HUANENG POWER INTERNATIONAL INC
Form 20-F
April 16, 2007

HUANENG POWER INTERNATIONAL, INC.

[LOGO GRAPHIC OMITTED]

Annual Report On Form 20-F
2006

As filed with the Securities and Exchange Commission on April 16, 2007

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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

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____ TO ____

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report ....

For the transaction period form ____________ to __________

Commission file number: 1-13314

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.

Title of Each Class	Name of each exchange on which registered
Ordinary American Depositary Shares....................	New York Stock Exchange
Overseas Listed Foreign Shares of RMB 1.00 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 RMB 1.00 each........................	9,000,000,000
Overseas Listed Foreign Shares of RMB 1.00 each..........	3,055,383,440

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes |X| No [ ]

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes [ ] No |X|

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 |X| No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |X| Accelerated filer [ ] Non-accelerated filer [ ]

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

Item 17 |X| Item 18 [ ]

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No |X|

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* 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, 2006 of US$1.00 to RMB 7.8087. 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 tradable shares issued to domestic shareholders.

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

References to the "Company", "we", "our" and "us" include, unless the context requires otherwise, Huaneng Power International, Inc. and the operations of our power plants and our construction 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 "Huaneng Group" are to China Huaneng Group.

References to the "key contracts" refer to coal purchase contracts entered into between the Company and coal suppliers for the amount of coals 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 National Development and Reform Commission ("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 "power companies" or "our power companies" are to the power companies in which we hold minority 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.
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.
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, 2006 and 2005 and the consolidated income statement and cash flow data for each of the years in the three-year period ended December 31, 2006 are derived from the historical financial statements included herein. Our consolidated balance sheet data as of December 31, 2004, 2003 and 2002 and income statement and cash flow data for each of the years in the two-year period ended December 31, 2003, 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. 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 those power plants stated in Note 38 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 impact on the net income for each of the years in the three-year period ended December 31, 2006 and the equity as of December 31, 2006 and 2005 are set forth in Note 38 to the Financial Statements. The Selected Financial Data may not be indicative of future earnings, cash flows or financial position.

	Year Ended December 31,			
	2002	2003	2004	2005
RMB and US Dollars in thousands except per share data	(RMB)	(RMB)	(RMB)	(RMB)
INCOME STATEMENT DATA				
IFRS				
Operating revenue................	18,512,585	23,433,572	30,150,602	40,190,004
Sales tax........................	(38,116)	(45,335)	(32,324)	(113,475)
Operating expenses..............	(12,896,455)	(16,315,075)	(23,200,088)	(33,067,563)
Profit from operations...........	5,578,014	7,073,162	6,918,190	7,008,966
Total financial expenses, net.....	(510,265)	(544,285)	(739,784)	(1,124,391)

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	Year Ended December 31,			
	2002	2003	2004	2005

RMB and US Dollars in thousands except per share data	(RMB)	(RMB)	(RMB)	(RMB)
INCOME STATEMENT DATA (Cont'd)				
IFRS				
Investment income, net...........	1,288	10,705	20,554	60,872
Share of (loss) / profit of associates......................	(16,204)	160,509	312,037	644,376
Other income, net................	--	12,070	18,666	2,385
Profit before tax................	5,052,833	6,712,161	6,529,663	6,592,208
Income tax expenses..............	(975,795)	(1,097,859)	(948,734)	(1,044,297)
Profit for the year..............	4,077,038	5,614,302	5,580,929	5,547,911
Attributable to:				
Equity holders of the Company.....	3,921,004	5,430,408	5,323,876	4,871,794
Minority interests...............	156,034	183,894	257,053	676,117
Net profit.......................	4,077,038	5,614,302	5,580,929	5,547,911
Basic earnings per share..........	0.33	0.45	0.44	0.40
Fully diluted earnings per share..	0.33	0.45	0.44	0.40
US GAAP(2)				
Operating revenue................		30,494,213	35,181,649	40,190,004
Net profit attributable to shareholders...................		5,898,580	6,039,429	5,429,925
Basic earnings per share..........		0.49	0.50	0.45
Fully diluted earnings per share..		0.49	0.50	0.45

	As of December 31,			
	2002	2003	2004	2005
RMB and US Dollars in thousands except per share data	(RMB)	(RMB)	(RMB)	(RMB)
BALANCE SHEET DATA				
IFRS				
Current assets.................	7,685,441	8,303,195	9,653,653	12,063,175
Property, plant and equipment, net.........................	41,103,468	42,658,365	57,780,410	78,997,297
Available-for-sale investment...	254,990	254,990	254,990	1,033,225
Investments in associates.......	200,960	2,766,031	4,328,307	4,593,984
Land use rights and other non-current assets...........	1,067,838	1,037,859	1,771,916	2,016,144
Deferred income tax assets......	--	21,311	97,539	64,075
Goodwill.......................	126,560	298,876	376,726	671,796
Less: negative goodwill.........	(1,978,227)	(1,730,949)	(1,483,670)	--

Total assets	48,461,030	53,609,678	72,779,871	99,439,696
Current liabilities	(7,652,216)	(9,242,408)	(16,732,953)	(23,107,142)
Non-current liabilities	(9,482,050)	(9,256,718)	(16,515,006)	(30,188,367)
Total liabilities	(17,134,266)	(18,499,126)	(33,247,959)	(53,295,509)
Net assets	31,326,764	35,110,552	39,531,912	46,144,187
Total equity	31,326,764	35,110,552	39,531,912	46,144,187
US GAAP (2)				
Total assets			81,641,120	93,875,754
Total liabilities			(42,127,706)	(52,464,419)
Minority interests			(4,126,923)	(4,954,726)
Net assets			35,386,491	36,456,609
Shareholders' equity			35,386,491	36,456,609

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	Year Ended December 31,			
	2002	2003	2004	2005
RMB and US Dollars in thousands except per share data	(RMB)	(RMB)	(RMB)	(RMB)
CASH FLOW DATA				
IFRS				
Purchase of property, plant and equipment	(1,594,210)	(3,606,704)	(9,877,553)	(13,842,293)
Net cash provided by operating activities	7,079,718	9,533,289	8,162,701	8,680,850
Net cash (used in) / provided by investing activities	1,074,101	(5,225,080)	(13,650,285)	(15,413,369)
Net cash (used in) / provided by financing activities	(7,324,354)	(3,182,162)	3,654,467	7,084,653
US GAAP (2)				
Purchase of property, plant and equipment		(6,799,560)	(11,876,838)	(14,491,798)
Net cash provided by operating activities		12,284,122	11,028,971	9,313,657
Net cash used in investing activities		(7,708,774)	(13,067,191)	(14,587,880)
Net cash (used in) / provided by				

financing activities		(3,753,866)	226,001	5,059,653
Other Financial Data IFRS and US GAAP				
Dividend declared per share...............	0.17	0.25	0.25	0.25
Number of ordinary shares ('000)........	12,000,548	12,055,342	12,055,383	12,055,383

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(1) The US Dollar data has been translated from RMB solely for convenience at the PBOC Rate on December 31, 2006 of US$1.00 to RMB 7.8087. 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, 2006, 2005 and 2004 and for each of the years in the four-year period ended December 31, 2006 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. The information as of December 31, 2003 and 2002 and for the year ended December 31, 2002 is omitted because such selected financial data cannot be provided on a restated basis without unreasonable effort.

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 on-grid power tariffs 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 grid regulations in virtually all aspects of our operations, including the amount and timing of electricity generations, the setting of on-grid tariffs, the performance of scheduled maintenance and compliance with power grid control and dispatch directives and environment protection. There can be no assurance that these regulations will not change in the future in a manner which could adversely affect our business.

The on-grid tariffs for our planned output are subject to a review and approval process involving the NDRC and the relevant provincial government. Prior to April 2001, the on-grid tariffs of our planned output were designed to enable us to recover all operating and debt servicing costs and to earn a fixed rate of return. Since April 2001, however, the PRC government has started to gradually implement a new on-grid tariff-setting mechanism based on the operating terms of power plants as well as the average costs of comparable power plants. Pursuant to the NDRC circular issued in June 2004, the on-grid tariffs for our newly built power generating units commencing operation from June 2004 have been set on the basis of the average social cost of comparable units adding tax and reasonable return in the regional grid. Any future reductions in our tariffs, or our inability to raise tariffs (for example, to cover any increased costs we may have to incur) as a result of the new on-grid tariff-setting mechanism, may adversely affect our revenue and profit.

In addition, the PRC government started in 1999 to experiment with a program to effect power sales through competitive bidding in some of the provinces where we operate our power plants. The on-grid tariffs for power sold through competitive bidding are generally lower than the pre-approved on-grid tariffs for planned output. Although the power sales through competitive bidding in the last few years constituted only a small fraction of our total output, the PRC government is in the process of gradually expanding the program with a view to create a market-oriented electric power industry. Any increased power sales through competitive bidding may reduce our on-grid tariffs and adversely affect our revenue and profits.

The on-grid tariff-setting mechanism is evolving with the reforming of the PRC electric power industry. There is no assurance that it will not change in a manner which could adversely affect our business and results of operations. 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 Huaneng Group and HIPDC, whose interests may differ from those of our other shareholders

Huaneng Group and HIPDC currently directly hold 8.75% and 42.03%

of our total outstanding shares respectively. As Huaneng Group is HIPDC's parent company, they may exert effective control over us in concert. Their interests may sometimes conflict with those of our other minority shareholders. There is no assurance that Huaneng Group and HIPDC will always vote their shares, or direct the directors nominated by them to act in a way that will benefit our other minority shareholders.

Disruption in coal supply and its transportation as well as increase in coal price may adversely affect the normal operation of our power plants

Almost all of our power plants are fueled by coal. We have obtained coal for our power plants through a combination of purchases pursuant to the key contracts and purchases in the open market. Although we have received sufficient and timely coal supply and transportation services for our operations and have not experienced shutdowns or reduced electricity generation caused by inadequate coal 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.

In addition, our results of operation are sensitive to the fluctuation of coal price. Since 2003, the continuous increase of coal price has increased our costs substantially and caused our profits to decline. Although the government has established a coal-electricity price linkage mechanism to allow power generation companies to increase their power tariffs to respond to the increase of coal price, the implementation of the mechanism involves significant uncertainties. There is no assurance that we will be able to adjust our power tariff to pass on the increase of coal price to our customers. For a detailed discussion of the coal-electricity price linkage mechanism, see "Item 4 Information of the Company-B Business Overview - Pricing Policy".

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 currently maintain insurance coverage that is typical in the electric power industry in the PRC 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 generally maintain business interruption insurance, or any of third party liability insurance other than that included in construction all risks insurance or erection all risks insurance to cover claims in respect of bodily injury or property or environment damage arising from accidents on our property or relating to our operation. 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-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.

Our business benefits from certain PRC government tax incentives. Expiration of, or changes to, the incentives could adversely affect our operating results

According to the relevant income tax law, foreign invested enterprises are, in general, subject to statutory income tax of 33% (30% enterprise income tax and 3% local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by State Tax Bureau, a lower tax rate would be applied. Effective from January 1, 1999, in accordance with the practice notes on the PRC income tax laws applicable to foreign invested enterprises investing in energy and transportation infrastructure businesses, a reduced enterprise income tax rate of 15% (after the approval of State Tax Bureau) is applicable across the country. We applied this rule to all of our wholly owned operating power plants after obtaining the approval of State Tax Bureau. In addition, certain power plants are exempted from enterprise income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most of five years), followed by a 50% reduction of the applicable tax rate for the next three years. The statutory income tax is assessed individually based on each of their results of operations.

On March 16, 2007, the Corporate Income Tax Law of PRC, or the New Corporate Income Tax Law, was enacted, which will become effective on January 1, 2008. The New Corporate Income Tax Law will impose a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Therefore, our power plants currently subject to a 33% income tax rate may be subject to a lower tax rate of 25% starting on January 1, 2008. With regard to our power plants currently entitled to a reduced enterprise income tax rate of 15%, their effective tax rate may be gradually increased to 25% within a five-year transition period commencing on January 1, 2008. Accordingly, the effective tax rate of our wholly-owned power plants may increase over time. In addition, although our power plants currently entitled to tax exemption and reduction under the current income tax laws and regulations may continue to enjoy such preferential treatments until the expiration of the same, newly established power plants may not be able to benefit from such tax incentives after the New Corporate Income Tax Law becomes effective, unless they can satisfy specific qualifications, if any, provided by then effective laws and regulations on preferential tax treatment.

The State Council of PRC is in the process of formulating detailed rules and regulations for the implementation of the New Corporate Income Tax Law. Given that there are a number of uncertain factors involved in the implementation of the New Corporate Income Tax Law, we are currently unable to accurately evaluate its impact on us. However, the increase of applicable income tax rate and elimination of the preferential tax treatment with regard to certain of our power plants may adversely affect our financial condition and results of operations. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax benefits currently available to us.]

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.

The value of the Renminbi against the US dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including US dollars, has historically been set by the People's Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies. This change in policy resulted initially in an approximately 2.0% appreciation in the value of the Renminbi against the US dollar. Since the adoption of this new policy, the value of Renminbi against the US dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the US dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the US dollar. However, there is no assurance that there will not be a devaluation of Renminbi in the future. If there is such 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

China's 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 tariff for our power plants, changes in the usage and costs of state controlled transportation services, and changes in 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.

On April 19, 2006, we carried out the reform to convert all non-tradable domestic shares to tradable domestic shares. According to the reform plan, Huaneng Group and HIPDC offered three shares to each holder of A Shares for every ten shares held by them. The total number of shares offered in connection with the reform was 15,000,000 shares. As a result, all non-tradable domestic shares were permitted to be listed on stock exchange for trading with certain selling restrictions. The period of selling restrictions is sixty months for the non-tradable shares held by Huaneng Group and HIPDC, and one year for the non-tradable shares held by others starting from April 19, 2006. The reform did not affect the rights of shareholders of our overseas listed foreign shares.

On September 28, 2006, we entered into an assets transfer agreement with Huaneng Group. Pursuant to the agreement, we agreed to acquire 5% equity interests of Huaneng Qinbei Power Plant ("Qinbei Power Plant") for a consideration of RMB 65.75 million. As a result of the acquisition, we held 60% equity interests of Qinbei Power Plant.

On September 28, 2006, we entered into an additional capital contribution agreement with Huaneng Group and Huaneng Sichuan Hydropower Company ("Sichuan Hydropower"). Pursuant to the agreement, Huaneng Group unilaterally injected additional capital of RMB 615 million in Sichuan Hydropower. Consequently, the shareholdings of Huaneng Group in Sichuan Hydropower increased from 40% to 51%; and our shareholdings decreased from 60% to 49% from January 1, 2007. As Sichuan Hydropower is currently controlled by Huaneng Group, its accounts will no longer be consolidated in our financial statements starting from 2007.

See "Item 5 Operating and Financial Review and Prospects -- Liquidity and Cash Resources" for a description of our principal capital expenditures since the beginning of the 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 28,187 MW as of April 6, 2007. We wholly own 17 operating power plants and have controlling interests in 12 operating power plants and minority interests in 5 operating power companies. Our power plants are located in 12 of China's provinces: Liaoning, Hebei, Shanxi, Shandong, Henan, Fujian, Jiangsu, Zhejiang, Guangdong, Jiangxi, Gansu, Hunan and in Shanghai and Chongqing Municipalities. In 2006, our power plants had an average availability factor of 93.61% and an average capacity factor of 66.88%. We also have 8,800 MW total generation capacity of construction projects 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.

In 2006, we achieved the best performance in respect of projects development and construction since our formation. 18 new coal-fired and hydro-power generating units were put into commercial operations with a total installed capacity of 7,150 MW. Among them, the power generating unit I at Huaneng Yuhuan Power Plant ("Yuhuan Power Plant"), which commenced commercial operation on November 28, 2006 six months ahead of schedule, was the first 1,000 MW ultra-supercritical coal-fired power generating unit in China. On December 30, 2006, the power generating unit II was also put into operations, and Yuhuan Power Plant became the first 1,000 MW-level ultra-supercritical coal-fired power plant in China. The operations of Yuhuan Power Plant marked that we are in forefront of the ultra-supercritical coal-fired power generation technology in the world.

In 2006, we achieved good results on safe, reliable and increased power generation. Our total power generation reached 159.9 billion kWh, representing an increase of 6.24% from 2005. Although the average utilization hours of our coal-fired generating units were decreased to 6,045 hours in 2006 by 203 hours from 2005, they were still 412 hours above the industry average and remained at the highest level among power generation companies in China.

In 2006, we continue to take various measures to control our fuel cost, and achieved good results in respect of coal purchase and transportation, quality control and inventory enhancement. The coal purchase under key contracts accounted for 62% of our total coal purchases, representing an increase of 7% from 2005. Our average unit fuel cost for power output increased by 0.75% from 2005.

In 2006, the NDRC reactivated the coal-electricity price linkage mechanism to increase on-grid tariff and end-user tariff in the northeastern region, central region, eastern region, northwestern region and southern region. We accordingly increased the on-grid tariffs of most of our power plants in these regions, and relieved the pressures due to the rising coal price.

To maintain our leading 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 resources.

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. Please see "Item 7 -- Major Shareholders and Related Party Transactions" for a 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.

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 tariff. 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, 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.

In January 2007, the Office of the National Energy Leading Group and the NDRC with the approval of the State Council jointly issued the opinions to accelerate shutdowns of small coal-fired generating units. Power generation companies are encouraged to close small coal-fired generating units and replace them with newly built large units, and their new projects may be granted priority in the confirmation and registration process on the basis of their proactive implementation of the opinions.

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

China's general import-tariff level has been declining since China acceded to the WTO in November, 2001. China's average import-tariff rate was reduced annually from 15.3% in 2001 to 9.9% in 2005 and 2006. Starting from January 1, 2007, the average import-tariff rate has been further reduced to 9.8%. 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.

Under the relevant PRC laws and regulations, foreign invested enterprises, or "FIE", will be entitled to import duty exemption in respect of imported equipment and raw materials for investment projects that fall into the encouraged category under the Catalogue for the Guidance of Foreign Investment Industries ("the Catalogue"). Pursuant to the current Catalogue effective on January 1, 2005, construction and operation of natural gas-fired power plants, and coal-fired power plants consisting of 300 MW or larger generating units or using clean-burning coal technologies belong to the category of encouraged projects. Because all of our construction projects meet the conditions for encouraged projects under the current catalogue, they are eligible for import-duty exemption for imported generating units.

In addition, pursuant to the Catalogue for the Encouragement of Development of Key Industries, Products and Technologies, our power plants with independent legal person status are eligible for exemption from import duty and related value-added tax with regard to the basic construction and expansion projects falling into its scope subject to the approval of the relevant government authorities.

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

Prior to April 2001, the on-grid tariffs for our planned output were designed to enable us to recover all operating and debt servicing costs and to earn a fixed rate of return. Since April 2001, however, the PRC government has started to gradually implement a new on-grid tariff-setting mechanism based on the operating terms of power plants as well as the average costs of comparable power plants.

On July 3, 2003, the State Council approved the tariff reform plan and made it clear that the long-term objective of the reform is to establish a standardized and transparent tariff-setting mechanism.

Pursuant to the NDRC circular issued in June 2004, on-grid tariffs for the newly built power generating units commencing operation from June 2004 should be set on the basis of the average social cost of comparable units adding tax and reasonable return in the regional grid. It provides challenges and incentives for power generation companies to control costs for building new generating units.

On March 28, 2005, the NDRC issued the Interim Measures on Regulation of On-grid Tariff, the Interim Measures on Regulation of Transmission and Distribution Tariff, and the Interim Measures on Regulation of End-user Tariff, or collectively the Interim Measures, to provide guidances for the reform of tariff-setting mechanism in the transition period. Under the Interim Measures, power tariff is classified into on-grid tariff, transmission and distribution tariff and ender-user tariff. Transmission and distribution tariff will be instituted by the government. End-user tariff will be based on on-grid tariff and transmission and distribution tariff. The government is responsible to regulate and supervise power tariffs in light of the principles of efficiency, incentives, and investment encouragement and taking into consideration of affordability.

In December 2004, the NDRC proposed and the State Council approved to establish a linkage mechanism between coal and power prices, pursuant to which, the NDRC may adjust power tariffs if the change volume of the average coal price reaches 5% within a period of six months compared with the same preceding period. The change volume in a period, if less than 5%, will be carried forward to the future periods until the accumulated amounts reach 5%. With a target to encourage power generation companies to reduce cost and improve efficiency, only around 70% of coal price increases will be allowed to pass to end-users through an increase of power tariffs, and power generation companies will bear the remaining 30%. In May 2005, the NDRC activated the coal-electricity price linkage mechanism for the first time to increase on-grid tariffs and end-user tariffs in the northeastern region, central region, eastern region, northwestern region and southern region. We accordingly increased the on-grid tariffs of our power plants in the northeastern region, central region, eastern region and northwestern region on May 1, 2005 and in the southern region on July 15, 2005. In June 2006, the coal-electricity price linkage mechanism was reactivated by the NDRC to increase on-grid tariffs and end-user tariffs in the northeastern region, central region, eastern region, northwestern region and southern region. We accordingly increased the on-grid tariffs of most of our power plants in the same regions on June 30, 2006.

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 one year 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 2006, most of the agreements entered into between our power plants and the local grid companies were based on the Model Contract Form.

Power sales through competitive bidding are one of the targets of power market reform. The PRC government started in 1999 to experiment with a program to effect power sales through competitive bidding in some provinces, and has been gradually expanding the program with a view to creating a market-oriented electric power industry. Pursuant to the opinions regarding promotion of electric power system reform in the period of "The Eleventh Five-Year Plan" adopted by the State Council in November 2006, the SERC will speed up the reform to establish an electric power market suitable to China's circumstances. Among others, the SERC will propose the relevant policies based on the practices pioneered in the northeastern region and eastern region; promote the construction of uniform competitive bidding platform in each regional power market; accelerate the development of power market in the eastern region and the northeastern region; carry out trial or simulated operations in the southern region and central region on appropriate timing; formulate plans and marketing rules for power market in the northern region and northwestern region, and expand the experiment program on direct power sales between power generation companies and large-scaled end-users.

Power market in the Northeastern region

The power market in the northeastern region commenced simulated operation on January 15, 2004, and trial operation of monthly and annual bidding in early 2005. It adopted a model of two-tier tariff system where all the power generated is subject to competitive bidding. Under two-tier tariff system, on-grid tariff includes a capacity tariff and an energy tariff. While the capacity tariff is based on average fixed cost for building a generating unit in the same area and set by the government, the energy tariff is formed by market competition. The northeastern regional power market carried out the trial operation of 2006 annual price bidding in early 2006, and then was suspended. At the end of March 2006, it was resumed and carried out the annual price bidding, but was suspended again afterwards. The bidding results in 2006 were not used in actual settlements. The relevant regulatory authorities are currently in the process of formulating new competitive bidding plans and rules for the northeastern regional power market.

We have three power plants in the Northeast region, namely Dalian Power Plant, Dandong Power Plant and Yingkou Power Plant with a total of eight generating units and an aggregate generation capacity of 2,740 MW. All of these power plants consist of generating units with large-capacity and the management has put in place a strong management team to manage these plants.

To ensure a fair market environment for the three power plants in Liaoning, we will keep ourselves 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. We believe that we can optimize our competitive strengths under a fair, reasonable and open market environment.

Power market in the Eastern region

The power market in the eastern region commenced simulated operation of monthly price bidding and daily price bidding respectively on May 18 and October 28, 2005. It adopted a model of one-tier tariff system where only 10% of the annual power generation will be subject to competitive bidding. In April and December 2006, the eastern regional power market carried out two trial operations of daily price bidding respectively, and the bidding results were used in actual settlements.

Most of our power plants in the eastern region are located in regional loading centres of Jiangsu, Shanghai and Fujian, and consist of individual units with large-capacity and high-performance, together with small number of employees and a strong management team. Under our centralized management, these power plants will closely cooperate with each other to strengthen their competitiveness and strive to achieve good bidding results.

Power market in the other regions

The power market in the southern region carried out the simulated operations of annual price bidding in 2006 and made stable development. The plans for establishment of power market in central region, northwestern region and northern region have been formulated, but not yet officially issued to the public for comments.

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 us 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 tariff (RMB/MWh) of electric power sold by our power plants, for each of the five years ended

December 31, 2006 and the approved power tariff for 2007.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	Average Tariff(1)	Average Tariff (1)	Average Tariff (1)	Average Tariff (1)	Average Tariff (1)
Dalian Power Plant...........	280.53	272.69	283.62	317.58	315.95
Dandong Power Plant..........	273.70	276.95	289.05	301.67	322.76
Yingkou Power Plant..........	--	--	315.48	360.09	334.47
Fuzhou Power Plant..........	327.80	331.82	365.00	367.06	342.46
Phase I.................	--	--	--	--	--
Phase II................	--	--	--	--	--
Shangan Power Plant.........	315.65	307.94	303.25	319.91	340.22
Phase I.................	--	--	--	--	--
Phase II................	--	--	--	--	--
Nantong Power Plant.........	309.54	312.52	325.18	343.00	344.92
Nanjing Power Plant.........	304.07	307.31	321.67	340.65	345.56
Taicang					
Phase I.................	317.52	321.80	341.10	360.00	361.64
Phase II	--	--	--	--	371.50
Huaiyin Power Plant					
Phase I..................	314.79	317.21	330.88	346.43	366.44
Phase II.................	--	--	--	373.77	362.26
Phase III................	--	--	--	--	362.26
Shidongkou I...............	252.97	256.64	285.43	320.30	358.85
Shidongkou II..............	345.90	332.85	342.56	357.60	357.08
Shantou Power Plant					
Phase I.................	455.95	435.17	446.86	462.83	487.55
Phase II	--	--	--	--	446.54
Dezhou Power Plant					
(Phases I, II & III)....	339.64	333.34	332.58	349.56	360.68
Jining Power Plant					
Phases I, II............	275.15	274.66	299.89	323.41	342.42
Phase III...............	--	--	299.89	323.41	342.42
Weihai Power Plant..........	393.74	386.50	394.06	398.93	402.99
Xindian.....................					
Phases I, II.............	--	342.41	320.83	337.25	350.54

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	Average Tariff(1)	Average Tariff (1)	Average Tariff (1)	Average Tariff (1)	Average Tariff (1)
Phase III................	--	--	--	--	351.90
Changxing..................	362.70	320.57	351.94	392.83	408.90

Yushe Power Plant					
Phase I..................	--	200.63	282.10	319.37	316.16
Phase II.................	--	--	282.10	256.00	268.21
Qinbei......................	--	--	--	299.77	311.20
Jinggangshan Power Plant....	--	--	--	353.90	369.87
Yueyang Power Plant.........					
Phase I...................	--	--	316.52	341.34	360.88
Phase II..................	--	--	--	--	363.38
Luohuang Power Plant........					
Phases I, II..............	--	--	286.74	300.90	314.87
Phase III.................	--	--	--	--	337.30
Pingliang Power Plant.......	--	--	--	211.43	216.27
Sichuan Hydropower..........	--	--	--	262.52	266.32
Yuhuan power plant	--	--	--	--	360.95

Notes: (1) Includes value-added tax.

(2) The approved tariff of Yuhuan power plant for 2007 is still subject to the approval of the relevant government authority.

Fuel supply arrangements

In 2006, all of our power plants were fueled by coal and gas except Sichuan Hydropower.

Coal

Most of the coal supply for our 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. Power companies obtain allocations for coal on a plant-by-plant basis. Each of power plant then signs supply contracts with the coal suppliers, and with the railway and shipping companies for the amount of coal and transportation allocated to them. Starting from 2004, although such annual coal purchase conferences continue to be held, only key contracts are negotiated and executed at such conferences.

In 2005, coal price increased by a substantial volume compared to the same period in 2004. We purchased 68.08 million tons of coal and consumed 66.03 million tons of coal. Of our total coal purchases, 55% was purchased under the key contracts and medium- and long-term agreements, and the remainder was purchased in the open market. Coal purchase price for our company, including transportation costs and miscellaneous expenses, averaged approximately RMB 338.03 per ton.

In 2006, the national supply and demand of coal reached equilibrium. We purchased 67.76 million tons of coal and consumed 68.83 million tons of coal. Of our total coal purchases, 62% was purchased under the key contracts, and the remainder was purchased in the open market. Coal purchase price for our company, including transportation costs and miscellaneous expenses, averaged approximately RMB 343.73 per ton. 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. In order to address the shortage of coal supplies, we have entered into nine medium and 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 key coal supply contracts with coal suppliers at the annual national coal purchase conference for 2006. Through these measures, we seek to further strengthen the stable coal supplies for our power plants.

In 2007, the annual coal purchase conferences sponsored and coordinated by the NDRC were cancelled. The power generation companies and coal suppliers are permitted to negotiate coal price and execute coal purchase contracts. The government will take temporary interventional measures to regulate coal price only in exceptional circumstances. We have already entered into coal purchase contracts with a total of 61.6 million tons of coal, which accounted for approximately 81.1% of the coal required for our total planned generation in 2007.

Gas

Huaneng Shanghai Combined Cycle Gas Turbine Power Plant ("Shanghai CCGT") is a gas-fired power plant. The gas supply for Shanghai CCGT is transported through the pipeline of "West-East Gas Transport Project". In 2006, the total gas supply for Shanghai CCGT was 95 million cubic meters and the weighted average gas price was RMB 1.53 per cubic meter.

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, coal-fired generating units 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 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.

C. Organizational structure

We are 42.03% 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 RMB 20 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 electricity. In addition to this core business, Huaneng Group also engages in the development, investment, construction, production 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 equity interests currently owned by Huaneng Group. HIPDC is engaged in developing power plants using domestic and 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 HIPDC and us as of April 6, 2007:

```
|--------------------------------------------------------------------------------------------------
|Huaneng   |    Guohua Power     | China Group  |   Pro-Power Investment  |  China Cinda  |   Chi
|Group     |    Investment       | Development  |   Limited               |  Trust        |   Wat
|          |    Limited Company  | Limited      |                         |  Company      |   Cor
---------------------------------------------------------------------------------------------------
| |               |                    |                |                      |                 |
| |   51.98%      |    15.77%          |  15.0%         |    10.0%             |    5.8%         |
| -------------------------------------------------------------------------------------------------
|        |
|5%(1)   |
|        |
|        |       Hebei                  Fujian                Dalian           Nantong
|        |       Provincial            Investment             Municipal        Investment
|        |       Construction          Enterprise             Construction     Management
|----- HIPDC     Investment             Holdings               Investment       Limited
         |       Company                 Limited                Company         Company
         |            |                     |                      |               |
         |            |                     |                      |               |
         |            |                     |       Liaoning       |               |       Shanto
         |            |        Jiangsu      |        Energy        |               |        Power
```

Huaneng Group		Provincial International Trust & Investment Corporation		Investment (Group) Limited Liability Company		Minxin Group Limited Company		Develop Joint St Company Limited	
42.03%	8.75%	5.00%	3.45%	2.81%	2.76%	2.50%	0.9%	0.75%	0

COMPANY

Note: (1) Huaneng Group indirectly holds 50% equity interests in Pro-Power Investment Limited through its wholly-owned subsidiary, China Huaneng Hong Kong Company Limited, and Pro-Power Investment Limited in turn holds 10% equity interests in HIPDC. As a result, Huaneng Group indirectly holds additional 5% equity interests in HIPDC.

For a detailed discussion of the Company's subsidiaries, see Note 12 to the FInancial Statements.

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D. Property, plants and equipment

The following table presents certain summary information on our power plants as of April 6, 2007.

Plant or Expansion		Province/ Municipality	Actual In-service Date(1)	Current Installed Capacity	Ownership	Attrib Capac
(Names as defined below)				(MW)	%	MW
Dalian	Phase I	Liaoning	Unit I: Sep. 1988 Unit II: Dec. 1988	2 x 350	100%	70
	Phase II		Unit III: Jan. 1999 Unit IV: Jan. 1999	2 x 350	100%	70
Dandong		Liaoning	Unit I: Jan. 1999 Unit II: Jan. 1999	2 x 350	100%	70
Yingkou		Liaoning	Unit I: Jan. 1996 Unit II: Dec. 1996	2 x 320	100%	64
Fuzhou	Phase I	Fujian	Unit I: Sep. 1988 Unit II: Dec. 1988	2 x 350	100%	70
	Phase II		Unit III: Oct. 1999 Unit IV: Oct. 1999	2 x 350	100%	70

Shangan	Phase I	Hebei	Unit I: Aug. 1990 Unit II: Dec. 1990	2 x 350	100%	70
	Phase II		Unit III: Oct. 1997 Unit IV: Oct. 1997	2 x 300	100%	60
Nantong	Phase I	Jiangsu	Unit I: Sep. 1989 Unit II: Mar. 1990	2 x 352	100%	70
	Phase II		Unit III: Jul. 1999 Unit IV: Oct. 1999	2 x 350	100%	70
Nanjing		Jiangsu	Unit I: Mar. 1994 Unit II: Oct. 1994	2 x 320	100%	64
Taicang	Phase I	Jiangsu	Unit I: Dec. 1999 Unit II: Apr. 2000	2 x 300	75%	45
	Phase II	Jiangsu	Unit III: Jan. 2006 Unit IV: Feb. 2006	2 x 600	75%	90
Huaiyin	Phase I	Jiangsu	Unit I: Nov. 1993 Unit II: Aug. 1994	2 x 220	90%	39
	Phase II	Jiangsu	Unit III: Jan. 2005 Unit IV: Mar. 2005	2 x 330	63.64%	42
	Phase III	Jiangsu	Unit V: May 2006 Unit VI: Sep. 2006	2 x 330	63.64%	42
Shidongkou I		Shanghai	Unit I: Feb. 1988 Unit II: Dec. 1988 Unit III: Sep. 1989	3 x 300	100%	1,
			Unit IV: May 1990	1 x 320		
Shidongkou II		Shanghai	Unit I: Jun. 1992 Unit II: Dec. 1992	2 x 600	100%	1,
Shanghai CCGT		Shanghai	Unit I: May 2006 Unit II: Jun. 2006 Unit III: Jul. 2006	3 x 390	70%	81
Shantou	Phase I	Guangdong	Unit I: Jan. 1997 Unit II: Jan. 1997	2 x 300	100%	60
	Phase II	Guangdong	Unit III: Oct. 2005	1 x 600	100%	60
Dezhou		Shandong	Units I: 1992	1 x 330	100%	65
			Unit II: 1992	1 x 320 (2)		
			Units III: Jun. 1994 Unit IV: May 1995	2 x 300	100%	60
			Units V: Jun. 2002 Unit VI: Oct 2002	2 x 700	100%	1,

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Jining		Shandong	Units III: 1976	1 x 115	100%	22
			Unit IV: 1978	1 x 110		
			Unit V: Jul. 2003	2 x 135	100%	27
			Unit VI: Aug. 2003			
Weihai		Shandong	Units I: May. 1994	2 x 125	60%	15
			Unit II: Jan. 1995			
			Units III: Mar. 1998	2 x 300	60%	36
			Unit IV: Nov. 1998			
Xindian		Shandong	Unit III: Jan 2002	2 x 225	100%	45
			Unit IV: Dec 2001			
			Unit V: Sep 2006	2 x 300	95%	57
			Unit VI: Nov 15			
Changxing		Zhejiang	Unit I: Jan. 1992	1 x 135	100%	26
			Unit II: Aug. 1992	1 x 125		
Yuhuan	Phase I	Zhejiang	Unit I: Nov. 2006	2x 1000	100%	2,
			Unit II: Dec. 2006			
Yushe	Phase I	Shanxi	Unit I: Jun. 1994	2 x 100	60%	12
			Unit III: Dec 1994			
	Phase II		Unit IV: Oct. 2004	2 x 300	60%	36
			Unit II: Nov. 2004			
Qinbei	Phase I	Henan	Unit I: Dec. 2004	2 x 600	55%	66
			Unit II: Dec. 2004			
Jinggangshan		Jiangxi	Unit I: Dec. 2000	2 x 300	100%	60
			Unit II: Aug. 2001			
Yueyang	Phase I	Hunan	Unit I: Aug. 1991	2 x 362.5	55%	39
			Unit II: Sep. 1991			
	Phase II		Unit III: Mar. 2006	2 x 300	55%	33
			Unite IV: May 2006			
Luohuang	Phase I	Chongqing	Unit I: Sep. 1991	2 x 360	60%	43
			Unit II: Feb. 1992			
	Phase II		Unit III: Dec. 1998	2 x 360	60%	43
			Unit IV: Dec. 1998			

Phase III		Unit V: Dec. 2006 Unit VI: Jan. 2007	2 x 600	60%	72
Pingliang	Gansu	Unit I: Sep. 2000 Unit II: Jun. 2001 Unit III: Jun. 2003 Unit IV: Nov. 2003	4 x 300	65%	78

Notes:

(1) Commencement of commercial operations. See "Development of Power Plants -- Plant Start-up and Operation".

(2) The Unit II at Dezhou Power Plant increased its installed capacity from MW 300 to MW 320 in 2006.

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The following table sets forth certain summary information on our construction projects as of April 6, 2007.

Plant or Expansion	Province/ Municipality	Expected Installed Capacity	Ownership	Attributable Capacity
(Names as defined below)		(MW)	%	MW
Yingkou Phase II	Liaoning	2x600	100%	1,200
Qinbei Phase II	Henan	2x600	60%	720
Yuhuan Zhejiang III	Zhejiang	2x1,000	100%	2,000
Shang'an Phase III	Hebei	2x600	100%	1,200
Haimen Phase I	Guangdong	2x1,000	100%	2,000
Rizhao Phase II	Shandong	2x600	100%	1,200

The following table presents the availability factors and the capacity factors of our operating coal-fired power plants for the years ended December 31, 2004, 2005, and 2006.

	Availability factor (%)			Capacity factor	
	2004	2005	2006	2004	2005
Dalian........................	95.08	97.49	93.96	78.80	75.29
Dandong........................	94.95	97.09	93.93	77.94	69.12
Yingkou........................	94.07	93.72	92.04	80.74	83.48
Fuzhou........................	92.47	93.60	98.37	83.13	75.14
Shangan........................	93.02	93.45	91.76	74.95	74.21
Nantong........................	92.52	93.50	94.32	76.47	68.32
Nanjing........................	94.47	90.97	93.76	77.92	70.21

Taicang........................	94.74	95.53	93.22	86.18	75.51
Huaiyin........................	94.35	94.38	94.16	76.70	68.49
Shidongkou I...................	94.43	83.35	92.22	77.55	71.18
Shidongkou II..................	96.51	92.63	97.21	80.64	75.71
Shantou........................	92.40	92.35	92.51	88.57	89.80
Dezhou.........................	94.49	90.58	92.22	59.27	65.37
Jining.........................	93.58	94.37	94.37	53.67	65.55
Weihai.........................	94.29	95.70	95.18	63.82	65.64
Xindian........................	92.11	93.29	96.21	61.77	67.35
Changxing......................	95.46	95.31	95.33	88.56	84.36
Yushe..........................	95.84	92.27	93.16	85.43	77.37
Qinbei		92.58	90.59		70.85
Jinggangshan...................	92.40	93.16	92.74	69.12	65.96
Yueyang........................	89.25	93.70	95.14	71.90	71.89
Luohuang.......................	90.71	89.44	90.88	64.48	65.01
Pingliang......................	----	95.39	93.08	----	76.80
Yuhuan.........................	----	----	N/A	----	----

The details of our operating power plants and construction projects as of April 6, 2007 are described below.

Power plants in Liaoning Province

Huaneng 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.

In 2006, Dalian Power Plant obtained 39.0% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Dalian Power Plant was RMB 393.67 (2005: RMB 396.14) per ton in 2006.

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

Huaneng 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.

In 2006, Dandong Power Plant obtained 80.8% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Dandong Power Plant was RMB 355.58 (2005: 357.76) per ton in 2006.

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. and the Northeastern Power Grid. 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") 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. In 2006, Yingkou Power Plant obtained 55.4% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Yingkou Power Plant was RMB 360.41 (2005: 352.15) per ton in 2006.

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

Construction Project in Liaoning Province

Yingkou Power Plant Phase II is planned to consist of two 600 MW coal-fired generating units. We own 100% equity interests in this project.

Power plant in Fujian Province

Huaneng 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.

In 2006, the Fuzhou Power Plant obtained 47.8% its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Fuzhou Power Plant in 2006 was RMB 411.43 (2005: 423.91) 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") 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.

In 2006, Shangan Power Plant obtained 67.6% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Shangan Power Plant in 2006 was RMB 297.91 (2005: 286.70) 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.

Construction Project in Hebei Province

Shangan Power Plant Phase III is planned to consist of two 600 MW coal-fired generating units. We own 100% equity interests in this project.

Power plants in Jiangsu Province

Huaneng 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. We own and maintain 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.

In 2006, Nantong Power Plant obtained 68.0% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Nantong Power Plant in 2006 was RMB 390.00 (2005: RMB 397.03) 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") 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 2006, Nanjing Power Plant obtained approximately 43.8% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Nanjing Power Plant in 2006 was RMB 404.29 (2005: 412.11) 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.

Huaneng Taicang Power Plant ("Taicang Power Plant") 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 Phase I consists of 2 x 300 MW PRC-built coal-fired generating units, which commenced operation in December, 1999 and April, 2000 respectively. Taicang Phase II Expansion consists of two 600 MW coal-fired generating units, which commenced operation in January and February 2006, respectively.

The coal supply for Taicang Power Plant is primarily from Shenhua in Inner Mongolia and Datong in Shanxi Province. In 2006, Taicang Power Plant obtained approximately 48.6% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Taicang Power Plant in 2006 was RMB 404.15 (2005: 391.03) 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.

Huaneng Huaiyin Power Plant ("Huaiying 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 220 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 440 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. Huaiyin Power Plant Phase III consists of two 330 MW coal-fired generating units, and was put into operations in August and September 2006, respectively.

In 2006, Huaiyin Power Plant obtained approximately 45.6% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Huaiyin Power Plant in 2006 was RMB 398.05 (2005: 403.61) per ton.

The coal supply for the Huaiyin Power Plant is primarily from Anhui Province, Henan Province and Shanxi Province.

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

Power plants in Shanghai Municipality

Huaneng Shanghai Shidongkou First Power Plant ("Shidongkou I") was constructed in the 1980's and is located in the northern region of the Shanghai Power Grid. The plant comprises 3 x 300 MW and 1 x 320 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 1,220 MW.

The coal supply for Shidongkou I is primarily from Shanxi Province, Anhui Province and Henan Province. In 2006, Shidongkou I obtained approximately 28.7% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Shidongkou I in 2006 was RMB 407.68 (2005: RMB 409.69) 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.

Huaneng Shanghai Shidongkou Second Power Plant ("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.

In 2006, Shidongkou II obtained 57.9% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Shidongkou II in 2006 was RMB 388.05 (2005: 393.10) 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 CCGT is located in Baoshan district of Shanghai municipality. Shanghai CCGT consists of three 390 MW gas-fired combined-cycle generating units with a total installed capacity of 1,170 MW, which were put into operation in May, June and July, 2006, respectively.

The gas supply for Shanghai CCGT is transported through the pipeline of "West-East Gas Transport Project". In 2006, the total gas supply for Shanghai CCGT was 95 million cubic meters and the weighted average gas price was RMB 1.53 per cubic meter. Shanghai CCGT generates electricity during the peak load periods and sells its electricity through Shanghai Municipal Electric Power Company. In 2006, the Shanghai Municipal government granted special power tariff policy to Shanghai CCGT to mitigate the adverse effect of insufficient gas supply on its operations.

Power plants in Guangdong Province

Huaneng Shantou Oil-Fired Power Plant ("Shantou Oil-Fired Power Plant") was shut down in 2006.

Huaneng Shantou Coal-Fired Power Plant ("Shantou Power Plant") had originally been developed and constructed by HIPDC which transferred all its rights and interests therein to us effective on December 31, 1994. See "Item 7. Major Shareholders and Related Party Transactions." Located on the outskirts of the city of Shantou, Shantou Power Plant was set up with the support of the Shantou municipal government and the Guangdong provincial government. Shantou Power Plant Phase I 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. Shantou Power Plant Phase II consists of one 600 MW coal-fired generating unit and commenced operation in October 2005.

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.

In 2006, the Shantou Power Plant obtained 36.6% of its total consumption of coal pursuant to the key contracts and the remainder was purchased in the open market. The weighted average costs of coal for Shantou Power Plant in 2006 was RMB 424.69 (2005: 435.55) per ton.

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

Construction Project in Guangdong Province

Huaneng Haimen Power Plant ("Haimen Power Plant") is planned to consist of two 1,000 MW generating units with a total installed capacity of 2,000 MW. We own 100% equity interests in this project.

Power plants in Shandong Province

Huaneng 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 consisting of one 320MW and one 330MW coal-fired generating units, phase II consisting of two 300 MW coal-fired generating units, and Phase III consisting of two 700 MW coal-fired generating units.

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. In 2006, Dezhou Power Plant obtained approximately 72.9% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Dezhou Power Plant in 2006 was RMB 282.73 (2005: RMB 270.51) 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.

Huaneng 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. In 2006 Unit I and II of Jining Power Plant with a total capacity of 100 MW were put out of operation. As a result, Jining Power Plant currently comprises four coal-fired generating units, with an aggregate installed capacity of 495 MW.

In 2006, Jining Power Plant obtained approximately 85.7% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Jining Power Plant in 2006 was RMB 345.03 (2005: 361.76) per ton.

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

Huaneng Weihai Power Plant ("Weihai Power Plant") is located 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. We hold a 60% interest in Weihai Power Plant, the remaining 40% interest of which is owned by Weihai Power Development Bureau ("WPDB").

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.

In 2006, Weihai Power Plant obtained approximately 45.3% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Weihai Power Plant in 2006 was RMB 368.76 (2005: RMB 383.94) 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") 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. Xindian Power Plant Phase III Expansion consists of two 300 MW generating units with a total installed capacity of 600 MW, which were put into operation in September and November 2006, respectively.

The coal supply for Xindian Power Plant is obtained from several coal producers located mostly in Shanxi Province. In 2006, Xindian Power Plant obtained 47.0% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Xindian Power Plant was RMB 376.67 (2005: 355.43) per ton in 2006.

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.

Construction Project in Shandong Province

Huaneng Rizhao Power Plant Phase II ("Rizhao Power Plant Phase II") is planned to consist of two 600 MW generating units with a total installed capacity of 1,200 MW. We own 100% equity interests in this project.

Power plants in Zhejiang Province

Huaneng 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 one 125 MW and one 135 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. In 2006, Changxing Power Plant obtained approximately 55.2% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Changxing Power Plant in 2006 was RMB 388.87 (2005: 390.98) per ton.

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

Yuhuan Power Plant is located in Taizhou of Zhejiang Province and consists of two 1,000 MW ultra-supercritical coal-fired generating units with a total installed capacity of 2,000 MW. Unit I and Unit II were put into operations on November 28, 2006 and December 30, 2006, respectively.

The coal supply for Yuhuan Power Plant is primarily obtained from Shanxi Province and Inner Mongolia Autonomous Region. In 2006, Yuhuan Power Plant obtained approximately 18% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Yuhuan Power Plant in 2006 was RMB 424.63. Yuhuan Power Plant sells its electricity to Zhejiang Power Grid.

Construction Project in Zhejiang Province

Huaneng Yuhuan Power Plant Phase II ("Yuhuan Power Plant Phase II") is planned to consist of a total installed capacity of 2,000 MW. We own 100% equity interests in this project.

Power Plant in Shanxi Province

Huaneng Yushe Power Plant ("Yushe Power Plant") is located in Yushe County of Shanxi Province. Yushe Power Plant Phase I 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.

Two 300 MW coal-fired generating units of Yushe Power Plant Phase II 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. In 2006, Yushe Power Plant obtained approximately 93.5% of its total consumption of coal from the open market and the remainder was obtained pursuant to the key contracts. The weighted average cost of coal for Yushe Power Plant was RMB 245.04 (2005: 225.34) per ton in 2006.

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

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. In 2006, Qinbei Power Plant obtained 14.0% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Qinbei Power Plant was RMB 348.59 (2005: 357.30) per ton in 2006.

Power plant in Jiangxi Province

Huaneng 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. In 2006, Jinggangshan Power Plant obtained 73.6% of its total coal consumption pursuant to the key contracts and the remainder in the open market. In 2006, the weighted average cost of coal for Jinggangshan Power Plant was RMB 382.64 (2005: 392.18) 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") is located in Yueyang City of Hunan Province. Yueyang Power Plant Phase I 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. Yueyang Power Plant Phase II consists of two coal-fired generating units with installed capacity of 600 MW, which were put into operation in March and May 2006, respectively.

The coal supply for Yueyang Power Plant is obtained from Datong in Shanxi Province. In 2006, Yueyang Power Plant obtained 61.8% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. In 2006, the weighted average cost of coal for Yueyang Power Plant was RMB 388.50 (2005: 378.81) 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.

Power Plant in Chongqing Municipality

Huaneng Luohuang Power Plant ("Luohuang Power Plant") is located in Chongqing Municipality. Each of Phase I and Phase II of 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. Luohuang Power Plant Phase III consist of two 600 MW coal-fired generating units with an installed capacity of 1,200 MW, which were put into operations in December 2006 and January 2007, respectively. The coal supply for Luohuang Power Plant is obtained from Chongqing Municipality. In 2006, Luohuang Power Plant obtained all of its coal supplies through purchases in the open market. In 2006, the weighted average cost of coal for Luohuang Power Plant was RMB 227.74 (2005: RMB 213.61) per ton.

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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.

Power plant in Gansu Province

Huaneng 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. In 2006, Pingliang Power Plant obtained all of its coal supplies through purchases in the open market. The weighted average cost of coal for Pingliang Power Plant was RMB 137.82 (2005: 130.06) per ton.

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.

As power generation companies were separated from power grid companies and more competitors entered into the market, the SERC issued the "Interim Measures Regarding Promotion of Openness, Fairness and Equitableness of Power Dispatch", requiring power dispatch centers to treat all competitors indiscriminately in respect of dispatch administration and information disclosure except in cases where safe and stable operation of the electric power system requiring different 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.

At present, new projects are subject to the environmental evaluation approval. The project proposal is required to be submitted to the State Environmental Protection Administration ("SEPA") for approval.

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 were increased annually by RMB 0.21 per kilogram from RMB 0.21 in 2003 to RMB 0.63 in 2005 and 2006. Discharge fees for nitrous dioxide were increased to RMB 0.63 per kilogram on July 1, 2004. The discharge fees for the dust have been RMB 0.28 per kilogram since July 1, 2003. In 2004, 2005 and 2006, we paid to the local governments total discharge fees of approximately RMB 170.32 million, 376.72 million and 432 million, respectively.

According to the New Emission Standards, promulgated by SEPA 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. The emission of sulfur dioxide by newly constructed coal-fired power plants is required to be no more than 400mg per standard cubic meter. Due to shortage of low-sulfur content coal, we generally install flue gas desulphurization ("FGD") equipments with all of our newly constructed generating units.

We have gradually carried out sulfur disposal reform on the existing generating units. All of the disposal equipments and facilities for sulfur dioxide, fly ash, waste water and noise in our existing power plants completely satisfy the existing national standard.

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 and installing FGD equipments, 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.

We believe 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 the currently effective national and local environmental protection regulations. It is expected that the PRC Government will impose additional and stricter regulations to implement the emission plan which would require additional expenditure in compliance with environmental regulations.

Insurance

We currently maintain property all risks insurance and machinery breakdown insurance for all of our power plants, and construction all risks insurance or erection all risks insurance for all of our newly built and expansion projects as well as large-scaled upgrading projects. Our current insurance coverage maintained with 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 on our property, plant and equipment (including construction all risk insurance) is approximately RMB 163.1 billion.

We do not maintain any third party liability insurance to cover claims in respect of bodily injury or property or environment damage arising from accidents on our property or relating to our operation other than the third party additional risk insurance included in construction all risk insurance or erection all risk insurance. We do not usually carry business interruption insurance either, which is not customarily carried by power companies in the PRC. We currently only maintain business interruption insurance for Hanfeng Power Plant acquired in 2004. We believe that our insurance coverage is adequate and is standard for the power industry in China. Please refer to the section entitled "Risk Factors - Risks relating to the Company and the PRC Power Industry - Operating power plants involves many risks and we may not have sufficient insurance coverage to cover the economic losses if any of our power plant' s ordinary operation is interrupted."

ITEM 4A Unresolved Staff Comments

None

ITEM 5 Operating and Financial Review and Prospects

A. General

The principal activities of the Company are investment, construction, operation and management of power plants. The Company provides stable and reliable electricity supply to customers through the grid companies where the operating plants are located. The Company insists on scientific development, increasing economic efficiency, improving returns for shareholders, conserving resources and protecting the environment. The Company also attaches importance to social responsibilities, and makes active efforts in building up a harmonious society .

Currently, Huaneng Power International, Inc. is China's largest listed power producer. The Company's electricity generation business is widely located, covering the Northeast China Grid, the North China Grid, the Northwest China Grid, the East China Grid, the Central China Grid and the South China Grid. Since incorporation, the operating scale of the Company continued to expand. Its operating revenue continued to increase, its competitiveness and its ability to generate profits and manage resources effectively continued to improve, and its environmental protection standards continued to be maintained at an advanced level when compared with its competitors. It is actively pursuing fast and better development.

Looking back on 2006, China's national economy continued to develop at a very fast pace. China's electricity industry thus had very good development opportunities and gained significant development. The demand and supply of electricity has been generally brought into balance. Over the year, the Company oversaw the overall operations of the Company with a scientific development view. The Company actively pioneered in the business, strived hard, seized every opportunity that it came across and overcame various difficulties. The Company reached its targets in various areas, such as safe production, operation, management, construction, facilities renovation and environmental protection. The Company achieved its best performance on project developments since its establishment and many technically advanced generating units began their commercial operations as scheduled, hence increased its generation capacity. Among those projects put into commercial operations during 2006, Yuhuan Power Plant was China's first 1,000 MW ultra-supercritical coal-fired generating unit which also featured efficient resources utilization and improved environmental performance.

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. 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 periods. There can be no assurance that actual results will not differ from those estimates.

Depreciation of property, plant and equipment

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

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

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

The determination of residual values, useful lives and depreciation method for the property, plant and equipment requires the use of estimates. This estimate is based on projected wear and tear incurred during power generation. It could change significantly as a result of technical innovations on power generators. It is reasonably possible, based on existing knowledge, that outcomes within the future that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

Impairment of long-lived assets

Goodwill is tested annually for impairment and carried at cost less any accumulated impairment loss. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company and its subsidiaries allocate goodwill to CGUs or groups of

CGUs in the region in which they operate.

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 level for which there are separately identifiable cash flows. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Key assumptions applied in the impairment tests include the expected tariff rates, demands of electricity in specific regions where these power plants are located and fuel cost. Management determined these key assumptions based on past performance and its expectations on market development. If different judgments were applied, estimates could differ significantly. Actual results could vary materially from these estimates.

Newly adopted accounting policies

The following new interpretation is mandatory for financial year with annual period beginning on or after January 1, 2006.

International Financial Reporting Interpretations Committee Interpretation ("IFRIC Interpretation") 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after January 1, 2006. This interpretation had no material impact on the accounting policies of the Company and its subsidiaries.

New accounting pronouncements

For a detailed discussion of new accounting pronouncements, see Notes 2(v) and 38 to the Financial Statements.

B. 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 38 to the Financial Statements.

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Year ended December 31, 2006 compared with year ended December 31, 2005

	For the Year Ended December 31,		
	2006	2005	Increased/ (Decreased)
	RMB'000	RMB'000	%
Operating revenue	44,301,403	40,190,004	10.2

Sales tax	(148,057)	(113,475)	30.4
Operating expenses			
Fuel	(22,608,151)	(21,202,952)	6.6
Maintenance	(1,306,888)	(1,165,374)	12.1
Depreciation	(6,719,158)	(6,167,692)	8.9
Labor	(2,886,767)	(2,487,098)	16.0
Service fees to HIPDC	(140,771)	(141,102)	(0.2
Others	(1,933,200)	(1,903,345)	1.5
Total operating expense	(35,594,935)	(33,067,563)	7.6
Profit from operations	8,558,411	7,008,966	22.1
Financial expense			
Interest income	51,910	53,685	(3.3
Interest expense	(1,591,033)	(1,426,609)	11.5
Bank charges and exchange gain , net	67,819	248,533	(72.7
Total financial expense, net	(1,471,304)	(1,124,391)	30.8
Share of profit of associates	790,629	644,376	22.7
Investment income, net	128,595	60,872	111.2
Other income, net	10,442	2,385	337.8
Profit before tax	8,016,773	6,592,208	21.6
Income tax expense	(1,127,699)	(1,044,297)	7.9
Profit for the year	6,889,074	5,547,911	24.1
Attributable to:			
Equity holders of the Company	6,071,154	4,871,794	24.6
Minority interests	817,920	676,117	20.9
	6,889,074	5,547,911	24.1

In 2006, the national economy developed at a rapid pace and there was strong demand for electricity, hence providing the external conditions for the Company to generate more electricity and increase its revenue. Under the context of a rapidly developing national economy, demand for coal was very strong. However, relatively slow improvement in coal transportation against to the increasing coal demand result in high coal price levels, and this has caused considerable difficulties for the Company to organize coal supply, control fuel cost and achieve its profit target.

For the year ended December 31, 2006, total power generated by our operating power plants was 159.897 billion kWh, representing an increase of 6.24% from prior year.

Construction projects achieved the best performance since the Company's formation. Completion of projects and commencement of commercial operation create a solid foundation for the Company to expand its scale of operation, consolidate and increase its market share, and increase its revenue.

The Company has always been committed to social responsibility and harmonious development. In 2006, the average coal consumption for power generation was 316.39 g/kWh, while weighted average self consumption rate of power plants was 5.69%, both stayed at a lower level when compared to the rest of the power generation industry, which represented the improvement in efficiency of utilization and in saving of resources. The Company always emphasizes environmental protection and has effectively reduced the emission levels of sulphur dioxide, nitrogen oxides, dust and other pollutants by using advanced technology and facilities, such as installing desulphurization facilities and other facilities.

Operating revenue

Operating revenue represents amounts receivable or received from electricity sold net of amounts received in advance. For the year ended December 31, 2006, the consolidated operating revenue of the Company and its subsidiaries amounted to RMB 44.301 billion, representing an increase of 10.23 % over RMB 40.190 billion in 2005. The increase in operating revenue is mainly due to the commencements of operations of new power plants, which increased the operation scale of the Company. The newly operated power plants (including Shantou Phase II which went into operation in the second half of 2005 and those put into operations in 2006, and thus reference applies hereafter) contributed RMB 4.527 billion to the increase in revenue.

The following table sets forth the average tariff rate of the Company and its subsidiaries, as well as percentage changes from 2005 to 2006.

	Average tariff rate (VAT inclusive) (RMB/MWh)		
Power Plant	2005	2006	Change
Dalian	317.58	315.95	-0.51%
Fuzhou	367.06	342.46	-6.70%
Nantong	343.00	344.92	0.56%
Shang'an	319.91	340.22	6.35%
Shantou Oil-fired	610.73	-	N/A
Shantou Coal-fired	459.12	467.37	1.80%
Dandong	301.67	322.76	6.99%
Shidongkou II	357.60	357.08	-0.15%
Nanjing	340.65	345.56	1.44%
Dezhou	349.56	360.68	3.18%
Weihai	398.93	402.99	1.02%
Jining	323.41	342.42	5.88%
Shidongkou I	320.30	358.85	12.04%
Taicang	360.00	361.64	0.46%
Changxing	392.83	408.90	4.09%
Huaiyin Phase I	346.43	366.44	5.78%
Huaiyin Phase II	373.77	362.26	-3.08%

Xindian	337.25	350.54	3.94%
Yushe	273.58	281.47	2.88%
Yingkou	360.09	334.47	-7.11%
Jinggangshan	353.49	369.87	4.63%
Luohuang	300.90	315.46	4.84%
Yueyang	341.34	361.68	5.96%
Qinbei	299.77	311.20	3.81%
Pingliang	211.43	216.27	2.29%
Sichuan Hydropower	262.52	266.32	1.45%
Yuhuan	-	360.95	N/A
Taicang II	-	371.50	N/A
Xindian II	-	351.90	N/A
Consolidated	331.41	343.59	3.68%

The average tariff rate of the Company and its subsidiaries increased by approximately 3.68% from RMB 331.41 per MWh in 2005 to RMB 343.59 per MWh. The major reason for such was the implementation of the "Coal-electricity price linkage mechanism", and the tariff of each coal-fired power plant was adjusted accordingly.

Sales tax

Sales tax mainly consists of taxes associated with value-added tax. According to relevant administrative regulations, such additional taxes include the City Construction Tax and Education Tax. The additional taxes are based on the value-added tax that the Company and its subsidiaries paid, a percentage of which will be taken as the additional taxes according to regulations. Such taxes are currently not applicable to direct foreign investments that have been approved by the government, hence certain power plants of the Company do not have to pay such taxes. In 2006, the sales tax increased 30.47% to RMB 148 million from RMB 113 million in 2005, mainly due to the increased number of power plants that needed to pay such taxes due to the newly operated power plants.

Operating expenses

The total operating expenses of the Company and its subsidiaries increased by 7.64% from RMB 33.068 billion in 2005 to RMB 35.595 billion in 2006. The increase was attributable to the expansion of the scale of operations and the increase in fuel cost. The newly operated power plants accounted for RMB 3.296 billion of the increase in total operating expenses.

Fuel

Fuel cost represented the major operating expenses of the Company and its subsidiaries, which has increased by 6.63% to RMB 22.608 billion in 2006 from RMB 21.203 billion in 2005. The increase in fuel cost was due to expansion of the scale of operation and increase in fuel price. In 2006, RMB 1.235 billion of the increase in fuel cost was due to the increase in the quantities of electricity generated, while the increase in fuel price accounted for RMB 0.17 billion of the increase.

As the average price of natural coal increased by 1.69% from RMB 338.03 per ton in 2005 to RMB 343.73 in 2006, the unit fuel cost per quantity sold (per Mwh) hence increased by 0.75% to RMB 157.31.

Maintenance

The maintenance expenses of the Company and its subsidiaries amounted to RMB 1,307 million in 2006, representing an increase of 12.14% from RMB 1,165 million in 2005. The increase in the maintenance expenses was mainly due to the expansion of scale of operation of the Company.

Depreciation

Depreciation expenses of the Company and its subsidiaries have increased by 8.94% from RMB 6.168 billion in 2005 to RMB 6.719 billion in 2006. The newly operated power plants accounted for RMB 566 million of the increase. Depreciation of the remaining power plants has decreased by RMB 15 million from the prior year.

Labor

Labor costs of the Company and its subsidiaries amounted to RMB 2.887 billion in 2006, representing an increase of RMB0.4 billion from RMB 2.487 billion in 2005. The main reason for the increase in labor costs was that, as a result of the operation of new power plants and the expansion of scale of operations of the Company which contributed the increase of RMB 0.261 billion.

Service fees to HIPDC

The service fees paid to HIDPC refer to fees paid for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit. The service fees that were paid to HIPDC in 2006 did not experience significant changes when compared with that of prior year.

Other operating expenses

Other operating expenses include expenses such as environmental protection, insurance fee, administrative expenses and amortization, etc. The other operating expenses of the Company and its subsidiaries amounted to RMB 1,933 million, representing an increase of 1.57% from RMB 1,903 million in 2005. The expansion of scale of operations of the Company and the increase in environmental protection fee levy rates caused the environmental protection fee to increase by RMB 55 million. The other operating expenses apart from environmental protection fee decreased by RMB 25 million as a result of cost control of the Company.

Financial expenses

Financial expenses include the net of interest income, interest expense, bank charges and net exchange differences.

Interest expenses

The interest expense of the Company and its subsidiaries in 2006 amounted to RMB 1,591 million, representing an increase of 11.53 % from RMB 1,427 million in last year. The increase was primarily attributable to the expense off of interest expense upon commencement of commercial operation for the newly operated power plants instead of continued capitalization.

Bank charges and net exchange differences

Bank charges and net exchange differences of the Company and its subsidiaries amounted to RMB 68 million in 2006, representing a relatively significant change from the RMB 249 million of exchange gain plus bank charges in 2005. In 2005, RMB appreciated against US dollar and Euro. As a result, loans denominated in US dollar and Euro generated approximately RMB 290 million in foreign exchange gain, while in 2006, an exchange gain of RMB 112 million was resulted, giving rise to a decrease to a foreign exchange gain of RMB 178 million.

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Share of profit of associates

Share of profit of associates in 2006 was RMB 791 million, representing an increase of RMB 147 million from RMB 644 million in 2005. The increase of share of profit of associates has benefited from the increase in investment income from Shandong Rizhao Power Company Ltd. and the inclusion of investment income from Huaneng Finance in the Company's accounts starting from January 2006.

Enterprise Income Tax ("EIT")

The EIT of the Company and its subsidiaries amounted to RMB 1,128 million, representing an increase of 7.99% from RMB 1,044 million in 2005. The increase in EIT was mainly caused by the increase of profit.

Profit for the year, Profit attributable to the Company's equity holders and minority interests

The profit of the Company and its subsidiaries amounted to RMB 6.889 billion in 2006, which represented a significant increase when comparing with the profit of RMB 5.548 billion in 2005, reflecting that the actual effective implementation of the Company's acquisition and development strategy plays an important role in raising revenue and maintaining profit level. The pace of profit increase was more proportionate than that of the revenue as a result of the effective cost controls implemented by the Company and its subsidiaries. The profit attributable to equity holders of the Company and minority interests increased at similar pace.

Year ended December 31, 2005 compared with year ended December 31, 2004

	For the Year Ended December 31,		
	2005	2004	(
	RMB'000	RMB'000	
Operating revenue	40,190,004	30,150,602	
Sales tax	(113,475)	(32,324)	
Operating expenses			
Fuel	(21,202,952)	(15,068,188)	
Maintenance	(1,165,374)	(807,689)	
Depreciation	(6,167,692)	(4,706,992)	
Labor	(2,487,098)	(1,877,264)	
Service fees to HIPDC	(141,102)	(133,609)	
Others	(1,903,345)	(606,346)	

Total operating expenses	(33,067,563)	(23,200,088)
Profit from operations	7,008,966	6,918,190
Financial expense		
Interest income	53,685	43,092
Interest expense	(1,426,609)	(663,424)
Bank charges and exchange gain / (losses), net	248,533	(119,452)
Total financial expense, net	(1,124,391)	(739,784)
Share of profit of associates	644,376	312,037
Investment income, net	60,872	20,554
Other income, net	2,385	18,666
Profit before tax	6,592,208	6,529,663
Income tax expense	(1,044,297)	(948,734)
Profit for the year	5,547,911	5,580,929
Attributable to:		
Equity holders of the Company	4,871,794	5,323,876
Minority interests	676,117	257,053

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	For the Year Ended December 31,		
	2005	2004	(
	RMB'000	RMB'000	
	5,547,911	5,580,929	

In 2005, the national economy developed at a rapid pace and there was strong demand for electricity. The growth rate of electricity generation and consumption exceeded the growth rate of the GDP, providing the favorable environment for us to generate more electricity and increase operating revenues. In 2005, the total output of our operating power plants was 150.505 billion KWh, representing an increase of 31.70% from 2004. However, associated with the rapidly developing national economy, demand for coal remained very strong. Inadequate coal resources and transportation capacity, high coal prices as well as low coal quality have posed considerable challenge for us to arrange coal supply, maintain stable power generation and control fuel cost.

We strived hard to strengthen our management over coal supply. Through various means, we were able to secure an adequate coal supply. Taking advantage of our advanced technology and experienced management, we increased our output, maintained our market share, and achieved our expected operating results.

Operating revenue

In 2005, the consolidated operating revenue of the Company and its subsidiaries amounted to RMB 40.190 billion, representing an increase of 33.30% over RMB 30.151 billion in 2004. The increase in operating revenue is mainly due to the acquired power plants and newly operating power plants, which increased the scale of operation of the Company. The acquired power plants (including the projects acquired in mid-2004 and early 2005) contributed RMB 5.7 billion to the increase in revenue, newly operating power plants (including the Qinbei Phase II and Yushe Phase II that were put into operation in late 2004, as well as the Huaiyin Phase II and Shantou generating unit No. 3 that were put into operation in 2005) contributed RMB 3.8 billion to the increase in revenue.

The increase in operating revenue was also attributable to the increased power tariff rate.

The following table sets forth the average tariff rate of the Company and its subsidiaries, as well as percentage changes from 2004 to 2005.

	Average Tariff Rate (RMB/MWh)		
Operating Power Plant	2004	2005	Increase/(dec
Dalian	283.62	317.58	11.9
Fuzhou	365.00	367.06	0.5
Nantong	325.18	343.00	5.4
Shang'an	303.25	319.91	5.4
Shantou Oil-fired	604.08	610.73	1.1
Shantou Coal-fired	446.86	459.12	2.7
Dandong	289.05	301.67	4.3
Shidongkou II	342.56	357.60	4.3
Nanjing	321.67	340.65	5.9
Dezhou	332.58	349.56	5.1
Weihai	394.06	398.93	1.2
Jining	299.89	323.41	7.8
Shidongkou I	285.43	320.30	12.2
Taicang	341.10	360.00	5.5
Changxing	351.94	392.83	11.6
Huaiyin Phase I	330.88	346.43	4.7
Huaiyin Phase II	--	373.77	N
Xindian	320.83	337.25	5.1
Yushe Phase I	293.09	319.37	8.9
Yushe Phase II	250.01	256.00	2.4
Yingkou	315.48	360.09	14.1
Jinggangshan	325.67	353.49	8.5
Luohuang	286.74	300.90	4.9
Yueyang	316.52	341.34	7.8

Qinbei	273.11	299.77	9.7
Pingliang	--	211.43	N

Operating Power Plant	Average Tariff Rate (RMB/MWh) 2004	2005	Increase/(dec
Sichuan Hydropower	--	262.52	N
Consolidated average	327.88	331.41	1.0

The average tariff rate of the Company and its subsidiaries increased by approximately 1.08% from RMB 327.88 per MWh in 2004 to RMB 331.41 per MWh in 2005. The increase was primarily due to the implementation of the "Coal-electricity price linkage mechanism" starting from May 2005, and our subsequent adjustment of tariff rate of each power plant. The effect of the tariff adjustment was partially offset by acquisition of the Pingliang Power Company and Sichuan Hydropower in 2005. The average tariff rate would have increased by RMB 13.89 per MWh, or 4.24% if these two power plants were excluded.

Sales tax

Sales tax mainly consists of taxes associated with value-added tax. According to relevant administrative regulations, such taxes include the City Construction Tax and Education Surcharge. These taxes are based on the amount of value-added tax the Company paid at the specified tax rate, and currently not applicable to direct foreign investment enterprises approved by the government. As a result, certain power plants of the Company do not have to pay such taxes. In 2005, the sales tax increased by 251.05% from RMB 32 million in 2004 to RMB 113 million. The increase was mainly due to the increased number of power plants subject to such taxes as a result of acquisition of power plants and putting newly constructed power plants into operation.

Operating expenses

The total operating expenses of the Company and its subsidiaries increased by 42.53% from RMB 23.2 billion in 2004 to RMB 33.068 billion in 2005. The increase was primarily attributable to the expansion of power generation capacity and increase in fuel costs. The acquired power plants contributed RMB 4.404 billion, and newly operating power plants contributed RMB 2.981 billion.

The growth rate of operating expenses exceeded the growth rate of power generation mainly because of the significant increase in fuel prices. In addition, the increase in average tariff rate was lower than that in unit fuel cost. As a result, the growth rate of operating expenses was more than the growth rate of the operating revenue. The operating expenses mainly consisted of the following:

Fuel

Fuel cost represented the major operating expenses of the Company and its subsidiaries, increasing by 40.71% from RMB 15.068 billion in 2004 to

RMB 21.203 billion in 2005. The increase was primarily due to the expansion of power generation capacity and the increased fuel price. The expansion of power generation capacity contributed RMB 3.896 billion, up by 25.84% from 2004, and the increased fuel price contributed to RMB 2.239 billion, up by 14.99% from 2004.

The unit fuel cost increased by 11.77% to RMB 156.13 associated with the increase in the average unit price of coal from RMB 307.92 in 2004 to RMB 338.03 in 2005, up by 9.78%.

Maintenance

The maintenance expense of the Company and its subsidiaries amounted to RMB 1.165 billion in 2005, representing an increase of 44.28% from RMB 808 million in 2004. The increase was mainly due to the expansion of our power generation capacity and the increased maintenance arrangements and fees after postponement from prior year as a result of power shortage in certain regions last year.

Depreciation

The depreciation of the Company and its subsidiaries increased by 31.03% from RMB 4.707 billion in 2004 to RMB 6.168 billion in 2005. The acquired power plants contributed RMB 1.163 billion, and newly operating power plants contributed RMB 404 million. Depreciation on the remaining power plants decreased by 2.54%, or RMB 106 million compared with 2004.

Labor

Labor costs of the Company and its subsidiaries amounted to RMB 2.487 billion in 2005, representing an increase of 32.49% from RMB 1.877 billion in 2004. The increase was primarily due to the increased number of employees and human resources cost as a result of acquisition of Yingkou Power Plant, Luohuang Power Company, Yueyang Power Company and Jinggangshan Power Plant in July 2004 and Pingliang Power Company and Sichuan Hydropower in January 2005.

In addition, the employee salary which had originally been accounted for as construction cost was accounted for as labor cost as newly constructed units were put into operation, resulting in the increase in labor costs as well.

Service fees to HIPDC

The service fees paid to HIDPC represents fees paid for the use of its grid connection and transmission facilities. There was no significant change in the service fees paid to HIPDC from 2004 to 2005.

Other operating expenses

Other operating expenses consist of expenses such as environmental protection expenses, insurance fees, administrative expenses, and amortization. In 2005, the other operating expenses of the Company and its subsidiaries amounted to RMB 1.903 billion, representing an increase of 213.90% from RMB 606 million in 2004. The increase was largely attributable to the following factors:

- termination of negative goodwill amortization in 2005 because of changes in accounting policies, resulting in the increase of approximately RMB 250 million (the negative goodwill amortization in 2004 was approximately RMB 250 million) in the other operating expenses;

- expansion of power generation capacity of the Company and its subsidiaries in the acquired power plants and newly operating power plants;

- Increase of RMB 211 million in the environmental protection fees.

Financial expenses

Financial expenses consist of interest income, interest expenses, bank charges and net exchange differences.

Interest expenses

The interest expenses of the Company and its subsidiaries in 2005 amounted to RMB 1.427 billion, representing a relatively large increase from RMB 663 million in 2004. The increase was largely due to the increased loans borrowed for acquisition of power plants and expansion of existing power plants.

Bank charges and net exchange differences

The net exchange gain of the Company and its subsidiaries less bank charges amounted to RMB 249 million in 2005, representing a relatively significant increase from the net exchange loss plus bank charges totaling RMB 119 million in 2004. In 2005, the foreign exchange rate for RMB appreciated in relation to US Dollar and Euro. As a result, loans denominated in US Dollar and Euro generated approximately RMB 290 million in exchange gain, representing an increase of RMB 383 million from the exchange loss of RMB 93 million in 2004.

Share of profit of associates

Share of profit of associates in 2005 was RMB 644 million, representing a relatively large increase from RMB 312 million in 2004. The increase was largely attributable to the increased investment income from Shenzhen Energy Group Co., Ltd. and the recognition of the investment income from Hanfeng Power Company since July 2004. In addition, because of changes in accounting policies, goodwill was no longer amortized (and there was no impairment identified in annual testing), which also contributed to the increase compared with 2004.

Enterprise income tax ("EIT")

The EIT of the Company and its subsidiaries amounted to RMB 1.044 billion in 2005, representing an increase of 10.07% from RMB 949 million in 2004. The effective tax rate increased from 15% in 2004 to 16% in 2005. The acquisition of domestic enterprises in the current year contributed to such an increase. Please refer to Note 30 to the Financial Statements for detailed analysis.

Profit for the year

The profit of the Company and its subsidiaries amounted to RMB 5.548 billion in 2005, remaining at the same level with the profit of RMB 5.581 billion in 2004. The impact of 2004 and 2005 acquisitions contributed to an increase in profit by approximately RMB 673 million. The increase in power demand and implementation of coal-electricity price mechanism also contributed to such increases. However, these were offset by the increased coal price.

Profit attributable to the Company's equity holders and minority interests

The profit attributable to minority interests increased from RMB 257 million to RMB 676 million as a result of the acquisitions in 2004 and 2005. These acquisitions included Luohuang Power Company, Yueyang Power Company, Pingliang Power Company and Sichuan Hydropower of which less than 100% was acquired.

C. Financial position

General

Compared with 2005, the assets and liabilities of the Company and its subsidiaries experienced a significant change as a result of the increase in expenditure on project construction in 2006. As at December 31, 2006, the total assets of the Company and its subsidiaries amounted to RMB 113.601 billion, representing an increase of 14.24% from RMB 99.440 billion in 2005. Among them, non-current assets increased by 14.88% to RMB 100.374 billion and current assets increased by 9.64% to RMB 13.226 billion. The major reason for such was due to continuous capital expenditure. Current assets increased by RMB 1.163 billion from the beginning of 2006. Among them, there was net increase of accounts receivable amounted to RMB 955 million, the majority of which was the increase of receivables for electricity sold generated by the newly operated power plants, and net decrease of inventories amounting to RMB 190 million, mainly caused by the decrease of coal reserve for generating electricity.

As at December 31, 2006, the total liabilities of the Company and its subsidiaries amounted to RMB 62.992 billion, representing an increase of 18.19% from RMB 53.296 billion as at December 31, 2005 mainly due to the increase in borrowings for the financing of construction projects. The non-current liabilities of the Company and its subsidiaries mainly consisted of bank loans and shareholder's loans that are of similar terms as bank loans. The current liabilities at year end increased comparing with the beginning of the year as a result of expansion of scale of operation of the Company.

As at December 31, 2006, total interest-bearing debts of the Company amounted to RMB 52.006 billion, which included long-term loans (inclusive of current portion), short-term loans, short-term bonds and notes payable. Among these, liabilities denominated in foreign currencies amounted to approximately RMB 5.281 billion.

Excluding the impact of profit and dividend distribution in 2006, there was an increase in equity from the beginning to the end of 2006. This was mainly attributable to the inclusion in our equity of RMB 426 million of the difference between the market value at the end of 2006 and the net book value in the beginning of 2006 of our available-for-sale investment (investment in China Yangtze Power Co., Ltd.), gross of tax.

Major financial position ratios

	2006	2005
Current ratio	0.50	0.52
Quick ratio	0.42	0.42
Ratio of liability and shareholders' equity	1.45	1.33
Multiples of interest earned	3.87	3.77

Formula of the financial ratios

Current ratio = balance of current assets as of the year end / balance of current liabilities as of the year end

Quick ratio = (balance of current assets as of the year end - net inventories as of the year end) / balance of current liabilities as of the year end

Ratio of liabilities and shareholders' equity = balance of liabilities as of the year end / balance of shareholders' equity (excluding minority interests) as of the year end

Multiples of interest earned = (profit before tax + interest expense) / interest expenditure (inclusive of capitalized interest)

The current ratio and quick ratio remained at a relatively low level in which current ratio decreased as of December 31, 2006 compared with December 31, 2005. The significant increase in the ratio of liabilities and shareholders' equity as of December 31, 2006 compared with December 31, 2005 was mainly due to the significant increase in borrowings for the new construction projects. The multiples of interest earned increased from that of the same period of the prior year mainly due to the increase of profit generated by the newly operated power plants.

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The current ratio and quick ratio remained at a relatively low level and decreased as of December 31, 2005 compared with December 31, 2004. This was mainly due to the increased current liabilities as a result of issuance of short-term bond by the Company in 2005. The significant increase in the ratio of liabilities and shareholders' equity as of December 31, 2005 compared with December 31, 2004 was mainly due to the significant increase in construction borrowings and the impact of the relatively high ratio of liabilities and equity holders of Sichuan Hydropower and Pingliang Power Company acquired in 2005. The multiples of interest earned decreased significantly from that of the same period of the prior year mainly due to: first, the acquisitions increased the liability and total interest expenses, however, the profit before tax did not increase at the same rate as liabilities or interest expense due to the coal price factor. Second, the continuous commencement of the projects under construction led to the increase in construction borrowings and total capitalized interest compared with 2004.

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, 2006, 2005 and 2004, 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, 2006, 2005 and 2004 under US GAAP. See also Note 38 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 interests in the Qinbei Power Company, 60% equity interests in the Yushe Power Company and all of the assets and liabilities of the Xindian Power Plant in 2003; the acquisitions of the 55% equity interests in the Yueyang Power Company, 60% equity interests in the Luohuang Power Company, 90% equity interests in the Jinggangshan Power Plant and all of the assets and liabilities of the Yingkou Power Plant in 2004; and the acquisition of 60% equity interests in Sichuan Hydropower and 65% equity interests in Pingliang Power Company in 2005. 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 three years ended December 31, 2006 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 and used for the purpose of obtaining a qualifying asset was not capitalized if such interest would not be taken into consideration when determining the recoverable rate base for tariff setting purposes. Consequently, under US GAAP the Company did not capitalize interest on general borrowings used for obtaining regulatory assets. An adjustment is made to reverse the capitalized interest on general borrowings and the related depreciation on property, plant and equipment.

In 2004, in accordance with IFRS 3, goodwill arising form 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 indicated 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 form acquisition is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances. There is no such a GAAP difference for goodwill arising from acquisitions for which the agreement date was on or after March 31, 2004. As all the goodwill arising from the acquisitions ceased to be amortized in 2005, there was no such a GAAP difference.

Upon the completion of the acquisition of Shandong Huaneng Power Development Company Limited ("Shandong Huaneng"), the entire net assets of Shandong Huaneng were recorded at fair value. In 2004, the excess of the fair value of the entire net assets acquired over the total cost of the acquisition was recorded as negative goodwill and amortized using the straight-line method over its estimated useful life. In 2005, the ending balance of negative goodwill brought forward from 2004 is credited to opening retained earnings in accordance with IFRS 3. Under US GAAP, Huaneng Group's proportionate share of 33.09% in the net assets of Shandong Huaneng that was sold to the Company was recorded at the historical carrying value. The excess of the proportionate share in the book value of the net assets acquired over the relevant portion of the cash consideration was recorded as a capital contribution to the Company. The book value of the remaining 66.91% of the net assets continues to be part of the recoverable rate base under the cost recovery formula of the tariff setting mechanism. Under US GAAP, the difference between these net asset values and the cash consideration was recorded as a reduction to the property, plant and equipment of the respective power plants. As the amount of negative goodwill originally recognized under IFRS is different from the amount of the reduction to property, plant and equipment under US GAAP and that the negative goodwill under IFRS is offset against opening retained earnings in 2005 whereas, for US

GAAP purposes, it was a reduction to the value of the property, plant and equipment, which reduced value is being depreciated over the respective assets' useful life, the operating result under IFRS and US GAAP is different. Therefore, the impact of the GAAP difference on operating expense was RMB 161 million in 2006 and 2005 and RMB 87 million in 2004.

The impact on depreciation arising from the GAAP difference between IFRS and US GAAP was mainly attributable to the acquisitions from related parties that are considered as common control transactions and thus, required to be accounted for at historical cost under US GAAP which cause the GAAP difference on the carrying amounts and the depreciation of property, plant and equipment ("the impact of using historical method"). In addition, for the acquisitions to be considered as common control, the operating results of the power plants acquired before acquisition should be consolidated into the Company and its subsidiaries' operating results in a manner similar to the pooling of interests method which also cause the GAAP difference in the depreciation expense ("the impact of pooling method").

Hence, in 2006, the impact of using historical method resulted in a decrease in depreciation of 7% from RMB 6,719 million under IFRS to RMB 6,265 million under US GAAP.

In 2005, the impact of using historical method resulted in a decrease in depreciation of 8% from RMB 6,167 million under IFRS to RMB 5,696 million under US GAAP.

In 2004, the impact of using historical method caused the depreciation to drop by RMB 278 million, and the impact of pooling method of the acquisitions in 2005 and 2004 increases the deprecation by RMB 575 million and RMB 410 million respectively as under the pooling method these companies were treated as though they were acquired by the Company at the dates they were acquired / owned by Huaneng Group and depreciation was recorded for the entire year.

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 among the years ended December 31, 2006, 2005 and 2004.

D. Liquidity and cash resources

The primary sources of funding for the Company and its subsidiaries have been cash provided by internal fund operating activities and short-term and long-term borrowings, and the primary use of funds have been for working capital, capital expenditure and repayment of short-term and long-term borrowings.

As at December 31, 2006, the net current liabilities of the Company and its subsidiaries totaled to 13.30 billion. Based on the successful financing record of the Company, the significant amount of undrawn banking facilities available to the Company and the stable operating results, the Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital required for operations. In addition, the Company will continue to minimize interest expense by issuing short-term bonds. The Company is confident that it will be able to control the level of its liabilities and financial risks.

Liquidity

Cash flows from operating activities

	For the Year Ended December 31,		
	2006	2005	
	RMB'000	RMB'000	R
Cash flows from operating activities			
Profit before tax..........................	8,016,773	6,592,208	6
Non-cash items adjustments..................	7,425,755	6,894,680	4
Changes in working capital..................	(99,402)	(1,778,721)	(1
Interest paid...............................	(2,507,354)	(1,965,094)	
Interest received...........................	53,444	52,475	
Income tax paid.............................	(1,394,503)	(1,114,698)	(1
Net cash provided by operating activities.....	11,494,713	8,680,850	8

Net cash provided by operating activities is the main source of cash for the Company. The net cash provided by operating activities amounted to RMB 11.495 billion in 2006 which was higher than that of the prior year mainly because of an increase in the scale of operations.

The net cash provided by operating activities amounted to RMB 8.681 billion in 2005, representing an increase of 6% from RMB 8.163 billion in 2004. The increase was primarily due to the increased operating revenue resulting from the expansion of power generation capacity. Net cash provided by operating activities was partially offset by the increased interest paid of RMB 1.114 billion, resulting from the increased borrowing bearing interests.

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

Cash flows used in investing activities

	For the year ended December 3	
	2006	2005
	RMB'000	RMB'000
Cash flows from investing activities		
Purchase of property, plant and equipment..........	(15,998,575)	(13,842,293)
Proceeds from disposals of property, plant and equipment, net..................................	32,180	32,098
Prepayments of land use rights.....................	(250,627)	(99,745)
(Increase)/decrease in other non-current assets....	(8,973)	15,766

Decrease in temporary cash investments.............	2,652	9,989	
Proceeds from disposals of investments.............	-	-	
Cash dividends received	482,609	429,589	
Cash injections in associates......................	(174,918)	-	
Cash consideration paid for acquisitions	-	(2,528,300)	
Direct transaction costs paid for acquisitions......	-	(16,698)	
Cash from the power plants acquisitions............	-	566,704	
Net cash inflow on disposals of a subsidiary and other investment................................	110	19,521	
Net cash used in investing activities.............	(15,915,542)	(15,413,369)	(

Net cash used in investing activities amounted to approximately RMB15.916 billion, RMB 15.413 billion and RMB 13.650 billion in 2006, 2005 and 2004. The increase in net cash used in investing activities in 2006 was mainly due to the increased capital expenditures on construction and renovation offset by no payment for acquisition.

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Cash flows from financing activities

	For the year ended December 31		
	2006	2005	
	RMB'000	RMB'000	
Cash flows from financing activities			
Bonds issuance expense paid....................	(20,000)	(22,500)	
Drawdown of short-term bonds...................	5,000,000	4,862,200	
Repayments of short-term bonds.................	(4,862,200)	-	
Drawdown of short-term loans...................	14,458,700	11,657,569	
Repayments of short-term loans.................	(13,215,850)	(13,670,000)	
Drawdown of long-term loans from a shareholder..	-	2,000,000	
Repayments of long-term loans from shareholders.	-	-	
Drawdown of long-term bank loans...............	9,982,982	8,297,018	

Repayments of long-term bank loans.............	(3,010,623)	(2,933,870)	
Drawdown of other long-term loans..............	40,000	-	
Repayments of other long-term loans	(472,154)	(351,118)	
Capital injection from minority shareholders of the subsidiaries............................	588,708	585,702	
Dividends paid to shareholders of the Company...	(3,013,846)	(3,022,096)	
Dividends paid to minority shareholders of the subsidiaries................................	(495,361)	(318,252)	
Redemption of convertible notes................	-	-	
Net cash provided by/(used in) financing activities..	4,980,356	7,084,653	

Net cash inflow provided by financing activities in 2006 amounted to RMB 4.980 billion primarily because our proceeds from bank loans exceeded repayment of bank loans by approximately RMB 8 billion. On the other hand, the net cash inflow was partially offset by the dividends of RMB 3.014 billion paid to the shareholders of the Company.

Net cash inflow provided by financial activities in 2005 amounted to RMB 7.085 billion primarily because our proceeds from bank and other loans exceeded repayment of bank and other loans by approximately RMB 5 billion. The net cash inflow was further increased by issuance of short-term bonds in the principal amount of RMB 5 billion. On the other hand, the net cash inflow was partially offset by the dividends of RMB 3.022 billion paid to the shareholders of the Company.

Net cash inflow provided by financing activities in 2004 amounted to RMB 3.654 billion, primarily because our proceeds from bank and other loans exceeded repayment of bank and other loans by approximately RMB 6.151 billion. The net cash inflow was partially offset by the dividends of approximately RMB 3.006 billion to the shareholders of the Company.

Cash and cash equivalents

	For the Year Ended December 31		
	2006	2005	
	RMB'000	RMB'000	
Net increase / (decrease) in cash and cash equivalents......................................	559,527	352,134	(1
Cash and cash equivalents as of the beginning of the year...	2,647,665	2,295,531	4
Cash and cash equivalents as of the end of the year..	3,207,192	2,647,665	2

As of December 31, 2006, the Company's cash and cash equivalents amounted to RMB 3.207 billion, of which, cash in RMB accounted for RMB 1.327 million, current deposits in RMB accounted for RMB 3.204 billion, and current deposits in US dollar accounted for RMB 2.153 million.

The Company's cash and cash equivalents as of December 31, 2005 amounted to RMB2.648 billion as compared with RMB2.296 billion as of December 31, 2004.

Please refer to Notes 22, 26 and 32(a) to the Financial Statement for a detailed discussion of the level of fixed rate loans and the denominated currency and amount of cash and cash equivalents respectively.

Capital expenditure and cash resources

Capital expenditures

The capital expenditures in 2006 amounted to approximately RMB 16.3 billion, which was mainly used for capital expenditures on construction and renovation, including RMB 1,136 million for the Huaiyin Phase III project, RMB 499 million for the Haimen project, RMB 352 million for the Taicang Phase II project, RMB 477 million for the Yueyang Phase II project, RMB 1,019 million for the Shanghai Combined-Cycle project, RMB 1,647 million for the Luohuang Phase III project, RMB 1,085 million for the Xindian Phase III project, RMB 986 million for the Yingkou Phase II project, RMB 4,397 million for the Yuhuan project and RMB 706 billion for Shang'an Phase III project. Other expenditure mainly consisted of pre-construction expenditure and routine renovation expenditure.

The capital expenditures on construction and renovation amounted to approximately RMB13.984 billion and RMB10.036 billion in 2005 and 2004, respectively.

The Company will continue to incur significant capital expenditures in 2007. The Company will actively engage in new project developments in order to lay the foundation for the long-term development of the Company. The Company expects to finance the above capital expenditure through internal funding, debt financing and cash flows provided by operating activities.

Cash resources and anticipated financing costs

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

Good operating results and good credit status provide the Company strong financing capabilities. As at December 31, 2006, the Company and its subsidiaries obtained from undrawn banking facilities of RMB 25.61 billion, which provided the Company with a sufficient level of credit facilities and effectively raised the level of asset liquidity and repayment capability of the Company.

As at December 31, 2006, the total short-term loans of the Company and its subsidiaries amounted to RMB 7.824 billion with interest rates charged between 4.30% and 5.51% per annum (2005: RMB 6.581 billion with interest rates charged between 4.30% and 5.76% per annum); apart from the short-term loans, the total amount of the short-term bonds of the Company and its subsidiaries amounted to RMB 5.078 billion (2005: RMB 4.938 billion).

As at December 31, 2006, the total long-term bank borrowings of the Company and its subsidiaries amounted to approximately RMB 35.206 billion (2005: approximately RMB 28.365 billion). These loans included bank borrowings denominated in Renminbi of approximately RMB 30.096 billion (2005: approximately RMB 22.241 billion), US dollar of approximately US$ 567 million (2005: approximately US$672 million), and Euro of approximately Euro 66 million (2005: approximately Euro 73 million). Included in these borrowings were approximately US$ 54 million (2005: US$ 60 million) of floating-rate borrowings. For the year ended December 31, 2006, the long-term bank borrowings bore interest rates that ranged from 2% to 6.97% (2005: 2% to 6.97%) per annum.

As at December 31, 2006, the total long-term shareholder's loans to the Company and its subsidiaries amounted to RMB 2.80 billion (2005: approximately RMB 2.80 billion). For the year ended December 31, 2006, these borrowings bore interest rate that ranged from 4.05% to 5.02% (2005: 4.05% to 5.02%) per annum.

As at December 31, 2006, other long-term loans of the Company and its subsidiaries amounted to approximately RMB 424 million (2005: approximately RMB 864 million). These loans included borrowings denominated in Renminbi of approximately RMB 254 million (2005: approximately RMB 647 million), US dollar of approximately US$ 13 million (2005: approximately US$16 million) and Japanese Yen of approximately JPY 1.071 billion (2005: approximately JPY1.31 billion). The US dollar and Japanese Yen borrowings were at floating rates. For the year ended December 31, 2006, these borrowings bore interest rates that ranged from 4.94% to 6.12% (2005: 2.99% to 6.12%) per annum.

The Company and its subsidiaries will closely monitor changes in the exchange rate and interest rate markets and cautiously assess the currency rate and interest rate risks.

Combining the current development of the power generation industry and the growth of the Company, the Company 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 risks through effective financial management activities, thereby maintaining sustainable and stable returns to the shareholders.

The objective of the Company is to bring long-term, stable and growing returns to the shareholders. In line with this objective, the Company follows a proactive, stable and balanced dividend policy. In 2007, in accordance with the profit 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 RMB 3.376 billion.

The following table sets forth the maturity profile of the Company's loans as of December 31, 2006.

Maturity Profile (RMB billions)	2007	2008	2009	2009	2010
Principal proposed to be repaid	16.5	4.3	9.5	4.3	3.4
Interest proposed to be repaid	2.3	1.7	1.3	0.9	0.7
Total	18.8	6.0	10.8	5.2	4.1

Note: (1) This table is prepared according to the amounts in the contracts which have been entered into;

(2) The amount of the principal to be repaid in 2007 is relatively large because this includes expected repayment of short-term borrowings and short-term bonds. The amount of the principal to be repaid in 2009 is relatively large because a significant amount of the long-term loans borrowed in 2006 have a three-year maturity period.

E. Trend information

Impact of power demand and supply on the Company

In the power market, the rapid growth of the national economy, the continuous increase in national living standard will cause increase in power demand, providing opportunities for the Company to expand and develop more projects. However, with the commencement of commercial operations of new generations in recent years, market competition may be fiercer, and the utilization hours of the generating units are expected to drop in 2007.

The implementation of the state policies of "encouraging to build large generating units, closing small generating units", and "saving of resources and reducing the emission of pollutants" provide opportunities to the Company to enjoy advantages with large generating units, high efficiency and wide service coverage and enhance its competitiveness. However, it will also be a challenge for the Company as to how to capitalize the opportunities, make a good use of the policies and turns its advantages into accelerating the development and achieving good operating results.

Impact of coal demand and supply on the Company

In the coal market, coal supply and demand is basically balanced, and the tension of coal transportation has been relatively relieved, hence providing a favorable condition for the supply of coal for power plants. However, the coal prices of key contracts have a relatively large increase and spot-market coal price still hover at a high level, bringing challenges to the Company in terms of fuel cost control.

Impact of the financial foreign exchange market on the Company

There are sufficient funds in the domestic financial market and there are no significant fluctuations in funding costs. Because of the good loan repayment capabilities and credit status of the Company, the Company is confident in raising sufficient funds for construction of power plants and daily operations by using various financial products.

The reforms of the Renminbi exchange rate setting mechanism increased exchange rate flexibility. However, as both the scales of the use of foreign exchange for the import of equipment and materials and foreign exchange payments in servicing foreign currency borrowings are not significant, it is anticipated that the reforms will not have a significant impact on the cash flow of the Company.

F. Employee benefits

As at December 31, 2006, the Company and its subsidiaries had 23,508 employees. The Company and its subsidiaries provided the employees with competitive remuneration and linked 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 characteristics of individual employees, the Company and its subsidiaries tailored various training programs for their employees on management skills, technical skills and marketing skills. These programs enhanced both the knowledge and operational skills of the employees.

G. Guarantee on loans and restricted assets

As of December 31, 2006, the balance of the guarantees provided by the Company to Rizhao Power Company, an associate, amounted to RMB 123 million. The Company assumed such guarantee obligation from Huaneng Group as a result of the acquisition of Huaneng Group's equity investment in Rizhao Company.

As of December 31, 2006, certain property, plant and equipment of Sichuan Hydropower, a subsidiary of the Company, were used to secure borrowings. The original acquisition cost of such pledged assets was approximately RMB 90 million.

As of December 31, 2006, restricted bank deposits amounted to RMB 204 million, which were mainly deposits for letters of credits.

The Company had no contingent liabilities as of December 31, 2006.

H. Off-balance sheet arrangements

The off-balance sheet arrangements primarily consisted of the guarantees provided for an associate's long-term loans mentioned above.

The off-balance sheet arrangement does not have or 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.

I. Performance of significant investments and their prospects

On April 22, 2003, the Company paid RMB 2.39 billion to acquire a 25% equity interest in Shenzhen Energy Group. This investment brought the Company a profit of RMB 396 million in 2006 under IFRS. Shenzhen Energy Group is the largest power supplier in Shenzhen and its power plants are located in Guangdong Province, one of the most prosperous provinces in China. With strong demand for electricity in that region, the Company expects that this investment will generate stable returns in the future.

In July 2004, the Company paid RMB 1.375 billion to acquire a 40% equity interest in Hanfeng Power Company. This investment brought the Company a profit of RMB 212 million in 2006 under IFRS. Hanfeng Power Company is located in Hebei Province in north China and there is strong demand for electricity in that region. The Company expects that this investment will generate stable returns in the future.

J. Tabular disclosure of contractual obligations and commercial commitments

A summary of payments due by period of our contractual obligations and commercial commitments as of December 31, 2006 is shown in the tables below.

A more complete description of these obligations and commitments is included in the Notes to Financial Statements as referenced below.

As of December 31, 2006

Contractual Cash Obligations (RMB millions)	2007	2008-2009	2010-2011	Thereafter	T
Long-term Loans from a Shareholder(1)	-	-	-	2,800	
Long-term Bank Loans(1)	2,891	13,639	7,686	6,802	
Other Long-term Loans(1)	152	136	57	-	
Interest Payments	1,857	3,035	1,590	1,857	
Operating Lease - Head Office(2)	26	-	-	-	
Operating Lease - Nanjing Power Plant(2)	1	2	2	49	
Operating Lease - Dezhou Power Plant(2)	30	60	60	372	
Operating Lease - Shang'an Power Plant(2)	2	4	4	62	
	4,959	16,876	9,399	11,942	

Other Commercial Commitments (RMB millions)	2007	2008-2009	2010-2011	Thereafter	T
Long-term coal purchase contracts(2)	9,457	11,024	-	-	
Other commitments(2)	17,388	-	-	-	
	26,845	11,024	-	-	

(1) See Note 22 to the Financial Statements, "Long-term Loans".
(2) See Note 34 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 payments 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

Directors

The table below sets forth certain information concerning our directors as of April 6, 2007. The current term for all of our directors is three years, which will expire in May 2008.

Name	Age	Position with us

Li Xiaopeng	48	Chairman of the Board of Directors
Huang Yongda	50	Vice Chairman of the Board of Directors
Huang Long	54	Vice Chairman of the Board of Directors
Na Xizhi	54	Director, President
Wu Dawei	54	Director
Shan Qunying	54	Director
Ding Shida	59	Director
Xu Zujian	53	Director
Liu Shuyuan	57	Director
Qian Zhongwei	69	Independent Director
Xia Donglin	46	Independent Director
Liu Jipeng	51	Independent Director
Wu Yusheng	51	Independent Director
Yu Ning	53	Independent Director

Li Xiaopeng, aged 48, has served as Chairman of the Company since April 8, 1999. He also serves as President of Huaneng Group as well as Chairman of HIPDC. Mr. Li is a senior engineer. He served as 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. He graduated from the North China Institute of Electric Power specializing in power plants and power systems.

Huang Yongda, aged 50, has served as Vice Chairman of the Company since May 11, 2005. He also serves as vice President of Huaneng Group. Mr. Huang is a senior accountant. He served as 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, Vice President of HIPDC, Chairman of Xi'an Thermal Industrial Research Institute Limited Company ("Xi'an Thermal"), Chairman of Huaneng Capital Services Limited Company ("Huaneng Capital Service"), and President of the Company. He graduated from Renmin University of China, with a master's degree in industrial financial accounting.

Huang Long, aged 54, has served as Vice Chairman of the Company since March 7, 2006. He also serves as Vice President of Huaneng Group. Mr. Huang is a senior engineer. He served as Deputy General Manager and General Manager of the International Co-operation Department, Vice President and Secretary to the Board of the Company. He graduated from North Carolina State University in the U.S. with a M.S. degree in communications and auto-control.

Na Xizhi, aged 54, has served as a director of the company since May 12, 2005 and President of the Company since March 7, 2006. Mr. Na is a professor-level senior engineer. He served as Vice President of the Company, Deputy Manager of the Power Generation Department, General Manager of the Operation Department, General Manager of the Power Safety and Production Department, Deputy Chief Engineer and Vice President of Huaneng Group. He graduated from Wuhan Hydroelectric University, specializing in thermal power with a master degree in technology.

Wu Dawei, aged 54, has served as a director of the Company since May 11, 2005. He also serves as Deputy Chief Engineer of Huaneng group and President of

Huaneng Group East China Branch Company. Mr. Wu is a professor-level senior engineer. Since joining the Company in 1988, he has served as Deputy General Manager of Huaneng Shanghai Shidongkou Second Power Plant, Deputy General Manager of Shanghai branch of the Company, General Manager of Huaneng Shanghai Shidongkou Second Power Plant, and vice president of the Company. He has obtained a MBA degree from the China Europe International Business School.

Shan Qunying, aged 54, has served as a director of the Company since June 6, 2006. He also served as Vice President of Hebei Provincial Construction Investment Company. Mr. Shan is a senior engineer. He served as Division Chief of the Energy and Transportation Division of Hebei Provincial Construction Investment Company. He graduated from Beijing Steel Institute specializing in automation.

Ding Shida, aged 59, has served as a director of the Company since November 17, 2005. He also serves as President of Fujian Investment Enterprise Group Corporation, Chairman of Minxin Group Limited (a Hong Kong listed company), Director, Executive Director and Vice Chairman of Xiamen International Bank, Director, Executive Director and Vice Chairman of Macau International Bank, and Chairman of Hong Kong Guixin Limited. Mr. Ding is a senior economist. He served as Secretary of the Party Committee of Shanghang County, member of the Party Committee of Longyan Region, Secretary of the Party Committee of Longyan City, General Manager and Chairman of Fujian Provincial Construction Materials Corporation, and Chairman of Fujan Cement Inc. (a domestic listed company). He graduated from the China Academy of Social Sciences, specializing in agricultural economics management and was conferred a doctoral degree in management.

Xu Zujian, aged 53, has served as a director of the Company since June 6, 2000. He also served as Vice President of Jiangsu Province Guoxin Asset Management Group Limited Company, and Chairman of Jiangsu Investment Management Co. Ltd. Mr. Xu is a senior economist. He served as Vice President of Jiangsu Provincial International Trust & Investment Corporation, and President of Jiangsu Provincial Investment & Management Limited Liability Company. He graduated from Liaoning Finance Institute specializing in infrastructure finance.

Liu Shuyuan, aged 57, has served as a director of the Company since September 28, 2004. He also serves as Chairman of Liaoning Energy Investment (Group) Limited Liability Company. Mr. Liu is a senior economist and senior professional manager. He served as Vice President of Liaoning Provincial Trust & Investment Corporation, a director, Vice President, and President of Liaoning Chuangye (Group) Limited Liability Company (Liaoning Energy Corporation), and a director and President of Liaoning Energy Investment (Group) Limited Liability Company. He graduated from Liaoning Province Communist Party School with a master's degree in economic management.

Qian Zhongwei, aged 69, has served as an independent director of the Company since May 15, 2002. Mr. Qian is a professor-level senior engineer. He served as Deputy Chief Engineer, Chief Engineer and Deputy Chief of the Eastern China Power Industry Management Bureau, Director of Shanghai Electricity Bureau, Director of Easter China Power Administration Bureau, and President of Easter China Power Group Company. He graduated from the electrical engineering department of Tsinghua University.

Xia Donglin, aged 46, has served as an independent director of the Company since December 23, 2002. Mr. Xia is a professor and mentor for doctorate graduate of the School of Economics and Management, Tsinghua University. He is also an advisory specialist of the Accounting Standard Committee of the Ministry of Finance, Deputy Secretary-General of China Accounting Society, and an independent director of Zhejiang Zhongda Company and other companies. Mr. Xia is a certified public accountant (non-practising member). He served as Head of Accounting Department of School of Economics and Management, Tsinghua University. He graduated from the Finance and Administration Science Research Institute of Ministry of Finance, specializing in accounting and was awarded a Ph.D. degree of Economics.

Liu Jipeng, aged 51, has served as an independent director of the Company since September 28, 2004. He also serves as Chairman of Beijing Standard Consulting Company, a professor of Law and Economic Research Center of China University of Political Science and Law. Mr. Liu is a certified accountant. He served as Senior Consultant of China Power Enterprises Union and China Securities Market Research and Design Centre as well as Consultant of former State Power Corporation. He graduated from the Economic Department of the graduate School of China Academy of Social Science with a master`s degree in economics.

Wu Yusheng, aged 51, has served as an independent direct of the Company since May 11, 2005. He also serves as Deputy Chief Engineer and Manager of Technology Department of State Grid Corporation of China. Mr. Wu is a professor-level senior engineer. Mr. Wu served as Deputy Director and Senior Engineer of Electric Grid Department of China Electric Power Research Institute and Deputy Chief Engineer, Deputy Dean and Dean of China Electric Power Research Institute. He graduated from Postgraduate School of China Electric Power Research Institute with a master's degree in electric power system and automation.

Yu Ning, aged 53, has served as an independent director of the Company since May 11, 2005. He is also President of All China Lawyers Association, a part-time professor at Peking University, a mentor for master postgraduates at Tsinghua University Law School and a practicing lawyer at Beijing Times Highland Law Firm. Mr. Yu is a lawyer. He served as Deputy Director and Director of the Central Commission for Discipline Inspection of the Communist Party of China. He graduated from Peking University specializing in economic law with a master degree.

Supervisors

The table below sets forth certain information concerning our supervisors as of April 6, 2007. The current term for all of our supervisors is three years, which will expire in May 2008.

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Name	Age	Position with us
Guo Junming	42	Chairman of the Supervisory Committee
Yu Ying	52	Vice Chairman of the Supervisory Committee
Gu Jianguo	41	Supervisor
Shen Zongmin	53	Supervisor
Zou Cui	54	Supervisor
Wang Zhaobin	52	Supervisor

Guo Junming, aged 42, has served as Chairman of the Board of Supervisors of the Company since January 18, 2006. He also serves as Chief Accountant of Huaneng Group. Mr. Guo is a senior accountant. He served as Deputy Manager of the Finance Department of Huaneng Group, Vice President and President of China Huaneng Finance Corporation Limited ("Huaneng Finance"), President of Huaneng Capital Services, Deputy Chief Accountant and Manager of Finance Department of Huaneng Group. He graduated from Shanxi Finance and Economic Institute specializing in business finance and accounting.

Yu Ying (Ms), aged 52, has served as Vice Chairman of the Company's Supervisory Committee since May 11, 2005. She also serves as President of Dalian Municipal Investment Corporation. Ms. Yu is a senior economist. She served as Director of Capital Construction Department of Dalian Municipal Planning Commission and Director of Fixed Assets Investment Department of Dalian Municipal Development and Planning Commission. She graduated from Liaoning University of Finance and Economics, specializing in finance and credit, with a master degree in Economics.

Gu Jianguo, aged 41, has served a supervisor of the Company since November 17, 2005. He also serves as President of Nantong Investment & Management Limited Company. Mr. Gu is an economist. He served as Deputy Chief and Chief of General Department, Investment Department, Finance Department and Foreign Economic Affairs Department of the Nantong Municipal Planning Committee; Vice President of Nantong Ruici Investment Limited Company; General Secretary of the Party Committee and Executive Director of Ruici Hospital; President of Ruici (Maanshan) Development Limited Company; Chairman and President of Nantong Zhonghe Guarantee Limited Company and Chief Officer of Nantong Municipal Investment Management Centre. He graduated from Nanjing Aviation University.

Shen Zongmin, aged 53, has served as a supervisor of the Company since December 23, 2002. He also serves as Manager of Shantou Electric Power Development Corporation. Mr. Shan is a senior corporate culture specialist. He served as Deputy Manager of Shantou Electric Power Development Corporation and Chairman of Shantou Power Development Stock Company, Manager of Shantou Electric Corporation and Chairman of Shantou Electric Power Development Co., Ltd. He graduated from Macau Technology University with a MBA degree.

Zou Cui (Ms.), aged 54, has served as a supervisor of the Company since May 11, 2005. She also serves as Manager of the Human Resources Department of the Company. Ms. Zou is a senior engineer. She served as Deputy Chief and Chief of the Personnel Division of the Human Resources Department of HIPDC, Deputy Manager of the Human Resources Department and Deputy Manager of the Supervision and Auditing Department of the Company. She graduated from Xi'an Jiaotong University specializing in computer science.

Wang Zhaobin, aged 52, has served as a supervisor of the Company since May 11, 2005. He also serves as Manager of the Administration Department of the Company. Mr. Wang is a corporate culture specialist. He served as Chief of the Corporate Culture Division of the Human Resources Department, Director of the Retirement Department of HIPDC, Deputy Secretary of the Party Committee, Secretary of the Discipline Inspection Committee and Chairman of the Labor Union of HIPDC Beijing Branch Company, and Manager of the Political Department of the Company. He graduated from Beijing Municipal Communist Party School, specializing in economic management.

Other Executive Officers

Liu Guoyue, aged 44, has served as Vice President of the Company since September 19, 2001. Mr. Liu is a senior engineer. He served as Deputy General Manager (Deputy Director) and General Manager (Director) of Huaneng Shijiazhong Branch Company (Shang'an Power Plant) and Director of Huaneng Dezhou Power Plant. He graduated from North China Electric Power University specializing in electric power system and management engineering, and was awarded his bachelor's degree in technology and management.

Qu Xiaojun, aged 49, has served as Vice President of the Company since March 7,

2006. He served as Deputy Secretary of the Party Committee, Secretary of the Discipline Inspection Committee and Chairman of the Labor Union of HIPDC Beijing Branch Company, and Deputy Manager and Manager of the Personnel and Labor Department, Manager of the Human Resources Department and Chief of the Disciplinary Division of the Company. Before joining the Company, he was the Deputy Manager of Electricity Technology Research Institute Services Company, Deputy Director of the Party Committee office, Supervising Officer of the Supervisory Division of Energy Department, and a director of second Supervisory Division of Power Department. He graduated from Central Communist Party School specializing in economic management.

Huang Jian, aged 45, has served as Vice President and Secretary to the Board of the Company since March 7, 2006. Mr. Huang is a senior accountant. He served as Deputy Division Chief and Division Chief of the Financial Affairs Department of the Company, Chief Accountant of HIPDC Beijing Branch Company, Deputy Manager of the Financial Affairs Department of the Company and Deputy Chief Accountant and Chief Accountant of the Company. Mr. Huang graduated from the Finance and Administration Science Research Institute of Ministry of Finance, specializing in accounting and was awarded a master's degree of Economics.

Lu Dan (Ms.), aged 51, has served as Vice President of the Company since March 7, 2006. Ms. Lu is a professor-level senior engineer. She served as Deputy Manager of the General Planning Department of Huaneng Power Generation Company, Assistant to Manager of the General Planning Department, Deputy Manager of the Planning Development Department, Deputy Manager of the General Planning Department of Huaneng Group, Manager of the Planning Development Department of the Company, and Assistant to President of the Company. She graduated from Beijing University of Chemical Technology specializing in chemical engineering and machinery.

Fan Xiaxia, aged 45, has served as Vice President of the Company since March 7, 2006. Mr. Fan is a senior engineer. He served as Deputy Chief of the General Administration Division of the Engineering Department of HIPDC, Deputy Chief of the Construction Management Department, Deputy General Manager of the Company's Nantong Branch Company, Deputy Manager of the Construction Management Department of HIPDC, Deputy Manager and Manager of the International Co-operation and Business Department of the Company, Manager of the Construction Management Department of the Company, Assistant to President of the Company and General Manager of the Company's Zhejiang Branch Company. He graduated from Beijing University of Civil Engineering and Architecture specializing in civil architecture.

Zhou Hui (Ms.), aged 44, has served as Chief Accountant of the Company since March 7, 2006. Ms. Zhou is a senior accountant. She served as Deputy Chief of the Financial Management Division of the Finance Department, Deputy Chief of the Price Management Division and Division Chief of the Second Financial Affairs and Accounting Division of HIPDC, Deputy Manager and Manager of the Company's Finance Department, and Deputy Chief Accountant, Chief Accountant and Manager of the Finance Department of the Company. She graduated from Renmin University of China with a master's degree in financial accounting.

B. Compensation for Directors, Supervisors and Executive Officers

The table below sets forth the compensation on individual basis for the directors, supervisors and other executive officers for the year ended December 31, 2006:

Name	Position with the Company	Remuneration Paid by the Company in 2006

		(RMB in thousand)
Directors		
Mr. Li Xiaopeng	Chairman of the Board of Directors	
Mr. Huang Yongda	Vice Chairman of the Board of Directors President (until March 7, 2006)	
Mr. Huang Long	Vice Chairman of the Board of Directors (since March 7, 2006) Vice President (until March 7, 2006)	6
Mr. Na Xizhi	President (since March 7, 2006) Vice President (until March 7, 2006)	7
Mr. Wu Dawei	Director	1
Mr. Shan Qunying	Director	
Mr. Ding Shida	Director	
Mr. Xu Zujian	Director	
Mr. Liu Shuyuan	Director	

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Name	Position with the Company	Remuneration Paid by the Company in 2006
		(RMB in thousand)
Mr. Qian Zhongwei	Independent Director	
Mr. Xia Donglin	Independent Director	
Mr. Liu Jipeng	Independent Director	
Mr. Wu Yusheng	Independent Director	
Mr. Yu Ning	Independent Director	
Mr. Wang Xiaosong	Director (until March 7, 2006)	
Sub-total:		1,9
Supervisors		
Ms. Guo Junming	Chairman of the Supervisory Committee	
Ms. Yu Ying	Vice Chairman of the Supervisory Committee	
Mr. Gu Jiangou	Supervisor	
Mr. Shen Zongmin	Supervisor	
Ms. Zou Cui	Supervisor	6
Mr. Wang Zhaobin	Supervisor	6
Sub-total		1,4
Other Executive officers		
Mr. Liu Guoyue	Vice President	8
Mr. Qu Xiaojun	Vice President (since March 7, 2006)	593 (
Mr. Huang Jian	Vice President and Secretary to the Board	

	(since March 7, 2006)	8
	Chief Accountant (Until March 7, 2006)	
Ms. Lu Dan	Vice President (since March 7, 2006)	563 (
Ms. Fan Xiaxia	Vice President (since March 7, 2006)	562 (
Ms. Zhou Hui	Chief Accountant (since March 7, 2006)	554 (
Mr. Zhang Hong	Vice President (until March 7, 2006)	233(
Mr. Li Shiqi	Vice President (until March 7, 2006)	233(
Subtotal:		4,4

Note:

(1) Mr. Qu Xiaojun, Ms. Lu Dan, Mr. Fan Xiaxia and Ms. Zhou Hui have served as Vice President and Chief Accountant since March 7, 2006. The data indicated include the compensation they received from us in the capacity of vice presient from April to December 2006.

(2) Mr. Zhang Hong and Mr. Li Shiqi served as Vice President until March 7, 2006, and did not receive any compensation from us in the capacity of Vice President afterwards. The data indicated include the compensation they received from us from January to March 2006.

The total remuneration paid to our directors, supervisors and executive officers is comprised of basic salaries and allowances, discretionary bonuses and employer's contributions to pension scheme. Of these, discretionary bonuses account for around 60% of the total remuneration, which are determined on the basis of their performance. 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 RMB 60,000. 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 assist our board in performing its statutory and fiduciary duties of supervising our accounting, financial reports, internal controls and compliance, including but not limited to, assisting our board in supervising (i) the integrity of our financial statements; (ii) our compliance with the applicable laws and regulations; (iii) the qualification and independence of our independent auditors and (iv) the performances of our independent auditors and internal auditing department.

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 Mr. Xia Donglin (Chairman), Mr. Qian Zhongwei, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning.

The members of Strategy Committee are Mr. Li Xiaopeng (Chairman), Mr. Huang Yongda, Mr. Huang Long, Mr. Na Xizhi, Mr. Wu Dawei and Mr. Wu Yusheng.

The members of Nomination Committee are Mr. Qian Zhongwei (Chairman), Mr. Huang Long, Mr. Shan Qunying, Mr. Ding Shida, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning.

The members of Remuneration and Evaluation Committee are Mr. Liu Jipeng (Chairman), Mr. Na Xizhi, Mr. Xu Zujian, Mr. Liu Shuyuan, Mr. Qian Zhongwei, Mr. Xia Donglin, and Mr. Wu Yusheng.

D. Employees

As of December 31, 2006, we employed 23,508 people. Of these, 304 are headquarters management staff, 15,989 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 48% our work force graduated from university or technical college. As of December 31, 2004 and 2005, we had approximately 22,129 and 23,531 employees respectively.

We conduct continuing education programs for our employees at the head office and at each power plant. We provide training in foreign 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.

E. Share Ownership

As of December 31, 2006, Mr. Na Xizhi, a director and president of the Company, held a total of 7,240 tradable domestic shares of us, representing less than 1% of the total domestic shares. Mr. Na does not have different voting rights from other holders of domestic shares. None of our other directors, supervisors or 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 RMB 1.00 per share. The following table set forth certain information regarding our major shareholders as of April 6, 2007.

Shareholder	Number of shares	Approximate percentage in the total issued domestic share capital %
Huaneng International Power Development Corporation(1)	5,066,662,118	56.30
China Huaneng Group	1,055,124,549	11.72
Hebei Provincial Construction Investment Company	603,000,000	6.70

Note: Huaneng Group indirectly holds 22% of our total issued shares through HIPDC, its 51.98% owned subsidiary in addition to the direct shareholdings of 8.75% in us.

As of April 1, 2004, HIPDC and Heibei Provincial Construction Investment Company ("HPCIC") directly holds 42.39% and 7.50% of our total issued shares, respectively. Huaneng Group indirectly holds 22% of our total issued shares through HIPDC, its 51.98% owned subsidiary.

In 2004, Shantou Electric Power Development Company transferred a total of 58 million shares of us to HIPDC, and the shareholdings of HIPDC increased to 43.12%. In 2005, HIPDC transferred a total of 40 million shares to Liaoning Energy Investment (Group) Limited Liability Company, and therefore decreased its shareholdings in us to 42.78%.

In 2006, all of our shareholders of non-tradable domestic shares except HIPDC transferred a total of approximately 1.1 billion shares to Huaneng Group, representing 9.24% of our total issued shares. Among others, HPCIC transferred approximately 301 million shares to Huaneng Group, and decreased its shareholdings in us to 5.00%.

On April 19, 2006, we carried out our reform plan to convert all non-tradable domestic shares into tradable domestic shares. According to the plan, Huaneng Group and HIPDC transferred a total of 15 million shares to our shareholders of A Shares. As a result, the direct shareholdings of Huaneng Group and HIPDC decreased to 8.75% and 42.03%, respectively.

Before we were established in 1994, HIPDC and other seven promoters 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 promoters so as to enable HIPDC to have majority voting rights in general meetings for so long as we are in existence. In addition, directors designated by HIPDC will have majority representation on our board of directors and each of the other promoters will have one representative designated by it appointed as a member of our 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. As a result of the Shareholders' Agreement, HIPDC held 70.09% of the total voting rights of the outstanding shares and, subject to the Shareholders' Agreement, had the power to control the election of all of our directors and to direct our management and policies.

On May 12, 2006, HIPDC and other promoters (including the shareholders who assumed the rights and obligations of original promoters as a result of share transfer) entered into an amendment to the Shareholders' Agreement, pursuant to which, each promoter shall be entitled to exercise its own voting rights at the shareholders' general meeting. Consequently, HIPDC currently holds 42.03% of our total voting rights. Since HIPDC's parent company, Huaneng Group currently directly holds 8.75% of our total voting rights, it is able to exert control over us when acting in concert with Huaneng Group.

B. Related party transactions

Guarantees

The table below sets forth information on guarantees provided by Huaneng Group, HIPDC and the Company to the related parties in 2006 for the purposes of financing their operation, construction and renovation.

Guarantor	Guarantee	Interest Rate	Largest Amount Outstanding in 2006	Amou As of
		(%)	(RMB)	
Huaneng Group (Ultimate Parent of the Company)	The Company	6.36	397,737,757	
	The Company	LIBOR + 0.075	485,095,682	
	Taipingyi Hydropower(1)	5.75	250,000,000	
	Taipingyi Hydropower(1)	5.51	56,300,000	
	Mingtai Hydropower(2)	5.75	130,000,000	
	Kangding Hydropower(3)	6.16	115,000,000	
	Kangding Hydropower(3)	6.16	195,000,000	
	Kangding Hydropower(3)	5.75	238,000,000	
	Jialingjiang Hydropower(4)	6.84	30,000,000	
	Jialingjiang Hydropower(4)	6.12	50,000,000	

Guarantor	Guarantee	Interest Rate	Largest Amount Outstanding in 2006	Amou As of
		(%)	(RMB)	
	Jialingjiang Hydropower(4)	6.84	30,000,000	
	Jialingjiang Hydropower(4)	6.16	20,000,000	
	Jialingjiang	5.51	20,000,000	

Hydropower(4)		
Jialingjiang Hydropower(4)	5.51	30,000,000
Jialingjiang Hydropower(4)	5.75	15,000,000
Jialingjiang Hydropower(4)	5.75	15,000,000
Jialingjiang Hydropower(4)	6.16	20,000,000
Jialingjiang Hydropower(4)	6.16	20,000,000
Jialingjiang Hydropower(4)	6.16	30,000,000
Jialingjiang Hydropower(4)	6.16	40,000,000
Jialingjiang Hydropower(4)	5.51	40,000,000
Jialingjiang Hydropower(4)	5.51	30,000,000
Jialingjiang Hydropower(4)	5.51	30,000,000
Jialingjiang Hydropower(4)	5.75	30,000,000
Jialingjiang Hydropower(4)	5.75	30,000,000
Jialingjiang Hydropower(4)	5.51	40,000,000
Jialingjiang Hydropower(4)	5.18	10,000,000
Fujiang Hydropower(5)	5.51	25,000,000
Fujiang Hydropower(5)	5.75	15,000,000
Fujiang Hydropower(5)	5.75	10,000,000

Guarantor	Guarantee	Interest Rate	Largest Amount Outstanding in 2006	Amou As of
		(%)	(RMB)	

	Fujiang Hydropower(5)	5.75	10,000,000
	Fujiang Hydropower(5)	6.16	10,000,000
	Fujiang Hydropower(5)	6.16	20,000,000
	Fujiang Hydropower(5)	6.16	60,000,000
	Fujiang Hydropower(5)	5.51	30,000,000
	Fujiang Hydropower(5)	5.75	50,000,000
	Fujiang Hydropower(5)	6.16	30,000,000
	Fujiang Hydropower(5)	6.16	40,000,000
	Fujiang Hydropower(5)	6.16	50,000,000
	Fujiang Hydropower(5)	5.51	50,000,000
	Fujiang Hydropower(5)	5.51	50,000,000
	Fujiang Hydropower(5)	5.75	31,440,000
	Fujiang Hydropower(5)	5.75	50,000,000
	Fujiang Hydropower(5)	6.16	100,000,000
	Fujiang Hydropower(5)	6.16	101,100,000
	Fujiang Hydropower(5)	5.75	30,000,000
	Fujiang Hydropower(5)	5.75	30,000,000
	Fujiang Hydropower(5)	5.75	40,000,000
	Fujiang Hydropower(5)	6.16	50,000,000
	Fujiang Hydropower(5)	6.16	40,000,000

Guarantor	Guarantee	Interest Rate	Largest Amount Outstanding in 2006	Amou As of
		(%)	(RMB)	
	Fujiang Hydropower(5)	6.16	20,000,000	
	Fujiang Hydropower(5)	6.16	50,000,000	
	Fujiang Hydropower(5)	6.16	50,000,000	
	Fujiang Hydropower(5)	5.51	20,000,000	

Fujiang Hydropower(5)	5.51	10,000,000
Fujiang Hydropower(5)	5.51	10,000,000
Fujiang Hydropower(5)	5.51	20,000,000
Fujiang Hydropower(5)	5.51	10,000,000
Fujiang Hydropower(5)	5.51	30,000,000
Fujiang Hydropower(5)	5.51	30,000,000
Fujiang Hydropower(5)	5.75	10,000,000
Fujiang Hydropower(5)	5.75	20,000,000
Fujiang Hydropower(5)	5.75	20,000,000
Fujiang Hydropower(5)	5.75	10,000,000
Dongxiguan Hydropower(6)	5.51	360,650,000
Baoxinghe Power Company(7)	5.51	50,000,000
Baoxinghe Power Company(7)	5.51	10,000,000
Baoxinghe Power Company(7)	5.51	20,000,000
Baoxinghe Power Company(7)	5.51	50,000,000
Baoxinghe Power Company(7)	5.51	60,000,000

Guarantor	Guarantee	Interest Rate	Largest Amount Outstanding in 2006	Amou As of
		(%)	(RMB)	
	Baoxinghe Power Company(7)	5.51	80,000,000	
	Baoxinghe Power Company(7)	5.51	50,000,000	
	Baoxinghe Power Company(7)	5.51	30,000,000	
	Baoxinghe Power	5.51	50,000,000	

Company(7)			
Baoxinghe Company(7)	Power	5.51	20,000,000
Baoxinghe Company(7)	Power	5.51	50,000,000
Baoxinghe Company(7)	Power	5.51	25,000,000
Baoxinghe Company(7)	Power	5.51	50,000,000
Baoxinghe Company(7)	Power	5.51	30,000,000
Baoxinghe Company(7)	Power	5.51	50,000,000
Baoxinghe Company(7)	Power	5.51	50,000,000
Baoxinghe Company(7)	Power	5.51	50,000,000
Luohuang Company(8)	Power	5.95	1,167,899,160
Qinbei Company(9)	Power	LIBOR+0.43	126,817,428
Qinbei Company(9)	Power	LIBOR+0.3	89,985,238
Pingliang Company(10)	Power	5.51	1,112,000,000
Pingliang Company(10)	Power	5.51	331,500,000
Hanfeng Company(11)	Power	5.51	704,000,000
Hanfeng Company(11)	Power	5.51	595,000,000
Rizhao Company(12)	Power	6.12	86,250,000

Guarantor	Guarantee	Interest Rate	Largest Amount Outstanding in 2006	Amou As of

		(%)	(RMB)
	Rizhao Power Company(12)	6.12	46,000,000
	Rizhao Power Company(12)	6.12	34,500,000
	Rizhao Power Company(12)	6.39	44,562,500
	Rizhao Power Company(12)	6.84	93,437,500
	Rizhao Power Company(12)	6.84	280,000,000
HIPDC	The Company	5.95	750,793,254
	The Company	6.6	571,017,572
	The Company	6.6	224,405,708
	The Company	6.54	897,516,583
	The Company	5.95	867,430,987
The Company	Yushe Power Company(13)	5.75	612,000,000
	Qinbei Power Company(10)	5.51	740,000,000
	Rizhao Power Company(12)	6.12	63,750,000
	Rizhao Power Company(12)	6.12	34,000,000
	Rizhao Power Company(12)	6.12	25,500,000
	Rizhao Power Company(12)	6.39	32,937,500
	Rizhao Power Company(12)	6.84	69,062,500

Notes:

(1) Taipingyi Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(2) Mingtai Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(3) Kangding Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary

of Huaneng Group from January 1, 2007.

(4) Jialingjiang Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31,2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(5) Fujiang Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31,2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(6) Dongxiguan Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(7) Baoxinghe Power Company is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(8) Luohuang Power Company is a subsidiary of the Company.

(9) Qinbei Power Company is a subsidiary of the Company.

(10) Pingliang Power Company is a subsidiary of the Company.

(11) Hanfeng Power Company is an associate of the Company.

(12) Rizhao Power Company is an associate of the Company.

(13) Yushe Power Company is a subsidiary of the Company.

Loans

The table below sets forth the loans made by Huaneng Group and Huaneng Finance to the related parties in 2006 for the purposes of financing their operation, construction and renovation.

Lender	Borrower	Interest Rate (%)	Largest Amount Outstanding (RMB)
Huaneng Group (Ultimate Parent of the Company	The Company	5.02	2,000,000,000
	Yushe Power Company(1)	4.60	225,000,000
	Yushe Power Company(1)	4.32	75,000,000
	Qinbei Power Company(2)	4.60	375,000,000
	Qinbei Power Company(2)	4.32	125,000,000
Huaneng Finance (Subsidiary of Huaneng Group)	The Company	4.86	500,000,000

	The Company	5.02	100,000,000
	Weihai Power Company(3)	5.27	130,000,000
	Taicang Power Company(4)	5.27	200,000,000
	Taicang II Power Company(5)	5.51	490,000,000
	Huaiyin II Power Company(6)	5.02	500,000,000
	Huaiyin II Power Company(6)	5.27	200,000,000
	Yushe Power Company(1)	5.27	41,000,000
	Yushe Power Company(1)	5.51	35,000,000
	Yushe Power Company(1)	5.51	127,700,000
	Yushe Power Company(1)	5.51	10,000,000

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Lender	Borrower	Interest Rate (%)	Largest Amount Outstanding (RMB)
	Yushe Power Company(1)	5.51	50,000,000
	Yushe Power Company(1)	5.51	10,000,000
	Qinbei Power Company(2)	5.27	120,000,000
	Qinbei Power Company(2)	5.27	250,000,000
	Qinbei Power Company(2)	5.02	100,000,000
	Qinbei Power Company(2)	5.51	210,000,000
	Qinbei Power Company(2)	5.51	0
	Yueyang Power Company(7)	5.51	100,000,000
	Pingliang Power Company(8)	5.27	110,000,000
	Pingliang Power Company(8)	5.51	90,000,000
	Pingliang Power Company(8)	5.51	200,000,000
	Dongxiguan Hydropower(9)	5.18	20,000,000
	Dongxiguan Hydropower(9)	5.67	30,000,000
	Mingtai		

Hydropower(10)	5.27	10,000,000
Mingtai Hydropower(10)	5.51	12,000,000
Mingtai Hydropower(10)	5.67	10,000,000
Mingtai Hydropower(10)	5.67	20,000,000

Notes:

(1) Yueshe Power Company is a subsidiary of the Company.

(2) Qinbei Power Company is a subsidiary of the Company.

(3) Weihai Power Company is a subsidiary of the Company.

(4) Taicang Power Company is a subsidiary of the Company.

(5) Taicang II Power Company is a subsidiary of the Company.

(6) Huaiyin II Power Company is a subsidiary of the Company.

(7) Yueyang Power Company is a subsidiary of the Company.

(8) Pingliang Power Company is a subsidiary of the Company.

(9) Dongxiguan Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group from January 1, 2007.

(10) Mingtai Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group from January 1, 2007.

Lease Agreement

Pursuant to a leasing agreement between HIPDC and us signed on December 26, 2000, HIPDC agreed to lease Tianyin Mansion with a total area of 27,800 square meters to us for 5 years, and the annual rent is RMB 25 million. The leasing agreement was effective retroactively as of January 1, 2000. In 2005, the leasing agreement was renewed for 5 years with the annual rent of RMB 26 million.

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. In 2004, we entered into a supplementary agreement with HIPDC to lower the fees paid by Shangan power plant to 6%. The total amount of service fees paid to HIPDC in 2006 was approximately RMB 141 million.

Acquisition from Huaneng Group in 2006

At the end of 2005, we paid a consideration of RMB 126 million to Huaneng Group and advanced a payment of RMB 162 million as capital injection to Huaneng Finance in order to acquire 20% equity interests in Huaneng Finance. The acquisition became effective in January 2006.

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. 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.

Current deposits with Huaneng Finance

As of December 31, 2006, we placed with Huaneng Finance current deposits of approximately RMB 2,247 million, which bore interest rates ranging from 0.72% to 1.62% per annum.

Coal purchases

In 2006, we paid for coal purchase RMB 139.97 million, RMB 49.16 million and RMB 735.08 million, respectively, to China Huaneng International Trade Economics Corporation ("CHITEC"), Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan") and Shanghai Time Shipping Company Ltd. ("Time Shipping"). CHITEC and Huaneng Jingyuan are subsidiaries of Huaneng Group; Time Shipping is a joint controlled entity of Huaneng Group.

Continuous transactions with Huaneng Energy and Transportation Industry Holdings Co., Ltd.

On January 15, 2007, we entered into two framework agreements with Huaneng Energy and Transportation Industry Holdings Co., Ltd. ("Huaneng Energy and Transportation"), including an agreement on purchase of auxiliary equipment and products involving an estimated total amount of approximately RMB 900 million and an agreement on coal supply and transportation involving an estimated total amount of approximately RMB 4.2 billion. Huaneng Energy and Transportation is 100% owned by Huaneng Group. These agreements became effective retrospectively from January 1, 2007 and will expire on December 31, 2007.

Continuous Transactions with Xi'an Thermal

On January 15, 2007, we entered into a framework agreement with Xi'an Thermal on provision of technical services, project contracting and purchase of auxiliary equipment and products involving an estimated total amount of approximately RMB 360 million. Xi'an Thermal is 52% owned by Huaneng Group. The agreement became effective retrospectively from January 1, 2007 and will expire on December 31, 2007.

Issuance of short-term bonds

In 2006, we issued short-term bonds to Huaneng Finance, Huaneng Capital Service and Greatwall Securities Co., Ltd. ("Greatwall Securities") with an aggregate principal amount of RMB 900 million, RMB 250 million and RMB 300 million, respectively. Huaneng Finance, Huaneng Capital Service and Greatwall Securities are subsidiaries of Huaneng Group.

For a detailed discussion of other related party transactions, see Note 7 to the Financial Statements.

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-76.

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 allocation to the statutory funds of 10% 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.

Our board has proposed a final dividend of RMB 0.28 per ordinary share for the year ended December 31, 2006, which is equivalent to RMB 11.2

per ADS. The total dividend to be paid amounted to approximately RMB 3.38 billion.

B. Significant Changes

On January 4, 2007, Huaneng Group contributed additional capital of RMB 615 million to Sichuan Hydropower, thus increasing its direct equity interests in Sichuan Hydropower from 40% to 51%, while reducing our equity interests from 60% to 49%. As Sichuan Hydropower is currently controlled by Huaneng Group, its accounts will no longer be consolidated in our financial statements starting from January 1, 2007.

In 2007, the New Corporate Income Tax Law was enacted which will become effective on January 1, 2008 and supersede the Income Tax Law for Foreign invested Enterprises and Foreign Enterprises of the PRC and the Provisional Regulations on Enterprise Income Tax of the PRC. The New Corporate Income Tax Law will impose a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Therefore, our power plants currently subject to a 33% income tax rate may be subject to a lower tax rate of 25% starting on January 1, 2008. With regard to our power plants currently entitled to a reduced enterprise income tax rate of 15%, their effective tax rate may be gradually increased to the uniform tax rate of 25% within a five-year transition period commencing on January 1, 2008. The State Council of PRC is in the process of formulating detailed rules and regulations for the implementation of the New Corporate Income Tax Law. Given that there are a number of uncertain factors involved in the implementation of the New Corporate Income Tax Law, we are currently unable to accurately evaluate its impacts on us.

ITEM 9 The Offer and Listing

A. 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	Low
		(US$)	(US$)
2002		35.82	23.06
2003		71.35	31.36
2004		86.91	27.30
2005		31.24	26.21
2006		36.35	24.05
2005	First Quarter	31.24	27.33
	Second Quarter	30.45	28.32
	Third Quarter	31.21	27.62
	Fourth Quarter	29.74	26.21
2006	First Quarter	28.59	25.92
	Second Quarter	30.85	24.05

	Third Quarter	28.43	24.86
	Fourth Quarter	36.35	28.62
2007	First Quarter	40.45	32.01
2006	October	31.80	28.60
	November	32.97	31.03
	December	36.35	32.44
2007	January	40.45	35.07
	February	38.25	34.16
	March	37.37	32.01
	April (up to April 11)	42.51	34.99

Source: Reuters

Each ADS represents 40 Overseas Listed Foreign Shares. As of March 31, 2007, there were 131 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 affected 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
		(US$)	(US$)
2002		6.95	4.53
2003		13.20	6.05
2004		13.45	6.05
2005		6.10	5.10
2006		7.00	4.70
2005	First Quarter	6.10	5.25
	Second Quarter	6.05	5.50
	Third Quarter	5.80	5.45
	Fourth Quarter	5.75	5.10
2006	First Quarter	5.55	5.00
	Second Quarter	5.95	4.70
	Third Quarter	5.68	4.88
	Fourth Quarter	7.00	5.59
2006	October	6.13	5.59
	November	6.47	5.94
	December	7.00	6.25
2007	January	7.90	6.25
	February	7.49	6.85

March......................................	7.35	6.34
April (up to April 11).....................	8.29	6.73

Source: Reuters

As of March 31, 2007, there were 494 registered holders of H Shares.

ITEM 10 Additional Information

A. Share capital

Not applicable.

B. Memorandum and articles of association

The following is a brief summary of certain provisions of our Articles of Association, as amended, the Company Law and certain other applicable laws and regulations of the PRC. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations.

Objects and Purposes

We are a joint stock limited company established in accordance with the Standard Opinion for Joint Stock Limited Companies (the "Standard Opinion") and certain other relevant laws and regulations of the PRC. We are registered with the PRC State Administration for Industry and Commerce with business license number Qi Gu Guo Zi No. 000496. Article 10 of our Articles of Association provides that our scope of businesses includes, among other things, investment, construction, operation and management of power plants and development, investment and operation of other export-oriented enterprises related to power plants.

Directors

Our directors shall be elected at our shareholders' general meeting. Because the shares do not have cumulative voting rights, a holder of a majority of the shares is able to elect all of the directors. Our directors

shall be elected for a term of three years and may serve consecutive terms upon re-election, except that independent directors may only serve a maximum of two consecutive terms of six years. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non-retirement of our directors.

Where a director is materially interested, directly or indirectly, in a contract, transaction or arrangement (including any proposed contract, transaction or arrangement) with us, he or she shall declare the nature and extent of his or her interests to the board of directors at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the board. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined by Article 133 of the Articles of Association) is interested.

Unless the interested director discloses his interests to the board and the contract, transaction or arrangement in which the director is materially interested is approved by the board at a meeting in which the director neither votes nor is counted in the quorum, such contract, transaction or arrangement may be revoked by us except with respect to a bona fide party thereto who does not have notice of the director's interests.

We are prohibited from making loans or providing guarantees to our directors and their associates except where such loan or guarantee is made or provided under a service contract as approved by our shareholders at the shareholders' general meeting and to meet expenditure requirement incurred or to be incurred by the director for the purposes of the company or for the purpose of enabling the director to perform his or her duties properly.

Matters relating to the remuneration of our directors shall be determined by the shareholders' general meeting.

Dividends

Distribution of dividends may be proposed by our board of directors for approval by an ordinary resolution of our shareholders at the shareholders' general meeting. The Articles of Association allows for cash or stock dividends.

Dividends may only be distributed after allowance has been made for:

o recovery of losses, if any;

o allocations to the statutory surplus reserve fund;

o allocations to the statutory common welfare reserve fund; and

o allocations to a discretionary surplus reserve fund.

The minimum and maximum aggregate allocations to the statutory surplus reserve fund and statutory common welfare reserve fund are 15% and 20%, respectively, of our net income determined in accordance with the PRC accounting rules.

The Articles of Association require that cash dividends and other distribution with respect of H Shares be declared in Renminbi and paid by the Company in US dollars or Hong Kong dollar in terms of the H Shares listed on the Hong Kong Stock Exchange. The Articles of Association further stipulate that for dividends and other distributions paid in currencies other than Renminbi, we shall use an exchange rate equal to the median closing exchange rate of Renminbi for such currencies announced by PBOC for two working days in the week preceding the date on which such dividends or other distributions are declared.

We will appoint receiving agents to receive, on behalf of the holders of H Shares, any dividend distributions and all other money owing by us in respect of such shares (Receiving Agents). The Receiving Agents will comply with the laws and regulations of the applicable stock exchanges on which our shares are listed. Any Receiving Agent appointed on behalf of the holders of H Shares listed on the Hong Kong Stock Exchange will be a company registered as a trust corporation under the Trustee Ordinance of Hong Kong.

Dividends payments may be subject to PRC withholding tax.

Voting Rights and Shareholders' Meetings

Our board of directors shall convene a shareholders' annual general meeting once every year and within six months from the end of the preceding financial year. Our board shall convene an extraordinary general meeting within two months after the occurrence of any one of the following events:

- o where the number of directors is less than the number required by the PRC Company Law or two-thirds of the number specified in our Articles of Association;
- o where our unrecovered losses reach one-third of the total amount of our share capital;
- o where shareholder(s) holding 10% or more of our voting rights request(s) in writing the convening of an extraordinary general meeting; or
- o whenever our board deems necessary or our supervisory committee so requests.

Resolutions proposed by the supervisory committee or shareholder(s) holding 5% or more of the total number of voting shares shall be included in the agenda for the relevant annual general meeting if they are matters which fall within the scope of the functions and powers of shareholders in general meeting.

All shareholders' meetings must be convened by our board by written notice given to shareholders not less than 45 days before the meeting. Based on the written replies received by us 20 days before a shareholders' meeting, we shall calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. Where the number of voting shares represented by those shareholders amount to more than one-half of our total voting shares, we shall convene the shareholders' general meeting. Otherwise, we shall, within five days before holding the shareholders' general meeting, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders' meeting may be convened. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders' meeting.

Shareholders at meetings have the power, among other things, to examine and approve our profit distribution plans and plans to recover loses, the annual budget, an increase or reduction of registered share capital, the reports of our board of directors and supervisory committee, the issuance of debentures, and the plans for merger, division, dissolution or liquidation; to elect or remove our directors and supervisors; and to review and amend our Articles of Association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of shareholders at a general shareholders' meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our Articles of Association enumerate, without limitation, certain amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including increasing or decreasing the number of shares of such class or the number of shares of a class with voting or distribution rights or privileges equal or superior to the shares of such class, removing or reducing rights to receive dividends in a particular currency, and creating shares with voting or distribution rights or privileges equal or superior to shares of such class.

Each share is entitled to one vote on all such matters submitted to a vote of our shareholders at the shareholders' general meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address, or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution(s). When the instrument appointing a proxy is executed by the shareholder's attorney-in-fact, such proxy when deposited must be accompanied by a notary certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Except for those actions discussed below which require supermajority votes ("special resolutions"), resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by more than two-thirds of the voting shares held by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

- an increase or reduction of our registered share capital or the issuance of shares, including stock distributions, of any class, warrants and other similar securities;
- issuance of debentures;
- our division, merger, dissolution, liquidation and change of the legal form;
- amendments to our Articles of Association; and
- any other matters our shareholders have resolved by way of an ordinary resolution at a general meeting to be of a nature which may have a material impact on us and should be adopted by special resolution.

In addition, amendments to the Articles of Association require the approval and consent of the relevant PRC authorities.

All other actions taken by the shareholders, including the appointment and removal of our directors and supervisors and the declaration of cash dividend payments, will be decided by an ordinary resolution of the shareholders.

Any shareholder resolution which is in violation of any laws or regulations of the PRC will be null and void.

Liquidation Rights

In the event of our liquidation, the H Shares will rank pari passu with the domestic ordinary shares, and any of our assets remaining after payment (in order of priority) of (a) the costs of liquidation: (b) wages and social insurance fees payable to or for our employees for the past three years prior to the date of liquidation; (c) overdue taxes and tax surcharges, funds and other amounts payable pursuant to the applicable administrative regulations; and (d) bank loans, corporate bonds and other debts, will be divided among our shareholders in accordance with the class of shares and their proportional shareholdings.

Further Capital Call

Shareholders are not liable to make any further contribution to the share capital other than according to the terms, which were agreed by the subscriber of the relevant shares at the time of subscription

Increases in Share Capital and Preemptive Rights

The Articles of Association require the approval by a special resolution of the shareholders prior to authorizing, allotting, issuing or granting shares, securities convertible into shares or options, warrants or similar rights to subscribe for any shares or such convertible securities. New issues of shares must also be approved by the relevant PRC authorities.

Shareholders do not have preemptive rights with respect to new issues of shares of the Company.

Reduction of Share Capital and Purchase by Us of Our Shares and General Mandate to Repurchase Shares

We may reduce our registered share capital only upon obtaining the approval of the shareholders by a special resolution and, in certain circumstances, of relevant PRC authorities. The number of H Shares, which may be purchased is subject to the Hong Kong Takeovers and Share Repurchase Codes.

Restrictions on Large or Controlling Shareholders

Our Articles of Association provide that, in addition to any obligation imposed by laws and administration regulations or required by the listing rules of the stock exchanges on which our shares are listed, a controlling shareholder shall not exercise his voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

(1) to relieve a director or supervisor from his or her duty to act honestly in our best interests;

(2) to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or

(3) to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of

the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (save according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our Articles of Association).

A controlling shareholder, however, will not be precluded by our Articles of Association or any laws and administrative regulations or the listing rules of the stock exchanges on which our shares are listed from voting on these matters.

A controlling shareholder is defined by our Articles of Association as any person who acting alone or in concert with others:

- is in a position to elect more than one-half of the board of directors;
- has the power to exercise, or to control the exercise of, 30% or more of our voting rights;
- holds 30% or more of our issued and outstanding shares; or
- has de facto control of us in any other way.

Disclosure

The Listing Agreement imposes a requirement on us to keep the Hong Kong Stock Exchange, our shareholders and other holders of our listed securities informed as soon as reasonably practicable of any information relating to us and our subsidiaries, including information on any major new developments which are not public knowledge, which:

- is necessary to enable them and the public to appraise the position of us and our subsidiaries;
- is necessary to avoid the establishment of a false market in its securities; and
- might be reasonably expected materially to affect market activity in and the price of its securities.

There are also requirements under the Listing Rules for us to obtain prior shareholders' approval and/or to disclose to shareholders details of certain acquisitions or disposals of assets and other transactions (including transactions with controlling shareholders).

Sources of Shareholders' Rights

The PRC's legal system is based on written statutes and is a system in which decided legal cases have little precedent value. Prior to the effectiveness of the Company Law, the PRC did not have a comprehensive body of laws governing joint stock limited companies. The rights and obligations of our shareholders are principally contained in our constitutive documents and the Standard Opinion, under which we were established. In December 1993, the Standing Committee of the 8th National People's Congress adopted the PRC Company Law, which superseded the Standard Opinion. In accordance with Article 229 of the Company Law, we must comply with the relevant requirements of the Company law within an unspecified time period. As a result, we amended our Articles of Association pursuant to the Company Law on June 6, 1995. On October 27, 2005, the Company law was amended by the Standing Committee of the 10th National People's Congress, and came into force on January 1, 2006.

Currently, the primary sources of shareholder rights are our Articles of Association, as amended, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. To facilitate the offering and listing of shares of PRC companies overseas, and to regulate the behavior of companies whose shares are listed overseas, the State Council Securities Committee and the State Commission for Restructuring the Economic System issued on August 27, 1994 the Mandatory Provisions for Articles of Association of Company Listing Overseas (the "Mandatory Provisions"). These Mandatory Provisions become entrenched in that, once they are incorporated into the Articles of Association of a PRC company, any amendment to those provisions will only become effective after approval by the State-owned Assets Supervision and Administration Commission of the State Council. The Listing Rules require a number of additional provisions to the Mandatory Provisions to be included in the Articles of Association of PRC companies listing H Shares on the Hong Kong Stock Exchange (the "Additional Provisions"). The Mandatory Provisions and the Additional Provisions have been incorporated into our Articles of Association.

In addition, upon the listing of and for so long as the H Shares are listed on the Hong Kong Stock Exchange, we are subject to the relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including the Listing Rules of the Hong Kong Stock Exchange, the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the Securities (Insider Dealing) Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases (the "Hong Kong Takeovers and Repurchase Codes").

Enforceability of Shareholders' Rights

There has not been any public disclosure in relation to the enforcement by holders of H Shares of their rights under constitutive documents of joint stock limited companies or the Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to the PRC joint stock limited companies.

The Company Law, as amended in October 2005 and effective in January 2006, has granted shareholders with the rights to bring derivative suits. Within the Company Law, Shareholders holding more than 1 percent of the shares of the company for more than 180 consecutive days are entitled to request the supervisory committee (in terms of directors and senior management) or the board of directors (in terms of supervisors) to bring legal proceedings, or bring legal proceedings in their own name on behalf of the company where it is in emergency and the company will be subject to irreparable loss if not to do so, against directors, supervisors or senior management who fail to comply with the laws and regulations or the company's Articles of Association in the course of performing their duties and cause loss to the company;

Our Articles of Association provide that all differences or claims:

- between a holder of H Shares and us;
- between a holder of H Shares and any of our directors, supervisors, general managers or other senior officers; or

- between a holder of H Shares and a holder of domestic ordinary shares, arising from any provision of our Articles of Association, any right or obligation conferred or imposed by the Company Law or any other relevant law or administrative regulation which concerns our affairs

must, with certain exceptions, be referred to arbitration at either the China International Economic and Trade Arbitration Commission in the PRC or the Hong Kong International Arbitration Center. Our Articles of Association provide that such arbitration will be final and conclusive. In June 1999, an arrangement was made between the People's Courts of the PRC and the courts of Hong Kong to mutually enforce arbitration rewards rendered in the PRC and Hong Kong according to their respective laws. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000.

The holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The SDI Ordinance establishes certain obligations in relation to disclosure of shareholder interests in Hong Kong listed companies, the violation of which is subject to prosecution by the Securities and Futures Commission of Hong Kong. The Hong Kong Takeovers and Repurchase Codes do not have the force of law and are only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong as established by the Securities and Futures Commission and the securities and futures industry in Hong Kong.

We have appointed CT Corporation System, New York, as our agent to receive service of process with respect to any action brought against us in certain courts in New York under the United States federal and New York State's securities laws. However, as the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom, Japan or most other the Organization for Economic Cooperation and Development countries, administrative actions brought by regulatory authorities, such as the Commission, and other actions which result in foreign court judgments, could (assuming such actions are not required by PRC law and the Articles of Association to be arbitrated) only be enforced in the PRC on a reciprocal basis or according to relevant international treaty to which China is a party if such judgments or rulings do not violate the basic principles of the law of the PRC or the sovereignty, security and public interest of the society of the PRC, as determined by a People's Court of the PRC which has the jurisdiction for recognition and enforcement of judgments. We have been advised by our PRC counsel, Haiwen & Partners, that there is uncertainty as to the enforceability in the PRC of actions to enforce judgments of United States courts arising out of or based on the ownership of H Shares or ADSs, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws.

Restrictions on Transferability and the Share Register

H Shares may be traded only among investors who are not PRC persons, and may not be sold to PRC investors. There are no restrictions on the ability of investors who are not PRC residents to hold H Shares.

As provided in the Articles of Associations we may refuse to register a transfer of H Shares listed on Hong Kong Stock Exchange unless:

- a fee (for each instrument of transfer) of HK dollar 2.50, or any higher fee as agreed by the Hong Kong Stock Exchange, has been paid to us;
- the instrument of transfer only involves H Shares;
- the stamp duty chargeable on the instrument of transfer has been paid;
- the relevant share certificate and upon the reasonable request of the board of directors, any evidence in relation to the right of the transferor to transfer the shares have been submitted;
- if it is intended to transfer the shares to joint owners, then the maximum number of joint owners must not exceed four;
- we do not have any lien on the relevant shares.

We are required to maintain original share register for holders of H Shares in Hong Kong and a copy of the register at our legal address. Shareholders have the right to inspect and, for a reasonable charge, to copy the share register. No transfers of ordinary shares shall be recorded in our share register within 30 days prior to the date of a shareholders' general meeting or within 5 days prior to the record date established for the purpose of distributing a dividend.

We have appointed Hong Kong Registrars Limited to act as the registrar of our H Shares. This registrar maintains our register of holders of H Shares in Hong Kong and enters transfers of shares in such register upon the presentation of the documents described above.

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 or its local branch offices by performing certain required procedures. 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, under most circumstances, 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 or its local branch offices. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

The conversion of Renminbi into foreign currencies, including US dollars, has historically been set by the People's Bank of China based on the previous day's PRC inter-bank foreign exchange market rate and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band

against a basket of certain foreign currencies based on market supply and demand. This change in policy resulted initially in an approximately 2.0% appreciation in the value of the Renminbi against the US dollar. Since the adoption of this new policy, the value of Renminbi against the US dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the US dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the US dollar. However, there is no assurance that there will not be a devaluation of Renminbi in the future. If there is such a devaluation, our debt servicing cost will increase and the return to our overseas investors may decrease.

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:

	Noon Buying Rate		
Period	End	Average(1)	High
	(RMB per US$1.00)		
2002	8.2800	8.2772	8.280
2003	8.2767	8.2772	8.280
2004	8.2765	8.2767	8.277
2005	8.0702	8.1826	8.276
2006	7.8041	7.9579	8.070
October	7.8785	7.8785	7.916
November	7.8340	7.8340	7.875
December	7.8041	7.8041	7.835
2007 January	7.7714	7.7714	7.812
February	7.7410	7.7410	7.763
March	7.7232	--	7.745
April (up to April 13)	7.7222	--	7.734

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 current PRC tax regulations, dividends paid by PRC companies to individual investors are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, such withholding tax is not applicable with respect to those PRC companies which have their shares listed on an overseas stock exchange, such as H Shares and ADSs, because of an exemption issued first in 1993 and then confirmed in 1994. The relevant tax authority has not collected withholding tax on dividend payments on H Shares or ADSs.

In the event that the exemption is no longer available or is withdrawn, a 20% tax may be withheld on dividends in accordance with the PRC individual income tax law. Such withholding tax may be reduced under an applicable treaty on the avoidance of double taxation.

Enterprises

According to the current PRC tax regulations, dividends paid by PRC companies to foreign enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, foreign enterprises with no permanent establishment in China receiving dividends paid with respect to a PRC company's H Shares or ADSs have been temporarily exempted from the 20% withholding tax.

In accordance with the New Corporate Income Tax Law that will become effective on January 1, 2008, dividends paid by PRC companies to foreign enterprises with no permanent establishment in China are generally subject to a PRC withholding tax levied at a flat rate of 20%. However, such withholding tax may be exempted or reduced by the State Council. As the State Council has not yet promulgated any regulations on exemption or reduction of the withholding tax as of the date of this annual report, it may become applicable to holders of H Shares and ADSs as of January 1, 2008, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions.

Capital gains tax on sales of shares

A PRC tax regulation provides that gains realized upon the sale of overseas shares by foreign enterprises and individuals are not subject to tax on capital gains. However, the Provision for Implementing of the Individual Income Tax Law of the PRC (the "Detailed Implementing Rules"), promulgated on January 28, 1994, imposes income tax of 20% on gains derived from the sale of equity shares by an individual. A notice issued in 1998 by the Ministry of Finance and State Administration of Tax states that no capital gains tax will be imposed on gains from the sale of shares by individuals from 1997. If such tax exemption relief is no longer available, individual holders of H Shares or ADSs may be subject to a 20% capital gains tax unless such tax is reduced or eliminated by an applicable double taxation treaty. As the Amendments and the Detailed Implementing Rules only relate to individual income tax, the tax exemption for foreign enterprises under the PRC tax regulation should still be valid.

In accordance with the New Corporate Income Tax Law, capital gains realized by foreign enterprises with no permanent establishment in China upon the sale of oversea shares are generally subject to a PRC withholding tax levied at a flat rate of 20%. However, such withholding tax may be exempted or reduced by the State Council under the New Corporate Income Tax Law. As the State Council has not yet promulgated any regulations on exemption or reduction of the withholding tax as of the date of this annual report, it may become applicable to holders of H Shares and ADSs as of January 1, 2008, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions.

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).

Taxation of the Company

Income tax

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

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

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

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

On March 16, 2007, the New Corporate Income Tax Law of PRC was enacted, which will become effective on January 1, 2008. The New Corporate Income Tax Law will impose a single income tax rate of 25% for domestic enterprises and foreign invested enterprises. Therefore, our power plants currently subject to a 33% income tax rate may be subject to the uniform tax rate of 25% starting on January 1, 2008. With regard to our power plants currently entitled to a reduced income tax rate of 15%, their effective tax rate may be gradually increased to 25% within a five-year transition period commencing on January 1, 2008. In addition, our power plants currently entitled to tax exemption and reduction under the current income tax laws and regulations may continue to enjoy such preferential treatments after January 1, 2008 until the expiration of their respective tax holiday, but new power plants established after January 1, 2008 may not be able to benefit from such tax incentives, unless they can satisfy specific qualifications, if any, as provided by then effective laws and regulations on preferential tax treatment.

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 Stated 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 depositary 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 depositary, 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:

- o 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;
- o is obligated to make payments related to the dividends; or
- o 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 Unites 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% 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 payer 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:

NYSE corporate governance rules	Corporate governance rules applicab domestically listed companies in Ch Company's governance practices
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.	It is required in China that any li must establish an independent direc set forth specific requirements for qualification of independent direct example, an independent director sh any other position in the listed co than being a director and shall not by the main shareholders or the con persons of the listed company, or b entities or persons with whom the l has a significant relationship. The complied with the relevant Chinese governance rules and has implemente rules governing the independence an responsibilities of independent dir Company determines the independence directors every year.
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.	No similar requirements.
Nominating/Corporate Governance Committee	

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.	The board of directors of a listed through the resolution of the share meeting, establish a nominating com entirely of directors, of which the directors shall be the majority and The Company has established a nomin
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.	Relevant responsibilities of the nominating/corporate governance com similar to those stipulated by the the main responsibilities do not in research and recommendation of corp governance guidelines, the supervis evaluation of the board of director management, or the annual evaluatio committee.

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Compensation Committee Listed companies must have a compensation committee composed entirely of independent directors.	The board of directors of a listed through the resolution of sharehold have a compensation and evaluation composed entirely of directors, of independent directors are the major the convener.
The written charter of the compensation committee must state, at least, the following purposes and responsibilities:	The responsibilities are similar to stipulated by the NYSE rules, but t not required to produce a report on compensation or make an annual perf evaluation of the committee. The bo directors of the Company has establ compensation and evaluation committ mainly of independent directors who convener, and the committee has a w
(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 through the resolution of the share meeting, establish an audit committ entirely of directors, of which the directors are the majority and act convener, and, at minimum, one inde director is an accounting professio
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 c similar to those stipulated by the according to the domestic practices is not required to make an annual p evaluation of the audit committee, committee is not required to prepar report to be included in the compan proxy statement. The Board of Direc Company has established an audit co satisfies relevant domestic require audit committee has a written chart
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.	
Each listed company must have an internal audit department.	China has a similar regulatory prov Company has an internal audit depar
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 r board of directors to propose plans and types of director compensation shareholders' meeting to approve. T plan of executive officers is subje by the board and announced at the s meeting and disclosed to the public approval of the board of directors.

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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 Gover 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 requiremen for ethics. But, the directors and perform their legal responsibilitie with the Company Law of PRC, relati of CSRS and Mandatory Provisions to 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

Our primary market risk exposures are fluctuations fuel prices, foreign exchange rates and interest rates.

Commodity price risk

We are exposed to fluctuations in fuel prices, mainly coal prices. In 2006, our total fuel cost amounted to RMB22.608 billion and the weighted average unit fuel cost was RMB157.31 per MWh. In 2005, our total fuel cost amounted to RMB21.203 billion and the weighted average unit fuel cost was RMB156.13 per MWh.

We purchase substantial volumes of coals from suppliers for power generation. Therefore, fluctuations of fuel prices have a significant effect on our operating expenses and net profits.

Foreign exchange rate risk

A portion of our Renminbi revenues are converted into other currencies to (i) repay our debts denominated in currencies other than RMB, and (ii) pay for imported equipment.

The exchange rate of Renminbi to foreign currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including US dollars, has historically been set by the People's Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies. This change in policy resulted initially in an approximately 2.0% appreciation in the value of the Renminbi against the US dollar. Since the adoption of this new policy, the value of Renminbi against the US dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the US dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy. We cannot assure you that any future movements in the exchange rate of the Renminbi against the US dollar and other currencies will not adversely affect our results of operations and financial conditions. The following table provides information, by maturity date, regarding our foreign currency sensitive financial instruments, which consist of cash and cash equivalents, short-term and long-term debt obligations and capital commitments as of December 31, 2006 and average interest rates for the year ended December 31, 2006.

(RMB expressed in millions, except interest rate)

	As of December 31, 2006						
	Expected Maturity Date						r
	2007	2008	2009	2010	2011	Thereafter	
On-balance sheet financial instruments							
Cash and cash equivalents:							
In US Dollar	2	-	-	-	-	-	
Debts							
Fixed rate bank loans (US Dollar)	749	749	749	741	739	283	
Average interest rate	6.211%	6.217%	6.227%	6.260%	6.465%	6.360%	
Fixed rate bank loans (Euro)	55	55	55	55	55	405	
Average interest rate	2.000%	2.000%	2.000%	2.000%	2.000%	2.000%	
Variable rate bank and other loans (US Dollar)	72	72	72	72	61	172	
Average interest rate	5.547%	5.539%	5.527%	5.508%	5.493%	5.493%	
Variable rate other loans (JPY)	16	16	16	16	6	-	
Average interest rate	5.800%	5.800%	5.800%	5.800%	5.800%		
Capital commitments (in US Dollar)	79	13	23	16	-	-	
Capital commitments (in Euro)	79	1	-	-	-	-	

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

The outstanding balances of the Company's loans denominated in foreign currency has decreased continually as a result of due repayment of the loans by the company according to agreed-upon repayment schedule. The loans denominated in US dollar decreased from RMB6.596 billion as of December 31, 2004 to RMB4.531 billion as of December 31, 2006; the loans denominated in JPY decreased from RMB123 million as of December 31, 2004 to RMB70 million as of December 31, 2006; the loans denominated in Euro decreased from RMB864 million as of December 31, 2004 to RMB680 million as of December 31, 2006. As a result, the associated foreign exchange risk to which the Company is exposed has decreased.

Interest rate risk

We are exposed to interest rate risk primarily resulting from fluctuations in interest rates on our debts. Upward fluctuations in interest rates increase the cost of new variable rate debt and the interest cost of outstanding floating rate borrowings.

At present, the interest rate of the Company's loans with the term of more than one year denominated in RMB is subject to the change on the benchmark interest rate published and adjusted by the People's Bank of China. Different interest rate level corresponds to loans with different term. On the other hand, the interest rate of the Company's loans with the term of one year or less is not subject to the change in such benchmark interest rate in accordance with the loan agreements. New loan contracts entered hereafter will be subject to current benchmark interest rate. Most of the Company's loans denominated in foreign currency are fixed rate loans, which are not subject to the changes in market interest rate. Only a small portion of the Company's loans denominated in foreign currency are floating rate loans, which depends on the trend of six-month LIBOR.

The following table provides information, by maturity date, regarding our interest rate sensitive financial instruments, which consist of fixed rate loans, variable rate loans and short-term bonds as of December 31, 2006 and average interest rates for the year ended December 31, 2006.

(RMB expressed in millions, except interest rate)

	As of December 31, 2006						
	Expected Maturity Date						r
	2007	2008	2009	2010	2011	Thereafter	
Debts							
Fixed rate shareholder, bank and other loans	11,068	3,967	9,678	3,799	3,357	13,794	4
Average interest rate	5.487%	5.466%	5.466%	5.417%	5.380%	5.367%	
Variable rate bank and other loans	88	88	88	88	67	172	
Average interest rate	5.574%	5.563%	5.546%	5.517%	5.493%	5.493%	
Short-term bonds	5,000	-	-	-	-	-	
Average interest rate	3.742%	-	-	-	-	-	

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

As of December 31, 2006, the Company's floating rate loans denominated in foreign currency amounted to RMB0.591 billion, accounting for approximately 11.2% of the total foreign loans, and the average interest rate level was relatively low, which is six-month US dollar LIBOR plus 16 basis points. In 2006, Federal Reserve of United States stopped raising federal funds rate. The Company expects that there is less possibilities of continuously increasing federal funds rate. With only a small portion of loans denominated in foreign currency bearing floating interest rate, the Company is exposed to relatively low risk of interest rate increases.

The Company has paid special attention to the trend of international interest rate market by keeping up with the market conditions and predicting the future trend, and has made efforts to explore the feasibility of risk management by application of derivative financial instruments. The Company expects to implement the relevant plan according to its internal approval procedures and use interest rate swap and other derivative financial instruments to control its interest rate risk upon appropriate time.

As the Company repaid the loans in accordance with the repayment agreements, the balance of floating rate loans decreased from RMB1.031 billion as of December 31, 2004 to RMB 591 million as of December 31, 2006. As a result, the associated interest rate risk related to variable rate bank and other loans to which the Company is exposed has decreased. The balance of fixed rate loans increased from RMB 24.567 billion as of December 31, 2004 to RMB45.663 billion as of December 31, 2006 to cover the expenditure on construction and acquisitions. As a result of the increased scale of the fixed rate loans, the interest rate risk related to fixed rate loans has increased.

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

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2006 (the "Evaluation Date"), the end of the fiscal year covered by this annual report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our chairman of the board, or principal executive officer, and chief accountant, or principal financial officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of the end of the period covered by this annual report. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2006 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2006, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16D   Reserved

ITEM 16A   Audit Committee Financial Expert

The Board of Directors has determined that Mr. Xia Donglin and Mr. Liu Jipeng qualify as Audit Committee Financial Experts in accordance with the terms of Item 16A of Form 20-F. Mr. Xia Donglin and Mr. Liu Jipeng were respectively appointed as our independent non-executive directors on May 11, 2005. 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.

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, 2006, 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:

	For the year ended December 31,	
(RMB millions)	2006	2005

Audit fees	42.4	18.0
Audit-related fees	1.5	12.5
Tax fees	-	-
All other fees	-	-
Total	43.9	30.5

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 and internal control over financial reporting 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-76 following Item 19.

ITEM 18 Financial Statements

Not applicable.

ITEM 19 Exhibit

1.1	Articles of Association amended and adopted by the shareholders' meeting on June 13, 2006.
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. Amendment to Shareholders' Agreement dated May 12, 2006.
8	A list of subsidiaries.
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 shareholders of Huaneng Power International, Inc.

We have completed an integrated audit of Huaneng Power International, Inc. (the "Company")'s 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flows present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with International Financial Reporting Standards ("IFRS"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences is presented in the note 38 to the consolidated financial statements.

Internal control over financial reporting

Also, in our opinion, management's assessment included in Item 15 appearing on page 81 of the 2006 Annual Report to Shareholders, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers

Certified Public Accountants

Hong Kong
April 3, 2007

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

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

		For the year ended December 31,		
	Note	2006		2005
		RMB	US$	RMB
Operating revenue		44,301,403	5,673,339	40,190,004
Sales tax		(148,057)	(18,960)	(113,475)
Operating expenses				
Fuel		(22,608,151)	(2,895,252)	(21,202,952)
Maintenance		(1,306,888)	(167,363)	(1,165,374)
Depreciation		(6,719,158)	(860,471)	(6,167,692)
Labor		(2,886,767)	(369,686)	(2,487,098)
Service fees to HIPDC	7(b)	(140,771)	(18,027)	(141,102)
Others		(1,933,200)	(247,570)	(1,903,345)

Total operating expense		(35,594,935)	(4,558,369)	(33,067,563)
Profit from operations		8,558,411	1,096,010	7,008,966
Interest income		51,910	6,648	53,685
Interest expense		(1,591,033)	(203,751)	(1,426,609)
Bank charges and exchange gain / (losses), net		67,819	8,684	248,533
Total financial expense, net		(1,471,304)	(188,419)	(1,124,391)
Share of profit of associates	11	790,629	101,250	644,376
Investment income, net		128,595	16,468	60,872
Other income, net	5	10,442	1,337	2,385
Profit before tax	6	8,016,773	1,026,646	6,592,208
Income tax expense	30	(1,127,699)	(144,415)	(1,044,297)
Profit for the year		6,889,074	882,231	5,547,911
Attributable to:				
Equity holders of the Company		6,071,154	777,486	4,871,794
Minority interests		817,920	104,745	676,117
		6,889,074	882,231	5,547,911
Dividends paid		3,013,846	385,960	3,022,096
Proposed dividend	21	3,375,507	432,275	3,013,846
Proposed dividend per share (expressed in RMB per share)	21	0.28	0.04	0.25
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)				
- Basic	31	0.50	0.06	0.40
- Diluted	31	0.50	0.06	0.40

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005

(Amounts expressed in thousands of RMB or US$)

	Note	As of December 31, 2006 RMB	2006 US$
ASSETS			
Non-current assets			
Property, plant and equipment, net	10	90,444,225	11,582,495
Investments in associates	11	5,418,213	693,869
Available-for-sale investment	13	1,458,759	186,812
Land use rights	14	2,013,480	257,851
Deferred income tax assets	27	98,429	12,605
Goodwill	15	671,796	86,032
Other non-current assets		269,404	34,499
Total non-current assets		100,374,306	12,854,163
Current assets			
Inventories, net	16	2,121,489	271,683
Other receivables and assets, net	17	615,488	78,821
Accounts receivable, net	18	6,977,493	893,554
Financial assets at fair value through profit or loss		100,180	12,829
Due from HIPDC	7(a)(v)	-	-
Due from other related parties	7(a)(v)	621	80
Restricted cash		203,863	26,107
Temporary cash investment		-	-
Cash and cash equivalents	32(a)	3,207,192	410,720
Total current assets		13,226,326	1,693,794
Total assets		113,600,632	14,547,957

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONT'D)
AS OF DECEMBER 31, 2006 AND 2005

(Amounts expressed in thousands of RMB or US$)

	Note	As of December 31, 2006 RMB	US$
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company			
Domestic shares, par value of RMB1.00 each, in form of legal person shares	19	-	-
A shares, par value of RMB1.00 each	19	9,000,000	1,152,561
Overseas listed foreign shares, par value of RMB1.00 each	19	3,055,383	391,279
Additional paid-in capital		8,988,973	1,151,148
Dedicated capital	20	5,454,467	698,512
Fair value gains from available-for-sale investment, net of tax	13 & 27	998,825	127,912
Retained earnings			
Proposed dividend	21	3,375,507	432,275
Others		12,584,354	1,611,581
		43,457,509	5,565,268
Minority interests in equity		7,151,183	915,797
Total equity		50,608,692	6,481,065
NON-CURRENT LIABILITIES			
Long-term loans from Huaneng Group	22	2,800,000	358,574
Long-term bank loans	22	32,065,840	4,106,425
Other long-term loans	22	232,779	29,810
Deferred income tax liabilities	27	1,078,897	138,166
Other non-current liabilities		309,930	39,691
Total non-current liabilities		36,487,446	4,672,666
CURRENT LIABILITIES			
Accounts payable and other liabilities	23	8,375,705	1,072,612
Taxes payables	24	1,180,318	151,154
Due to Huaneng Group	7(a)(v)	44,592	5,711
Due to HIPDC	7(a)(v)	79,730	10,210
Due to associates	7(a)(vi)	83,512	10,695
Due to other related parties	7(a)(v)	65,795	8,426
Salary and welfare payables		441,590	56,551
Short-term bonds	25	5,077,577	650,246
Short-term loans	26	7,823,720	1,001,923
Current portion of long-term bank loans	22	3,140,393	402,166

Current portion of other long-term loans	22	191,562	24,532
Total current liabilities		26,504,494	3,394,226
Total equity and liabilities		113,600,632	14,547,957

These consolidated financial statements have been approved for issue by the Board of Directors on April 3, 2007.

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

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Com			
	Share capital	Additional paid-in capital	Dedicated capi	
			Statutory and discretionary surplus reserve funds	Statutory public welfare fund
Balance as of January 1, 2004	6,027,671	10,780,133	2,867,721	1,460,702
Minority interests arising on business combinations	-	-	-	-
Capital injection from minority shareholders of subsidiaries	-	-	-	-
Dividends relating to 2003	-	-	-	-
Ordinary shares split	6,027,671	(1,808,301)	(1,205,534)	-
Profit for the year ended December 31, 2004	-	-	-	-
Conversion of convertible notes to share capital and redemption of convertible notes	41	352	(4)	-
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	1,600	(1,600)
Transfer to dedicated capital (Note 20)	-	-	538,906	404,179
Balance as of December 31, 2004	12,055,383	8,972,184	2,202,689	1,863,281

Balance as of January 1, 2005	12,055,383	8,972,184	2,202,689	1,863,281
Effect of changes in accounting policy	-	-	-	-
Balance as of January 1, 2005, as restated	12,055,383	8,972,184	2,202,689	1,863,281
Minority interests arising on business combinations	-	-	-	-
Capital injection from minority shareholders of subsidiaries	-	-	-	-
Dividends waived by a shareholder of an associate	-	15,923	-	-
Dividends relating to 2004	-	-	-	-
Dividends relating to 2005	-	-	-	-
Profit for the year ended December 31, 2005	-	-	-	-
Fair value gains from available-for-sale investment - gross (Note 13)	-	-	-	-
Fair value gains from available-for-sale investment - tax (Note 27)	-	-	-	-
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	3,473	(3,473)
Transfer to dedicated capital (Note 20)	-	-	476,262	357,197
Balance as of December 31, 2005	12,055,383	8,988,107	2,682,424	2,217,005

	Attributable to equity holders of the Company			Mi in
	Available-for-sale investment revaluation reserve	Equity component of convertible notes	Retained earnings	
Balance as of January 1, 2004	-	255	12,818,873	1,1
Minority interests arising on business combinations	-	-	-	1,3
Capital injection from minority shareholders of subsidiaries	-	-	-	6
Dividends relating to 2003	-	-	(3,013,836)	(1
Ordinary shares split	-	-	(3,013,836)	
Profit for the year ended December 31, 2004	-	-	5,323,876	2
Conversion of convertible notes to share capital and redemption of convertible notes	-	(255)	(10)	
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	-	
Transfer to dedicated capital (Note 20)	-	-	(943,085)	
Balance as of December 31, 2004	-	-	11,171,982	3,2
Balance as of January 1, 2005	-	-	11,171,982	3,2
Effect of changes in accounting policy	-	-	1,261,120	
Balance as of January 1, 2005, as restated	-	-	12,433,102	3,2
Minority interests arising on business combinations	-	-	-	1,9
Capital injection from minority shareholders of subsidiaries	-	-	-	5
Dividends waived by a shareholder of an associate	-	-	-	
Dividends relating to 2004	-	-	(3,013,846)	(1

Dividends relating to 2005	-	-	-	(2
Profit for the year ended December 31, 2005	-	-	4,871,794	6
Fair value gains from available-for-sale investment - gross (Note 13)	749,369	-	-	
Fair value gains from available-for-sale investment - tax (Note 27)	(112,405)	-	-	
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	-	
Transfer to dedicated capital (Note 20)	-	-	(833,459)	
Balance as of December 31, 2005	636,964	-	13,457,591	6,1

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Amounts expressed in thousands of RMB)

	Attributable to equity holders of		
	Share capital	Additional paid-in capital	Dedi
			Statutory and discretionary surplus reserve funds
Balance as of January 1, 2006	12,055,383	8,988,107	2,682,424
Net capital injection from minority shareholders of subsidiaries	-	-	-
Dividends waived by a shareholder of a subsidiary	-	866	-
Dividends relating to 2005	-	-	-
Profit for the year ended December 31, 2006	-	-	-
Fair value gains from available-for-sale investment - gross (Note 13)	-	-	-
Fair value gains from available-for-sale investment - tax (Note 27)	-	-	-
Transfer from statutory public welfare fund to statutory surplus reserve fund	-	-	2,217,005
Transfer to dedicated capital (Note 20)	-	-	555,038
Balance as of December 31, 2006	12,055,383	8,988,973	5,454,467

	Attributable to equity holders of the Company		Minori interes
	Available-for-sale investment revaluation reserve	Retained earnings	
Balance as of January 1, 2006	636,964	13,457,591	6,10
Net capital injection from minority shareholders of subsidiaries	-	-	58
Dividends waived by a shareholder of a subsidiary	-	-	
Dividends relating to 2005	-	(3,013,846)	(36
Profit for the year ended December 31, 2006	-	6,071,154	81
Fair value gains from available-for-sale investment - gross (Note 13)	425,769	-	
Fair value gains from available-for-sale investment - tax (Note 27)	(63,908)	-	
Transfer from statutory public welfare fund to statutory surplus reserve fund	-	-	
Transfer to dedicated capital (Note 20)	-	(555,038)	
Balance as of December 31, 2006	998,825	15,959,861	7,15

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Amounts expressed in thousands of RMB or US$)

	Note	For the year ended December 31,		
		2006		2005
		RMB	US$	RMB
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		8,016,773	1,026,646	6,592,208
Adjustments to reconcile profit before tax to net cash provided by operating activities:				

Depreciation	6,721,684	860,794	6,172,866
Impairment loss on property, plant and equipment	11,920	1,527	30,080
Amortization of land use rights	42,484	5,441	36,429
Amortization of goodwill and negative goodwill	-	-	-
Amortization of other non-current assets	15,719	2,013	15,297
Amortization of housing loss	38,810	4,970	39,258
Amortization of bonds issuance expense	19,052	2,440	-
Write off of excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	(24,758)	(3,171)	-
(Reversal of) / Provision for doubtful accounts	(4,853)	(621)	49,869
Provision for inventory obsolescence	1,808	232	31,724
Investment income, net	(128,595)	(16,468)	(60,872)
Loss / (Gain) on disposals / write-off of property, plant and equipment, net	100,018	12,809	145,762
Unrealized exchange (gains) / losses, net	(116,028)	(3,874)	(294,281)
Gain on interest rate swaps	-	-	-
Share of profit of associates	(790,629)	(101,250)	(644,376)
Interest income	(51,910)	(6,648)	(53,685)
Interest expense	1,591,033	203,751	1,426,609
Changes in working capital:			
Inventories, net	188,060	24,083	(831,622)
Other receivables and assets, net	(106,505)	(13,639)	265,320
Accounts receivable, net	(883,033)	(113,083)	(596,517)
Due from HIPDC	-	-	(21,847)
Due from other related parties	(621)	(80)	14,970
Restricted cash	(2,587)	(331)	1,412
Other non-current liabilities	183,003	23,436	91,188
Accounts payable and other liabilities	39,378	5,043	574,654
Taxes payable	151,412	19,390	(69,569)
Due to Huaneng Group	(6,128)	(785)	6,128
Due to HIPDC	26,500	3,394	(1,205,569)
Due to associates	83,512	10,695	(3,799)
Due to other related parties	36,176	4,633	20,183
Salary and welfare payables	189,641	24,286	(23,653)
Others	1,790	229	-
Interest paid	(2,507,354)	(321,097)	(1,965,094)
Interest received	53,444	6,844	52,475
Income tax paid	(1,394,503)	(178,583)	(1,114,698)
Net cash provided by operating activities	11,494,713	1,483,026	8,680,850

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Amounts expressed in thousands of RMB or US$)

		For the year ended December 31,		
	Note	2006		2005
		RMB	US$	RMB
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(15,998,575)	(2,048,814)	(13,842,293)
Proceeds from disposals of property, plant and equipment, net		32,180	4,121	32,098
Prepayments of land use rights		(250,627)	(32,096)	(99,745)
(Increase) / Decrease in other non-current assets		(8,973)	(1,149)	15,766
Decrease in temporary cash investments		2,652	340	9,989
Proceeds from disposals of investments		-	-	-
Cash dividend received		482,609	61,804	429,589
Capital injections in associates		(174,918)	(22,400)	-
Cash consideration paid for acquisitions		-	-	(2,528,300)
Direct transaction costs paid for acquisitions		-	-	(16,698)
Cash from the power plants acquisitions		-	-	566,704
Net cash inflow on disposals of a subsidiary and other investment		110	13	19,521
Net cash used in investing activities		(15,915,542)	(2,038,181)	(15,413,369)
CASH FLOWS FROM FINANCING ACTIVITIES				
Bonds issuance expense paid		(20,000)	(2,561)	(22,500)
Drawdown of short-term bonds		5,000,000	640,311	4,862,200
Repayments of short-term bonds		(4,862,200)	(622,664)	-
Drawdown of short-term loans		14,458,700	1,851,614	11,657,569
Repayments of short-term loans		(13,215,850)	(1,692,452)	(13,670,000)
Drawdown of long-term loans from Huaneng Group		-	-	2,000,000
Repayments of long-term loans from shareholders		-	-	-
Drawdown of long-term bank loans		9,982,982	1,278,444	8,297,018
Repayments of long-term bank loans		(3,010,623)	(385,547)	(2,933,870)
Drawdown of other long-term loans		40,000	5,122	-
Repayments of other long-term loans		(472,154)	(60,465)	(351,118)
Net capital injection from minority shareholders of the subsidiaries		588,708	75,391	585,702
Dividends paid to shareholders of the Company		(3,013,846)	(385,960)	(3,022,096)
Dividends paid to minority shareholders of the subsidiaries		(495,361)	(63,437)	(318,252)
Redemption of convertible notes		-	-	-
Net cash provided by financing				

activities		4,980,356	637,796	7,084,653
		559,527	82,641	352,134
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents, beginning of the year		2,647,665	328,079	2,295,531
CASH AND CASH EQUIVALENTS, END OF THE YEAR	32(a)	3,207,192	410,720	2,647,665

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and financial assets at fair value through profit or loss. 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 to 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, 2006 financial statements have been translated into United States Dollars (US$) at the rate of US$1.00=RMB 7.8087 announced by the People's Bank of China on December 31, 2006. No representation is made that Renminbi amounts could have been, or could be, converted into United States Dollars at the rate on December 31, 2006, or at any other certain rate.

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

During 2006, 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 2006, the Company and its subsidiaries have a negative working capital balance of approximately RMB13.3 billion (2005: RMB11.0 billion). The Company and its subsidiaries have significant undrawn available banking facilities amounting to approximately RMB25.61 billion (2005: RMB22.57 billion). The Company and its subsidiaries may refinance and / or restructure certain short-term loans into long-term loans and will also consider alternative sources of financing, where applicable. The Directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these financial statements on a going concern basis.

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

International Financial Reporting Interpretations Committee Interpretation ("IFRIC Interpretation") 4, `Determining whether an arrangement contains a lease', effective for annual periods beginning on or after January 1, 2006. This interpretation had no material impact on the accounting policies of the Company and its subsidiaries.

(b) Consolidation

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

(i) Subsidiaries

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Consolidation (cont'd)

(i) Subsidiaries (cont'd)

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

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

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

(ii) Transactions with minority interests

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

(iii) Associates

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Consolidation (cont'd)

(iii) Associates (cont'd)

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(d) Property, plant and equipment, net

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

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

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

Dam	45 - 55 years

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

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

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

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

(e) Goodwill

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

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

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(g) Financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale investments

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

(v) Recognition and derecognition of financial assets

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(g) Financial assets (cont'd)

(v) Recognition and derecognition of financial assets (cont'd)

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

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

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

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

(h) Inventories

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Receivables

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

(j) Related parties

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

(k) Cash and cash equivalents

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

(l) Accounts payables

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

(m) Borrowings

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(n) Taxation

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

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

(ii) Income tax expense

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

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

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

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

(iii) Deferred income tax

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(o) Employee benefits

(i) Pension obligations

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

(ii) Termination benefits

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

(p) Revenue and income recognition

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

(i) Operating revenue

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

(ii) Management service income

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

(iii) Interest income

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

(iv) Dividend income

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

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(q) Operating leases

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

(r) Borrowing costs

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

(s) Financial guarantee contracts

(i) Classification

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

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

(ii) Liability adequacy test

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

(t) Dividend distribution

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

(u) Contingencies

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

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

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

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

o IFRS 7, Financial Instruments: Disclosures and a complementary amendment to International Accounting Standard ("IAS") 1, Presentation of Financial Statements - Capital Disclosures (effective from annual periods beginning on or after January 1, 2007). IFRS 7 introduces new disclosures relating to financial instruments. This standard introduces certain revised disclosure requirements, including the mandatory disclosures on sensitivity analysis for each type of market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation and is applicable to all entities reporting under IFRS. The amendment to IAS 1 introduces disclosures on the objectives, policies and processes for managing capital. Except for an extension of disclosures, management considered there was no significant impact from adopting IFRS 7 and the amendment to IAS 1 on the financial statements of the Company and its subsidiaries and will apply these standards from January 1, 2007.

- IFRS 8, Operating Segments (effective from periods beginning on or after January 1, 2009). This standard replaces IAS 14, Segment Reporting and specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. This standard also sets out requirements for related disclosures about products and services, geographical areas and major customers. Management is currently assessing the impact of this IFRS on the accounting policies of the Company and its subsidiaries. The Company and its subsidiaries will apply IFRS 8 from January 1, 2009.

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

3. FINANCIAL AND INSURANCE RISKS MANAGEMENT

(a) Financial risk factors

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

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

(i) Market risk

(1) Foreign exchange risk

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

(2) Price risk

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

(ii) Credit risk

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

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

3. FINANCIAL AND INSURANCE RISKS MANAGEMENT (CONT'D)

(a) Financial risk factors (cont'd)

(ii) Credit risk (cont'd)

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

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

Due to the dynamic nature of the underlying businesses, the Company and its subsidiaries aim to maintain flexibility in funding by maintaining availability under committed credit facilities.

(iv) Cash flow and fair value interest rate risk

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

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

(b) Insurance risk factor

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

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

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

3. FINANCIAL AND INSURANCE RISKS MANAGEMENT (CONT'D)

(c) Fair value estimation

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of goodwill

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

(Amounts expressed in thousands of RMB unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

(b) Useful lives of property, plant and equipment

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

(c) Estimated impairment of property, plant and equipment

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

(d) Fair value of derivatives

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

5. OTHER INCOME, NET

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

(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROFIT BEFORE TAX

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

	For the year ended December	
	2006	2005
Interest expense on bank loans:		
- wholly repayable within five years	1,327,990	881,823
- not wholly repayable within five years	833,739	1,021,467
Interest expense on long-term loans from Huaneng Group:		

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

(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS

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

Names of related parties	Nature of relationship

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

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

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

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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7. RELATED PARTY BALANCES AND TRANSACTIONS (CONT'D)

(a) Related party balances

(i) As of December 31, 2006, current deposits of approximately RMB 2,247 million (2005: RMB 1,768 million) were placed with Huaneng Finance, a non-bank PRC financial institution, which bore interest that ranged from 0.72% to 1.62% (2005 and 2004: from 0.72% to 1.62% and from 0.72% to 1.44%) per annum.

(ii) As described in Note 22, certain loans of the Company and its subsidiaries were borrowed from Huaneng Group.

(iii) As of December 31, 2006, long-term loans (including current portion) from Huaneng Finance amounted to RMB 80 million (2005: RMB 80 million), with interest at 5.18% and 5.67% (2005 and 2004: 5.18% and N/A) per annum.

(iv) As of December 31, 2006, short-term loans amounting to approximately RMB 2,485 million (2005: RMB 2,008 million) were borrowed from Huaneng Finance, which bore interest that ranged from 4.70% to 5.51% (2005 and 2004: from 4.70% to 5.02% and from 4.54% to 5.02%) per annum.

(v) As of December 31, 2006, balances with Huaneng Group, HIPDC, and other related parties are unsecured, non-interest bearing and receivable / repayable within one year. As of and for the years ended December 31, 2005 and 2006, no provision is made on receivable balances from these parties.

(vi) Including in balances with associates, a balance with an associate amounted to approximately RMB 77 million is unsecured, interest bearing at 5.265% (2005 and 2004: nil) per annum and repayable within one year as of December 31, 2006 (2005 and 2004: nil). All the remaining balances are unsecured, non-interest bearing and repayable within one year.

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7. RELATED PARTY BALANCES AND TRANSACTIONS (CONT'D)

(a) Related party balances (cont'd)

(Amounts expressed in thousands of RMB unless otherwise stated)

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

	As of December 31, 2006	As of December 31, 2005
	RMB million	RMB million
Non-current assets		
Available-for-sale investment	1,459	1,033
Other non-current assets	69	50
Current assets		
Other receivable and assets, net	348	195
Accounts receivable, net	6,914	5,333
Temporary cash investments	-	3
Cash at banks	856	851
Non-current liabilities		
Long-term bank loans	27,133	19,445
Other long-term loans	60	130
Current liabilities		
Accounts payable and other liabilities	2,822	2,777
Short-term bonds	5,078	4,780
Short-term loans	4,071	4,973
Current portion of long-term bank loans	2,272	1,761
Current portion of other long-term loans	114	70

Except for available-for-sale investment, other non-current assets, temporary cash investment, cash at banks, loans and short-term bonds stated above, all the balances of assets and liabilities with state-owned enterprises mentioned above are unsecured, non-interest bearing and receivable or repayable within one year. Available-for-sale investment is unsecured and non-interest bearing. Except for long-term receivables including in other non-current assets which are unsecured, interest-bearing at 5.832% (2005 and 2004: 5.508% and N/A) per annum and is receivable in accordance with specified repayment schedules, all the remaining balances of other non-current assets are unsecured, non-interest bearing and receivable after more than 12 months. As of December 31, 2006, approximately RMB 51 million provision has been made on the receivable balances (2005: RMB 58 million).

Terms of the long-term loans, short-term bonds, short-term loans and cash at banks, are described in Notes 22, 25, 26 and 32(a). For the year ended December 31, 2006, the interest rates of notes payable, short-term loans and long-term loans from state-owned enterprises are from 2.70% to 3.24%, from 4.30% to 5.51% and from 3.60% to 6.84% (2005: nil, from 4.54% to 5.76% and from 3.60% to 5.12%; 2004: nil, from 4.30% to 5.02% and from 3.60% to 5.76%) per annum respectively.

7. RELATED PARTY BALANCES AND TRANSACTIONS (CONT'D)

(b) Related party transactions

	For the year ended D	
	2006	2
Huaneng Group		
Management service fee income for management services rendered to certain power plants	39,099	31,
Less: related expenses	(29,708)	(29,
Management service fee income, net	9,391	2,
Acquisition of equity interest in Huaneng Finance from Huaneng Group	(126,000)	
Interest expense on long-term loans	(139,946)	(35,
HIPDC		
Management service fee income for management services rendered to certain power plants	4,378	3,
Less: related expenses	(3,327)	(3,
Management service fee income, net	1,051	
Service fees expenses on transmission and transformer facilities	(140,771)	(141,
Rental charge on land use rights of Huaneng Nanjing Power Plant	(1,334)	(1,
Rental charge on office building	(26,000)	(26,
Huaneng Finance		
Discounting of notes receivable	114,150	298,
Discounting charges	(1,086)	(2,
Drawdown of short-term loans	3,374,700	2,127,
Drawdown of long-term loans	40,000	
Issuance of short-term bonds	900,000	
Interest on short-term and long-term loans	(128,414)	(104,
Huaneng Capital Service		
Issuance of short-term bonds	250,000	
Greatwall Securities		
Issuance of short-term bonds	300,000	
CHITEC		
Purchase of coal from CHITEC	(139,972)	(284,
Purchase of equipment from CHITEC	(34,055)	(11,
Time Shipping		
Purchase of coal from Time Shipping and service fee paid for transportation	(735,081)	(606,
Huaneng Jingyuan		

Purchase of coal from Huaneng Jingyuan	(49,159)	(241,
Shifen Company		
Purchase of lime from Shifen Company	(47,235)	(42,
Xinrui		
Technical services and industry-specific technological project contracting services	(9,425)	(24,
Xi'an Thermal and its subsidiaries		
Technical services and industry-specific technological project contracting services	(94,723)	(55,

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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7. RELATED PARTY BALANCES AND TRANSACTIONS (CONT'D)

(b) Related party transactions (cont'd)

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

(c) Guarantees

		As of December
		2006
(i)	Short-term loan guaranteed by a state-owned bank	1,000,000
(ii)	Long-term loans guaranteed by	
	- Huaneng Group	6,249,089
	- HIPDC	2,693,280
	- State-owned enterprises	353,250
(iii)	Certain long-term bank loans of Rizhao Power Company guaranteed by the Company	(123,250)
(iv)	Purchase settlements guaranteed by a state-owned bank	80,000

(Amounts expressed in thousands of RMB unless otherwise stated)

7. RELATED PARTY BALANCES AND TRANSACTIONS (CONT'D)

(d) Key management personnel compensation

	For the year ended December 31,		
	2006	2005	2004
Salaries and other short-term employee benefits	5,670	6,049	7,367
Post-employment benefits	1,616	1,413	1,119
Total	7,286	7,462	8,486

8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension upon their retirements. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the publicly administered retirement plan at a specified rate, currently set at 18% to 22% (2005 and 2004: 18% to 22% and 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, 2006 were approximately RMB 278 million (2005 and 2004: RMB 227 million and RMB 167 million).

(Amounts expressed in thousands of RMB unless otherwise stated)

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, 2006 totaled approximately RMB 238 million (2005 and 2004: approximately RMB 181 million and RMB 132 million).

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

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

(a) Directors' and supervisors' emoluments

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

	Fees	Basic salaries and allowances	Discretionary bonuses	Employer' contribution to pensio scheme
Name of director				
Mr. Li Xiaopeng	-	-	-	
Mr. Huang Yongda	-	-	-	
Mr. Wang Xiaosong(1)	-	-	-	
Mr. Na Xizhi	-	225	310	17
Mr. Huang Long	-	150	350	16
Mr. Wu Dawei	-	21	121	2
Mr. Shan Qunying	40	-	-	
Mr. Xu Zujian	40	-	-	
Mr. Liu Shuyuan	40	-	-	
Mr. Qian Zhongwei	60	-	-	
Mr. Xia Donglin	60	-	-	
Mr. Liu Jipeng	60	-	-	
Mr. Wu Yusheng	60	-	-	
Mr. Yu Ning	60	-	-	
Mr. Ding Shida	40	-	-	
Sub-total	460	396	781	36
Name of supervisor				

Mr. Guo Junming(2)	-	-	-	
Mr. Shen Zongmin	40	-	-	
Ms. Yu Ying	40	-	-	
Ms. Zou Cui	-	128	398	15
Mr. Wang Zhaobin	-	126	382	13
Mr. Gu Jianguo	40	-	-	
Sub-total	120	254	780	29
Total	580	650	1,561	65

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9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS (CONT'D)

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

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

	Fees	Basic salaries and allowances	Discretionary bonuses	Employer' contribution to pensio scheme
Name of director				
Mr. Li Xiaopeng(3)	-	-	-	
Mr. Huang Yongda(3)	-	-	-	
Mr. Wang Xiaosong(3)	-	-	-	
Mr. Na Xizhi(3)	-	96	313	10
Mr. Ye Daji(4)	-	78	66	6
Mr. Huang Jinkai(4)	-	43	195	7
Mr. Liu Jinlong(4)	-	-	-	
Mr. Huang Long(5)	-	91	375	10
Mr. Wu Dawei(5)	-	-	147	
Mr. Shan Qunying(3)	40	-	-	
Mr. Yang Shengming(7)	20	-	-	
Mr. Xu Zujian(3)	40	-	-	
Mr. Liu Shuyuan(3)	40	-	-	
Mr. Gao Zongze(4)	30	-	-	
Mr. Zheng Jianchao(4)	30	-	-	
Mr. Qian Zhongwei(3)	60	-	-	
Mr. Xia Donglin(3)	60	-	-	
Mr. Liu Jipeng(3)	60	-	-	
Mr. Wu Yusheng(5)	60	-	-	
Mr. Yu Ning(5)	60	-	-	
Mr. Ding Shida(7)	20	-	-	
Sub-total	520	308	1,096	35

Name of supervisor				
Mr. Wei Yunpeng(4)	-	-	-	
Mr. Li Yonglin(4)	20	-	-	
Mr. Pan Jianmin(4)	-	-	-	
Mr. Zhao Xisheng(4)	-	35	128	4
Mr. Ye Dajis (5) and (6)	-	155	165	13
Mr. Shen Weibing(7)	20	-	-	
Mr. Shen Zongmin(3)	40	-	-	
Ms. Yu Ying(5)	40	-	-	
Ms. Zou Cui(5)	-	83	282	8
Mr. Wang Zhaobin(5)	-	80	259	7
Mr. Gu Jianguo(7)	20	-	-	
Sub-total	140	353	834	34
Total	660	661	1,930	69

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS (CONT'D)

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

The remuneration of every director and supervisor of the Company for the year ended December 31, 2004 is set out below:

	Fees	Basic salaries and allowances	Discretionary bonuses	Employer' contribution to pensio scheme
Name of director				
Mr. Li Xiaopeng	-	-	-	
Mr. Huang Yongda	-	-	-	
Mr. Wang Xiaosong	-	-	-	
Mr. Ye Daji	-	135	579	10
Mr. Huang Jinkai	-	147	702	12
Mr. Liu Jinlong	-	-	-	
Mr. Shan Qunying	40	-	-	
Mr. Yang Shengming	40	-	-	
Mr. Xu Zujian	40	-	-	
Mr. Liu Shuyuan	20	-	-	
Mr. Gao Zongze	60	-	-	
Mr. Zheng Jianchao	60	-	-	
Mr. Qian Zhongwei	60	-	-	

(Amounts expressed in thousands of RMB unless otherwise stated)

Mr. Xia Donglin	60	-	-	
Mr. Liu Jipeng	30	-	-	
Sub-total	410	282	1,281	22
Name of supervisor				
Mr. Wei Yunpeng	-	-	-	
Mr. Li Yonglin	40	-	-	
Mr. Pan Jianmin	-	-	-	
Mr. Shen Weibing	40	-	-	
Mr. Shen Zongmin	40	-	-	
Mr. Zhao Xisheng	-	120	380	8
Mr. Liu Shuyuan	20	-	-	
Sub-total	140	120	380	8
Total	550	402	1,661	31

1 Mr. Wang Xiaosong resigned from the capacity of director on March 7, 2006.
2 Appointed on January 18, 2006.
3 Retired and re-appointed on May 11, 2005.
4 Retired on May 11, 2005.
5 Appointed on May 11, 2005.
6 Mr. Ye Daji resigned from the capacity of supervisor on November 30, 2005.
7 Mr. Yang Shengming and Mr. Shen Weibing retired and re-appointed on May 11, 2005 in the capacities of director and supervisor respectively. They resigned on August 9, 2005 and Mr. Ding Shida and Mr. Gu Jianguo filled their roles of director and supervisor on November 17, 2005 respectively.

9. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT' EMOLUMENTS (CONT'D)

(a) Directors' and Supervisors' emoluments (cont'd)

During the year, no option was granted to the directors or the supervisors (2005 and 2004: nil).

During the year, no emolument was paid to the directors or the supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (2005 and 2004: nil).

No director or supervisors had waived or agreed to waive any emoluments during the years 2004, 2005 and 2006.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiaries for the year include one (2005 and 2004: one and two) Director whose emoluments is reflected in the analysis presented above. The emoluments payable to the remaining four (2005 and 2004: four and three) individuals during the year are as follows:

	For the year ended December 31,		
	2006	2005	2004
Basic salaries and allowances	551	510	370
Discretionary bonuses	1,776	2,233	1,499
Employer's contributions to pension schemes	702	614	294
	3,029	3,357	2,163

The annual emoluments paid to these individuals during the years 2004, 2005 and 2006 fell within the range of nil to RMB 1 million.

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10. PROPERTY, PLANT AND EQUIPMENT, NET

	Dam	Buildings	Electric utility plant in service	Transportation facilities	Others	Co in
As of January 1, 2005						
Cost	-	2,043,071	69,067,394	413,254	1,651,129	9
Accumulated depreciation	-	(401,567)	(23,185,836)	(110,873)	(722,736)	
Net book value	-	1,641,504	45,881,558	302,381	928,393	9
Year ended December 31, 2005						
Beginning of the year	-	1,641,504	45,881,558	302,381	928,393	9
Reclassification	-	(313,831)	382,632	(186,118)	117,317	
Acquisitions	2,100,903	443,531	7,080,422	35,415	211,763	2
Additions	-	9,032	64,715	676	94,217	15
Transfer from CIP	464,950	31,393	3,935,984	4,726	1,838,292	(6
Disposals / Write-off	-	(10,626)	(117,592)	-	(11,047)	

Disposal of a subsidiary	-	-	-	-	(687)	
Depreciation charge	(74,187)	(99,905)	(5,720,294)	(16,328)	(272,798)	
Impairment charge	-	-	(30,080)	-	-	
End of the year	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20
As of December 31, 2005						
Cost	2,565,853	2,168,543	80,113,023	223,816	3,910,861	20
Accumulated depreciation	(74,187)	(467,445)	(28,605,598)	(83,064)	(1,005,411)	
Accumulated impairment loss	-	-	(30,080)	-	-	
Net book value	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20
Year ended December 31, 2006						
Beginning of the year	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20
Reclassification	-	(84,198)	1,748,053	(1,167)	(1,662,688)	
Additions	-	8,295	21,886	39	98,117	18
Transfer from CIP	987,317	50,504	24,967,179	276	84,012	(26
Disposals / Write-off	-	(16,284)	(225,963)	(59)	(5,936)	
Depreciation charge	(95,558)	(97,878)	(6,270,573)	(15,932)	(248,155)	
Impairment charge	-	-	(42,000)	-	-	
Reversal of impairment charge	-	-	30,080	-	-	
End of the year	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12
As of December 31, 2006						
Cost	3,553,170	2,053,942	106,111,993	224,007	2,386,701	12
Accumulated depreciation	(169,745)	(492,405)	(34,363,986)	(100,098)	(1,215,901)	
Accumulated impairment loss	-	-	(42,000)	-	-	
Net book value	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12

(Amounts expressed in thousands of RMB unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT, NET (CONT'D)

Interest expense of approximately RMB 892 million (2005 and 2004: approximately RMB 703 million and RMB 332 million) arising on borrowings for the construction of power plants were capitalized during the year are included in `Additions' in property plant and equipment. A capitalization rate of approximately 5.25% (2005 and 2004: 5.27% and 4.38%) per annum was used, representing the interest rate of the loan used to finance the projects.

In 2006, there were impairment losses of certain property, plant and equipment in Huaneng Shantou Oil-Fired Power Plant amounting to RMB 42 million. The recoverable amount is determined based on fair value less costs to sell based on the bidding price and the valuation performed by an independent valuer.

In 2005, there were impairment losses of certain property, plant and equipment amounting to RMB 30 million in Huaneng Dandong Power Plant ("Dandong Power Plant") due to the continued loss incurred in the operations. In 2006, as a result of changes in the local power market regulations, the tariff of Dandong Power Plant increased and this led to an increase in recoverable amount of related property, plant and equipment based on the value-in-use calculations as of year end. An impairment charge of RMB 30 million recorded in 2005 was, thus, reversed. A discount rate of approximately 7.76% was applied.

There was no impairment of any property, plant and equipment in 2004.

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVESTMENTS IN ASSOCIATES

	2006	2005
Beginning of the year	4,593,984	4,328,307
Additional investments	487,676	-
Share of other equity movement	157	15,923
Share of profit before tax	896,186	753,671
Share of taxation	(105,557)	(109,295)
Dividends	(454,233)	(394,622)
End of the year	5,418,213	4,593,984

Investment in associates as of December 31, 2006 included goodwill of approximately RMB 976 million (2005: RMB 976 million).

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

Name of associate	Country and date of incorporation	Percentage of equity interest		Registered and fully paid capit
		Direct	Indirect	
Rizhao Power Company	PRC March 20, 1996	34%	-	US$150,000,000
Shenzhen Energy Group Co. Ltd.	PRC	25%	-	RMB955,555,556

("SEG")	July 15, 1985			
Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Company")	PRC October 28, 1996	40%	-	RMB1,975,000,000
Shifen Company	PRC November 5,1996	-	25%	RMB50,000,000
Sichuan Jialingjiang Tourism Development Company Inc	PRC April 25, 2006	-	25%	RMB80,000,000
Huaneng Finance	PRC May 21, 1988	20%	-	RMB1,200,000,000

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11. INVESTMENTS IN ASSOCIATES (CONT'D)

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

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

12. INVESTMENTS IN SUBSIDIARIES

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

Name of Subsidiary	Country, date of incorporation and type of legal activity	Percentage of equity interest held		Registered and fully paid capit
		Direct	Indirect	

Huaneng Weihai Power Limited Liability Company	PRC November 22, 1993 Limited liability company	60%	-	RMB 761,838,300
Huaneng Huaiyin Power Generation Co., Ltd ("Huaiyin Power Company")	PRC January 26, 1995 Limited liability company	90%	-	RMB 265,000,000
Huaneng Huaiyin II Power Limited Company	PRC June 22, 2004 Limited liability company	63.64%	-	RMB 774,000,000
Huaneng (Suzhou Industrial Park) Power Generation Co., Ltd. ("Taicang Power Company")	PRC June 19, 1997 Limited liability company	75%	-	RMB 632,840,000
Huaneng Taicang Power Co., Ltd.	PRC June 18, 2004 Limited liability company	75%	-	RMB 894,410,000 and fully paid capital of RMB 804,146,700
Henan Huaneng Qinbei Power Limited Company ("Qinbei Power Company")	PRC July 12, 1995 Limited liability company	55%	-	RMB 810,000,000

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12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

Name of Subsidiary	Country, date of incorporation and type of legal activity	Percentage of equity interest held		Registered and fully paid capit
		Direct	Indirect	
Huaneng Yushe Power Generation Co., Ltd. ("Yushe Power Company")	PRC November 29, 1994 Limited liability company	60%	-	RMB 615,760,000
Huaneng Xindian Power	PRC	95%	-	RMB 100,000,000

Co., Ltd.	March 24, 2004 Limited liability company				
Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")	PRC December 16, 2003 Limited liability company	55%	-	RMB	1,055,000,000
Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Company")	PRC December 16, 2003 Limited liability company	60%	-	RMB	1,291,650,000
Huaneng Shanghai Combined Cycle Power Limited Liability Company	PRC January 13, 2005 Limited liability company	70%	-	RMB	685,800,000
Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower")	PRC July 12, 2004 Limited liability company	60%	-	RMB	800,000,000
Sichuan Huaneng Taipingyi Hydropower Limited Liability Company	PRC April 23, 1994 Limited liability company	-	60%	RMB	100,000,000
Sichuan Huaneng BaoXing River Power Co., Ltd.	PRC June 26, 1994 Limited liability company	-	68%	RMB	516,100,000
Sichuan Huaneng Dongxiguan Hydropower Limited Liability Company ("Dongxiguan Hydropower")	PRC June 29, 1994 Limited liability company	-	59.33%	RMB	156,725,000
Sichuan Huaneng Jialingjiang Hydropower Limited Liability Company	PRC September 30, 1998 Limited liability company	-	55%	RMB	193,080,000

(Amounts expressed in thousands of RMB unless otherwise stated)

12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

Name of Subsidiary	Country, date of incorporation and type of legal activity	Percentage of equity interest held		Registered and fully paid capit
		Direct	Indirect	
Sichuan Huaneng Kangding Hydroelectric Power Co., Ltd. ("Kangding Hydropower")	PRC April 14, 1997 Limited liability company	-	60%	RMB 194,000,000
Sichuan Huaneng Fujiang Hydropower Limited Liability Company	PRC March 22, 2002 Limited liability company	-	95%	RMB 150,000,000
Huaneng Mingtai Power Limited Liability Company ("Mingtai Hydropower")	PRC September 8, 1994 Limited liability company	-	52.20%	RMB 97,700,000
Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company")	PRC November 6, 1996 Limited liability company	65%	-	RMB 924,050,000

13. AVAILABLE-FOR-SALE INVESTMENT

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

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

Note:

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

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

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14. LAND USE RIGHTS

Details of land use rights are as follows:

	As of December 31,	
	2006	2005
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	1,977,738	1,562,728
Leases of over 50 years	35,742	117,037
	2,013,480	1,679,765

15. GOODWILL

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

As of January 1, 2005	
Cost	376,726
Year ended December 31, 2005:	
Opening net book value	376,726
Acquisitions	295,070
Closing net book value	671,796
As of December 31, 2005	
Cost	671,796
As of December 31, 2006	
Cost	671,796

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15. GOODWILL (CONT'D)

Impairment tests for goodwill

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

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

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

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(1) Included in investments in associates.

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

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

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

Key assumptions used for value-in-use calculations:

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

Based on the assessments, no goodwill was impaired.

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES

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16. INVENTORIES, NET

Inventories comprised:

	As of December 31, 2006	As of December 31, 2005
Fuel (coal and oil) for power generation	1,241,838	1,498,484
Material and supplies	926,191	857,605
	2,168,029	2,356,089
Less: provision for inventory obsolescence	(46,540)	(44,732)
	2,121,489	2,311,357

As of December 31, 2006, approximately RMB 606 million of the total carrying amount of inventories were carried at fair value less cost to sell (2005: RMB 670 million).

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

	2006	2005
Beginning of the year	(44,732)	(13,008)
Provision	(4,235)	(31,924)
Reversal	2,427	200
End of the year	(46,540)	(44,732)

17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised:

	As of December 31, 2006	As of December 31, 2005
Prepayments for inventories	285,465	163,435
Prepayments to contractors	149,596	137,505
Prepayment for acquisition of Huaneng Finance	-	288,000

(Amounts expressed in thousands of RMB unless otherwise stated)

Receivable from a property developer	-	66,800
Others	213,650	233,435
	648,711	889,175
Less: provision for doubtful accounts	(33,223)	(33,223)
	615,488	855,952

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

	As of December 31,	
	2006	2005
Beginning of the year	(33,223)	(42,262)
Provision	(3,732)	(3,242)
Reversal	3,474	11,806
Write-off	258	475
End of the year	(33,223)	(33,223)

18. ACCOUNTS RECEIVABLE, NET

Accounts receivable comprised:

	As of December 31,	
	2006	2005
Accounts receivable	6,232,275	4,963,326
Notes receivable	795,791	1,117,533
	7,028,066	6,080,859
Less: provision for doubtful accounts	(50,573)	(58,433)
	6,977,493	6,022,426

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.

18. ACCOUNTS RECEIVABLE, NET (CONT'D)

(Amounts expressed in thousands of RMB unless otherwise stated)

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

	2006	2005
Beginning of the year	(58,433)	-
Provision	-	(58,433)
Reversal	5,111	-
Write-off	2,749	-
End of the year	(50,573)	(58,433)

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

	2006	2005
Within 1 year	6,716,090	5,864,038
Between 1 to 2 years	114,121	3,624
Between 2 to 3 years	51,554	59,217
Over 3 years*	146,301	153,980
	7,028,066	6,080,859

*During 2005 and 2006, HIPDC had provided guarantee to the Company on the Company's share of an account receivable balance of approximately RMB 140 million recorded in the books of Yueyang Power Company when the Company acquired the subsidiary from HIPDC in 2004. The Company received the guarantee payment from HIPDC as of December 31, 2006.

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

19. AUTHORIZED SHARE CAPITAL AND PAID-IN CAPITAL

	As of December 31, 2005	Adjustment from shareholding reform
Domestic shares, par value of RMB1.00 each, in form of legal person shares	8,500,000	(8,500,000)
A shares, par value of RMB1.00 each	500,000	8,500,000
Overseas listed foreign shares, par value of RMB1.00 each	3,055,383	-
Total	12,055,383	-

As of December 31, 2006, the authorized share capital of the Company was RMB 12,055,383,440 (2005: RMB 12,055,383,440), divided into 12,055,383,440 shares (2005: 12,055,383,440 shares) of RMB 1.00 each (2005: RMB 1.00 each).

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

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

20. DEDICATED CAPITAL

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

20. DEDICATED CAPITAL (CONT'D)

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

(a) appropriate 10% (2005 and 2004: 10%) of profit attributable to equity holders of the Company as determined under the PRC accounting standards and regulations to the statutory surplus reserve fund.

(b) make no appropriation to the discretionary surplus reserve fund (2005 and 2004: nil).

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lower of the amounts determined in accordance with (a) the PRC accounting standards and regulations and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended December 31, 2006 was approximately RMB 5.00 billion (2005 and 2004: RMB 3.93 billion and RMB 4.38 billion). The cumulative balance of distributable profit as of December 31, 2006 was approximately RMB 15.30 billion (2005: RMB 13.32 billion).

21. DIVIDENDS

On April 3, 2007, the Board of Directors proposed a cash dividend of RMB 0.28 per share, totaling approximately RMB 3,376 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividends payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending December 31, 2007.

On June 13, 2006, the shareholders approved the declaration of cash dividends of RMB 0.25 per share, totaling approximately RMB 3,014 million in their annual general meeting.

On May 11, 2005, the shareholders approved the declaration of cash dividends of RMB 0.25 per ordinary share, totaling approximately RMB 3,014 million in their annual general meeting.

(Amounts expressed in thousands of RMB unless otherwise stated)

22. LONG-TERM LOANS

As of December 31,			
2006			
Original currency	Annual Interest rate	Amount	Original currency
'000			'000

Loans from Huaneng Group				
Unsecured				
RMB				
- Fixed rate	2,800,000	4.05% - 5.02%	2,800,000	2,800,000
Bank loans				
Secured				
RMB				
- Fixed rate	60,000	5.18% - 6.16%	60,000	407,000
Unsecured				
RMB				
- Fixed rate	30,035,770	3.60% - 6.84%	30,035,770	21,833,838
US$				
- Fixed rate	513,549	5.95% - 6.97%	4,010,150	611,668
- Variable rate	53,782	4.13% - 5.49%	419,969	60,109
(euro)				
- Fixed rate	66,268	2%	680,344	73,319
			35,146,233	
			35,206,233	
Other loans				
Secured				
RMB				
- Fixed rate	130,000	5.27%	130,000	200,000
Unsecured				
RMB				
- Fixed rate	123,625	4.94% - 6.12%	123,625	446,847
US$				
- Variable rate	12,857	5.80%	100,398	15,714
JPY				
- Variable rate	1,071,429	5.80%	70,318	1,309,524
			294,341	
			424,341	

The interest rates of all variable rate loans are subject to adjustment once every six months (2005 and 2004: six months).

Certain bank loans totaling approximately RMB 60 million (2005: RMB 407 million) are secured by various property, plant and equipment of the Company and its subsidiaries while an other long-term loan of RMB 130 million (2005: RMB 200 million) is secured by tariff collection right.

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22. LONG-TERM LOANS (CONT'D)

The maturity of long-term loans is as follows:

	Loans from Huaneng Group		Bank loans		
	As of December 31,		As of December 31,		
	2006	2005	2006	2005	
1 year or less	-	-	3,140,393	2,653,339	1
More than 1 year but not more than 2 years	-	-	3,956,803	2,979,225	
More than 2 years but not more than 3 years	-	-	9,687,803	3,189,885	
More than 3 years but not more than 4 years	-	-	3,849,141	4,417,885	
More than 4 years but not more than 5 years	-	-	3,405,639	3,386,732	
More than 5 years	2,800,000	2,800,000	11,166,454	11,737,528	
	2,800,000	2,800,000	35,206,233	28,364,594	4
Less: amount due within 1 year included under current liabilities	-	-	(3,140,393)	(2,653,339)	(1
	2,800,000	2,800,000	32,065,840	25,711,255	2

The analysis of the above is as follows:

	As of December 31,	
	2006	2005
Loans from Huaneng Group		
- Not wholly repayable within five years	2,800,000	2,800,000
Bank loans		

- Wholly repayable within five years	19,307,871	8,429,132
- Not wholly repayable within five years	15,898,362	19,935,462
	35,206,233	28,364,594
Other loans		
- Wholly repayable within five years	424,341	686,265
- Not wholly repayable within five years	-	177,384
	424,341	863,649

(Amounts expressed in thousands of RMB unless otherwise stated)

23. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	As of December 31,	
	2006	2005
Accounts and notes payable	2,037,447	1,231,162
Amounts received in advance	1,207,776	1,196,352
Payable to contractors for construction	2,993,257	2,430,133
Other payables to contractors	914,856	778,488
Accrued interest	195,643	197,637
Others	1,026,726	1,071,468
	8,375,705	6,905,240

As of December 31, 2006, balances of accounts payable and other liabilities include accrued interest to Huaneng Finance and Huaneng Group amounting to approximately RMB 7.6 million and RMB 10 million (2005: approximately RMB 13.6 million and RMB 10 million) respectively.

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

	As of December 31,	
	2006	2005
Accounts and notes payable		
Within 1 year	2,028,121	1,223,004
Between 1 to 2 years	6,170	4,227
Over 2 years	3,156	3,931
Subtotal	2,037,447	1,231,162
Amounts due to other related parties of trading in nature		
Within 1 year	38,336	29,093
Over 2 years	108	-

Subtotal	38,444	29,093
Total	2,075,891	1,260,255

24. TAXES PAYABLE

Taxes payable comprises:

	As of December 31,	
	2006	2005
VAT payable	718,602	576,488
Income tax payable	373,573	458,982
Others	88,143	95,814
	1,180,318	1,131,284

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25. SHORT-TERM BONDS

The Company and its subsidiaries repaid RMB 500 million and RMB 4.5 billion unsecured short-term zero-coupon bonds at par in February 2006 and May 2006 respectively. The effective interest rates of these bonds were 3.32% and 3.40% per annum, respectively.

Subsequently, the Company and its subsidiaries issued another RMB 500 million and RMB 4.5 billion of unsecured short-term bonds bearing coupon rates of 3.12% per annum and 3.35% per annum in May 2006 and June 2006, respectively. These bonds are denominated in RMB and will mature in 365 days from their respective issue dates at their nominal values. Interest expense on these bonds is calculated using the effective interest rates of 3.53% and 3.77% per annum, respectively.

26. SHORT-TERM LOANS

Short-term loans denominated in RMB are unsecured, bear interest from 4.30% to 5.51% per annum for the year ended December 31, 2006 (2005 and 2004: 4.30% to 5.76% and 4.30% to 5.02% per annum).

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27. DEFERRED INCOME TAXES

(Amounts expressed in thousands of RMB unless otherwise stated)

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

	As of December 31,	
	2006	
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	34,501	
- Deferred income tax assets to be recovered within 12 months	63,928	
	98,429	
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	(945,193)	(1
- Deferred income tax liabilities to be recovered within 12 months	(133,704)	
	(1,078,897)	(1
	(980,468)	(1

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

	2006	2005
Beginning of the year	(1,093,700)	(671,729)
Acquisitions	-	(370,730)
Credited to the income statement (Note 30)	177,062	61,164
Charged directly to equity	(63,830)	(112,405)
End of the year	(980,468)	(1,093,700)

27. DEFERRED INCOME TAXES (CONT'D)

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

Deferred income tax assets:

	Amortization of land use rights	Provision for impairment losses	Staff benefits	Depreciation	Accrued expenses	Others
As of January 1, 2005	10,812	61,176	18,051	-	-	7,500
Acquisitions	-	20,942	-	-	-	12,533
(Charged) / Credited to the income statement	(221)	(13,466)	(4,085)	-	-	39,240
As of December 31, 2005	10,591	68,652	13,966	-	-	59,273
(Charged) / Credited to the income statement	(221)	10,027	26,195	33,164	6,449	(14,859)
As of December 31, 2006	10,370	78,679	40,161	33,164	6,449	44,414

Deferred income tax liabilities:

	Fair value gains	Amortization of goodwill and negative goodwill	Amortization of land use rights	Repreciation	Othe
As of January 1, 2005	-	(222,551)	(53,172)	(493,545)	
Acquisitions	-	-	-	(404,205)	
(Charged) / Credited to the income statement	-	36,330	358	10,372	(7,36
Charged directly to equity	(112,405)	-	-	-	
As of December 31, 2005	(112,405)	(186,221)	(52,814)	(887,378)	(7,36
(Charged) /					

Credited to the income statement	(15,027)	36,528	(5,405)	100,211	
Charged directly to equity	(63,830)	-	-	-	
As of December 31, 2006	(191,262)	(149,693)	(58,219)	(787,167)	(7,36

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27. DEFERRED INCOME TAXES (CONT'D)

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

	As of December 31,	
	2006	2005
Year of expiry		
2006	N/A	177,197
2007	71,125	71,125
2008	-	-
2009	12,970	12,970
2010	183,127	183,127
2011	176,934	N/A
	444,156	444,419

28. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEETS

As of December 31, 2006, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB 13,278 million (2005: RMB 11,044 million). On the same date, total assets less current liabilities was approximately RMB 87,096 million (2005: RMB 76,333 million).

As of December 31, 2006, the net current liabilities of the Company amounted to approximately RMB 7,919 million (2005: RMB 5,835 million). On the same date, total assets less current liabilities was approximately RMB 52,695 million (2005: RMB 48,236 million).

29. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at 7% - 15% (2005 and 2004: 7% - 15% and 7% - 11%) of the specified salary amount of the PRC employees. At the same time, the employees are required to make contributions out of their payroll equal to the contributions of the Company and its subsidiaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended December 31, 2006, the Company and its subsidiaries contributed approximately RMB 198 million (2005 and 2004: RMB 147 million and RMB 101 million) to the fund.

(Amounts expressed in thousands of RMB unless otherwise stated)

29. HOUSING SCHEMES (CONT'D)

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees and is recorded as other non-current assets and amortized over the remaining average service life of the relevant employees which is estimated to be approximately 10 years. For the year ended December 31, 2006, the housing benefits being amortized by the Company and its subsidiaries to the employees amounted to approximately RMB 39 million (2005 and 2004: RMB 39 million and RMB 34 million).

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

30. INCOME TAX EXPENSES

Income tax expenses comprised:

	For the year ended December 31,		
	2006	2005	2004
Current income tax expense	1,304,761	1,105,461	980,672
Deferred income tax (Note 27)	(177,062)	(61,164)	(31,938)
	1,127,699	1,044,297	948,734

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (2005 and 2004: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

	For the year ended December 31,		
	2006	2005	2004
Average statutory tax rate	19.73%	20.83%	17.64%
Effect of tax holiday	(4.60%)	(3.84%)	(2.16%)
Others	(1.06%)	(1.15%)	(0.95%)

Effective tax rate	14.07%	15.84%	14.53%

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

The aggregated effect of the tax holiday was approximately RMB 369 million for the year ended December 31, 2006 (2005 and 2004: RMB 255 million and RMB 122 million).

(Amounts expressed in thousands of RMB unless otherwise stated)

31. EARNINGS PER SHARE

The calculation of basic earnings per share is done based on the profit attributable to the equity holders of the Company of approximately RMB 6,071 million (2005 and 2004: approximately RMB 4,872 million and RMB 5,324 million) and the weighted average number of approximately 12,055 million (2005 and 2004: 12,055 million) outstanding ordinary shares during the year.

Diluted earnings per share is calculated by adjusting both net profit attributable to the equity holders of the Company and weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares at the beginning of the year. There was no dilutive effect on earnings per share since the Company had no dilutive potential ordinary shares for the years ended December 31, 2006 and 2005 (2004: convertible notes, being a category of potential ordinary shares). The convertible notes in 2004 are assumed to have been converted into ordinary shares and the profit attributable to equity holders of the Company is adjusted eliminating interest expenses less respective tax effect for the purpose of calculating diluted earnings per share for 2004.

32. NOTES TO CASH FLOW STATEMENT

(a) Analysis of cash and cash equivalents

Cash and cash equivalents consisted of:

	2006	2005	2004
Cash in RMB	1,327	1,042	621
Current deposits			
RMB	3,203,712	2,632,493	2,284,551
US$ (RMB equivalent)	2,153	14,130	10,359
Total cash and cash equivalents	3,207,192	2,647,665	2,295,531

(b) Undrawn borrowing facilities

As of December 31, 2006, the Company and its subsidiaries had undrawn unsecured borrowing facilities amounting to approximately RMB 25.61 billion (2005: RMB 22.57 billion). Management expects to drawdown the available facilities in accordance with the level of working capital and / or planned capital expenditure of the Company and its subsidiaries.

(c) Non-cash transactions

There is no material non-cash transaction for the years ended December 31, 2006 and 2005. The principal non-cash transactions were the conversion of convertible notes to share capital in 2004 and the ordinary shares split in 2004.

(Amounts expressed in thousands of RMB unless otherwise stated)

33. PLEDGE OF ASSETS

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

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

34. COMMITMENTS

(a) Capital and operational commitments

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

	2006	2005
Contracted but not provided for		
- purchase of inventories	2,829,393	-
- construction	14,558,971	17,076,451
Sub-total	17,388,364	17,076,451
Authorized but not contracted for		
- purchase of inventories	531,360	-
- construction	2,166,046	11,983
Sub-total	2,697,406	11,983
Total	20,085,770	17,088,434

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34. COMMITMENTS (CONT'D)

(a) Capital and operational commitments (cont'd)

(ii) In addition, from 2004 to 2006, the Company also entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from 2005 to 2009 for use in power generation. In most cases, these agreements contain provisions for price escalations and minimum purchase level clauses. Purchases for the years ended December 31, 2006 and 2005 were approximately RMB 5,701 million and RMB 4,619 million respectively. The future purchase commitments under the above agreements are as follows:

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

(b) Operating lease commitments

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

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

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

In addition, in accordance with a 30-year operating lease agreement signed by Huaneng Dezhou Power Plant ("Dezhou Power Plant") and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phases I and II in June 1994, annual rental amounted to approximately RMB 30 million effective from June 1994 and is subject to revision at the end of the fifth year from the contract date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30% of the previous annual rental amount. For the year ended December 31, 2006 and 2005, the annual rental were approximately RMB 30 million and RMB 30 million respectively (2004: approximately RMB 29 million).

(Amounts expressed in thousands of RMB unless otherwise stated)

35. FINANCIAL GUARANTEES

	As of December 31,	
	2006	2005
Financial guarantees granted to an associate	123,250	225,250

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

36. BUSINESS RISK

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

For the year ended December 31, 2006, the Company and its subsidiaries sold electricity to three major customers (2005 and 2004: four and five), each of which amounted to approximately 10% or more of the operating revenue. In aggregation, these customers accounted for approximately 45% (2005 and 2004: approximately 57% and 79%, respectively) of the operating revenue of the Company and its subsidiaries.

37. EVENTS AFTER THE BALANCE SHEET DATE

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

In January 2007, Huaneng Group injected an additional capital of RMB 615 million in Sichuan Hydropower, thus increasing its direct equity interest in Sichuan Hydropower to 51% from 40%. The Company's equity interest in Sichuan Hydropower is diluted to 49% from 60%. As Sichuan Hydropower is controlled by Huaneng Group, its financial statements will no longer be consolidated into the Company's financial statements starting from 2007. In addition, the Company also acquired 5% additional equity interest in Qinbei Power Company for a consideration of RMB 65.75 million from Huaneng Group. As a result of the acquisition, the Company held 60% of equity interest in Qinbei Power Company.

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
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38. 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 acquisitions of entities under common control

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

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

(i) 70% equity interest in Huaneng Shanghai Shidongkou I Power Plant ("Shidongkou I Power Plant"), 70% equity interest in Taicang Power Company and all of the assets and liabilities of Huaneng Changxing Power Plant ("Changxing Power Plant"), from Huaneng Group in July 2002;

(ii) 55% equity interest in Qinbei Power Company, 60% equity interest in Yushe Power Company and all of the assets and liabilities of Huaneng Xindian Power Plant ("Xindian Power Plant") from Huaneng Group in October, 2003;

(iii) 60% equity interest in Luohuang Power Company, 55% equity interest in Yueyang Power Company, 90% equity interest in Huaneng Jinggangshan Power Plant ("Jinggangshan Power Plant") and all of the assets and liabilities of Huaneng Yingkou Power Plant ("Yingkou Power Plant") from HIPDC and from Huaneng Group in July, 2004; and

(iv) 60% equity interest in Sichuan Hydropower and 65% equity interest in Pingliang Power Company from Huaneng Group in January, 2005.

Under the acquisition method, the results of the acquired businesses are included in the results of operations of the Company and its subsidiaries from the date of the acquisition. The difference between the purchase consideration and the fair value of the underlying net assets acquired is accounted for as goodwill. Prior to 2005, goodwill arising from the acquisitions in (i) and (ii) above was, in accordance with IAS 22, amortized on a systematic basis to the income statement over its economic useful life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets. With the effective implementation of IFRS 3 (a replacement of IAS 22), goodwill arising from acquisition for which the agreement date is on or after March 31, 2004 is tested annually for impairment and is not to be amortized. Such goodwill is carried at cost less accumulated impairment losses. Goodwill arising from acquisitions in (i) and (ii) above ceased to be amortized from January 1, 2005 onwards and are carried at cost less accumulated impairment losses and tested for impairment annually.

(Amounts expressed in thousands of RMB unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

(a) Effect of acquisitions of entities under common control (cont'd)

As the companies and power plants acquired were under the control of Huaneng Group prior to their acquisitions by the Company and its subsidiaries, these acquisition transactions were considered common control transactions. Under US GAAP, they are considered to be transfers of businesses under common control and the acquired assets and liabilities are accounted for at historical cost in a manner similar to the pooling of interests method. Accordingly, the consolidated financial statements for all years 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 year 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 reporting purposes. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

(b) Effect of acquisitions of 44.16% equity interest in Huaiyin Power Company, 30% additional equity interest in Shidongkou I Power Plant and 5% additional equity interest in Taicang Power Company, 40% equity interest in Hanfeng Power Company and 20% equity interest in Huaneng Finance

The Company acquired from Huaneng Group:

(i) 44.16% equity interest in Huaiyin Power Company in July, 2002;

(ii) 30% additional equity interest in Shidongkou I Power Plant and 5% additional equity interest in Taicang Power Company in December, 2002;

(iii) 40% equity interest in Hanfeng Power Company in July, 2004; and

(iv) 20% equity interest in Huaneng Finance in January 2006.

Under IFRS, upon the completion of the above acquisitions, the relevant equity interest of the net assets of the acquired companies and power plants are recorded at fair value. The excess of the total cost of the acquisition over the fair value of the relevant portion of net assets of power plant acquired is accounted for as goodwill. Prior to 2005, goodwill arising from the acquisitions in (i) and (ii) above was, in accordance with IAS 22, amortized on a systematic basis to the income statement over its economic useful life, being the remaining weighted average useful life of the acquired depreciable or amortizable assets. With the effective implementation of IFRS 3, goodwill arising from acquisition for which the agreement date is on or after March 31, 2004 is tested annually for impairment and is not to be amortized. Such goodwill is carried at cost less accumulated impairment losses. Any excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost were written off against income statement. Goodwill arising from acquisitions in (i) and (ii) above ceased to be amortized from January 1, 2005 onwards and are carried at cost less accumulated impairment losses and tested for impairment annually.

Under US GAAP, upon completion of the above acquisitions, Huaneng Group's proportionate shares in the net assets of Huaiyin Power Company, Shidongkou I Power Plant, Taicang Power Company, Hanfeng Power Company and Huaneng Finance being sold to the Company were recorded at the historical carrying value. Differences between the total costs of acquisitions and the net assets acquired were regarded as equity transactions with Huaneng Group. Accordingly, the resulting impact of depreciation and amortization expenses on income is also different.

38. US GAAP INFORMATION (CONT'D)

(c) Housing benefits provided by HIPDC

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

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

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

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

(e) Capitalization of borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS

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38. US GAAP INFORMATION (CONT'D)

(e) Capitalization of borrowing costs (cont'd)

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

(f) Reversal of goodwill amortization

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 ("SFAS") 142 "Goodwill and Other Intangible Assets", goodwill arising from acquisition is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances.

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

(g) Deferred income tax impact

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

(h) US regulatory accounting

Under US GAAP, SFAS 71 "Accounting for the Effects of Certain Types of Regulation" 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 year in which various costs are included in the income statement 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.

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(Amounts expressed in thousands of RMB unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

(h) US regulatory accounting (cont'd)

In order to apply SFAS 71, three criteria must be met. These criteria require that a) the power tariff 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 tariff that bind customers; b) the regulated power tariff 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 tariff, 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.

For the year ended December 31, 2006, the Company and its subsidiaries believe that 9 of their power plants (2005 and 2004: 10 and 12 power plants) meet these specific criteria of SFAS 71. Firstly, the power tariff 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 tariff 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 SFAS 101 "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71". 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 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.

In January 2006, management decided to close down an oil-fired power plant in Guangdong Province for efficiency reason. The Company discontinued the application of SFAS 71 for this power plant and applied SFAS 101 as a result. 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 recognized as assets and / or liabilities under IFRS. The Company and its subsidiaries also performed an impairment review on the property, plant and equipment of this power plant and have provided an impairment loss of RMB42 million based on the bidding price and the valuation performed by an independent valuer.

With respect to the remaining power plants of the Company and its subsidiaries, which were acquired from 2002 to 2005, 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.

(Amounts expressed in thousands of RMB unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

(h) US regulatory accounting (cont'd)

Under IFRS, as there is no equivalent regulatory accounting standard, the policy of the Company and its subsidiaries 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.

(i) Impairment of long-lived assets

Impairment of long-lived assets (excluding goodwill)

The carrying amount of long-lived asset (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 and fair value less cost to sell.

Goodwill

Goodwill is reviewed for impairment, at the CGU / 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 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, 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.

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38. US GAAP INFORMATION (CONT'D)

(i) Impairment of long-lived assets (cont'd)

As of December 31, 2005, the Company recognized impairment loss on certain property, plant and equipment under IFRS while such an amount was reversed under US GAAP as a result of the above GAAP difference.

As of December 31, 2006, the Company reversed this prior year impairment as a result of changes in local power market regulations under IFRS. This contributed to a reversal of such income effect under US GAAP due to the above GAAP difference as of the same date.

Changes of Principal Accounting Policy

In the current year, the Company and its subsidiaries have changed their accounting policy following their adoption of the new SFAS below, which is relevant to their operations.

- SFAS 154 — Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3

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

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38. 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:

		Net Assets
		As of December 31
	Note	2006
Net assets under IFRS		50,608,692
Minority interests	i	(7,151,183)
Impact of US GAAP adjustments		
Effect of acquisitions of Sichuan Hydropower and Pingliang Power Company	(a)	(969,244)
Effect of acquisitions of Luohuang Power Company, Yueyang Power Company, Jinggangshan Power Plant and Yingkou Power Plant	(a)	(1,679,633)
Effect of acquisitions of Qinbei Power Company, Yushe Power Company and Xindian Power Plant	(a)	(314,817)
Effect of acquisitions of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant	(a)	(388,418)
Effect of acquisitions of 20% equity interest in Huaneng Finance, 40% equity interest in Hanfeng Power Company, 30% additional equity interest in Shidongkou I Power Plant, 5% additional equity interest in Taicang Power Company and 44.16% equity interest in Huaiyin Power Company	(b)	(237,197)
Recording of capital contribution arising from acquisition of Shandong Huaneng	(d)	862,922
Difference in accounting treatment for acquisition of Shandong Huaneng	(d)	(1,510,062)
Difference in capitalization of borrowing costs	(e)	(100,453)
Reversal of goodwill amortization		
- Investment in SEG	(f)	136,599
- Investment in Huaiyin Power Company	(f)	34,740
Reversal of impairment loss on property, plant and		

equipment	(i)	-
Applicable deferred income tax impact on the above GAAP differences	(g)	957,725
Net assets under US GAAP		40,249,671

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38. US GAAP INFORMATION (CONT'D)

		Net profit	
		For the year ended December 31	
	Note	2006	2005
Profit under IFRS		6,889,074	5,547,911
Profit attributable to minority interests	i	(817,920)	(676,117)
Impact of US GAAP adjustments			
Effect of acquisitions of Sichuan Hydropower and Pingliang Power Company	(a)	45,341	30,823
Effect of acquisitions of Luohuang Power Company, Yueyang Power Company, Jinggangshan Power Plant, and Yingkou Power Plant	(a)	158,212	169,538
Effect of acquisitions of Qinbei Power Company, Yushe Power Company and Xindian Power Plant	(a)	27,738	26,697
Effect of acquisitions of Shidongkou I Power Plant, Taicang Power Company and Changxing Power Plant	(a)	84,055	303,119
Effect of acquisitions of 20% equity interest in Huaneng Finance, 40% equity interest in Hanfeng Power Company, 30% additional equity interest in Shidongkou I Power Plant, 5% additional equity interest in Taicang Power Company and 44.16% equity interest in Huaiyin Power Company	(b)	(8,925)	19,552
Recording housing benefits provided by HIPDC	(c)	(26,152)	(26,152)
Difference in accounting treatment for			

acquisition of Shandong Huaneng	(d)	160,986	160,986
Difference in capitalization of borrowing costs	(e)	8,774	(21,803)
Reversal of goodwill amortization			
- Investment in SEG	(f)	-	-
- Investment in Huaiyin Power Company	(f)	-	-
Reversal of impairment loss on property, plant and equipment	(i)	(30,080)	30,080
Applicable deferred income tax impact on the GAAP differences	(g)	(96,417)	(134,709)
Others		-	-
Net profit under US GAAP		6,394,686	5,429,925

(Note i) Consistent with disclosure requirement of revised IAS 1 - Presentation of Financial Sta
minority interests in the consolidated net assets and consolidated profit under IFRS sh
as a portion of total equity and total profit attributable to shareholders respectively

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

(Amounts expressed in thousands of RMBor US$ unless otherwise stated)

38. 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, 2005 and 2006, 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, 2006, restated to reflect the impact of the effect of the acquisitions 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,

	2006		
	RMB	US$	
ASSETS			
Non-current assets			
Property, plant and equipment, net	86,571,060	11,086,488	74
Investments in associates	5,149,354	659,438	4
Available-for-investment	1,458,759	186,812	1
Land use rights	1,495,206	191,480	1
Deferred income tax assets	209,883	26,878	
Goodwill	136,053	17,423	
Other non-current assets	269,404	34,501	
Total non-current assets	95,289,719	12,203,020	81
Current assets			
Inventories, net	2,121,489	271,683	2
Other receivables and assets, net	615,488	78,820	
Accounts receivable, net	6,977,493	893,554	6
Trading securities	100,180	12,829	
Due from HIPDC	-	-	
Due from other related parties	621	80	
Current portion of deferred income tax assets	107,492	13,766	
Restricted cash	203,863	26,107	
Temporary cash investment	-	-	
Cash and cash equivalents	3,207,192	410,720	2
Total current assets	13,333,818	1,707,559	12
Total assets	108,623,537	13,910,579	93

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

(Amounts expressed in thousands of RMBor US$ unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

Condensed combined balance sheets (cont'd)

	As of December 31,		
	2006		
	RMB	US$	

EQUITY AND LIABILITIES			
Share capital	12,055,383	1,543,840	12,
Other equities	28,194,288	3,610,625	24,
Shareholders' equity	40,249,671	5,154,465	36,
Minority interests	6,118,089	783,496	4,
NON-CURRENT LIABILITIES			
Long-term loans from Huaneng Group	2,800,000	358,574	2,
Long-term bank loans	32,065,840	4,106,425	25,
Other long-term loans	232,779	29,810	
Deferred income tax liabilities	320,342	41,024	
Other non-current liabilities	309,930	39,691	
Total non-current liabilities	35,728,891	4,575,524	29,
CURRENT LIABILITIES			
Accounts payable and other liabilities	8,375,705	1,072,612	6,
Taxes payable	1,180,318	151,154	1,
Due to Huaneng Group	44,592	5,711	
Due to HIPDC	79,730	10,210	
Due to associates	83,512	10,695	
Due to other related parties	65,795	8,426	
Salary and welfare payables	441,590	56,551	
Short-term bonds	5,077,577	650,246	4,
Short-term loans	7,823,720	1,001,923	6,
Current portion of long-term bank loans	3,140,393	402,166	2,
Current portion of other long-term loans	191,562	24,532	
Current portion of deferred income tax liabilities	22,392	2,868	
Total current liabilities	26,526,886	3,397,094	23,
Total equity and liabilities	108,623,537	13,910,579	93,

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

(Amounts expressed in thousands of RMBor US$ unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

Condensed combined statements of income

		For the year ended December	
	Note	2006	2005

		RMB	US$	RMB
Operating revenue		44,301,403	5,673,339	40,190,
Sales tax		(148,057)	(18,960)	(113,
Operating expenses				
Fuel		(22,608,151)	(2,895,252)	(21,202,
Maintenance		(1,306,888)	(167,363)	(1,165,
Depreciation		(6,265,198)	(802,336)	(5,696,
Labor		(2,912,919)	(373,035)	(2,513,
Service fees to HIPDC		(140,771)	(18,027)	(141,
Income tax expense		(1,226,729)	(157,098)	(1,179,
Others		(1,692,423)	(216,735)	(1,438,
Total operating expenses		(36,153,079)	(4,629,846)	(33,336,
Income before financial expenses		8,000,267	1,024,533	6,739,
Interest income		51,910	6,648	53,
Interest expense		(1,591,033)	(203,751)	(1,457,
Bank charges and exchange gain / (losses), net		67,819	8,684	241,
Total financial expenses, net		(1,471,304)	(188,419)	(1,162,
Share of profit of associates		802,535	102,774	652,
Minority interests		(936,812)	(119,970)	(800,
Net profit for the year		6,394,686	818,918	5,429,
Basic earnings per ordinary share under US GAAP (RMB)	i	0.53		0
Basic earnings per American Depository Shares ("ADS") under US GAAP (RMB)	i	21.22		18
Diluted earnings per ordinary share under US GAAP (RMB)	i	0.53		0
Diluted earnings per ADS under US GAAP (RMB)	i	21.22		18

(Note i) Earning per ordinary share and per equivalent ADS were calculated by dividing the net p
year under US GAAP by the weighted average number of ordinary shares and ADS in issue d
financial year. On a diluted basis, both net profit for the year and the weighted avera
ordinary shares and ADS outstanding for the year were adjusted on the assumption that t
notes had been fully converted at the beginning of 2004. There was no dilution effect o
ordinary share and per equivalent ADS since the Company had no dilution potential ordin

the years ended December 31, 2005 and 2006.

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

(Amounts expressed in thousands of RMB unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

Condensed combined statements of changes in shareholders' equity

Balance as of January 1, 2004	35,8
Dividends relating to 2003	(3,0
Net profit for the year ended December 31, 2004	6,0
Conversion of convertible notes to new ordinary shares	
Net deemed capital distribution to Huaneng Group arising from the acquisition of Jinggangshan Power Plant	(5
Net deemed capital distribution to HIPDC arising from the acquisition of Luohuang Power Company, Yueyang Power Company and Yingkou Power Plant	(2,5
Contribution from Huaneng Group	(3
Distribution from HIPDC	
Capital contribution from HIPDC arising from housing benefits provided by HIPDC	
Balance as of December 31, 2004	35,3
Dividends relating to 2004	(3,0
Net profit for the year ended December 31, 2005	5,4
Net deemed capital distribution to Huaneng Group arising from the acquisition of Sichuan Hydropower and Pingliang Power Company	(2,0
Capital contribution from HIPDC arising from housing benefits provided by HIPDC	
Dividend waived by a shareholder of an associate	
Fair value gains from an available-for-sale investment, net of tax	6

Balance as of December 31, 2005	36,4
Dividends relating to 2005	(3,0
Net profit for the year ended December 31, 2006	6,3
Contribution from Huaneng Group	
Capital contribution from HIPDC arising from housing benefits provided by HIPDC	
Dividend waived by a shareholder of a subsidiary	
Fair value gains from an available-for-sale investment, net of tax	3
Balance as of December 31, 2006	40,2

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

(Amounts expressed in thousands of RMB unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

Condensed combined statements of cash flows

	For the year ended December 31		
	2006	2005	
Net cash provided by operating activities	12,386,361	9,313,657	
Net cash used in investing activities	(16,807,190)	(14,587,880)	
Net cash provided by financing activities	4,980,356	5,059,653	
Net increase / (decrease) in cash and cash equivalents	559,527	(214,570)	
Cash and cash equivalents, beginning of the year	2,647,665	2,862,235	
Cash and cash equivalents, end of the year	3,207,192	2,647,665	

New accounting pronouncements

The Financial Accounting Standard Board ("FASB") issued certain SFAS, FASB Interpretation ("FIN"), minutes of Emerging Issue Task Force ("EITF") and FASB Staff Position ("FSP") that are mandatory for the accounting periods of the Company and its subsidiaries beginning on or after January 1, 2007 or later periods, but which the Company and its subsidiaries have not early adopted. These are summarized as follows:

o SFAS 157 Fair Value Measurements

This SFAS formalizes definition and disclosure requirements of fair value. It clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, i.e. the principal or most advantageous market for the asset or liability (an exit price). Therefore, this SFAS does not permit fair value be measured at price that would be paid to acquire the asset or received to assume the liability (an entry price).

Such an SFAS will be effective for fiscal years beginning after November 15, 2007. Management is currently assessing the impact of this SFAS on the accounting policies of the Company and its subsidiaries.

o SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities-- Including an amendment of FASB Statement No. 115

This SFAS permits entities to choose to measure many financial instruments and certain other items at fair value that are currently required to be measured at fair value at specified election date. It also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities.

Such an SFAS will be effective for the fiscal year that begins after November 15, 2007. Management is currently assessing the impact of this SFAS on the accounting policies of the Company and its subsidiaries.

(Amounts expressed in thousands of RMB unless otherwise stated)

38. US GAAP INFORMATION (CONT'D)

New accounting pronouncements (cont'd)

o FIN 48 Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109

FIN 48 prescribes the recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

Such an interpretation will be effective for fiscal years beginning after

December 15, 2006. Management is currently assessing the impact of this interpretation on the accounting policies of the Company and its subsidiaries.

- o EITF 06-2 Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43

This EITF requires an entity accruing compensation cost associated with a sabbatical or other similar benefit arrangement over the requisite service period should all of the other conditions of paragraph 6 of SFAS 43 are met.

Such an EITF will be effective for fiscal years beginning after December 15, 2006. Management is currently assessing the impact of this EITF on the accounting policies of the Company and its subsidiaries.

- o FSP FIN46(R)-6 Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)

This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46(R) by using a two-step approach. It requires an analysis of the design of the entity through (a) analyzing the nature of the risks in the entity; and (b) determining the purposes for which the entity was created and determining the variability (created by the risks identified in (a)) the entity is designed to create and pass along to its interest holders.

Such a FSP will be effective for reporting period beginning after June 15, 2006. Management is currently assessing the impact of this FSP on the accounting policies of the Company and its subsidiaries.

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/ Huang Long
Name: Huang Long
Title: Vice Chairman of the Board of Directors

Date: April 16, 2007