestic electricity enterprises in West region are entitled to tax holiday of full income tax exemption for the first two years and a reduced 50% tax rate for the three years thereafter.

Kangding Hydropower is in the fifth year of the above-mentioned tax holiday. The applicable income tax rate was 7.5% in 2005 and becomes 15% in 2006. In accordance with Ping Guo Shui Han [2006]38, Fujiang Hydropower is entitled the above-mentioned tax holiday from 1st January 2005 and so it is exempted from income tax during this year.
- (15) Not applicable in 2005 as the three generators of Shanghai Combined Cycle Power Company commenced commercial operations from May, June and July 2006 respectively.
- (16) Not applicable in 2005 as the two generators of Yuhuan Power Plant Phase I commenced commercial operations from November and December 2006 respectively.
- (17) Not applicable in 2005 as the two generators of Xindian II Power Company Phase III commenced commercial operations from August and November 2006 respectively.

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4. SUBSIDIARIES

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

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company and its subsidiaries	Percentage of equity interest held by the Company		Included in consolidated financial statements
					Direct	Indirect	
Weihai Power Company	No. 58 Haibu Road, Weihai Economic Development Zone, Shandong Province 22nd November 1993	RMB761,838,300	Power generation	RMB474,038,793	60%	—	Yes
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu Province 19th June 1997	RMB632,840,000	Power generation	RMB661,293,633	75%	—	Yes
Taicang II Power Company	Jinlanggang Village, Fuqiao Town, Taicang, Jiangsu Province 18th June 2004	RMB894,410,000	Power generation	RMB603,110,000	75%	—	Yes
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu Province 26th January 1995	RMB265,000,000	Power generation	RMB693,399,531	90%	—	Yes
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu Province 22nd June 2004	RMB774,000,000	Power generation	RMB572,573,600	63.64%	—	Yes
Qinbei Power Company	Wulongkou Town, Jiyuan City, Henan Province 12th July 1995	RMB810,000,000	Power generation	RMB597,816,956	55%	—	Yes
Yushe Power Company	Yushe County, Shanxi Province 29th November 1994	RMB615,760,000	Power generation	RMB380,385,896	60%	—	Yes
Xindian II Power Company	Qilu Chemical Industrial Park, Linzi District, Zibo, Shandong Province 24th March 2004	RMB100,000,000	Power generation	RMB401,100,000	95%	—	Yes
Yueyang Power Company	ChengLingji, Yueyang, Hunan Province 16th December 2003	RMB1,055,000,000	Power generation	RMB866,701,197	55%	—	Yes
Luohuang Power Company	Luohuang Town, JiangJin City, ChongQing 16th December 2003	RMB1,291,650,000	Power generation	RMB1,844,301,221	60%	—	Yes
Shanghai Combined Cycle Power Company	No. 298 Shengshi Road, Baoshan District, Shanghai 13th January 2005	RMB685,800,000	Power generation	RMB480,060,000	70%	—	Yes

Notes to the Financial Statements

For the year ended 31st December 2006
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4. SUBSIDIARIES (Cont'd)

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company and its subsidiaries	Percentage of equity interest held by the Company		Included in consolidated financial statements
					Direct	Indirect	
Sichuan Hydropower	No. 47 Division 4 Renmin South Road, Wuhou District, Chengdu, Sichuan Province 12th July 2004	RMB800,000,000	Development, investment, construction, operation and management of hydropower projects	RMB1,219,000,000	60%	—	Yes
Baoxinghe Hydropower	No. 18 Yanjiang North Road, Ya'an, Sichuan Province 26th June 1994	RMB516,100,000	Power generation	RMB591,668,000	—	68%	Yes
Dongxiguan Hydropower	Li'an Town, Wusheng County, Sichuan Province 29th June 1994	RMB156,725,000	Power generation	RMB101,415,900	—	59.33%	Yes
Taipingyi Hydropower	Yingxiu Town, Wenchuan County, Sichuan Province 23rd April 1994	RMB100,000,000	Power generation	RMB60,000,000	—	60%	Yes
Kangding Hydropower	Yuanyang Dam, Kangding County, Ganzi, Sichuan Province 14th April 1997	RMB194,000,000	Power generation	RMB212,400,000	—	60%	Yes
Mingtai Hydropower	Donghe Road, Beiba Development Zone, Santai County, Sichuan Province 8th September 1994	RMB97,700,000	Power generation	RMB50,999,400	—	52.20%	Yes
Jialingjiang Hydropower	No. 189 Liulin Road, Shunqing District, Nanchong City, Sichuan Province 30th September 1998	RMB193,080,000	Power generation	RMB106,194,000	—	55%	Yes
Fujiang Hydropower	Baima Village, Pingwu County, Sichuan Province 22nd March 2002	RMB150,000,000	Power generation	RMB185,060,000	—	95%	Yes
Pingliang Power Company	No. 7 Binhe Middle Road, Qilihe District, Lanzhou, Gansu Province 6th November 1996	RMB924,050,000	Power generation	RMB816,041,516	65%	—	Yes

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash

	31st December 2006			31st December 2005		
	Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash - RMB			1,327,455			1,042,022
Bank deposits - RMB			3,248,047,314			2,689,625,707
- USD	20,705,102	7.8087	161,679,933	19,940,669	8.0702	160,925,226
- Japanese yen	331	0.0656	22	331	0.0687	23
Sub-total			3,409,727,269			2,850,550,956
Total cash			3,411,054,724			2,851,592,978

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

	31st December 2006
Cash	3,411,054,724
Less: Restricted cash	(203,863,185)
Cash as at 31st December 2006	3,207,191,539
Less: Cash as at 31st December 2005	(2,647,665,997)
Net increase in cash	559,525,542

Please refer to Note 7(6) for cash deposits in a related party.

(2) Notes receivable

	31st December 2006	31st December 2005
Banking notes receivable	663,640,852	519,813,416
Commercial notes receivable	132,150,000	597,720,000
	795,790,852	1,117,533,416

As at 31st December 2006, all the notes receivable of the Company and its subsidiaries were unsecured notes receivable.

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

(3) Accounts receivable and other receivables

(a) Accounts receivable

	31st December 2006	31st December 2005
Accounts receivable	6,433,474,290	5,214,902,662
Less: Bad debt provision	(251,772,403)	(310,010,050)
	6,181,701,887	4,904,892,612

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

Aging	31st December 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	5,922,048,374	92	—	4,750,343,935	91	—
1-2 years	112,370,835	2	—	51,554,429	1	(10,000,000)
2-3 years	51,554,429	1	(10,000,000)	7,447,181	—	(1,243,990)
Over 3 years*	347,500,652	5	(241,772,403)	405,557,117	8	(298,766,060)
	6,433,474,290	100	(251,772,403)	5,214,902,662	100	(310,010,050)

* As at 31st December 2006, the major portion of accounts receivable aged over 3 years not fully provided was account receivable of Yueyang Power Company due from local grid company. According to the acquisition agreement between the Company and HIPDC, HIPDC agreed to compensate the Company's equity portion in Yueyang Power Company on any of this receivable that remains uncollected by 31st December 2006. As at 31st December 2006, HIPDC has paid the amount that they guaranteed to the Company. In addition, Yueyang Power Company is in progress of negotiation with local grid company regarding the collection of these receivables. Considering the preliminary outcome of the negotiation and the above acquisition arrangement, the Company and its subsidiaries do not fully provide bad debt provision on these accounts receivable.

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

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

As at 31st December 2006, the five largest accounts receivable of the Company and its subsidiaries amounting to RMB3,848,879,619 (2005: RMB2,876,584,321), representing 59.83% (2005: 55.16%) of the total accounts receivable.

Notes to the Financial Statements

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

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

(b) Other receivables

	31st December 2006	31st December 2005
Other receivables	283,254,479	676,907,866
Less: Bad debt provision	(77,216,691)	(79,134,238)
	206,037,788	597,773,628

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

Aging	31st December 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	152,950,182	54	(1,138,099)	504,005,838	75	(1,889,527)
1-2 years	9,679,066	3	(248,281)	7,480,530	1	(434,830)
2-3 years	3,518,193	1	(28,322)	30,136,018	4	(551,900)
Over 3 years	117,107,038	42	(75,801,989)	135,285,480	20	(76,257,981)
	283,254,479	100	(77,216,691)	676,907,866	100	(79,134,238)

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

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

(b) Other receivables (Cont'd)

Breakdown of other receivables is as follows:

	31st December 2006	31st December 2005
Receivable from Jiangsu Power Grid Company for the construction of transmission facilities	53,310,000	—
Prepayment for acquisition of China Huaneng Finance Corporation Ltd. ("Huaneng Finance")*	—	288,000,000
Receivable from Sichuan Financial Lease Centre	25,500,000	25,500,000
Receivable from Jinbohe Hydropower Station	17,616,971	17,616,971
Current portion of receivable from Sichuan Power Grid Company for transfers of the transmission facilities (Note 5(11))	16,472,726	12,653,495
Receivable from Administration Center of Housing Fund for sales of staff quarters	27,408,042	27,408,042
Staff advances	10,377,245	9,838,541
Receivable from Gansu Guangda Real Estate Company	—	66,800,000
Prepayment of constructions	7,764,611	4,197,500
Others	124,804,884	224,893,317
	283,254,479	676,907,866

* This represented the prepayment of the consideration to Huaneng Group and Huaneng Finance of RMB126 million and RMB162 million respectively to acquire a 20% equity interest in Huaneng Finance. As at 31st December 2005, the investment was still subject to approvals from relevant authorities, and was recorded as an other receivable (see Note 7(5)(p)).

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

At the end of year, the five largest other receivables amounted to RMB127,417,863 (2005: RMB422,637,262), representing 44.98% (2005: 62.44%) of total other receivables.

See Note 7 for related party transactions.

Notes to the Financial Statements

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

(4) Advances to suppliers

	31st December 2006	31st December 2005
Prepayments for coal	253,731,662	142,054,339
Prepayments for materials and spare parts	31,733,504	22,441,393
Prepayments for equipments	74,531,037	73,004,442
Prepayments for contractors	14,211,175	5,810,149
Others	20,053,850	25,295,736
	394,261,228	268,606,059

Aging analysis for advances to suppliers is as follows:

Aging	31st December 2006		31st December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	371,130,368	94	239,576,900	90
1-2 years	6,261,239	2	26,691,042	9
2-3 years	15,452,712	4	1,905,613	1
Over 3 years	1,416,909	—	432,504	—
	394,261,228	100	268,606,059	100

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

Notes to the Financial Statements

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

(5) Inventories

	31st December 2006	31st December 2005
Fuel (coal and oil) for power generation	1,241,838,130	1,498,483,819
Materials and spare parts	929,817,321	861,257,627
	2,171,655,451	2,359,741,446
Less: Provision for inventory obsolescence – spare parts	(50,166,130)	(48,384,680)
	2,121,489,321	2,311,356,766

Provision for inventory obsolescence:

	Spare parts
31st December 2005	(48,384,680)
Current year additions	(4,234,613)
Current year deductions	2,453,163
31st December 2006	(50,166,130)

The cost of inventories recognized as expenses and included in cost of sales amounted to RMB23,036,900,207 in 2006 (2005: RMB21,580,927,262).

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

(6) Long-term investments

	31st December 2005	Current year additions	Current year deductions	31st December 2006
Long-term equity investments				
Consolidated difference in value (a)	1,810,484,726	—	(245,495,375)	1,564,989,351
Associates (b)	3,492,343,731	1,184,160,152	(454,289,956)	4,222,213,927
Equity investments difference (c)	952,396,371	—	(122,946,008)	829,450,363
Other long-term equity investments (d)	228,727,994	—	(92,000)	228,635,994
Less: Provision for impairment on long-term equity investments	(4,950,243)	—	42,000	(4,908,243)
Long-term equity investments	6,479,002,579	1,184,160,152	(822,781,339)	6,840,381,392
Long-term debt investment	53,700	—	(53,700)	—
Total long-term investments	6,479,056,279	1,184,160,152	(822,835,039)	6,840,381,392

As at 31st December 2006 and 31st December 2005, total long-term investments of the Company and its subsidiaries accounted for 16.37% and 16.58% of the consolidated net assets respectively.

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

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

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

(a) Consolidated difference in value

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

Name of investee	Original cost	Amortization period	Accumulated amortization	31st December 2005	Current year amortization	31st December 2006
Taicang Power Company	191,587,073	10 years	(85,248,712)	125,497,068	(19,158,707)	106,338,361
Huaiyin Power Company	211,580,733	10 years	(72,667,024)	160,071,782	(21,158,073)	138,913,709
Qinbei Power Company	96,461,357	10 years	(30,546,097)	75,561,396	(9,646,136)	65,915,260
Yushe Power Company	5,936,001	10 years	(1,780,800)	4,748,801	(593,600)	4,155,201
Yueyang Power Company	393,716,359	7.5 years	(131,238,787)	314,973,087	(52,495,515)	262,477,572
Luohuang Power Company	649,082,972	8.5 years	(190,906,757)	534,538,918	(76,362,703)	458,176,215
Sichuan Hydropower	451,067,215	10 years	(90,213,444)	405,960,493	(45,106,722)	360,853,771
Pingliang Power Company	205,324,362	10 years	(41,064,872)	184,791,926	(20,532,436)	164,259,490
Dongxiguan Hydropower	4,414,835	10 years	(515,063)	4,341,255	(441,483)	3,899,772
	2,209,170,907		(644,181,556)	1,810,484,726	(245,495,375)	1,564,989,351

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

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

(b) Associates

Name of investee	Place and date of incorporation	Registered capital	Principal activities	Investment contributed by the Company	Percentage of equity interest held	
					Direct	Indirect
Associates:						
Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")	Rizhao, Shandong 20th March 1996	USD150 million	Power generation	RMB380.52 million	34%	—
Shenzhen Energy Group Co., Ltd. ("SEG")	Shenzhen, Guangdong 15th July 1985	RMB955.56 million	Development, production and sale of regular energy, new energy and energy construction project, etc.	RMB2,390 million	25%	—
Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company")	Handan, Hebei 28th October 1996	RMB1,975 million	Power generation	RMB1,241.49 million	40%	—
Chongqing Huaneng Lime Company Limited ("Lime Company")	Luohuang Town, Jiangjin City 5th November 1996	RMB50 million	Lime production and sale of construction materials and bio-chemical products	RMB18.77 million	—	25%
Huaneng Finance	Xicheng District, Beijing 21st May 1988	RMB1,200 million	Advisory service in financial affairs, financing and credit appraisal	RMB288 million	20%	—
Sichuan Jialingjiang Tourism Development Company Inc. ("Jialingjiang Tourism Company")	Nanchong, Sichuan Province 25th April 2006	RMB80 million	Tourism development and entertainment in Nanchong water area	RMB20 million	—	25%

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

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

(b) Associates (Cont'd)

	Investment period	Percentage of equity interest held		Amount of investment		Accumulated equity movement			Carrying amount	
		31st	31st	31st	31st	31st	Current year	31st	31st	31st
		December	December	December	December	December	additions/	December	December	December
		2005	2006	2005	2006	2005	(deductions)	2006	2005	2006
Rizhao Power Company	20 years	25.5%	34%	231,868,800	426,948,218	(24,582,565)	26,984,054	2,401,489	207,286,235	429,349,707
SEG	No specific terms	25%	25%	1,595,902,576	1,595,902,576	648,176,265	243,455,299	891,631,564	2,244,078,841	2,487,534,140
Hanfeng Power Company	25 years	40%	40%	806,121,370	806,121,370	215,880,275	(106,237,764)	109,642,511	1,022,001,645	915,763,881
Lime Company	No specific terms	25%	25%	18,028,710	24,295,710	948,300	693,558	1,641,858	18,977,010	25,937,568
Huaneng Finance*	No specific terms	—	20%	—	306,634,130	—	37,050,246	37,050,246	—	343,684,376
Jialingjiang Tourism Company	No specific terms	—	25%	—	20,000,000	—	(55,745)	(55,745)	—	19,944,255
				2,651,921,456	3,179,902,004	840,422,275	201,889,648	1,042,311,923	3,492,343,731	4,222,213,927

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

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

(c) Equity investment difference

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

Name of investee	Original cost	Amortization period	Accumulated amortization	31st December 2005	Current year amortization	31st December 2006
SEG	794,097,424	10 years	(291,169,054)	582,338,112	(79,409,742)	502,928,370
Hanfeng Power Company	435,362,658	10 years	(108,840,665)	370,058,259	(43,536,266)	326,521,993
	1,229,460,082		(400,009,719)	952,396,371	(122,946,008)	829,450,363

(d) Other long-term equity investments

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

Name of investee	Investment period	Stock category	Stock quantity	Balance at 31st December 2006
Yangtze Power	Starting from 22nd August 2002, with no specific terms	Tradable shares	149.31 million	220,219,361

In 2005, pursuant to the approved shareholding structure reform plan of Yangtze Power, the Company gave away all of the bonus shares received, part of its original shareholding and cash dividend income to the public shareholders in order to obtain the share floating right of its remaining shareholding. As a result of disposing certain original shareholding, the investment of the Company was decreased by approximately RMB34.77 million. The Company also recognized an asset, "share floating right" amounting to approximately RMB63.64 million simultaneously as a result of the above-mentioned cash dividend and shares transfer transactions and recorded it as other assets.

As at 31st December 2006, based on the closing quotation of last transaction day of December 2006 extracted from the Shanghai Stock Exchange, the market value of the remaining shareholding amounted to RMB1.459 billion.

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

(7) Fixed assets and accumulated depreciation

	Dam	Buildings	Electric utility plant in service	Transportation and transmission facilities	Others	Total
Cost						
31st December 2005	2,722,663,018	2,638,063,084	87,852,482,495	296,126,698	4,385,669,487	97,895,004,782
Reclassification	—	(91,614,503)	1,699,736,971	—	(1,608,122,468)	—
Transfers from						
construction-in-progress	977,538,042	103,100,509	25,051,955,511	276,800	84,012,225	26,216,883,087
Current year additions	—	8,294,972	43,417,097	38,900	98,116,246	149,867,215
Current year deductions	—	(29,939,537)	(684,536,032)	(124,735)	(112,518,457)	(827,118,761)
31st December 2006	3,700,201,060	2,627,904,525	113,963,056,042	296,317,663	2,847,157,033	123,434,636,323
Accumulated depreciation						
31st December 2005	503,722,642	688,396,284	38,831,527,885	175,816,156	1,495,035,651	41,694,498,618
Reclassification	—	(55,001,047)	(731,752)	1,167,463	54,565,336	—
Current year depreciation	78,625,077	94,252,509	5,978,040,732	15,074,893	245,532,376	6,411,525,587
Current year deductions	—	(13,655,986)	(456,778,480)	(65,470)	(105,873,048)	(576,372,984)
31st December 2006	582,347,719	713,991,760	44,352,058,385	191,993,042	1,689,260,315	47,529,651,221
Impairment provision						
31st December 2005	—	—	(30,080,000)	—	—	(30,080,000)
Current year additions	—	—	(42,000,000)	—	—	(42,000,000)
Current year deductions	—	—	30,080,000	—	—	30,080,000
31st December 2006	—	—	(42,000,000)	—	—	(42,000,000)
Net book value						
31st December 2006	3,117,853,341	1,913,912,765	69,568,997,657	104,324,621	1,157,896,718	75,862,985,102
31st December 2005	2,218,940,376	1,949,666,800	48,990,874,610	120,310,542	2,890,633,836	56,170,426,164

As at 31st December 2006, Mingtai Hydropower, a subsidiary of the Company, had pledged its electric utility plant in service, with net book value amounting to RMB48,976,350 (original cost: RMB90,300,000), as collateral against a loan of RMB60 million (see Note 5(18)).

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

(8) Construction materials

	31st December 2006	31st December 2005
Specific materials and equipments	482,097,375	1,074,875,425
Prepayment for major equipments	3,206,982,572	5,196,100,762
Tools and instrument for production	48,988,847	18,175,660
	3,738,068,794	6,289,151,847

(9) Construction-in-progress

Projects	Budget	31st December 2005	Current year additions	Transfers to fixed assets during current year	31st December 2006	Percentage of completion	Source of financing
Yuhuan Power Plant Phase I project	9,669,320,000	2,689,347,404	4,279,220,325	(6,943,903,005)	24,664,724	72.00%	Funds borrowed from financial institutions and internal funds
Yuhuan Power Plant Phase II project	8,341,260,000	577,547,531	1,687,115,763	—	2,264,663,294	27.00%	Funds borrowed from financial institutions and internal funds
Huaiyin II Power Company Phase III project	2,554,630,000	529,418,441	1,510,277,358	(2,039,527,158)	168,641	80.36%	Funds borrowed from financial institutions and internal funds
Taicang II Power Company project	4,638,628,117	3,459,929,210	319,100,600	(3,779,029,810)	—	84.90%	Funds borrowed from financial institutions and internal funds
Xindian II Power Company project	2,453,780,000	316,613,314	1,916,831,434	(2,227,286,393)	6,158,355	91.63%	Funds borrowed from financial institutions and internal funds
Yueyang Power Company project	2,473,600,000	1,013,948,662	1,409,366,470	(2,398,904,789)	24,410,343	98.00%	Funds borrowed from financial institutions and internal funds
Luohuang Power Company project	4,483,660,000	1,113,773,203	2,367,344,302	(2,290,832,926)	1,190,284,579	77.64%	Funds borrowed from financial institutions and internal funds
Yingkou Power Plant project	4,539,960,000	300,497,352	1,532,403,836	(664,900)	1,832,236,288	40.36%	Funds borrowed from financial institutions and internal funds
Shanghai Combined Cycle Power Company project	3,319,690,000	855,630,018	1,825,363,705	(2,680,993,723)	—	88.00%	Funds borrowed from financial institutions and internal funds
Baoxinghe Qiaoqi Hydropower Station project	2,164,023,300	1,208,956,149	745,549,070	(1,885,791,645)	68,713,574	90.32%	Funds borrowed from financial institutions and internal funds

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

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

Projects	Budget	31st December 2005	Current year additions	Transfers to fixed assets during		31st December 2006	Percentage of completion	Source of financing
				current year				
Baoxing Hydropower Station project	955,690,000	135,265,081	202,836,165	—		338,101,246	31.01%	Funds borrowed from financial institutions and internal funds
Kangding Xiaotiandu Hydropower Station project*	1,293,183,800	231,013,598	288,912,164	(519,925,762)		—	78.97%	Funds borrowed from financial institutions and internal funds
Fujiang Shuiniujia Hydropower Station project	966,510,100	522,134,278	325,589,238	(211,230)		847,512,286	87.69%	Funds borrowed from financial institutions and internal funds
Fujiang Muzuo Hydropower Station project	656,164,100	172,937,575	214,198,453	(38,430)		387,097,598	58.99%	Funds borrowed from financial institutions and internal funds
Shang'an Power Plant Phase III project	4,576,210,000	22,316,568	234,898,394	—		257,214,962	5.62%	Funds borrowed from financial institutions and internal funds
Shantou Power Plant Haimen project	9,210,310,000	16,017,347	247,325,930	—		263,343,277	2.86%	Funds borrowed from financial institutions and internal funds
Other projects		741,664,755	1,906,963,598	(1,449,773,316)		1,198,855,037		Funds borrowed from financial institutions and internal funds
		13,907,010,486	21,013,296,805	(26,216,883,087)		8,703,424,204		
Including: Capitalized borrowing costs		655,693,623	657,002,273	(964,491,987)		348,203,909		

* There were three generators in Kangding Xiaotiandu Hydropower Station project under construction, with total budget of RMB1.293 billion, most of the construction cost had been transferred to fixed assets except some remaining work still in progress of construction, as at 31st December 2006.

For the year ended 31st December 2006, the interest expense capitalized for construction-in-progress was RMB657,002,273 and the capitalization rate was 5.46% per annum (2005: RMB550,075,698 at 5.24% per annum).

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

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

(10) Intangible assets

	31st December		Current	Current	Current	Accumulated	31st December	Remaining	Acquisition
	Original cost	2005	year	year	year	amortization	2006	amortization	method
			additions	transfer out	amortization			period	
Land use rights	1,147,829,324	1,006,645,929	3,700,127	(3,773,869)	(23,336,194)	(164,593,331)	983,235,993	14 to 67.5 years	Purchase
Negative goodwill	(2,472,783,635)	(1,236,391,817)	—	—	247,278,363	1,483,670,181	(989,113,454)	4 years	Acquisition
Goodwill	39,036,491	31,352,530	—	—	(4,752,150)	(12,436,111)	26,600,380	4.5 to 7.5 years	Acquisition
Others	40,392,145	20,613,102	8,788,900	(623,436)	(6,179,236)	(17,792,815)	22,599,330	1 to 15 years	Purchase and acquisition
	(1,245,525,675)	(177,780,256)	12,489,027	(4,397,305)	213,010,783	1,288,847,924	43,322,249		

As at 31st December 2006 and 31st December 2005, there was no indication of impairment of the intangible assets of the Company and its subsidiaries and therefore no provision for impairment loss was made. No intangible assets of the Company and its subsidiaries were pledged.

(11) Other long-term assets

Other long-term assets represent receivables due from Sichuan Power Grid Company resulting from the transfers of transmission facilities of certain subsidiaries of the Company. Sichuan Power Grid Company entered into agreements with Baoxinghe Hydropower, Dongxiguan Hydropower and Taipingyi Hydropower on the transfers of transmission facilities from these plants to Sichuan Power Grid Company, pursuant to which Sichuan Power Grid Company agreed to repay the principal and interest over 12.5 years, 12.5 years and 9 years, respectively. The interest rates are determined according to the prevailing bank loan's interest rate when the principal is repaid.

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

(12) Short-term loans

	31st December 2006	31st December 2005
Credit loans	6,823,720,000	6,180,869,370
Guaranteed loans	1,000,000,000	400,000,000
Total	7,823,720,000	6,580,869,370

As at 31st December 2006, all of the short-term loans of the Company and its subsidiaries were denominated in RMB, with interest rates ranging from 4.35% to 5.51% per annum (2005: 4.30% to 5.51% per annum).

As at 31st December 2006, short-term loans amounting to RMB2,484.7 million were borrowed from Huaneng Finance, with interest rates ranging from 5.02% to 5.51% per annum (2005: RMB2,007.7 million with interest rates from 4.70% to 5.02% per annum).

As at 31st December 2006, short-term loans amounting to RMB1,000 million borrowed from SDIC Hong Tai Trust & Investment Company Limited was guaranteed by Industrial and Commercial Bank of China Beijing Branch, with interest rate of 4.35% per annum (2005: short-term loan amounting to RMB400 million was guaranteed by of Industrial and Commercial Bank of China Beijing Branch, with interest rate of 4.30% per annum).

(13) Notes Payable

As at 31st December 2006 and 31st December 2005, notes payable of the Company and its subsidiaries are all banking notes.

(14) Short-term bonds

On 27th May 2005, the Company issued short-term bonds in two batches and the face value were RMB4,500 million (due in 1 year) and RMB500 million (due in 9 months). These bonds were issued at discounted amount with annual effective interest rates of 2.92% and 2.70% respectively. The proceeds received by the Company and its subsidiaries were RMB4,372 million and RMB490 million respectively. As at 31st December 2006, the above short-term bonds had been repaid.

On 23rd May 2006 and 26th June 2006, the Company issued short-term bonds maturing in 1 year in two batches and the face value were RMB500 million and RMB4,500 million. These bonds were issued with annual effective interest rates of 3.12% and 3.35% respectively. The proceeds received by the Company and its subsidiaries were RMB500 million and RMB4,500 million respectively. As at 31st December 2006, the accrued interest payable on the above short-term bonds was approximately RMB87.09 million.

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

(15) Accounts payable

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

See Note 7 for related party transactions.

(16) Taxes payable

	31st December 2006	31st December 2005
EIT payable	373,572,839	463,314,061
VAT payable	718,602,227	576,488,301
Others	88,143,264	91,481,998
	1,180,318,330	1,131,284,360

(17) Other payables

	31st December 2006	31st December 2005
Payables to contractors	1,861,092,294	1,255,887,833
Payables for purchases of equipment	821,026,090	946,895,495
Retention monies	915,161,559	778,487,539
Payables for purchase of materials	413,111,345	227,349,256
Payables to HIPDC	79,730,462	53,230,133
Payables to Huaneng Group	44,591,698	50,720,038
Other accruals	55,953,416	70,128,842
Payables of social insurance funds	58,498,074	67,107,126
Other payables related to construction	85,198,918	65,719,185
Payables of housing maintenance funds	53,702,833	87,652,045
Payable to Henan Electricity Industry Bureau	—	58,536,766
Payables of environment protection - pollutants discharge fees	28,782,674	38,552,452
Others	524,603,910	429,079,389
	4,941,453,273	4,129,346,099

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

(17) Other payables (Cont'd)

As at 31st December 2006, there were no other payables due to any shareholders who held 5% or more of the equity interest in the Company except for payables due to HIPDC of RMB79,730,462 and payables due to Huaneng Group of RMB44,591,698 (2005: due to HIPDC of RMB53,230,133, due to Huaneng Group of RMB50,720,038) as mentioned above.

As at 31st December 2006, significant other payables aged over 3 years amounting to approximately RMB119.92 million (2005: Nil), mainly comprised of payables to contractors that had not been settled due to disagreement in quantity of construction.

See Note 7 for related party transactions.

(18) Long-term loans

	31st December 2006	31st December 2005
Long-term loans from ultimate parent company (a)	2,800,000,000	2,800,000,000
Long-term bank loans (b)	35,206,233,187	28,364,593,943
Other long-term loans (c)	424,340,427	863,649,094
	38,430,573,614	32,028,243,037
Less: Current portion of long-term loans	(3,331,954,868)	(3,165,979,238)
	35,098,618,746	28,862,263,799

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

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

(a) Long-term loans from ultimate parent company

As at 31st December 2006, detailed information of the long-term loans from ultimate parent company was as follows:

Lender	31st December 2006	Terms of loan	Annual interest rate	Current portion	Terms
Renminbi loans					
Entrusted loans from Huaneng Group through Huaneng Finance*	600,000,000	2004-2013	4.60%	—	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*	200,000,000	2004-2013	4.32%	—	Nil
Entrusted loans from Huaneng Group through Huaneng Finance*	2,000,000,000	2005-2015	5.02%	—	Nil
	2,800,000,000			—	

* As at 31st December 2006, these loans were not repayable within one year and therefore there was no current portion.

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

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

(b) Long-term bank loans

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

	31st December 2006					
	Foreign currency amount	Exchange rate	RMB equivalent	Less: Current portion	Total	Annual interest rate
Credit loans						
– Renminbi loans			25,325,230,000	(1,810,340,000)	23,514,890,000	3.60%-6.16%
– US dollar loans	3,938,475	7.8087	30,754,370	(9,624,223)	21,130,147	6.97%
– Euro loans	66,268,382	10.2665	680,344,344	(54,639,059)	625,705,285	2.00%
Guaranteed loans*						
– Renminbi loans			4,710,540,000	(477,000,000)	4,233,540,000	5.51%-6.84%
– US dollar loans	563,392,687	7.8087	4,399,364,473	(788,789,824)	3,610,574,649	5.49%-6.60%
Secured loans**						
– Renminbi loans			60,000,000	—	60,000,000	6.16%
Total			35,206,233,187	(3,140,393,106)	32,065,840,081	

* Bank loans amounting to approximately RMB2.693 billion and RMB6.078 billion (31st December 2005: approximately RMB3.311 billion and RMB7.127 billion) were guaranteed by HIPDC and Huaneng Group respectively.

There were no loans of the subsidiaries of the Company guaranteed by the Company (2005: RMB1.352 billion).

** These loans were secured by fixed assets of the Company and its subsidiaries with net book value amounting to RMB48,976,350 (See Note 5(7)).

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

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

(c) Other long-term loans

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

	31st December 2006		
	Foreign currency amount	Exchange rate	RMB equivalent
Renminbi loans			253,625,000
United States dollar loans	12,857,143	7.8087	100,397,570
Japanese yen loans	1,071,428,572	0.0656	70,317,857
			424,340,427
Less: Current portion of other long-term loans			(191,561,762)
Total			232,778,665

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

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

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

As at 31st December 2006, the detailed information about other long-term loans was as follows:

Lender	31st December 2006	Terms of Loan	Annual interest rate	Current portion	Terms
Renminbi loans					
Huaneng Finance*	30,000,000	2006-2009	5.67%	—	Nil
Huaneng Finance	20,000,000	2004-2007	5.18%	(20,000,000)	Nil
Huaneng Finance*	10,000,000	2006-2009	5.67%	—	Nil
Huaneng Finance	20,000,000	2004-2007	5.67%	(20,000,000)	Loan amounting to RMB15 million was guaranteed by Sichuan Yong'an Hydro Power Joint-Stock Limited Company
Loan by mandate of Shanxi International Power (Group) Company Limited	40,000,000	2003-2007	5.18%	(40,000,000)	Nil
Gansu Electric Investment Development Company	3,625,000	1996-2007	6.12%	(3,625,000)	Nil
China Electric Power Finance Co., Ltd.-Northwest Branch	130,000,000	2003-2008	5.27%	(70,000,000)	Secured by 50% tariff collection right of Pingliang Power Company
Subtotal of RMB loans	253,625,000			(153,625,000)	
US dollar loan					
On-lent foreign loans of the Ministry of Finance	100,397,570	1996-2011	LIBOR+0.43%	(22,310,572)	Guaranteed by Huaneng Group
Japanese yen loan					
On-lent foreign loans of the Ministry of Finance	70,317,857	1996-2011	LIBOR+0.3%	(15,626,190)	Guaranteed by Huaneng Group
Subtotal of foreign loans	170,715,427			(37,936,762)	
Total	424,340,427			(191,561,762)	

* As at 31st December 2006, these loans were not repayable within one year and therefore there was no current portion.

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

(19) Share capital

The Par value per share equals RMB1.

	31st December 2006	31st December 2005
Unlisted shares		
Promoters shares	—	8,500,000,000
Including: Domestic legal person shares	—	8,500,000,000
Sub-total of unlisted shares	—	8,500,000,000
Listed Shares (with lock-up limitation)		
State-owned shares	1,055,124,549	—
State-owned legal person shares	7,269,542,118	—
Other domestic shares	25,333,333	—
Including: Domestic legal person shares	25,333,333	—
Listed shares (without lock-up limitation)		
Domestic shares listed in the PRC	650,000,000	500,000,000
Overseas listed shares	3,055,383,440	3,055,383,440
Sub-total of listed shares	12,055,383,440	3,555,383,440
Total shares	12,055,383,440	12,055,383,440

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

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

(20) Capital surplus

Movement of capital surplus is as follows:

	31st December 2005	Current year additions	31st December 2006
Share premium	8,590,777,628	—	8,590,777,628
Restricted reserve arising from equity investments	157,745,899	131,363,376	289,109,275
Transfer from grants	16,828,937	33,400,047	50,228,984
Others	—	171,043	171,043
	8,765,352,464	164,934,466	8,930,286,930

(21) Surplus reserves

	31st December 2005	Current year appropriations	Current year additions/ (deductions)	31st December 2006
Statutory surplus reserve fund	2,706,094,561	555,038,154	2,217,003,964	5,478,136,679
Statutory public welfare fund	2,217,003,964	—	(2,217,003,964)	—
Discretionary surplus reserve fund	22,575,684	—	—	22,575,684
	4,945,674,209	555,038,154	—	5,500,712,363

According to the Company Law of the PRC and the Company's articles of association, the Company appropriates 10% of each year's net profit to the statutory surplus reserve fund until the fund balance reaches 50% of the registered share capital. Upon the approval from the relevant authorities, this reserve can be used to make up any losses incurred or to increase share capital. Except for setting off against losses, any other usage may not result in this reserve balance falling below 25% of the registered share capital. Pursuant to the decision of the Board of Directors, the Company appropriated 10% of the profit after taxation to the statutory surplus reserve fund amounting to RMB555,038,154 in 2006 (2005: 10%, amounting to RMB476,262,503).

Pursuant to the Company Law of the PRC revised on 27th October 2005 and effective from 1st January 2006 and the Company's articles of association, the Company stopped appropriating net profit to statutory public welfare fund from 2006. In accordance with the "Circular on Accounting Treatment Following the Implementation of the Company Law" issued by Ministry of Finance on 15th March 2006, the balance of statutory public welfare fund as at 31st December 2005 was transferred into statutory surplus reserve fund.

Provision of discretionary surplus reserve fund is proposed by the Board of Directors, and approved by the shareholders. This reserve can be used to make up any losses incurred or to increase the share capital upon approval from the Board of Directors. For the year ended 31st December 2006, no provision was made to the discretionary surplus reserve fund (2005: Nil).

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

(22) Unappropriated profit

	For the year ended 31st December 2006	For the year ended 31st December 2005
Undistributed profit brought forward	13,315,141,847	12,399,822,057
Add: Net profit for the year	5,550,381,540	4,762,625,031
Less: Appropriations to statutory surplus reserve fund (Note 5(21))	(555,038,154)	(476,262,503)
Appropriations to statutory public welfare fund (Note 5(21))	—	(357,196,878)
Dividends payable to ordinary shareholders-cash dividends of prior year approved at the general meeting of the shareholders	(3,013,845,860)	(3,013,845,860)
Undistributed profit carried forward	15,296,639,373	13,315,141,847

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

Pursuant to the resolution of the Board of Directors on 3rd April 2007, on the basis of 12,055,383,440 ordinary shares outstanding as at 31st December 2006, the directors proposed a cash dividend of RMB2.8 (including tax) for every 10 existing ordinary shares amounting to RMB3,375,507,363.20. This proposal is subject to the approval of the shareholders at the annual general meeting.

The maximum amount available for distribution to the shareholders is the lower of the amounts (i.e. net profit in current year plus undistributed profit brought forward from the beginning of the year, less any appropriations to the statutory surplus reserve fund and the statutory public welfare fund (which is stopped on provision from 1st January 2006)) determined under the PRC accounting standards and the International Financial Reporting Standards ("IFRS").

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

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

	For the year ended 31st December 2006		For the year ended 31st December 2005	
	Revenue from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	44,312,826,811	33,776,945,854	40,247,775,556	31,374,075,751

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

For the year ended 31st December 2006 and 31st December 2005, the revenue from the five largest customers of the Company and its subsidiaries amounted to RMB28,248,658,123 and RMB25,623,899,911, representing 63.75% and 63.67% of the total revenue, respectively.

(24) Financial expenses, net

	For the year ended 31st December 2006	For the year ended 31st December 2005
Interest expense	1,825,678,947	1,579,092,793
Less: Interest income	(51,909,677)	(53,685,310)
Exchange losses	54,263,067	6,747,998
Less: Exchange gain	(166,517,176)	(296,467,136)
Others	45,382,703	49,751,015
	1,706,897,864	1,285,439,360

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

(25) Investment income

	For the year ended 31st December 2006	For the year ended 31st December 2005
Share of profit of investees accounted for under the equity method	607,709,027	532,867,940
Dividends declared by investees accounted for under the cost method	28,392,759	63,834,662
Loss on disposal of investment	(19,460)	—
Amortization of equity investment differences	(368,441,383)	(365,075,609)
Reversal/(provision) of impairment	42,000	(2,962,583)
	267,682,943	228,664,410

For the Company and its subsidiaries have no overseas investments, the long-term investments of the Company and its subsidiaries are not subject to restriction on remittance of investment income.

(26) Other cash paid relating to operating activities

	For the year ended 31st December 2006
Service fees paid to HIPDC	140,771,050
Pollutants discharge fees	431,919,042
Others	785,165,653
	1,357,855,745

(27) Other cash received relating to financing activities

	For the year ended 31st December 2006
Cash received on issuance of short-term bonds	4,980,000,000
Others	195,915,047
	5,175,915,047

Notes to the Financial Statements

For the year ended 31st December 2006
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6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS

(1) Accounts receivable and other receivables

(a) Accounts receivable

	31st December 2006	31st December 2005
Accounts receivable	3,757,120,713	3,180,365,793
Less: Bad debt provision	(109,326)	(269,326)
	3,757,011,387	3,180,096,467

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

Aging	31st December 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	3,639,453,428	97	—	3,167,773,343	99	—
1-2 years	112,370,835	3	—	—	—	—
2-3 years	—	—	—	6,203,191	—	—
Over 3 years	5,296,450	—	(109,326)	6,389,259	1	(269,326)
	3,757,120,713	100	(109,326)	3,180,365,793	100	(269,326)

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

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

As at 31st December 2006, the five largest accounts receivable of the Company amounting to RMB2,765,981,319 (2005: RMB2,349,625,834), representing 73.62% (2005: 73.88%) of total accounts receivable.

Notes to the Financial Statements

For the year ended 31st December 2006
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6. NOTES TO THE COMPANY ONLY FINANCIAL STATEMENTS (Cont'd)

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

(b) Other receivables

	31st December 2006	31st December 2005
Other receivables	249,342,297	445,493,907
Less: Bad debt provision	(22,910,876)	(24,869,766)
	226,431,421	420,624,141

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

Aging	31st December 2006			31st December 2005		
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year	199,474,576	80	(986,191)	375,398,636	84	(1,504,105)
1-2 years	6,408,956	3	(181,427)	781,531	—	(57,415)
2-3 years	446,318	—	(12,805)	3,275,608	1	(64,238)
Over 3 years	43,012,447	17	(21,730,453)	66,038,132	15	(23,244,008)
	249,342,297	100	(22,910,876)	445,493,907	100	(24,869,766)

Breakdown of other receivables is as follows:

	31st December 2006	31st December 2005
Prepayment for acquisition of Huaneng Finance*	—	288,000,000
Receivables from Administration Center of Housing Fund for sales of staff quarters	14,518,166	14,518,166
Staff advances	6,455,867	4,719,499
Management fees from subsidiaries	15,554,004	3,677,462
Receivables from Yueyang Power Company	16,750,000	—
Receivable from a subsidiary	31,826,092	—
Others	164,238,168	134,578,780
	249,342,297	445,493,907

* This represented the prepayment of the consideration to Huaneng Group and Huaneng Finance of RMB126 million and RMB162 million respectively to acquire a 20% equity interest in Huaneng Finance. As at 31st December 2005, the investment was still subject to approvals from relevant authorities, and was recorded as an other receivable (see Note 7(5)(p)).

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

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

(b) Other receivables (Cont'd)

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

At the end of year, the five largest other receivables of the Company amounted to RMB161,789,635 (2005: RMB332,879,562), representing 64.89% (2005: 74.72%) of total other receivables.

See Note 7 for related party transactions.

(2) Long-term investments

	31st December 2005	Current year additions	Current year deductions	31st December 2006
Long-term equity investments				
Subsidiaries (a)	7,999,406,571	2,016,954,044	(652,569,314)	9,363,791,301
Associates	3,473,366,721	1,155,883,603	(452,918,220)	4,176,332,104
Equity investment difference	2,758,539,842	—	(367,999,900)	2,390,539,942
Other long-term equity investments	228,227,994	—	(92,000)	228,135,994
Provision for impairment on long-term equity investments	(4,950,243)	—	42,000	(4,908,243)
	14,454,590,885	3,172,837,647	(1,473,537,434)	16,153,891,098

As at 31st December 2006 and 31st December 2005, the Company's total long-term investments accounted for 38.62% and 36.97% of the Company's net assets respectively.

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

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

(a) Subsidiaries

	Investment period	Percentage of equity interest held		Cost of investment		Accumulated equity movement			Carrying amount	
		31st	31st	31st	31st	31st	Current year	31st	31st	31st
		December	December	December	December	December	additions/	December	December	December
		2005	2006	2005	2006	2005	(deductions)	2006	2005	2006
Weihai Power Company	30 years	60%	60%	474,038,793	474,038,793	168,162,549	7,618,709	175,781,258	642,201,342	649,820,051
Taichang Power Company	No specific terms	75%	75%	469,706,560	469,706,560	230,248,377	(25,999,733)	204,248,644	699,954,937	673,955,204
Huaiyin Power Company	No specific terms	90%	90%	481,818,798	481,818,798	36,107,638	1,309,567	37,417,205	517,926,436	519,236,003
Huaiyin II Power Company	No specific terms	63.64%	63.64%	492,573,600	572,573,600	49,585,758	20,564,467	70,150,225	542,159,358	642,723,825
Yushe Power Company	No specific terms	60%	60%	374,449,895	374,449,895	51,471,771	5,225,541	56,697,312	425,921,666	431,147,207
Qinbei Power Company	50 years	55%	55%	375,095,599	501,355,599	91,187,192	109,107,297	200,294,489	466,282,791	701,650,088
Xindian II Power Company	20 years	95%	95%	251,100,000	401,100,000	—	9,914,549	9,914,549	251,100,000	411,014,549
Taichang II Power Company	No specific terms	75%	75%	603,110,000	603,110,000	—	186,567,655	186,567,655	603,110,000	789,677,655
Yueyang Power Company	No specific terms	55%	55%	376,734,838	472,984,838	71,788,159	35,246,511	107,034,670	448,522,997	580,019,508
Luohuang Power Company	No specific terms	60%	60%	975,218,249	1,195,218,249	337,480,599	10,248,018	347,728,617	1,312,698,848	1,542,946,866
Shanghai Combined Cycle Power Company	No specific terms	70%	70%	380,060,000	480,060,000	—	857,599	857,599	380,060,000	480,917,599
Sichuan Hydropower	20 years	60%	60%	767,932,785	767,932,785	165,975,281	188,977,885	354,953,166	933,908,066	1,122,885,951
Pingliang Power Company	23 years	65%	65%	610,717,154	610,717,154	164,842,976	42,236,665	207,079,641	775,560,130	817,796,795
				6,632,556,271	7,405,066,271	1,366,850,300	591,874,730	1,958,725,030	7,999,406,571	9,363,791,301

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

	For the year ended 31st December 2006		For the year ended 31st December 2005	
	Revenue from principal operations	Costs of principal operations	Revenue from principal operations	Costs of principal operations
Sales of electric power	27,852,976,148	21,829,742,819	26,963,747,586	21,656,318,652

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

For the year ended 31st December 2006 and 31st December 2005, the revenue from the five largest customers of the Company amounted to RMB21,555,196,148 and RMB21,175,627,090, representing 77.39% and 78.53% of the total revenue, respectively.

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

(4) Investment income

	For the year ended 31st December 2006	For the year ended 31st December 2005
Share of profit of investees accounted for under the equity method	1,831,945,892	1,600,840,523
Dividends declared by investees accounted for under the cost method	28,379,916	63,820,993
Amortization of equity investment differences	(367,999,900)	(365,002,029)
Reversal/(Provision) of impairment	42,000	(2,962,583)
	1,492,367,908	1,296,696,904

The Company does not have any overseas investment and the long-term investments of the Company are not subject to restriction on remittance of investment income.

7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

Name	Registered address	Principal activities	Relationship		
			with the Company	Type of enterprise	Legal representative
Huaneng Group	Jia 23 Fuxing Road, Haidian District, Beijing	Investments in power stations, coal, minerals, railways, transportation, petrochemical, energy-saving facilities, steel, timber and related industries	Ultimate parent company of the Company	State-owned enterprise	Li Xiaopeng
HIPDC	Bing 2 Fuxingmen South Road, Xicheng District, Beijing	Investments, construction and operations of power plants and development, investments and operations of other export-oriented enterprises	Parent company of the Company	Sino-foreign equity joint stock limited liability company	Li Xiaopeng
Weihai Power Company	No. 58 Haibu Road, Weihai Economic Development Zone, Shandong Province	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian

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

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Taicang Power Company	Jinjihupan, Sanxing Road, Suzhou, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Taicang II Power Company	Jinlanglanggang Village, Fuqiao Town, Taicang, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Huaiyin Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Huaiyin II Power Company	No. 291 Huaihai West Road, Huai'an, Jiangsu Province	Power generation	A subsidiary of the Company	Limited liability company	Lu Dan
Qinbei Power Company	Wulongkou Town, Jiyuan City, Henan Province	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Yushe Power Company	Yushe County, Shanxi Province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue
Xindian II Power Company	Qilu Chemical Industrial Park, Linzi District, Zibo, Shandong Province	Power generation	A subsidiary of the Company	Limited liability company	Huang Jian
Yueyang Power Company	ChengLingji, Yueyang, Hunan Province	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Luohuang Power Company	Luohuang Town, Jiangjin City, ChongQing	Power generation	A subsidiary of the Company	Limited liability company	Fan Xiaxia
Shanghai Combined Cycle Power Company	No. 298 Shengshi Road, Baoshan District, Shanghai	Power generation	A subsidiary of the Company	Limited liability company	Wu Dawei
Sichuan Hydropower	No. 47 Division 4 Renmin South Road, Wuhou District, Chengdu, Sichuan Province	Development, investment, construction and management of hydropower projects	A subsidiary of the Company	Limited liability company	Zhang Tingke

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

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

Name	Registered address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Baoxinghe Hydropower	No. 18 Yanjiang North Road, Ya'an, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Dongxiguan Hydropower	Li'an Town, Wusheng County, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Taipingyi Hydropower	Yingxiu Town, Wenchuan County, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Kangding Hydropower	Yuanyang Dam, Kangding County, Ganzi, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Mingtai Hydropower	Donghe Road, Beiba Development Zone, Santai County, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Jialingjiang Hydropower	No. 189 Liulin Road, Shunqing District, Nanchong City, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Fujiang Hydropower	Baima Village, Pingwu County, Sichuan Province	Power generation	A subsidiary of the subsidiary of the Company	Limited liability company	Zhang Wei
Pingliang Power Company	No. 7 Binhe Middle Road, Qilihe District, Lanzhou, Gansu Province	Power generation	A subsidiary of the Company	Limited liability company	Liu Guoyue

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

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

Name	Currency	31st December 2005	Current year additions	31st December 2006
Huaneng Group	RMB	20,000,000,000	—	20,000,000,000
HIPDC	USD	450,000,000	—	450,000,000
Weihai Power Company	RMB	761,838,300	—	761,838,300
Taicang Power Company	RMB	632,840,000	—	632,840,000
Taicang II Power Company	RMB	894,410,000	—	894,410,000
Huaiyin Power Company	RMB	265,000,000	—	265,000,000
Huaiyin II Power Company	RMB	774,000,000	—	774,000,000
Qinbei Power Company	RMB	10,000,000	800,000,000	810,000,000
Yushe Power Company	RMB	615,760,000	—	615,760,000
Xindian II Power Company	RMB	100,000,000	—	100,000,000
Yueyang Power Company	RMB	560,000,000	495,000,000	1,055,000,000
Luohuang Power Company	RMB	900,000,000	391,650,000	1,291,650,000
Shanghai Combined Cycle Power Company	RMB	50,000,000	635,800,000	685,800,000
Sichuan Hydropower	RMB	800,000,000	—	800,000,000
Baoxinghe Hydropower	RMB	516,100,000	—	516,100,000
Dongxiguan Hydropower	RMB	156,725,000	—	156,725,000
Taipingyi Hydropower	RMB	100,000,000	—	100,000,000
Kangding Hydropower	RMB	194,000,000	—	194,000,000
Mingtai Hydropower	RMB	97,700,000	—	97,700,000
Jialingjiang Hydropower	RMB	193,080,000	—	193,080,000
Fujian Hydropower	RMB	150,000,000	—	150,000,000
Pingliang Power Company	RMB	623,000,000	301,050,000	924,050,000

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

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

Name	31st December		Current year		31st December	
	2005		additions/(deductions)		2006	
	Amount	%	Amount	%	Amount	%
Huaneng Group*	—	—	1,055,124,549	8.75	1,055,124,549	8.75
HIPDC**	5,157,680,000	42.78	(91,017,882)	(0.75)	5,066,662,118	42.03

Please see Note 4, 6(2)(a) for the equity shares held by the Company and respective changes.

* Huaneng Group holds 8.75% equity interest in the Company upon the completion of shareholding reform plan. In addition, Huaneng Group holds 51.98% equity interest in HIPDC.

** HIPDC holds 42.03% equity interest in the Company upon the completion of shareholding reform plan. In the opinion of the Company's directors, HIPDC is the parent company of the Company. As HIPDC's parent company, Huaneng Group is regarded as the related party who controls the Company together with HIPDC. In addition, promoters of the Company entered into a supplementary agreement pursuant to which HIPDC would no longer to be granted the voting rights of other promoters.

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

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

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

(5) Related party transactions

- a. Pursuant to the service agreement entered into by the Company and HIPDC, HIPDC provides transmission service and transformer facilities to some of the power plants of the Company and receives service fees. For the year ended 31st December 2006, the total amount of service fees paid to HIPDC was approximately RMB141 million (2005: RMB141 million).
- b. Pursuant to a leasing agreement entered into amongst the Company and HIPDC, the land use right of Nanjing Power Plant is leased to the Company for 50 years from 1st January 1999 at an annual rental payment of RMB1.334 million (2005: RMB1.334 million).
- c. Pursuant to a leasing agreement between the Company and HIPDC, HIPDC leases its office building to the Company at an annual rental of RMB26 million for five years effective from 1st January 2005 (2005: RMB26 million).
- d. Please see Notes 5(18)(a) and 5(18)(c) for details of bank loans on-lent from Huaneng Group through Huaneng Finance and bank loans of the Company and its subsidiaries drawn from Huaneng Finance. For the year ended 31st December 2006, total amount of long-term loan interest paid by the Company and its subsidiaries to Huaneng Finance amounting to RMB144,229,498 (2005: RMB41,278,460).
- e. As at 31st December 2006, Huaneng Finance granted short-term loans amounting to RMB2,485 million (2005: RMB2,008 million) to the Company and its subsidiaries. The relevant interest rates range from 5.02% to 5.51% (2005: 4.70% to 5.02%) per annum. For the year ended 31st December 2006, the interest paid by the Company and its subsidiaries to Huaneng Finance for these loans amounting to RMB124,130,746 (2005: RMB98,971,631).
- f. Please see Note 5(18) for details of the long-term bank loans of the Company and its subsidiaries guaranteed by HIPDC and Huaneng Group.
- g. Please see Note 8 for details of bank loans of Rizhao Power Company guaranteed by the Company and its subsidiaries.

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

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

- h. On 6th November 2002, the Company entered into a management service agreement with Huaneng Group and HIPDC. Pursuant to which, the Company provides management services to certain power plants owned by Huaneng Group and HIPDC for 5 years. For the year ended 31st December 2006, the Company earned service fees amounting to RMB39,098,670 from Huaneng Group (2005: RMB31,667,760). While the Company earned service fees amounting to RMB4,378,350 from HIPDC (2005: RMB3,328,340). For the year ended 31st December 2006, the related costs incurred for the management services rendered amounted to approximately RMB33.03 million (2005: RMB32.61 million).
- i. For the year ended 31st December 2006, the Company and its subsidiaries paid approximately RMB140 million for coal purchased from CHITEC (2005: RMB284 million).
- j. For the year ended 31st December 2006, the Company and its subsidiaries paid approximately RMB34.06 million for equipment purchased from CHITEC (2005: RMB11.2 million).
- k. For the year ended 31st December 2006, the Company and its subsidiaries paid approximately RMB735 million for the fuel purchased and transportation services received from Time Shipping (2005: RMB607 million).
- l. For the year ended 31st December 2006, the Company and its subsidiaries paid approximately RMB49.16 million for coal purchased from Huaneng Jingyuan (2005: RMB242 million).
- m. For the year ended 31st December 2006, the Company and its subsidiaries paid approximately RMB47.24 million for lime products from Lime Company (2005: RMB42.82 million).
- n. For the year ended 31st December 2006, the Company and its subsidiaries paid approximately RMB104 million for information and technology supporting to Huaneng Xinrui and Xi'an Thermal (2005: RMB80.13 million).

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

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

- o. HIPDC had provided guarantee to the Company on the Company's share of an account receivable balance of approximately RMB140 million (2005: the Company's share of RMB140 million) (see Note 5(3)(a)). HIPDC compensated the Company's equity portion of this receivable that remained uncollected by 31st December 2006.
- p. On 14th December 2005, the Company entered into an agreement with Huaneng Group and other relevant parties pursuant to which the Company subscribed certain additional shares of Huaneng Finance and acquired from Huaneng Group certain equity interest in Huaneng Finance at consideration of RMB288 million. Such an acquisition became effective in January 2006 upon fulfillments of all necessary conditions, payments of cash considerations and transfers of related ownership.
- q. For the year ended 31st December 2006, the Company and its subsidiaries discounted approximately RMB114 million of banking notes receivable with Huaneng Finance and the related charge was RMB1.086 million (2005: RMB298 million, RMB2.415 million, respectively).
- r. On 26th June 2006, the Company issued RMB4.5 billion unsecured short-term bonds (see Note 5(14)). Huaneng Finance, Huaneng Capital and Greatwall Securities subscribed for RMB0.9 billion, RMB0.25 billion and RMB0.3 billion respectively.

(6) Cash deposits in a related party

	31st December 2006	31st December 2005
Deposits in Huaneng Finance:		
– Current deposits	2,246,758,135	1,767,519,906

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

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

(7) Receivables from/payables to related parties

	31st December 2006		31st December 2005	
	Amount	Percentage attributable to related balance	Amount	Percentage attributable to related balance
Advances to suppliers				
Prepayment to Xi'an Thermal	620,500	0.16%	—	—
Other receivables				
Receivables from HIPDC	—	—	21,847,346	3.65%
Receivables from Hanfeng Power Company	—	—	23,520	—
Accounts payable				
Payables to CHITEC	—	—	(14,175,450)	1.23%
Payables to Time Shipping	(27,504,528)	2.08%	(14,917,612)	1.30%
Payables to Lime Company	(6,185,598)	0.47%	—	—
Payables to Huaneng Xinrui	(298,500)	0.02%	(108,200)	0.01%
Payables to Xi'an Thermal	(4,455,805)	0.34%	(197,393)	0.02%
Other payables				
Payables to HIPDC	(79,730,462)	1.61%	(53,230,133)	1.29%
Payables to other subsidiaries of HIPDC	(927,200)	0.02%	—	—
Payables to CHITEC	(3,792,741)	0.08%	(526,746)	0.01%
Payables to Huaneng Finance	—	—	(6,000,000)	0.15%
Payables to Huaneng Group	(44,591,698)	0.90%	(50,720,038)	1.23%
Payables to Rizhao Power Company	(77,298,477)	1.56%	—	—
Payables to Hanfeng Power Company	(28,340)	—	—	—
Payables to other subsidiaries of Huaneng Group	(8,685,831)	0.18%	—	—
Payables to Huaneng Xinrui	(4,185,418)	0.08%	—	—
Payables to Xi'an Thermal	(15,790,906)	0.32%	(108,000)	—
Payables to Time Shipping	(154,368)	—	—	—
Interest payables				
Interest payables on loans from Huaneng Finance	(7,592,431)	3.88%	(13,642,791)	6.90%
Interest payables on loans from Huaneng Group	(10,000,000)	5.11%	(10,000,000)	5.06%
Other long-term liabilities*				
Interest payables on loans from Huaneng Group	(32,553,304)	86.01%	(42,553,304)	66.34%

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

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

(7) Receivables from/payables to related parties *(Cont'd)*

Except for the payable to Rizhao Power Company which bears interest at a rate of 5.265% per annum, all other balances stated above were unsecured, non-interest bearing, and except for the interest payables on loans from Huaneng Group, all the balances will be settled or repaid within one year.

In addition, see Notes 5(12) and 5(18) for the loan balances borrowed from related parties.

8. CONTINGENT LIABILITY

Item	31st December 2006	
	The Company and its subsidiaries	The Company
Guarantees on the long-term bank loans of Rizhao Power Company	123,250,000	123,250,000

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

9. COMMITMENTS

Commitments mainly relate to the construction of new power projects, renovation projects for existing power plants. Expenditure which was contracted but not provided for as at 31st December 2006 amounting to approximately RMB17.388 billion (2005: RMB17.076 billion).

In addition, from 2004 to 2006, the Company entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from 2005 to 2009 for use in power generation. In most cases, these agreements contain provisions for price escalation and minimum purchase level clauses. The future purchase commitments under the above agreements are as follows:

	31st December 2006
2007	9,457,130,440
2008	5,512,180,340
2009	5,512,180,340
	20,481,491,120

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9. COMMITMENTS (Cont'd)

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

	31st December 2006	31st December 2005
Land and buildings		
Within 1 year	29,253,383	33,495,000
1-2 years	3,253,383	7,372,000
2-3 years	3,253,383	6,335,000
After 3 years	117,645,138	151,362,000
	153,405,287	198,564,000

In addition, in accordance with a 30-year operating lease agreement signed by Dezhou Power Plant and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phases I and II in June 1994, annual rental is approximately RMB29,874,000 effective from June 1994 and is subject to revision at the end of the fifth year from the contract date. Thereafter, the annual rental is subject to revision once in every three years. The increment for each rental revision is restricted to no more than 30% of the previous annual rental amount.

10. EVENT AFTER THE BALANCE SHEET DATE

In 2007, the government promulgated the Corporate Income Tax Law which will be effective from 1st January, 2008. 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 existing tax laws. There will be a five-year transitional period for those entities currently using the FIE and FE tax laws to adopt the Corporate Income Tax Law. As there are still no detailed 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% while diluted the Company's equity interest to 49% from 60%. As Sichuan Hydropower is currently 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.

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11. NET PROFIT AFTER DEDUCTING NON-RECURRING ITEMS

	For the year ended 31st December 2006	For the year ended 31st December 2005
Net profit	5,550,381,540	4,762,625,031
Add/(Less): Non-recurring items		
– Net loss on disposal of fixed assets	104,763,374	138,883,566
– Reversal of bad debt provision	(43,573,266)	(71,558,513)
– Reversal of provision for inventory obsolescence	(2,453,163)	(252,147)
– Reversal of provision for long-term investment impairment	(42,000)	—
– Non-operating income	(15,364,907)	(42,456,406)
– Non-operating expenses	23,684,598	70,154,837
– Subsidy income	(6,268,900)	(27,836,622)
Tax impact on non-recurring items	762,184	(2,577,665)
Net profit after deducting non-recurring items	5,611,889,460	4,826,982,081