

华能国际电力股份有限公司
HUANENG POWER INTERNATIONAL, INC.



Annual Report On Form 20-F
2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 1-13314

华能国际电力股份有限公司
HUANENG POWER INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

PEOPLE'S REPUBLIC OF CHINA
(Jurisdiction of incorporation or organization)

WEST WING, BUILDING C, TIANYIN MANSION,
2C, FUXINGMENNAN STREET, BEIJING, PEOPLE'S REPUBLIC OF CHINA
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Ordinary American Depositary Shares	New York Stock Exchange
Overseas Listed Foreign Shares of RMB1.00 each.....	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Domestic Shares of RMB1.00 each.....	9,000,000,000
Overseas Listed Foreign Shares of RMB1.00 each	3,055,383,440

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

* Not for trading, but only in connection with the registration of American Depositary Shares.

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INTRODUCTION

We maintain our accounts in Renminbi yuan ("Renminbi" or "RMB"), the lawful currency of the People's Republic of China (the "PRC" or "China"). References herein to "US\$" or "US dollars" are to United States dollars, and references to "HK\$" are to Hong Kong dollars. References to ADRs and ADSs are to American Depositary Receipts and American Depositary Shares, respectively. Translations of amounts from Renminbi to US dollars are solely for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to US dollars or from US dollars to Renminbi were translated at the average rate announced by the People's Bank of China (the "PBOC Rate") on December 31, 2004 of US\$1.00 to RMB8.2765. No representation is made that the Renminbi or US dollar amounts referred to herein could have been or could be converted into US dollars or Renminbi, as the case may be, at the PBOC Rate or at all.

References to "A Shares" are to common shares issued to domestic shareholders.

References to the "Company" include, unless the context requires otherwise, Huaneng Power International, Inc. and the operations of our power plants and our proposed projects.

References to "HIPDC" are to Huaneng International Power Development Corporation and, unless the context requires otherwise, include the operations of the Company prior to the formation of the Company on June 30, 1994.

References to the "central government" refer to the national government of the PRC and its various ministries, agencies and commissions.

References to "Huaneng Group" are to China Huaneng Group Corporation.

References to the "key contracts" refer to coal purchase contracts entered into between the Company and coal suppliers at the annual national coal purchase conferences attended by, among others, representatives of power companies, coal suppliers and railway authorities. These conferences were coordinated and sponsored by NDRC. The Company enjoys priority railway transportation services with respect to coal purchased under such contracts.

References to "local governments" in the PRC are to governments at all administrative levels below the central government, including provincial governments, governments of municipalities directly under the central government, municipal and city governments, county governments and township governments.

References to "power plants" or "our power plants" are to the power plants that are wholly-owned by the Company or to the power plants in which the Company owns majority equity interests.

References to the "PRC Government" include the central government and local governments.

References to "provinces" include provinces, autonomous regions and municipalities directly under the central government.

References to the "State Plan" refer to the plans devised and implemented by the PRC Government in relation to the economic and social development of the PRC.

References to "tons" are to metric tons.

Previously, the Overseas Listed Foreign Shares were also referred to as the "Class N Ordinary Shares" or "N Shares". Since January 21, 1998, the date on which the Overseas Listed Foreign Shares were listed on The Stock Exchange of Hong Kong Limited by way of introduction, the Overseas Listed Foreign Shares have been also referred to as "H Shares".

GLOSSARY

actual generation	The total amount of electricity generated by a power plant over a given period of time.
auxiliary power	Electricity consumed by a power plant in the course of generation.
availability factor	For any period, the ratio (expressed as a percentage) of a power plant's available hours to the total number of hours in such period.
available hours	For a power plant for any period, the total number of hours in such period less the total number of hours attributable to scheduled maintenance and planned overhauls as well as to forced outages, adjusted for partial capacity outage hours.
capacity factor	The ratio (expressed as a percentage) of the gross amount of electricity generated by a power plant in a given period to the product of (i) the number of hours in the given period multiplied by (ii) the power plant's installed capacity.
demand	For an integrated power system, the amount of power demanded by consumers of energy at any point in time.
dispatch	The schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a plant means to direct the plant to operate.
excess output	The amount by which the total output of a power plant in a particular year exceeds its planned output for such year.
GW	Gigawatt. One million kilowatts.
GWh	Gigawatt-hour. One million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants.
installed capacity	The manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW.
kV	Kilovolt. One thousand volts.
kW	Kilowatt. One thousand watts.
kWh	Kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.
MVA	Million volt-amperes. A unit of measure used to express the capacity of electrical transmission equipment such as transformers.

MW	Megawatt. One million watts. The installed capacity of power plants is generally expressed in MW.
MWh	Megawatt-hour. One thousand kilowatt-hours.
Net Fixed Assets	The annual average of the book value of our fixed assets (less accumulated depreciation) and construction work in progress, each as determined in accordance with PRC statutory accounting principles.
peak load	The maximum demand on a power plant or power system during a specific period of time.
planned generation	An annually determined target gross generation level for each of our operating power plants used as the basis for determining planned output.
total output	The actual amount of electricity sold by a power plant in a particular year, which equals total generation less auxiliary power.
transmission losses	Electric energy that is lost in transmission lines and therefore is unavailable for use.

PART I

ITEM 1 Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2 Offer Statistics and Expected Timetable

Not applicable.

ITEM 3 Key Information

A. Selected Financial Data

Our consolidated balance sheet data as of December 31, 2004 and 2003 and the consolidated income statement and cash flow data for each of the years in the three-year period ended December 31, 2004 are derived from the historical financial statements included herein. Our consolidated balance sheet data as of December 31, 2002, and balance sheet data of the Company as of December 31, 2001 and 2000 and income statement and cash flow data for each of the years in the two-year period ended December 31, 2001, are derived from the historical financial statements not included herein. The Selected Financial Data should be read in conjunction with the consolidated financial statements and "Item 5 – Operating and Financial Review and Prospects". The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which differ from the generally accepted accounting principles in the United States of America ("US GAAP").

In accordance with IFRS, we have adopted the acquisition method to account for our acquisitions of power plants in 2003 and 2004. Accordingly, the consolidated financial statements and, except as otherwise noted, all other IFRS financial information presented in this Annual Report, include the results of these power plants, only from the respective dates of acquisition. In contrast, under US GAAP, our acquisitions of these power plants, except as otherwise noted as stated in Note 42 to the Financial Statements, are considered as combination of entities under common control and the acquired assets and liabilities are accounted for at historical cost in a manner similar to pooling of interests method. Accordingly, the consolidated financial statements for all periods presented have been retroactively restated as if the current structure and operations had been in existence since inception. The differences between IFRS and US GAAP that would have significant impact on the net income for each of the years in the three-year period ended December 31, 2004 and the equity as of December 31, 2004 and 2003 are set forth in Note 42 to the Financial Statements. The Selected Financial Data may not be indicative of future earnings, cash flows or financial position.

	Year Ended December 31,					
	2000	2001	2002	2003	2004	2004
<i>RMB and US dollars in thousands except per share data</i>	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)⁽¹⁾
Income Statement Data						
IFRS						
Operating revenue, net.....	12,553,254	15,791,362	18,474,469	23,388,237	30,118,278	3,639,011
Operating expenses.....	<u>(8,646,356)</u>	<u>(10,777,328)</u>	<u>(12,896,455)</u>	<u>(16,315,075)</u>	<u>(23,200,088)</u>	<u>(2,803,128)</u>
Profit from operations.....	3,906,898	5,014,034	5,578,014	7,073,162	6,918,190	835,883
Total financial expenses.....	(979,866)	(796,215)	(510,265)	(544,285)	(739,784)	(89,384)
Investment income	--	--	--	--	22,542	2,724
Gain / (Loss) from disposal of investments	--	24,671	1,288	10,705	(1,988)	(240)
Share of (loss) / profit of associates...	--	(5,381)	(11,145)	212,091	377,565	45,619
Other income, net.....	--	--	--	12,070	18,666	2,255
Profit before tax	<u>2,927,032</u>	<u>4,237,109</u>	<u>5,057,892</u>	<u>6,763,743</u>	<u>6,595,191</u>	<u>796,857</u>
Income tax expenses	(411,202)	(715,220)	(980,854)	(1,149,441)	(1,014,262)	(122,547)
Minority interests.....	--	(71,231)	(156,034)	(183,894)	(257,053)	(31,058)
Net profit	<u>2,515,830</u>	<u>3,450,658</u>	<u>3,921,004</u>	<u>5,430,408</u>	<u>5,323,876</u>	<u>643,252</u>
Basic earnings per share	0.23	0.31	0.33	0.45	0.44	0.05
Fully diluted earnings per share	0.22	0.30	0.33	0.45	0.44	0.05
US GAAP⁽²⁾						
Operating revenue, net.....			24,448,015	28,569,478	32,546,043	3,932,344
Net profit			3,900,715	5,736,109	5,740,320	693,569
Basic earnings per share			0.33	0.48	0.48	0.06
Fully diluted earnings per share			0.32	0.48	0.48	0.06

	As of December 31,					
	2000	2001	2002	2003	2004	2004
<i>RMB and US dollars in thousands except per share data</i>	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$) ⁽¹⁾
Balance Sheet Data						
IFRS						
Current assets.....	10,061,689	10,763,919	7,685,441	8,303,195	9,653,653	1,166,393
Property, plant and equipment, net	31,643,530	37,557,114	41,103,468	42,658,365	57,780,410	6,981,261
Available-for-sale investment.....	--	--	254,990	254,990	254,990	30,809
Investments in associates	--	226,488	200,960	2,766,031	4,328,307	522,963
Land use rights and other non- current assets.....	761,729	970,759	1,067,838	1,037,859	1,771,916	214,090
Deferred income tax assets	--	--	--	21,311	97,539	11,785
Goodwill	--	--	126,560	298,876	376,726	45,518
Less: Negative goodwill	--	(2,225,505)	(1,978,227)	(1,730,949)	(1,483,670)	(179,263)
Total assets	<u>42,466,948</u>	<u>47,292,775</u>	<u>48,461,030</u>	<u>53,609,678</u>	<u>72,779,871</u>	<u>8,793,556</u>
Current liabilities	7,070,603	8,922,347	7,652,216	9,242,408	16,732,953	2,021,741
Non-current liabilities.....	11,616,610	9,590,637	9,482,050	9,256,718	16,515,006	1,995,410
Minority interests.....	--	486,261	910,704	1,155,197	3,266,393	394,659
Shareholders' equity	<u>23,779,735</u>	<u>28,293,530</u>	<u>30,416,060</u>	<u>33,955,355</u>	<u>36,265,519</u>	<u>4,381,746</u>
Total liabilities and equity	<u>42,466,948</u>	<u>47,292,775</u>	<u>48,461,030</u>	<u>53,609,678</u>	<u>72,779,871</u>	<u>8,793,556</u>
US GAAP ⁽²⁾						
Total assets				62,668,092	69,469,597	8,393,596
Total liabilities.....				(26,160,956)	(32,843,927)	3,968,334
Minority interests.....				(1,694,609)	(2,597,561)	313,848
Shareholders' equity				<u>34,812,527</u>	<u>34,028,109</u>	<u>4,111,414</u>

	Year Ended December 31,					
	2000	2001	2002	2003	2004	2004
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$) ⁽¹⁾
Cash Flow Data						
IFRS						
Purchase of property, plant and equipment	(351,966)	(2,870,858)	(1,594,210)	(3,606,704)	(9,877,553)	(1,193,446)
Net cash provided by operating activities.....	5,643,361	5,918,896	7,079,718	9,533,289	8,162,701	986,250
Net cash (used in) / provided by investing activities	(5,317,519)	(4,564,536)	1,074,101	(5,225,080)	(13,650,285)	(1,649,282)
Net cash (used in) / provided by financing activities.....	(830,667)	(1,169,597)	(7,324,354)	(3,182,162)	3,654,467	441,547
US GAAP ⁽²⁾						
Purchase of property, plant and equipment.....			(2,655,461)	(5,292,642)	(10,524,671)	(1,271,633)
Net cash provided by operating activities.....			8,863,012	11,028,736	9,465,952	1,143,714
Net cash provided by / (used in) investing activities			1,689,723	(6,297,349)	(11,825,975)	(1,428,862)
Net cash (used in) / provided by financing activities			(10,078,444)	(4,008,934)	355,621	42,968
Other Financial Data						
IFRS and US GAAP						
Dividend declared per share.....	0.11	0.15	0.17	0.25	0.25	0.03
Number of ordinary shares ('000).....	11,300,000	12,000,000	12,000,548	12,055,342	12,055,383	12,055,383

(1) The US dollar data has been translated from RMB solely for convenience at the PBOC Rate on December 31, 2004 of US\$1.00 to RMB8.2765. See Item 10. Additional Information — Exchange control for more information on exchange rates between RMB and US dollars.

(2) The amounts as of December 31, 2004 and 2003 and for each of the years in the three-year period ended December 31, 2004 are presented to reflect the acquisitions of the power plants in a manner similar to pooling of interests method as well as the effects of other differences between IFRS and US GAAP.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Risks relating to our business and the PRC's power industry

Government regulation of power rates and other aspects of the power industry may adversely affect our business

Similar to electric power companies in other countries, we are subject to governmental and electric power grid regulations in virtually all aspects of our operations, including the amount and timing of electricity generation, power rates setting, performance of scheduled maintenance and compliance with power grid control and dispatch directives. There can be no assurance that these regulations will not change in the future in a manner which could adversely affect our operations. Since 1995, we have charged and collected power rates that were designed to enable us to recover all operating and debt service costs and to earn a fixed return on our Net Fixed Assets for certain of our power plants. However, there can be no assurance that there will not be any change in the implementation of the power rate setting principles that could materially adversely affect our

operations. In addition, the PRC government started in 1999 to experiment with a program to effect power sales through a bidding process in some of the provinces where we operate our power plants. The power rates for power sold by this bidding process are generally lower than the approved power rates for planned output. Although the power sales through the bidding process in the last 6 years constituted only a small fraction of our total output, it is expected that the government will expand the program in the future. On July 3, 2003, the State Council approved an electricity pricing reform plan and made it clear that the long-term objective of electric power pricing reform is to establish a standardized and transparent power price setting mechanism. At present, a detailed rule for the implementation of this pricing reform plan is in the process of being formulated. In 2004, NDRC proposed and the State Council approved a coal-electricity price linkage mechanism to allow power generation companies to adjust their power rates based on the prevailing market prices for coal. But the detailed rules for the implementation of this mechanism are still being formulated. There is no assurance that the power rates and the revenues of our power plants will not be adversely affected. See "Item 4 Information of the Company-B Business Overview – Pricing Policy."

If our power plants receive less dispatching than Planned Generation, the power plants will sell less electricity than planned

Our profitability depends, in part, upon each of our power plants generating electricity at a level sufficient to meet or exceed the Planned Generation, which in turn will be subject to local demand for electric power and dispatching to the grids by the dispatch Centres of the local grid companies.

The dispatch of electric power generated by a power plant is controlled by the Dispatch Centre of the applicable grid companies pursuant to a dispatch agreement with us and to governmental dispatch regulations. In each of the markets we operate, we compete against other power plants for power sales. No assurance can be given that the Dispatch Centres will dispatch the full amount of the Planned Generation of our power plants. A reduction by the Dispatch Centre in the amount of electric power dispatched relative to a power plant's Planned Generation could have an adverse effect on the profitability of our operations. However, we have not encountered any such bias in the past.

The power industry reform may negatively affect our business

PRC government in 2002 announced and started to implement measures to further reform the power industry, with the ultimate goal to create a more open and fair power market. As part of the reform, five power generation companies, including Huaneng Group, were created or restructured to take over all the power generation assets originally belonging to the State Power Corporation of China. In addition, two grid companies were created to take over the power transmission and distribution assets originally belonging to the State Power Corporation of China. An independent power supervisory commission, the State Electricity Regulatory Commission ("SERC"), was created to regulate the power industry. It is uncertain how these reform measures and any further reforms are going to be implemented and how they will impact our business. We may face enhanced competition as the reform is being carried out.

We are effectively controlled by HIPDC, whose interest may differ from those of our other shareholders

HIPDC, as our controlling shareholder, together with other local government investment companies, is able to elect the entire board of directors of the company. HIPDC's interests may sometimes conflict with those of our other minority shareholders. There is no assurance that HIPDC will always vote its shares, or direct the directors nominated by it to act in a way that will benefit our other minority shareholders.

Disruption in Fuel supply and its transportation may negatively affect the normal operation of our power plants

We have obtained our coal and oil supplies for our power plants through a combination of purchases pursuant to the key contracts and purchases on the open market. Although we have received sufficient and timely fuel supply and transportation services for our operations and have not experienced shutdowns or reduced electricity generation caused by inadequate fuel supply or transportation services, there can be no assurance that, in the event of national coal supply shortfalls, our operations will not be adversely affected.

Power plant development, acquisition and construction are a complex and time-consuming process, the delay of which may negatively affect the implementation of our growth strategy

We develop, construct, manage and operate large power plants; success depends upon our ability to secure all required PRC Government approvals, power sales and dispatch agreements, construction contracts, fuel supply and transportation and electricity transmission arrangements. Delay or failure to secure any of these could increase cost or delay or prevent commercial operation of the affected power plant. Although each of our power plants in operation and the power plants under construction received all required PRC Government approvals in a timely fashion, no assurances can be given that all the future projects will receive approvals in a timely fashion or at all.

We have generally acted as, and intend to continue to act as, the general contractor for the construction of our power plants. As with any major infrastructure construction effort, the construction of a power plant involves many risks, including shortages of equipment, material and labor, labor disturbances, accidents, inclement weather, unforeseen engineering, environmental, geological, delays and other problems and unanticipated cost increases, any of which could give rise to delays or cost overruns. Construction delays may result in loss of revenues. Failure to complete construction according to specifications may result in liabilities, decrease power plant efficiency, increase operating costs and reduce earnings. Although the construction of each of our power plants was completed on or ahead of schedule and within its budget, no assurance can be given that construction of future projects will be completed on schedule or within budget.

In addition, from time to time, we may acquire existing power plants from HIPDC, Huaneng Group or other parties. The timing and the likelihood of the consummation of any such acquisition will depend, among other things, on our ability to obtain financing and relevant PRC Government approvals and to negotiate relevant agreements for terms acceptable to us.

Substantial capital is required for investing in or acquiring new power plants and failure to obtain capital on reasonable commercial terms will increase our financing cost and cause delay in our expansion plans

An important component of our growth strategy is to develop new power plants and acquire operating power plants and related development rights from HIPDC, Huaneng Group or other companies on commercially reasonable terms. Our ability to arrange financing and the cost of such financing depend on numerous factors, including general economic and capital market conditions, credit availability from banks or other lenders, investor confidence in us and the continued success of our power plants. Although we have historically been able to obtain financing on terms acceptable to us, there can be no assurance that financing for future power plant developments and acquisitions will be available on terms acceptable to us or, in the event of an equity offering, that such offering will not result in substantial dilution to existing shareholders.

Operation of power plants involves many risks and we may not have enough insurance to cover the economic losses if any of our power plants' ordinary operation is interrupted

The operation of power plants involves many risks and hazards, including breakdown, failure or substandard performance of equipment, improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards and industrial accidents. The occurrence of material operational problems, including but not limited to the above events, may adversely affect the profitability of a power plant. We maintain insurance typical in the electric power industry in China and in amounts that we believe to be adequate. Such insurance, however, may not provide adequate coverage in certain circumstances. In particular, in accordance with industry practice in the PRC, we do not currently carry any business interruption insurance or, except for third party liability insurance coverage for accidents during capital construction and equipment installation and other types of assets insurances, any third party liability insurance to cover claims in respect of bodily injury or property or environmental damage arising from accidents on our property or relating to our operation except for one of our power plants. Although each of our power plants has a good record of safe operation, there is no assurance that the afore-mentioned accidents will not occur in the future.

If the PRC government adopts new and stricter environmental laws and additional capital expenditure is required for complying with such laws, the operation of our power plants may be adversely affected and we may be required to make more investment in compliance with these environmental laws

Our power plants, like all coal- and oil-fired power plants, discharge pollutants into the environment. We are subject to central and local government environmental protection laws and regulations, which currently

impose base-level discharge fees for various polluting substances and graduated schedules of fees for the discharge of waste substances. These laws and regulations impose fines for violations of laws, regulations or decrees and provide for the possible closure by the central government or local government of any power plant which fails to comply with orders requiring it to cease or cure certain activities causing environmental damage.

We attach great importance to the environmental related matters of our existing power plants and our power plants under construction. We have implemented a system that is designed to control pollution caused by our power plants, including the establishment of an environmental protection office at each power plant, adoption of relevant control and evaluation procedures and the installation of certain pollution control equipment. We believe our environmental protection systems and facilities for the power plants are adequate for us to comply with applicable central government and local government environmental protection laws and regulations. The PRC Government may impose new, stricter laws and regulations which would require additional expenditure on environmental protection.

The PRC is a party to the Framework Convention on Climate Change ("Climate Change Convention"), which is intended to limit or capture emissions of "greenhouse" gases, such as carbon dioxide. Ceilings on such emissions could limit the production of electricity from fossil fuels, particularly coal, or increase the costs of such production. At present, ceilings on the emissions of "greenhouse" gases have not been assigned to developing countries under the Climate Change Convention. Therefore, the Climate Change Convention would not have a major effect on the Company in the short-term because the PRC as a developing country is not obligated to reduce its emissions of "greenhouse" gases at present, and the PRC government has not adopted relevant control standards and policies. If the PRC were to agree to such ceilings, or otherwise reduce its reliance on coal-fired power plants, our business prospects could be adversely affected.

If there is a devaluation of Renminbi, our debt burden will increase and the dividend return to our overseas shareholders may decrease

As a power producer operating only in China, we collect our revenues in Renminbi and have to convert Renminbi into foreign currencies to (i) repay some of our borrowings which are denominated in foreign currencies, (ii) purchase foreign made equipment and parts for repair and maintenance, and (iii) pay out dividend to our overseas shareholders. Although China has had a stable foreign exchange rate for Renminbi for the last several years, there is no assurance that there will not be a significant devaluation of Renminbi in the future. And if there is such a devaluation, our debt servicing cost will increase and the return to our overseas investors may decrease.

Forward-looking information may prove inaccurate

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "anticipate," "believe," "estimate," "expect," "going forward" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statement. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. We do not intend to update these forward-looking statements.

Risks relating to the PRC

PRC economic, political and social conditions as well as government policies could significantly affect our business

All of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including government involvement, level of development, economy growth rate, control of foreign exchange, and allocation of resources.

The economy of China has been transitioning from a planned economy to a more market oriented economy. Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a high level of management autonomy. Some of

these measures will benefit the overall economy of China, but may have a negative effect on us. For example, our operating results and financial condition may be adversely affected by changes in taxation, changes in power rates for our power plants, changes in the usage and costs of state controlled transportation services, and state policies affecting the power industry.

Interpretation of PRC laws and regulations involves significant uncertainties

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited value as precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. In addition, as the PRC legal system develops, we cannot assure that changes in such laws and regulations, and their interpretation or their enforcement will not have a material adverse effect on our business operations.

We are subject to certain PRC regulations governing PRC companies that are listed overseas. These regulations contain certain provisions that are required to be included in the articles of association of these PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the US, the UK and other developed countries or regions. Such limited investor protections are compensated for, to a certain extent, by the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas and certain additional requirements that are imposed by the Listing Rules of The Hong Kong Stock Exchange with a view to reduce the magnitude of differences between the Hong Kong Company Law and PRC Company Law. The articles of association of all PRC companies listed in Hong Kong must incorporate such Mandatory Provisions and these additional requirements. Although our Articles of Association have incorporated such provisions and requirements, there can be no assurance that our shareholders will enjoy protections to which they may be entitled in other jurisdictions.

ITEM 4 Information on the Company

A. History and development of the Company

Our legal and commercial name is Huaneng Power International, Inc. Our head office is at West Wing, Building C, Tianyin Mansion, 2C, Fuxingmennan Street, Beijing, People's Republic of China and our telephone number is (8610)66491999. We were established in June 1994 as a company limited by shares organized under the laws of the People's Republic of China.

In 2004, we made the following acquisitions, all of which were financed by our own funds. Please see "Item 4 Information of the Company — Property, plants and equipment" for a detailed description of these newly acquired power plants:

- 90% equity interest of Jinggangshan Huaneng Power Generation Limited Liability Company ("Jinggangshan Power Plant"), 40% equity interest of Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Plant") from the Huaneng Group;
- the entire assets and liabilities in Yingkou Power Plant, 60% equity interest of Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Plant") and 55% equity interest of Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Plant") from HIPDC; and
- 10% equity interest of Jinggangshan Power Plant from Jiangxi Provincial Investment Corporation.

The above acquisitions were completed on July 1, 2004. These acquisitions increased our attributable generation capacity by 3,096 MW and attributable generation capacity under construction by 1,050 MW. The total consideration for these acquisitions was RMB4.575 billion.

In January, 2005, we acquired 60% equity interest of Sichuan Huaneng Hydropower Development Corporation, Ltd. ("Sichuan Hydropower") and 65% equity interest of Gansu Huaneng Pingliang Power Generation Limited Liability Company ("Pingliang Power Plant") from the Huaneng Group. These acquisitions increased our attributable generation capacity by 1,146 MW and attributable capacity under construction by 389 MW. The total consideration for these acquisitions was RMB2.0256 billion.

See "Item 5 Operating and Financial Review and Prospects — Liquidity and Cash Resources" for a description of the Company's principal capital expenditures since the beginning of its last three financial years.

B. Business overview

We are one of China's largest independent power producers based on the total attributable generation capacity of 21,418 MW as of March 31, 2005. We wholly own 16 operating power plants and have controlling interests in 10 operating power companies and minority interests in 4 operating power companies. Our power plants are in 13 of China's provinces: Liaoning, Hebei, Shanxi, Shandong, Henan, Fujian, Jiangsu, Zhejiang, Guangdong, Jiangxi, Gansu, Hunan, Sichuan, and in Shanghai and Chongqing Municipalities. In 2004, our power plants had an average availability factor of 93.84% and an average capacity factor of 72.92%. We also have 6,383 MW total generation capacity under construction in the same areas. We believe that these areas where our power plants are located present greater potential for increasing demand for electricity and enjoy the most favorable conditions for running power plants. To maintain our leadership position among independent power producers and to enhance shareholders' value, we will focus on more efficient operation of our current power plants and aggressively pursue our development strategy. Our development strategy is to place equal emphasis on acquisition and development, on greenfield and expansion plants, on coal-fuel and other feasible fuel sources, and on domestic and foreign funds and equipment.

We will also continue to leverage our relationship with HIPDC, our controlling shareholder, as well as with Huaneng Group, the controlling shareholder of HIPDC, in respect of acquisition and development of power projects. We have a preferential right to purchase interest in existing power plants owned by Huaneng Group and HIPDC and the preferential right on all of their respective future power development projects that we may realistically develop. In 2002, the restructured Huaneng Group reiterated its support policy to us. Furthermore, we entered into an Entrusted Management Agreement with Huaneng Group and HIPDC in relation to the management of their respective coal-fired power plants. By entering into the Entrusted Management Agreement,

we will further accumulate management experience as a result of the expansion of our operation scale and set a precedent for large-scale and multi-entities entrusted management in the PRC. Some of these coal-fired power plants could be our potential acquisition targets. In addition, we may also entrust to Huaneng Group the management of our power plants under certain circumstances. For instance, on April 11, 2005, we entered into an Entrusted Management Agreement with Huaneng Group, pursuant to which we have entrusted Huaneng Group to manage certain matters of Sichuan Hydropower. Please see "Item 7 — Major Shareholders and Related Party Transactions" for detailed description of the Entrusted Management Agreement.

We believe our significant capability in the development and construction of power projects, as exemplified in the completion of our projects under construction ahead of schedule, and our experience gained in the successful acquisitions of power assets in recent years will enable us to take full advantage of the opportunities presented in China's power market and made available to us through our relationship with HIPDC and Huaneng Group.

With respect to the acquisition or development of any project, we will consider, among other factors, changes in power market conditions, and adhere to prudent commercial principles in the evaluation of the feasibility of the project. In addition to business development strategies, we will continue to work on our profit enhancement through relentlessly strengthening cost control, especially in respect of fuel costs and construction costs, so as to hedge against fluctuations in fuel price and increase competitiveness in the power market.

In 2004, our business operations were adversely affected by the rising price and poor quality of coal supplies caused by coal shortages on a nationwide basis. Although we took various cost-control measures, we were not able to fully offset the adverse effect that the rising coal prices had on the cost of our operations.

Development of power plants

The process of identifying potential sites for power plants, obtaining government approvals, completing construction and commencing commercial operations is usually lengthy. However, because of our significant experience in developing and constructing power plants, we have been able to identify promising power plant projects and to obtain all required PRC Government approvals in a timely manner.

Opportunity Identification and Feasibility Study

We initially identify an area in which additional electric power is needed by determining its existing installed capacity and projected demand for electric power. The initial assessment of a proposed power plant involves a preliminary feasibility study. The feasibility study examines the proposed power plant's land use requirements, access to a power grid, fuel supply arrangements, availability of water, local requirements for permits and licenses and the ability of potential customers to afford the proposed power rates. To determine projected demand, factors such as economic growth, population growth and industrial expansion are used. To gauge the expected supply of electricity, the capacities of existing plants and plants under construction or development are studied.

Approval Process

In 2003, National Development and Reform Commission ("NDRC") was created to replace the former State Development Planning Commission. Prior to July, 2004, any project proposal and supporting documents for new power plants must first be submitted to the NDRC for approval and then be submitted to the State Council. In July, 2004, the State Council of the PRC reformed the fixed asset investment regulatory system in China. Under the new system, new projects in the electric power industry that do not use government funds will no longer be subject to the examination and approval procedure. Instead, they will only be subject to a confirmation and registration process. Coal-fired projects will be confirmed by and registered with the relevant department of the central government while non-coal fired power plants will be subject to confirmation and registration by the relevant local government departments. Under a circular issued by NDRC in September 2004, coal-fired power plants with installed capacity of 1,200 MW or more will be subject to confirmation by the NDRC and the State Council.

Joint venture power projects are subject to additional governmental approvals. Approval by Ministry of Commerce (the former Ministry of Foreign Trade and Economic Cooperation) is also required when foreign investment is involved.

Permits and Contracts

In developing a new power plant, we and third parties are required to obtain permits before commencement of the project. Such permits include operating licenses and similar approvals related to plant site, land use, construction, and the environment. To encourage the cooperation and support of the local governments of the localities of the power plants, it has been and will be our policy to seek investment in such power plants by the relevant local governments.

Power Plant Construction

We have generally acted as the general contractor for the construction of our power plants. Equipment procurement and installation, site preparation and civil works are subcontracted to domestic and foreign subcontractors through a competitive bidding process. All of our power plants were completed on or ahead of schedule, enabling certain units to enter service and begin generating income earlier than the estimated in-service date.

Import Duties

On April 1, 1996, the central government reduced the "general level" of China's import duties to 23%. Along with the change in import duties, preferential import duty treatment, including exemptions and reductions, for equipment and raw materials imported by foreign-invested enterprises ("FIEs") were eliminated. As a FIE, we had enjoyed duty-free treatment of equipment imported for the power plants wholly owned by us. Under the new regulations implemented after 1996, equipment and raw materials imported by FIEs may continue to enjoy duty-free treatment if the relevant project was approved before April 1, 1996. In October, 1997 the central government further lowered the general level of China's import duties to 17%. Any import duties will be reflected in adjustments to our power rates under the Pricing Policy and the Electric Power Law. In addition, the central government in 1998 reinstated the import-duty exemption policy for equipment imported by FIEs that invested in projects encouraged by the central government under the Catalogue for the Guidance of Foreign Investment Industries that is amended by the PRC government from time to time ("the Catalogue"). Pursuant to the current Catalogue issued on March 11, 2002, construction and operation of coal-fired power plants with 300 MW or larger generating units or of power plants with clean-burning coal technologies belong to the category of encouraged projects. Under the relevant Chinese laws, FIEs will continue to be entitled to import duty exemption with respect to imported equipment and raw materials for investment projects that fall into the encouraged category under the current Catalogue. As a FIE, we are eligible for import-duty exemption for imported generating units, as all our planned power plants or power plants under construction meet the conditions for encouraged projects under the current Catalogue. In 2004, we started applying for import-duty exemption for imported generating equipments in the amount of RMB100 million for the Yuhuan project.

In addition, China's general import-tariff level has been declining annually since China acceded to the WTO in November, 2001. China's average import-tariff rate for 2003 is 11.3%, which was reduced to 10.4% in 2004. Starting from January 1, 2005, the average import-tariff rate has been further reduced to 9.9%. In general, China's entry to WTO will bring its import-tariff to a level consistent with the average level of all other WTO members.

Plant Start-up and Operation

We have historically operated and intended to continue to operate our power plants. Our power plants have established management structures based on modern management techniques. We select the superintendent for a new power plant from the senior management of our operating plants early in the construction phase of the new plant, invest in the training of operational personnel, adopt various rational management techniques and structure its plant bonus program to reward efficient and cost-effective operation of the plant in order to ensure the safety, stability and high level of availability of each power plant. Our senior management meets several times a year with the superintendents of the power plants as a group, fostering a team approach to operations, and conducts annual plant performance reviews with the appropriate superintendent, during which opportunities to enhance the power plant's performance and profitability are evaluated.

After a generating unit is constructed, the contractor tests its installation and systems. Following such tests, the contractor puts the unit through a continuous 168-hour trial run at full load. After successfully passing the continuous 168-hour test, the unit may enter into commercial operation.

Pricing policy

Because we were established to develop power plants using advanced equipment and technology financed with foreign and domestic loans, our power rates, under the authority of State Council Document 72, were initially designed to ensure recovery of all production and financing costs and yield a profit of RMB40 to RMB50 per MWh during the period when such loans were outstanding.

On June 6, 1994, the former Ministry of Electric Power ("MEP") announced the pricing policy (the "Pricing Policy") applicable to us. The Pricing Policy specifies that our power rates should be determined with reference to international principles and methods for setting power rates based upon the return on net fixed assets methodology to which international investors are accustomed.

While we anticipate that we will consistently generate a profitable return and recover our costs under the existing Pricing Policy, there is no assurance that the government agencies will approve our proposed power rates in accordance with the Pricing Policy. We have received power rates that delivered a return below the permitted 15% return on the Net Fixed Assets in the last several years. The Electric Power Law, which came into effect in 1997, has provided for the general principles for determining power rates in the future. The power rate granted to a power producer shall be formulated to provide reasonable compensation for costs as well as a reasonable return, to share expenses fairly and to promote the construction of power projects.

On July 3, 2003, the State Council approved a power pricing reform plan and made it clear that the long-term objective of power pricing reform is to establish a standardized and transparent power price setting mechanism. At present, the detailed rules for the implementation of this reform plan are being formulated.

In 2003, coal prices increased and certain parts of China experienced severe power shortage due to increased demand for power caused by various factors including the rapid expansion of the Chinese economy. To adjust the demand and supply for electric power and also to address the adverse effect that the increase of coal prices had on the power industry, NDRC issued the "Circular on Adjusting Power Rate" with the approval of the State Council in December 2003. Pursuant to such circular, effective as of January 1, 2004, on-grid power rate of coal-fired power plants that supply power to the grids at provincial or higher level increased (except for our power plants in Shandong Province) by RMB7/MWh (inclusive of taxes) to offset their higher cost of operation due to increase in coal prices in 2003 and 2004. Effective as of January 1, 2004, newly operated power plants, which have not yet received on-grid power rate, are allowed to sell power at rates equal to the previous year's average on-grid power rates of their service areas. The existing power plants are allowed to sell output (actual output in that financial year minus 2003 actual output) based on the previous year's average on grid power rates of their service area.

In the second half of 2004, the NDRC took further steps to address the adverse effect that rising coal prices had on the power industry by issuing circulars permitting power generation companies to adjust power rates sold to Northern China Power Grids, Central China Power Grids, Eastern China Power Grids and Northeast China Power Grids, respectively. In accordance with the spirit of these circulars, we have increased the power rates of most of our power plants located in these areas to the permitted level. New rates for our power plants supplying power to the Northern China Power Grids, Central China Power Grids and Eastern China Power Grids became effective on June 15, 2004, and the new rate for our power plants supplying power to the Northeast China Power Grids became effective on June 25, 2004. In addition to the above, we have also increased the rates applicable to the excess output of our power plants located in Shanghai Municipality, Jiangsu Province and Zhejiang Province to RMB0.28 (previously RMB0.26), RMB0.30 (previously RMB0.28) and RMB0.338 (previously RMB0.328), per kWh, respectively. These new rates became effective on June 15, 2004. Furthermore, with the approval of the relevant government authorities, we have increased the approved rate applicable to the planned on-grid output of Shidongkou I Power Plant for 2004 by RMB0.0169 per kWh, to mitigate the adverse effect on such plant caused by the rising coal prices.

To more effectively address the problem of rising coal prices, in December, 2004, NDRC proposed and the State Council approved a pricing mechanism that would establish a link between power and coal prices, allowing power generation companies to increase their rates to account for coal price increases. At present, the detailed rules for the implementation of this mechanism are being formulated. See "Item 5 Operating and Financial Review and Prospects — Trend Information" for a detailed discussion of this new pricing mechanism.

Power sales

Each of our power plants has entered into a written agreement with the local grid companies for the sales of its power output. Generally, the agreement has a fixed term of multiple years and provides that the annual utilization hours of the power plant will be determined with reference to the average annual utilization hours of the similar generating units connected to the same grid.

In 2003, SERC and the State Administration of Commerce and Industry jointly promulgated a model contract form (the "Model Contract Form") for use by power grid companies and power generation companies in connection with electricity sale and purchase transactions. The Model Contract Form contains provisions on the parties' rights and obligations, amount of electricity subject to purchase, payment method and liabilities for breach of contract, etc. We believe that the publication of the Model Contract Form has facilitated the negotiation and execution of electricity purchase contracts between power grid companies and power generation companies in a fair, transparent and efficient manner, thereby reducing transaction costs and improving performance rate of both power grid companies and power generation companies. In 2004, all of the agreements entered into between our power plants and the local grid companies are based on the Model Contract Form.

In 2004, a small percentage of power output of Dalian, Dandong, Shidongkou II, Shidongkou I, Yushe, Yingkou and Fuzhou Power Plants has been sold through the power bidding process. This practice was suspended in the second half of 2004 to facilitate the transition to the regional power market in both the Northeast and Eastern China, which was started as a pilot program by NDRC in June 2003.

The power market of the Northeast region commenced operation on January 15, 2004 by adopting a "dual pricing with full competition" mode. The market has been in trial operation since the end of 2004 after several simulated operations and has held its annual price bidding.

The trial operation has been suspended for the purpose of amending and improving the rules of the operation. In the meantime, all the power plants are following the settlement methods used in 2004. At present, partial amendment of such rules of operation has been completed and an opinion on perfecting the trial operation of the power market in the Northeast region has been formulated by SERC. On April 4, 2005, SERC and NDRC jointly issued a circular requiring the power market of the Northeast region to start holding monthly price bidding on a trial basis in April 2005.

The Company has 3 power plants in the Northeast region, namely Dalian Power Plant, Dandong Power Plant and Yingkou Power Plant with a total of 8 generating units and an aggregate generation capacity of 2,740 MW. All of them are located in the loading centre in Liaoning.

To ensure a fair market environment for the three power plants in Liaoning, the Company will keep itself updated on the changes of the relevant rules and will actively support and participate in the establishment of the power market of the Northeast region. The Company believes that it can optimize its competitive strengths under a fair, reasonable and open market environment.

According to the "Pilot Scheme for the Power Market of the Eastern Region" (the "Pilot Scheme"), 85% of the power sales will be carried out in the form of annual contracts during the first stage and 15% will be carried out by way of price bidding.

The power market of the Eastern region commenced a simulated operation on May 18, 2004. The results revealed that the relevant rules shall be subject to further amendments and modifications.

Currently, the Company has 8 power plants or 22 power generating units with an aggregate generation capacity of 7,140 MW, representing 15% of the aggregate capacity of all bidding units in the Eastern region. Most of the power plants are located in regions short of power supply such as Jiangsu, Shanghai and Fujian and most of them are located in regional loading centres. Most of the power plants consist of individual units with large-capacity and high-performance, together with small number of employees and high-standard management. Under the centralized management of the Company, these power plants will remain highly competitive in their markets.

Due to the fact that the power market in the Eastern region is partly competitive on power sale and the power demand will increase rapidly, this region is estimated to remain in short power supply in the coming two

years. Therefore, even in the case of the regional market entering into official operation, there will not be any material impact on the Company.

Usually the power rate determined under the bidding practice is lower than the power rate for planned generation, primarily because the competitive bidding drives down the prices. We believe, however, that the output subject to the bidding practice represents only a small portion of our total output and power rate applicable to this portion is calculated to enable the power plants to at least recover variable costs, part of fixed costs and also produce some profit. For our planned generation, the power rate is still determined on a basis which permits us to recover all the operating costs plus a margin of profit. Establishing regional power markets and increasing the use of the bidding method are the general trend in China's power market reform, which is conducive to creating a competition environment that is fair, transparent and equitable. We believe that this reform will benefit the Company in the long-term. We will adopt different bidding strategies and fully take advantage of the large scales of our power plants in accordance with the specific circumstances of different power grids and different power plants, thereby maximizing our profits in the power bidding process. We also believe that our large and highly efficient generating units are competitive in a more open, orderly and fair market.

The following table sets forth the average power rates (RMB/MWh) of electric power sold by our power plants, for each of the five years ended December 31, 2004 and the approved power rates for 2004 and 2005.

	2000	2001	2002	2003	2004		2005
	Average Rate ⁽¹⁾	Approved Rate ⁽¹⁾	Approved Rate ⁽¹⁾				
Dalian Power Plant.....	--	291.38	280.53	272.69	283.62	323.00 ⁽²⁾	323.00
Phase I.....	316.53	--	--	--	--	--	--
Phase II.....	305.42	--	--	--	--	--	--
Fuzhou Power Plant.....	--	--	327.80	331.82	365.00	372.50 ⁽³⁾	372.50
Phase I.....	353.40	357.50	--	--	--	--	--
Phase II.....	405.35	349.18	--	--	--	--	--
Nantong Power Plant.....	--	318.38	309.54	312.52	325.18	338.00 ⁽⁴⁾	338.00
Phase I.....	323.71	--	--	--	--	--	--
Phase II.....	323.71	--	--	--	--	--	--
Shangan Power Plant.....	--	--	315.65	307.94	303.25	324.00 ⁽⁴⁾	324.00
Phase I.....	283.30	292.71	--	--	--	--	--
Phase II.....	379.50	371.73	--	--	--	--	--
Shantou Oil-Fired Plant.....	669.77	618.24	621.02	672.41	604.08	594.39	594.39
Shantou Power Plant.....	473.85	473.85	455.95	435.17	446.86	449.41 ⁽⁵⁾	449.41
Shidongkou II.....	362.44	356.76	345.90	332.85	342.56	374.00 ⁽⁶⁾	374.00
Dandong Power Plant.....	306.27	298.93	273.70	276.95	289.05	332.00 ⁽⁷⁾	332.00
Nanjing Power Plant.....	325.68	318.60	304.07	307.31	321.67	338.00 ⁽⁸⁾	338.00
Dezhou Power Plant (Phase I, II & III).....	--	340.33	339.64	333.34	332.58	336.97 ⁽⁹⁾	336.97
Jining Power Plant Phase I, II.....	--	267.31	275.15	274.66	299.89	282.26 ⁽¹⁰⁾	282.26
Phase III.....	--	--	--	--	299.89	321.50 ⁽¹¹⁾	321.50
Weihai Power Plant.....	--	390.72	393.74	386.50	394.06	397.00 ⁽¹²⁾	397.00
Shidongkou I.....	--	--	252.97	256.64	285.43	281.00 ⁽¹³⁾	281.00
Taicang.....	--	--	317.52	321.80	341.10	365.00 ⁽¹⁴⁾	365.00
Huaiyin Power Plant Phase I.....	--	--	314.79	317.21	330.88	344.00 ⁽¹⁵⁾	344.00
Phase II.....	--	--	--	--	--	344.00	370.00
Changxing.....	--	--	362.70	320.57	351.94	371.00 ⁽¹⁶⁾	371.00
Yushe Power Plant Phase I.....	--	--	--	200.63	282.10	308.00 ⁽¹⁷⁾	308.00
Phase II.....	--	--	--	--	282.10	250.00 ⁽¹⁷⁾	250.00
Qinbei.....	--	--	--	--	--	290.00	290.00
Xindian.....	--	--	--	342.41	320.83	321.50 ⁽¹⁸⁾	321.50
Luohuang Power Plant.....	--	--	--	--	286.74	290.00 ⁽¹⁹⁾	290.00
Yueyang Power Plant.....	--	--	--	--	316.52	345.00 ⁽²⁰⁾	345.00
Yingkou Power Plant.....	--	--	--	--	315.48	355.00 ⁽²¹⁾	355.00
Jinggangshan Power Plant.....	--	--	--	--	325.67	348.00 ⁽²²⁾	348.00

Notes:

- (1) Includes value-added tax.
- (2) 321 before the change on June 25, 2004.
- (3) 372 before the change on June 15, 2004.
- (4) 341 before the change on June 15, 2004.
- (5) 443.41 before the change on June 15, 2004.
- (6) 375.80 before the change on June 15, 2004.
- (7) 330 before the change on June 25, 2004.
- (8) 341 before the change on June 15, 2004.
- (9) 354 for Phase I and Phase II and 321.5 for Phase III before the change on November 1, 2004.
- (10) 280.76 for Phase I and II before the change on June 15, 2004.
- (11) 320 before the change on June 15, 2004.
- (12) 395.5 before the change on June 15, 2004.
- (13) 266.51 before the change on June 15, 2004.
- (14) 372 before the change on June 15, 2004.
- (15) 350 for Phase I before the change on June 15, 2004.
- (16) 339.16 before the change on June 15, 2004.
- (17) the rate became effective as of January 1, 2004.
- (18) 320 before the change on June 15, 2004.
- (19) 288.71 before the change on June 15, 2004.
- (20) 351 before the change on June 15, 2004.
- (21) 353 before the change on June 15, 2004.
- (22) 362 before the change on June 15, 2004.

Fuel supply arrangements

In 2004, twenty-two of our twenty-three power plants are fueled by coal, and only Shantou Oil-Fired Power Plant is a combined-cycle facility fueled by oil.

Coal

Most of the coal supply for the twenty-two coal-fired power plants is obtained from numerous coal producers in Shanxi Province.

In recent years, as part of its efforts to make a transition from a comprehensive planned economy to a "socialist market economy," the PRC has experimented with a variety of methods of setting coal prices. In 1996, the government allowed coal prices to fluctuate within a range around a reference price for coal allocated under the State Plan to be used in electricity generation, and set maximum allowable prices in various coal-producing areas for coal used in electricity generation.

From 2002 to 2003, there was no longer official State Plan for coal supplies, but the government continues to coordinate the coal prices at the annual national coal purchase conferences attended by, among others, representatives of each of power companies, coal suppliers, and the railway authorities and sponsored and coordinated by NDRC. Starting from 2004, although such annual coal purchase conferences continue to be held, only key contracts are negotiated and executed at such conferences.

In 2004, we consumed a total of 52.68 million tons of coal, 42.3% of which was purchased under the key contracts, and the remainder was purchased from the open market.

Coal prices for our company, including transportation costs and miscellaneous expenses, averaged approximately RMB307.92 per ton in 2004. We strive to reduce the fuel costs in a number of ways, including seeking to purchase high quality coal at competitive prices directly from coal mines or coal shipment terminals,

improving coal storage management and inspection and demanding compensation from suppliers for failure to deliver coal of the specified quantity and quality in accordance with the relevant purchase arrangements. We have also started to experiment in some of our power plants with the method of mixing different types of coal as a measure of cost reduction. Although we took various cost-control measures, we were not able to fully offset the adverse effect that the rising coal prices had on the cost of our operations in 2004.

In order to address the shortage of coal supplies, we have entered into 7 medium to long-term agreements with major coal suppliers to secure stable prices for our coal supplies from 2005 to 2009. At the same time, we also signed coal supply contracts with coal suppliers at the annual national coal purchase conference for 2005. Through these measures, we seek to further strengthen the stable coal supplies for our power plants.

We have entered into purchase agreements with coal suppliers to purchase 52.05 million tons of coal for 2005, which is about 85% of the coal required for the total planned generation of the Company. This amount includes both the amount covered by the medium and long term coal supply agreements we have entered into with coal suppliers and the amount settled at annual coal purchase conferences sponsored and coordinated by NDRC.

Oil

The crude oil of Shantou Oil-Fired Plant is transported by pipeline to Huangdao in Eastern Shandong Province, loaded onto ships, shipped along the coast to the Zhanjiang port in Western Guangdong, trans-shipped to the Shantou port, unloaded into storage tanks in Shantou and finally transported to the Shantou Oil-Fired Power Plant by pipeline.

In 2004, the crude oil from the Shengli Oil Field to Shantou was RMB2,352.6 per ton (CIF Price).

Repair and maintenance

Each of our power plants has a timetable for routine maintenance, regular inspections and repairs. Such timetables and the procedures for the repair and maintenance of generating units comply with the relevant regulations promulgated by the former MEP.

Pursuant to our procedures, generating units with a capacity of 350 MW or more are currently operating on a cycle of four to six years. At the end of each operating cycle, an overhaul is carried out. In each cycle, there are four different levels of maintenance:

- (i) regular checks and routine maintenance are carried out throughout the period during which a generating unit is in operation;
- (ii) a small-scale servicing is performed every year, which takes approximately 20 days;
- (iii) a medium-scale check-up is carried out between the two overhauls, the length of which depends on the actual condition of the generating unit at the time of the check-up; and
- (iv) a full-scale overhaul is conducted at the end of each operating cycle, which takes approximately 60 days.

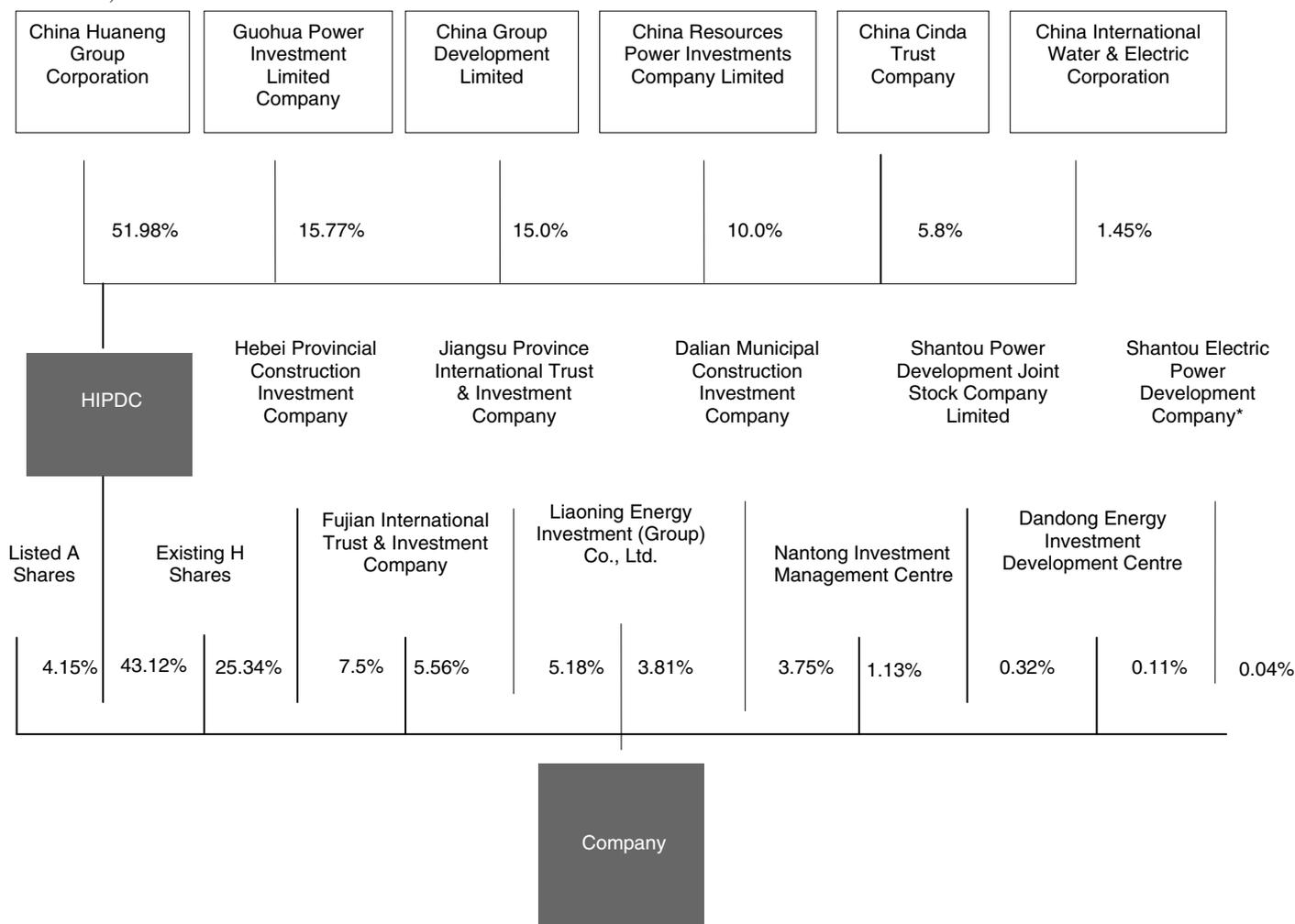
With respect to the Shantou Oil-Fired Power Plant, repair and maintenance are scheduled according to cumulative operating hours. A small-scale servicing takes approximately seven days. A full-scale maintenance takes approximately 30 days.

C. Organizational Structure

We are 43.12% owned by HIPDC, which in turn is a subsidiary of Huaneng Group. Huaneng Group was established in 1988 with the approval of the State Council. In 2002, Huaneng Group was restructured as one of the five independent power generation group companies to take over the power generation assets originally belonging to the State Power Corporation of China. Huaneng Group has a registered capital of RMB20 billion and is controlled and managed by the central government. Huaneng Group is principally engaged in the development, investment, construction, management and operation of energy related projects as well as the production and sale of electric (thermal) power. In addition to this core business, Huaneng Group also engages in the development, investment, construction, products and sale of projects and products in the information, transportation, new energy source and environmental industries.

HIPDC was established in 1985 as a joint venture with 51.98% of its interest currently owned by Huaneng Group. HIPDC is engaged in developing power plants using foreign capital. Some of the power plants currently owned and operated by us were originally built and later transferred to us by HIPDC. Both Huaneng Group and HIPDC have agreed to give us preferential rights in the power development business and power assets transfers.

The following organizational chart sets forth the organizational structure of us and HIPDC as of December 31, 2004:



Note: *On May 12, 2004, Shantou Electric Power Development Company ("SEPDC") transferred to HIPDC 30,000,000 legal person shares of the Company held by SEPDC. Thereafter, on December 21, 2004, SEPDC further transferred to HIPDC additional 28,000,000 legal person shares of the Company held by it in consideration for HIPDC's payment of certain debt obligations owed by SEPDC to Bank of Communications Shantou Branch as part of a court-ordered debt settlement plan.

D. Property, plants and equipment

The following table presents certain summary information on our power plants, projects under construction and proposed projects.

Summary Information on the Company's Power Plants and Proposed Projects (as of March 31, 2005)

Plant or Expansion (Names as defined below)	Province/ Municipality	Actual/Estimated In-service Date ⁽¹⁾	Total Actual Cost ⁽²⁾ (Millions RMB/ Millions US\$)	Current Installed Capacity (MW)	Ownership %	Attributable Capacity MW	Type of Fuel
Power Plants							
Shantou Oil-Fired ⁽⁵⁾	Guangdong	Units I & II: Jan. 1987 Unit III: April 1988	215/24.7	2 x 34.1 1 x 34.95	100%	103	Oil
Dalian Phase I	Liaoning	Unit I: Sep. 1988 Unit II: Dec. 1988	1,569/180	2 x 350	100%	700	Coal
Phase II		Unit III: Jan. 1999 Unit IV: Jan. 1999	3,554/408	2 x 350	100%	700	Coal
Fuzhou Phase I	Fujian	Unit I: Sep. 1988 Unit II: Dec. 1988	1,713/197	2 x 350	100%	700	Coal
Phase II		Unit III: Oct. 1999 Unit IV: Oct. 1999	3,535/406	2 x 350	100%	700	Coal
Nantong ⁽⁵⁾ Phase I	Jiangsu	Unit I: Sep. 1989 Unit II: March 1990	1,682/193	2 x 352	100%	704	Coal
Phase II		Unit III: Jul. 1999 Unit IV: Oct. 1999	3,573/410	2 x 350	100%	700	Coal
Shangan Phase I	Hebei	Unit I: Aug. 1990 Unit II: Dec. 1990	1,959/225	2 x 350	100%	700	Coal
Phase II ⁽³⁾		Unit III: Oct. 1997 Unit IV: Oct. 1997	2,804/322	2 x 300	100%	600	Coal
Shantou	Guangdong	Unit I: Jan. 1997 Unit II: Jan. 1997	4,942/568	2 x 300	100%	600	Coal
Shidongkou II	Shanghai	Unit I: Jun. 1992 Unit II: Dec. 1992	4,395/505	2 x 600	100%	1,200	Coal
Dandong	Liaoning	Unit I: Jan. 1999 Unit II: Jan. 1999	4,798/551	2 x 350	100%	700	Coal
Nanjing ⁽⁴⁾	Jiangsu	Unit I: March 1994 Unit II: Oct. 1994	3,212/369	2 x 320	100%	640	Coal
Dezhou	Shandong	Units I & II: 1992 Units III & IV: Jun. 1994, May 1995	1,313 1,760	2 x 300 2 x 300	100% 100%	600 600	Coal Coal
		Unit V & VI: Jun. 2002; Oct. 2002	5,111	2 x 660	100%	1,320	Coal
Jining ⁽⁴⁾	Shandong	Units I & II: 1973 Units III & IV: 1976 & 1978	43 69	2 x 50 1 x 115 1 x 110	100% 100%	100 225	Coal Coal
		Unit V & Unit VI: July 2003 & August 2003	760	2 x 135	100%	270	Coal
Weihai	Shandong	Units I & II: May 1994, Jan. 1995	1,110	2 x 125	60%	150	Coal
		Units III & IV: Mar. Nov. 1998	2,834	2 x 300	60%	360	Coal
Shidongkou I	Shanghai	Unit I: Feb. 1988 Unit II: Dec. 1988 Unit III: Sep. 1989 Unit IV: May 1990	N/A	4 x 300	100%	1,200	Coal
Changxing	Zhejiang	Unit I: Jan. 1992 Unit II: Aug. 1992	N/A	2 x 125	100%	250	Coal
Taicang	Jiangsu	Unit I: Dec. 1999 Unit II: April 2000	N/A	2 x 300	75%	450	Coal
Huaiyin	Jiangsu	Unit I: Nov. 1993 Unit II: Aug. 1994	N/A	2 x 200	63.64%	255	Coal
Yushe Phase I	Shanxi	Unit I: June 1994 Unit II: Dec 1994	N/A	2 x 100	60%	120	Coal
Phase II		Unit I: Nov. 2004 Unit II: Dec. 2004	N/A	2 x 300	60%	360	Coal

Xindian		Shandong	Unit III: Jan 2002 Unit IV: Dec 2001	N/A	2 x 225 ⁽⁶⁾	100%	450	Coal
Qinbei	Phase I	Henan	Unit I & II: Dec. 2004	N/A	2 x 600	55%	660	Coal
Jinggangshan		Jiangxi	Unit I: Dec. 2000 Unit II: Aug. 2001	N/A	2 x 300	100%	600	Coal
Yueyang		Hunan	Unit I: Sep. 1991 Unit II: Dec. 1991	N/A	2 x 362.5	55%	398.75	Coal
Luohuang	Phase I	Chongqing	Unit I: Sep. 1991 Unit II: Feb. 1992	N/A	2 x 360	60%	432	Coal
	Phase II		Unit I & II: Dec. 1998	N/A	2 x 360	60%	432	Coal
	Jiangbei Gas-fired	Chongqing	Unit I: Jan. 1991	N/A	1 x 108	60%	64.8	Gas
Yingkou		Liaoning	Unit I: Jan. 1996 Unit II: Dec. 1996	N/A	2 x 320	100%	640	Coal
Pingliang		Gansu	Unit I: 2000 Unit II: 2001 Unit III: June. 2003 Unit IV: Nov. 2003	N/A	4 x 300	65%	780	Coal

Project under Construction

Shantou Phase II	Guangdong	1 x 600	100%	Coal
Yueyang Phase II	Hunan	2 x 300	55%	Coal
Taicang Phase II	Jiangsu	2 x 600	75%	Coal
Luohuang Phase III	Chongqing	2 x 600	60%	Coal
Yuhuan Phase I	Zhejiang	2 x 1,000	100%	Coal
Sichuan Hydropower		783	60%	Hydro

Subtotal 6,383

Proposed Projects

Shanghai Gas Turbine project	Shanghai	3 x 350		Gas
Jinling Gas Turbine project	Nanjing	3 x 350		Gas
Shangan Phase III	Hebei	2 x 600		Coal
Xindian Phase III	Shandong	2 x 300		Coal
Qinbei Phase II	Henan	2 x 600		Coal
Yingkou Phase II	Liaoning	2 x 600		Coal
Huaiyin Phase III	Jiangsu	2 x 330		Coal
Yuhuan Phase II	Zhejiang	2 x 1,000		Coal
Sichuan Hydropower		1,439		Hydro

Subtotal 10,399

Notes:

- (1) Commencement of commercial operations. See "Development of Power Plants -- Plant Start-up and Operation."
- (2) Including start-up costs and interest expense during construction. At the exchange rate of US\$1.00 to RMB8.7.
- (3) Assumes a current construction cost of US\$322 million. The final construction costs have not been determined as of the date of filing.
- (4) After the technical renovation, the generation capacity of the units III and IV of Jining power plant have been increased from 100MW to 115MW and 110MW, respectively; and the generation capacity of Nanjing power plant has increased from 600MW to 640MW.
- (5) The generation capacity of Shantou oil-fired power plant and Nantong power plant were adjusted from 100MW and 1,400MW to 103MW and 1,404MW, respectively, according to the nameplate capacity of the generating units.
- (6) Two 100MW oil-fired generating units of Xindian power plant were shut down with the consideration of rising oil prices and the need of reducing operating costs at the end of 2003.

The following table presents the availability factors and the capacity factors for the years, 2001, 2002, 2003 and 2004 for the power plants which we operate.

	Availability factor (%)				Capacity factor (%)			
	2001	2002	2003	2004	2001	2002	2003	2004
Dalian								
Phase I	96.79	93.58	90.66	95.08	53.66	56.59	64.32	78.80
Phase II	90.33	94.71	96.77		49.25	58.46	73.79	
Fuzhou								
Phase I	90.99	95.57	91.08	92.47	51.30	54.61	72.03	83.13
Phase II	95.42	92.19	93.58		41.35	62.82	72.43	
Shangan								
Phase I	90.01	86.72	89.15	93.02	64.46	64.85	69.76	74.95
Phase II	94.52	94.16	91.72		65.60	69.44	71.18	
Nantong								
Phase I	93.45	96.73	89.69	92.52	58.95	59.84	62.61	76.47
Phase II	88.28	97.28	99.72		60.34	67.03	73.80	
Dandong	88.35	96.07	97.74	94.95	45.37	57.37	68.84	77.94
Shantou Oil-Fired	91.69	82.09	91.05	98.24	22.15	23.66	33.93	35.10
Shantou	90.39	96.88	94.23	92.40	73.08	79.53	84.71	88.57
Shidongkou II	93.33	93.43	91.47	96.51	69.98	71.71	78.87	80.64
Nanjing	89.16	91.77	94.16	94.47	60.73	67.76	72.55	77.92
Dezhou	92.33	91.25	90.47	94.49	64.97	49.92	54.05	59.27
Jining	95.33	96.49	94.32	93.58	72.36	69.30	51.28	53.67
Weihai	95.89	95.88	94.87	94.29	58.46	60.28	58.53	63.82
Shidongkou I	--	91.33	81.86	94.43	--	70.70	74.58	77.55
Taicang	--	90.21	95.31	94.74	--	70.65	80.71	86.18
Huaiyin	--	88.72	94.44	94.35	--	60.84	67.98	76.70
Changxing	--	90.21	86.56	95.46	--	70.65	81.65	88.56
Yushe	--	--	94.69	95.84	--	--	80.20	85.43
Xindian	--	--	95.52	92.11	--	--	44.99	61.77
Luohuang	--	--	--	90.71	--	--	--	64.48
Yueyang	--	--	--	89.25	--	--	--	71.90
Yingkou	--	--	--	94.07	--	--	--	80.74
Jinggangshan	--	--	--	92.40	--	--	--	69.12

Our power plants, their respective operations and proposed projects as of March 31, 2005 are described below.

Power Plants in Liaoning Province

Huaneng Dalian Power Plant ("Dalian Power Plant") Dalian Power Plant is located on the outskirts of Dalian, on the coast of Bohai Bay. Dalian Power Plant, including Phase I and Phase II, has an installed capacity of 1,400 MW and consists of four 350 MW coal-fired units which commenced commercial operations in 1988 and 1999 respectively.

The coal supply for Dalian Power Plant is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and shipped by special 27,000 ton automatic unloading ships to the wharf at the Dalian Power Plant. The wharf is owned and maintained by the Dalian Port Authority and is capable of handling 30,000 ton vessels. Dalian Power Plant typically stores 140,000 to 150,000 tons of coal on site.

Dalian Power Plant consumes 14,000 tons of coal per day when operating at maximum generating capacity. In 2004, Dalian Power Plant obtained 53.4% of its total consumption of coal pursuant to the key contracts and the remainder on the open market. The weighted average cost of coal for Dalian Power Plant was RMB344.79 (2003: RMB260.48) per ton in 2004.

Dalian Power Plant sells all its electricity through the Liaoning Electric Power Co., Ltd. Electricity generated by Dalian Power Plant is delivered to the Liaoning Provincial Power Grid.

Huaneng Dandong Power Plant ("Dandong Power Plant") Dandong Power Plant is located on the outskirts of the city of Dandong in Liaoning. Dandong Power Plant had originally been developed by HIPDC which, pursuant to the Reorganization Agreement, transferred all its rights and interests therein to us effective

December 31, 1994. In March 1997, we began construction of Dandong Power Plant, which comprises two 350 MW coal-fired units supplied by an international consortium including Westinghouse Electric Corporation, Mitsui Babcock Energy Limited and Sargent & Lundy L.L.C.

Dandong Power Plant consumes 6,200 tons of coal per day when operating at maximum generating capacity. In 2004, Dandong Power Plant obtained 43.8% of its total consumption of coal pursuant to the key contracts and the remainder on the open market. The weighted average cost of coal for Dandong Power Plant was RMB289.67 (2003: RMB227.64) per ton in 2004.

All the electricity generated by Dandong Power Plant is delivered to the Liaoning Provincial Power Grid and was sold through the Liaoning Electric Power Co., Ltd. The coal supply is obtained from several coal producers in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and shipped by barge to the Dandong port in Dandong, where it is unloaded and transported to Dandong Power Plant using special coal handling facilities. The wharf is owned and maintained by Dandong Power Plant and is capable of handling 28,000 ton vessels. Dandong Power Plant typically stores 200,000 tons of coal on site.

Huaneng Yingkou Power Plant ("Yingkou Power Plant") Yingkou Power Plant is located in Yingkou City in Liaoning Province. Yingkou Power Plant Phase I has an installed capacity of 640 MW and consists of 2 x 320 MW supercritical coal-fired generating units which commenced commercial operations in January and December 1996 respectively.

The coal supply for Yingkou Power Plant is mainly obtained from Shanxi Province. Yingkou Power Plant consumes 6,600 tons of coal per day when operating at maximum generating capacity. In 2004, Yingkou Power Plant obtained 60.3% of its total consumption of coal pursuant to the key contracts and the remainder on the open market. The weighted average cost of coal for Yingkou Power Plant was RMB301.62 per ton in 2004.

Yingkou Power Plant sells all its electricity through Liaoning Electric Power Co., Ltd. Electricity generated by Yingkou Power Plant is delivered to the Liaoning Provincial Power Grid.

Proposed Project in Liaoning Province

Huaneng Yingkou Power Plant Phase II ("Yingkou Phase II") Yingkou Phase II is planned to consist of two 600 MW coal-fired generating units. The estimated total investment will be approximately RMB4.5 billion. We will own 100% equity interest in this project. This project has been confirmed by and registered with NDRC and the State Council.

Power Plant in Fujian Province

Huaneng Fuzhou Power Plant ("Fuzhou Power Plant") Fuzhou Power Plant is located on the south bank of the Min River, southeast of the city of Fuzhou. Fuzhou Power Plant, including Phase I and Phase II, has an installed capacity of 1,400 MW and consists of four 350 MW coal-fired units which commenced commercial operations in 1988 and 1999 respectively. The units of Phase I and Phase II were respectively supplied by the Mitsubishi Consortium and an international consortium including Siemens Aktiengesellschaft and Mitsui Babcock Energy Limited.

The coal supply for Fuzhou Power Plant is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship down the east coast of China and up the Min River to a wharf located at Fuzhou Power Plant. We own and maintain the wharf, which is capable of handling vessels of up to 20,000 tons and of unloading 10,000 tons to 15,000 tons of coal per day. Fuzhou Power Plant typically stores 170,000 to 180,000 tons of coal on site.

Fuzhou Power Plant consumes up to 14,000 tons of coal per day when operating at maximum generating capacity. In 2004, the Fuzhou Power Plant obtained 54.3% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Fuzhou Power Plant in 2004 was RMB393.15 (2003: RMB274.01) per ton.

All the electricity sales of Fuzhou Power Plant are made through the Fujian Electric Power Company, Ltd. Electricity generated by Fuzhou Power Plant is delivered to the Fujian Provincial Power Grid.

Power Plant in Hebei Province

Huaneng Shangan Power Plant ("Shangan Power Plant") Shangan Power Plant is located on the outskirts of Shijiazhuang. Shangan Power Plant has been developed in two separate expansion phases. The Shangan Power Plant Phase I has an installed capacity of 700 MW and consists of two 350 MW coal-fired units which commenced commercial operations in 1990. The units were supplied by the General Electric Consortium. Shangan Power Plant Phase II shares with the Shangan Power Plant Phase I certain facilities, such as coal storage facilities and effluence pipes, which have been built to accommodate the requirements of plant expansions. The Shangan Power Plant Phase II utilizes two 300 MW coal-fired units supplied by China Dongfang Group using technology licensed for boilers from Foster Wheeler Energy Corporation. The two generating units commenced commercial operation in 1997.

The coal supply for Shangan Power Plant is obtained from numerous coal producers in Central Shanxi Province, which is approximately 64 kilometers from Shangan Power Plant. The coal is transported by rail from the mines to the Shangan Power Plant. We own and maintain the coal unloading facilities which are capable of unloading 10,000 tons of coal per day. Shangan Power Plant typically stores 80,000 to 120,000 tons of coal on site.

Shangan Power Plant consumes 9,000 tons of coal per day when operating at maximum generating capacity. In 2004, Shangan Power Plant obtained 56% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Shangan Power Plant in 2004 was RMB212.20 (2003: RMB178.26) per ton.

Shangan Power Plant sells all its electricity through the Hebei Electric Power Corporation. Electricity generated by Shangan Power Plant is delivered to the Hebei Provincial Power Grid.

Proposed Project in Hebei Province

Huaneng Shangan Power Plant Phase III ("Shangan Phase III Expansion") The Shangan Phase III Expansion is expected to be adjacent to the Shangan Power Plant Phase I and the Shangan Power Plant Phase II. The Shangan Phase III Expansion is expected to consist of two 600 MW coal-fired units. The project proposal has been submitted to NDRC.

Power Plants in Jiangsu Province

Huaneng Nantong Power Plant ("Nantong Power Plant") Nantong Power Plant is located in the city of Nantong. Nantong Power Plant, including Phase I and Phase II, has an installed capacity of 1,404 MW and consists of two 352 MW and two 350 MW coal-fired units which commenced commercial operations in 1989, 1990 and 1999, respectively. The units were supplied by the General Electric Consortium.

The coal supply for Nantong Power Plant is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship to Yaogang, 7.5 kilometers from the Nantong Power Plant, where it is transshipped onto Company barges for the last stage of the journey up the Yangtze River to the wharf located adjacent to the Nantong Power Plant. The Company owns and maintains the wharf which is capable of handling 5,000 ton barges and of unloading 15,000 tons of coal per day. Nantong Power Plant typically stores 120,000 to 150,000 tons of coal on site.

Nantong Power Plant consumes up to 14,000 tons of coal per day when operated at maximum generating capacity. In 2004, Nantong Power Plant obtained 56.4% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Nantong Power Plant in 2004 was RMB332.41 (2003: RMB257.38) per ton.

Nantong Power Plant sells all its electricity through the Jiangsu Electric Power Company. Electricity generated by Nantong Power Plant is delivered to the Jiangsu Provincial Power Grid.

Huaneng Nanjing Power Plant ("Nanjing Power Plant") Nanjing Power Plant has an installed capacity of 640 MW consisting of two 320 MW coal-fired units which commenced commercial operations in March and October 1994, respectively.

The coal supply for the Nanjing Power Plant is obtained from several coal producers located in the Shanxi and Anhui Provinces. The coal is transported by rail from the mines to Yuxikou Port and Pukou Port and shipped to the plant's own wharf facilities. The wharf is capable of handling 6,000 ton vessels. Nanjing Power Plant typically stores 100,000 tons of coal on site and consumes 5,000 tons of coal per day when operating at maximum generating capacity.

In 2004, Nanjing Power Plant obtained approximately 51.9% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Nanjing Power Plant in 2004 was RMB348.95 (2003: RMB256.44) per ton.

Nanjing Power Plant sells all its electricity through the Jiangsu Electric Power Company. Electricity generated by Nanjing Power Plant is delivered to the Jiangsu Provincial Power Grid.

Jiangsu Taicang Power Plant ("Taicang Power Plant") Taicang Power Plant was constructed in the late 1990's. It is located in the vicinity of Suzhou, Wuxi and Changzhou, which is the most affluent area in Jiangsu Province. Taicang Power Plant is an ancillary facility of the China-Singapore Suzhou Industrial Park and has a total planned capacity of 1,200 MW. Taicang Power Plant now comprises 2 x 300 MW PRC-built coal-fired generating units, which commenced operation in December, 1999 and April, 2000 respectively.

The coal supply for Taicang Power Plant is primarily from Shenhua in Inner Mongolia and Datong in Shanxi Province. Taicang Power Plant consumes up to 6,000 tons of coal per day when operating at maximum generating capacity.

In 2004, Taicang Power Plant obtained approximately 51.9% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Taicang Power Plant in 2004 was RMB339.94 (2003: RMB262.95) per ton.

Taicang Power Plant sells all its electricity through the Jiangsu Electric Power Company. Electricity generated by Taicang Power Plant is delivered to the Jiangsu Provincial Power Grid.

Jiangsu Huaiyin Power Plant ("Huaiyin Power Plant") Huaiyin Power Plant was constructed in the early 1990's. It is located in the Centre of the Northern Jiangsu Power Grid. The plant's 2 x 200 MW PRC-built coal-fired generating units commenced operation in November, 1993 and August, 1994 respectively. In order to reduce energy consumption and increase capacity, one generating unit of Huaiyin Power Plant was upgraded in October 2001, which increased the maximum generation capacity of that unit to 220 MW. In 2002, upgrading of the second generating unit was completed, and the actual generation capacity of Huaiyin Power Plant is 400 MW. The other two 330 MW coal-fired generating units of Huaiyin Power Plant Phase II Expansion have commenced commercial operations in January and March 2005, respectively.

In 2004, Huaiyin Power Plant obtained approximately 70.1% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Huaiyin Power Plant in 2004 was RMB358.62 (2003: RMB256.21) per ton.

The coal supply for the Huaiyin Power Plant is primarily from Anhui Province, Shaanxi Province, Henan Province and Shanxi Province. Huaiyin Power Plant consumes up to 4,600 tons of coal per day when operating at maximum generating capacity.

Huaiyin Power Plant sells its electricity to Jiangsu Electric Power Company and delivers its electricity to the Jiangsu Provincial Power Grid.

Project Under Construction in Jiangsu Province

Huaneng Taicang Power Plant Phase II Expansion ("Taicang Phase II Expansion") Taicang Phase II Expansion consists of two 600 MW coal-fired generating units and is currently under construction. The estimated total investment for this project is approximately RMB4.64 billion. This project is expected to be put into commercial operation in 2006.

Proposed Projects in Jiangsu Province

Huaneng Huaiyin Power Plant Phase III Expansion ("Huaiyin Phase III Expansion") The project is planned to consist of 2 x 330 MW coal-fired generating units. The estimated total investment is approximately RMB2.49 billion. We expect to own 63.64% equity interest in this project. The project proposal has been submitted to NDRC.

Huaneng Jinling Combined-cycle Gas turbine Project ("Jinling Gas Turbine Project") The project is expected to be located on the outskirts of Nanjing. Three 350 MW-class combined-cycle-gas-turbine generating units will be constructed and the project investment is estimated to be approximately RMB3.6 billion, of which 25% will be financed by equity capital and 75% by bank borrowing. The Jinling Gas Turbine Project will be jointly developed by us, Jiangsu Provincial Investment Management Company, Ltd. and Nanjing Municipal Investment Corporation. The project proposal for Jinling Gas Turbine Project has been approved by the State Council. We have signed a letter of intent with PetroChina Company Limited with regards to the purchase and transportation of natural gas for Jinling Gas turbine Project.

Power Plants in Shanghai Municipality

Huaneng Shanghai Shidongkou Second Power Plant ("Shidongkou II") Shidongkou II is located in the northern suburbs of Shanghai. Shidongkou II has an installed capacity of 1,200 MW and consists of two 600 MW coal-fired super-critical units which commenced commercial operations in June and December 1992, respectively. The units supplied by a consortium of international suppliers led by Sargent & Lundy L.L.C.

The coal supply for Shidongkou II is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port or Tianjin port and shipped to the plant's own wharf facilities. The wharf is capable of handling 35,000 ton vessels. Shidongkou II typically stores 140,000 to 180,000 tons of coal on site and consumes 11,450 tons of coal per day when operating at maximum generating capacity.

In 2004, Shidongkou II obtained 45% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Shidongkou II in 2004 was RMB342.30 (2003: RMB250.81) per ton.

Shidongkou II sells all its electricity through Shanghai Municipal Electric Power Company. Electricity generated by Shidongkou II is delivered to the Shanghai Municipal Power Grid.

Shanghai Shidongkou First Power Plant ("Shidongkou I") Shidongkou I was constructed in the 1980's and is located in the northern region of the Shanghai Power Grid. The plant comprises 4 X 300 MW PRC-built coal-fired generating units, which commenced operation in February, 1988, December, 1988, September, 1989 and May, 1990 respectively, and has a total installed capacity of 1,200 MW.

The coal supply for Shidongkou I is primarily from Shanxi Province, Anhui Province and Henan Province.

In 2004, Shidongkou I obtained approximately 65.5% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Shidongkou I in 2004 was RMB359.93 (2003: RMB262.69) per ton.

Shidongkou I sells its electricity through Shanghai Municipal Electric Power Company. Electricity generated by Shidongkou I is delivered to the Shanghai Municipal Power Grid.

Proposed Projects in Shanghai Municipality

Shanghai Combined-cycle Gas Turbine Power Plant ("Shanghai Gas Turbine Project") Three 350MW combined-cycle-gas-turbine generating units will be constructed, and the project investment is estimated to be approximately RMB3.6 billion, of which 25% will be financed by equity capital and 75% by bank borrowing. Shanghai Gas Turbine Project will be jointly developed by us and Shenergy Company, Ltd. according to the expected ownership of 70% and 30% respectively. The Shanghai Gas Turbine Project has been confirmed by and registered with the State Council. We have signed a letter of intent with Shanghai Natural Gas Pipeline Company with regard to the purchase and transportation of natural gas for Shanghai Gas Turbine Project.

Power Plants in Guangdong Province

Huaneng Shantou Oil-Fired Power Plant ("Shantou Oil-Fired Power Plant") Shantou Oil-Fired Power Plant is located on the outskirts of the city of Shantou. Shantou Oil-Fired Power Plant has an installed capacity of 103 MW and consists of two gas turbine units and a single steam turbine unit. The two gas turbine units commenced commercial operations in January, 1987, and Shantou Oil-Fired Power Plant commenced full-scale commercial operations in April, 1988. The units were supplied by Alsthom.

Prior to 1995, each year NDRC allocated 120,000 tons of crude oil produced by the Shengli Oil Field to Shantou Oil-Fired Power Plant. This allocation is currently made in accordance with our planned generation. The crude oil purchased by Shantou Oil-Fired Power Plant is transported from the Shengli Oil Field to the Huangdao port in Shandong Province and shipped by the Guangzhou Ocean Shipping (Group) Company by tanker to storage facilities at the Maoming Petrochemical Facility in Zhanjiang. The crude oil is then transported twice a month by 5,000 ton barge loads to the port in Shantou where the oil is stored in a 30,000 cubic meter storage tank. From the Shantou port, the crude oil is pumped once a week through a 14-kilometer pipeline to Shantou Oil-Fired Power Plant. Shantou Oil-Fired Power Plant typically stores 2,500 tons of oil on site and consumes 200 tons of oil per day.

The average price for crude oil from the Shengli Oil Field to Shantou during 2004 was RMB2,352.6 (2003: RMB1,880.03) per ton.

The electricity sales of Shantou Oil-Fired Power Plant were made through the Shantou Power Supply Branch of Guangdong Group Company. Electricity generated by Shantou Oil-Fired Power Plant is delivered to the Guangdong Shantou Municipal Power Grid.

Huaneng Shantou Coal-Fired Power Plant ("Shantou Power Plant") Shantou Power Plant had originally been developed and constructed by HIPDC which, transferred all its rights and interests therein to us effective December 31, 1994. See "Item 7. Major Shareholders and Related Party Transactions." Located on the outskirts of the city of Shantou near Shantou Oil-Fired Power Plant, Shantou Power Plant was set up with the support of the Shantou municipal government and the Guangdong provincial government. Shantou Power Plant consists of two 300 MW coal-fired units with boilers supplied by Dongfang Group using technology from Foster Wheeler Energy Corporation and Russian-made turbines and generators. The two units commenced commercial operation on January 1, 1997.

The coal supply for Shantou Power Plant is obtained from several coal producers located mostly in the northern area of Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship down the east coast of China to the wharf located at Shantou Power Plant, which is maintained by the Shantou Port Authority and is capable of handling 35,000 ton vessels. The Shantou Power Plant typically stores 140,000 to 150,000 tons of coal on site.

Shantou Power Plant will consume up to 5,000 tons of coal per day when operated at maximum generating capacity. In 2004, the Shantou Power Plant obtained 65.7% of its total consumption of coal pursuant to the key contracts and the remainder was purchased on the open market. The weighted average costs of coal for Shantou Power Plant in 2004 was RMB371.30 (2003: RMB293.60) per ton.

The electricity sales of Shantou Power Plant are made to the Shantou Municipal Power Corporation and the Guangdong Guangdong Power Grid Group Co., Ltd. Electricity generated by Shantou Power Plant is delivered to the Guangdong Provincial Power Grid.

Project Under Construction in Guangdong Province

Huaneng Shantou Coal-Fired Power Plant Phase II ("Shantou Phase II Expansion") Shantou Phase II Expansion is expected to be adjacent to the Shantou Power Plant. We expect that the Shantou Phase II Expansion will share with the Shantou Power Plant certain facilities, such as coal unloading and storage facilities and effluence pipes, which have been built to accommodate the requirements of plant expansions. The Shantou Phase II Expansion is expected to consist of one 600 MW coal-fired generating unit, with total investment of RMB2.26 billion, of which 25% will be financed by equity capital and 75% by bank borrowing. We will own 100% equity interest in this project. The project has commenced construction and is expected to be put into operation in 2005.

Power Plants in Shandong Province

Dezhou Power Plant ("Dezhou Power Plant") Dezhou Power Plant, is located in Dezhou City, near the border between Shandong and Hebei Provinces, close to an industrial zone that is an important user of electric power for industrial and commercial purposes.

Dezhou Power Plant comprises of three Phases, with Phases I and II each consisting of two 300 MW coal-fired generating units, and Phase III consisting of two 660 MW coal-fired generating units. Phase III was completed in 2002, which is ahead of plan schedule by one year.

Dezhou Power Plant is approximately 200 km from Taiyuan, Shanxi Province, the source of the plant's coal supply. The plant is located on the Taiyuan-Shijiazhuang-Dezhou rail line, giving it access to transportation facilities for coal. Dezhou Power Plant consumes up to 27,000 tons of coal per day when operating at maximum generating capacity. In 2004, Dezhou Power Plant obtained approximately 67.6% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Dezhou Power Plant in 2004 was RMB217.03 (2003: RMB182.60) per ton. The plant is connected to the main trunk rail line at Dezhou by a dedicated 3.5 km spur line owned by us.

Dezhou Power Plant sells its electricity through Shandong Electric Power Corporation. Electricity generated by Dezhou Power Plant is delivered to the Shandong Provincial Power Grid.

Jining Power Plant ("Jining Power Plant") Jining Power Plant is located in Jining City, near the Jining load Centre and near numerous coal mines. Yanzhou coal mine, which is adjacent to the plant, alone has annual production of approximately 20 million tons.

Jining Power Plant facilities have undergone replacement, renovation and construction as necessary. Jining Power Plant has higher rates of auxiliary power and coal consumption than many larger and newer plants. Generating units V and VI of Jining Power Plant (using cycled fluidized bed combustion boiler) with capacity of 270 MW have been put into commercial operation in July and August 2003, respectively. Jining Power Plant currently comprises six coal-fired generating units, with an aggregate installed capacity of 595 MW.

Jining Power Plant consumes up to 7,000 tons of coal per day when operating at maximum generating capacity. In 2004, Jining Power Plant obtained approximately 2.8% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Jining Power Plant in 2004 was RMB274.63 (2003: RMB195.55) per ton.

Jining Power Plant sells its electricity through the Shandong Electric Power Corporation and delivers its electricity to Shandong Provincial Power Grid.

Weihai Power Plant ("Weihai Power Plant") We hold a 60% interest in Weihai Power Plant, the remaining 40% interest of which is owned by Weihai Power Development Bureau ("WPDB"). The facility is situated approximately 16 km southeast of Weihai City, on the shore of the Bohai Gulf. Its location provides access to cooling water for operations and transportation of coal as well as ash and slag disposal facilities.

Weihai Power Plant, developed in two phases, consists of four coal-fired generating units with an aggregate design capacity of 850 MW. Phase I consists of two 125 MW generating units (Units I and II), and Phase II consists of two 300 MW generating units (Units III and IV). Unit I began commercial operation in May, 1994, and Unit II began commercial operation in January, 1995.

Unit III commenced commercial operation in March, 1998. Unit IV commenced commercial operation in November, 1998.

Weihai Power Plant consumes up to 9,000 tons of coal per day when operating at maximum generating capacity. In 2004, Weihai Power Plant obtained approximately 97.2% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Weihai Power Plant in 2004 was RMB318.83 (2003: RMB250.16) per ton. The coal supply for Weihai Power Plant is obtained from Shanxi Province and Inner Mongolia.

Weihai Power Plant sells its electricity through Shandong Electric Power Corporation and delivers its electricity to Shandong Provincial Power Grid.

Huaneng Xindian Power Plant ("Xindian Power Plant") Xindian Power Plant is located in Zibo Municipality of Shandong Province. Xindian Power Plant currently has an installed capacity of 450 MW and consists of two 225 MW coal-fired generating units which commenced commercial operations in December 31, 2001 and January 22, 2002, respectively.

Two 100 MW oil-fired generating units of Xindian Power Plant were shut down with the consideration of rising oil prices and the need of reducing operating costs.

The coal supply for Xindian Power Plant is obtained from several coal producers located mostly in Shanxi Province. Xindian Power Plant consumes up to 5,000 tons of coal per day when operating at maximum generating capacity. In 2004, Xindian Power Plant obtained 72.2% of its total consumption of coal pursuant to the key contracts and the remainder on the open market. The weighted average cost of coal for Xindian Power Plant was RMB292.76 (2003: RMB235.94) per ton in 2004.

Xindian Power Plant sells all its electricity through the Shandong Electric Power Corporation. Electricity generated by Xindian Power Plant is delivered to the Shandong Provincial Power Grid.

Proposed Project in Shandong Province

Xindian Power Plant Phase III Expansion ("Xindian Phase III Expansion") This project is planned to consist of two 300 MW coal-fired generating units with an estimated total investment of approximately RMB2.55 billion. The project proposal has been submitted to NDRC.

Power Plants in Zhejiang Province

Zhejiang Changxing Power Plant ("Changxing Power Plant") Changxing Power Plant was constructed in the early 1990's. It is located at the intersection of Zhejiang Province, Jiangsu Province and Anhui Province. Changxing Power Plant is a key power plant in northern Zhejiang area. It has 2 x 125 MW PRC-built coal-fired generating units which commence operation in January, 1992 and August, 1992, respectively.

The coal supply for Changxing Power Plant is primarily from Jungar in Inner Mongolia and Xuzhou in Jiangsu Province. Changxing Power Plant consumes up to 3,000 tons of coal per day when operating at maximum generating capacity. In 2004, Changxing Power Plant obtained approximately 66% of its total consumption of coal pursuant to the key contracts and the remainder was obtained on the open market. The weighted average cost of coal for Changxing Power Plant in 2004 was RMB360.82 per ton (2003: RMB263.96).

Changxing Power Plant sells its electricity to Zhejiang Provincial Electric Power Company. Changxing Power Plant delivers its electricity to Zhejiang Provincial Power Grid.

Project Under Construction in Zhejiang Province

Yuhuan Power Plant ("Yuhuan Phase I"). This project is expected to consist two 1000 MW ultra-super critical coal-fired generating units, with an estimated total investment of RMB9.72 billion, of which 25% will be financed by equity capital and 75% by bank borrowing. We own 100% interests of this project. This project has commenced construction and the two generating units are expected to be put into commercial operation in 2007 and 2008 respectively.

Proposed Project in Zhejiang Province

Huaneng Yuhuan Power Plant Phase II ("Yuhuan Phase II") Yuhuan Phase II is planned to consist of two 1000 MW super-critical generating units, with an estimated total investment of RMB9 billion. We expect to own 100% equity interest in this project.

Power Plant in Shanxi Province

Huaneng Yushe Power Plant ("Yushe Power Plant") Yushe Power Plant is located in Yushe County of Shanxi Province, currently has an installed capacity of 200 MW and consists of two 100 MW coal-fired generating units which commenced commercial operations in August and December 1994, respectively.

Another two 300 MW coal-fired generating units of Yushe Power Plant Phase II which commenced commercial operations in November and December 2004 respectively.

The coal supply for Yushe Power Plant is obtained from several coal producers located mostly in Shanxi Province. Yushe Power Plant consumes up to 9,100 tons of coal per day when operating at maximum generating capacity. In 2004, Yushe Power Plant obtained all of its coal through purchases in the local market. The weighted average cost of coal for Yushe Power Plant was RMB181.96 per ton in 2004.

Yushe Power Plant sells all its electricity through the Shanxi Electric Power Corporation. Electricity generated by Yushe Power Plant is delivered to the Shanxi Provincial Power Grid.

Power Plant in Henan Province

Huaneng Qinbei Power Plant ("Qinbei Power Plant") Qinbei Power Plant is located in Jiyuan Municipality of Henan Province. Its installed capacity is 1,200 MW which consists of two 600 MW supercritical coal-fired generating units and commenced commercial operations in November and December 2004, respectively. The coal supply for Qinbei Power Plant is obtained from Shanxi Province. Qinbei Power Plant consumes up to 11,000 tons of coal per day when operating at maximum generation capacity.

Proposed Project in Henan Province

Qinbei Power Plant Phase II Expansion ("Qinbei Phase II Expansion") This project is planned to consist of two 600 MW coal-fired generating units with an estimated total investment of approximately RMB4.5 billion. We expect to own 60% equity interest in this project. The project proposal has been approved by NDRC.

Power Plant in Jiangxi Province

Huaneng Jinggangshan Power Plant ("Jinggangshan Power Plant") Jinggangshan Power Plant is located in Jian City of Jiangxi Province, has an installed capacity of 600 MW and consists of two 300 MW coal-fired generating units which commenced commercial operation in December, 2000 and August, 2001 respectively.

The coal supply for Jinggangshan Power Plant is obtained from Henan Province, Anhui Province and Jiangxi Province. Jinggangshan Power Plant consumes up to 6,500 tons of coal per day when operating at maximum generating capacity. In 2004, Jinggangshan Power Plant obtained 76.7% of its total coal consumption pursuant to the key contracts and the remainder on the open market. In 2004, the weighted average cost of coal for Jinggangshan Power Plant was RMB360.90 per ton.

Jinggangshan Power Plant sells its electricity through the Jiangxi Electric Power Corporation. Electricity generated by it is delivered to the Jiangxi Provincial Power Grid.

Power Plant in Hunan Province

Huaneng Yueyang Power Plant ("Yueyang Power Plant") Yueyang Power Plant is located in Yueyang City of Hunan Province. It has an installed capacity of 725 MW and consists of two 362.5 MW sub-critical coal-fired generating units which commenced commercial operation in September and December 1991 respectively.

The coal supply for Yueyang Power Plant is obtained from Datong in Shanxi Province. Yueyang Power Plant consumes up to 7,400 tons of coal per day when operating at maximum generating capacity. In 2004, Yueyang Power Plant obtained 47.5% of its total consumption of coal pursuant to the key contracts and the remainder on the open market. In 2004, the weighted average cost of coal for Yueyang Power Plant was RMB315.30 per ton.

Yueyang Power Plant sells its electricity through the Hunan Electric Power Corporation. Electricity generated by Yueyang Power Plant is delivered to the Hunan Provincial Power Grid.

Project Under Construction in Hunan Province

Huaneng Yueyang Power Plant Phase II ("Yueyang Phase II") The project is under construction. It consists of two 300 MW coal-fired generating units with an estimated total investment of approximately RMB2.47 billion. The two generating units are expected to be put into commercial operation in 2006. We will own 55% equity interest in this project.

Power Plant in Chongqing Municipality

Huaneng Luohuang Power Plant ("Luohuang Power Plant") Luohuang Power Plant is located in Chongqing Municipality. It consists of two operating plants: Jiangjin Luohuang Power Plant and Jiangbei Combined-cycle Power Plant. Each of Phase I and Phase II of Jiangjin Luohuang Power Plant has an installed capacity of 720 MW and consists of two 360 MW coal-fired generating units. The two units in Phase I commenced commercial operation in September, 1991 and February, 1992 respectively, and the two units in Phase II commenced commercial operation in December, 1998. Jiangbei Combined-cycle Power Plant has an installed capacity of 108 MW and consists of one 108 MW Combined-cycle generating unit that commenced commercial operation in 1991.

The coal supply for Luohuang Power Plant is obtained from Chongqing Municipality. Luohuang Power Plant consumes up to 15,000 tons of coal per day when operating at maximum generating capacity. In 2004, Luohuang Power Plant obtained all of its coal supplies through purchases in the local market. In 2004, the weighted average cost of coal for Luohuang Power Plant was RMB184.89 per ton.

Luohuang Power Plant sells its electricity through the Chongqing Municipal Power Corporation. Electricity generated by such plant is delivered to the Chongqing Municipal Power Grid.

Project Under Construction in Chongqing Municipality

Huaneng Luohuang Power Plant Phase III ("Luohuang Phase III") Luohuang Phase III is currently under construction. It is planned to have an installed capacity of 1,200 MW and consists of two 600 MW coal-fired generating units with an estimated total investment of approximately RMB4.57 billion. The two generating units are expected to be put into commercial operation in 2006 and 2007 respectively. We will own 60% equity interest in this project.

Power Plant in Gansu Province

Huaneng Pingliang Power Plant ("Pingliang Power Plant") Pingliang Power Plant is located in Pingliang City of Gansu Province. It has an installed capacity of 1,200 MW and consists of four 300 MW coal-fired generating units which commenced commercial operation in 2000, 2001, June and November 2003 respectively.

The coal supply for Pingliang Power Plant is obtained from local coal mines. Pingliang Power Plant consumes up to 13,000 tons of coal per day when operating at maximum generating capacity. In 2004, Pingliang Power Plant obtained all of its coal supplies through purchases in the local market.

Pingliang Power Plant sells its electricity through the Gansu Electric Power Corporation. Electricity generated by the plant is delivered to the Gansu Provincial Power Grid.

Competition and dispatch

All power plants in China are subject to dispatch conducted by various dispatch Centres. A dispatch Centre is required to dispatch electricity pursuant to the Regulations on the Administration of Electric Power Dispatch Networks and Grids, issued by the State Council with effect from November 1, 1993, and in accordance with its agreements with power plants subject to its dispatch. Power generation companies are also required to enter into on-grid dispatch agreements with power grid companies. As a result, there is competition for favorable dispatch treatment in the PRC electric power industry, especially during the off-peak load periods. More efficient power plants usually operate at higher output than less efficient power plants. We believe that in order to increase system stability, large and efficient power plants such as ours will be preferred as base load plants to generate power for the grids to which they connect. We believe that our dispatch arrangements with the local power corporations and dispatch Centres, superior quality equipment, lower coal consumption rate, higher efficiency of plant operation, lower emission levels and larger capacity represent competitive advantages in the markets in which we operate.

Since 1985, a number of foreign power developers and foreign companies (including Hong Kong companies), have been pursuing investment opportunities in the PRC electric power industry, which opportunities include the development of power plants (through joint ventures with PRC partners) or the purchase of interests in existing power plants. While we believe that we currently possess advantages over such foreign developers because of our extensive experience in the electric power industry of China and our close

relationships with the central and local governments, there can be no assurance that we will not experience increased competition in the future.

In addition to competing with other foreign-invested power generation companies for favorable dispatch arrangements, since 2002, we have also been facing competition from four other major power generating groups: China Power Investment Corporation, China Huadian Power Corporation, China Guodian Power Corporation and China Datang Power Corporation, which were created following the break-up of the former State Electric Corporation in 2002. Although we were not affected by this reform measure as we have developed good working relationship with the dispatch Centres and the relevant government departments in the areas where our power plants are located, there can be no assurance that such good working relationship will not be adversely affected as more power generation companies compete for favorable dispatch treatment.

Environmental regulation

We are subject to the PRC Environmental Protection Law, the regulations of the State Council issued thereunder, the PRC Law on the Prevention and Treatment of Water Pollution, the PRC Law on the Prevention and Treatment of Air Pollution, the Emission Standard of Air Pollutants for Thermal Power Plants (the "New Emission Standards") thereunder and the PRC Law on Ocean Environment Protection (collectively the "National Environmental Laws") and the environmental rules promulgated by the Local Governments in whose jurisdictions our various power plants are located (the "Local Environmental Rules"). According to the National Environmental Laws, the State Environmental Protection Bureau sets national environmental protection standards and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards.

According to the New Emission Standards, promulgated by the State Environmental Protection Agency and State Technology Supervision Administration with effect from January 1, 2004, more restrictive standards to control sulfur dioxide and nitrous oxide emissions are applicable to all thermal power plant projects for which environmental impact study reports are yet to be approved. These restrictive standards govern both the total sulfur dioxide emissions from the power plant and the emission density of each chimney.

We have adopted measures to control different emissions into the atmosphere. In order to reduce fly ash, we use very high-efficiency electrostatic precipitators. Sulfur emissions are reduced by burning low-sulfur content coal, which is reflected in the design of the coal-fired power plants.

Each power plant has a waste water treatment facility to treat water used by the power plant before it is released into the river or the sea. We pay discharge fees on the basis of measurements made at discharge points of each plant where waste is released. The PRC currently does not have any regulations regarding thermal pollution of the cooling water used by the electric power industry.

Approximately 70% of the ash remaining after the combustion of coal is used in the manufacture of bricks and other construction materials in 2004.

In 2002 and 2003, we paid discharge fees to local governments of approximately RMB38.9 million and RMB72.68 million respectively. The increase in 2002 was primarily due to the fact that some local governments started to implement the sulfur dioxide discharge regulation in accordance with the PRC Law of the Prevention and Treatment of Air Pollution, as a result of which the discharge fees were collected for the actual amount of discharge, rather than only for the amount in excess of certain threshold as in the past. The increase in 2003 was due to the implementation of a new regulation and the implementing Rules on the Administration of the Levy Standards of Emission Fees which became effective on July 1, 2003. Effective July 1, 2003, all power plants in China became subject to the pollutant discharge levy system, pursuant to which discharge fees are levied based on the actual amount of pollutants discharged. As a result, all of our power plants are now required to pay discharge fees in such manner. Under this new regulation, the discharge fees for sulphur dioxide will increase annually by RMB0.21 per kilogram from RMB0.21 in 2003 to RMB0.63 in 2005. Discharge fees for nitrous dioxide were increased to RMB0.63 per kilogram starting from July 1, 2004. The discharge fees for the dust are RMB0.28 per kilogram from July 1, 2003. In 2004, we paid to the local governments a total discharge fee of approximately RMB170.32 million.

We believe that we have implemented systems that are adequate to control environmental pollution caused by our facilities. In addition to the measures identified above, each power plant has its own environment protection office and staff responsible for monitoring and operating the environmental protection equipment.

The environmental protection departments of the local governments monitor the level of emissions and base their fee assessments on the results of their tests.

We believe our environmental protection systems and facilities for the power plants are adequate for us to comply with applicable national and local environmental protection regulations. However, the PRC Government may impose additional, stricter regulations similar to the New Emission Regulations which would require additional expenditure on compliance with environmental regulations.

Insurance

We currently maintain with the PICC Property and Casualty Company Ltd., China Pacific Property Insurance Co., Ltd., Ping An Property and Casualty Insurance Company of China, Ltd. and Yongcheng Property and Casualty Insurance Company approximately RMB105.9 billion of coverage on our property, plant and equipment (including construction insurance). We do not carry business interruption insurance, which is not customarily carried by power companies in the PRC.

We believe that our insurance coverage is adequate and is standard for the power industry in China.

ITEM 5 Operating and Financial Review and Prospects

Our core business is to invest, construct and operate power plants and provide sustainable and stable electricity supply to users through local grid companies.

Huaneng Power International, Inc. is one of the largest independent power generation enterprises in China. As of December 31, 2004, the Company wholly owned 16 operating power plants, had controlling interests in 7 operating coal-fired power companies and minority interests in 4 power companies. These power plants and power companies are widely located covering the Northeast grid (Liaoning), the Northern China grid (Hebei, Shanxi and Shandong), the Central China grid (Henan, Hunan and Chongqing), the Eastern China grid (Shanghai, Jiangsu, Zhejiang and Fujian) and the Southern China grid (Guangdong).

In January, 2005, the Company obtained a controlling interest in a hydro power generation company covered by the Sichuan grid located in Southwest China (60% equity interest of Sichuan Huaneng Hydropower Development Corporation, Ltd. (the "Sichuan Hydropower")) and one coal-fired power company covered by the Northwest grid (65% equity interest of Gansu Huaneng Pingliang Power Generation Limited Liability Company (the "Pingliang Power Company")) located in Northwest China through acquisitions.

Critical accounting policies

The Company and its subsidiaries have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact of and any associated risks related to these policies on the business operations are discussed throughout the Operating and Financial Review and Prospects where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 to the Financial Statements in Item 17 of this Annual Report on Form 20-F, beginning on page F-8. Note that our preparation of this Annual Report on Form 20-F requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amount of revenue and expenses during the reported period. There can be no assurance that actual results will not differ from those estimates.

Depreciation of property, plant and equipment. Depreciation is calculated on the straight-line method to write off the cost of each asset to their estimated residual values over their estimated useful lives as follows:

Buildings	8-35 years
Electric utility plant in service	4-30 years
Transportation facilities	6-27 years
Others	2.5-18 years

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Impairment of long-lived assets. The long-lived assets include property, plant and equipment, investments in associates and other non-current assets. As of December 31, 2004, we and our subsidiaries had approximately RMB57,580 million of property, plant and equipment, approximately RMB4,328 million of investments in associates and approximately RMB1,772 million of other non-current assets, accounting for approximately 87% of our total assets.

Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Recoverable amounts are estimated for individual assets or for the cash-generating unit to which the asset belongs.

Deferred income taxes. As part of the process of preparing our consolidated financial statements, we are required to exercise considerable judgment to estimate the deferred income tax in each individual power plant and the headquarters. This process involves us estimating future income tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets. The Company and its subsidiaries use currently enacted income tax rates to determine deferred income taxes. If these rates change, the Company and its subsidiaries would have to adjust the deferred income tax in the period these changes happen through the income statement. Deferred income tax assets on unused tax losses carried forward are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. As of December 31, 2004, we and our subsidiaries had approximately RMB98 million and approximately RMB547 million of deferred income tax assets and deferred income tax liabilities, respectively.

New Accounting Pronouncements

Please refer to Note 42 to the Financial Statements for details of discussion of new accounting pronouncements.

Certain Operating and Financial Data

The following table sets forth certain unaudited operating and financial data for each of our operating power plants for the fiscal year ended December 31, 2004.

Renminbi in millions, except as otherwise stated

	Dalian	Fuzhou	Nantong	Shang'an	Shantou Oil-Fired	Dandong	Shantou	Shidongkou II	Nanjing	Dezhou	Jining	Changxing	Shidongkou I	Xindian	Yingkou*	Jinggang- shan*	Weihai	Taicang	Huaiyin	Qinbei	Yushe	Yueyang*	Luohuang*
Operating Data																							
Actual generation (million kWh)	9,689.99	10,223.23	9,430.36	8,558.18	318.04	4,792.56	4,668.18	8,500.22	4,380.41	13,120.59	2,804.94	2,022.55	8,310.12	2,441.55	2,286.33	2,015.35	4,764.71	4,541.92	2,964.46	134.61	2,017.80	2,398.23	3,879.80
Coal consumption rate (grams/kWh)	308.85	307.33	312.93	327.44	322.80	309.92	311.25	296.14	310.86	319.76	340.88	334.30	348.20	336.84	319.68	318.86	328.84	313.04	329.27	293.28	361.20	329.17	317.88
Financial Data																							
Operating revenue, net	2,224.85	3,047.25	2,507.16	2,106.66	155.25	1,117.14	1,631.00	2,367.38	1,146.03	3,519.47	647.96	564.55	1,906.67	608.65	583.59	530.72	1,493.75	1,255.59	771.81	29.22	444.50	588.12	870.96
Fuel	(1,353.18)	(1,528.85)	(1,316.35)	(807.00)	(143.85)	(622.68)	(681.70)	(1,099.73)	(606.35)	(1,257.65)	(385.24)	(356.11)	(1,377.62)	(331.26)	(301.86)	(328.07)	(671.41)	(613.87)	(433.55)	(18.65)	(180.14)	(344.14)	(308.95)
Maintenance	(43.53)	(73.79)	(52.19)	(66.24)	(1.78)	(32.73)	(34.49)	(19.21)	(39.79)	(87.36)	(24.97)	(25.02)	(85.31)	(18.22)	(10.27)	(3.92)	(52.59)	(23.69)	(29.94)	-	(10.74)	(17.36)	(53.66)
Depreciation	(403.57)	(389.84)	(356.15)	(343.64)	(23.24)	(280.50)	(304.91)	(403.00)	(160.52)	(508.38)	(82.04)	(52.71)	(192.74)	(86.70)	(126.68)	(82.63)	(214.45)	(173.58)	(112.58)	-	(70.37)	(92.33)	(206.61)
Labor	(87.83)	(107.00)	(112.75)	(102.45)	(12.98)	(42.28)	(88.07)	(103.34)	(78.13)	(213.59)	(121.92)	(64.33)	(152.65)	(96.82)	(30.22)	(14.46)	(127.38)	(48.18)	(57.90)	(0.25)	(35.34)	(52.84)	(35.76)
Service fees to HIPDC	-	(2.06)	-	(63.03)	-	-	(84.00)	15.48	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	(46.40)	(63.06)	(51.80)	(84.91)	(5.93)	(34.51)	(38.53)	(19.23)	(24.55)	(180.16)	(32.90)	(25.80)	(68.17)	(26.34)	(15.50)	(15.67)	(60.31)	(27.00)	(19.50)	(2.25)	(35.93)	(19.82)	(13.62)
Profit / (Loss) from operations	290.34	882.65	617.92	639.39	(32.53)	104.44	399.30	738.35	236.69	1,272.33	0.89	40.58	30.18	49.31	99.06	85.97	367.61	369.27	118.34	8.07	111.98	61.63	252.36
Financial (expenses) / income, net	(62.42)	(76.80)	(84.01)	(3.86)	0.03	(75.46)	22.95	1.10	0.12	(44.28)	0.08	0.31	(32.53)	(25.81)	(0.32)	(37.21)	(54.99)	(61.36)	(2.83)	(12.44)	(31.12)	(11.27)	(136.92)
Share of profit of an associate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.13
Loss from disposal of investments	-	(1.99)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit / (loss) before tax	227.92	803.86	533.91	635.53	(32.50)	28.98	422.25	739.45	236.81	1,228.05	0.97	40.89	(2.35)	23.50	98.74	48.76	312.62	307.91	115.51	(4.37)	80.86	50.36	116.57
Income tax expense / (credit)	(25.94)	(92.69)	(43.38)	(102.37)	-	-	(38.19)	(126.56)	(23.59)	(209.17)	(0.76)	(7.01)	0.47	(6.34)	-	15.78	(103.51)	(105.08)	(37.49)	0.64	(27.67)	(10.86)	26.35
Net profit / (loss)	201.98	711.17	490.53	533.16	(32.50)	28.98	384.06	612.89	213.22	1,018.88	0.21	33.88	(1.88)	17.16	98.74	64.54	209.11	202.83	78.02	(3.73)	53.19	39.50	142.92

Note*: Since the beginning of July, 2004, we had more than 50% equity interests in these four operating power plants.

A. Operating results

Our financial statements are prepared under IFRS. The audited financial statements are accompanied with notes setting out the differences between IFRS and US GAAP. The following management's discussion and analysis is based on the financial information prepared under IFRS. For material differences between IFRS and US GAAP, please refer to Note 42 to the Financial Statements.

Year Ended December 31, 2004 compared to Year Ended December 31, 2003

	For the year ended December 31,		Increase / (decrease) (%)
	2004	2003	
Operating revenue, net	30,118,278	23,388,237	28.78%
Operating expenses			
Fuel	(15,068,188)	(9,025,013)	66.96%
Maintenance	(807,689)	(921,561)	(12.36%)
Depreciation	(4,706,992)	(4,117,478)	14.32%
Labor	(1,877,264)	(1,439,673)	30.40%
Service fees to HIPDC	(133,609)	(214,723)	(37.78%)
Others	(606,346)	(596,627)	1.63%
Total operating expenses	(23,200,088)	(16,315,075)	42.20%
Profit from operations	6,918,190	7,073,162	(2.19%)
Interest income	43,092	53,044	(18.76%)
Interest expense	(663,424)	(569,148)	16.56%
Bank charges and exchange losses, net	(119,452)	(28,181)	323.87%
Total financial expenses	(739,784)	(544,285)	35.92%
Share of profit of associates	377,565	212,091	78.02%
Investment income	22,542	-	N/A
(Loss) / Gain from disposal of investments	(1,988)	10,705	(118.57%)
Other income, net	18,666	12,070	54.65%
Profit before tax	6,595,191	6,763,743	(2.49%)
Income tax expense	(1,014,262)	(1,149,441)	(11.76%)
Profit before minority interests	5,580,929	5,614,302	(0.59%)
Minority interests	(257,053)	(183,894)	39.78%
Net profit attributable to shareholders	5,323,876	5,430,408	(1.96%)
Dividends paid and proposed	6,019,432	5,063,244	18.88%
Proposed dividend	3,013,846	3,013,836	-
Proposed dividend per share (RMB)	0.25	0.25	-
Basic earnings per share (RMB)	0.44	0.45	(2.22%)
Diluted earnings per share (RMB)	0.44	0.45	(2.22%)

1. In 2004, the Company has achieved expected operating results and the board of directors was satisfied with such operating results.

Comparing 2004 against prior year, the increase in average power generation hours, the overall expansion of the Company and its subsidiaries and the stable increase in average tariff rates contributed to the significant increase in output and revenue. However, the high level of coal prices, which in turn led to the increase in unit fuel costs, has offset the increase in revenue and the decrease in other costs.

Overcoming difficulties, Seizing opportunities and Achieving good operating results

In 2004, the rapid development of the national economy has resulted in a strong demand for electricity. The growth rate of the production and consumption of electricity exceeded that of the GDP in the PRC. All of these events provided favorable external factors for the Company and its subsidiaries to generate more power.

Because of the rapid development of the national economy and the strong demand for electricity, there was a shortage in coal supply and in railway, marine and river transportation. These have led to an insufficient coal storage, an increase in coal price and a lowering of the quality of coal acquired, which in turn created a tremendous challenge for the Company and its subsidiaries to ensure an adequate coal supply for the stable generation of electricity and to maintain cost control and achieve targeted profit.

All of our staff worked hard to strengthen our management over coal supply. Through various means, we were able to secure an adequate supply of coal to avoid a shut down of any of our plants due to a shortage of coal. Taking advantage of our advanced technological facilities, we increased our output, maintained our market share and created marginal profit that partially offset the increase in coal cost.

For the year ended December 31, 2004, the total power generation of our operating power plants has increased by 23.37 billion kWh or 25.70% from 90.91 billion kWh in the prior year to 114.28 billion kWh, of which 10.58 billion kWh was attributable to newly acquired power plants, 1.41 billion kWh was attributable to new generators that were put into commercial operation this year and 11.38 billion kWh was attributable to increased utilization rate.

The increase in utilization rate is due primarily to the following factors:

- 1) The rapid growth of the national economy in 2004, which resulted in a significant increase in the demand for electricity and caused, in general, a proportionate increase in the generation of our power plants;
- 2) Arrangement of the overhaul programs. The power plants planned their overhaul programs, to the extent possible, around the off-peak period and without compromising on the quality of performance, reduced the duration period of the overhaul program to increase the utilization rate on the generators; and
- 3) Technological improvements in our skill sets and facilities have ensured an increase in our generation.

Striving hard and exceeding planned construction projects

In 2004, the Company focused on large-scale construction projects and its mission was to ensure commencement of commercial operations of many new generators. The Company strengthened its construction management through improving the coordination of equipment delivery, design, construction work and generator inspection. Through the hard work of all staff and the cooperation of other participating parties, the Company has met its two targets of commencing commercial operation at both the Yushe Phase II and the Qinbei power plants, achieving an additional production capacity of 1.8 million kW which surpassed the annual plan of achieving an additional production capacity of 1.2 million kW. Currently, all the Company's projects are proceeding smoothly. There are 8 projects underway with an expected production capacity of up to 8.06 million kW. The progress, quality and investments of all these projects were well managed.

Breakthrough in acquisitions

In July, 2004, the Company acquired all the assets and liabilities of the Yingkou Power Plant (in Liaoning Province) and the Jinggangshan Power Plant (in Jiangxi Province), 55% equity interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company (the "Yueyang Power Company" in Hunan Province),

60% equity interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company (the "Luohuang Power Company" in Chongqing) and 40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company (the "Hanfeng Power Company in Hebei Province) and paid a total consideration of RMB4.575 billion. These acquisitions were in line with our market development strategy to consolidate our positions in the coastal regions and to expand into central China.

Prospects for 2005 - the Company and its subsidiaries' missions of achieving better results and maintaining strong development will face difficulties. There will be both opportunities and challenges.

Electricity demand in the PRC power market is expected to grow throughout 2005 providing more market capacity for the stable power generation of the Company and its subsidiaries. The acquired power plants and the new generators that were put into commercial operations in 2004 will provide a positive contribution. However, the large-scale increase in power generation construction and operation in the PRC during the last two years presents certain difficulties to the Company and its subsidiaries in achieving a higher growth rate in power generation.

The set-up of the "coal-electricity price linkage mechanism" will benefit the Company and its subsidiaries with an increase in tariff rates. However, shortage of coal supply may continue and coal price may remain at high level which will bring challenges for the coal purchase and cost control of the Company and its subsidiaries in 2005.

The continuous rapid growth in China's national economy and living standards will provide great opportunity for the expansion of PRC power market. Macroeconomic control and restraints on illegal construction projects will enhance the development of the power industry, which will provide opportunity for the Company and its subsidiaries to develop properly. These favorable external environments will help the Company and its subsidiaries in developing new projects and enlarging the scales of their operations. However, large scale power construction projects will also bring challenges to project management and financing.

We are confident in seizing opportunities and facing the challenges. In terms of cost control, the Company and its subsidiaries will seek to achieve a stable long-term coal supply and to effectively control the level of increase in unit fuel costs. In terms of construction of power plants, the Company and its subsidiaries will increase the pace of lower-costs power generation construction projects while maintaining high quality. In terms of power generation, the Company and its subsidiaries will ensure more power generated in a safe and stable manner. In order to minimize fuel and geographical risks, the Company and its subsidiaries will adjust the structure of power generation location and the energy resources structures through construction and acquisitions. The Company and its subsidiaries will also aim for greater competitive advantage through the use of advanced, efficient and environmentally friendly power generation facilities and technologies, proper corporate governance, experienced management and high quality staff, sufficient funding and strong reputation. The Company and its subsidiaries are confident of maintaining their leading status as an independent power generation enterprise in the PRC.

2. Comparative analysis of operating results

2.1 Net Operating Revenue

The output of our operating power plants are as follows:

Operating power plants	Total output (million kWh)		
	2004	2003	Increase (%)
Dalian	9,299.52	8,145.09	14.17%
Fuzhou	9,788.56	8,464.43	15.64%
Nantong	9,097.53	8,078.32	12.62%
Shang'an	8,136.24	7,587.44	7.23%
Shantou Oil-Fired	307.19	295.66	3.90%
Shantou	4,331.18	4,125.11	5.00%
Dandong	4,600.60	4,046.36	13.70%
Shidongkou II	8,236.24	8,023.99	2.65%
Nanjing	4,164.98	3,866.66	7.72%
Dezhou	12,381.30	11,252.03	10.04%
Weihai	4,483.01	4,107.21	9.15%
Jining	2,529.93	1,928.34	31.20%
Shidongkou I	7,812.68	7,395.39	5.64%
Taicang	4,347.01	4,062.43	7.01%
Changxing	1,876.80	1,657.19	13.25%
Huaiyin	2,757.29	2,435.14	13.23%
Xindian ¹	2,219.65	512.45	333.15%
Yushe ¹	1,859.63	258.70	618.84%
Yingkou ²	2,164.36	N/A	N/A
Jinggangshan ²	1,906.73	N/A	N/A
Luohuang ²	3,470.03	N/A	N/A
Yueyang ²	2,197.14	N/A	N/A
Qinbei ³	125.20	N/A	N/A
Total	108,092.80	86,241.94	25.34%

Note¹: Since November, 2003, we have held a more than 50% equity interest in the Xindian Power Plant and the Yushe Power Company.

Note²: Since July, 2004, we have held a more than 50% equity interest in the Yingkou Power Plant, the Jinggangshan Power Plant, the Luohuang Power Company and the Yueyang Power Company.

Note³: The two generators of the Qinbei Power Company commenced production in November and December 2004 respectively.

The increase in output is attributable to the following reasons:

- a. increased overall generation capacity as a result of the acquisition of new power plants in 2003 and 2004 (please refer to Note¹ and Note² above);
- b. the commencement of commercial operation of the new generators (Yushe and Qinbei power plants); and
- c. the strong market demand for electric power during the year which enable the Company and its subsidiaries to increase the utilization rate of their power plants.

Accordingly, our output increased significantly from 2003.

As a result of shortage of power supply in the PRC, the bidding output of the Company and its subsidiaries is slightly lower than that of 2003.

The average tariff rate (inclusive of VAT) and the net operating revenue of our power plants are as follows:

Operating power plants	Average tariff rate (inclusive of VAT) (RMB/MWh)			Net operating revenue (RMB million)		
	2004	2003	Increase / (decrease) (%)	2004	2003	Increase / (decrease) (%)
Dalian	283.62	272.69	4.01%	2,225	1,900	17.11%
Fuzhou	365.00	331.82	10.00%	3,047	2,390	27.49%
Nantong	325.18	312.52	4.05%	2,507	2,147	16.77%
Shang'an	303.25	307.94	(1.52%)	2,107	2,008	4.93%
Shantou Oil-Fired	604.08	672.14	(10.13%)	155	178	(12.92%)
Shantou	446.86	435.17	2.69%	1,631	1,522	7.16%
Dandong	289.05	276.95	4.37%	1,117	927	20.50%
Shidongkou II	342.56	332.85	2.92%	2,367	2,250	5.20%
Nanjing	321.67	307.31	4.67%	1,146	1,027	11.59%
Dezhou	332.58	333.34	(0.23%)	3,519	3,206	9.76%
Weihai	394.06	386.50	1.96%	1,494	1,340	11.49%
Jining	299.89	274.66	9.19%	648	453	43.05%
Shidongkou I	285.43	256.64	11.22%	1,907	1,623	17.50%
Taicang	341.10	321.80	6.00%	1,256	1,105	13.67%
Changxing	351.94	320.57	9.79%	565	454	24.45%
Huaiyin	330.88	317.21	4.31%	772	652	18.40%
Xindian ¹	320.83	342.41	(6.30%)	609	150	306.00%
Yushe ¹	282.10	200.63	40.61%	444	57	678.95%
Yingkou ²	315.48	N/A	N/A	584	N/A	N/A
Jinggangshan ²	325.67	N/A	N/A	531	N/A	N/A
Luohuang ²	286.74	N/A	N/A	871	N/A	N/A
Yueyang ²	316.52	N/A	N/A	588	N/A	N/A
Qinbei ³	273.11	N/A	N/A	29	N/A	N/A
Total	<u>327.88</u>	<u>318.68</u>	2.89%	<u>30,118</u>	<u>23,388</u>	28.78%

Note¹: Since November, 2003, we have held a more than 50% equity interest in the Xindian Power Plant and the Yushe Power Company.

Note²: Since July, 2004, we have held a more than 50% equity interest in the Yingkou Power Plant, the Jinggangshan Power Plant, the Luohuang Power Company and the Yueyang Power Company.

Note³: The two generators of the Qinbei Power Company commenced production in November and December 2004 respectively.

The average tariff rate of the Company and its subsidiaries increased by approximately 2.89% from RMB318.68 per MWh in 2003 to RMB327.88 per MWh. The major reason was the implementation of an adjustment on the tariff for electricity sold and the related operating hours of the power plants in accordance with instructions from National Development and Reform Commission (“NDRC”).

Net operating revenue represents operating revenue net of value-added tax. For the year ended December 31, 2004, the consolidated net operating revenue of the Company and its subsidiaries amounted to RMB30.118 billion, representing an increase of approximately 28.78% over the RMB23.388 billion in the prior year. The increase of the net operating revenue is mainly due to the increase of generation capacity, operating hours of the power plants and the average tariff rates. The increase of generation capacity was mainly attributable to the acquired power plants in the current year which contributed approximately RMB2.573 billion net operating revenue to the Company and its subsidiaries. Excluding the impact of acquisitions, the increase in the utilization rate and average tariff rates contributed approximately RMB3.392 billion and RMB765 million net operating revenue to the Company and its subsidiaries in the current year respectively.

2.2 Operating expenses

The total operating expenses of the Company and its subsidiaries increased by 42.20% from approximately RMB16.315 billion in 2003 to approximately RMB23.2 billion in 2004. Such an increase was attributable to the expansion of the scale of operations and the increase in fuel costs. The power plants acquired in 2004 accounted for RMB2.074 billion of the operating expenses. Excluding the impact from the power plants acquired in 2004, the increase in operating expenses amounted to approximately RMB4.811 billion.

The growth of operating expenses outweighed both the growth of power generation and net operating revenue. The significant increase in fuel costs is considered to be the primary reason for such an increase. The economies of scale as a result of enhancing utilization rates brought about a slower increase in fixed costs (such as depreciation) when compared with that of power generation, however, could not fully offset the impact of higher rate of increase in fuel costs. Hence, the rate of growth of operating expenses of the Company and its subsidiaries was greater than that of power generation. As net operating revenue is determined by power generation and tariff rates and given the limited increase in average tariff rate, the growth of operating expenses was also higher than that of net operating revenue.

2.2.1 Fuel

Fuel costs represented the major operating expenses of the Company and its subsidiaries, which has increased by approximately 67% from prior year. The increase in coal consumption as a result of increasing power generation of the Company and its subsidiaries and the increase in fuel price contributed to an increase in fuel costs. There was an increase of approximately 32.97% of unit fuel cost from prior year in 2004.

2.2.2 Maintenance

The maintenance expense of the Company and its subsidiaries amounted to approximately RMB808 million in 2004, representing a decrease of approximately 12.36% from approximately RMB922 million in the prior year. The decrease in the maintenance expense was mainly due to two factors: 1) enhanced utilization rate of equipment and minimized duration of maintenance projects through the careful scheduling of maintenance programs; and 2) the improvement of the operating condition of the equipment as a result of continuous technological improvements.

2.2.3 Depreciation

Depreciation expenses of the Company and its subsidiaries have increased by approximately 14.32% from prior year. Newly acquired power plants in 2004 contributed to an increase of approximately 12.34%.

2.2.4 Labor

Labor costs of the Company and its subsidiaries amounted to approximately RMB1.877 billion in 2004, representing an increase of approximately 30.40% from approximately RMB1.440 billion in 2003. The labor cost of the original power plants increased to approximately RMB1.744 billion, representing an increase of approximately 21.14% compared to prior year, among which, the full year impact from the Xindian Power Plant and the Yushe Power Company acquired in October, 2003 contributed approximately RMB112 million. The

newly acquired Yingkou Power Plant, the Jinggangshan Power Plant, the Yueyang Power Company and the Luohuang Power Company contributed additional labor costs of approximately RMB133 million in 2004.

2.2.5 Service Fees to HIPDC

The service fees paid to HIPDC refer to fees paid for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit.

The service fees paid to HIPDC amounted to approximately RMB134 million in 2004, representing a decrease of 37.78% compared to approximately RMB215 million in 2003. The decrease of service fee rate upon the conclusion of a supplementary agreement with HIPDC represented the primary reason for this decrease.

2.2.6 Enterprise income tax ("EIT")

Pursuant to the relevant tax regulations, the Company is treated as a Sino-foreign equity joint venture that enjoys a preferential income tax treatment. This allows the power plants of the Company to be exempted from EIT for two years starting from the first profit-making year after covering the accumulated deficits. This is followed by a 50% reduction of the applicable tax rate for the next three years. In addition, as confirmed by the State Tax Bureau, the wholly-owned power plants pay their respective EIT to local tax authorities, even though they are not separate legal entities. The consolidated EIT of the Company and its subsidiaries amounted to approximately RMB1.014 billion in 2004 which represented a decrease of approximately 11.76% from approximately RMB1.149 billion in prior year. The main reason for such a decrease was the decreased net profit and the increasing ratio of the profit from the power plants with lower applicable tax rates. This contributed to the effective tax rate decreasing from approximately 16.99% in 2003 to approximately 15.38% in 2004.

2.2.7 Other Operating Expenses

Other operating expenses of the Company and its subsidiaries amounted to approximately RMB606 million in 2004, representing an increase of approximately 1.63% from approximately RMB597 million in 2003. The major reason for this increase was the full year impact from the Xindian Power Plant, the Yushe Power Company and the Qinbei Power Company acquired in October, 2003 and the six-month contribution from the Yingkou Power Plant, the Jinggangshan Power Plant, the Yueyang Power Company and the Luohuang Power Company acquired in July, 2004. The other operating expenses of the original power plants accounted for approximately RMB542 million, representing a decrease of approximately 9.20% from approximately RMB597 million in prior year.

2.2.8 Net Profit Before Financial Expenses

The increasing fuel costs contributed to a decrease of net profit before financial expenses of approximately 2.19% from approximately RMB7.073 billion in 2003 to approximately RMB6.918 billion in 2004.

2.2.9 Financial Expenses

The net financial expenses of the Company and its subsidiaries totaled approximately RMB740 million for the year 2004 which represented an increase of approximately 35.92% from approximately RMB544 million. The original power plants accounted for approximately RMB554 million, representing an increase of approximately 1.80% from the prior year. The financial expenses of the Yingkou Power Plant, the Jinggangshan Power Plant, the Yueyang Power Company and the Luohuang Power Company acquired in 2004 accounted for approximately RMB186 million.

2.3 Net Profit

The 2004 consolidated net profit of the Company and its subsidiaries was RMB5.324 billion, which represented a decrease of approximately 1.96% from approximately RMB5.430 billion in the prior year. This decrease was primarily due to the increased operating expenses of the Company and its subsidiaries in 2004. A significant increase in power output, the average tariff rates and the respective full year and half year profit impacts from the acquisition of the Xindian Power Plant and the Yushe Power Company in October, 2003 and the acquisition of the Yingkou Power Plant, the Jinggangshan Power Plant, the Yueyang Power Company, the Luohuang Power Company and the Hanfeng Power Company in July, 2004 have brought about increases in the

net operating revenue and net profit respectively. However, all the factors described above could not fully offset the increased operating expenses caused by the increase in fuel costs. Hence, the consolidated net profit of the Company and its subsidiaries has decreased slightly when compared with the prior year. The consolidated net profit of the Company and its subsidiaries, excluding the impact of newly acquired power plants in the current year was approximately RMB4.927 billion in current year, which represented a decrease of 9.28% compared to RMB5.430 billion in 2003.

In 2005, the Company and its subsidiaries are confident in maintaining a comparatively high level of the utilization rate. With the growth of the operating scale of the Company and its subsidiaries, we expect there will be a continuous increase in power sales. However, the growth of the output is subject to the uncertainties of market conditions. The Company also expects that the supply and demand of coal to remain intense in 2005 and the implementation of the coal-electricity price linkage mechanism pursuant to the circular issued by the government may not be able to fully offset such a negative impact, the Company and its subsidiaries believe that the net profit of 2005 remains uncertain.

2.4 Impact of Differences between IFRS and US GAAP

In addition to the above management discussion and analysis of our results of the operations under IFRS between the years ended December 31, 2004 and 2003, the following provides a summary of the significant accounting differences between IFRS and US GAAP that would have a significant impact on our management discussion and analysis of the results of our operations between the years ended December 31, 2004 and 2003 under US GAAP. See also Note 42 to the Financial Statements for a complete summary of all significant accounting differences between IFRS and US GAAP that are relevant to us.

Under IFRS, we have adopted the acquisition method to account for our acquisitions of the Shidongkou I Power Plant, the Taicang Power Company and the Changxing Power Plant in 2002; the acquisitions of the 55% equity interest in the Qinbei Power Company, 60% equity interest in the Yushe Power Company and all of the assets and liabilities of the Xindian Power Plant in 2003; and the acquisitions of the 55% equity interest in the Yueyang Power Company, 60% equity interest in the Luohuang Power Company, 90% equity interest in the Jingtangshan Power Plant and all of the assets and liabilities of the Yingkou Power Plant in 2004. Accordingly, our results of operations under IFRS include the results of these power plants only from the respective dates of acquisition. In contrast, under US GAAP, our acquisition of these power plants are considered as combinations of entities under common control which are accounted for at historical cost and reflected retroactively to include the results of operations for each of the years ended December 31, 2004 as if the acquisitions of these power plants had taken place since the beginning of the earliest period presented.

In accordance with IFRS, we capitalized interest on general borrowings used for the purpose of obtaining a qualifying asset in addition to the capitalization of interest on specific borrowings. Under US regulatory accounting requirements, interest on funds borrowed generally but used for the purpose of obtaining a qualifying asset was not capitalized because such interest would not be taken into consideration when determining the recoverable rate base for tariff setting purposes.

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

Other than the above, there was no material difference between IFRS and US GAAP that would have a significant impact on our management discussion and analysis of the results of our operation between the years ended December 31, 2004 and 2003.

2.5 Comparison of financial positions

2.5.1 General

As of December 31, 2004, total assets of the Company and its subsidiaries amounted to approximately RMB72.780 billion, which represented an increase of approximately 35.76% from approximately RMB53.610 billion in the prior year. Non-current assets increased by approximately 39.33% to approximately RMB63.126 billion while current assets increased by approximately 16.26% to approximately RMB9.654 billion. Acquisitions and capital expenditure on construction projects primarily accounted for these increases with the total assets being obtained through acquisitions in the current year amounting to approximately RMB13.251 billion, including non-current assets of approximately RMB10.735 billion as of December 31, 2004.

Total capital expenditure (primarily spending on construction projects), amounted to approximately RMB10.036 billion, with its main source of financing being from bank borrowings.

In accordance with the schedule of development plans, the capital expenditure of the Company and its subsidiaries will remain at a high level in 2005 and the Company expects there will be continued increases in both total assets and liabilities. Other so far unplanned acquisitions will also have a certain impact on the financial position of the Company and its subsidiaries.

As of December 31, 2004, total liabilities of the Company and its subsidiaries amounted to approximately RMB33.248 billion, representing an increase of approximately 79.73% from approximately RMB18.499 billion in the prior year. Non-current liabilities were increased by approximately 78.41% to approximately RMB16.515 billion while current liabilities were increased by approximately 81.05% to approximately RMB16.733 billion. The increase in liabilities is mainly caused by the increase in bank borrowings as a result of acquisitions and capital expenditure on construction projects.

2.5.2 Analysis of selected consolidated balance sheet items

	As of December 31,		Increase / (decrease) (%)
	2004	2003	
ASSETS			
Non-current assets			
Property, plant and equipment, net	57,780,410	42,658,365	35.45%
Investments in associates	4,328,307	2,766,031	56.48%
Available-for-sale investment	254,990	254,990	0.00%
Land use rights	1,546,026	831,026	86.04%
Other non-current assets	225,890	206,833	9.21%
Deferred income tax assets	97,539	21,311	357.69%
Goodwill	376,726	298,876	26.05%
Less: Negative goodwill	<u>(1,483,670)</u>	<u>(1,730,949)</u>	(14.29%)
Total non-current assets	<u>63,126,218</u>	<u>45,306,483</u>	39.33%
Current assets			
Inventories, net	1,431,404	800,281	78.86%
Other receivables and assets, net	723,316	259,421	178.82%
Accounts receivable	4,973,103	2,804,026	77.36%
Due from other related parties	14,970	5,862	155.37%
Restricted cash	202,688	159,961	26.71%
Temporary cash investments	12,641	144,996	(91.28%)
Cash and cash equivalents	<u>2,295,531</u>	<u>4,128,648</u>	(44.40%)
Total current assets	<u>9,653,653</u>	<u>8,303,195</u>	16.26%
Total assets	<u><u>72,779,871</u></u>	<u><u>53,609,678</u></u>	35.76%

	As of December 31,		Increase / (decrease) (%)
	2004	2003	
EQUITY AND LIABILITIES			
Shareholders' equity	36,265,519	33,955,355	6.80%
Minority interests	3,266,393	1,155,197	182.76%
Non-current liabilities			
Long-term loans from shareholders, unsecured	800,000	-	N/A
Long-term bank loans, unsecured	14,854,471	8,305,320	78.85%
Other long-term loans, unsecured	300,818	848,284	(64.54%)
Deferred income tax liabilities	546,717	103,114	430.21%
Other non-current liability	13,000	-	N/A
Total non-current liabilities	16,515,006	9,256,718	78.41%
Current liabilities			
Accounts payable and other liabilities	4,551,158	3,342,517	36.16%
Dividends payable to shareholders of the Company	8,250	-	N/A
Taxes payable	999,792	917,362	8.99%
Due to HIPDC	1,258,799	87,508	1,338.50%
Due to other related parties	13,426	27,338	(50.89%)
Staff welfare and bonus payables	259,291	220,896	17.38%
Short-term loans, unsecured	8,099,000	1,600,000	406.19%
Current portion of long-term loans from shareholders, unsecured	-	420,380	(100%)
Current portion of long-term bank loans, unsecured	1,257,476	2,409,240	(47.81%)
Current portion of other long-term loans, unsecured	285,761	211,881	34.87%
Liability component of convertible notes	-	935	(100%)
Other financial liabilities	-	4,351	(100%)
Total current liabilities	16,732,953	9,242,408	81.05%
Total equity and liabilities	72,779,871	53,609,678	35.76%

2.5.2.1 Property, Plant and Equipment, net

As of December, 2004, property, plant and equipment, net of the Company and its subsidiaries amounted to approximately RMB57.780 billion, representing a growth of approximately RMB15.122 billion from approximately RMB42.658 billion in 2003. Please refer to Note 10 to the Financial Statements for a detailed analysis of such a growth.

2.5.2.2 Land Use Rights

Land use rights of the Company and its subsidiaries increased by approximately RMB0.715 billion from RMB0.831 billion in 2003 to RMB1.546 billion in 2004. This increase was attributable to the acquisitions in 2004.

2.5.2.3 Deferred Income Tax Assets

As of December, 2004, deferred income tax assets of the Company and its subsidiaries amounted to RMB98 million, representing an increase of RMB77 million compared with RMB21 million in 2003. Please refer to Note 29 to the Financial Statements for a detailed analysis of such an increase.

2.5.2.4 Inventories, net

As of December, 2004, the net amount of the inventories of the Company and its subsidiaries totaled approximately RMB1.431 billion representing a growth of approximately RMB0.631 billion from approximately RMB0.8 billion in 2003. The acquisition and commencement of commercial operations of new generators in the current year contributed to such an increase, within which RMB212 million came from acquisition.

2.5.2.5 Other Receivables and Assets, net

As of December, 2004, other receivables and assets, net of the Company and its subsidiaries totaled approximately RMB0.723 billion, representing an increase of approximately RMB0.464 billion from approximately RMB0.259 billion in 2003. The increase is due mainly to the acquisitions which accounted for RMB0.187 billion and an increase in the prepayments of coal.

2.5.2.6 Accounts Receivable

Accounts receivable of the Company and its subsidiaries increased by RMB2.169 billion from RMB2.804 billion in 2003 to RMB4.973 billion in 2004. The increase is due to the acquisitions which accounted for RMB1.552 billion, and the increase in the net operating revenue of the Company and its subsidiaries.

2.5.2.7 Temporary Cash Investments

As of December, 2004, temporary cash investments of the Company and its subsidiaries totaled approximately RMB13 million, representing a decrease of RMB132 million from RMB145 million in 2003. The main reasons for the drop is due to cash used to fund the acquisitions as well as to fund the increase in capital expenditure.

2.5.2.8 Minority Interests

As of December, 2004, minority interests of the Company and its subsidiaries amounted to RMB3.266 billion representing an increase of approximately RMB2.111 billion from RMB1.155 billion in 2003. Please refer to Note 33 to the Financial Statements for a detailed analysis of the increase.

2.5.2.9 Accounts Payable and Other Liabilities

As of December, 2004, accounts payable and other liabilities of the Company and its subsidiaries amounted to approximately RMB4.551 billion, representing a growth of approximately RMB1.208 billion from RMB3.343 billion in 2003. The increase was brought about by the payables from acquisitions of RMB0.422 billion and an increase in construction payables of RMB0.699 billion.

2.5.2.10 Due to HIPDC

As of December, 2004, due to HIPDC amounted to approximately RMB1.259 billion, representing an increase of approximately RMB1.171 billion from approximately RMB88 million in 2003. The increase is due to the consideration payable for the acquisition of the Yingkou Power Plant.

2.5.2.11 Deferred Income Tax Liabilities

As of December, 2004, deferred income tax liabilities of the Company and its subsidiaries amounted to approximately RMB0.547 billion, representing an increase of approximately RMB0.444 billion from approximately RMB0.103 billion in 2003. Please refer to Note 29 to the Financial Statements for a detailed analysis of such an increase.

Primary financial ratios

	2004	2003
Current ratio	0.58	0.90
Quick ratio	0.49	0.81
Ratio of liabilities and shareholders' equity	0.92	0.54
Multiples of interest earned	7.29	12.03

Calculation formula of the financial ratios:

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

The current ratio and quick ratio of the Company and its subsidiaries decreased significantly compared to the prior year, which was mainly due to increased capital expenditure and the cash consideration paid during acquisitions. These factors contributed to a significant increase in short-term borrowings as of the year end.

Similarly, the significant increases in short-term and long-term borrowings, arising from the reasons discussed above, contributed to the significant increase in the ratio of liabilities and shareholders' equity.

The multiples of interest earned of the Company and its subsidiaries decreased from that of the prior year mainly due to the lower interest expenses (including capitalized interest) on loans borrowed to finance construction and acquisitions.

During 2004, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditure was met by short-term borrowings. This was due partly to the use of low-interest short-term borrowings rather than the high-interest long-term borrowings in order to minimize interest expense. Consequently, as of December 31, 2004, the Company and its subsidiaries had a negative working capital balance of approximately RMB7.1 billion. Based on the successful financing history of the Company and its subsidiaries, the significant amount of undrawn banking facilities (See Note B 2.2) available to the Company and the stable operating results, the Company and its subsidiaries believe that they are able to meet their liabilities as and when they fall due and meet the capital required for operations.

3. Year Ended December 31, 2003 compared to Year Ended December 31, 2002

	For the year ended December 31,		Increase / (decrease) (%)
	2003	2002	
Operating revenue, net	23,388,237	18,474,469	26.60%
Operating expenses			
Fuel	(9,025,013)	(6,916,038)	30.49%
Maintenance	(921,561)	(607,951)	51.58%
Depreciation	(4,117,478)	(3,533,609)	16.52%
Labor	(1,439,673)	(1,035,740)	39.00%
Service fees to HIPDC	(214,723)	(263,716)	(18.58%)
Others	(596,627)	(539,401)	10.61%
Total operating expenses	(16,315,075)	(12,896,455)	26.51%
Profit from operations	7,073,162	5,578,014	26.80%
Interest income	53,044	83,015	(36.10%)
Interest expense	(569,148)	(561,875)	1.29%
Bank charges and exchange losses, net	(28,181)	(31,405)	(10.27%)
Total financial expenses	(544,285)	(510,265)	6.67%
Share of profit / (loss) of associates	212,091	(11,145)	2,003.01%
(Loss) / Gain from disposal of investments	10,705	1,288	731.13%
Other income, net	12,070	-	N/A
Profit before tax	6,763,743	5,057,892	33.73%
Income tax expense	(1,149,441)	(980,854)	17.19%
Profit before minority interests	5,614,302	4,077,038	37.71%
Minority interests	(183,894)	(156,034)	17.86%
Net profit attributable to shareholders	5,430,408	3,921,004	38.50%
Dividends paid and proposed	5,063,244	3,849,408	31.53%
Proposed dividend	3,013,836	2,049,408	47.06%
Proposed dividend per share (RMB)	0.25	0.17	47.06%
Basic earnings per share (RMB)	0.45	0.33	36.36%
Diluted earnings per share (RMB)	0.45	0.33	36.36%

3.1 Net Operating Revenue

The output and bidding output of our operating power plants are as follows:

Operating power plants	Total output (million kWh)			Including: Bidding output (million kWh)		
	2003	2002	Increase / (decrease) (%)	2003	2002	Increase / (decrease) (%)
Dalian	8,145.09	6,763.24	20.43%	1,582.48	1,068.24	48.14%
Fuzhou	8,464.43	6,874.24	23.13%	181.35	222.10	(18.35%)
Nantong	8,078.32	7,504.23	7.65%	379.20	1,028.59	(63.13%)
Shang'an	7,587.44	7,202.98	5.34%	-	-	-
Shantou Oil-Fired	295.66	203.69	45.15%	-	-	-
Shantou	4,125.11	3,871.44	6.55%	-	-	-
Dandong	4,046.36	3,365.41	20.23%	921.38	853.41	7.96%
Shidongkou II	8,023.99	7,268.10	10.40%	664.65	637.89	4.19%
Nanjing	3,866.66	3,608.33	7.16%	255.90	558.80	(54.21%)
Dezhou	11,252.03	7,873.33	42.91%	-	-	-
Weihai	4,107.21	4,225.47	(2.80%)	-	-	-
Jining	1,928.35	1,805.19	6.82%	-	-	-
Shidongkou I ¹	7,395.39	3,792.96	94.98%	587.71	316.73	85.56%
Taicang ¹	4,062.43	2,109.49	92.58%	363.46	282.22	28.79%
Changxing ¹	1,657.19	863.47	91.92%	-	-	-
Huaiyin ²	2,435.14	N/A	N/A	222.75	N/A	N/A
Xindian ³	512.44	N/A	N/A	-	N/A	N/A
Yushe ³	258.70	N/A	N/A	-	N/A	N/A
Total	86,241.94	67,331.57	28.09%	5,158.88	4,967.98	3.84%

Note¹: Since July, 2002, we have held a more than 50% equity interest in the Shidongkou I Power Plant, the Taicang Power Company and the Changxing Power Plant.

Note²: Since the end of December, 2002, we have held a more than 50% equity interest in the Huaiyin Power Company.

Note³: Since the end of October, 2003, we have held a more than 50% equity interest in the Xindian Power Plant and the Yushe Power Company.

Our output increased significantly from the previous year. The increase is attributed to firstly, our increased overall generation capacity as a result of the acquisition of new power plants (please refer to Note¹, Note² and Note³ above) and the commencement of operations of the new generators (Dezhou Phase III Expansion Project and Jining Expansion Project) and secondly, the strong market demand for electric power during the year.

The output of the Weihai Power Plant decreased because of an equilibrium in the supply and demand within the Shandong Power Grid. There was no additional capacity added to the Weihai Power Plant in 2003.

Our total output in 2003 increased significantly, but there was no significant change in the bidding output.

The average tariff rate (inclusive of VAT) and the net operating revenue of our operating power plants are as follows:

Operating power plants	Average tariff rate (inclusive of VAT) (RMB / MWh)			Net operating revenue (RMB million)		
	2003	2002	Increase / (decrease) (%)	2003	2002	Increase / (decrease) (%)
Dalian	272.69	280.53	(2.79%)	1,900	1,587	19.72%
Fuzhou	331.82	327.80	1.23%	2,390	1,889	26.52%
Nantong	312.52	309.54	0.96%	2,147	1,955	9.82%
Shang'an	307.94	315.65	(2.44%)	2,008	1,924	4.37%
Shantou Oil-Fired	672.41	621.02	8.28%	178	114	56.14%
Shantou	435.17	455.95	(4.56%)	1,522	1,487	2.35%
Dandong	276.95	273.70	1.19%	927	754	22.94%
Shidongkou II	332.85	345.90	(3.77%)	2,250	2,106	6.84%
Nanjing	307.31	304.07	1.07%	1,027	933	10.08%
Dezhou	333.34	339.64	(1.85%)	3,206	2,286	40.24%
Weihai	386.50	393.74	(1.84%)	1,340	1,405	(4.63%)
Jining	274.66	275.15	(0.18%)	453	422	7.35%
Shidongkou I ¹	256.64	252.97	1.45%	1,623	813	99.63%
Taicang ¹	321.80	317.52	1.35%	1,105	566	95.09%
Changxing ¹	320.57	316.93	1.15%	454	233	94.43%
Huaiyin ²	317.21	N/A	N/A	652	N/A	N/A
Xindian ³	342.41	N/A	N/A	149	N/A	N/A
Yushe ³	200.63	N/A	N/A	57	N/A	N/A
Total	<u>318.68</u>	<u>325.38</u>	(2.06%)	<u>23,388</u>	<u>18,474</u>	26.60%

Note¹: Since July, 2002, we have held a more than 50% equity interest in the Shidongkou I Power Plant, the Taicang Power Company and the Changxing Power Plant.

Note²: Since the end of December, 2002, we have held a more than 50% equity interest in the Huaiyin Power Company.

Note³: Since the end of October, 2003, we have held a more than 50% equity interest in the Xindian Power Plant and the Yushe Power Company.

Our average tariff rate decreased by 2.06% from RMB325.38 per MWh to RMB318.68 per MWh. The principal reason was the higher relative increase of excess generation, which had a lower tariff rate. Although the tariff rate for excess generation was lower than the tariff rate applicable to base load generation, it was higher than our variable cost and would, therefore, result in a positive contribution margin.

Net operating revenue represents operating revenue net of the value-added tax and amounts received in advance. For the year ended December 31, 2003, our consolidated net operating revenue was RMB23.388 billion, representing an increase of 26.60% over the RMB18.474 billion of prior year. The significant increase of net operating revenue was primarily because of the 28.08% increase of power output compared to prior year. Excluding the power plants acquired in July, 2002 and the Shantou Oil-Fired Power Plant which is immaterial, the operating revenue of the Dezhou Power Plant, the Fuzhou Power Plant, the Dalian Power Plant and the Dandong Power Plant had increased significantly. The output of the Dezhou Power Plant had increased 42.91% compared to prior year. The main reason for the increase was that the Phase III project of the Dezhou Power Plant was put into commercial operation in the second half of 2002. The increase of output of the Fuzhou Power Plant was due to the significant reduction of hydropower generation in the Fujian Province which provided an opportunity to our plant in Fuzhou to increase its generation. The operating revenue of the Dalian Power Plant and the Dandong Power Plant increased because of the continuous expansion of the power market

in the Liaoning Province. Due to the decrease of the average tariff rate in 2003, the growth rate of net operating revenue is lower than that of our power output.

3.2 Operating Expenses

Our total operating expenses increased by 26.51% to RMB16.315 billion in 2003 from RMB12.896 billion in 2002. The rate of increase of operating expenses was lower than that of power output at 28.09%. This is due to economies of scale resulting from higher utilization of the Company's power plants and some fixed expenses, such as depreciation, which do not increase proportionally with the power output.

In 2003, the rate of increase of operating expenses was in line with rate of increase in net operating revenue of 26.60%.

3.2.1 Fuel

Our primary operating expense was fuel cost. Fuel cost increased by 30.49% to RMB9.025 billion in 2003, when compared to RMB6.916 billion in 2002. The weighted average unit price of natural coal increased by 2.89% to RMB239.06 per ton in 2003 from RMB232.34 per ton in 2002. Accordingly the unit fuel cost of power output increased by 2.28% to RMB105.05 per MWh. Xindian Power Plant and Yushe Power Company's unit fuel cost of power was RMB103.48 per MWh, which was lower than the average unit fuel cost of the original power plants.

3.2.2 Maintenance

Our maintenance expense was RMB922 million in 2003, representing an increase of 51.64% when compared to RMB608 million of prior year. The increase of the maintenance expense was mainly due to two factors: 1) The plants acquired in 2002, including the Changxing Power Plant, the Shidongkou I Power Plant, the Taicang Power Company and the Huaiyin Power Company, were consolidated in 2003 on a full-year basis. 2) The original power plants such as the Dezhou Power Plant, the Dalian Power Plant and the Fuzhou Power Plant, carried out major overhaul according to the annual plan and incurred more maintenance expense.

3.2.3 Depreciation

Our depreciation was RMB4.117 billion in 2003, representing an increase of 16.50% from RMB3.534 billion in 2002. The depreciation of the original power plants and our headquarters was RMB4.093 billion, representing an increase of 15.82% compared to prior year. The newly acquired Xindian Power Plant and the Yushe Power Company incurred RMB24 million of depreciation expenses in 2003. The increase in depreciation was also attributable to the fact that the Phase III project of the Dezhou Power Plant was put into commercial operation in late 2002, and that the plants acquired in 2002, including the Changxing Power Plant, the Shidongkou I Power Plant, the Taicang Power Company and the Huaiyin Power Company, were consolidated in 2003 on a full-year basis.

3.2.4 Labor

Our labor cost was RMB1.439 billion in 2003, representing an increase of 38.90% from RMB1.036 billion in 2002. The increase in labor cost was mainly due to the plants acquired in the second half of 2002, including the Changxing Power Plant, the Shidongkou I Power Plant, the Taicang Power Company and the Huaiyin Power Company, that were consolidated in 2003 on a full-year basis.

3.2.5 Service Fees paid to HIPDC

The service fees paid to HIPDC refer to fees for the use of HIPDC's grid connection and transmission facilities based on reimbursement of cost plus a profit.

In 2003, we incurred service fees in relation to the grid connection and transmission facilities for the Shang'an Power Plant and the Shantou Power Plant (HIPDC had transferred the ownership of transmission and transformation facilities of the Fuzhou Power Plant Phase I and the Shidongkou II Power Plant to the Fujian Electric Power Company and the Shanghai Power Corporation, respectively, on July 1, 2002. We were no longer required to pay the service fees for the two plants after the transfer). The service fees paid to HIPDC were RMB215 million in 2003, representing a decrease of 18.56% when compared with RMB264 million in 2002.

3.2.6 EIT

Pursuant to the relevant tax regulations, we are treated as a Sino-foreign equity joint venture that enjoys a preferential income tax policy. Each of our plants is exempted from PRC income tax for two years starting from the first profit-making year after covering the accumulated deficits followed by a 50% reduction of the applicable tax rate for the next three years. In addition, as confirmed by the State Tax Bureau, our wholly-owned power plants pay their respective income tax to local tax authorities, even though they are not separate legal entities. Our income tax expenses in 2003 were RMB1.149 billion, an increase of 17.13% compared to RMB981 million in 2002. The income tax expenses of the original power plants and our headquarters (excluding the newly acquired power plants in 2003) were RMB1.138 billion, an increase of 16.00% from that of 2002. The consolidated income tax of the newly acquired Xindian Power Plant and the Yushe Power Company was RMB11 million. The effective income tax rate decreased from 19.39% in 2002 to 16.99% in 2003, which was mainly due to the increasing ratio of the profit from the power plants with lower applicable tax rates.

3.2.7 Other Operating Expenses

With the rapid growth of the power output, our other operating expenses increased by 10.76% to RMB597 million in 2003 from RMB539 million in 2002. Another factor that caused the increase of other operating expenses was the consolidation of the other operating expenses of the newly acquired power plants, including the Xindian Power Plant, the Yushe Power Company and the Qinbei Power Company. The consolidated other operating expenses of the original power plants and our headquarters, excluding the newly acquired power plants were RMB581 million in 2003, an increase of 7.79% compared to RMB539 million in 2002.

3.2.8 Net Profit Before Financial Expenses

Our net profit before financial expenses in 2003 was RMB7.073 billion, an increase of 26.80% compared to RMB5.578 billion in 2002.

3.2.9 Financial Expenses

Our financial expenses were RMB544 million in 2003, an increase of 6.67% compared to the RMB510 million in 2002 due to the decrease of interest income.

3.3 Net Profit

Our net profit was RMB5.430 billion in 2003, an increase of 38.50% compared to RMB3.921 billion in 2002. The significant increase of net profit was primarily due to the increase of power output, the full year contribution from the plants acquired in 2002 (including the Changxing Power Plant, the Shidongkou I Power Plant, the Taicang Power Company and the Huaiyin Power Company), the full year contribution from the Dezhou Power Plant Phase III project, the commercial operation of the expansion project of the Jining Power Plant and the attributable income from SEG. Net profit and earnings per share increased by 38.50% in 2003, compared to 2002. This was higher than the increase in net operating revenue, at 26.60%. The higher rate of increase in net profit than operating revenue is attributable to the growth in non-operating income, specifically:

- Increase in share of profit of associates as a result of the acquisition of 25% of the enlarged share capital of Shenzhen Energy Group at a consideration of RMB2.39 billion in 2003. The share of profit from associates increased from a loss of RMB11 million in year 2002 to a gain of RMB212 million in year 2003.
- Decrease in effective tax rate from 19.39% in 2002 to 16.99% in 2003 because of the higher level of increase in the profit of the power plants that had a relatively lower rate of taxation.

3.4 Impact of Differences between IFRS and US GAAP

In addition to the above management discussion and analysis of our results of the operations under IFRS between the years ended December 31, 2003 and 2002, the following provides a summary of the significant accounting differences between IFRS and US GAAP that would have a significant impact on our management discussion and analysis of the results of our operations between the years ended December 31, 2003 and 2002

under US GAAP. See also Note 42 to the Financial Statements for a complete summary of all significant accounting differences between IFRS and US GAAP that are relevant to us.

Under IFRS, we have adopted the acquisition method to account for our acquisitions of the Shidongkou I Power Plant, the Taicang Power Company and the Changxing Power Plant in 2002 and the acquisitions of the 55% equity interest in the Qinbei Power Company, 60% equity interest in the Yushe Power Company and all of the assets and liabilities of the Xindian Power Plant in 2003. Accordingly, our results of operations under IFRS include the results of these power plants only from the respective dates of acquisition. In contrast, under US GAAP, our acquisition of these power plants are considered as combinations of entities under common control which are accounted for at historical cost and reflected retroactively to include the results of operations for each of the years ended December 31, 2003 as if the acquisitions of these power plants had taken place since the beginning of the earliest period presented.

In accordance with IFRS, we capitalized interest on general borrowings used for the purpose of obtaining a qualifying asset in addition to the capitalization of interest on specific borrowings. Under US regulatory accounting requirements, interest on funds borrowed generally but used for the purpose of obtaining a qualifying asset was not capitalized because such interest would not be taken into consideration when determining the recoverable rate base for tariff setting purposes.

Under IFRS, goodwill is amortised using the straight-line method over its estimated useful life and recognized in the income statement as other operating expenses. Under US GAAP, in accordance with Statement of Financial Accounting Standard Number 142 “Goodwill and Other Intangible Assets”, goodwill is not amortised but tested for impairment on an annual basis and between annual tests in certain circumstances.

Other than the above, there was no material difference between IFRS and US GAAP that would have a significant impact on our management discussion and analysis of the results of our operations between the years ended December 31, 2003 and 2002.

3.5 Comparison of key financial ratios

	2003	2002
Current ratio	0.90	1.00
Quick ratio	0.81	0.88
Ratio of liabilities and shareholders' equity	0.54	0.56
Multiples of interest earned	12.03	8.28

Calculation formula of the financial ratio:

Current ratio	=	balance of current assets at the end of the year / balance of current liabilities at the end of the year
Quick ratio	=	(balance of current assets at the end of the year – net amount of inventory at the end of the year) / balance of current liabilities at the end of the year
Ratio of liabilities and shareholders' equity	=	balance of liabilities at the end of the year / balance of shareholders' equity at the end of the year
Multiples of interest earned	=	(profit before taxation + interest expenses) / interest expenditure (including capitalized interest)

Due to the investment in SEG and the acquisitions of the Xindian Power Plant, the Yushe Power Company and the Qinbei Power Company, our current ratio and quick ratio decreased slightly when compared with those at the beginning of 2003.

Multiples of interest earned increased when compared with that of prior year was mainly due to the increase in our net profit.

B. Liquidity and cash resources

1. Liquidity

1.1 Cash flows provided by operating activities

	2004	2003	2002
	RMB million	RMB million	RMB million
Cash received from sales of goods or rendering of services	34,871	27,129	21,401
Other cash received relating to operating	453	148	282
Cash paid for goods and services	(17,861)	(9,942)	(7,893)
Cash paid to and on behalf of employees	(1,351)	(1,079)	(931)
Tax paid	(4,733)	(3,856)	(3,327)
Interest paid	(975)	(632)	(750)
Other cash paid relating to operating activities	(2,241)	(2,235)	(1,702)
Net cash provided by operating activities	<u>8,163</u>	<u>9,533</u>	<u>7,080</u>

Net cash provided by operating activities is the main source of cash for the Company and its subsidiaries. The net cash provided by operating activities amounted to RMB8,163 million in 2004 which was lower than that of 2003. The significant increase in the fuel costs primarily contributed to the lower level of cash from operations.

Our expansion and the increase in profit enabled us to realize an increase in net cash inflow from operating activities from RMB7,080 million in 2002 to RMB9,533 million in 2003.

The Company and its subsidiaries expect that our operating activities will continue to provide sufficient and sustained cash flows for our operations and expansion in the future.

1.2 Cash flows (used in) / provided by investing activities

	2004	2003	2002
	RMB million	RMB million	RMB million
Purchase of property, plant and equipment	(9,878)	(3,607)	(1,594)
Proceeds from disposals of property, plant and equipment	28	8	42
(Increase) / Decrease in other non-current assets	(158)	(29)	3
Decrease in temporary cash investments	132	1,066	5,082
Proceeds from disposal of investments	1	81	2
Cash consideration paid for available-for-sale investment	-	-	(255)
Cash dividend received	173	-	-
Cash consideration paid for acquisitions	(4,575)	(2,940)	(2,759)
Direct costs paid for acquisitions	(32)	(20)	(17)
Cash inflow from the acquired power plants	659	216	570
Net cash (used in) / provided by investing activities	<u>(13,650)</u>	<u>(5,225)</u>	<u>1,074</u>

Net cash used in investing activities mainly consisted of capital expenditures for the purchase of property, plant and equipment and cash paid for acquisitions of power plants.

1.3 Cash flows provided by / (used in) financing activities

	2004	2003	2002
	RMB million	RMB million	RMB million
Drawdown of short-term loans, unsecured	8,724	769	120
Repayments of short-term loans, unsecured	(2,940)	(450)	(190)
Drawdown of long-term loans from shareholders, unsecured	800	-	-
Repayments of long-term loans from shareholders, unsecured	(1,505)	(389)	(16)
Drawdown of long-term bank loans, unsecured	4,944	1,016	174
Repayments of long-term bank loans, unsecured	(3,193)	(2,322)	(2,955)
Drawdown of other long-term loans, unsecured	-	350	-
Repayments of other long-term loans, unsecured	(679)	(37)	(283)
Capital injection from minority shareholders of the subsidiaries	677	78	-
Dividend paid to shareholders of the Company	(3,006)	(2,049)	(1,800)
Dividend paid to minority shareholders of the subsidiaries	(167)	(148)	(139)
Redemption of convertible notes	(1)	-	(2,235)
Net cash provided by / (used in) financing activities	<u>3,654</u>	<u>(3,182)</u>	<u>(7,324)</u>

Net cash flows from financing activities consisted mainly of drawdown of loans less repayments of loans and dividend payments.

In 2002, the Company and its subsidiaries repaid loans of approximately RMB3,444 million, paid dividends of approximately RMB1,939 million and borrowed loans of approximately RMB294 million.

In 2003, the Company and its subsidiaries repaid loans of approximately RMB3,198 million, paid dividends of approximately RMB2,197 million and took out new loans of approximately RMB2,135 million.

In 2004, the Company and its subsidiaries repaid loans of approximately RMB8,317 million, paid dividends of approximately RMB3,173 million and took out new loans of approximately RMB14,468 million.

In 2005, the Company and its subsidiaries will enter into a comparatively concentrated period of capital expenditure for construction projects. In order to minimize the cost of capital, the newly developed projects will be financed by borrowings. The Company and its subsidiaries are confident in managing the scale of liabilities and financial risks.

As of December 31, 2004, the interest-bearing liabilities of the Company and its subsidiaries totaled approximately RMB25.6 billion, including both long-term borrowings (inclusive of current portion) and short-term borrowings. Within which, approximately RMB7.6 billion was from foreign borrowings.

2. *Capital expenditure and cash resources*

2.1 *Capital expenditure*

2.1.1 Capital expenditure on acquisitions

Cash payments for acquisitions during 2004 amounted to approximately RMB4.575 billion when the Company acquired all the assets and liabilities of the Yingkou Power Plant and the Jinggangshan Power Plant, 55% equity interest in the Yueyang Power Company, 60% equity interest in the Luohuang Power Company and 40% equity interest in the Hanfeng Power Company.

Cash payments for acquisitions during 2003 amounted to RMB2.940 billion.

Cash payments for acquisitions during 2002 amounted to RMB2.759 billion.

In January, 2005, the Company paid a cash consideration of RMB2.025 billion to acquire a 65% equity interest in the Pingliang Power Company and a 60% equity interest in Sichuan Hydropower. These power plants are located in Gansu and Sichuan Provinces in Western China. The acquisition enabled the Company to enter a fast growing power market in Western China, achieving the marketing development strategy of “consolidating our positions in the coastal regions, expanding into Central China and entering into Western China”. This is also one of the milestones of the Company in realizing the development strategy of “combining hydro and coal-fired power”, and represents a continuation of the established strategy of a balance between development and acquisitions. While considering scale, geography or energy type, the acquisition undoubtedly enabled the Company to be the largest Asian integrated power generation enterprise. Given strong demand for electricity in the PRC and intense coal supply, improving the energy mix through acquiring a hydropower generation company and lowering fuel costs through acquiring power plants close to coal mines (the Pingliang Power Company) should enable the Company and its subsidiaries to improve profitability and effectively control fuel costs.

The Company and its subsidiaries will continue to follow the construction and acquisition strategy by proactively seeking new acquisition opportunities to ensure the sustainable growth of profitability and shareholders’ value. Since there are uncertainties associated with acquisition projects, the amount of capital expenditure required is also uncertain. However, the significant cash flows from operating activities and the available undrawn borrowing facilities should provide the Company with a sufficient level of cash to support acquisition projects.

2.1.2 Capital expenditure on construction and renovation

The capital expenditure for construction and renovation in 2004 amounted to approximately RMB10.036 billion, including approximately RMB1.632 billion for the Qinbei Phase I project, approximately RMB1.219 billion for the Yushe Phase II project, approximately RMB1.566 billion for the Taicang Phase II project, approximately RMB1.199 billion for the Yuhuan Phase I project, approximately RMB228 million for the Shantou Phase II project, approximately RMB1.216 billion for the Huaiyin Phase II project, approximately RMB126 million for the Shidongkou II Phase II project, approximately RMB281 million for the Xindian project, approximately RMB451 million for the Luohuang Phase III project, approximately RMB446 million for the Yueyang Phase II project, approximately RMB2 million for the Jinggangshan project. Other expenditure consists mainly of approximately RMB24 million of prepaid construction, approximately RMB361 million for the settlement of a construction payable in respect of the Dezhou Phase III and approximately RMB364 million for the acquisition of property, plant and equipment and routine renovation expenditure.

Capital expenditure for construction and renovation in 2003 amounted to approximately RMB3,607 million, including approximately RMB355 million for the Jining Phase III expansion construction, approximately RMB439 million for the Yuhuan Phase I project, approximately RMB215 million for the Shantou Phase II project, approximately RMB497 million for the Huaiyin Phase II project, approximately RMB240 million for the Qinbei Phase I project, approximately RMB177 million for the Yushe Phase II project, approximately RMB80 million for the Xindian expansion construction, approximately RMB144 million for the renovation of the Shidongkou I Power Plant and approximately RMB459 million for the renovation of the Taicang Power Plant. Other items mainly consist of approximately RMB349 million for the settlement of a construction payable of the Dezhou Phase Power Plant III and approximately RMB214 million of construction payable for the Nantong Phase II.

Capital expenditure for construction and renovation in 2002 amounted to RMB1,594 million, primarily for the construction of the Dezhou Power Plant Phase III.

The above capital expenditure items were mainly financed by long-term borrowings and cash from operations.

The Company and its subsidiaries will continue to incur significant capital expenditure in 2005. The construction projects of the Company in 2005 include two 1,000MW ultra super critical coal-fired generator units for the Yuhuan Power Plant Phase I project, two 300 MW coal-fired generator units for the Yueyang Phase II project, two 600 MW coal-fired generator units of the Taicang Power Plant Phase II, two 600 MW coal-fired

generator units for the Luohuang Phase III project and one 600 MW coal-fired generator unit for the Shantou Phase II project. Planned construction items mainly include two 1,000 ultra super critical coal-fired generator units for the Yuhuan Power Plant Phase II project; two 600MW coal-fired generator units for the Yingkou Power Plant Phase II project, two 600 MW coal-fired generator units for the Qinbei Phase II project, two 600 MW coal-fired generator units for the Shang'an Phase III project, three 350 MW gas-fueled generator units for the Shanghai Ranji and three 350 MW gas-fueled generator units for the Jinling Power Plant. The Company and its subsidiaries will also proactively promote the construction of disulphuric facilities. The Company and its subsidiaries will actively monitor the progress of the above projects based on commercial feasibility principles and engage in new project developments for the long-term. The Company expects to finance such projects through internal funding, available undrawn borrowing facilities and cash flows provided by operating activities.

2.2 *Cash resources and anticipated financing cost*

The Company and its subsidiaries expect the cash resources for capital expenditure for construction and acquisitions to be principally generated from internal funds, cash flows from operating activities and future debt and equity financing.

Through years of successful operations, the market image and “brand” of the Company and its subsidiaries have continuously enhanced. Standard & Poors upgraded the credit rating on the Company to BBB+, outlook of the rating was stable in February, 2004. Good operating results and good credit status give the Company strong financing capabilities. As of December 31, 2004, the Company and its subsidiaries had available unsecured borrowing facilities from banks of approximately RMB30 billion (included in these undrawn borrowing facilities are medium to long-term loan facilities of RMB20 billion with the drawdown subject to application and approval procedures). These unsecured borrowing facilities from PRC banks provide the Company and its subsidiaries with a sufficient level of available cash and raise the level of liquidity and repayment capabilities of the Company and its subsidiaries effectively.

Despite the acquisitions of the Yingkou Power Plant, the Jingtangshan Power Plant, the 55% equity interest of the Yueyang Power Company, the 60% equity interest of the Luohuang Power Company, the 40% equity interest in the Hanfeng Power Company in July, 2004 and the 65% equity interest in the Pingliang Power Company and the 60% equity interest in the Sichuan Hydropower in January, 2005, the Company and its subsidiaries have maintained a strong level of ability to service their debts.

As of December 31, 2004, short-term borrowings of the Company and its subsidiaries amounted to approximately RMB8.099 billion with interest charged between 4.30% and 5.02% per annum (2003: approximately RMB1.6 billion with interest charged between 4.54% and 5.05% per annum).

As of December 31, 2004, the total long-term bank borrowings of the Company and its subsidiaries amounted to approximately RMB16.112 billion (2003: approximately RMB10.715 billion). These loans include bank borrowings denominated in Renminbi of approximately RMB8.805 billion (2003: approximately RMB4.064 billion); US dollar of approximately US\$778 million (2003: approximately US\$803 million) and Euro of approximately 77 million (2003: N/A). Included in these borrowings were approximately US\$67 million of floating-rate borrowings. For the year ended December 31, 2004, these borrowings bore interest that ranged from 1.225% to 6.97% (2003: from 1.18% to 6.60%) per annum. The Company and its subsidiaries have entered into interest rate swap contracts with PRC banks to reduce the floating interest rate risk. As of December 31, 2004, current portion of these long-term bank loans, bank loans between 1 to 2 years, between 2 to 5 years and over 5 years amounted to RMB1,257 million, RMB1,363 million, RMB7,639 million and RMB5,853 million, respectively.

As of December 31, 2004, the total long-term shareholders' loan to the Company and its subsidiaries amounted to RMB800 million (2003: approximately RMB420 million). The loans are denominated in Renminbi (2003: denominated in Renminbi of approximately RMB32 million and US dollar of approximately US\$47 million). Included in these borrowings were approximately RMB200 million of floating-rate borrowings. For the year ended December 31, 2004, these borrowings bore interest that ranged from 3.60% to 5.76% (2003: 3.62% to 5.76%) per annum. All these borrowings from a shareholder will mature 5 years later.

As of December 31, 2004, the total other long-term loans of the Company and its subsidiaries amounted to approximately RMB587 million (2003: approximately RMB1.06 billion). These loans include borrowings denominated in Renminbi of approximately RMB310 million (2003: approximately RMB745 million), US dollar of approximately US\$19 million (2003: approximately US\$21 million) and Japanese Yen of

approximately ¥1.548 billion (2003: approximately ¥1.786 billion). All these foreign currency borrowings were at floating rates. For the year ended December 31, 2004, these borrowings bore interest that ranged from 1.70% to 5.93% (2003: from 4.94% to 6.21%) per annum. The Company will closely monitor the foreign exchange market and cautiously assess the exchange rate and interest rate risks. As of December 31, 2004, current portion of these other long-term loans, other long-term loans between 1 to 2 years, between 2 to 5 years and over 5 years amounted to RMB286 million, RMB109 million, RMB128 million and RMB64 million, respectively.

Combining the current development of the power industry and the growth of the Company and its subsidiaries, the Company and its subsidiaries will make continuous efforts to not only meet cash requirements of daily operations, construction and acquisition, but also establish an optimal capital structure to minimize the cost of capital and manage financial risk through effective financial management activities thereby maintaining stable returns to the shareholders.

2.3 *Other financing requirements*

The objective of the Company and its subsidiaries is to bring long-term, stable and growing returns to the shareholders. In line with this objective, the Company follows a proactive, stable and balanced dividend policy. In 2005, in accordance with the income appropriation plan of the board of directors of the Company (subject to the approval of the shareholders' meeting), the Company expects to pay a cash dividend of approximately RMB3.014 billion.

C. Trend information

1. *Impact of demand and supply*

Restrictions on power supply and demand in 2005 are expected to be somewhat relaxed but the overall power supply and demand will still be tense with some restrictions on power consumption during peak season in certain regions. In 2006, the power supply and demand in the PRC will hopefully be balanced. As a result of good functionality of the generators of the Company and its subsidiaries, whilst there maybe some short-term decline in utilization hours, the Company and its subsidiaries are confident in maintaining high utilization hours in the long-term.

2. *Impact of the electricity pricing policy*

2.1 The Electricity Pricing Reform Scheme

The State Council approved the Electricity Pricing Reform Scheme on July 3, 2003, which defined the short-term and long-term objectives of the power pricing reform. The specific implementation methods are still being established.

The short-term objectives for the electricity pricing reform are to establish an appropriate on-grid price setting mechanism to accommodate a reasonable level of competition in power generation; to establish a preliminary pricing mechanism for transmission and distribution to facilitate the healthy development of the power grids; to link the retail prices with the on-grid prices; to optimize the structure of the retail price; and to pilot-run the practice for high voltage users to directly make purchases from the power generation companies based on a reasonable price for transmission and distribution.

The long-term objective for the electricity pricing reform is to establish a standardized and transparent tariff setting mechanism, classifying the electricity prices into the on-grid price, the transmission price, the distribution price and the end-user retail price, and to allow the on-grid prices and retail prices to be determined through market competition. The transmission and distribution prices are to be regulated by the government.

The tariff rate level will be comparatively stable at the initial stage of reform in order to ensure the smooth transition between the old and new tariff setting system.

2.2 Coal-electricity price linkage mechanism

In December, 2004, the NDRC established a coal-electricity price linkage mechanism through issuing a circular, "Notice related to opinion on setting up coal-electricity price linkage mechanism". Truck-loading price in late May, 2004 was being used as the base price upon its first application whereby this base price is compared

against the average truck-loading prices between June and November, 2004 before applying the pricing formula to adjust respective tariffs for electricity generation plants and the retail tariffs. The power generation enterprises have to absorb the first 30% of the increase of coal prices. The tariff rate of hydro power plants will also adjust accordingly upon the pricing adjustments being applied to the coal-fired power plants while tariff rates of other power generation enterprises shall remain unchanged. A period of 6 months is being set as a single cycle in applying coal-electricity price linkage mechanism. Should the average coal prices within a cycle is 5% higher than that of last cycle, pricing adjustment will be made accordingly; should the change is within 5%, this change will be brought forward to the next cycle until the accumulated change be equaled to or is above 5%. At which point, a pricing adjustment will be made. The State Council has authorized NDRC to take price intervening measures when there is a significant fluctuation in coal prices. The formal implementation plan proposed by NDRC is in the progress of approval by the State Council and is expected to be issued in the second quarter of 2005.

Upon the formal issuance of the coal-electricity price linkage mechanism plan, the tariff rates of the power plants of the Company is expected to adjust accordingly.

3. *Impact of the environmental protection policies*

2004 is the second implementation year of both the “Regulations on the Administration of the Levy and Usage of Emission Fee” and the “Rules on the Administration of the Levy Standards of Emission Fees”. Pursuant to the relevant regulations, emission fee charged on discharging sulphur dioxide increased from RMB0.21/kg to RMB0.42/kg while a new charge was created on nitric oxides materials discharge at RMB0.63/kg from July 1, 2004 onwards. The Company paid a total of approximately RMB170.32 million of emission fees to local governments in 2004.

The government has continuously strengthened the enforcement of environmental protection regulations and issued stricter benchmarks on pollutants emitted by the coal-fired power plants. These policies benefit the society and nation as a whole, but have created pressure on the operations of the Company.

The Company and its subsidiaries are determined to support the strengthened government policies and steadily implement the theory of balanced and sustainable development. It is confident in both satisfying the environmental protection requirements of the government through implementing measures for enhancing the environmental protection standards and through effectively controlling the operating costs of newly setup power plants. Given its competitive advantage as a result of the new generators, advanced equipment and effective control over pollution discharge, the Company and its subsidiaries will step up the installation of desulphuric facilities and NO_x emission reduction facilities, proactively lobby for discharge fee refund for renovation item and the enactment of a pollution discharging fee-electricity price linkage mechanism.

4. *Impact of power market pilot*

In June, 2003, NDRC started a pilot program to establish a regional power market in both the Northeast China and the Eastern China.

On January 15, 2004, the power market formally commenced in Northeast China and after several rounds of simulated operations, the market was formally established on December 13, 2004 and has initiated the bidding practice for the year 2005.

From the results of simulated operations and trial runs, the “Transaction Regulations for the Northeast China power market” was not yet mature and currently its monthly bidding practice has been suspended while opinions are being gathered from each participant in order to amend and improve the regulation. During this period, all the tariff rates for individual power plants will follow those in effect in 2004. The trial operations of monthly bidding practice has been commenced since April, 2005. In this region, the Company owns three power plants, namely, the Dalian Power Plant, the Dandong Power Plant and the Yingkou Power Plant with eight 300 MW generators, total operating capacity of 2,740 MW and all are located in the demanding areas within Liaoning Province.

The Company and its subsidiaries will pay attention to the amendments of the regulation, proactively support and take part in the construction of a power market in Northeast China and ensure that all three of the Company’s power plants in Liaoning Province can compete in a “fair” market environment. The Company is confident in maintaining its competitive advantage in this fair market.

Pursuant to the regulation, "Proposal of pilot activities in Eastern China power market", approximately 85% and 15% of power transactions will be confirmed through agreements and the bidding practice respectively in the first stage of this power market. The bidding practice is on a monthly basis with price setting at a day before spot market.

The Eastern China power market started the simulated operations on May 18, 2004 and there were eight monthly simulated bidding rounds to date. From the results of these simulations, there is room for improvement. Simulated operations using price setting at a day before spot market should be ready by the second half of 2005.

The Company currently owns eight power plants, including 22 generators with operating capacity totaling 7,140 MW which accounted for approximately 15% of total operating capacity in Eastern China. These power plants are mainly located in Jiangsu, Shanghai and Fujian where demand for electricity is relatively high and most of them are within the high loading Centre. With high individual operating capacity, good functionalities, smaller head count and high quality management, these power plants will be more competitive under the centralized management and coordination of the Company.

Given that the bidding practice will only be partially implemented in Eastern China power market and because of the fast growing electricity consumption in the region which is expected to continue to have a power shortage within the next two years according to a forecast, there should be no material impact on the Company upon the full implementation of a competitive bidding market.

5. *Importance of both construction and acquisitions*

In 2005, one of the focuses is to continuously and proactively work on construction projects to establish a strong foundation for the long-term development of the Company. The Company will also proactively seek new acquisition opportunities to ensure the sustainable growth of profitability and shareholders' value.

D. *Performance of significant investments and their prospects*

On April 22, 2003, the Company acquired a 25% equity interest in SEG with a cash consideration of approximately RMB2.39 billion. This investment brought the Company and its subsidiaries a net profit of approximately RMB209 million in 2004 under IFRS. SEG is the largest power generation supplier in Shenzhen and its power plants are located in one of the prosperous provinces - Guangdong Province. With strong demand for electricity in that region, such an investment will bring stable returns to the Company and its subsidiaries in the future.

In July, 2004, the Company acquired 40% equity interest in the Hanfeng Power Company with a cash consideration of approximately RMB1.375 billion. This investment brought the Company and its subsidiaries a net profit of approximately RMB126 million in 2004 under IFRS. The Hanfeng Power Company is located in Hebei Province in Northern China and there is strong demand for electricity in that region. Through this acquisition, the Company and its subsidiaries increased the equity share of production capacity in Hebei Province from 1,300 MW to 1,828 MW or approximately 40.6%. The Company and its subsidiaries expect this investment will contribute stable returns in the future.

E. *Employee benefits*

As of December 31, 2004, the Company and its subsidiaries had 22,129 employees. For the year ended December 31, 2004, total staff costs incurred amounted to approximately RMB1.88 billion. The Company and its subsidiaries provided the employees competitive remuneration and pegged such remuneration to operating results as working incentives for the employees. Currently, the Company and its subsidiaries do not have any non-cash remuneration packages.

Based on the development plans of the Company and its subsidiaries and the requirements of individual positions, together with consideration of specific characteristic of individual employees, the Company and its subsidiaries tailor made various training programs on management skills, technical skills and promotion skills. These programs enhanced both the knowledge of the employees and the standards of operations.

F. Related party transactions

The Company and its subsidiaries entered into various transactions with Huaneng Group, HIPDC and their group companies during daily operations, including operating leases on land use rights and property, electricity transmission and fuel purchases. Such transactions were for daily operations at prices no different from transactions conducted with other third parties. Huaneng Group, HIPDC and the minority shareholders of subsidiaries of the Company have also committed or agreed through contracts to provide guarantees on loans of the Company and its subsidiaries. In addition, pursuant to relevant agreements, the Company rendered management services to those power plants owned by Huaneng Group and HIPDC at a standard fee covering its costs and a reasonable profit. For the year ended December 31, 2004, such transactions amounted to approximately RMB57.54 million which was below 1% of net operating revenue.

Please refer to Note 7 to the Financial Statements prepared under IFRS for details of related party transactions.

G. Guarantees on loans

As of December 31, 2004, the Company provided guarantees on long-term bank borrowing of certain subsidiaries and an associated company totaling approximately RMB1.735 billion. These included guarantees granted to the Weihai Power Company, the Qinbei Power Company, the Yushe Power Company and the Rizhao Power Company amounting to RMB30 million, RMB740 million, RMB660 million and RMB305 million respectively. The Company had no contingent liabilities other than those described above.

As of December 31, 2003, the Company succeeded the original loan guarantee granted by Shandong Huaneng Power Development Company Limited ("Shandong Huaneng") on the Weihai Power Company and the Rizhao Power Company and the original million granted by Huaneng Group on the Taicang Power Company amounting to approximately RMB330 million, RMB339 million and RMB1.114 billion respectively. The Company also provided guarantees on long-term borrowings of the Huaiyin Power Company, the Qinbei Power Company and the Yushe Power Company amounting to approximately RMB10 million, RMB905 million and RMB101 million respectively. The Company had no contingent liabilities other than those described above.

The decrease of guaranteed amounts from 2003 to 2004 was mainly due to the repayments of loans during the year.

H. Off-balance Sheet Arrangements

Our off-balance sheet arrangements consisted of the following arrangements:

- Operating lease commitments;
- Purchase and construction commitments;
- Guarantees for an associate's long-term loans.

There are no off-balance sheet arrangement that have or are reasonably likely to have an effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Except for guarantees granted in relation to an associate's long-term loans, we have discussed these arrangements in I. Tabular Disclosure of Contractual Obligations and Commercial Commitments and disclosed details in Notes 36 and 37 to the Financial Statements.

I. Tabular Disclosure of Contractual Obligations and Commercial Commitments

A summary of payments due by periods of our contractual obligations and commercial commitments as of December 31, 2004 is shown in the tables below. A more complete description of these obligations and commitments is included in the Notes to the Financial Statements as referenced below.

Contractual Cash Obligations

(RMB millions)

	<u>2005</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>Thereafter</u>	<u>Total</u>
Long-term Loans from Shareholders ⁽¹⁾	-	-	-	800	800
Long-term Bank Loans ⁽¹⁾	1,257	4,603	6,256	6,147	18,263
Other Long-term Loans ⁽¹⁾	286	152	85	64	587
Interest Payments	1,329	1,805	1,122	1,364	5,620
Operating Lease – Nanjing Power Plant ⁽²⁾	1	3	3	52	59
Operating Lease – Dezhou Power Plant ⁽²⁾	30	60	60	432	582
	<u>2,903</u>	<u>6,623</u>	<u>7,526</u>	<u>8,859</u>	<u>25,911</u>

Other Commercial Commitments

(RMB millions)

	<u>2005</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>Thereafter</u>	<u>Total</u>
Long-term coal purchase contracts ⁽²⁾	5,769	12,062	5,603	-	23,434
Other commitments ⁽²⁾	11,483	-	-	-	11,483
	<u>17,252</u>	<u>12,062</u>	<u>5,603</u>	<u>-</u>	<u>34,917</u>

(1) See Notes 23, 24 and 25 to the Financial Statements, "Long-term Loans from Shareholders, unsecured", "Long-term Bank Loans, unsecured" and "Other Long-term Loans, unsecured", respectively.

(2) See Note 36 to the Financial Statements, "Commitments".

The Company and its subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. The Company and its subsidiaries pay fixed contributions into separate entities (funds) and will have no further payment obligations if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Disclosures of the pension plans including the contribution amounts are currently in Note 8 to the Financial Statements.

ITEM 6 Directors, Senior Management and Employees

A. Directors, members of the supervisory committee and senior management

As required by the Company Law, the Special Regulations of the State Council for Overseas Stock Offerings and Listings by Joint Stock Limited Companies and other implementing regulations (collectively, the "Company Law") and the Articles of Association, we have formed the Supervisory Committee, whose primary duty is the supervision of our senior management, including the Chairman of the Board of Directors, the Board of Directors, the President and other senior officers. The function of the Supervisory Committee is to ensure that our senior management acts in the interest of us, our shareholders and employees and does not abuse its power. The Supervisory Committee reports to the shareholders in general meeting. The Articles of Association provide the Supervisory Committee with the right to investigate the business and the financial affairs of us and to request shareholders' meetings from time to time.

The table below sets forth certain information concerning the Directors and executive officers and members of the supervisory committee of us (the "Supervisory Committee") as of March 31, 2005. All Directors will serve a term of three years or until the election of their respective successors. The term of the current board will expire in May, 2005.

Name	Age	Position with us
Li Xiaopeng	46	Chairman
Huang Yongda	48	Director and President
Wang Xiaosong	59	Vice Chairman
Ye Daji	60	Vice Chairman
Huang Jinkai	63	Director
Liu Jinlong	64	Director
Na Xizhi	52	Vice President
Zhang Hong	59	Vice President
Huang Long	52	Vice President and Company Secretary
Liu Guoyue	42	Vice President
Liu Shuyuan	55	Director
Li Shiqi	49	Vice President
Huang Jian	43	Chief Accountant
Shan Qunying	52	Director
Yang Shengming	62	Director
Xu Zujian	51	Director
Gao Zongze	66	Independent Director
Zheng Jianchao	66	Independent Director
Qian Zhongwei	67	Independent Director
Xia Donglin	44	Independent Director
Liu Jipeng	49	Independent Director
Wei Yunpeng	63	Chairman of the Supervisory Committee
Zhao Xisheng	62	Member of the Supervisory Committee
Pan Jianmin	50	Member of the Supervisory Committee
Li Yonglin	60	Vice Chairman of the Supervisory Committee
Shen Weibing	38	Member of the Supervisory Committee
Shen Zongmin	51	Member of the Supervisory Committee

Li Xiaopeng Mr. Li is the Chairman of the Company, Chairman and President of HIPDC, as well as President of Huaneng Group. He graduated from the North China Institute of Electric Power specializing in power plants and power systems and is a senior engineer. Mr. Li was Vice President, President and Vice Chairman of the Company as well as Vice President, President and Vice Chairman of HIPDC, Chairman of Huaneng Group and Vice President of State Power Corporation. Before joining HIPDC, he had successively served as Engineer of the Power System Research Division, as Deputy Division Chief of the Planning and Operations Division, and as General Manager of the Power Technology and Economic Research Division, Electric Power Research Institute.

Huang Yongda Mr. Huang is the President and Director of the Company and the Vice President of Huaneng Group. He graduated from China Renmin University, specializing in industrial financial accounting and is a senior accountant. He was the Deputy Director of the Economic Moderation and State Asset

Supervision Office of Ministry of Power Industry, Deputy Director of the General Office of the Ministry of Power Industry, Deputy Officer of the Finance and Asset Management Department of State Power Corporation, Deputy Director of the Power Department of the State Economic and Trade Commission, President of Jiangxi Province Power Corporation and Vice President of HIPDC.

Wang Xiaosong Mr. Wang is Vice Chairman of the Company, Vice President of HIPDC, and Vice President of Huaneng Group. He graduated from Beijing Institute of Electric Power specializing in thermal power engineering and is a senior engineer. He was Vice President of the Company, Vice President of HIPDC and Director of Huaneng Group before. Before joining the Company, he had served as Deputy General Manager of Fushun Power Plant, General Manager of Yuanbaoshan Power Plant and Chief of the Labor and Wages Division of Northeast Power Administration.

Ye Daji Mr. Ye is Vice Chairman of the Company and Chief Engineer of Huaneng Group. He graduated from Department of Mechanical Engineering Shanghai Jiao Tong University and is a senior engineer. After joining in the Company, Mr. Ye served as Deputy Manager of Shanghai branch company of Huaneng Power International Inc., President of Huaneng Shanghai Shidongkou Second Power Plant. Mr. Ye served as Vice President and President of the Company, Vice President of HIPDC and Director of Huaneng Group. Before joining the Company, Mr. Ye served as Deputy Chief Engineer of Shanghai Shidongkou Power Plant.

Huang Jinkai Mr. Huang is the Director of the Company. He graduated from Shenyang Agricultural Institute, specializing in agricultural electrization and is a senior engineer. He served as Director (General Manager) of the Northeast Power Administration Group Company, Chairman of the Company, Chairman of HIPDC, General Manager (Director) of North China Power Group Corporation (Power Administration) and Vice Chairman of Huaneng Group.

Liu Jinlong Mr. Liu is the Director of the Company. He graduated from Wuhan Hydroelectric Institute, specializing in power generation and is a senior engineer. He served as General Manager of Central China Power Group Corporation and Director of Central China Power Administration, Chairman, General Manager, and Vice Chairman of Huaneng Group.

Shan Qunying Mr. Shan is the Director of the Company. He is also the Vice President of Hebei Provincial Construction Investment Company. He graduated from Beijing Steel Institute specializing in automation and is a senior engineer. He had been the Division Chief of Hebei Provincial Construction Investment Company.

Yang Shengming Mr. Yang is Director of the Company. He is the Vice President of Fujian International Trust & Investment Company, Executive Director of Hong Kong Minxin Group Limited Company, Director of Yongcheng Property Insurance Joint Stock Company and Executive Director of Xiamen International Bank. He graduated from Beijing Light Industries Institute and is a senior economist.

Xu Zujian Mr. Xu is Director of the Company. He is Director and Vice President of Jiangsu Province Guoxin Asset Management Group Limited Company, and Chairman of Jiangsu Investment Management Co., Ltd. He graduated from Liaoning Finance Institute majoring in infrastructure finance and is a senior economist. He was Vice President of Jiangsu International Trust and Investment Company Limited, President of Jiangsu Province Investment Management Co., Ltd..

Liu Shuyuan Mr. Liu is Director of the Company. He is Director and President of Liaoning Energy Investment (Group) Co. Ltd. He is a postgraduate specializing in economic management and is a senior economist. He has been the General Manager of Liaoning Tieling Steel Plant, Director of Tieling Municipal Construction Commission and Assistant to the Mayor and Vice Chairman of the Supervisory Committee of the Company.

Gao Zongze Mr. Gao is an Independent Director of the Company. He is the Senior Partner at C&I Partners and an approved arbitrator of China International Economic and Trade Arbitration Commission and China Marine Affairs Arbitration Commission and President of All China Lawyers Association. He graduated from Dalian Marine Institute and received a master's degree in law from the Law Department of the Graduate School of the Institute of China Academy of Social Sciences.

Zheng Jianchao Mr. Zheng is an Independent Director of the Company. He is Honorary President of China Electric Power Research Institute in China and Vice Chairman of its Academic Committee. He is Vice President of China Electrical Engineering Institute, editor-in-chief of the Journal of Chinese Electrical Engineering and chief of the Science and Technology Committee of China Guangdong Nuclear Power Group Corporation. He

graduated from Qinghua University majoring in electrical engineering and graduated from its Graduate School. He was elected Fellow of Chinese Academy of Engineering in 1995.

Qian Zhongwei Mr. Qian is an Independent Director of the Company. He graduated from the electrical engineering department of Qinghua University and is a senior engineer. He has been the Deputy Chief Engineer, Chief Engineer and Deputy Director of the Eastern China Power Industry Management Bureau, Director of Shanghai Electricity Bureau, Director of Eastern China Power Administration Bureau, and President of Eastern China Power Group Company.

Xia Donglin Mr. Xia is an Independent Director of the Company. He is a professor and Ph.D. tutor of the Economic and Management School of Qinghua University. He is also the Advisory Specialist of the Accounting Standard Committee of the PRC Ministry of Finance, General Secretary of China Accounting Society, and Independent Director of Zhejiang Zhongda companies and other companies. He graduated from the Finance and Administration Science Research Institute of Ministry of Finance, specialising in accounting and was awarded a Ph.D. degree of Economics. He is a certified public accountant (non practising member). He was the head of Accounting Department of Economic and Management School of Qinghua University.

Liu Jipeng Mr. Liu is an Independent Director of the Company. He is the chairman of Beijing Standard Consulting Company, professor of Capital Economic and Trade University. He is also a professor of the Graduate School of China Academy of Social Science, mentor of graduate students of the Centre for Financial Studies of the Ministry of Finance, senior consultant of China Power Enterprises Union, China Securities Market Research and Design Centre and consultant of State Power Corporation. He graduated from the Industrial Economic Department of the Graduate School of China Academy of Social Science with a master's degree in economics. He is titled as professor and is a certified public accountant.

Wei Yunpeng Mr. Wei is Chairman of the Supervisory Committee of the Company. He graduated from Hunan Institute of Electric Power, specialising in Finance and Accounting and is a senior accountant. He was Chief Accountant of Huaneng Group, Chief Accountant of HIPDC and Chairman of China Huaneng Finance Limited Liability Company. He served as Chief Accountant of the Company.

Li Yonglin Mr. Li is Vice Chairman of the Supervisory Committee. He is Director of the Power Department of Dalian Municipal Construction Investment Company. He graduated from Changchun Hydro-electric School of Ministry of Water Resources and Electric Power, specializing in power plants, power grids and power system. He was a researcher of the Energy and Transportation Department of Dalian Municipal Planning Committee.

Pan Jianmin Mr. Pan is a member of the Supervisory Committee of the Company. He is Deputy Chief Auditor and General Manager of the Auditing Department of Huaneng Group. He graduated from Liaoning Economic and Finance Institute specializing in infrastructure finance and credit and is a senior accountant. He has served as General Manager of the Finance Department and Deputy General Manager of the Supervising and Auditing Department of Huaneng Group, and Deputy General Manager of Beijing Huaneng Real Estate Development Company.

Shen Weibing Mr. Shen is Supervisor of the Company. He is Deputy Director of Nantong Investment Management Centre. He graduated from Material Management Department of Beijing Material Institute with a bachelor of science degree. He is a senior economist. In 2003, he studied at Nanjing University and received a master degree in business administration. He served as Vice President and President of Nantong Municipal Oil Company, Vice President and Legal Representative of Nantong Municipal Construction Investment Company, and Deputy Chief Officer and Chief Officer of Nantong Investment Management Centre.

Shen Zongmin Mr. Shen is Supervisor of the Company. He is Manager of Shantou Electric Power Development Corporation. He was President of Shantou Light Industry Mechanical Group, Deputy Manager, and Manager of Shantou Power Development Corporation and Chairman of Shantou Power Development Joint Stock Company.

Zhao Xisheng Mr. Zhao is Supervisor and Senior Consultant of the Company. He graduated from China Renmin University specializing in industrial economics and is a senior accountant. He has served as Deputy General Manager of the Finance Department, General Manager of the Management Department of the Company and the General Manager of the Company's Supervising and Auditing Department. Before joining the Company,

he served as Section Chief, Deputy Chief Accountant and Deputy General Manager of Beijing Shijingshan Power Plant.

Na Xizhi Mr. Na is Vice President of the Company. He is Deputy Chief Engineer of Huaneng Group. He graduated from Wuhan Hydro-electric University, specializing in thermal power with a master degree in engineering and is a senior engineer. He served in Huaneng Group as Deputy Manager of the Power Generation Department, General Manager of the Operation Department, General Manager of the Power Safety and Production Department. Previously, Mr. Na was the Vice General Manager of Fuxin Power Plant, Deputy Officer of the Planning Department of Suizhong Power Plant, Deputy Chief and Chief of the Bio-technology Department of Northeast Shenhai Thermal Power Plant.

Zhang Hong Mr. Zhang is the Vice President of the Company. He is Deputy Chief Engineer of Huaneng Group. He graduated from Northeast Power Institute specializing in Management Engineering and is a senior engineer. Mr. Zhang served as the General Manager of Dandong Branch of the Company, General Manager of Yingkou Branch of HIPDC, General Manager of Power Construction Department and Planning Department of Huaneng Group. Previously, Mr. Zhang was the Manager of the Fourth Engineering Company of Northeast Power Administration Group.

Huang Long Mr. Huang is Vice President of the Company as well as Secretary of the Board of Directors. He graduated with a M.S. degree from North Carolina State University in the U.S. specializing in communications and auto-control and is a senior engineer. He served as Deputy General Manager and General Manager of the International Co-operation Department of the Company.

Liu Guoyue Mr. Liu is Vice President of the Company. He graduated from Northern China Electric Power University with a bachelor degree in engineering and a bachelor degree in business management and is a senior engineer. He served as the Deputy General Manager (Vice President) and General Manager (President) of Shijiazhuang branch (power plant) of the Company as well as the President of Huaneng Dezhou Power Plant.

Li Shiqi Mr. Li is the Vice President of the Company. He graduated from Renmin University of China, specializing in finance and is a senior accountant. He served as Chief Accountant of Beijing Branch Company of HIPDC, Deputy General Manager and General Manager of the Finance Department of the Company, and General Manager of the Marketing Department of Huaneng Group. Before these, Mr. Li worked in Power Science Institute as Chief and Deputy Chief Accountant, and in Beijing Power Research and Hi-Tech Business Corporation as Chief Accountant.

Huang Jian Mr. Huang is the Chief Accountant of the Company. He graduated from Finance and Administration Research Institute of the Ministry of Finance, specializing in accounting, with a master degree in economics and is a senior accountant. He served as Chief of the Finance Department of the Company, Chief Accountant of the Beijing Branch Company of HIPDC, Deputy General Manager of the Finance Department of the Company and Deputy Chief Accountant of the Company.

B. Compensation of Directors and Officers

We paid RMB8.48 million to our Directors, Supervisors and senior management as aggregate cash compensation (including salaries, bonuses and allowances (inclusive of taxes)) for the year ended December 31, 2004 for services performed as Directors, Supervisors and officers or employees of us. A total of RMB1.79 million were paid to the three highest paid directors and a total of RMB2.16 million was paid to the three highest paid officers. In addition, Directors and Supervisors who are also officers or employees of us receive certain other benefits-in-kind, such as subsidized or free health care services, housing and transportation, which are customarily provided by large enterprises in the PRC to their employees. Each of the Company's independent directors receives annual cash compensation of RMB60,000. We do not have any service contract with any director that provides for benefits upon termination of employment.

C. Board Practice

As of the end of 2003, we, in accordance with the resolutions passed at a shareholders' general meeting, have set up four special committees, namely, the Audit Committee, the Strategy Committee, the Nomination Committee, and the Remuneration and Appraisal Committee, and formulated the working regulations for such committees in accordance with the relevant rules and regulations. All committees operate in accordance with the working rules and utilize their members' specific background, experience and industry expertise to provide

advice to us, so as to enhance our operation efficiency and to make the decision-making process more rationalized.

The main duties of the Audit Committee are to provide proposal in relation to the appointment or change of external auditors, to oversee the internal audit system and its implementation, to co-ordinate the communication between the internal audit department and external auditors, to examine the financial information and its disclosure; and to oversee the internal control system.

The main duties of the Strategy Committee are to advise on, and conduct research in relation to, its long-term development strategies and decisions regarding significant investments.

The main duties of the Nomination Committee are to conduct study and provide advice in relation to the requirements for selection of directors and managers and the relevant procedures; to search for the qualified candidates of directors and managers, and to examine the candidates of directors and managers and advise matters in relation thereto.

The main duties of the Remuneration and Appraisal Committee are to conduct research on the appraisal guidelines for directors and managers, to carry out performance appraisals and provide advice accordingly, and to conduct research on the remuneration policy and proposal regarding the directors and senior management.

The members of Audit Committee are Xia Donglin (Chairman), Shan Qunying, Wang Xiaosong, Qian Zhongwei and Zheng Jianchao.

The members of Strategy Committee are Mr. Li Xiaopeng (Chairman), Mr. Zheng Jianchao (Vice-chairman), Mr. Wang Xiaosong, Mr. Ye Daji, Mr. Huang Jinkai, Mr. Liu Jinlong and Mr. Qian Zhongwei.

The members of Nomination Committee are Mr. Qian Zhongwei (Chairman), Mr. Huang Jinkai, Mr. Yang Shengming, Mr. Gao Zongze and Mr. Zheng Jianchao.

The members of Remuneration and Evaluation Committee are Mr. Gao Zongze (Chairman), Mr. Liu Jinlong, Mr. Xu Zujian, Mr. Zheng Jianchao and Mr. Xia Donglin.

D. Employees

As of December 31, 2004, we employed 22,129 people. Of these, 327 are headquarters management staff, 14,385 are power plant personnel directly involved in the management and operation of the power plants and the remainder are maintenance personnel, ancillary service workers and others. Approximately 41% of our work force graduated from university or technical college.

We conduct continuing education programs for our employees at the head office and at each power plant. We provide training in language, computer, accounting and other areas to our professionals and technicians in their relevant fields. Employees are trained in accordance with the different requirements for professional and managerial positions.

We have reformed the labor system by introducing individual labor contracts. Currently, all employees are employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. Short-term employment contracts have fixed terms of typically one to five years, at the end of which they may be renewed with the agreement of both us and the employees. The remaining personnel are employed for an indefinite term.

The contract system imposes discipline, provides incentives to adopt better work methods and provides us with a greater degree of management control over our work force. We believe that, by linking remuneration to productivity, the contract system has also improved employee morale.

Each of our power plants also has a trade union and the employees of our headquarters are also members of a trade union. These trade unions protect employee's rights, aim to fulfill our economic objectives, encourage employees to participate in management decisions and mediate disputes between us and union members. We have not been subject to any strikes or other labor disturbances interfering with our operations, and we believe that our relations with our employees are good.

Total remuneration of our employees includes salary, bonuses and allowances. The employees also receive certain benefits in the form of housing, education and health services subsidized by us and other miscellaneous subsidies.

In compliance with the relevant regulations, we and our employees participate in the electric power industry pension plan under which all the employees are entitled to the pensions payments upon retirement. See Note 8 to the Financial Statements. Other pension payments to our retiring employees are not required under applicable PRC laws and regulations.

We do not carry workmen's compensation or other similar insurance. However, all employees (both contract and non-contract employees) who are unable to work due to illness or disability, whether or not such illness or disability is job-related, will continue, based on seniority, to receive some or all of their base salary and certain subsidies throughout the period of their absence up to their retirement ages, in accordance with relevant PRC laws and regulations and subject to certain PRC Government specified time limitations. Employees who are unable to work due to job-related illnesses or disabilities will receive certain compensation from us, depending on the severity of the illness or disability. The present workmen's insurance reforms being implemented by the central and local governments and our own implementation of the joint stock limited company accounting and financial principles may result in certain adjustments of the funding, management and payment methods for these types of workmen's compensation arrangements.

E. Share Ownership

None of the people listed under "Directors, members of the Supervisory Committee and senior management" owns any of our shares.

ITEM 7 Major Shareholders and Related Party Transactions

A. Major shareholders

Our outstanding ordinary shares consist of A Shares and H Shares, each with a par value of RMB1.00 per share. The following table set forth certain information regarding the ownership of the outstanding shares of us as of December 31, 2004 with respect to (i) each person known by us to own beneficially more than 5% of any class of the outstanding shares of us, (ii) our directors and officers and (iii) local government investment companies.

	Number of A Shares	Number of H Shares	Percentage of Total Number of Shares Outstanding
	(in thousands)	(in thousands)	
HIPDC	5,197,680	--	43.12%
Hebei Provincial Construction Investment Company	904,500	--	7.50%
Fujian International Trust & Investment Company	669,700	--	5.56%
Jiangsu Province International Trust & Investment Company	624,750	--	5.18%
Liaoning Energy Investment (Group) Co., Ltd.	459,370	--	3.81%
Dalian Municipal Construction & Investment Company	452,250	--	3.75%
Nantong Investment Management Centre	135,750	--	1.13%
Shantou Power Development Joint Stock Company Limited	38,000	--	0.32%
Dandong Energy Investment Development Centre	13,000	--	0.11%
Shantou Electric Power Development Company	5,000	--	0.04%
Officers and Directors	--	--	0.00%
TOTAL	8,500,000	--	70.52%

When we were established on June 30, 1994, the assets, liabilities and businesses of the Dalian, Fuzhou, Nantong and Shangan Power Plants (excluding Shangan Power Plant Phase II) and Shantou Oil-Fired Power Plant were acquired by us from HIPDC and, in return, HIPDC received a then 53.64% equity interest in us. The local governments of the respective provinces or municipalities in which the Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Power Plant are located had previously extended long-term loans to these power plants to finance their construction. Such loans were subsequently assigned to the local government investment companies. In accordance with the Promoters' Agreement dated February 28, 1994 (the "Promoters' Agreement") between HIPDC and the local government investment companies (excluding Shantou Power Development Joint Stock Company Limited and Dandong Energy Investment Development Centre) and an understanding between HIPDC and these local government investment companies, these local government investment companies agreed to retire approximately RMB435 million of the loans extended to Dalian, Fuzhou, Nantong and Shangan Power Plants and Shantou Oil-Fired Power Plant and to forfeit certain rights to participate in profits of these five power plants in exchange for a then aggregate of 46.36% of the equity in us.

HIPDC and the local government investment companies (excluding Shantou Power Development Joint Stock Company Limited and Dandong Energy Investment Development Centre) have entered into the Shareholders' Agreement dated May 31, 1994 (the "Shareholders' Agreement") which, among other things, grants to HIPDC the right to vote all the shares owned by each of the other seven signatories to the Shareholders' Agreement so as to enable HIPDC to have majority voting rights in general meetings for so long as we are in existence. The Shareholders' Agreement also provides that Directors designated by HIPDC will have majority representation on our board of directors (the "Board of Directors") and each of the other signatories to the Shareholders' Agreement will have one representative designated by it appointed as a member of the Board of Directors. The Shareholders' Agreement also provides that for so long as we are in existence (i) HIPDC and the other signatories to the Shareholders' Agreement will maintain their combined shareholdings to ensure their collective majority control of us, (ii) HIPDC has certain priority rights to purchase the shares held by the other signatories to the Shareholders' Agreement and (iii) if HIPDC does not exercise its priority rights to purchase such shares, each of the signatories to the Shareholders' Agreement other than HIPDC has a priority right to purchase such shares on a pro rata basis and (iv) no shares may be sold or transferred unless their transferees agree to abide by the terms of the Shareholders' Agreement.

At the completion of the initial public offering in October, 1994, HIPDC and the local government investment companies (excluding Shantou Power Development Joint Stock Company Limited and Dandong Energy Investment Development Centre) have owned, respectively, 40.23% and 34.77% of the total number of our outstanding shares.

On February 26, 1998, we placed 250 million H Shares at the price of HK\$4.40 per H Share or US\$22.73 per ADS. Simultaneously with the H Share placement, we issued 400 million A Shares to our controlling shareholder HIPDC as part of the consideration paid for the acquisition of the Shidongkou II, pursuant to the Shanghai Acquisition Agreement. After the completion of the H Share Placement, HIPDC and the local government investment companies (excluding Shantou Power Development Joint Stock Company Limited and Dandong Energy Investment Development Centre) each has held 42.17% and 31.28% equity interest, respectively.

On November 15 and 16, 2001, we issued successfully a total of 350,000,000 A shares in the PRC, of which 100,000,000 state-owned legal person shares were placed to HIPDC at the same price. After the completion of the A share issuance, the total share capital of the Company is 6,000,000,000 shares, HIPDC and the local government investment companies (excluding Shantou Power Development Joint Stock Company Limited and Dandong Energy Investment Development Centre) each held 42.58%, and 27.82% equity interest, respectively.

In May, 2004, we paid to our shareholders stock dividend and converted additional paid-in capital and statutory surplus reserve funds to share capital pursuant to a dividend plan approved by our Board of Directors and shareholders. Under the plan, each share of the issued and outstanding common stock of the Company received one share of the Company's common stock. As a result of such stock dividend, the total share capital of the Company was increased to 12,055,342,400. Our total share capital was further increased to 12,055,383,440 as a result of the conversion of our convertible bonds with an aggregate principal amount of US\$15,000 (and as a result of the simultaneous stock split effected pursuant to the stock dividend plan) into 41,040 H shares of the Company by the holders of such convertible bonds in 2004.

On May 12, 2004, SEPDC transferred to HIPDC 30,000,000 legal person shares of the Company held by SEPDC. Thereafter, on December 21, 2004, SEPDC further transferred to HIPDC another 28,000,000 legal person shares of the Company held by it in consideration for HIPDC's payment of certain debt obligations owed by SEPDC to Bank of Communications Shantou Branch as part of a court-ordered debt settlement plan. As a result of these two share transfers, HIPDC holds 43.12% of the equity interest in the Company.

As a result of the Shareholders' Agreement, HIPDC currently has 70.09% of the total voting rights of the outstanding shares. As a result, HIPDC will continue to control us and will continue to have the power, subject to the Shareholders' Agreement, to control the election of all of our Directors and to direct our management and policies.

In January, 2000, Huaneng Group underwent a restructuring, in which State Power Corporation transferred its 17.22% interest in HIPDC to Huaneng Group. Huaneng Group became a 51.98% shareholder of HIPDC. At the same time, Huaneng Group has granted us a preferential right to purchase interest in existing power plants owned by Huaneng Group and the preferential right on all future power development projects of Huaneng Group that we may realistically develop.

B. Related party transactions

Guarantees

As of December 31, 2004, the Company provided guarantees on long-term bank borrowings of certain subsidiaries and an associated company totaling approximately RMB1.735 billion. These included guarantees granted to the Weihai Power Company, the Qinbei Power Company, the Yushe Power Company and the Rizhao Power Company amounting to RMB30 million, RMB740 million, RMB660 million and RMB305 million respectively. The Company had no contingent liabilities other than these described above.

As of December 31, 2003, the Company succeeded the original loan guarantee granted by Shandong Huaneng Power Development Company Limited ("Shandong Huaneng") on the Weihai Power Company and the Rizhao Power Company and the original guarantee granted by Huaneng Group on the Taicang Power Company amounting to approximately RMB330 million, RMB339 million and RMB1.114 billion respectively.

The Company also provided guarantees on long-term borrowings of the Huaiyin Power Company, the Qinbei Power Company and the Yushe Power Company amounting to approximately RMB10 million, RMB905 million and RMB101 million respectively. The Company had no contingent liabilities other than those described above.

Lease Agreement

Pursuant to a leasing agreement between us and HIPDC signed on December 26, 2000, HIPDC agreed to lease Tianyin Mansion with an area of 27,800 square meters to us for 5 years, and the annual rent is RMB25 million. The Leasing Agreement was effective retroactively as of January 1, 2000.

T&T Service Agreements

Pursuant to the T&T Service Agreements we agreed to pay service fees to HIPDC in relation to the provision of transmission and transformer facilities for our newly constructed power plants, power plants under expansion and acquired power plants which commence commercial operations after January 1, 1997 for a fixed fee equal to 12% of the original book value of the transmission and transformer facilities as set forth in the financial statements of HIPDC. The terms of the T&T Service Agreements are to be reviewed after a period of 10 years.

Acquisitions from Huaneng Group in 2004 and 2005

We made the following acquisitions from Huaneng Group in 2004 and 2005, each of which has been disclosed to our shareholders in more details in the respective circulars dated April 29, 2004 and November 3, 2004, respectively regarding each acquisition and each has been approved by the independent shareholders.

In 2004, we acquired 90% equity interest of Jinggangshan Huaneng Power Generation Limited Liability Company, 40% equity interest of Hebei Hanfeng Power Generation Limited Liability Company from the Huaneng Group, and in 2005 we acquired 60% interest of Sichuan Huaneng Hydropower Development Corporation, Ltd. and 65% interest of Gansu Huaneng Pingliang Power Generation Limited Liability Company from it.

Acquisition from HIPDC in 2004

We made the following acquisitions from HIPDC in 2004, each of which has been disclosed to our shareholders in more details in the respective circulars dated April 29, 2004 and has been approved by the independent shareholders.

We acquired the entire assets and liabilities in Yingkou Power Plant, 60% equity interest of Huaneng Chongqing Luohuang Power Generation Limited Liability Company and 55% equity interest of Huaneng Hunan Yueyang Power Generation Limited Liability Company from HIPDC.

Entrusted Management Agreement with Huaneng Group and HIPDC

In 2002, we entered into an Entrusted Management Agreement with Huaneng Group and HIPDC in relation to the management of their thermal power plants (the "2002 Entrusted Management Agreement"). Our services include, comprehensive planned management, annual planned management, power operation and sale management, production management of power plants, fuel management, construction management, financial management, human resources and labor wages management, comprehensive affairs management, shareholding management and reporting/co-ordination management. The 2002 Entrusted Management Agreement has a term of 5 years. Upon the expiry of such agreement, unless any party intends otherwise, it will continue to be operational. The 2002 Entrusted Management Agreement may also be terminated by, inter alia, (i) Huaneng Group and/or HIPDC giving 30 days notice to us or (ii) we giving 90 days notice to Huaneng Group and/or HIPDC. The entrusted power plants include 17 power plants currently managed by Huaneng Group with a total net installed capacity of 10,799 MW and 5 power plants currently managed by HIPDC with a total net installed capacity of 3,644 MW.

By entering into the 2002 Entrusted Management Agreement, we will further accumulate management experience as a result of the expansion of our operation scale and set a precedent for large-scale and multi-entities entrusted management in the PRC. The 2002 Entrusted Management will also enable us to obtain direct knowledge of the development status of more power markets, thereby exploring new development opportunities.

The service fee payable by Huaneng Group and HIPDC comprises the following three components:

- (i) costs (including set-up, operational and other recurrent items to be incurred by the Company in managing the Entrusted Power Plants), namely RMB46 million per annum;
- (ii) a premium to cover estimation risks which represents 10% of the costs, namely RMB4.6 million per annum; and
- (iii) an incentive / penalty component which is calculated based on the confirmed results of the Entrusted Management and shall not exceed 15% of the costs in (i), namely either an incentive or a penalty of not more than RMB6.9 million per annum.

The costs in (i) will be adjusted annually in accordance with the 2002 Entrusted Management Agreement, which will be by reference to the inflation rate of the previous year as published by the State Statistic Department and the salary component of the service fee will be adjusted by the percentage increase approved by our board.

The 2002 Entrusted Management Agreement has been disclosed to our shareholders in more details in the circular dated November 22, 2002 and has been approved by the independent shareholders.

On April 11, 2005, we entered into another Entrusted Management Agreement with Huaneng Group regarding the management of Sichuan Hydropower that we acquired from Huaneng Group in January, 2005 (the "2005 Entrusted Management Agreement"). Under such agreement, we agreed to entrust Huaneng Group to manage certain affairs of Sichuan Hydropower. The Principal Term of such agreement is summarized below:

- (1) Scope of the management services: planning management during the preliminary stage of the project, annual overall project management, power sales management, power plant operation management, construction management, personnel and labor wages management, administrative affairs management, legal affairs, supervisory work, corporate culture work, reporting/coordination management and management of other affairs.

The Company has not entrusted to Huaneng Group other management matters including financial management, auditing and changes in shareholdings and assets of Sichuan Hydropower.

- (2) Management fee for this entrustment: The Company shall pay a management fee to Huaneng Group in relation to the entrusted management services provided by Huaneng Group pursuant to the 2005 Entrusted Management Agreement. The management fee shall comprise the following three portions:
 - (i) Management costs, that is RMB1,936,100 each year;
 - (ii) Risk premium, equivalent to 10% of the management costs, that is RMB193,600 each year; and
 - (iii) profit, which means bonus or penalty payment not exceeding $\pm 15\%$ of the management costs to be determined on an assessment of the operating results, that is not exceeding \pm RMB 290,400 each year.

If the sum of the controllable generation capacity and equity participation capacity of Sichuan Hydropower does not exceed 1,098MW, the management fee shall not be adjusted. If the sum of the controllable generation capacity and equity participation capacity of Sichuan Hydropower exceeds 1,098MW, the management fees payable by the Company to Huaneng Group each month shall be adjusted according to the amount calculated as follows:

$$\begin{array}{l} \text{Management fee} \\ \text{payable} \\ \text{for the current month} \end{array} = \begin{array}{l} \text{Management fee paid} \\ \text{for the previous month} \end{array} \times \frac{\begin{array}{l} \text{Sum of the actual controllable} \\ \text{generation capacity and equity} \\ \text{participation capacity of Sichuan} \\ \text{Hydropower for the current month} \end{array}}{\begin{array}{l} \text{Sum of the actual controllable} \\ \text{generation capacity and equity} \\ \text{participation capacity of Sichuan} \\ \text{Hydropower for the previous month} \end{array}}$$

The Management fee shall be adjusted at once per any increase in staff remunerations as approved by the Management Party and shall also be adjusted at the beginning of every year according to the inflation rate of the previous year as published by the State Statistics Bureau. As agreed between the Company and New Energy Corporation, New Energy Corporation will bear 40% of the management fee.

- (3) Performance assessment: The Company shall assess the management services of Huaneng Group according to but not limited to the following two main categories of performance assessment standards: (i) the extent of completion of annual targets (including but not limited to indices such as power generation and profit); and (ii) safe operation.
- (4) Method of payment: The Company proposes to pay the management fee to Huaneng Group in cash. The portions of management costs and risk premium under the management fees shall be settled each month. The Company shall pay the management fee for the current month to Huaneng Group before the tenth day of each month. The profit portion (bonus or penalty payment) under the management fee shall be paid after the performance assessment of Huaneng Group but not later than 90 days after the end of each year.
- (5) Conditions for becoming effective: The 2005 Entrusted Management Agreement shall become effective after approval and signing by Huaneng Group and the Company by way of appropriate procedures.
- (6) Term of performance: Except otherwise agreed between the Company and Huaneng Group, the valid term of the 2005 Entrusted Management Agreement shall be one year. When the valid term of the 2005 Entrusted Management Agreement expires, such agreement shall continue to be effective if there is no disagreement between both parties to the agreement. This entrustment may be terminated: (i) due to default by the Company; (ii) due to default by Huaneng Group; (iii) upon 30 days' prior notice given by the Company to the or 90 days' prior notice given by Huaneng Group to the Company; or (iv) if the Company and/or Huaneng Group becomes bankrupt or insolvent.

C. Interests of experts and counsel

Not applicable.

ITEM 8 Financial Information

A. Consolidated Statements and Other Financial Information

See pages F-1 to F-69.

Legal proceedings

We are not a defendant in any material litigation or arbitration and no litigation or claim of material importance is known to us or any member of the Board of Directors of us to be pending or threatened against us.

Dividend Distribution Policy

Our Board of Directors will determine the payment of dividends, if any, with respect to our shares on a per share basis. Any final dividend for a financial year shall be subject to shareholders' approval. The Board may declare interim and special dividends at any time under general authorization by a shareholders' ordinary resolution. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on our results of operations, cash flows, financial condition, future prospects and other factors which our Directors may determine as important.

For holders of our H shares, cash dividend payments, if any, shall be declared by our Board of Directors in Renminbi and paid in HK dollars. The depositary will convert the HK dollar dividend payments and distribute them to holders of ADSs in US dollars, less expenses of conversion.

Dividends may be paid only out of our distributable profits (less allocations to the statutory funds which generally range from 15% to 20% of our net income determined in accordance with PRC GAAP) and may be subject to any applicable PRC withholding tax. Our Articles of Association limit our distributable profits to the lower of the amount determined in accordance with PRC GAAP and IFRS. Subject to the above, we expect to carry a positive, balanced and stable dividend distribution policy.

On March 16, 2004, the Board of Directors proposed a cash and stock dividend plan together with the conversion of additional paid-in capital and statutory surplus reserve fund to share capital. Under the plan, every 10 shares of the issued and outstanding common stock of the Company will be entitled to receiving RMB5.0 in cash and 10 shares of the Company's common stock. The proposed dividend plan was approved by our shareholders at our 2003 Annual General Meeting of Shareholders held on May 11, 2004, and the cash and stock dividend has been distributed to our shareholders.

On March 15, 2005, the Company's Board of Directors proposed cash dividend of RMB0.25 per share for all the shares of the Company's issued and outstanding stock. This proposed cash dividend is subject to approval by our shareholders at our 2004 Annual General Meeting of Shareholders to be held on May 11, 2005.

B. Significant Changes

None.

ITEM 9 The Offer and Listing

Offer and listing details and markets

The ADSs have been listed on the New York Stock Exchange since October 6, 1994. The table below sets forth, for the periods indicated, the high and low closing prices of the ADSs on the New York Stock Exchange.

	Closing Price Per ADS	
	High (US\$)	Low (US\$)
2000	18.94	7.00
2001	24.91	16.75
2002	35.82	23.06
2003	71.35	31.36
2004	86.91	27.30
2003 First Quarter	38.43	31.36
Second Quarter	46.60	34.75
Third Quarter	56.18	46.40
Fourth Quarter	71.35	54.21
2004 First Quarter	78.95	64.80
Second Quarter	86.91	32.85
Third Quarter	35.80	27.30
Fourth Quarter	32.90	29.00
2005 First Quarter	31.24	27.33
2004 October	32.90	29.00
November	32.44	29.89
December	31.79	29.83
2005 January	29.30	27.33
February	30.87	27.99
March	31.24	28.55

Source: Reuters

Each ADS represents 40 Overseas Listed Foreign Shares. As of December 31, 2004, there were 121 registered holders of American Depositary Receipts evidencing ADS.

On January 21, 1998, we listed our H shares on the Hong Kong Stock Exchange. On February 26, 1998, we placed 250 million H Shares Placement at the price of HK\$4.40 per H share or US\$22.73 per ADS. In May, 2004, we effected a two-for-one stock split by way of stock dividend for all our outstanding shares including H shares. The table below sets forth, for the periods indicated, the high and low closing prices of H shares on the Hong Kong Stock Exchange.

		Closing Price Per H shares	
		High	Low
		(HK\$)	(HK\$)
2000	.....	3.77	1.27
2001	.....	4.20	3.40
2002	.....	6.95	4.53
2003	.....	13.20	6.05
2004	.....	13.45	6.05
2003	First Quarter	7.50	6.05
	Second Quarter.....	8.90	6.60
	Third Quarter.....	11.20	8.90
	Fourth Quarter.....	13.45	10.55
2004	First Quarter.....	15.50	12.50
	Second Quarter.....	16.95	6.05
	Third Quarter.....	7.00	5.30
	Fourth Quarter.....	6.40	5.60
2005	First Quarter	6.15	5.30
2004	October.....	6.40	5.60
	November.....	6.30	5.80
	December	6.20	5.75
2005	January	5.75	5.30
	February	6.05	5.40
	March	6.15	5.65

Source: Reuters

As of December 31, 2004, there were 277 registered holders of H Shares.

ITEM 10 Additional Information

A. Share Capital

Not applicable.

B. Memorandum and articles of association

The information under the heading “Description of Capital Stock” in the Registration Statement on Form F-3 filed with SEC on December 25, 1997 is incorporated herewith by reference.

C. Material Contracts

See “Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions” for certain arrangements we have entered into with HIPDC and Huaneng Group.

D. Exchange controls

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in

the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of Renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the Renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition.

The following table sets forth the noon buying rates in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") for the periods indicated:

<u>Period</u>	<u>Period End</u>	<u>Noon Buying Rate</u>		
		<u>Average⁽¹⁾</u> (expressed in RMB per US\$)	<u>High</u>	<u>Low</u>
2000	8.2774	8.2784	8.2799	8.2768
2001	8.2766	8.2770	8.2786	8.2676
2002	8.2800	8.2772	8.2780	8.2759
2003	8.2767	8.2772	8.2800	8.2769
2004	8.2765	8.2768	8.2774	8.2764
2004 October	8.2766	8.2765	8.2768	8.2765
November	8.2765	8.2765	8.2765	8.2764
December	8.2765	8.2765	8.2767	8.2765
2005 January	8.2765	8.2765	8.2765	8.2765
February	8.2765	8.2765	8.2765	8.2765
March	8.2765	8.2765	8.2765	8.2765

Source: DataStream

Note:

(1) Determined by averaging the rates on the last business day of each month during the respective periods.

E. Taxation

The following is a summary of (i) certain tax consequences from acquiring, owning and disposing the H Shares and ADSs based on tax laws of the PRC, the United States and the Income Tax Treaty between the PRC and the United States (the "Tax Treaty") as in effect on the date of this annual report, and is subject to changes in PRC or United States law, including changes that could have retroactive effect, and (ii) the principal PRC taxes to which we are subject to. The following summary does not take into account or discuss the tax laws of any countries or regions other than the PRC and the United States, nor does it take into account the individual circumstances of an investor. This summary does not purport to be a complete technical analysis or examination of all potential tax effects relevant to an investment in the H Shares or ADSs and current and prospective investors in all jurisdictions of the H Shares or ADSs are advised to consult their tax advisors as to PRC, United States or other tax consequences of the purchase, ownership and disposition of the H Shares or ADSs. This summary also does not purport to be a complete technical analysis or examination of all potential PRC taxes that may be levied upon us.

PRC Tax Considerations

Tax on Dividends

Individual Investors. According to the Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System (the "Provisional Regulations"), dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, the PRC State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (the "Tax Notice") which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange, such as H Shares (including H Shares represented by ADSs), would not be subject to PRC withholding tax.

Under the Individual Income Tax Law of China, as amended on August 30, 1999, foreign individuals are subject to withholding tax on dividends paid by a PRC company at a rate of 20% unless specifically exempted by the financial authority of the State Council. However, in a letter dated July 26, 1994 to Former State Commission for Restructuring the Economic System, the former State Council Securities Commission and the China Securities Regulatory Commission, the PRC State Administration of Taxation (the "SAT", the PRC central government tax authority which succeeded the State Tax Bureau) reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event that this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Under the Tax Treaty, China may tax a dividend paid by us to an eligible US Holder up to a maximum of 10% of the gross amount of such dividends.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies to enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in China receiving dividends paid with respect to a PRC company's H Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced pursuant to an applicable double taxation treaty.

Capital Gains Tax on Sales of Shares

The Tax Notice provides that a foreign enterprise not having an establishment in the PRC and selling or disposing of shares of a PRC corporation listed overseas will be exempted from PRC income tax on such capital gains. With respect to shareholders who are foreign individuals, whether or not resident in the PRC, the PRC's Individual Income Tax Law, which superseded the July 21, 1993 Notice with respect to this particular matter, provides that such capital gains realized by individuals will be taxable and authorizes the State Tax Bureau to promulgate implementing regulations. However, in April, 1994 the State Tax Bureau expressed its intention not to impose the tax for two years. In March, 1996, the Ministry of Finance and the State Tax Bureau jointly issued a notice stating that personal income tax shall not be collected on capital gains realized on the sales or dispositions of shares in 1996. The exemption was further renewed by a notice issued by SAT on March 30, 1998. There can be no assurance that such exemption will continue to be available. In the event that capital gains tax is imposed on gains from the sale or disposition of H Shares or ADSs, foreign holders would be subject to a 20% tax unless reduced by an applicable double-taxation treaty. It is arguable that pursuant to the terms of the Tax Treaty, gains derived from the alienation of H Shares or ADSs by a Foreign Holder that is a resident of the United States for purposes of the Tax Treaty should not be subject to PRC tax; provided that such foreign holder owns H Shares or ADSs which represent a participation of less than 25% in us. But this position is uncertain and the PRC authorities may take a different position. Further, the PRC has not promulgated any rules or regulations that address the procedures that a Foreign Holder must follow in order to claim the benefits of the Tax Treaty. Accordingly, it is currently unclear how a Foreign Holder may claim the benefits of the Tax Treaty.

On November 18, 2000, the State Council issued a notice entitled "State Council Notice on the Income Tax Reduction for Interest and Other Income that Foreign Enterprises derive in China" (the "State Council Notice"). Under the State Council Notice, beginning January 1, 2001, enterprise income tax at a reduced 10% rate will apply to interests, rental, license fees and other income obtained in China by foreign enterprises without

agencies or establishment in China, or by foreign enterprises without any substantive relationship with their agencies or establishment in China. If the exemption as described in the preceding paragraph does not apply or is not renewed, and the State Council Notice is found not to apply, a foreign enterprise shareholder may be subject to a 20% tax on capital gain, unless reduced by an applicable double tax treaty.

Tax Treaties

Non-PRC Investors residing in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to such Foreign Holders of us. The PRC currently has double-taxation treaties with a number of countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Stamp Tax

Under the Provisional Regulations of The People's Republic of China Concerning Stamp Tax, which became effective in October, 1988, PRC stamp tax should not be imposed on the transfer of shares of PRC publicly traded companies (including H Shares or ADSs) effected outside China.

Taxation of the Company

Income Tax. Pursuant to the Income Tax Law of the People's Republic of China concerning Foreign Invested Enterprises and Foreign Enterprises (the "EIT Law"), Sino-foreign joint stock companies are subject to a 30% state income tax plus 3% local income tax. In certain special zones, however, such tax rate may be reduced. In addition, manufacturing FIEs with an operating period of more than ten years enjoy a tax holiday of a two-year exemption and a three-year 50% reduction starting from the first profit-making year.

We are a Sino-foreign joint stock company and enjoy the tax holiday described above. Pursuant to Document 327 (1989) of the PRC State Tax Bureau, the Dalian, Fuzhou, Nantong and Shangan Power Plants (excluding Shangan Power Plant Phase II) and Shantou Oil-Fired Power Plant, which previously belonged to HIPDC, were subject to income tax supervision by the local tax bureaus and were entitled to calculate each of their tax holidays separately. Following the Reorganization, we have continued to pay tax pursuant to the EIT Law, so these five Power Plants enjoyed the tax holidays available to them prior to the Reorganization. The tax holiday for each of these five Power Plants has expired. For new projects, including the Shantou Power Plant, each new plant will enjoy its own tax holiday to be calculated separately.

For details of income tax information, please refer to Note 2 (q)(ii) to the Financial Statements.

Value-added Tax. Since January 1, 1994, the government has implemented a turnover tax system applicable to FIEs. Under the turnover tax provisions, we have to collect from our electricity customers and pay to the PRC tax authorities a value-added tax ("VAT") on our sales. The tax rate on sales of electricity by us is 17% of total sales. The amount of VAT payable by us is the VAT on sales reduced by the VAT paid by us on our purchases of coal, fuel and other inputs.

United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations that are anticipated to be material for US Holders (as defined below) who purchase H shares or ADSs of the Company. This summary is based upon existing United States federal income tax law, which is subject to change, possible with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including: financial institutions, insurance companies, broker-dealers, tax-exempt organizations, and, except as described below, non-US Holders, or to persons that will hold H shares or ADSs as part of a straddle, hedge, conversion, or constructive sale transaction for United States federal income tax purposes or that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, or local tax consideration. This summary assumes that investors will hold their H shares or ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code. Each prospective investor is urged to consult its tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of H shares or ADSs.

For purposes of this summary, a US Holder is a beneficial owner of H shares or ADSs that is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, partnership or other entity created in or organized under the laws of, the United States or any state or political subdivision thereof;
- an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source;
- a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or
- a trust that was in existence on August 20, 1996, was treated as a United States person, for United States federal income tax purposes, on the previous day and elected to continue to be so treated.

A beneficial owner of the H shares or ADSs that is not a US Holder is referred to herein as a "Non-US Holder."

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) holds ADS or H shares, the tax treatment of a partner in such partnership will depend upon the status of the partner and the activities of the partnership. Partners in such a partnership should consult their tax advisors as to the particular United States federal income tax consequences applicable to them.

A foreign corporation will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive. The Company presently believes that it is not a PFIC and does not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. The following discussion assumes that the Company will not be subject to treatment as a PFIC for United States federal income tax purposes.

US Holders

For United States federal income tax purposes, a US Holder of an ADS will be treated as the owner of the proportionate interest of the H shares held by the depository that is represented by an ADS and evidenced by such ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for the holders' proportionate interest in the H shares. A US Holder's tax basis in the withdrawn H shares will be the same as the tax basis in the ADS surrendered therefore, and the holding period in the withdrawn H shares will include the period during which the holder held the surrendered ADS.

Dividends

Any cash distributions paid by the Company out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as ordinary dividend income and will be includible in the gross income of a US Holder upon receipt. Cash distributions paid by the Company in excess of its earnings and profits will be a return of capital to the extent of the US Holder's adjusted tax basis in its shares or ADSs, which will not be subject to tax. Any excess will be treated as gain from the sale or exchange of a capital asset which will be treated as discussed below. Dividends paid in Hong Kong dollar will be includible in income in a United States dollar amount based on the United States Dollar - Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depository, in the case of ADSs, or by the US Holder, in the case of H shares held directly by such US Holder. A non-corporate holder of ADS or shares of Common Stock will generally be subject to tax on such dividend income at a maximum U.S. federal rate of 15% rather than the marginal tax rates generally applicable to ordinary income. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations. Any subsequent gain or loss in respect of such Hong Kong dollar arising from exchange rate fluctuations will be ordinary income or loss. This gain or loss will generally be treated as United States source income for United States foreign tax credit limitation purposes. If the Depository converts the Hong Kong dollar to U.S. Dollar on the date it receives such Hong Kong dollar, United States persons will not recognize any such gain or loss.

Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the US Holder elects to do so for all creditable foreign income taxes. In certain circumstances, a US Holder may not claim a foreign tax credit (and instead may claim a deduction) for foreign taxes imposed on the payment of a dividend if the US Holder:

- has not held the H shares or ADSs for at least 16 days in the 30-day period beginning 15 days before the ex-dividend date, during which it is not protected from risk of loss;
- is obligated to make payments related to the dividends; or
- subject to the promulgation of future Treasury regulations that are anticipated to be retroactively applied, holds the H shares or ADSs in an arrangement in which the expected economic profit of the US Holder is insubstantial compared to the value of the foreign tax credit expected to be obtained as a result of the arrangement.

A distribution of additional shares of the Company's stock to US Holders with respect to their H shares or ADSs that is pro rata to all the Company's shareholders may not be subject to United States federal income tax. The tax basis of such additional shares will be determined by allocating the US Holders' adjusted tax basis in the H shares or ADSs between the H shares or ADSs and the additional shares, based on their relative fair market values on the date of distribution.

Sale or Other Disposition of H shares or ADSs

A US Holder will recognize capital gain or loss upon the sale or other disposition of H shares or ADSs in an amount equals to the difference between the amount realized upon the disposition and the US Holder's adjusted tax basis in such H shares or ADSs, as each is determined in US dollars. Any capital gain or loss will be long-term if the H shares or ADSs have been held for more than one year and will generally be United States source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations. Under the Tax Treaty, any such gain should be treated as foreign source income.

PFIC Considerations

If the Company were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a foreign company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder of the H shares or ADSs may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of the H shares or ADSs and (ii) any "excess distribution" paid on the H shares or ADSs (generally, a distribution in excess of 125% of the average annual distributions paid by the Company in the three preceding taxable years). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution.

Non-US Holders

An investment in H shares or ADSs by a Non-US Holder will not give rise to any United States federal income tax consequences unless:

- the dividends received or gain recognized on the sale of H shares or ADSs by such person are treated as effectively connected with the conduct of a trade or business by such person in the United States as determined under United States federal income tax law; or
- in the case of gains recognized on a sale of H shares or ADSs by an individual, such individual is present in the United States for 183 days or more and certain other conditions are met.

In order to avoid back-up withholding on dividend payments made in the United States, a Non-US Holder of the H shares or ADSs may be required to complete, and provide the payor with, an Internal Revenue Service Form W-8, or other documentary evidence, certifying that such holder is an exempt foreign person.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on display

We are subject to the information reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and, in accordance with the Act, file certain reports and other information with the SEC. You may read and copy and report, statement or other information filed by us at the SEC's public reference rooms in Washington, D.C., New York and Chicago, Illinois. Please call the SEC at 1-800-0330 for further information on the public reference rooms. Our reports and other information filed with the SEC are also available to the public from commercial document retrieval services and the website maintained by the SEC at <http://www.sec.gov>.

I. Subsidiary Information

Not applicable.

J. Comparison of New York Stock Exchange Corporate Governance Rules and China Corporate Governance Rules For Listed Companies

Under the amended Corporate Governance Rules of New York Stock Exchange (NYSE), foreign issuers (including the Company) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. A summary of such differences is listed below:

Director Independence

A listed company must have a majority of independent directors on its board of directors. No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent. For example, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or if the director has received, during any twelve-month period within the last three years, more than US\$100,000 in direct compensation from the listed company.

To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

It is required in China that any listed company must establish an independent director system and set forth specific requirements for the qualification of independent directors. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship. The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.

No similar requirements.

Nominating/Corporate Governance Committee

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.

The nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities which, at minimum, must be to: search for eligible people for the board of directors, select and nominate directors for the next session of the shareholders' annual meeting, study and propose corporate governance guidelines, supervise the evaluation of the board of directors and management, and evaluate the performance of the committee every year.

The board of directors of a listed company may, through the resolution of the shareholders' meeting, establish a nominating committee composed entirely of directors, of which the independent directors shall be the majority and the convener. The Company has established a nominating committee.

Relevant responsibilities of the nominating/corporate governance committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.

NYSE corporate governance rules

Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

The board of directors of a listed company can, through the resolution of shareholders' meeting, have a compensation and evaluation committee composed entirely of directors, of whom the independent directors are the majority and act as the convener.

The written charter of the compensation committee must state, at least, the following purposes and responsibilities:

The responsibilities are similar to those stipulated by the NYSE rules, but the committee is not required to produce a report on the executive compensation or make an annual performance evaluation of the committee. The board of directors of the Company has established a compensation and evaluation committee composed mainly of independent directors who act as the convener, and the committee has a written charter.

- (1) review and approve the corporate goals associated with CEO's compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO's compensation level;
- (2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;
- (3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.

The charter must also include the requirement for an annual performance evaluation of the compensation committee.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Exchange Act. It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

The board of directors of a listed company can, through the resolution of the shareholders' meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.

The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company's compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company's internal audit function and independent auditors.

The responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to the domestic practices, the company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the company's annual proxy statement. The Board of Directors of the Company has established an audit committee that satisfies relevant domestic requirements and the audit committee has a written charter.

The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement as well as an annual performance evaluation of the audit committee.

NYSE corporate governance rules	Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices
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Audit Committee (Continued)

Each listed company must have an internal audit department.

China has a similar regulatory provision, and the Company has an internal audit department.

Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.

The relevant regulations of China require the board of directors to propose plans on the amount and types of director compensation for the shareholders' meeting to approve. The compensation plan of executive officers is subject to approval by the board and announced at the shareholders' meeting and disclosed to the public upon the approval of the board of directors.

Corporate governance guidelines

Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director compensation, director continuing education, annual performance evaluation of the board of directors, etc.

CSRS has issued the Corporate Governance Rules, with which the Company has complied.

Code of ethics for directors, officers and employees

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

China does not have such requirement for a code for ethics. But, the directors and officers must perform their legal responsibilities in accordance with the Company Law of PRC, relative requirements of CSRS and Mandatory Provisions to the Charter of Companies Listed Overseas.

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE on writing of any material non-compliance with any applicable provisions of Section 303A.

No similar requirements.

ITEM 11 Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and fuel prices.

Foreign currency exchange rate risk exists with respect to (i) our indebtedness denominated in currencies other than Renminbi and (ii) our equipment purchase commitments. Fluctuations in exchange rates may lead to significant fluctuations in the exposure of our foreign currency denominated liabilities.

We are subject to market rate risks due to fluctuations in interest rates, principally as a result of our indebtedness that bears interests at variable rates.

We are also exposed to market rate risk due to fluctuations in fuel prices, mainly coal prices. For the year ended December 31, 2004, our total fuel costs were RMB15,068 million and the weighted average unit fuel cost was RMB139.4 per MWh.

The following table provides information, by maturity date, regarding our foreign currency sensitive financial instruments, which consist of cash and cash equivalents, temporary cash investments, short-term and long-term debt obligations and capital commitments as of December 31, 2004.

(RMB expressed in millions, except interest rate)

	As of December 31, 2004						Total recorded value	Fair value
	Expected Maturity Date							
	2005	2006	2007	2008	2009	Thereafter		
On-balance sheet financial instruments								
Cash and cash equivalents:								
in US\$	10	-	-	-	-	-	10	10
in RMB	2,285	-	-	-	-	-	2,285	2,285
Temporary cash investments:								
in RMB	13	-	-	-	-	-	13	13
Debts:								
Fixed rate bank and other loans (US\$)	827	812	794	794	794	1,868	5,889	6,033
Average interest rate	6.182%	6.199%	6.209%	6.213%	6.221%	6.280%		
Fixed rate bank loans ()	58	60	60	60	60	566	864	724
Average interest rate	2%	2%	2%	2%	2%	2%		
Variable rate bank and other loans (US\$)	80	76	76	76	76	323	707	629
Average interest rate	2.933%	2.926%	2.920%	2.913%	2.901%	2.868%		
Variable rate bank and other loans (¥)	19	19	19	19	19	28	123	103
Average interest rate	5.800%	5.800%	5.800%	5.800%	5.800%	5.800%		
Capital commitments (in US\$)	290	293	83	31	-	-	697	697
Capital Commitments ()	714	79	-	-	-	-	793	793

(1) The interest rates for variable rate bank and other loans are calculated based on the year end indice.

The following table provides information, by maturity dates, regarding our interest rate sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 2004.

(RMB expressed in millions, except interest rate)

	As of December 31, 2004						Total recorded value	Fair value
	Expected Maturity Date							
	2005	2006	2007	2008	2009	Thereafter		
Debts								
Fixed rate bank and other loans	9,543	1,377	2,239	2,235	3,008	6,165	24,567	24,234
Average interest rate	5.204%	5.294%	5.269%	5.235%	5.190%	4.892%		
Variable rate bank and other loans	99	95	95	95	95	552	1,031	911
Average interest rate	3.494%	3.489%	3.484%	3.477%	3.468%	3.516%		

(1) The interest rates for variable rate bank and other loans are calculated based on the year end indice.

ITEM 12 Description of Securities Other than Equity Securities

Not applicable.

PART II

ITEM 13 Defaults, Dividend Arrearages and Delinquencies

None.

ITEM 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

ITEM 15 Controls and Procedures

Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2004 (the "Evaluation Date"), and they have concluded that, based on their evaluation, our disclosure controls and procedures are effective as to ensure that material information required to be included in this annual report is made known to them by others on a timely basis. There has been no change in our internal control over financial reporting during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16 [Reserved]

ITEM 16A Audit Committee Financial Expert

The Board of Directors has determined that Mr. Xia Donglin qualifies as an Audit Committee Financial Expert in accordance with the terms of Item 16.A of Form 20-F. See "Item 6 Directors, Senior Management and Employees — A. Directors, members of the supervisory committee and senior management".

ITEM 16B Code of Ethics

Although, as of the date of this annual report, we do not have, in form, a code of ethics that applies to the Company's principal executive officer, principal financial officer and principal accounting officer (collectively, the "Senior Corporate Officers"), we believe that, as a substantive matter, the Senior Corporate Officers are subject to a set of written requirements under the PRC law that are substantially similar to the ethical standards described under Item 16B(b) of Form 20-F. Joint stock companies that are incorporated in China and listed on both PRC and foreign stock exchanges are heavily regulated by the central government. To a large extent, these requirements, which are designed to promote honest and ethical conduct and compliance with applicable laws and regulations by the directors and senior executives of such companies, are not merely ethical requirements, but more importantly, statutory obligations that are legally binding on these individuals under the PRC Company Law, relevant rules and regulations promulgated by China Securities Regulatory Commission and the Mandatory Provisions of Articles of Association of Overseas Listed Companies.

In spite of the above specific circumstances relating to the Company, we nevertheless intend to adopt the type of written code of ethics as described in Item 16B(b) of Form 20-F and expect to do so soon.

ITEM 16C Principal Accountant Fees and Services

PricewaterhouseCoopers has served as our independent public auditors for each of the fiscal years in the two-year period ended December 31, 2004, for which audited consolidated financial statements appear in this annual report on Form 20-F.

The following table shows information about fees paid by us to PricewaterhouseCoopers:

<i>(RMB millions)</i>	For the year ended December 31,	
	2004	2003
Audit fees	15.2	13.8
Audit-related fees	5.2	1.8
Tax fees	-	-
All other fees	-	-
Total	20.4	15.6

Audit Services are defined as the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of the Company and its subsidiaries. It also includes other audit services which are those services that only the external auditors reasonably can provide, such as auditing of non-recurring transactions and application of new accounting policies, audits of significant and newly implemented system controls and pre-issuance reviews of quarterly financial results.

Audit Related Services include those other assurances and related services provided by auditors, but not restricted to those that can only reasonably be provided by the external auditors signing the auditors' report, that are reasonably related to the performance of the audit or review of the Company's financial statements such as acquisition due diligence, audits of pension and benefit plans, consultations concerning financial accounting and reporting standards.

Tax Services include the assistance with compliance and reporting of enterprise and value added taxes, assistance with our assessment of new or changing tax regimes, assessment of our transfer pricing policies and practices, and assistance with assessing relevant rules, regulations and facts going into our correspondence with tax authorities.

Audit Committee Pre-approval Policies and Procedures

The Audit Committee of the Company's Board of Directors is responsible, among other things, for the oversight of the external auditors subject to the requirements of the PRC Law and the Company's Articles of Association. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services to be provided by our independent auditors (the "Policy"). Under the Policy, proposed services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services ("general pre-approval"); or (ii) require the specific pre-approval of the Audit Committee ("specific pre-approval"). General approval applies to services of recurring and predictable nature. These types of services, once approved by the Audit Committee in the beginning, will not require further approval in future, except when actual fees and expenses exceed pre-approved budget levels. In such a case, the Audit Committee may authorize one of its members to approve budget increases subject to the requirement that such member provide a report on his decision to approve or deny an application for budget increases to the Audit Committee at an Audit Committee meeting held immediately after such member grants or denies the approval.

Specific pre-approval applies to all other services. These services must be approved by the Audit Committee on a case-by-case basis after an application including proposed budget and scope of services to be provided by our independent auditors is submitted to the Audit Committee.

ITEM 16D Exemptions from the Listing Standards for Audit Committees

Not applicable.

ITEM 16E Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

ITEM 17 Financial Statements

See pages F-1 through F-69 incorporated by reference.

ITEM 18 Financial Statements

Not applicable.

ITEM 19 Exhibits

- 1.1 Amended Articles of Association of Huaneng Power International, Inc., incorporated by reference to Exhibit 1.1 of the Annual Report on Form 20-F for the year ended December 31, 2001 filed with the SEC.
- 3.1 Shareholders' Agreement dated May 31, 1994, incorporated by reference to Exhibit 9.1 of our Registration Statement on Form F-1, filed with the SEC on August 24, 1994.
- 12.1 Certifications of Principal Executive Officer pursuant to Rule 13a-14(a) promulgated under the U.S. Securities Exchange Act of 1934.
- 12.2 Certifications of Principal Financial Officer pursuant to Rule 13a-14(a) promulgated under the U.S. Securities Exchange Act of 1934.
- 13.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HUANENG POWER
INTERNATIONAL, INC.
(Incorporated in the People's Republic of China with limited liability)**

We have audited the accompanying consolidated balance sheets of Huaneng Power International, Inc. (the "Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for each of the three years in the period ended December 31, 2004. These financial statements set out on pages F-2 to F-7 are the responsibility of the management of Company and its subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of the Company and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 42 to the consolidated financial statements.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 15, 2005

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Amounts expressed in thousands of RMB or US\$, except per share data)

	Note	For the year ended December 31,				
		2004		2003		2002
		RMB	US\$	RMB	RMB	
Operating revenue, net		30,118,278	3,639,011	23,388,237	18,474,469	
Operating expenses						
Fuel		(15,068,188)	(1,820,599)	(9,025,013)	(6,916,038)	
Maintenance		(807,689)	(97,588)	(921,561)	(607,951)	
Depreciation		(4,706,992)	(568,718)	(4,117,478)	(3,533,609)	
Labor		(1,877,264)	(226,819)	(1,439,673)	(1,035,740)	
Service fees to HIPDC	7(a)	(133,609)	(16,143)	(214,723)	(263,716)	
Others		(606,346)	(73,261)	(596,627)	(539,401)	
Total operating expenses		(23,200,088)	(2,803,128)	(16,315,075)	(12,896,455)	
Profit from operations		6,918,190	835,883	7,073,162	5,578,014	
Interest income		43,092	5,207	53,044	83,015	
Interest expense		(663,424)	(80,158)	(569,148)	(561,875)	
Bank charges and exchange losses, net		(119,452)	(14,433)	(28,181)	(31,405)	
Total financial expenses		(739,784)	(89,384)	(544,285)	(510,265)	
Share of profit of associates	11	377,565	45,619	212,091	(11,145)	
Investment income	13	22,542	2,724	-	-	
(Loss) / Gain from disposal of investments		(1,988)	(240)	10,705	1,288	
Other income, net	5	18,666	2,255	12,070	-	
Profit before tax	6	6,595,191	796,857	6,763,743	5,057,892	
Income tax expense	32	(1,014,262)	(122,547)	(1,149,441)	(980,854)	
Profit before minority interests		5,580,929	674,310	5,614,302	4,077,038	
Minority interests	33	(257,053)	(31,058)	(183,894)	(156,034)	
Net profit attributable to shareholders		5,323,876	643,252	5,430,408	3,921,004	
Dividends paid and proposed	22	6,019,432	727,292	5,063,244	3,849,408	
Proposed dividend	22	3,013,846	364,145	3,013,836	2,049,408	
Proposed dividend per share (RMB)	22	0.25	0.03	0.25	0.17	
Basic earnings per share (RMB)	34	0.44	0.05	0.45	0.33	
Diluted earnings per share (RMB)	34	0.44	0.05	0.45	0.33	

The accompanying notes is an integral part of these consolidated financial statements.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of RMB or US\$)

	Note	As of December 31,		
		2004		2003
		RMB	US\$	RMB
ASSETS				
Non-current assets				
Property, plant and equipment, net	10	57,780,410	6,981,261	42,658,365
Investments in associates	11	4,328,307	522,963	2,766,031
Available-for-sale investment	13	254,990	30,809	254,990
Land use rights	14	1,546,026	186,797	831,026
Other non-current assets		225,890	27,293	206,833
Deferred income tax assets	29	97,539	11,785	21,311
Goodwill	15	376,726	45,518	298,876
Less: Negative goodwill	15	(1,483,670)	(179,263)	(1,730,949)
Total non-current assets		63,126,218	7,627,163	45,306,483
Current assets				
Inventories, net	16	1,431,404	172,948	800,281
Other receivables and assets, net	17	723,316	87,394	259,421
Accounts receivable	18	4,973,103	600,870	2,804,026
Due from other related parties	7(g)	14,970	1,809	5,862
Restricted cash		202,688	24,490	159,961
Temporary cash investments	19	12,641	1,527	144,996
Cash and cash equivalents	35(a)	2,295,531	277,355	4,128,648
Total current assets		9,653,653	1,166,393	8,303,195
Total assets		72,779,871	8,793,556	53,609,678

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONT'D)
AS OF DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of RMB or US\$)

	Note	As of December 31,		
		2004		2003
		RMB	US\$	RMB
EQUITY AND LIABILITIES				
Shareholders' equity				
8,500,000,000 (2003: 4,250,000,000) Domestic Shares, par value RMB1.00 each, in form of legal person shares	20	8,500,000	1,027,004	4,250,000
500,000,000 (2003: 250,000,000) A shares, par value RMB1.00 each	20	500,000	60,412	250,000
3,055,383,440 (2003: 1,527,671,200) Overseas Listed Foreign Shares, par value RMB1.00 each	20	3,055,383	369,164	1,527,671
Additional paid-in capital	20	8,972,184	1,084,055	10,780,133
Dedicated capital	20, 21	4,065,970	491,267	4,328,423
Equity component of convertible notes	20	-	-	255
Retained earnings				
Proposed dividend	22	3,013,846	364,145	3,013,836
Others		8,158,136	985,699	9,805,037
Total shareholders' equity		36,265,519	4,381,746	33,955,355
Minority interests	33	3,266,393	394,659	1,155,197
Non-current liabilities				
Long-term loans from shareholders, unsecured	23	800,000	96,659	-
Long-term bank loans, unsecured	24	14,854,471	1,794,777	8,305,320
Other long-term loans, unsecured	25	300,818	36,346	848,284
Deferred income tax liabilities	29	546,717	66,057	103,114
Other non-current liability		13,000	1,571	-
Total non-current liabilities		16,515,006	1,995,410	9,256,718
Current liabilities				
Accounts payable and other liabilities	26	4,551,158	549,887	3,342,517
Dividends payable to shareholders of the Company		8,250	997	-
Taxes payable	27	999,792	120,799	917,362
Due to HIPDC	7(g)	1,258,799	152,093	87,508
Due to other related parties	7(g)	13,426	1,622	27,338
Staff welfare and bonus payables		259,291	31,329	220,896
Short-term loans, unsecured	28	8,099,000	978,554	1,600,000
Current portion of long-term loans from shareholders, unsecured	23	-	-	420,380
Current portion of long-term bank loans, unsecured	24	1,257,476	151,933	2,409,240
Current portion of other long-term loans, unsecured	25	285,761	34,527	211,881
Liability component of convertible notes		-	-	935
Other financial liabilities	38	-	-	4,351
Total current liabilities		16,732,953	2,021,741	9,242,408
Total equity and liabilities		72,779,871	8,793,556	53,609,678

The accompanying notes is an integral part of these consolidated financial statements.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Amounts expressed in thousands of RMB)

	Share Capital	Additional Paid-in Capital	Dedicated Capital			Equity Component of Convertible Notes	Retained Earnings	Total
			Statutory and discretionary surplus reserve fund	Statutory public welfare fund	Sub-total			
Balance at January 1, 2002	6,000,000	10,137,732	1,896,270	762,742	2,659,012	510,506	8,986,280	28,293,530
Dividend relating to 2001	-	-	-	-	-	-	(1,800,000)	(1,800,000)
Net profit for the year ended December 31, 2002	-	-	-	-	-	-	3,921,004	3,921,004
Conversion of convertible notes to share capital (Note 20)	274	1,696	-	-	-	(444)	-	1,526
Redemption of convertible notes	-	465,415	-	-	-	(465,415)	-	-
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	15,398	(15,398)	-	-	-	-
Transfer to dedicated capital (Note 21)	-	-	408,235	306,176	714,411	-	(714,411)	-
Balance at December 31, 2002	6,000,274	10,604,843	2,319,903	1,053,520	3,373,423	44,647	10,392,873	30,416,060
Dividend relating to 2002	-	-	-	-	-	-	(2,049,408)	(2,049,408)
Net profit for the year ended December 31, 2003	-	-	-	-	-	-	5,430,408	5,430,408
Conversion of convertible notes to share capital (Note 20)	27,397	175,290	-	-	-	(44,392)	-	158,295
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	2,104	(2,104)	-	-	-	-
Transfer to dedicated capital (Note 21)	-	-	545,714	409,286	955,000	-	(955,000)	-
Balance at December 31, 2003	6,027,671	10,780,133	2,867,721	1,460,702	4,328,423	255	12,818,873	33,955,355
Dividend relating to 2003	-	-	-	-	-	-	(3,013,836)	(3,013,836)
Ordinary shares split (Note 20)	6,027,671	(1,808,301)	(1,205,534)	-	(1,205,534)	-	(3,013,836)	-
Net profit for the year ended December 31, 2004	-	-	-	-	-	-	5,323,876	5,323,876
Conversion of convertible notes to share capital and redemption of convertible notes (Note 20)	41	352	(4)	-	(4)	(255)	(10)	124
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	1,600	(1,600)	-	-	-	-
Transfer to dedicated capital (Note 21)	-	-	538,906	404,179	943,085	-	(943,085)	-
Balance at December 31, 2004	12,055,383	8,972,184	2,202,689	1,863,281	4,065,970	-	11,171,982	36,265,519

The accompanying notes is an integral part of these consolidated financial statements.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Amounts expressed in thousands of RMB or US\$)

	Note	For the year ended December 31,			
		2004		2003	2002
		RMB	US\$	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		6,595,191	796,857	6,763,743	5,057,892
Adjustments to reconcile profit before tax to net cash provided by operating activities:					
Depreciation		4,706,992	568,718	4,117,478	3,533,609
Amortization of prepaid land use rights		28,074	3,392	19,136	16,847
Amortization of goodwill and negative goodwill		(205,277)	(24,802)	(222,108)	(246,128)
Amortization of other non-current assets		39,731	4,800	41,566	24,112
(Reversal) / Provision for doubtful accounts		(10,654)	(1,287)	12,567	15,826
Provision for / (reversal) of inventory obsolescence		1,521	184	(751)	(945)
Loss / (Gain) from disposals of investments		1,988	240	(10,705)	(1,288)
Investment income		(22,542)	(2,724)	-	-
(Gain) / Loss on disposals of property, plant and equipment, net		(29,176)	(3,525)	138,726	31,980
Unrealized exchange loss		89,913	10,873	1,094	4,846
Gain on interest rate swaps		(925)	(112)	(11,771)	(2,179)
Share of profit of associates		(377,565)	(45,619)	(212,091)	11,145
Interest income		(43,092)	(5,207)	(53,044)	(83,015)
Interest expenses		663,424	80,158	569,148	561,875
Changes in working capital:					
Restricted cash		(23,108)	(2,792)	(146,702)	(13,259)
Accounts receivable		(742,005)	(89,652)	(353,637)	(496,559)
Due from other related parties		(9,108)	(1,100)	(5,862)	-
Inventories, net		(414,275)	(50,054)	159,419	(39,272)
Other receivables and assets, net		(206,873)	(24,995)	(65,900)	92,579
Accounts payable and other liabilities		243,524	29,424	226,584	279,019
Taxes payable		3,796	459	131,281	44,070
Other non-current liability		13,000	1,571	-	-
Due to HIPDC		(53,263)	(6,435)	(12,967)	65,891
Due to other related parties		(13,912)	(1,681)	13,370	(3,225)
Staff welfare and bonus payable		(17,728)	(2,142)	(12,670)	(152,033)
Interest paid		(974,879)	(117,789)	(617,162)	(733,600)
Income tax paid		(1,123,966)	(135,802)	(989,635)	(984,047)
Interest received		43,895	5,304	54,182	95,577
Net cash provided by operating activities		8,162,701	986,262	9,533,289	7,079,718

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Amounts expressed in thousands of RMB or US\$)

	Note	For the year ended December 31,			
		2004		2003	2002
		RMB	US\$	RMB	RMB
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(9,877,553)	(1,193,446)	(3,606,704)	(1,552,580)
Proceeds from disposals of property, plant and equipment		27,768	3,355	7,679	41,567
Prepayments of land use right		(154,754)	(18,698)	(16,508)	(41,630)
Increase in other non-current assets		(3,680)	(445)	(12,847)	3,412
Decrease in temporary cash investments		132,355	15,992	1,066,629	5,082,568
Proceeds from disposal of investments		548	66	80,704	2,390
Cash consideration paid for available-for-investment		-	-	-	(254,990)
Cash dividend received		172,542	20,847	-	-
Cash consideration paid for acquisitions	3	(4,575,000)	(552,770)	(2,940,000)	(2,759,435)
Direct transaction costs paid for acquisitions	3	(31,685)	(3,828)	(19,618)	(17,042)
Cash inflow from the acquired power plants	3	659,174	79,644	215,585	569,841
Net cash (used in) / provided by investing activities		(13,650,285)	(1,649,283)	(5,225,080)	1,074,101
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown of short-term loans, unsecured		8,724,000	1,054,069	769,000	120,000
Repayments of short-term loans, unsecured		(2,940,313)	(355,260)	(450,000)	(190,000)
Drawdown of long-term loans from shareholders, unsecured		800,000	96,659	-	-
Repayments of long-term loans from shareholders, unsecured		(1,504,827)	(181,819)	(388,988)	(15,565)
Drawdown of long-term bank loans, unsecured		4,944,000	597,354	1,016,230	173,379
Repayments of long-term bank loans, unsecured		(3,192,843)	(385,772)	(2,322,348)	(2,954,748)
Drawdown of other long-term loans, unsecured		-	-	350,000	-
Repayments of other long-term loans, unsecured		(679,062)	(82,047)	(36,060)	(283,683)
Capital injection from minority shareholders of the subsidiaries		677,034	81,802	77,632	-
Dividend paid to shareholders of the Company		(3,005,586)	(363,147)	(2,049,408)	(1,800,000)
Dividend paid to minority shareholders of the subsidiaries		(167,125)	(20,193)	(148,220)	(138,847)
Redemption of convertible notes		(811)	(98)	-	(2,234,790)
Net cash provided by / (used in) financing activities		3,654,467	441,548	(3,182,162)	(7,324,354)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS					
		(1,833,117)	(221,473)	1,126,047	829,465
Cash and cash equivalents, beginning of year		4,128,648	498,828	3,002,601	2,173,136
CASH AND CASH EQUIVALENTS, END OF YEAR	35(a)	2,295,531	277,355	4,128,648	3,002,601

The accompanying notes is an integral part of these consolidated financial statements.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) as a Sino-foreign joint stock limited company on June 30, 1994. As of December 31, 2004, the Company and its subsidiaries had 22,129 employees (2003: 17,886 employees; 2002: 15,222 employees).

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

The parent company and ultimate parent company of the Company are Huaneng International Power Development Corporation (“HIPDC”) and China Huaneng Group Corporation (“Huaneng Group”), respectively. Both companies are incorporated in the PRC.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and under the historical cost convention. This basis of accounting differs from that used in the preparation of the statutory financial statements of the Company and its subsidiaries (“PRC statutory financial statements”). The PRC statutory financial statements of the Company and its subsidiaries comprising the financial statements have been prepared in accordance with the relevant accounting principles and regulations applicable to the Company and its subsidiaries, as appropriate in the PRC. Appropriate adjustments have been made to the PRC statutory financial statements to conform with IFRS. Differences arising from the restatement have not been incorporated in the statutory accounting records of the Company and its subsidiaries.

The consolidated financial statements are expressed in Renminbi (“RMB”), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2004 financial statements have been translated into United States dollars (US\$) at the rate of US\$1.00=RMB8.2765 announced by the People’s Bank of China on December 31, 2004. No representation is made that Renminbi amounts could have been, or could be, converted into United States dollars at the rate on December 31, 2004, or at any other certain rate.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates.

During 2004, a significant portion of the Company and its subsidiaries’ funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as of December 31, 2004, the Company and its subsidiaries have a negative working capital balance of approximately RMB7 billion. The Company and its subsidiaries have significant undrawn available banking facilities as disclosed in Note 35 and may refinance and/or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these consolidated financial statements on a going concern basis.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

The Company and its subsidiaries adopted IFRS 3 Business Combinations and International Accounting Standard ("IAS") 36 Impairment of Assets in relation to acquisitions with respective agreements dated on or after March 31, 2004 (Notes 2(f) & (g)). Goodwill arising from acquisition with the agreement date before March 31, 2004 is amortized using the straight-line method over their estimated useful lives and recognized in the income statement until December 31, 2004. In accordance with the provisions of IFRS 3, goodwill arising from acquisitions on or after March 31, 2004 is not amortized but instead is tested annually for impairment and carried at cost less accumulated impairment losses. There is no impact on opening retained earnings as of January 1, 2004 from the adoption of these standards.

(b) Consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued and liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of subsidiaries acquired is recorded as goodwill. See Note 2(f) for the accounting policy on goodwill. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method.

(ii) Associates

Associates are entities over which the Company and its subsidiaries generally have between 20% and 50% of the voting rights, or over which the Company and its subsidiaries have significant influence, but which they do not control. Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Company and its subsidiaries and its associates are eliminated to the extent of the Company and its subsidiaries' interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company and its subsidiaries' investments in associates include goodwill (net of accumulated amortization) on acquisition. When the Company and its subsidiaries' share of losses in an associate equals or exceeds their interest in the associate, further losses are not recognised, unless the Company and its subsidiaries have incurred obligations or made payments on behalf of the associates.

In the Company's financial statements, investments in associates are accounted for using the equity method.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Company and its subsidiaries are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the “measurement currency”). The consolidated financial statements are presented in Renminbi (“RMB”), which is the measurement currency of the Company and its subsidiaries.

(ii) Transactions and balances

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

(d) Property, plant and equipment, net

Property, plant and equipment, net is stated at historical cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is determined by comparing proceeds with the carrying amount and is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their estimated residual values over their estimated useful lives as follows:

Buildings	8-35 years
Electric utility plant in service	4-30 years
Transportation facilities	6-27 years
Others	2.5-18 years

The useful lives and depreciation methods are reviewed periodically to ensure that the methods and periods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

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

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

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(e) Investments

The Company and its subsidiaries classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short-term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Company and its subsidiaries commits to purchase or sell the investment. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortized cost using the effective yield method. Realized and unrealized gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(f) Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising from acquisitions dated before March 31, 2004 is amortized to the income statement using the straight-line method over its estimated useful life until December 31, 2004 and will be tested annually for impairment effective from January 1, 2005. Management determines the estimated useful life of goodwill based on the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets of the respective business at the time of the acquisition. In accordance with the provisions of IFRS 3, goodwill arising from acquisitions on or after March 31, 2004 is not amortized but tested annually for impairment (see Note 2(g)) and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating unit ("CGUs") for the purpose of impairment testing.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(f) Goodwill and negative goodwill (Cont'd)

Negative goodwill represents the excess of the fair value of the Company's share of the net assets of the acquired subsidiary/associate over the cost of an acquisition. Negative goodwill arising from acquisitions dated before March 31, 2004 is amortized using the straight-line method over their estimated useful lives and recognized in the income statement until December 31, 2004 and will be derecognized on January 1, 2005, with a corresponding adjustment to retained earnings as of January 1, 2005. Management determines the estimated useful lives of negative goodwill based on the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets of the respective business at the time of the acquisition. For negative goodwill arising from acquisitions dated on or after March 31, 2004, the Company reassesses the identification and measurement of the identifiable assets and liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess of the fair value of the Company's share of net assets of the subsidiary / associate over the cost of the acquisition after that reassessment is recognized immediately in profit or loss.

(g) Impairment of assets

Assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(h) Inventories

Inventories consist of fuel, materials and supplies. They are stated at the lower of weighted average costs or net realizable values after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalized to fixed assets when installed, as appropriate. Cost of inventories includes direct material cost and transportation expenses incurred in bringing the inventories to the working locations.

(i) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company and its subsidiaries will not be able to collect all amounts due according to the original terms of receivables.

(j) Temporary cash investments

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

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(l) Borrowings and convertible notes

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

The proceeds received on the issue of the convertible notes were allocated into liability and equity components. Upon initial recognition, the liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issue of the notes. After the initial recognition, the liability component is measured at amortized cost.

As the convertible notes were issued at par with a put option allowing the investors to redeem the notes at a premium for cash at 128.575% of the par value on May 21, 2002. The put option is accounted for as an embedded derivative and separated from the host contract. This embedded derivative is carried at fair value, with changes in fair value included in the income statement.

(m) Provisions

Provisions are recognized when the Company and its subsidiaries have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company and its subsidiaries expect a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(n) Revenue and income recognition

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

(i) Operating revenue, net

Net operating revenue represents amounts earned for electricity generated and transmitted to the respective regional or provincial grid companies (net of value added tax ("VAT") and amounts received in advance). Revenue is earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective grid companies.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis that reflects the effective yield on the deposits.

(iii) Management service income

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(o) Borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized as part of the cost of property, plant and equipment, if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

(p) Operating leases

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

(q) Taxation

(i) VAT

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

(ii) Income tax

In accordance with the practice notes on the PRC income tax laws applicable to foreign investment enterprises investing in energy and transportation infrastructure businesses, the reduced income tax rate of 15% (after the approval of State Tax Bureau) is applicable across the country.

All the power plants (except for Huaneng Dezhou Power Plant (the "Dezhou Power Plant"), Huaneng Jining Power Plant (the "Jining Power Plant"), Huaneng Changxing Power Plant (the "Changxing Power Plant"), Huaneng Shanghai Shidongkou I Power Plant (the "Shidongkou I Power Plant"), Huaneng Xindian Power Plant (the "Xindian Power Plant"), Huaneng Weihai Power Limited Liability Company (the "Weihai Power Company"), Suzhou Industrial Park Huaneng Power Limited Liability Company (the "Taicang Power Company"), Jiangsu Huaneng Huaiyin Power Limited Liability Company ("the Huaiyin Power Company"), Shanxi Huaneng Yushe Power Limited Liability Company (the "Yushe Power company"), Henan Huaneng Qinbei Power Limited Company (the "Qinbei Power Company") and Huaneng Hunan Yueyang Power Generation Limited Liability Company (the "Yueyang Power Company") are exempted from income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday").

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(q) Taxation (Cont'd)

(ii) Income tax (Cont'd)

The tax holiday of Huaneng Dalian Power Plant (the "Dalian Power Plant"), Huaneng Dalian Power Plant Phase II ("the Dalian phase II"), Huaneng Shang'an Power Plant (the "Shang'an power plant"), Huaneng Nantong Power Plant (the "Nantong Power Plant"), Huaneng Fuzhou Power Plant (the "Fuzhou Power Plant"), Huaneng Shantou Oil-Fired Power Plant (the "Shantou Oil-Fired Power Plant"), Huaneng Shanghai Shidongkou Second Power Plant (the "Shidongkou II Power Plant"), Huaneng Nanjing Power Plant (the "Nanjing Power Plant") and Huaneng Shang'an Power Plant Phase II (the "Shang'an Phase II") had already expired prior to 2004. The tax holiday of Huaneng Nantong Power Plant Phase II (the "Nantong Phase II") and Huaneng Fuzhou Power Plant Phase II (the "Fuzhou Phase II") expired in 2004, the tax holiday of the Huaneng Shantou Coal-Fired Power Plant ("the Shantou Power Plant") will expire in 2005, the tax holiday of Huaneng Chongqing Luohuang Power Generation Limited Liability Company (the "Luohuang Power Company") will expire in 2007 and the tax holiday of Huaneng Jinggangshan Power Plant (the "Jinggangshan Power Plant") will expire in 2008.

The statutory income tax is assessed on an individual power plant basis, based on each of their results of operations. The commencement dates of the tax holiday period of each power plant are individually determined. The statutory income tax rates applicable to the head office, Shandong branch and the operating power plants, after taking the effect of tax holidays into consideration, are summarized below:

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(q) Taxation (Cont'd)

(ii) Income tax (Cont'd)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Head Office	15.0%	15.0%	15.0%
Dalian Power Plant	18.0%	18.0%	18.0%
Dalian Phase II ¹	15.0%	7.5%	7.5%
Shang'an Power Plant	18.0%	18.0%	18.0%
Shang'an Phase II	18.0%	9.0%	9.0%
Nantong Power Plant	15.0%	15.0%	15.0%
Nantong Phase II ²	7.5%	7.5%	7.5%
Fuzhou Power Plant	15.0%	15.0%	15.0%
Fuzhou Phase II ³	7.5%	7.5%	7.5%
Shantou Oil-Fired Plant	15.0%	15.0%	15.0%
Shantou Power Plant ⁴	10.0%	10.0%	7.5%
Shidongkou II Power Plant	16.5%	16.5%	16.5%
Huaneng Dandong Power Plant (the "Dandong Power Plant") ⁵	-	-	-
Nanjing Power Plant ⁶	10.0%	10.0%	15.0%
Shandong Branch	17.0%	17.0%	17.0%
Dezhou Power Plant	17.0%	17.0%	17.0%
Jining Power Plant	15.0%	15.0%	15.0%
Changxing Power Plant	16.5%	16.5%	16.5%
Shidongkou I Power Plant	18.0%	18.0%	33.0%
Xindian Power Plant ^{7, 10}	15.0%	18.0%	N/A
Huaneng Yingkou Power Plant (the "Yingkou Power Plant") ^{5, 10}	-	N/A	N/A
Jinggangshan Power Plant ^{8, 10}	-	N/A	N/A
Weihai Power Company	33.0%	33.0%	33.0%
Taicang Power Company	33.0%	33.0%	33.0%
Huaiyin Power Company	33.0%	33.0%	33.0%
Yushe Power Company ¹⁰	33.0%	33.0%	N/A
Yueyang Power Company ¹⁰	33.0%	N/A	N/A
Luohuang Power Company ^{9, 10}	-	N/A	N/A
Qinbei Power Company ^{10, 11}	-	N/A	N/A

¹ In accordance with Guo Shui Zhi Shui Han [2004] No. 12, the tax holiday of Dalian Phase II is determined separately from the Dalian Power Plant. The Dalian Phase II is entitled to a 50% reduction of the applicable tax rate from January 1, 2001 to December 31, 2003 and an exemption of local income tax of 3% from January 1, 1999 to December 31, 2008.

² In accordance with Su Guo Shui Han [2003] No. 248 and Tong Guo Shui Wai Zi [2003] No.1, the tax holiday of the Nantong Phase II is determined separately from the Nantong Power Plant. The Nantong Phase II is entitled to a 50% reduction of the applicable tax rate from January 1, 2002 to December 31, 2004.

³ In accordance with Min Guo Shui Han [2003] No. 37, the tax holiday of the Fuzhou Phase II is determined separately from the Fuzhou Power Plant. The Fuzhou Phase II is entitled to a 50% reduction of the applicable tax rate from January 1, 2002 to December 31, 2004.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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2. ACCOUNTING POLICIES (CONT'D)

(q) Taxation (Cont'd)

(ii) Income tax (Cont'd)

- ⁴ In accordance with the approval from Shantou State Tax Bureau Shewai Branch dated January 16, 2003, the Shantou Power Plant is qualified as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from January 1, 2003 to December 31, 2005. The applicable tax rate during the extension is 10%.
- ⁵ The tax holidays of Dandong Power Plant and Yingkou Power Plant have not commenced yet.
- ⁶ In accordance with Ning Guo Shui Wai Zi [1997] No.39, the Nanjing Power Plant qualifies as a foreign invested advanced technology enterprise and is, therefore, entitled to extend its tax holiday for three years from January 1, 2002 to December 31, 2004. The applicable tax rate during the extension is 10%. Nanjing Power Plant is currently negotiating with the Jiangsu State Tax Bureau for a refund of the overpaid income tax for the year of 2002 and 2003.
- ⁷ The Company acquired all of the assets and liabilities of the Xindian Power Plant on October 27, 2003 and the Xindian Power Plant became a branch of the Company. In accordance with Lin Guo Shui Han [2004] No.123, the Xindian Power Plant is entitled to preferential tax treatment applicable to Sino-foreign enterprises investing in energy industry at a reduced income tax rate of 15%.
- ⁸ In accordance with Ji An Shi Guo Shui Zhong Qi Fa [2004] No. 20, the Jinggangshan Power Plant is entitled to a tax holiday from July 1, 2004 to December 31, 2008.
- ⁹ In according with the approval from Chongqing State Tax Bureau Shewai Branch, the Luohuang Power Company is entitled to a tax holiday from January 1, 2003 to December 31, 2007.
- ¹⁰ Not applicable in 2003 and / or 2002 as they were not branches or subsidiaries of the Company.
- ¹¹ Not applicable in 2003 as the Qinbei Power Company did not commence its commercial operations until November, 2004.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

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2. ACCOUNTING POLICIES (CONT'D)

(q) Taxation (Cont'd)

(ii) Income tax (Cont'd)

The income tax charge is based on profit for the year and after considering deferred taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Employee benefits

(i) Pension obligations

The Company and its subsidiaries have various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate.

Under these defined contribution plans, the Company and its subsidiaries pay contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company and its subsidiaries have no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(ii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and its subsidiaries recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy which has been accepted. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(s) Related parties

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

2. ACCOUNTING POLICIES (CONT'D)

(t) Financial instruments

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortized cost, whenever it is probable that the Company and its subsidiaries will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognized in the income statement. Reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognized to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

(u) Contingencies

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

(v) Dividends

Dividends are recorded in the financial statements of the Company and its subsidiaries in the period in which they are approved by the shareholders of the Company and its subsidiaries.

(w) Comparatives

A long-term loan of approximately RMB32 million have been reclassified from other long-term loan to long-term loan from shareholders in the consolidated balance sheet to confirm with the presentation in the current year.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS

During 2004, 2003 and 2002, the Company acquired a number of power plants from the Huaneng Group, HIPDC as well as other parties. These acquisitions have been accounted for under the purchase method of accounting. These acquisitions became effective when, amongst other things, the Company obtained minority shareholders' approval, where applicable, and all necessary government approvals, and has paid the purchase consideration. The consideration for all of these acquisitions was in the form of cash.

Details of these acquisitions are shown in the table below:

	For the year ended December 31, 2004		
	Acquisition of subsidiaries and net assets	Acquisition of subsidiaries and net assets	Acquisition of an associate
Equity interest acquired	55% equity interest in the Yueyang Power Company, 60% equity interest in the Luohuang Power Company and all of the assets and liabilities of the Yingkou Power Plant*	All of the assets and liabilities of the Jingtangshan Power Plant*	40% equity interest in Hebei Hanfeng Power Generation Limited Liability Company (the "Hanfeng Power Company") (Note 11)*
Original equity holder	HIPDC	90% equity interest from Huaneng Group and 10% equity interest from Jiangxi Province Investment Company	Huaneng Group
Effective date of acquisition	July 1, 2004	July 1, 2004	July 1, 2004
Consideration paid	RMB2,564 million	RMB636 million	RMB1,375 million
Direct transaction costs of acquisitions	RMB12 million	RMB3 million	RMB7 million
Fair value of net assets acquired	RMB2,475 million	RMB628 million	RMB1,089 million
Goodwill	<u>RMB101 million</u>	<u>RMB11 million</u>	<u>RMB293 million</u>

The above acquisitions contributed net operating revenue of approximately RMB2,573 million and net profit of approximately RMB397 million to the Company and its subsidiaries for the period from July 1, 2004 to December 31, 2004. If the acquisitions had occurred on January 1, 2004, the unaudited net operating revenue of the Company and its subsidiaries would have been approximately RMB33 billion, and unaudited profit before allocations would have been approximately RMB6 billion.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS (CONT'D)

	For the year ended December 31, 2003	
	Acquisition of subsidiaries and net assets	Acquisition of an associate
Equity interest acquired	55% equity interest in the Qinbei Power Company, 60% equity interest in the Yushe Power Company and all of the assets and liabilities of the Xindian Power Plant*	25% equity interest in Shenzhen Energy Group Co., Ltd.'s ("SEG") enlarged share capital (Note 11)
Original equity holder	Huaneng Group	Shenzhen Investment Holding Corporation ("SIH") and SEG
Effective date of acquisition	October 27, 2003	April 22, 2003
Consideration paid	RMB550 million	RMB2,390 million
Direct transaction costs of acquisitions	RMB12 million	RMB15 million
Fair value of net assets acquired	RMB374 million	RMB1,585 million
Goodwill	<u>RMB188 million</u>	<u>RMB820 million</u>

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS (CONT'D)

For the year ended December 31, 2002				
	Acquisition of subsidiaries, an associate and net assets	Acquisition of additional equity interests in subsidiaries		
Equity interest acquired	70% equity interest in the Shidongkou I Power Plant, 70% equity interest in the Taicang Power Company, 44.16% equity interest in the Huaiyin Power Company and all of the assets and liabilities of the Changxing Power Plant*	25% additional equity interest in the Jinning Power Plant	30% additional equity interest in the Shidongkou I Power Plant and additional 5% equity interest in the Taicang Power Company	19.48% additional equity interest in the Huaiyin Power Company*
Original equity holder	Huaneng Group	Shandong Electricity Power Group Corporation	Huaneng Group	Jiangsu Huaiyin Investment Company ("JHIC")
Effective date of acquisition	July 1, 2002	June 18, 2002	December 31, 2002	December 31, 2002
Consideration paid	RMB2,050 million	RMB109 million	RMB415 million	RMB185 million
Direct transaction costs of acquisitions	RMB18 million	-	RMB4 million	-
Fair value of net assets acquired	RMB2,047 million	RMB106 million	RMB374 million	RMB109 million
Goodwill	<u>RMB21 million</u>	<u>RMB3 million</u>	<u>RMB45 million</u>	<u>RMB76 million</u>

Goodwill arising from the acquisitions in 2004, 2003 and 2002 is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the Company's acquisitions of the branches, subsidiaries and associated companies stated above.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACQUISITIONS (CONT'D)

* The aggregated assets and liabilities arising from these acquisitions in 2004, 2003 and 2002 were as follows:

	2004		2003	2002
	Fair value	Acquirees' carrying amounts	Fair value	Fair value
Property, plant and equipment, net	9,392,195	7,691,230	3,085,503	4,923,490
Deferred income tax assets	81,082	81,082	19,603	-
Long-term investments in associates (Note 11)	1,400,239	967,244	-	-
Other non-current assets	752,418	219,106	18,667	121,324
Inventories	218,118	218,118	35,608	164,127
Other current assets	114,084	114,084	96,608	54,402
Accounts receivable	1,348,007	1,348,007	88,556	458,103
Cash and cash equivalents	659,174	659,174	215,585	569,841
Minority interest	(1,336,936)	(655,869)	(121,575)	(829,320)
Long-term loans, unsecured	(4,700,696)	(4,700,696)	(1,706,104)	(2,039,735)
Due to HIPDC	(1,224,554)	(1,224,554)	-	-
Due to Huaneng Group	-	-	(13,968)	-
Deferred income tax liabilities	(478,189)	(67,826)	-	(109,568)
Other current liabilities	(1,739,219)	(1,739,219)	(1,344,842)	(1,156,534)
Net assets acquired	4,485,723	<u>2,909,881</u>	373,641	2,156,130
Add: Goodwill	111,710		188,139	97,280
Less: Direct transaction costs of acquisitions	(22,433)		(11,780)	(18,410)
Total consideration paid	4,575,000		550,000	2,235,000
Add: Direct transaction costs of acquisitions	22,433		2,528	17,042
Less: Cash inflow from the acquired power plants	(659,174)		(215,585)	(569,841)
Net cash outflow for the acquisitions	<u>3,938,259</u>		<u>336,943</u>	<u>1,682,201</u>

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

(1) Financial risk factors

The Company and its subsidiaries' activities expose them to a variety of financial risks including the effects of changes in debt and equity market price, foreign currency exchange rates and interest rates. The Company and its subsidiaries' overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company and its subsidiaries. The Company and its subsidiaries use derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

(a) Interest rate risk

The Company's floating rate bank loans expose the Company to interest rate risk. The Company uses derivative instruments when considered appropriate, to manage exposures arising from changes in interest rates by entering into interest rate swap agreements with PRC banks to convert certain floating rate bank loans into fixed rate debts of the same principal amounts and for the same maturities to hedge against cash flow interest rate risk.

The interest rates and terms of repayment of shareholder loans, bank loans, and other loans are disclosed in Notes 23, 24, 25 and 28.

(b) Foreign currency risk

The Company and its subsidiaries have foreign currency risk as a significant portion of its long-term loans from shareholders, long-term bank loans and other long-term loans are denominated in foreign currencies, principally US dollar ("US\$") and Euro, as described in Notes 23, 24(b), 24(c) and 25. When considered appropriate, the Company and its subsidiaries manage exposures arising from changes in exchange rate of Euro by entering into currency swap agreements. Fluctuation of exchange rates of RMB against foreign currencies could affect the Company and its subsidiaries' results of operation.

(c) Credit risk

Significant portion of the Company and its subsidiaries' cash and cash equivalents and temporary cash investment maturing over 3 months are deposited with the four largest state-owned banks of the PRC and a non-bank financial institution in the PRC, which is a related party of the Company.

Each power plant of the Company and its subsidiaries sells the electricity generated to its sole customer (the provincial or regional grid companies) in the province or region where the power plant is situated.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONT'D)

(2) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Company and its subsidiaries use a variety of methods and make assumption that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair values for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company and its subsidiaries for similar financial instruments.

5. OTHER INCOME, NET

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROFIT BEFORE TAX

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest expenses on long-term bank loans, unsecured:			
- wholly repayable within 5 years	370,461	104,012	155,987
- not wholly repayable within 5 years	521,654	422,809	415,181
Interest expenses on long-term loans from shareholders, unsecured:			
- wholly repayable within 5 years	16,551	22,053	29,622
- not wholly repayable within 5 years	36,586	-	-
Interest expenses on other long-term loans, unsecured:			
- wholly repayable within 5 years	37,083	57,493	29,619
- not wholly repayable within 5 years	12,692	-	-
Interest expenses on convertible notes	26	3,248	47,904
	<u>995,053</u>	<u>609,615</u>	<u>678,313</u>
Less: Amount capitalized in property, plant and equipment	<u>(331,629)</u>	<u>(40,467)</u>	<u>(116,438)</u>
Total interest expenses	663,424	569,148	561,875
Interest income	(43,092)	(53,044)	(83,015)
Bank charges and exchange losses, net	119,452	28,181	31,405
Change in fair value on financial instruments:			
- Gains of interest rate swaps	(925)	(11,771)	(2,179)
Auditors' remuneration	17,239	19,359	10,750
(Gain) / Loss on disposals of property, plant and equipment, net	(29,176)	138,726	31,980
Loss / (Gain) from disposals of investment	1,988	(10,705)	(1,288)
Operating leases:			
- Buildings	30,067	25,985	27,566
- Land use rights	40,272	44,100	42,293
Depreciation of property, plant and equipment	4,706,992	4,117,478	3,533,609
Amortization of prepaid land use rights	28,074	19,136	16,847
Amortization of other non-current assets	39,731	41,566	24,112
Amortization of goodwill	42,002	25,170	1,150
Amortization of negative goodwill	(247,279)	(247,278)	(247,278)
Cost of inventories	15,302,929	9,222,583	7,100,336
(Reversal of) / Provision for doubtful accounts	(10,654)	12,567	15,826
Provision for / (Reversal of) inventory obsolescence	1,521	(751)	(945)
Staff costs:			
- Wages and staff welfare	1,249,836	1,020,444	698,862
- Retirement benefits (Note 8)	299,120	235,950	142,734
- Termination benefits	18,546	-	-
- Staff housing benefits (Note 31)	100,751	72,163	78,612
- Other staff costs	<u>209,011</u>	<u>111,116</u>	<u>115,532</u>

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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7. RELATED PARTY TRANSACTIONS

The related parties of the Company and its subsidiaries include:

Name of related parties	Nature of relationship
Huaneng Group	Ultimate parent
HIPDC	Parent
China Huaneng Finance Company (“Huaneng Finance”)	A subsidiary of Huaneng Group
Weihai Power Development Bureau (“WPDB”)	Minority shareholder of the Weihai Power Company
Chongqing Construction and Investment Limited Liability Company (“CCI”)	Minority shareholder of the Luohuang Power Company
Henan Construction Investment Company (“Henan Investment”)	Minority shareholder of the Qinbei Power Company
Jiangsu Electric Power Development Co., Ltd. (“JEPDC”)	Minority shareholder of the Huaiyin Power Company
China Huaneng International Trade Economics Corporation (“CHITEC”)	A subsidiary of Huaneng Group
Shanghai Time Shipping Company Ltd. (“Time Shipping”)	A joint venture of Huaneng Group
Shandong Rizhao Power Company Ltd. (the “Rizhao Power Company”)	An associate of the Company
Chongqing Huaneng Shifen Company Limited (the “Shifen Company”)	An associate of the Luohuang Power Company
Jiyuan Construction & Investment Company (the “Jiyuan Investment”)	Minority shareholder of the Qinbei Power Company
Shanxi International Power (Group) Company Limited (the “Shanxi International”)	Minority shareholder of the Yushe Power Company
Hebei Huaneng Jingyuan Coal Company Limited (the “Huaneng Jingyuan”)	A subsidiary of Huaneng Group

- a. Pursuant to the relevant service agreements entered into between the Company and HIPDC on June 30, 1994, HIPDC provides transmission services and transformer facilities to some of the power plants of the Company and receives service fees. The agreements cover a period of 10 years. The total amount of service fees paid to HIPDC for the year ended December 31, 2004 was approximately RMB134 million (2003: approximately RMB215 million; 2002: approximately RMB264 million) and was included in operating expenses.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY TRANSACTIONS (CONT'D)

- b. Pursuant to a leasing agreement entered into amongst the Company, HIPDC and Nanjing Investment Company, the land use rights of the Nanjing Power Plant is leased to the Company for 50 years with an annual rental payment of approximately RMB1.3 million, starting from January 1, 1999.
- c. As of December 31, 2004, current deposits of approximately RMB1,363 million (2003: approximately RMB2,792 million) were placed with a non-bank PRC financial institution, Huaneng Finance.

As of December 31, 2004, the interest rate per annum of the current deposits placed with Huaneng Finance ranged from 0.72% to 1.44% (2003: 0.72% to 1.44%; 2002: current deposits: 0.72% to 1.44%; fixed deposits: 1.71%) per annum. The interest earned from these deposits amounted to approximately RMB9 million in 2004 (2003: approximately RMB14 million; 2002: approximately RMB52 million).

- d. Pursuant to the leasing agreement between the Company and HIPDC, HIPDC agreed to lease its office building to the Company for 5 years at an annual rental of RMB25 million effective from January 1, 2000.
- e. As described in Notes 23 and 25, certain loans of the Company and its subsidiaries were borrowed from Huaneng Group, CCI, WPDB and JEPDC.
- f. As of December 31, 2004, short-term loans amounting to approximately RMB3,694 million (2003: approximately RMB1,130 million) were borrowed from Huaneng Finance, which bore interest at 4.54% to 5.02% (2003: 4.78% to 5.05%; 2002: 5.56%) per annum.
- g. As of December 31, 2004 and 2003, the balances with HIPDC and other related parties are unsecured, non-interest bearing and receivable or repayable within one year.
- h. As of December 31, 2004, long-term bank loans of approximately RMB3,937 million, RMB3,798 million, RMB100 million, RMB200 million, RMB545 million and RMB125 million (2003: approximately RMB4,648 million, RMB1,096 million, RMB280 million, RMB34 million, nil and nil) were guaranteed by HIPDC, Huaneng Group, WPDB, Henan Investment, the Shanxi International and the Jiyuan Investment, respectively.
- i. As of December 31, 2004, the Company had provided guarantees on certain long-term bank loans of the Rizhao Power Company totaling approximately RMB305 million (2003: approximately RMB339 million).
- j. During the years ended December 31, 2004 and 2003, the Company entered into several agreements with Huaneng Group and HIPDC to acquire equity interests or net assets of certain power plants (see Note 3).
- k. On November 6, 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 December 31, 2004, the service fee earned from Huaneng Group and HIPDC amounted to approximately RMB46 million and RMB12 million (2003: approximately RMB33 million and RMB17 million; 2002: nil and nil), respectively. The Company incurred total costs of services of approximately RMB39 million (2003: approximately RMB38 million; 2002: nil), and recorded the management service fee, net of relevant expenses, as other income.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

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7. RELATED PARTY TRANSACTIONS (CONT'D)

- l. For the year ended December 31, 2004, the Company and its subsidiaries paid approximately RMB215 million for coal purchased from CHITEC (2003: approximately RMB145 million; 2002: nil).
- m. For the year ended December 31, 2004, the Company and its subsidiaries paid approximately RMB563 million for the fuel purchased and transportation services received from Time Shipping (2003: approximately RMB457 million; 2002: approximately RMB301 million).
- n. For the year ended December 31, 2004, the Company and its subsidiaries paid approximately RMB26 million for lime purchased from the Shifen Company (2003 and 2002: N/A).
- o. For the year ended December 31, 2004, the Company and its subsidiaries paid approximately RMB16 million for coal purchased from Huaneng Jingyuan (2003 and 2002: nil).
- p. As of December 31, 2004, HIPDC had provided guarantees on the equity portion of certain accounts receivable balances of the Company and its subsidiaries totaling approximately RMB360 million (2003: nil) (see Note 18).

8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension on their retirement dates. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the state-sponsored retirement plan at a specified rate, currently set at 18% to 20%, of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended December 31, 2004 were approximately RMB167 million (2003: approximately RMB132 million; 2002: approximately RMB89 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended December 31, 2004 totaled approximately RMB132 million (2003: approximately RMB111 million; 2002: approximately RMB80 million).

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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9. DIRECTORS', SENIOR MANAGERMENTS' AND SUPERVISORS' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Fees for directors	-	-	-
Fees for independent non-executive directors	300	-	-
Fees for supervisors	-	-	-
Other emoluments for directors			
Basic salaries and allowances	674	1,452	1,563
Discretionary bonuses	889	264	1,027
Contributions to pension schemes for directors (and past directors):			
- as directors	-	-	-
- for other offices	-	42	263
Other emoluments for independent non-executive directors:			
Basic salaries and allowances	-	-	-
Discretionary bonuses	-	-	-
Contributions to pension schemes for directors (and past directors):			
- as directors	-	-	-
- for other offices	-	-	-
Other emoluments for supervisors			
Basic salaries and allowances	223	850	576
Discretionary bonuses	277	-	-
Contributions to pension schemes for supervisors (and past supervisors):			
- as supervisors	-	-	-
- for other offices	-	-	-
	<u>2,363</u>	<u>2,608</u>	<u>3,429</u>

During the year, no option was granted to the directors or the supervisors (2003 and 2002: nil).

During the year, no emolument was paid to the directors or the supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (2003 and 2002: nil).

The annual emoluments paid during the years 2002, 2003 and 2004 to each of the directors and the supervisors fell within the range of nil to RMB1 million.

No director or supervisors had waived or agreed to waive any emoluments during the years 2002, 2003 and 2004.

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9. DIRECTORS', SENIOR MANAGERMENTS' AND SUPERVISORS' EMOLUMENTS (CONT'D)

(b) Five highest paid individuals

For the year ended December 31, 2004, two of the five individuals, whose emoluments were the highest in the Company and its subsidiaries, were directors (2003: none of the five individuals, whose emoluments were the highest in the Company and its subsidiaries, were directors or supervisors; 2002: all of the five individuals were directors). The emoluments payable to the five highest paid individuals during the year are as follows:

	2004	2003	2002
Basic salaries and allowances	1,455	516	477
Discretionary bonuses	1,977	1,835	1,034
Contributions to pension schemes	372	192	282
	<u>3,804</u>	<u>2,543</u>	<u>1,793</u>

The annual emoluments paid during the years 2002, 2003 and 2004 to each of the five highest paid individuals fell within the range of nil to RMB1 million.

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised:

	2004					2003	
	Buildings	Electric Utility Plant in Service	Transportation Facilities	Others	Construction- in-progress	Total	Total
<u>Cost</u>							
Beginning of year	1,356,782	55,015,630	604,068	1,294,891	4,190,164	62,461,535	57,052,734
Reclassifications	(18,668)	209,690	(205,053)	14,031	-	-	-
Acquisition (Note 3)	259,253	8,372,033	444	217,547	542,918	9,392,195	3,085,503
Additions	10,726	20,291	2,840	66,318	10,352,279	10,452,454	2,733,279
Transfer from CIP	435,766	5,537,895	12,755	72,371	(6,058,787)	-	-
Disposals	(788)	(88,145)	(1,800)	(14,029)	-	(104,762)	(409,981)
End of year	<u>2,043,071</u>	<u>69,067,394</u>	<u>413,254</u>	<u>1,651,129</u>	<u>9,026,574</u>	<u>82,201,422</u>	<u>62,461,535</u>
<u>Accumulated Depreciation</u>							
Beginning of year	332,300	18,776,233	145,094	549,543	-	19,803,170	15,949,266
Reclassifications	(5,566)	72,770	(62,903)	(4,301)	-	-	-
Charge for the year	75,004	4,421,906	30,469	187,145	-	4,714,524	4,117,478
Disposals	(171)	(85,073)	(1,787)	(9,651)	-	(96,682)	(263,574)
End of year	<u>401,567</u>	<u>23,185,836</u>	<u>110,873</u>	<u>722,736</u>	<u>-</u>	<u>24,421,012</u>	<u>19,803,170</u>
<u>Net Book Value</u>							
End of year	<u>1,641,504</u>	<u>45,881,558</u>	<u>302,381</u>	<u>928,393</u>	<u>9,026,574</u>	<u>57,780,410</u>	<u>42,658,365</u>
Beginning of year	<u>1,024,482</u>	<u>36,239,397</u>	<u>458,974</u>	<u>745,348</u>	<u>4,190,164</u>	<u>42,658,365</u>	<u>41,103,468</u>

Borrowing costs capitalized to CIP for the year ended December 31, 2004 amounted to approximately RMB332 million (2003: approximately RMB40 million; 2002: approximately RMB116 million). An average capitalization rate of 4.38% (2003: 5.06%; 2002: 5.25%) per annum was used, representing the average borrowing cost of the loans used to finance the project.

There was no write-down of any property, plant and equipment during the year (2003 and 2002: nil).

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11. INVESTMENTS IN ASSOCIATES

	<u>2004</u>	<u>2003</u>
Beginning of year	2,766,031	200,960
Acquisition of 25% equity interest of SEG (Note 3)	-	2,404,562
Acquisition of 40% equity interest of the Hanfeng Power Company (Note 3)	1,382,210	-
Acquisition of 25% equity interest of the Shifen Company (Note 3)	18,029	-
Share of profit before tax	377,565	212,091
Share of income tax expense (Note 32)	(65,528)	(51,582)
Share of dividends	<u>(150,000)</u>	<u>-</u>
End of year	<u><u>4,328,307</u></u>	<u><u>2,766,031</u></u>

The share of profit before tax included the amortization charge of goodwill of approximately RMB82 million (2003: approximately RMB55 million; 2002: nil) in respect of the acquisition of an associate. Investment in associates at December 31, 2004 included goodwill with a carrying amount of approximately RMB976 million (2003: approximately RMB765 million).

As at December 31, 2004, details of the Company's investment in associates are as follows:

Name	Country and date of incorporation	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Rizhao Power Company	PRC March 20, 1996	25.5%	-	US\$150,000,000	Power generation
SEG	PRC July 16, 1997	25%	-	RMB955,555,556	Power generation
Hanfeng Power Company	PRC October 28, 1996	40%	-	RMB1,975,000,000	Power generation
Shifen Company	PRC November 5, 1996	-	25%	RMB50,000,000	Lime production and sale

There were no changes in the interests held in the Rizhao Power Company and SEG in 2004. The Company acquired 40% equity interest of the Hanfeng Power Company in 2004 and an indirect interest of 25% of the Shifen Company through the acquisition of the 60% equity interest in the Luohuang Power Company in the current year (see Note 3).

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12. INVESTMENTS IN SUBSIDIARIES

As of December 31, 2004, the Company had equity interests in the following subsidiaries:

Name of subsidiaries	Country, date of incorporation and type of legal entity	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Weihai Power Company	PRC November 22, 1993 Limited liability company	60%	-	RMB761,838,300	Power generation
Taicang Power Company	PRC June 19, 1997 Limited liability company	75%	-	RMB632,840,000	Power generation
Huaneng Taicang Power Co., Ltd. (the "Taicang II Power Company")	PRC June 18, 2004 Limited liability company	75%	-	Registered capital of RMB894,410,000 with total paid-in capital of RMB447,210,000	Power generation
Huaiyin Power Company	PRC January 26, 1995 Limited liability company	63.64%	-	RMB265,000,000	Power generation
Jiangsu Huaneng Huaiyin II Power Limited Company (the "Huaiyin II Power Company")	PRC June 22, 2004 Limited liability company	63.64%	-	RMB474,000,000	Power generation
Qinbei Power Company	PRC July 12, 1995 Limited liability company	55%	-	RMB10,000,000	Power generation
Yushe Power Company	PRC November 29, 1994 Limited liability company	60%	-	RMB80,000,000	Power generation
Shanxi Huaneng Yushe Yuanheng Power Industry Limited Liability Company	PRC September 17, 2002 Limited liability company	-	95%	RMB3,000,000	Logistic services
Shandong Huaneng Xindian Power Co., Ltd. (the "Xindian II Power Company")	PRC March 14, 2004 Limited liability company	95%	-	RMB100,000,000	Power generation
Yueyang Power Company	PRC December 16, 2003 Limited liability company	55%	-	RMB560,000,000	Power generation
Luohuang Power Company	PRC December 16, 2003 Limited liability company	60%	-	RMB900,000,000	Power generation

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12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Summarized financial information of the Yueyang Power Company and the Luohuang Power Company acquired in 2004 (2003: the Qinbei Power Company and the Yushe Power Company; 2002: the Taicang Power Company and the Huaiyin Power Company) is as follows:

	As of December 31,		
	2004	2003	2002
Balance sheet			
Current assets	2,087,010	323,032	576,600
Non-current assets	6,715,295	2,739,414	2,993,917
Total assets	<u>8,802,305</u>	<u>3,062,446</u>	<u>3,570,517</u>
Current liabilities	2,074,894	1,073,960	462,326
Non-current liabilities	3,062,157	1,641,484	1,497,529
Total liabilities	<u>5,137,051</u>	<u>2,715,444</u>	<u>1,959,855</u>
For the period from the effective date of the acquisition to			
December 31,			
	2004	2003	2002
Income statement			
Revenue	1,463,127	57,348	1,559,287
Expenses	(1,280,712)	(54,282)	(1,334,383)
Net profit	<u>182,415</u>	<u>3,066</u>	<u>224,904</u>

13. AVAILABLE-FOR-SALE INVESTMENT

Available-for sale investment represents a 3% equity interest (unlisted) in a power generation company China Yangtze Power Co., Ltd. ("Yangtze Power") in the PRC.

There was no disposal of available-for-sale investment in 2004 and 2003.

14. LAND USE RIGHTS

Details of the prepaid land use rights are as follows:

	2004	2003
Outside Hong Kong, held on:		
Leases of over 50 years	10,539	3,022
Leases of between 10 to 50 years	1,535,487	828,004
	<u>1,546,026</u>	<u>831,026</u>

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15. GOODWILL AND NEGATIVE GOODWILL

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

	<u>Goodwill</u>	<u>Negative goodwill</u>	<u>Total</u>
Year ended December 31, 2003:			
Beginning of year	126,560	(1,978,227)	(1,851,667)
Addition from acquisitions (Note 3)	197,486	-	197,486
Amortization for the year	<u>(25,170)</u>	<u>247,278</u>	<u>222,108</u>
End of year	<u><u>298,876</u></u>	<u><u>(1,730,949)</u></u>	<u><u>(1,432,073)</u></u>
As of December 31, 2003			
Cost	325,196	(2,472,784)	(2,147,588)
Accumulated amortization	<u>(26,320)</u>	<u>741,835</u>	<u>715,515</u>
Net book value	<u><u>298,876</u></u>	<u><u>(1,730,949)</u></u>	<u><u>(1,432,073)</u></u>
Year ended December 31, 2004:			
Beginning of year	298,876	(1,730,949)	(1,432,073)
Addition from acquisitions (Note 3)	111,710	-	111,710
Adjustment	8,142	-	8,142
Amortization for the year	<u>(42,002)</u>	<u>247,279</u>	<u>205,277</u>
End of year	<u><u>376,726</u></u>	<u><u>(1,483,670)</u></u>	<u><u>(1,106,944)</u></u>
As of December 31, 2004			
Cost	445,048	(2,472,784)	(2,027,736)
Accumulated amortization	<u>(68,322)</u>	<u>989,114</u>	<u>920,792</u>
Net book value	<u><u>376,726</u></u>	<u><u>(1,483,670)</u></u>	<u><u>(1,106,944)</u></u>

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15. GOODWILL AND NEGATIVE GOODWILL (CONT'D)

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

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

	<u>2004</u>
Yueyang Power Company	100,907
Hanfeng Power Company*	<u>293,070</u>
	<u>393,977</u>

* The goodwill on acquisition of the Hanfeng Power Company is included in investments in associates (see Note 11). In respect of the amount of goodwill from acquisitions made on or after March 31, 2004, the Company and its subsidiaries have undertaken an impairment review and have determined that no provision for impairment is required as of December 31, 2004.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. The Company expects cash flows beyond the three-year period will be similar to that of the third year based on existing production capacity. The pre-tax discount rates applied to the cash flow projections of the Yueyang Power Company and the Hanfeng Power Company were 12% and 11% respectively. Such discount rates used reflect specific risks relating to the power plants. Other key assumptions used are based on past performance and the Company's expectations for the market development.

16. INVENTORIES, NET

Inventories comprised:

	<u>2004</u>	<u>2003</u>
Fuel (coal and oil) for power generation	732,834	308,861
Material and other supplies	715,250	505,041
	<u>1,448,084</u>	<u>813,902</u>
Less: Provision for inventory obsolescence	<u>(16,680)</u>	<u>(13,621)</u>
	<u>1,431,404</u>	<u>800,281</u>

As of December 31, 2004, approximately RMB556 million of the total carrying amount of inventories were carried at net realizable value (2003: approximately RMB406 million).

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

	<u>2004</u>	<u>2003</u>
Beginning of year	(13,621)	(12,239)
Addition from acquisitions	(12,329)	(2,133)
Provision	(1,712)	(129)
Write-offs	10,791	-
Reversal	191	880
	<u>16,680</u>	<u>(13,621)</u>
End of year	<u>(16,680)</u>	<u>(13,621)</u>

During the year, the Company and its subsidiaries reversed part of the previous inventory write-downs as the Company has utilized such inventories in the current year. The amount reversed has been included in operating expenses in the income statement.

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17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	<u>2004</u>	<u>2003</u>
Prepayments for inventories	328,181	76,543
Prepayments for contractors	168,616	42,282
Interest receivable on temporary cash investments	1,982	3,291
Others	<u>273,645</u>	<u>191,190</u>
	772,424	313,306
Less: Provision for doubtful accounts	<u>(49,108)</u>	<u>(53,885)</u>
	<u><u>723,316</u></u>	<u><u>259,421</u></u>

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

	<u>2004</u>	<u>2003</u>
Beginning of year	(53,885)	(21,444)
Additions from acquisitions	(15,086)	(19,874)
Provision	(2,405)	(12,567)
Write-offs	9,209	-
Reversal	<u>13,059</u>	<u>-</u>
End of year	<u><u>(49,108)</u></u>	<u><u>(53,885)</u></u>

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18. ACCOUNTS RECEIVABLE

Accounts receivable comprised:

	<u>2004</u>	<u>2003</u>
Accounts receivable	3,730,431	2,356,826
Notes receivable	<u>1,242,672</u>	<u>447,200</u>
	<u><u>4,973,103</u></u>	<u><u>2,804,026</u></u>

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

As of December 31, 2004, the aging analysis of accounts receivable was as follows:

	<u>2004</u>	<u>2003</u>
Within 1 year	4,510,368	2,800,330
Between 1 to 2 years	96,808	-
Between 2 to 3 years	-	3,696
Over 3 years	<u>365,927</u>	<u>-</u>
	<u><u>4,973,103</u></u>	<u><u>2,804,026</u></u>

As of December 31, 2004, HIPDC had provided guarantees on the equity portion of certain accounts receivable balances of the Company and its subsidiaries of approximately RMB360 million. These receivable balances were acquired as part of the acquisition of the Luohuang Power Company and the Yueyang Power Company as disclosed in Note 3.

As of December 31, 2004, the maturity period of the notes receivable ranged from one month to six months (2003: one month to six months).

19. TEMPORARY CASH INVESTMENTS

Temporary cash investments consist of fixed-term deposits denominated in RMB (2003: RMB and US\$) with original maturities ranging from more than three months to one year. The effective interest rate on short-term bank deposits was 1.98% to 2.25% (2003: 0.01% to 1.71 %) per annum.

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20. CAPITALIZATION

Authorized Share Capital and Paid-in Capital

As of December 31, 2004, the authorized share capital of the Company was RMB12,055,383,440 (2003: RMB6,027,671,200), divided into 12,055,383,440 shares (2003: 6,027,671,200 shares) of RMB1.00 each (2003: RMB1.00 each). In addition, the issued and fully paid share capital of the Company as of December 31, 2004 was RMB12,055,383,440 (2003: RMB6,027,671,200) comprising of 9,000,000,000 Domestic Shares (2003: 4,500,000,000 Domestic Shares) and 3,055,383,440 Overseas Listed Foreign Shares (2003: 1,527,671,200 Overseas Listed Foreign Shares). The holders of Domestic Shares and Overseas Listed Foreign Shares, with minor exceptions, are entitled to the same economic and voting rights.

Conversion of Convertible Notes to Share Capital

During the year, the noteholders converted the convertible notes with principal of US\$15,000 (2003: US\$ 20 million) to 513 American Depository shares ("ADS") (20,520 H shares equivalent) (2003: 684,931 ADS; 27,397,240 H shares equivalent).

Ordinary Shares Split

On May 11, 2004, the shareholders approved a ten-for-ten stock split of the Company's ordinary shares effected in the form of a) 5 bonus shares for every 10 existing ordinary shares and b) 5 conversion shares for every 10 existing ordinary shares. The shares split was completed on August 9, 2004.

The bonus shares amounting to approximately RMB3,014 million were charged to retained earnings. The conversion shares issued, amounting to also approximately RMB3,014 million, were charged to additional paid-in capital and statutory and discretionary surplus reserve fund in the amount of approximately RMB1,808 million and approximately RMB1,206 million respectively. The basic and diluted earnings per share included in this consolidated financial statements have been adjusted retrospectively to reflect the shares split (see Note 34).

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21. APPROPRIATION AND DISTRIBUTION OF PROFIT

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

For the year ended December 31, 2004, the Board of Directors resolved the following on March 15, 2005:

- (i) to appropriate 10% and 7.5% (2003: 10% and 7.5%; 2002: 10% and 7.5%), respectively, of the profit after taxation as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund and the statutory public welfare fund. The total amount of appropriation is approximately RMB943 million (2003: approximately RMB955 million; 2002: approximately RMB714 million).
- (ii) to make no appropriation to the discretionary surplus reserve fund (2003 and 2002: nil).

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lowest of the amounts determined in accordance with (a) the PRC accounting standards and regulations and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended December 31, 2004 was approximately RMB4.38 billion (2003: approximately RMB4.48 billion; 2002: approximately RMB3.18 billion). The cumulative balance of distributable profit as of December 31, 2004 was approximately RMB11.17 billion (2003: approximately RMB12.82 billion; 2002: approximately RMB10.4 billion).

22. DIVIDENDS

On March 15, 2005, the Board of Directors proposed a cash dividend of RMB0.25 per share, totaling approximately RMB3,014 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2005.

On May 11, 2004, the shareholders approved the declaration of cash dividends of RMB0.50 per ordinary share (RMB0.25 per adjusted ordinary share after the ordinary shares split as mentioned in Note 20), totaling approximately RMB3,014 million, together with an issue of bonus shares accounted for as a stock split on the basis of 5 bonus shares for every 10 existing ordinary shares in respect of the year ended December 31, 2003, based on the 6,027,671,200 outstanding shares on the date in their annual general meeting.

On May 28, 2003, the shareholders approved the declaration of RMB0.34 (RMB0.17 per adjusted ordinary share after the ordinary share split as mentioned in Note 20), totaling approximately RMB2,049 million in respect of the year ended December 31, 2002, based on the 6,027,671,200 outstanding shares on that date, in their annual general meeting.

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23. LONG-TERM LOANS FROM SHAREHOLDERS, UNSECURED

As of December 31, 2004, long-term loans borrowed from shareholders represented loans from Huaneng Group. These loans are unsecured, bear both fixed and floating interest rates that ranged from 3.78% to 4.60% per annum for the year ended December 31, 2004 and are repayable in accordance with the repayment schedules set by the contracts.

As of December 31, 2003, long-term loans from shareholders represented the US\$ denominated bank loans on lent by HIPDC and an RMB loan borrowed from Jiangsu Province International Trust & Investment Company. These loans were unsecured, bore both fixed and floating interest rates that ranged from 3.60% to 5.76% per annum for the year ended December 31, 2004 (2003: 3.62% to 5.76%; 2002: 4.01% to 7.40%), and had been fully repaid as of December 31, 2004.

Long-term loans from shareholders, unsecured are repayable as follows:

	2004	2003
Within 1 year	-	420,380
Between 1 to 2 years	-	-
Between 2 to 5 years	-	-
Over 5 years	800,000	-
	800,000	420,380
Less: Amount due within 1 year included under current liabilities	-	(420,380)
	800,000	-

24. LONG-TERM BANK LOANS, UNSECURED

Long-term bank loans, unsecured comprised:

	2004		2003
	Original currency '000		
Renminbi loans (a)	-	8,805,069	4,064,499
Foreign currency loans			
US\$ (b)	778,474	6,443,044	6,650,061
Euro (c)	76,699	863,834	-
		16,111,947	10,714,560

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24. LONG-TERM BANK LOANS, UNSECURED (CONT'D)

- a. RMB bank loans were borrowed from PRC banks to finance the construction of the power plants of the Company and its subsidiaries. These loans bear fixed interest rates from 3.60% to 5.76% per annum for the year ended December 31, 2004 (2003: 4.94% to 6.21%; 2002: 5.76% to 6.21%) and are repayable in accordance with the agreed repayment schedules set by the banks.
- b. US\$ bank loans were borrowed to finance the construction of the power plants of the Company and its subsidiaries. These loans bear interest at lending rates (both fixed and floating) ranging from 1.225% to 6.97% per annum for the year ended December 31, 2004 (2003: 1.18% to 6.60%; 2002: 2.00% to 6.60%), and are repayable in accordance with the agreed repayment schedules set by the banks. The Company had entered into interest rate swap agreements with PRC banks to convert certain floating rate bank loans into fixed rate debts to hedge against the interest rate risk (see Note 38).
- c. Euro bank loans were borrowed to finance the construction of the Phase I of the Luohuang Power Company before its acquisition by the Company. These loans bear fixed interest at 2% per annum for the year ended December 31, 2004 and are repayable in accordance with the agreed repayment schedule set by the banks.

The long-term bank loans are unsecured and are repayable as follows:

	2004	2003
Within 1 year	1,257,476	2,409,240
Between 1 to 2 years	1,362,697	1,058,155
Between 2 to 5 years	7,639,071	2,940,506
Over 5 years	5,852,703	4,306,659
	16,111,947	10,714,560
Less: Amount due within 1 year included under current liabilities	(1,257,476)	(2,409,240)
	14,854,471	8,305,320

As of December 31, 2004, approximately RMB4,052 million of long-term bank loans are wholly repayable within five years (2003: approximately RMB2,258 million) while approximately RMB12,060 million are not wholly repayable within five years (2003: approximately RMB8,457 million).

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25. OTHER LONG-TERM LOANS, UNSECURED

Other long-term loans, unsecured comprised:

	2004	2003
	Original currency '000	
Renminbi loans	309,526	744,837
Foreign currency loans		
US\$	18,571	177,358
Japanese Yen (“JPY”)	1,547,619	137,970
	<u>586,579</u>	<u>1,060,165</u>

The other long-term loans were drawn from:

	2004	2003
Long-term loan from WPDB	106,389	106,389
Long-term loan from Huaneng Finance	-	610,000
Long-term loan from Huaian Investment Company	-	8,980
Long-term loan from JEPDC	19,468	19,468
Long-term foreign loans on lent by Ministry of Finance	277,052	315,328
Long-term loan from CCI	183,670	-
	<u>586,579</u>	<u>1,060,165</u>

The other long-term loans are unsecured, bear both fixed and floating interest rates that ranged from 1.70% to 5.93% per annum for the year ended December 31, 2004 (2003: 4.94% to 6.21%; 2002: 5.64% to 6.21%), and are repayable in accordance with the repayment schedules set by the contracts.

Other long-term loans, unsecured are repayable as follows:

	2004	2003
Within 1 year	285,761	211,881
Between 1 to 2 years	109,012	267,044
Between 2 to 5 years	127,871	476,131
Over 5 years	63,935	105,109
	<u>586,579</u>	<u>1,060,165</u>
Less: Amounts due within one year included under current liabilities	<u>(285,761)</u>	<u>(211,881)</u>
	<u>300,818</u>	<u>848,284</u>

As of December 31, 2004, approximately RMB310 million of other long-term loans are wholly repayable within five years (2003: approximately RMB955 million) while approximately RMB277 million are not wholly repayable within five years (2003: approximately RMB105 million).

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26. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	2004	2003
Accounts and notes payable	761,689	635,860
Received in advance	1,129,598	987,500
Payable to contractors for construction	1,592,621	846,473
Other payables to contractors	237,513	207,257
Accrued interest	116,322	96,127
Others	713,415	569,300
	<u>4,551,158</u>	<u>3,342,517</u>

As of December 31, 2004, the aging analysis of accounts and notes payable was as follows:

	2004	2003
Within 1 year	754,406	595,994
Between 1 to 2 year	2,911	36,188
Over 2 years	4,372	3,678
	<u>761,689</u>	<u>635,860</u>

27. TAXES PAYABLE

Taxes payable comprises:

	2004	2003
VAT payable	527,292	415,147
Income tax payable	407,450	472,850
Others	65,050	29,365
	<u>999,792</u>	<u>917,362</u>

28. SHORT-TERM LOANS, UNSECURED

Short-term loans denominated in RMB are unsecured, bear interest from 4.30% to 5.02% per annum for the year ended December 31, 2004 (2003: 4.54% to 5.05%; 2002: 4.78% to 5.56%), and are repayable within one year (see Note 7(f)).

29. DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the applicable tax rates for the respective operating units.

The movement in the deferred income tax account is as follows:

	2004	2003
As of January 1	81,803	121,853
Acquisitions (Note 3)	399,313	(21,809)
Charged to the income statement (Note 32)	<u>(31,938)</u>	<u>(18,241)</u>
As of December 31	<u>449,178</u>	<u>81,803</u>

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29. DEFERRED INCOME TAXES (CONT'D)

The temporary differences that gave rise to deferred taxation arose primarily from the acquisition of power plants, which resulted in the tax bases of certain assets and liabilities being different from the fair value basis that are used in recording these assets and liabilities in the financial statements. Details of the movements in deferred income tax assets and liabilities are as follows:

	Difference in				Total
	Amortization of prepaid land use rights	Provisions for doubtful debts	Termin- ation benefits	Others	
Deferred income tax assets					
As of January 1, 2003	-	-	-	-	-
Acquisition of power plants	13,261	3,288	-	5,260	21,809
Charged to the income statement	(22)	(69)	-	(407)	(498)
As of December 31, 2003	13,239	3,219	-	4,853	21,311
Acquisition of power plants	(2,206)	60,172	17,032	3,878	78,876
(Charged) / Credited to the income statement	(221)	(2,215)	1,019	(1,231)	(2,648)
As of December 31, 2004	<u>10,812</u>	<u>61,176</u>	<u>18,051</u>	<u>7,500</u>	<u>97,539</u>
Deferred income tax liabilities arising from differences in depreciation					
As of January 1, 2003				121,853	
Credited to the income statement				(18,739)	
As of December 31, 2003				103,114	
Acquisition of power plants (Note 3)				478,189	
(Credited) / Charged to the income statement				(34,586)	
As of December 31, 2004				<u>546,717</u>	

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29. DEFERRED INCOME TAXES (CONT'D)

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

Year of expiry	<u>2004</u>	<u>2003</u>	<u>2002</u>
2003	N/A	N/A	N/A
2004	N/A	62,104	132,020
2005	111,441	154,678	154,678
2006	177,197	177,197	177,196
2007	71,125	71,125	71,125
2008	-	-	N/A
2009	-	N/A	N/A
As of December 31	<u>359,763</u>	<u>465,104</u>	<u>535,019</u>

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<u>2004</u>	<u>2003</u>
Deferred income tax assets	(97,539)	(21,311)
Deferred income tax liabilities	<u>546,717</u>	<u>103,114</u>
	<u>449,178</u>	<u>81,803</u>

The amounts shown in the consolidated balance sheet include the following:

Deferred income tax assets to be recovered after more than 12 months	(93,941)	(21,311)
Deferred income tax liabilities to be settled after more than 12 months	<u>491,122</u>	<u>84,375</u>

30. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As of December 31, 2004, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB7,079 million (2003: approximately RMB939 million). On the same date, the total assets less current liabilities was approximately RMB56,047 million (2003: approximately RMB44,367 million).

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31. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the State-sponsored housing fund at 7%-11% of the specified salary amount of the PRC employees. At the same time, the employees are required to make a contribution equal to the Company's and its subsidiaries' contribution out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended December 31, 2004, the Company and its subsidiaries contributed approximately RMB101 million (2003: approximately RMB77 million; 2002: approximately RMB71 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees. For the year ended December 31, 2004, the housing benefits provided by the Company and its subsidiaries to the employees amounted to approximately RMB34 million (2003: approximately RMB29 million; 2002: approximately RMB18 million) which is recorded as a long-term deferred asset and amortized over the remaining average service life of the relevant employees which is estimated to be about 10 years.

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

32. INCOME TAX EXPENSE

Income tax expense comprised:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current income tax expense	980,672	1,116,100	963,510
Deferred income tax (Note 29)	(31,938)	(18,241)	12,285
Share of income tax expense of associates (Note 11)	<u>65,528</u>	<u>51,582</u>	<u>5,059</u>
	<u><u>1,014,262</u></u>	<u><u>1,149,441</u></u>	<u><u>980,854</u></u>

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (2003 and 2002: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Average statutory tax rate	18%	18%	18%
Effect of tax holiday	(2%)	(1%)	(1%)
Others	<u>(1%)</u>	<u>-</u>	<u>2%</u>
Effective tax rate	<u><u>15%</u></u>	<u><u>17%</u></u>	<u><u>19%</u></u>

The average statutory tax rate for the year ended December 31, 2004 represented the weighted average tax rate of the head office and the individual power plants calculated on the basis of the relative amounts of net profit before tax and the applicable statutory tax rates.

The aggregate effect of the tax holiday was approximately RMB122 million for the year ended December 31, 2004 (2003: approximately RMB61 million; 2002: approximately RMB58 million).

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33. MINORITY INTERESTS

	<u>2004</u>	<u>2003</u>
As of January 1	1,155,197	910,704
Acquisitions (Note 3)	1,342,872	115,639
Minority shares in net profit of subsidiaries	257,053	183,894
Capital injection from minority shareholders of subsidiaries	677,034	77,632
Dividends paid	<u>(165,763)</u>	<u>(132,672)</u>
As of December 31	<u><u>3,266,393</u></u>	<u><u>1,155,197</u></u>

34. EARNINGS PER SHARE

	<u>2004</u>			<u>2003</u>			<u>2002</u>		
	<u>Net Profit</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>	<u>Net Profit</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>	<u>Net Profit</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>
	'000		RMB	'000		RMB	'000		RMB
Earnings per Share									
Net profit attributable to shareholders	5,323,876	12,055,368	0.44	5,430,408	12,038,228	0.45	3,921,004	12,000,198	0.33
Finance costs in relation to convertible notes and the relevant put option (net of tax effect)	22	-		2,746	-		41,368	-	
Effect of assumed conversion	<u>-</u>	<u>121</u>		<u>-</u>	<u>17,430</u>		<u>-</u>	<u>279,508</u>	
Diluted Earnings per Share									
Net profit attributable to shareholders plus effect of assumed conversion	<u><u>5,323,898</u></u>	<u><u>12,055,489</u></u>	0.44	<u><u>5,433,154</u></u>	<u><u>12,055,658</u></u>	0.45	<u><u>3,962,372</u></u>	<u><u>12,279,706</u></u>	0.33

Basic earnings per share was computed by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year (Note 20).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares at the beginning of the year. The Company had one category of potential ordinary share: convertible notes. The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

As the number of ordinary shares outstanding increased as a result of a stock split in 2004 (Note 20), the computation of basic and diluted earnings per share have been adjusted retroactively for the proportional change in the number of ordinary shares outstanding for all the periods presented to reflect the stock split.

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35. NOTES TO CASH FLOW STATEMENT

a. Analysis of cash and cash equivalents

As of December 31, 2004, cash and cash equivalents consisted of:

	2004	2003	2002
Cash in RMB	621	726	266
Current deposits			
RMB	2,284,551	3,763,015	2,815,473
US\$ denominated	10,359	234,468	186,862
JPY denominated	-	130,439	-
Total cash and cash equivalents	<u>2,295,531</u>	<u>4,128,648</u>	<u>3,002,601</u>

b. Undrawn borrowing facilities

As of December 31, 2004, the Company and its subsidiaries had available unsecured borrowing facilities from banks of approximately RMB30 billion (2003: approximately RMB32 billion) of which undrawn borrowing facilities amounted to approximately RMB28 billion (2003: approximately RMB32 billion). Out of these available undrawn borrowing facilities, RMB20 billion relates to medium to long-term loan facilities, the drawdown of which is subject to application and approval procedures. Management expects to drawdown the available facilities in accordance with the level of working capital and / or planned capital expenditure of the Company and its subsidiaries.

c. Non-cash transactions

The principal non-cash transactions were the conversion of convertible notes to share capital and the ordinary shares split discussed in Note 20.

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36. COMMITMENTS

a. Capital and Operational Commitments

- (i) Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Commitments outstanding as of December 31, 2004 not provided for in the balance sheet were as follows:

	<u>2004</u>	<u>2003</u>
Contracted but not provided for		
- purchase of inventories	3,560,175	2,279,191
- construction	<u>7,923,087</u>	<u>9,793,244</u>
Sub-total	<u>11,483,262</u>	<u>12,072,435</u>
Authorized but not contracted for		
- construction	<u>236,501</u>	-
Sub-total	<u>236,501</u>	-
Total	<u><u>11,719,763</u></u>	<u><u>12,072,435</u></u>

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

	<u>Total</u>
2005	5,768,657
2006	5,941,717
2007	6,119,968
2008	2,801,770
2009	<u>2,801,770</u>
	<u><u>23,433,882</u></u>

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36. COMMITMENTS (CONT'D)

b. Operating Lease Commitments

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

Total future minimum lease payments under non-cancelable operating leases in respect of land and buildings of the Nanjing Power Plant are as follows:

	<u>2004</u>	<u>2003</u>
Land and buildings		
- not later than one year	1,334	32,334
- later than one year and not later than two years	1,334	7,334
- later than two years and not later than five years	4,002	22,002
- later than five years	<u>52,026</u>	<u>284,360</u>
	<u>58,696</u>	<u>346,030</u>

In accordance with the land use operating lease agreement signed by the Dezhou Power Plant and the relevant land management authorities for the land occupied by Dezhou Phase I and Phase II, annual rental is approximately RMB30 million effective from June, 1994 and is subject to revision of five years after the said date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30 percent of the previous annual rental amount. For the year ended December 31, 2004, the annual rental is approximately RMB29 million (2003: approximately RMB30 million).

37. CONTINGENT LIABILITIES

	<u>2004</u>	<u>2003</u>
Guarantee for loan facilities		
- granted to an associate	<u>305,250</u>	<u>339,250</u>

38. INTEREST RATE SWAPS

As of December 31, 2004, there was no outstanding interest rate swap agreement (2003: approximately US\$20.5 million; 2002: approximately US\$52 million). For the year ended December 31, 2004, there was a gain amounting to approximately RMB1 million (2003: approximately RMB11.8 million; 2002: RMB2.2 million) arising from changes in the fair value of the interest rate swaps subsequent to initial recognition. Since the hedging relationship did not meet the conditions required for special hedge accounting as set out in IAS 39 Financial Instruments: Recognition and Measurement, the gain was credited to income in the current year.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

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39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company and its subsidiaries' financial instruments not carried at fair value are cash and cash equivalents, temporary cash investments, accounts receivables, other current assets, other non-current assets, accounts payable and other liabilities, short-term loans, unsecured, long-term loans, unsecured and held-to-maturity investments.

The carrying amounts of the Company and its subsidiaries' cash and cash equivalents, temporary cash investments, short-term investments, short-term loans, unsecured and other current financial assets and liabilities approximated their fair values due to the short-term maturities of these instruments.

Similarly, the historical cost carrying amounts of receivables and payables which are all subject to normal trade credit terms approximate their fair values.

Available-for-sale investment is measured at fair value unless the fair values cannot be measured reliably.

The estimated fair value of long-term debt including current maturities was approximately RMB17.05 billion as of December 31, 2004 (2003: approximately RMB12.43 billion). The fair value of long-term debt is determined by discounting the stream of future payments of interest and principals at the prevailing market interest rates for comparable instruments. The aggregate book value of these liabilities was approximately RMB17.5 billion as of December 31, 2004 (2003: approximately RMB12.20 billion).

40. BUSINESS RISK

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

For the year ended December 31, 2004, the Company and its subsidiaries sold electricity to five major customers (2003 and 2002: five), each of which amounted to approximately 10% or more of the operating revenue. In aggregation, these customers represented approximately 79% (2003: approximately 77%; 2002: approximately 90%) of the net operating revenue of the Company and its subsidiaries.

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41. EVENTS AFTER THE BALANCE SHEET DATE

On October 26, 2004, the Company entered into agreements with Huaneng Group under which the Company agreed to acquire from Huaneng Group 60% equity interest in Sichuan Huaneng Hydropower Development Corporation, Ltd. (the "Sichuan Hydropower") and 65% equity interest in the Gansu Huaneng Pingliang Power Generation Limited Liability Company (the "Pingliang Power Company").

The total consideration for the acquisition of the two power companies was RMB 2,025 million, which was paid in cash in January, 2005. Direct transaction cost related to the acquisition amounted to approximately RMB17 million.

The acquisition of the two power companies became effective in January, 2005 when the Company obtained the ownership and control over the relevant assets after obtaining the necessary approval.

Details of net assets acquired and preliminary goodwill are as follows:

Purchase consideration	
- Cash paid	2,025,000
- Direct transaction cost relating to the acquisition	16,698
Total purchase consideration	<u>2,041,698</u>
Preliminary fair value of assets acquired	<u>(1,731,191)</u>
Preliminary goodwill	<u><u>310,507</u></u>

Goodwill arising from the acquisitions is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the Company's acquisitions of the subsidiaries stated above.

The assets and liabilities arising from the acquisition are as follows:

	<u>Fair value</u>	<u>Acquiree's carrying amount</u>
Property, plant and equipment, net	11,992,009	10,652,359
Deferred income tax assets	12,533	12,533
Available-for-sale investment	500	500
Other non-current assets	178,841	156,187
Inventories, net	54,801	54,801
Other current assets	176,238	176,238
Accounts receivable	569,672	569,672
Cash and cash equivalents	566,704	566,704
Minority interest	(2,063,434)	(1,480,354)
Long-term loans, unsecured	(7,572,346)	(7,572,346)
Long-term loans, secured	(367,000)	(367,000)
Due to Huaneng Group	(18,517)	(18,517)
Deferred income tax liabilities	(459,898)	(81,109)
Other current liabilities	<u>(1,338,912)</u>	<u>(1,338,912)</u>
Net assets acquired	<u><u>1,731,191</u></u>	<u><u>1,330,756</u></u>

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

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42. US GAAP INFORMATION

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

(a) Effect of the Acquisition of Entities under Common Control

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

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

- (i) 70% equity interest in Shidongkou I Power Plant, 70% equity interest in Taicang Power Company and all of the assets and liabilities of Changxing Power Plant in July, 2002 from the Huaneng Group;
- (ii) 55% equity interest in Qinbei Power Company, 60% equity interest in Yushe Power Company and all of the assets and liabilities of the Xindian Power Plant in October, 2003 from the Huaneng Group; and
- (iii) 60% equity interest in Luohuang Power Company, 55% equity interest in Yueyang Power Company, 90% equity interest in Jinggangshan Power Plant and all of the assets and liabilities of the Yingkou Power Plant in July, 2004 from HIPDC and / or from the Huaneng Group.

Under the acquisition method, the results of the acquired businesses are included in the results of operations of the Company and its subsidiaries from the date of the acquisition. The difference between the purchase consideration and the fair value of the underlying net assets acquired is treated as goodwill. Goodwill arising from the acquisitions in (i) and (ii) above is amortized on a systematic basis to the income statement over its useful economic life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets. Goodwill arising from the acquisition in (iii) above is tested annually for impairment and carried at cost less accumulated impairment losses.

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

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42. US GAAP INFORMATION (CONT'D)

- (b) Effect of Acquisition of 44.16% Equity Interests in the Huaiyin Power Company, 30% Additional Equity Interests in the Shidongkou I Power Plant, 5% Additional Equity Interests in the Taicang Power Company and 40% Equity Interests in the Hanfeng Power Company

Between 2002 and 2004, the Company acquired from the Huaneng Group:

- (i) 44.16% equity interest of the Huaiyin Power Company in July, 2002;
- (ii) 30% additional equity interests of the Shidongkou I Power Plant and 5% additional equity interests of the Taicang Power Company in December, 2002; and
- (iii) 40% equity interests of the Hanfeng Power Company in July, 2004.

Under IFRS, upon the completion of the above acquisitions, the relevant equity interests of the net assets of the Huaiyin Power Company, the Shidongkou I Power Plant, the Taicang Power Company and the Hanfeng Power Company are recorded at fair value. The excess of the total cost of the acquisition over the fair value of the relevant portion of net assets of power plant acquired is recorded as goodwill. Goodwill arising from the acquisitions in (i) and (ii) above is amortized on a systematic basis to the income statement over its useful economic life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets, while goodwill arising from the acquisition in (iii) above is tested annually for impairment and carried at cost less accumulated impairment losses.

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

- (c) Housing Benefits Provided by HIPDC

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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(Amounts expressed in thousands of RMB unless otherwise stated)

42. US GAAP INFORMATION (CONT'D)

- (d) Acquisition of Shandong Huaneng Power Development Company Limited (“Shandong Huaneng”)
- Huaneng Group used to be one of the substantial shareholders of Shandong Huaneng, holding 33.09% equity interest in it before the Company’s acquisition of Shandong Huaneng. Under IFRS, upon the completion of the acquisition of Shandong Huaneng, the entire net assets of Shandong Huaneng were recorded at fair value. The excess of the fair value of the entire net assets acquired over the total cost of the acquisition was recorded as negative goodwill. Under US GAAP, upon completion of the acquisition of Shandong Huaneng, Huaneng Group’s proportionate share of 33.09% in the net assets of Shandong Huaneng that was sold to the Company was recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration was recorded as a capital contribution to the Company. The book value of the remaining 66.91% of the net assets continues to be part of the recoverable rate base under the cost recovery formula of the tariff setting mechanism. Under US GAAP, the difference between these net asset values and the cash consideration was recorded as a reduction to the property, plant and equipment value of the respective power plants.

As the amount of negative goodwill under IFRS is different from the amount of the reduction to property, plant and equipment under US GAAP due to the 33.09% portion of the net assets previously owned by the Huaneng Group as described above and also that the negative goodwill under IFRS is recognized as income over the remaining weighted average useful life of the acquired depreciable or amortizable assets whereas, for US GAAP purpose, the property, plant and equipment, after the reduction described above, are depreciated over the respective assets’ useful life, the net profit under IFRS and US GAAP is different.

- (e) Accounting Treatment of Convertible Notes

Under IFRS, the proceeds received on the issue of the convertible notes were allocated into liability and equity components. Upon initial recognition, the liability component represented the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component was then determined by deducting the liability component from the proceeds received on the issue of the notes. Under US GAAP, the entire proceeds of the issue of convertible notes were recorded as long-term liabilities without distinguishing between the equity and liability components.

In accordance with IAS 39, which was effective on January 1, 2001, the put option of the convertible notes, which allowed the noteholders to redeem the convertible notes at a premium, was separated from the host contract and accounted for as an embedded derivative. This put option was recorded as a liability and measured at its fair value. When IAS 39 was initially applied in 2001, the difference between the previous carrying amount and the fair value of the put option was recognized as an adjustment to the opening retained earnings as of January 1, 2001. In addition, the liability component was measured at amortized cost and the resulting difference with the previous carrying amount was recognized as an adjustment to the opening retained earnings as of January 1, 2001. After initial recognition, subsequent changes in the value of the put option and the amortized cost of the liability component were charged or credited to the income statements.

Under US GAAP, it is permitted not to measure the put option separately at its fair value, as it represents a derivative embedded in a pre-1998 hybrid instrument. The Company continued to accrue for the put premium liability together with the interest payable on the notes using effective interest rate of 6.66% up to the redemption date of May 21, 2002. On May 21, 2002, a portion of the convertible notes was not redeemed by the noteholders. Under US GAAP, the relevant portion of the accrued put premium attributable to the remaining convertible notes not redeemed was amortized as a yield adjustment over the remaining term of the convertible notes because the put price exceeded the market value of the ordinary shares of the Company at the time of the redemption.

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42. US GAAP INFORMATION (CONT'D)

(f) Capitalization of Borrowing Costs

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

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

(g) Reversal of Goodwill Amortization

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

(h) Deferred Tax Impact

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

(i) US Regulatory Accounting

Under US GAAP, Statement of Financial Accounting Standard Number 71 "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71") is applicable to utilities in the United States whose regulators have the power to approve and/or regulate rates that may be charged to customers. SFAS 71 recognizes that the regulatory process produces economic effects which should be reflected in the financial statements. Because revenues are based on costs, SFAS 71 governs the period in which various costs are included in the income statements with the objective of matching costs with revenues. Provided that, through the rate setting process, the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. The regulatory process may also impose a liability on a rate-regulated enterprise, usually representing obligations to the enterprise's customers, which should be recognized as a regulatory liability.

In order to apply SFAS 71, three criteria must be met. These criteria require that a) the power rates for regulated services or products provided to customers be established by or are subject to approval by an independent, third-party regulator or by an entity's own governing board empowered by statute or contract to establish power rates that bind customers; b) the regulated power rates are designed to recover the costs of providing the regulated services or products; and c) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that power rates, which are set at levels that will recover costs, can be charged to and collected from customers; this criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

42. US GAAP INFORMATION (CONT'D)

(i) US Regulatory Accounting (Cont'd)

As of December 31, 2004, the Company and its subsidiaries believe that 10 of their power plants (2003 and 2002: 12 power plants) meet these specific criteria of SFAS 71. Firstly, the power rates are established by an independent regulator, the provincial or local price bureau. Secondly, the pricing policy applicable to the power plants provides for rate-setting based on the specific costs of the power plants. This process has operated historically and will continue under the pricing policy. Finally, based on the significant demand for electricity in the Company and its subsidiaries' service territory, it is reasonable to assume that the authorized power rates will be collected from customers.

In November, 2004, in accordance with the issuance of a government circular on implementation of a full-scope tariff bidding practice that is applicable to two of the Company's power plants located in Northeast China, the Company has discontinued the application of SFAS 71 for these two power plants as the criteria under SFAS 71 are no longer met. Accordingly, these two power plants applied Statement of Financial Accounting Standard Number 101 "Regulated Enterprises – Accounting for the Discontinuation of Application of FASB Statement No. 71" ("SFAS 101"). There was no elimination of assets or liabilities as a result of the application of SFAS 101 as the Company and its subsidiaries did not have any assets and/or liabilities pursuant to SFAS 71 that were not been recognized as assets and/or liabilities under IFRS. The Company and its subsidiaries have also performed an impairment review on the property, plant and equipment of the two relevant power plants and have determined that no impairment provision is required.

With respect to the remaining power plants of the Company and its subsidiaries, which were acquired in 2002, 2003 and 2004, the SFAS 71 criteria mentioned above are not met and, therefore, SFAS 71 cannot be applied. Consequently, these remaining power plants have adopted US GAAP without specific reference to the regulatory basis of accounting provided for under SFAS 71.

Under IFRS, as there is no equivalent regulatory accounting standard, the Company's and its subsidiaries' policy is to recognize regulatory assets established under SFAS 71 only where they comprise rights or other access to future economic benefits as a result of past events; or to recognize regulatory liabilities only where they comprise a present obligation the settlement of which is expected to result in an outflow of resources embodying economic benefits.

(j) Impairment of Long-lived Assets

Impairment of long-lived assets (excluding goodwill)

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

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

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42. US GAAP INFORMATION (CONT'D)

(j) Impairment of Long-lived Assets (Cont'd)

Goodwill

Under IFRS, goodwill arising from a business combination for which the agreement date was before March 31, 2004 is amortized on a straight line basis over its estimated useful life and subject to an impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and annually if the estimated useful life exceeds 20 years. Such goodwill will cease to be amortized from January 1, 2005 and will instead be subject to an impairment review annually and whenever an indication of impairment exists. Goodwill arising from a business combination for which the agreement date is on or after March 31, 2004 is not amortized and is subject to an impairment review annually and whenever an indication of impairment exists. If some of the goodwill allocated to a CGU was acquired in a business combination during the current annual period, that CGU is required to be tested for impairment before the end of the current period.

Under IFRS, a one-step impairment test is performed. The recoverable amount of the CGU is compared to its carrying amount. The impairment loss is recognized as the excess of the carrying amount over the recoverable amount.

Under US GAAP, goodwill is reviewed for impairment, at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount must be assessed.

Under US GAAP, a two-step impairment test is required:

- (i) The fair value and the carrying amount of the reporting unit including goodwill should be compared. If the fair value of the reporting unit is less than the book value, goodwill would be considered to be impaired, then
- (ii) The goodwill impairment should be measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill should be determined by allocating fair value to the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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42. US GAAP INFORMATION (CONT'D)

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

	Note	Net Assets	
		As of December 31, 2004	As of December 31, 2003
Net assets under IFRS		36,265,519	33,955,355
Impact of US GAAP adjustments <i>Note i:</i>			
Effect of acquisition of the Yingkou Power Plant, the Jingtangshan Power Plant, the Luohuang Power Company and the Yueyang Power Company	(a)	(2,007,383)	1,652,511
Effect of acquisition of the Qinbei Power Company, the Yushe Power Company and the Xindian Power Plant	(a)	(369,252)	(417,368)
Effect of acquisition of the Shidongkou I Power Plant, the Taicang Power Company and the Changxing Power Plant	(a)	(775,592)	(886,116)
Effect of acquisition of 40% equity interests in the Hanfeng Power Company, 30% additional equity interests in the Shidongkou I Power Plant, 5% additional equity interests in the Taicang Power Company and 44.16% equity interests in the Huaiyin Power Company	(b)	(271,167)	(296,717)
Recording of capital contribution arising from acquisition of Shandong Huaneng	(d)	862,922	862,922
Difference in accounting treatment for acquisition of Shandong Huaneng	(d)	(348,364)	(261,273)
Difference in capitalization of borrowing costs	(f)	(87,424)	(93,890)
Reversal of goodwill amortization			
- Reversal of goodwill amortization of equity investment in SEG	(g)	136,599	54,639
- Reversal of goodwill amortization of investment in the Huaiyin Power Company	(g)	34,740	17,370
Applicable deferred tax impact on the above GAAP differences	(h)	587,511	233,746
Others		-	(8,652)
Net assets under US GAAP <i>Note i</i>		<u>34,028,109</u>	<u>34,812,527</u>

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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(Amounts expressed in thousands of RMB unless otherwise stated)

42. US GAAP INFORMATION (CONT'D)

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

	Note	Net profit		
		For the year ended December 31,		
		2004	2003	2002
Net profit under IFRS		5,323,876	5,430,408	3,921,004
Impact of US GAAP adjustments <i>Note i:</i>				
Effect of acquisition of the Luohuang Power Company, the Yueyang Power Company, the Yingkou Power Plant and the Jinggangshan Power Plant	(a)	278,027	335,105	(55,068)
Effect of acquisition of the Qinbei Power Company, the Yushe Power Company and the Xindian Power Plant	(a)	48,116	13,109	56,919
Effect of acquisition of the Shidongkou I Power Plant, the Taicang Power Company and the Changxing Power Plant	(a)	110,524	112,636	126,498
Effect of acquisition of 40% equity interest in the Hanfeng Power Company, 30% additional equity interests in the Shidongkou I Power Plant, 5% additional equity interests in the Taicang Power Company and 44.16% equity interests in the Huaiyin Power Company	(b)	25,550	19,347	10,556
Recording housing benefits provided by HIPDC	(c)	(26,152)	(26,152)	(26,152)
Difference in accounting treatment for acquisition of the Shandong Huaneng	(d)	(87,091)	(87,091)	(87,091)
Difference in capitalization of borrowing costs	(f)	6,466	(5,478)	(88,412)
Reversal of goodwill amortization				
- Reversal of goodwill amortization of equity investment in SEG	(g)	81,960	54,639	-
- Reversal of goodwill amortization of investment in the Huaiyin Power Company	(g)	17,370	17,370	-
Applicable deferred tax impact on the GAAP differences	(h)	(46,978)	(153,218)	37,345
Others		8,652	25,434	5,116
Net profit under US GAAP <i>Note i</i>		<u>5,740,320</u>	<u>5,736,109</u>	<u>3,900,715</u>

(Note i) Consistent with applying the accounting treatment under US GAAP as described in Note (a) above, the consolidated financial statements under US GAAP for prior periods presented have been retroactively restated as if the current structure and operations resulted from the acquisition of the Luohuang Power Company, the Yueyang Power Company, the Yingkou Power Plant and the Jinggangshan Power Plant, had been in existence since the beginning of the earliest period presented.

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42. US GAAP INFORMATION (CONT'D)

In preparing the summary of differences between IFRS and US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates have been employed in these financial statements to determine reported amounts, including realizability, useful lives of assets and other areas. Actual results could differ from those estimates.

The following are condensed combined balance sheets of the Company and its subsidiaries as of December 31, 2003 and 2004, and the related condensed combined statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, restated to reflect the impact of the effect of the acquisition of entities under common control which is accounted for at historical cost in a manner similar to the pooling of interests method, with financial data of previously separate entities combined, under US GAAP and other differences between IFRS and US GAAP.

Condensed Combined Balance Sheets

	As of December 31,		
	2004	2003	
	RMB	US\$	RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net	53,909,081	6,513,512	47,850,691
Investment in associates	4,037,352	487,809	2,820,669
Land use rights	1,029,167	124,348	880,526
Deferred income tax assets	219,525	26,524	223,146
Other non-current assets	480,880	58,102	525,830
Goodwill	78,448	9,478	78,726
Total non-current assets	59,754,453	7,129,773	52,379,588
Current assets			
Inventories, net	1,431,404	172,948	1,010,689
Other receivables and assets, net	723,316	87,394	309,380
Accounts receivable	4,973,103	600,870	4,239,462
Due from other related parties	14,970	1,809	5,862
Current portion of deferred income tax assets	61,491	7,430	77,357
Other financial assets	-	-	17,300
Restricted cash	202,688	24,490	183,525
Temporary cash investments	12,641	1,527	144,996
Cash and cash equivalents	2,295,531	277,355	4,299,933
Total current assets	9,715,144	1,173,823	10,288,504
Total assets	69,469,597	8,393,596	62,668,092

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42. US GAAP INFORMATION (CONT'D)

Condensed Combined Balance Sheets (Cont'd)

	As of December 31,		
	2004		2003
	RMB	US\$	RMB
EQUITY AND LIABILITIES			
Shareholders' equity	34,028,109	4,111,414	34,812,527
Minority interests	2,597,561	313,848	1,694,609
Non-current liabilities			
Long-term loans from shareholders, unsecured	800,000	96,659	614,275
Long-term bank loans, unsecured	14,854,471	1,794,777	11,671,667
Other long-term loans, unsecured	300,818	36,346	848,284
Other non-current liability	13,000	1,571	-
Deferred income tax liabilities	142,685	17,240	148,560
Total non-current liabilities	16,110,974	1,946,593	13,282,786
Current liabilities			
Accounts payable and accrued liabilities	4,551,158	549,887	3,615,846
Dividends payable to shareholders of the Company	8,250	997	-
Taxes payable	999,792	120,799	1,191,287
Due to HIPDC	1,258,799	152,093	1,259,649
Due to other related parties	13,426	1,622	33,338
Staff welfare and bonus payable	259,291	31,329	354,756
Short-term loans, unsecured	8,099,000	978,554	2,422,583
Current portion of long-term loans from shareholders, unsecured	-	-	938,058
Current portion of long-term bank loans, unsecured	1,257,476	151,933	2,836,833
Current portion of other long-term loans, unsecured	285,761	34,527	211,881
Convertible notes	-	-	952
Accrued put premium for convertible notes	-	-	8,636
Other financial liabilities	-	-	4,351
Total current liabilities	16,732,953	2,021,741	12,878,170
Total liabilities and equity	69,469,597	8,393,596	62,668,092

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42. US GAAP INFORMATION (CONT'D)

Condensed Combined Statements of Income

	Year ended December 31,			
	2004		2003	2002
	RMB	US\$	RMB	RMB
Operating revenue, net	<u>32,546,043</u>	<u>3,932,344</u>	<u>28,569,478</u>	<u>24,448,015</u>
Operating expenses:				
Fuel	(16,094,816)	(1,944,641)	(11,103,839)	(9,343,363)
Maintenance	(939,939)	(113,567)	(1,151,538)	(896,892)
Depreciation	(4,839,151)	(584,686)	(5,111,140)	(4,648,760)
Labor	(2,039,386)	(246,407)	(1,767,832)	(1,485,541)
Service fees to HIPDC	(133,609)	(16,143)	(230,792)	(263,716)
Income tax	(1,156,875)	(139,778)	(1,349,254)	(1,041,915)
Others	<u>(756,731)</u>	<u>(91,431)</u>	<u>(959,089)</u>	<u>(1,266,071)</u>
Total operating expenses	<u>(25,960,507)</u>	<u>(3,136,653)</u>	<u>(21,673,484)</u>	<u>(18,946,258)</u>
Income before financial expenses	<u>6,585,536</u>	<u>795,691</u>	<u>6,895,994</u>	<u>5,501,757</u>
Interest income	45,992	5,557	57,168	95,807
Interest expense	(826,583)	(99,871)	(1,031,043)	(1,247,547)
Exchange losses, net	<u>(107,439)</u>	<u>(12,981)</u>	<u>(198,003)</u>	<u>(261,396)</u>
Total financial expenses	<u>(888,030)</u>	<u>(107,295)</u>	<u>(1,171,878)</u>	<u>(1,413,136)</u>
Share of profit / (loss) of associates	465,404	56,232	266,730	(1,634)
Minority interests	<u>(422,590)</u>	<u>(51,059)</u>	<u>(254,737)</u>	<u>(186,272)</u>
Net profit attributable to the shareholders	<u>5,740,320</u>	<u>693,569</u>	<u>5,736,109</u>	<u>3,900,715</u>

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42. US GAAP INFORMATION (CONT'D)

	Year ended December 31,		
	2004	2003	2002
Basic earnings per ordinary share under US GAAP (RMB) Note i, ii	<u>0.48</u>	<u>0.48</u>	<u>0.33</u>
Basic earnings per ADS under US GAAP (RMB) Note i, ii	<u>19.05</u>	<u>19.06</u>	<u>13.00</u>
Diluted earnings per ordinary share under US GAAP (RMB) Note i, ii	<u>0.48</u>	<u>0.48</u>	<u>0.32</u>
Diluted earnings per ADS under US GAAP (RMB) Note i, ii	<u>19.02</u>	<u>19.03</u>	<u>12.83</u>

(Note i) Earning per ordinary shares and per equivalent ADS were calculated by dividing the net profit for the financial year under US GAAP by the weighted average number of ordinary shares and ADS in issue during the financial year. On a diluted basis, both net profit for the financial year and the weighted average number of ordinary shares and ADS outstanding for the financial year were adjusted on the assumption that the convertible notes had been fully converted at the beginning of the year.

(Note ii) As the number of ordinary Shares and equivalent ADS outstanding increased as a result of a stock split in 2004, the computation of basic and diluted earnings per share and equivalent ADS have been adjusted retroactively for the proportional change in the number of ordinary shares and equivalent ADS outstanding for all the periods presented to reflect the stock split.

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42. US GAAP INFORMATION (CONT'D)

Condensed Combined Statements of Changes in Shareholders' Equity

Balance as of January 1, 2002	30,856,584
Dividends relating to 2001	(1,800,000)
Net profit attributable to shareholders for the year ended December 31, 2002	3,900,715
Conversion of convertible notes to new ordinary shares	1,655
Net deemed capital distribution to the Huaneng Group arising from the acquisition of the equity interests of the Shidongkou I Power Plant, the Taicang Power Company, the Huaiyin Power Company and the Changxing Power Plant and additional interests in the Shidongkou I Power Plant and the Taicang Power Company	(2,034,222)
Contribution from Huaneng Group	85,735
Distribution to HIPDC	(146,523)
Capital contribution from HIPDC arising from housing benefits provided by HIPDC	26,152
Balance as of December 31, 2002	30,890,096
Dividends relating to 2002	(2,049,408)
Net profit attributable to shareholders for the year ended December 31, 2003	5,736,109
Conversion of convertible notes to new ordinary shares	165,548
Net deemed capital distribution to Huaneng Group arising from the acquisition of the equity interests of the Qinbei Power Company, the Yushe Power Company and the Xindian Power Plant	(506,664)
Contribution from Huaneng Group	95,767
Contribution from HIPDC	454,927
Capital contribution from HIPDC arising from housing benefits provided by HIPDC	26,152
Balance as of December 31, 2003	34,812,527
Dividends relating to 2003	(3,013,836)
Net profit attributable to shareholders for the year ended December 31, 2004	5,740,320
Conversion of convertible notes to new ordinary shares	124
Net deemed capital distribution to the Huaneng Group arising from the acquisition of the Jingtangshan Power Plant and the Hanfeng Power Company	(984,915)
Net deemed capital distribution to HIPDC arising from the acquisition of the Luohuang Power Company, the Yueyang Power Company and the Yingkou Power Plant	(2,526,111)
Balance as of December 31, 2004	34,028,109

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42. US GAAP INFORMATION (CONT'D)

Condensed Combined Statements of Cash Flows

	Year ended December 31,		
	2004	2003	2002
Net cash provided by operating activities	9,465,952	11,028,736	8,863,012
Net cash (used in) / provided by investing activities	(11,825,975)	(6,297,349)	1,689,723
Net cash provided by / (used in) financing activities	355,621	(4,008,934)	(10,078,444)
Net (decrease) / increase in cash and cash equivalents	(2,004,402)	722,453	474,291
Cash and cash equivalents, beginning of year	4,299,933	3,577,480	3,103,189
Cash and cash equivalents, end of year	2,295,531	4,299,933	3,577,480

Statement of Comprehensive Income

Under US GAAP, certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. However, for each of the years in the three-year period ended December 31, 2004, apart from the net income, there was no other comprehensive income which should be included in the statement of comprehensive income.

New Accounting Pronouncements

IFRS

In 2004, the International Accounting Standard Board (“IASB”) issued a number of new and revised International Accounting Standards (“IASs”) and International Financial Reporting Standards (“IFRSs”) which are effective for accounting periods beginning on or after January 1, 2005. The list of the new or revised IASs and IFRSs is as follows:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Balance Sheet Date
- IAS 16 Property, Plant, and Equipment
- IAS 17 Leases
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

42. US GAAP INFORMATION (CONT'D)

New Accounting Pronouncements (Cont'd)

IFRS (Cont'd)

IAS 31 Interest in Joint Ventures
IAS 32 Financial Instruments: Disclosure and Presentation
IAS 33 Earnings per Share
IAS 36 Impairment of Assets
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IAS 40 Investment Property
IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 4 Insurance Contracts
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 6 Exploration for and Evaluation of Mineral Resources

The Company and its subsidiaries have not completed the assessment of the effects of adopting these new or revised IASs and IFRSs.

US GAAP

In 2004, the Financial Accounting Standard Board (“FASB”) issued Statement of Financial Accounting Standards No. 151, Inventory Costs – an amendment of ARB No. 43, Chapter 4 (“SFAS 151”), Statement of Financial Accounting Standards No. 152 Accounting for Real Estate Time-Sharing Transactions (“SFAS 152”), Statement of Financial Accounting Standards No. 153, Exchange of Nonmonetary Assets (“SFAS 153”) and revised Statement of Financial Accounting Standards No. 123, Share-Based Payment (“Revised SFAS 123”).

SFAS 151 amends and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). It requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The Company considered the effects of adopting SFAS 151 and does not expect any material impact on the financial statements.

SFAS 152 amends FASB Statement No. 66, Accounting for Sales of Real Estate to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (“SOP”) 04-2, Accounting for Real Estate Time-Sharing Transactions and FASB Statement No. 67 Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and cost is subject to the guidance in SOP 04-2. SFAS 152 is effective for financial statements for fiscal years beginning after June 15, 2005. The Company considered the effects of adopting SFAS 152 and does not expect any material impact on the financial statements.

SFAS 153 amends APB Opinion No. 29 on Accounting for Non-monetary Transactions, to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception of exchanges of non-monetary assets that do not have commercial substance. It defines a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company considered the effects of adopting SFAS 153 and does not expect any material impact on the financial statements.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in thousands of RMB unless otherwise stated)

42. US GAAP INFORMATION (CONT'D)

New Accounting Pronouncements (Cont'd)

US GAAP (Cont'd)

Revised SFAS 123 is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation ("Original SFAS 123") and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Revised SFAS 123 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Revised SFAS 123 is effective a) as at the beginning of the first interim or annual reporting period that begins after June 15, 2005 for public entities that do not file as small business issuers; b) as of the beginning of the first interim or annual reporting period that begins after December 15, 2005 for public entities that file as small business issuers; and c) as of the beginning of the first annual reporting period that begins after December 15, 2005 for non-public entities. The Company considered the effects of adopting Revised SFAS 123 and does not expect any material impact on the financial statements.

Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Huaneng Power International, Inc.

By: /s/ Wang Xiao Song

Name: Wang Xiao Song

Title: Vice Chairman

Date: April 15, 2005

CERTIFICATIONS

Exhibit 12.1

I, Li Xiaopeng, certify that:

1. I have reviewed this annual report on Form 20-F of Huaneng Power International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure procedures, as of the end of the period covered by the report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 15, 2005

By: /s/ Li Xiaopeng
Li Xiaopeng, Chairman

CERTIFICATIONS

Exhibit 12.2

I, Huang Jian, certify that:

1. I have reviewed this annual report on Form 20-F of Huaneng Power International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure procedures, as of the end of the period covered by the report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 15, 2005

By: /s/ Huang Jian
Huang Jian, Chief Accountant

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 20-F of Huaneng Power International, Inc. (the "Company") for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Li Xiaopeng, as Chairman of the Company, and Huang Jian, as Chief Accountant of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Li Xiaopeng
Name: Li Xiaopeng
Title: Chairman
Date: April 15, 2005

By: /s/ Huang Jian
Name: Huang Jian
Title: Chief Accountant
Date: April 15, 2005

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Huaneng Power International, Inc. and will be retained by Huaneng Power International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



華能國際電力股份有限公司

HUANENG POWER INTERNATIONAL, INC.

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