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HUANENG POWER INTERNATIONAL INC

Form 6-K

May 11, 2004

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of April, 2004

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F _____

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes _____ No

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-_____.)

N/A

Huaneng Power International, Inc.
West Wing, Building C, Tianyin Mansion
No. 2C Fuxingmennan Street
Xicheng District
Beijing, 100031 PRC

This Form 6-K consists of:

A circular made on April 29, 2004, in English by Huaneng Power International Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the under-signed, thereunto duly authorized.

HUANENG POWER INTERNATIONAL, INC.

By /s/ Wang Xiaosong

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Name: Wang Xiaosong

Title: Vice Chairman

Date: April 29, 2004

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Huaneng Power International, Inc., you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

[GRAPHIC OMITTED] HUANENG POWER INTERNATIONAL, INC.

(A Sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 902)

MAJOR AND CONNECTED TRANSACTION

Financial Adviser to Huaneng Power International, Inc.

[GRAPHIC OMITTED] J.P. Morgan Securities (Asia Pacific) Limited

Independent Financial Adviser to the Independent Directors and Independent Shareholders

[GRAPHIC OMITTED] ROTHSCHILD
N M Rothschild & Sons (Hong Kong) Limited

A letter from the Board of Huaneng Power International, Inc. (the "Company") is set out on pages 4 to 20 of this circular. A letter from the Independent

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Directors is set out on page 21 of this circular. A letter from N M Rothschild & Sons (Hong Kong) Limited to the Independent Directors and Independent Shareholders is set out on pages 22 to 34 of this circular.

A notice convening an Extraordinary General Meeting of the Company to be held at 9 a.m. on 15th June, 2004 at Beijing International Convention Centre at No. 8 Beichen East Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages 197 to 202 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed reply slip and form of proxy in accordance with the instructions printed thereon as soon as possible and in any event the form of proxy should be returned not less than 24 hours before the time appointed for holding such meeting.

Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

29th April, 2004

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DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the purchase by the Company of the Huaneng Group Interest and HIPDC Interest;
"Agreement for Transfer of HIPDC Interest"	the transfer agreement dated 16th April, 2004 entered into between the Company and HIPDC relating to the purchase of HIPDC Interest by the Company;
"Agreement for Transfer of Huaneng Group Interest"	the transfer agreement dated 16th April, 2004 entered into between the Company and Huaneng Group relating to the purchase of Huaneng Group Interest by the Company;
"Associate"	the meaning ascribed to it in the Hong Kong Listing Rules;
"Closing"	the closing of the Acquisition;
"Company"	Huaneng Power International, Inc.;
"Directors"	the directors of the Company;
"EGM"	an extraordinary general meeting of the Company to be held for shareholders of the Company to consider and approve the Acquisition;
"GDP"	Gross Domestic Product
"Hanfeng Power Plant"	Hebei Hanfeng Power Generation Limited Liability Company, a company with limited liability incorporated in the PRC in October 1996 with an existing registered capital of RMB1.975 billion, in which Huaneng Group holds 40% equity interest;
"HIPDC"	Huaneng International Power Development Corporation;
"HIPDC Interest"	the equity interest of 55% equity interest in Yueyang Power Plant, 60% equity interest in

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	Luohuang Power Plant and all assets and liabilities of Yingkou Power Plant which are owned by HIPDC and to be sold to the Company;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
"Huaneng Group"	China Huaneng Group;
"Huaneng Group Interest"	the equity interest of 40% equity interest in Hanfeng Power Plant and 90% equity interest in Jinggangshan Power Plant, which are owned by Huaneng Group and to be sold to the Company;
"Independent Directors"	the independent directors of the Company, who are invited to advise the Independent Shareholders in connection with the Acquisition;
"Independent Shareholders"	shareholders of the Company other than Huaneng Group, HIPDC and their respective Associates;
"Jinggangshan Power Plant"	Jinggangshan Huaneng Power Generation Limited Liability Company, a company with limited liability incorporated in the PRC in March 1996 with an existing registered capital of RMB53.319 million, in which Huaneng Group holds 90% equity interest;
"JP Morgan"	J.P. Morgan Securities (Asia Pacific) Limited, which is licensed by the Securities and Futures Commission for Types 1, 4, 6 and 7 regulated activities under the SFO, being the financial adviser to the Company in respect of the Acquisition;
"Latest Practicable Date"	23rd April, 2004, being the latest practicable date prior to the publication of this circular for ascertaining certain information referred to in this circular;
"Luohuang Power Plant"	Huaneng Chongqing Luohuang Power Generation Limited Liability Company, a company with limited liability incorporated in the PRC in December 2003 with an existing registered capital of RMB900 million, in which HIPDC holds 60% equity interest;
"PRC"	the People's Republic of China;
"RMB"	the lawful currency of the PRC;
"Rothschild"	N M Rothschild & Sons (Hong Kong) Limited, which was previously registered with the Securities and Futures Commission as an investment adviser and is deemed to be currently licensed to carry out Types 1, 4, 6 and 9 regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Directors and Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interest of the Company and the shareholders as a whole and to advise the Company's shareholders on how to vote in respect of the Acquisition;

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"SFO" Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

"Shanghai Listing Rules" The Listing Rules of Shanghai Stock Exchange

"Stock Exchange" The Stock Exchange of Hong Kong Limited;

"Target Power Plants" Hanfeng Power Plant, Jinggangshan Power Plant, Yueyang Power Plant, Luohuang Power Plant and Yingkou Power Plant;

"Transfer Agreements" Agreement for Transfer of Huaneng Group Interest and Agreement for Transfer of HIPDC Interest;

"Yingkou Power Plant" Huaneng International Power Development Corporation Yingkou Branch Company, in which HIPDC owns all the assets and liabilities;

"Yueyang Power Plant" Huaneng Hunan Yueyang Power Generation Limited Liability Company, a company with limited liability incorporated in the PRC in December 2003 with an existing registered capital of RMB560 million, in which HIPDC holds 55% equity interest;

"Zhongchenghua" Beijing Zhongchenghua Assets Appraisal Limited Company, a assets appraisal firm in China, which is qualified in practising securities related matters.

"%" per cent.

For the purposes of this circular, unless otherwise indicated, Renminbi amounts have been translated into Hong Kong dollars using the rate of HK\$1: RMB1.06.

LETTER FROM THE BOARD

HUANENG POWER INTERNATIONAL, INC.
(A Sino-foreign joint stock limited company incorporated in the People's Republic of China)

Directors:

Li Xiaopeng
Wang Xiaosong
Ye Daji
Huang Jinkai
Liu Jinlong
Shan Qunying
Yang Shengming
Xu Zujian

Legal Address:

West Wing, Building C,
Tianyin Mansion,
No. 2C Fuxingmennan Street,
Xicheng District,
Beijing 100031,
People's Republic of China.

Independent Directors:

Gao Zongze
Zheng Jianchao
Qian Zhongwei
Xia Donglin 29th April, 2004

To the Shareholders

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%Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

1. INTRODUCTION

On 16th April, 2004, the Company announced that the Company entered into the Agreement for Transfer of Huaneng Group Interest with Huaneng Group, pursuant to which the Company agreed to acquire from Huaneng Group its 40% equity interest in Hanfeng Power Plant and 90% equity interest in Jinggangshan Power Plant. The purchase price for acquiring the Huaneng Group Interest is RMB1,949 million.

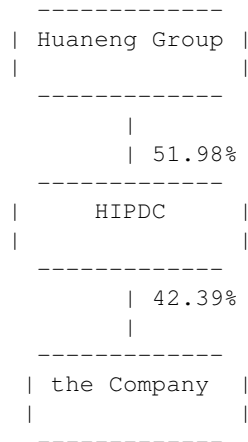
On the same day, the Company also entered into the Agreement for Transfer of HIPDC Interest with HIPDC, pursuant to which the Company agreed to acquire from HIPDC its equity interest in the following plants: 55% equity interest in Yueyang Power Plant, 60% equity interest in Luohuang Power Plant and the entire assets and liabilities of Yingkou Power Plant. The purchase price for acquiring HIPDC Interest is RMB2,564 million.

Half of the total purchase price will be funded by the Company's cash-on-hand and half by bank loans. The purchase price was determined on arm's length terms.

The Company and its subsidiaries develop, construct, operate and manage large-scale coal-fired power plants throughout China. The Company is one of the largest independent power producers in China which owns a total generation capacity of 15,736 MW on an equity basis.

Huaneng Group is principally engaged in operation and management of industrial investment; development, investment, construction, operation and management of power sources; organising the generation and sale of power (thermal); development, investment, construction, production and sale of products in relation to information, transportation, new energy and environmental protection industries. HIPDC, as a subsidiary of Huaneng Group, is principally engaged in construction and operation of the power plants and the related projects, including raising domestic and foreign funds, import of full set and auxiliary equipment and machinery and providing the industrial materials and fuels for the construction and operation of power plants.

The relationship between the Company, Huaneng Group and HIPDC is as follows:



Huaneng Group is an indirect controlling shareholder of the Company,

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holding a 51.98% interest in HIPDC. As of the Latest Practicable Date, HIPDC held 42.39% of the total issued share capital of the Company. The transactions as contemplated by the Transfer Agreements constitute major and connected transactions to the Company, which are subject to Independent Shareholders' approval pursuant to Rule 14.44 and Rule 14A.18 respectively of the Hong Kong Listing Rules.

The Company and the Independent Directors have reviewed the Acquisition. The Company has appointed JP Morgan as the financial adviser in connection with the Acquisition. The Company has also appointed Rothschild as the independent financial adviser to advise the Independent Directors and the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interest of the Company and its shareholders as a whole and to advise the Company's shareholders on how to vote in respect of the Acquisition.

The purpose of this circular is to provide you with further information in relation to the Acquisition and the Transfer Agreements, and to set out the recommendation of the Independent Directors and the Notice of the EGM.

2. TRANSFER AGREEMENTS

(1) Agreement for Transfer of Huaneng Group Interest

The Agreement for Transfer of Huaneng Group Interest was approved by the Directors at the board meeting on 16th April, 2004 and signed by Huaneng Group and the Company on that day.

Date: 16th April, 2004

Parties: Seller: Huaneng Group
Purchaser: the Company

Huaneng Group
Interest

to be acquired: (i) equity interest representing 40% of the registered capital of Hanfeng Power Plant; and

(ii) equity interest representing 90% of the registered capital of Jinggangshan Power Plant.

Consideration: The consideration for the purchase of Huaneng Group Interest is RMB1,949 million payable in cash on the Closing date. The purchase price was determined with reference to, inter alia, the asset appraisal report prepared by Zhongchenghua and on the basis of normal commercial terms and arm's length negotiation between the parties thereto, and the agreement was entered into in the ordinary and usual course of business of the Company.

Conditions: Closing is subject to the satisfaction or waiver of the following conditions:

(1) Conditions which need to be satisfied or waived by both parties:

- o Rothschild, the independent financial adviser to the Independent Directors and Independent Shareholders, has advised the Independent Directors and Independent Shareholders that the terms and conditions of the

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transaction contemplated by the Agreement for Transfer of Huaneng Group Interest are fair and reasonable so far as the Independent Shareholders are concerned;

- o the Independent Directors recommended that the shareholders vote in favour of the transfer of Huaneng Group Interest and the Agreement for Transfer of Huaneng Group Interest;
 - o the transfer of Huaneng Group Interest and the Agreement for Transfer of Huaneng Group Interest have been approved and adopted by the the Independent Shareholders;
 - o the relevant PRC government agencies have no objection to the transfer of the Huaneng Group Interest;
 - o the Company has obtained all necessary government approvals on the Agreement for Transfer of Huaneng Group Interest and the transfer of Huaneng Group Interest; and
 - o the simultaneous closing or closing of the Agreement for Transfer of HIPDC Interest.
- (2) Conditions which the Company may waive under the Agreement for Transfer of Huaneng Group Interest:
- o representations and warranties of Huaneng Group in the Agreement for Transfer of Huaneng Group Interest are true and complete in all material respects; and
 - o Huaneng Group has fulfilled in all material respects its obligations under the Agreement for Transfer of Huaneng Group Interest.
- (3) Conditions which Huaneng Group may waive under the Agreement for Transfer of Huaneng Group Interest:
- o representations and warranties of the Company in the Agreement for Transfer of Huaneng Group Interest are true and complete in all material respects; and o the Company has fulfilled in all material respects its obligations under the Agreement for Transfer of Huaneng Group Interest.

In the case that any conditions for closing are waived, further announcement will be made by the Company accordingly.

Completion: Closing shall take place on the day agreed upon by both parties, within 30 days after the conditions have been satisfied or waived.

(2) Agreement for Transfer of HIPDC Interest

The Agreement for Transfer of HIPDC Interest was approved by the Directors at the board meeting on 16th April, 2004 and signed by HIPDC and the Company on that day.

Date: 16th April, 2004

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Parties: Seller: HIPDC
Purchaser: the Company

HIPDC Interest to be acquired: (i) equity interest representing 55% of the registered capital of Yueyang Power Plant;

(ii) equity interest representing 60% of the registered capital of Luohuang Power Plant; and

(iii) the entire assets and liabilities in Yingkou Power Plant.

Consideration: The consideration for the purchase of HIPDC Interest is RMB2,564 million payable in cash on the Closing date.

In view of the fact of that the accounts receivable balances of Yueyang Power Plant and Luohuang Power Plant consist of a significant amount of overdue receivables (i.e. over 30 days but less than one year which is analysed on a first-in-first-out basis) for power sold and taking into account the uncertainty on the collectibility of such overdue receivable balances in full, a provision of RMB59.27 million for Yueyang Power Plant and RMB319.74 million for Luohuang Power Plant has been made as at 31st December 2003. The net overdue receivable balance of Yueyang Power Plant was RMB140.41 million and Luohuang Power Plant was RMB398.09 million as at 31st December 2003. Therefore, HIPDC and the Company have agreed the following arrangements as the basis for adjustment of the acquisition price: The net overdue receivable balances will be fixed by taking into account the provisions for the bad debts in the accounts of the power plants. In case of the occurrence of the events as stipulated by the transfer agreement which cause the net overdue receivable balances not being collected in full, HIPDC is required to pay the difference to the Company in proportion to its shareholding interests in Yueyang Power Plant and Luohuang Power Plant respectively. If, by 31st December 2006, the net overdue receivable balances cannot be collected in full, and if HIPDC has not made any payment to the Company in this regard, HIPDC should pay the difference to the Company in proportion to its shareholding interests in Yueyang Power Plant and Luohuang Power Plant respectively. If the net overdue receivable balances have been collected in full or if payment has been made by HIPDC, the amount received over the net overdue receivable balances should be reimbursed to HIPDC based on the shareholding interests of HIPDC in proportion to its shareholding in Yueyang Power Plant and Luohuang Power Plant respectively.

The purchase price was determined with reference to, inter alia, the asset appraisal report prepared by Zhongchenghua and on the basis of normal commercial terms and arm's length negotiation between the parties thereto, and the agreement was entered into in the ordinary and usual course of business of the Company.

Conditions: Closing is subject to the satisfaction or waiver of the following conditions:

(1) Conditions which need to be satisfied or waived by both parties:

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- o Rothschild, the independent financial advisor to the Independent Directors and Independent Shareholders, has advised the Independent Directors and Independent Shareholders that the terms and conditions of the transactions contemplated by the Agreement for Transfer of HIPDC Interest are fair and reasonable so far as the Independent Shareholders are concerned;
 - o the Independent Directors recommended that the shareholders vote in favour of the transfer of HIPDC Interest and the Agreement for Transfer of HIPDC Interest;
 - o the transfer of HIPDC Interest and the Agreement for Transfer of HIPDC Interest have been approved and adopted by the Independent Shareholders;
 - o the relevant PRC government agencies have no objection to the transfer of HIPDC Interest;
 - o the Company has obtained all necessary government approvals on the Agreement for Transfer of HIPDC Interest and the transfer of HIPDC Interest; and
 - o the simultaneous closing or closing of the Agreement for Transfer of Huaneng Group Interest.
- (2) Conditions which the Company may waive under the Agreement for Transfer of HIPDC Interest:
- o representations and warranties of HIPDC in the Agreement for Transfer of HIPDC Interest are true and complete in all material respects; and
 - o HIPDC has fulfilled in all material respects its obligations under the Agreement for Transfer of HIPDC Interest.
- (3) Conditions which HIPDC may waive under the Agreement for Transfer of HIPDC Interest:
- o representations and warranties of the Company in the Agreement for Transfer of HIPDC Interest are true and complete in all material respects; and
 - o the Company has fulfilled in all material respects its obligations under the Agreement for Transfer of HIPDC Interest.

In the case that any conditions for closing are waived, further announcement will be made by the Company accordingly.

Completion: Closing shall take place on the day agreed upon by both parties, within 30 days after the conditions have been satisfied or waived.

3. REASONS FOR THE ACQUISITION AND PRICING FACTORS

The Acquisition follows the Company's business and development strategy of placing equal emphasis on acquisition of existing power plants and development of new power plants, and is an important strategic move under the backdrop of deepening power reforms in China whereby competition is to be gradually

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introduced to the PRC power generation sector and it will therefore be essential for a power generation company in the PRC to increase its market share so as to maintain its competitive position. With favourable market conditions of strong power demand, which is brought about by the rapid and stable economic development of the PRC, the Company believes that to enlarge its operational scale by way of acquisition of power assets, thus increasing its market shares, is conducive to enhancing the competitiveness of the Company and increasing shareholders' return.

After the completion of the Acquisition, the generation capacity on an equity basis of the Company will increase by 3,036 MW while the total generation capacity on an equity basis will increase from 15,736 MW to 18,772 MW, representing an increase of 19.3%. Upon the completion of the Acquisition and the acquisition of the 10% interest in Jinggangshan Power Plant from Jiangxi Province Investment Corporation, the generation capacity on an equity basis of the Company will increase by 3,096 MW while the total generation capacity on an equity basis will increase from 15,736 MW to 18,832 MW, representing an increase of 19.7%. The Company will gain 1,050 MW of additional capacity under construction (on an equity basis).

Further, the Acquisition helps the Company to strengthen its leading position in Liaoning Province and Hebei Province, which are with rapid economic growth and strong power demand. The Company's generation capacity on an equity basis in Liaoning will increase from 2,100 MW to 2,740 MW, representing an increase of 30.5%. In Hebei Province, by completion of the Acquisition, the Company's generation capacity on an equity basis will increase from 1,300 MW to 1,828 MW, representing an increase of 40.6%.

The Acquisition also enables the Company for the first time to enter into the central-south region of China and the provinces with rapid growth in power demand, namely Jiangxi Province, Hunan Province and Chongqing municipality. This is consistent with the Company's marketing strategy of "consolidating its position in coastal regions and exploring the market in Central China".

The Company understands that the State is considering to introduce a pilot scheme on tariffs reform in the northeast region. However the detail of the pilot scheme is still under the formulation process. The Company therefore is unable to ascertain the impact on the operating results of Yingkou Power Plant, which is located in the northeast region of China, of the implementation of the proposed tariff reform scheme. As such, the Company has not taken account of such factor in the evaluation and consideration of the impact of the Acquisition on the Company's future financial position and operating results.

The Acquisition price has been determined through arm's length negotiations between the parties and their respective financial advisers, taking into account various factors, including the market environments, the technical and operating conditions of the Power Plants, the Power Plants' earnings potentials and their abilities to generate cash flow. The Company has also considered the appraisal report provided by Zhongchenghua which values the Huaneng Group Interest at RMB1.507 billion and HIPDC Interest at RMB2.721 billion as of 31st December, 2003 using the replacement cost approach. The total purchase price implies a blended 8.7 times of 2003 earnings of attributed interest of the five Target Power Plants and a blended 5.7 times firm value/2003 EBITDA (including an amount of approximately RMB1.26 billion repayable to HIPDC by Yingkou Power Plant). According to International Financial Reporting Standards, the total net profit of the Target Power Plants in 2003 was approximately RMB1.009 billion, of which RMB516 million (before taking into consideration of any adjustments relating to the Acquisition) would be attributable to the acquired interests (not including the profit contributed by the acquisition of the 10% interest in Jinggangshan Power Plant held by Jiangxi Province Investment Corporation). The pro forma net assets for the Company and its subsidiaries (including the Target Power Plants) would be approximately RMB33,955 million as at 31st December, 2003, the same as

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the audited net assets reported by the Company and its subsidiaries (without taking into account the Acquisition) at the same date. The pro forma total debt of the Company and its subsidiaries (including the Target Power Plants, also including RMB1,265 million due to HIPDC from Yingkuo Power Plant) would be approximately RMB23,096 million as at 31st December, 2003, compared to the total debt of approximately RMB13,796 million reported by the Company and its subsidiaries (without taking into account the Acquisition) at the same date. The Company believes that with the growth of the power markets in which the Target Power Plants operate and through further strengthening management, the Acquisition will bring satisfactory returns to the Company.

The board of Directors believes that the Acquisition price and terms are fair and reasonable to the Company and its shareholders. This transaction is consistent with the Company's long-term business strategy and will benefit the Company and its shareholders.

4. INFORMATION REGARDING THE Target POWER PLANTS

Hanfeng Power Plant

Hanfeng Power Plant is situated in Handan Municipality of Hebei Province. According to the information available on the State Statistics Bureau's website (<http://www.stats.gov.cn>) and China State Grid Corporation's website (<http://www.sgcc.com.cn>), Hebei Province is situated in the northern part of Huabei Plateau and extends over Inner Mongolia Highland, and is adjacent to the capital Beijing and Tianjin which is an important commercial port in the northern region. Hebei Province is endowed with rich energy resources with an accumulated proven coal reserve amounting to 16.72 billion tonnes. Two large coalmines, Kailuan and Feng Feng, and Huabei Oilfield are situated within Hebei Province. The area of Hebei Province is 187,700 square kilometres. At the end of 2003, the population was approximately 67,690,000. In 2003, the GDP of the province amounted to RMB709.5 billion, representing an increase of 11.6% over the previous year (the average annual growth rate of the whole nation is 9.1%) and is the highest growth rate since 1998. Hebei power grids are divided into the northern part (mainly supplying the Jingjintang region) and the southern part (mainly supplying six administrative regions including Shijiazhuang, Handan, Xingtai, Baoding, Hengshui and Cangzhou, with a total population of 43,660,000). At the end of 2003, the generation capacity of Hebei South Grid amounted to approximately 10,150 MW. In 2003, the power consumption of Hebei South Grid was approximately 60.8 billion kWh, representing an increase of 8.0% when compared with the same period in 2002.

The planned generation capacity of Hanfeng Power Plant is 2,400MW. The construction work of the 2 x 660 MW imported coal-fired generating units in its first phase commenced in June 1997 and the commercial operation of these two generating units started in March and September 2001 respectively. The estimated depreciation period of Hanfeng Power Plant's generating units is approximately 20 years. Currently, the generating units operate properly. In 2003, the annual power generation of two generating units was 8.04 billion kWh with a house consumption rate of 5.91%. Power tariffs are determined according to the rate prescribed by the relevant pricing bureau.

Hanfeng Power Plant's net operating revenue increased by 5.16% to RMB2.24 billion in 2003 from RMB2.13 billion in 2002. The average collected tariff was RMB345.70 per MWh in 2003, which decreased by 3.37% from RMB357.78 per MWh of last year. The power output of Hanfeng Power Plant reached 8.04 billion kWh in 2003, increased by 3.50% compared to last year. The increase of the net operating revenue of Hanfeng Power Plant was mainly due to the increase of power output, which was driven by the increase of power demand of Hebei province.

Upon Closing, the Company will guarantee the loans owed by the power plant, to an extent which is proportional to the Company's interest in the power plant,

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upon normal commercial terms. The bank loans to be guaranteed by the Company as at 31st March 2004 were RMB1,484.3 million.

Upon Closing, the Company will hold 40% interest in Hanfeng Power Plant . The other shareholders of Hanfeng Power Plant are Hebei Province Construction and Investment Corporation, Siemens Power Development Hanfeng Limited Liability Company and Hamburg Power Investment Hanfeng Limited Liability Company, which are holding 20%, 24% and 16% interest, respectively.

The following table sets out certain operating data of Hanfeng Power Plant for 2003:

Generation capacity (MW)	1,320
Power generation (billion kWh)	8.040
Utilisation hours (hours)	6,091
Availability factor (%)	90.53
House consumption rate (%)	5.91
Average on-grid power rate (RMB/MWh, VAT included)	345.70
Coal consumption rate for power sold (grams/kWh)	327.14
Unit fuel cost for power sold (RMB/MWh)	76.56

Jinggangshan Power Plant

Jinggangshan Power Plant is situated in Jian Municipality of Jiangxi Province. According to the information available on the State Statistics Bureau's website (<http://www.stats.gov.cn>) and China State Grid Corporation's website (<http://www.sgcc.com.cn>), Jiangxi Province is situated in the southeast part of China, along the southern part of the middle and lower reaches of Changjiang. The area of the province is 166,900 square kilometres. At the end of 2002, the population was approximately 42,220,000. In 2002, the GDP of the province amounted to RMB245 billion, representing an increase of 10.5% over the previous year (the average growth rate of the whole nation in 2002 is 8.0%), which is the fastest growth rate since 1998 (Note: The aforementioned website does not contain the relevant figures of 2003 for Jiangxi Province). Jiangxi Province forms an important part of the power grids of the four provinces in Central China (Jiangxi, Henan, Hubei and Hunan) with its power consumption load growing at a high speed during the recent years. At the end of 2003, the generation capacity of Jiangxi Province amounted to approximately 6,087 MW. In 2003, the power consumption of Jiangxi Province was approximately 29.843 billion kWh, representing an increase of 21.0% when compared with the same period in 2002.

The planned generation capacity of Jinggangshan Power Plant is 1,200MW. The main construction work of the 2 x 300 MW domestic made coal-fired generating units in its first phase commenced in November 1998 and the commercial operation of these two generating units started in December 2000 and August 2001 respectively. The estimated depreciation period of Jinggangshan's generating units is approximately 14 years. Currently, the generating units operate properly. In 2003, the annual power generation of two generating units was 3.194 billion kWh with a house consumption rate of 5.65%. Power tariffs are determined according to the rate prescribed by the relevant pricing bureau.

Jinggangshan Power Plant's net operating revenue increased by 39.81% to RMB820.15 million in 2003 from RMB586.60 million in 2002. The average collected tariff was RMB318.89 per MWh, which decreased by 5.80% from RMB338.53 per MWh of

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last year. The power output of Jinggangshan Power Plant reached 3.19 billion KWh, increased by 48.08% compared to last year. The increase of the net operating revenue of Jinggangshan Power Plant was mainly due to the increase of power output, which was driven by the significant increase of power demand of Jiangxi province.

Upon Closing, the Company will hold a 90% interest in Jinggangshan Power Plant. The other shareholder is Jiangxi Province Investment Corporation. On 16th April 2004, the Company has entered into a transfer agreement with Jiangxi Province Investment Corporation, pursuant to which Jiangxi Province Investment Corporation agreed to transfer its 10% interest in Jinggangshan Power Plant to the Company at RMB62 million, where the price was determined consistent with the pricing principle of the Acquisition. Half of the purchase price will be funded by the Company's cash-on-hand and half by bank loans. Upon the closing of the Acquisition, together with the completion of the acquisition of such 10% interest, Jinggangshan Power Plant will be wholly owned by the Company.

The Company will guarantee the bank loans owned by the power plant. As at 31st March 2004, the outstanding guarantee amount was RMB1,245.25 million.

The following table sets out certain operating data of Jinggangshan Power Plant for 2003:

Generation capacity (MW)	600
Power generation (billion kWh)	3.194
Utilisation hours (hours)	5,324
Availability factor (%)	88.79
House consumption rate (%)	5.65
Average on-grid power rate (RMB/MWh, VAT included)	318.89
Coal consumption rate for power sold (grams/kWh)	348.21
Unit fuel cost for power sold (RMB/MWh)	128.74

Yueyang Power Plant

Yueyang Power Plant is situated in Yueyang Municipality of Hunan Province. According to the information available on the State Statistics Bureau's website (<http://www.stats.gov.cn>) and China State Grid Corporation's website (<http://www.sgcc.com.cn>), Hunan Province is situated in the southern part of Dongtinghu along the middle and lower reaches of Changjiang. It is situated in the southeast hinterland linking the coastal provinces in the east and the inland provinces in the west. Hunan Province is a province with a relatively high coal production output in the southern part of China, with proven coal reserves amounting to 3.4 billion tonnes, and its coal reserves occupy the top position amongst the nine provinces (regions) in Jiangnan. The area of the province is 211,800 square kilometres. At the end of 2003, the population was approximately 66,630,000. In 2003, the GDP of the province amounted to RMB463.4 billion, representing an increase of 9.6% over the previous year (the average growth rate of the whole nation is 9.1%), which is the fastest growth rate since 1998. At the end of 2003, the generation capacity of Hunan Province amounted to approximately 12,940 MW, and the ratio between hydropower and thermal power capacity was 50: 50. Among the power source construction in progress in Hunan province, thermal power is a beneficial supplement to hydroelectric power. Particularly during the dry season, thermal power becomes a supporting power source for stable power supply. In 2003, the power consumption of Hunan Province was approximately 54.774 billion kWh, representing an increase of 14.7% when

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compared with the same period in 2002.

The first phase of Yueyang Power Plant consists of two 362.5 MW sub-critical coal-fired generating units. Their construction work began in August 1988 and the commercial operation of these two generating units commenced in September and December 1991 respectively. The estimated depreciation period of Yueyang Power Plant's generating units is approximately 13 years. Currently, the generating units operate properly. In 2003, the annual power generation of two generating units was 4.411 billion kWh with a house consumption rate of 8.15%. Power tariffs are determined according to the rate prescribed by the relevant pricing bureau.

The preparation work for the commencement of the construction work of Yueyang Power Plant's second phase, which consists of 2 x 300 MW coal-fired generating units, has been commenced in April 2003.

Yueyang Power Plant's net operating revenue increased by 32.06% to RMB1.05 billion in 2003 from RMB795.06 million in 2002. The average collected tariff was RMB301.86 per MWh, which decreased by 8.13% from RMB328.60 MWh of last year. The power output of Yueyang Power plant reached RMB4.41 billion kWh. The increase of the net operating revenue of Yueyang Power Plant was mainly due to that the increase in the power output offset the impact of decrease of the average collected tariff.

Upon Closing, the Company will hold a 55% interest in Yueyang Power Plant. The remaining 45% interest is held by Hunan Province Local Power Asset Management Limited Company.

The following table sets out certain operating data of Yueyang Power Plant for 2003:

Generation capacity (MW)	725
Power generation (billion kWh)	4.411
Utilisation hours (hours)	6,085
Availability factor (%)	92.86
House consumption rate (%)	8.15
Average on-grid power rate (RMB/MWh, VAT included)	301.86
Coal consumption rate for power sold (grams/kWh)	341.13
Unit fuel cost for power sold (RMB/MWh)	112.87

Luohuang Power Plant

Luohuang Power Plant is situated in Chongqing Municipality. According to the information available on the State Statistics Bureau's website (<http://www.stats.gov.cn>) and the China State Grid Corporation's website (<http://www.sgcc.com.cn>), Chongqing Municipality is an economic centre at the upper reaches of Changjiang, and is the largest multi-functional modern industrial and commercial city in the western part of China. Dominant natural resources products are coal and natural gas etc. Proven coal reserves amount to 3.3 billion tonnes and proven natural gas reserves amount to 320 billion cubic metres. It is an important production base for coal and natural gas in the southern part of China. The area of the city is 82,400 square kilometres. At the end of 2003, the population was approximately 31,300,000. In 2003, the GDP of the city amounted to RMB225 billion, representing an increase of 11.4% over the previous year (the average growth rate of the whole nation is 9.1%), which is

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the fastest growth rate since the establishment of the municipality directly under the Central Government. Chongqing municipality is one of the load centres of the power grids in the western part of China with high outputs of coal and natural gas and high protection levels for energy supply. At the end of 2003, the generation capacity of Chongqing Municipality amounted to approximately 4,356 MW. In 2003, the power consumption of Chongqing Municipality was approximately 27.034 billion kWh, representing an increase of 9.0% when compared with the same period in 2002.

Luohuang Power Plants consists of two operating plants, namely Jiangjin Luohuang Power Plant and Jiangbei Combined-cycle Power Plant. Each of the first and second phases of Jiangjin Luohuang Power Plant consists of 2 x 360 MW coal-fired generating units. The construction works of those two phases commenced in September 1988 and December 1996 respectively. The two generating units in its first phase commenced operation in September 1991 and February 1992 respectively while the two generating units in the second phase were put into commercial operation in December 1998. The construction work of the 108 MW Combined-cycle generating unit of Jiangbei Combined-cycle Power Plant started in 1988 with commercial operation beginning from 1991. The estimated depreciation period of Luohuang's generating units is approximately 13 years. Currently, the generation units operate properly. In 2003, the annual power generation of the generating units of Jiangjin Luohuang Power Plant was 7.351 billion kWh with a house consumption rate of 10.40% (the house consumption rate of Jiangjin Luohuang Power Plant was relatively high mainly because it is an environmentally friendly thermal power plant with installation of the first desulphurization system in China, which results in an increase of about 3% in the house consumption rate) while the annual output of the power generation of Jiangbei Combined-cycle Power Plant was 0.147 billion kWh with a house consumption rate of 7.69%. Power tariffs are determined according to the rate prescribed by the relevant pricing bureau.

Jiangjin Power Plant is planning to undergo its third phase expansion work, which will consist of 2 X 600 MW domestically built sub-critical coal-fired generating units with simultaneous installation of desulphurization system. The project proposal has been approved by the State Development and Reform Committee and the State Council. Currently, the power plant is preparing the feasibility report.

Luohuang Power Plant's net operating revenue increased by 14.08% to RMB1.62 billion in 2003 from RMB1.42 billion in 2002. The average collected tariff reached RMB281.36 per MWh in 2003, decreased by 1.40% from RMB285.34 MWh of last year. The power output of Luohuang Power Plant reached 7.50 billion kWh, increased by 15.33% compared to last year. The increase of power generation was mainly due to the significant increase of power demand of the Central China.

Upon Closing, the Company will hold a 60% interest in Luohuang Power Plant. The remaining 40% interest is held by Chongqing Municipal Construction and Investment Corporation.

The following table sets out certain operating data of Luohuang Power Plant for 2003:

	Jiangjin Luohuang Power Plant	Jiangbei Combined-cycle Power Plant
Generation capacity (MW)	1,440	108
Power generation (billion kWh)	7.351	.147
Utilisation hours (hours)	5,105	1,358

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Availability factor (%)	88.54	94.68
House consumption rate (%)	10.40	7.69
Average on-grid power rate (RMB/MWh, VAT included)	281.24	282.90
Coal consumption rate for power sold (grams/kWh)	340.90	--
Unit fuel cost for power sold (RMB/ MWh)	72.82	207.84

Yingkou Power Plant

Yingkou Power Plant is an enterprise directly under HIPDC and is not a legal person.

Yingkou Power Plant is situated in Yingkou Municipality of Liaoning Province. According to the information available on the State Statistics Bureau's website (<http://www.stats.gov.cn>) and China State Grid Corporation's website (<http://www.sgcc.com.cn>), Liaoning Province is a coastal region in the southern part of Northeast China. It is an important connecting part for the economic regions in Northeast China and the economic regions surrounding Bohai, and is an important passageway for foreign trade and international communication in Northeast China. Liaohe Oilfield within the province is the third largest gas and oil field in China with petroleum and natural gas reserves accounting for 15% and 10% of the PRC respectively. The area of the province is 145,900 square kilometres. At the end of 2003, the population was approximately 42,100,000. In 2003, the GDP of the province amounted to RMB600.3 billion, representing an increase of 11.5% over the previous year (the average growth rate of the whole nation is 9.1%). Liaoning Province occupies a decisive position in the northeast power grids of the PRC and its power load has been growing rapidly during the recent years. At the end of 2003, the generation capacity of Liaoning Province amounted to approximately 15,099 MW. In 2003, the power consumption of Liaoning Province was approximately 90.791 billion kWh, representing an increase of 12.2% when compared with the same period in 2002.

The planned generation capacity of Yingkou Power Plant is 1,200MW. Its first phase consists of 2 X 320 MW supercritical coal-fired generating units, which commenced operation in January and December 1996 respectively. The estimated depreciation period of Yingkou Power Plant's generating units is approximately 13 years. Currently, the generating units operate properly. In 2003, the annual power generation of two generating units was 3.986 billion kWh with a house consumption rate of 5.53%. Power tariffs are determined according to the rate prescribed by relevant pricing bureau.

According to Yingkou Power Plant's balance sheet as at 31st December 2003 audited by KPMG, Yingkou Power Plant owed to HIPDC a short term payable of RMB1,264,651,910 and a long term loan of RMB614,275,497. According to the Agreement for Transfer of HIPDC Interest, upon completion, the Company should repay the short term payable of RMB1,264,651,910 in full (without interest) to HIPDC within two years from the closing of the acquisition of the HIPDC Interest; while in relation to the RMB614,275,497 long-term loan owed by Yingkou Power Plant to HIPDC, the Company should arrange an entrusted loan arrangement with HIPDC through China Huaneng Finance Company, with a term of 5 years payable by equal instalments annually at an annual interest rate as quoted by The People's Bank of China from time to time.

Yingkou Plant's net operating revenue increased by 16.26% to RMB944.80 million in 2003 from RMB812.69 million in 2002. The average collected tariff was RMB293.57 per MWh, which decreased by 4.61% from RMB307.74 MWh of last year. The power output of Yingkou Power Plant reached 3.97 billion kWh, increased by 21.71% compared to last year. The increase of the power output was due to that the power demand in the Northeast China, exceeded the power supply in 2003,

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which resulted in the significant increase of the net operating revenue and net profit.

Upon Closing, Yingkou Power Plant will be wholly owned by the Company.

The following table sets out certain operating data of Yingkou Power Plant for 2003:

Generation capacity (MW)	640
Power generation (billion kWh)	3.986
Utilisation hours (hours)	6,228
Availability factor (%)	88.42
House consumption rate (%)	5.53
Average on-grid power rate (RMB/MWh, VAT included)	293.57
Coal consumption rate for power sold (grams/kWh)	339.00
Unit fuel cost for power sold (RMB/MWh)	106.15

5. SELECTED FINANCIAL INFORMATION OF THE TARGET POWER PLANTS

The following is a summary of financial information of certain balance sheet items as at 31st December 2001, 2002 and 2003 and certain income statement items for the three years ended 31st December 2003 of the Target Power Plants, prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial information is extracted from the accountants' reports set out in Appendices I to V.

	(RMB in thousands)			
	Hanfeng Power Plant			Jinggang
	2001	2002	2003	2001
Total assets	8,123,691	7,919,688	7,348,051	2,575,462
Total liabilities	6,330,399	5,681,741	4,916,132	2,147,810
Accounts receivable	150,433	426,262	415,538	55,760
Net assets	1,793,292	2,237,947	2,431,919	427,652
Revenue from principal business	744,543	2,133,187	2,235,503	269,022
Operating profit/(loss)	134,598	961,460	995,726	(3,918)
Profit/(loss) before taxation	(86,864)	617,376	702,010	(83,471)
Net profit/(loss) after tax	(79,850)	604,553	701,111	(58,086)

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	Yueyang Power Plant			(RMB in thousands) Luohuang Power Plant		
	2001	2002	2003	2001	2002	2003
Total assets	1,575,502	1,667,390	1,326,935	4,850,729	4,588,837	4,037,810
Total liabilities	1,840,009	1,986,225	1,004,900	4,149,961	4,035,694	3,043,954
Accounts receivable	228,810	386,427	278,294	697,830	719,460	588,235
Net assets/ (liabilities)	(264,507)	(318,835)	322,035	700,768	553,143	993,856
Revenue from principal business	868,120	795,059	1,045,273	1,196,111	1,419,574	1,616,536
Operating profit	196,720	123,885	227,558	251,817	317,141	435,228
Profit/(loss) before taxation	120,943	(60,789)	109,344	58,170	7,418	86,832
Net profit/(loss) after tax	120,943	60,789)	78,424	58,170	7,418	76,648

The Target Power Plants (save for Hanfeng Power Plant) were originally state-owned and the land occupied by them was allocated by the PRC government at nil consideration and cannot be transferred. Due to the change of the shareholdings of the Target Power Plants as result of the Acquisition, the nature of such land shall be changed from administrative allocated land to granted land. Therefore, the Target Power Plants (save for Hanfeng Power Plant) are required to pay to their respective local government authorities land use rights fees totalling RMB203 million.

6. CONNECTED TRANSACTIONS UNDER SHANGHAI LISTING RULES

As the domestic public shares of the Company are listed on the Shanghai Stock Exchange, the Company is required, in addition to the Hong Kong Listing Rules, to comply with the Shanghai Listing Rules.

After Closing, certain transactions in relation to the Target Power Plants, including the guarantees to be provided by the Company to the banks in respect of the Target Power Plants' bank loans and the loans obtained from Huaneng Group and its associate, China Huaneng Finance Company, both being connected persons of the Company, by the Target Power Plants in the ordinary and usual course of the Target Power Plants' business, which are subject to compliance with the relevant requirements of the Hong Kong Listing Rules, will constitute connected transactions under the Shanghai Listing Rules ("Shanghai Connected Transactions"), which shall be subject to the approval of the Company's shareholders. The connected persons (as defined under the Shanghai Listing Rules) shall abstain from voting on resolutions related to Shanghai Connected Transactions. Details of the Shanghai Connected Transactions will be set out in the notice of EGM to be issued to the Company's shareholders.

In accordance with Rule 7.3.11(9) of the Shanghai Listing Rules, the Company has appointed Guotai Junan as the PRC independent financial adviser in respect of the Acquisition.

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Upon careful and necessary enquiry, Guotai Junan is of the view that the Acquisition and the Shanghai Connected Transactions met the relevant legal requirements under the Company Law of the PRC, the Securities Law of the PRC and the Shanghai Listing Rules (as amended in 2001) and the requirements of the articles of association of the Company, reflecting the principles of equality, justice and reasonableness; and that the Acquisition will not in any way affect the interests of either the Company or the non-connected shareholders.

The Independent Directors are of the view that (1) the board of Directors has met the relevant requirements of Shanghai Listing Rules and the articles of association of the Company regarding approval of the relevant resolutions of the Acquisition and the Shanghai Connected Transactions; and (2) the Acquisition and the Shanghai Connected Transactions are fair to the Company's shareholders.

7. THE EGM

The transactions as contemplated by the Transfer Agreements constitute major and connected transactions to the Company. The Company will convene an EGM on 15th June, 2004 to consider the approval of the Acquisition (including the Transfer Agreements), and Shanghai Connected Transactions. The voting at such meeting will be taken on a poll and the Company will make an announcement of the poll result.

Huaneng Group, HIPDC and their respective Associates will abstain from voting in the EGM in respect of the ordinary resolutions to approve the Acquisition (including the Transfer Agreements). Notice of the EGM is set out on pages 197 to 202 in this circular.

A reply slip and a form of proxy for use by the Independent Shareholders at the Extraordinary General Meeting are enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete and return the reply slip in accordance with the instructions printed thereon to the registered office of the Company at West Wing, Building C, Tianyin Mansion, 2C, Fuxingmennan Street, Xichang District, Beijing, PRC as soon as possible but in any event by 25th May, 2003. The enclosed form of proxy should be completed and returned to the Company's H Share Registrar, Hong Kong Registrars Limited, at Room 1901-5, 19/F, Hopewell Centre, 183 Queen's Road East, Hong Kong or the registered office of the Company in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 24 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

8. RECOMMENDATION

According to the requirements of the Hong Kong Listing Rules, the Independent Directors will advise the Independent Shareholders in connection with the Acquisition (including the Transfer Agreements). Rothschild has been appointed as an independent financial adviser to advise the Independent Directors and the Independent Shareholders with respect to the fairness and reasonableness of the Acquisition (including the Transfer Agreements).

The Independent Directors, having taken into account the advice of Rothschild, consider the terms of the Transfer Agreements to be fair and reasonable insofar as the Shareholders are concerned and consider the transaction contemplated by the Transfer Agreements to be in the interests of the Company and its shareholders.

Accordingly, the Independent Directors recommend that the Independent Shareholders vote in favour of the resolutions to approve the Acquisition and the Transfer Agreements at the Extraordinary General Meeting.

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9. OTHER INFORMATION

Your attention is also drawn to the letter from the Independent Directors and the letter from Rothschild, which sets out its advice to the Independent Directors, and the additional information set out in the appendices of this circular.

Yours faithfully,
For and on behalf of
Huaneng Power International, Inc.
Wang Xiaosong
Vice Chairman

LETTER FROM THE INDEPENDENT DIRECTORS

HUANENG POWER INTERNATIONAL, INC.
(A Sino-foreign joint stock limited company incorporated in
the People's Republic of China)

Registered office:
West Wing, Building C
Tianyin Mansion
2C Fuxingmennan Street
Xicheng District
Beijing 100031
The People's Republic of China

29th April, 2004

To the Independent Shareholders

Dear Sir or Madam,

MAJOR CONNECTED TRANSACTION

We, the Independent Directors of Huaneng Power International, Inc., are advising the Independent Shareholders in connection with the Acquisition, details of which are set out in the letter from the Board contained in the circular ("Circular") of the Company to the Shareholders dated 29th April, 2004, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Under the Hong Kong Listing Rules, the Acquisition constitutes both a major and a connected transaction for the Company. Accordingly, the Acquisition will require the approval of the Independent Shareholders at the EGM.

We wish to draw your attention to the letter of advice from Rothschild set out on pages 22 to 34 of the Circular. We have discussed the letter and the opinion contained in it with Rothschild.

Having considered, inter alia, the factors and reasons considered by, and the opinion of, Rothschild, as stated in its aforementioned letter, we consider the Acquisition to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions in the Notice of EGM set out at the end of the Circular to be proposed at the EGM to be held on 15th June, 2004 and thereby approve the Acquisition and the Transfer Agreements.

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Yours faithfully,
Gao Zongze Zheng Jianchao Qian Zhongwei Xia Donglin
Independent Directors

LETTER FROM ROTHSCHILD

[ROTHSCHILD logo omitted]

29 April 2004

To the Independent Directors and
Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to our engagement to advise the Independent Directors and Independent Shareholders with respect to the Acquisition, details of which are contained in the circular of the Company dated 29 April 2004 to its shareholders (the "Circular") of which this letter forms a part. Rothschild has been appointed as the independent financial adviser to advise the Independent Directors and Independent Shareholders as to: (a) whether or not the Transfer Agreements are on normal commercial terms (as defined under the Hong Kong Listing Rules) and the terms of the Transfer Agreements are fair and reasonable so far as the Independent Shareholders are concerned; (b) whether or not entering into the Transfer Agreements is in the interest of the Company and its shareholders as a whole; and (c) how the Independent Shareholders should vote at the EGM in respect of the Acquisition.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, Huaneng Group owned approximately 51.98% of HIPDC, which in turn owned approximately 42.39% of the issued share capital of the Company. Pursuant to the Hong Kong Listing Rules, the Transfer Agreements constitute a major and connected transaction for the Company, which will be subject to, inter alia, the Independent Shareholders' approval at the EGM.

For the avoidance of doubt, we are not engaged to advise the Independent Directors in respect of the Shanghai Connected Transactions, details of which are set out under the section headed "6. Connected transactions under Shanghai Listing Rules" in the "Letter from the Board" of the Circular. The opinion of the Independent Directors thereof and the basis of their opinion are set out in the "Letter from the Independent Directors" contained in the Circular.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and/or its advisers and have assumed that any representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them.

N. M. Rothschild & Sons (Hong Kong) Limited	Telephone (852) 2525-5333
16th Floor, Alexandra House	Fax (852) 2868-1728
16-20 Chater Road, Central	(852) 2810-6997
Hong Kong SAR	

We have been advised by the Directors that no material facts have been

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omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and/or its advisers. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Target Power Plants or any of their respective subsidiaries and associated companies.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and rationale

The principal activities of the Company and its subsidiaries are to develop, construct, operate and manage large-scale coal-fired power plants in the PRC. The Board is of the view that the Acquisition is consistent with the Company's long-term business strategy and will benefit the Company and its shareholders, and follows the Company's business and development strategy of placing equal emphasis on acquisition of existing power plants and development of new power plants. It also believes that the Acquisition is an important strategic move for the Company given the backdrop of deepening power reforms in the PRC, whereby competition is to be gradually introduced to the PRC power generation sector and it will therefore be essential for a power generation company in the PRC to increase its market share so as to maintain its competitive position.

The Board is confident in the prospects for the PRC power sector in view of the favourable market conditions of strong power demand as a result of rapid and stable economic development in the PRC. The Acquisition, together with the acquisition of the 10% interest in Jingganshan Power Plant from Jiangxi Province Investment Corporation, would enlarge the operational scale and market share of the Company in the PRC, with an addition of 3,096 megawatts ("MW") of installed generation capacity on an equity basis, an increase in its total installed generating capacity from 15,736 MW to 18,832 MW on an equity basis, representing a percentage increase of approximately 19.7%. The Company will also gain 1,050 MW of additional capacity under construction on an equity basis. The Board is of the view that the enlarged operational scale of the Company upon completion is conducive to enhancing the competitiveness of the Company and increasing its shareholders' returns.

As also noted under the section headed "3. Reasons for the Acquisition and pricing factors" in the "Letter from the Board" of the Circular, the Acquisition would enable the Company to strengthen its leading position in Liaoning Province and Hebei Province, which are provinces with rapid economic growth and strong power demand. Upon Closing, the Company will increase its net installed capacity on an equity basis from 2,100 MW to 2,740 MW and from 1,300 MW to 1,828 MW in Liaoning Province and Hebei Province respectively.

In addition, the Acquisition would enable the Company to enter into the central-south region of China for the first time, which has provinces and cities with rapid growth in power demand such as Jiangxi Province, Hunan Province and Chongqing Municipality, which is consistent with the Company's marketing strategy of "consolidating its position in coastal regions and exploring the market in Central China".

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2. The Acquisition

(a) Assets to be acquired

On 16 April 2004, the Company entered into the Transfer Agreements, pursuant to which the Company has conditionally agreed to acquire from Huaneng Group a 40% equity interest in Hanfeng Power Plant and a 90% equity interest in Jinggangshan Power Plant and acquire from HIPDC a 55% equity interest in Yueyang Power Plant, a 60% equity interest in Luohuang Power Plant, and the entire assets and liabilities of Yingkou Power Plant for an aggregate consideration of RMB4,513 million (equivalent to approximately HK\$4,258 million) (the "Consideration").

Upon Closing, the Company will as agreed under the Transfer Agreements also guarantee certain loans owed by certain of the Target Power Plants, to an extent which is proportional to the Company's interest in these power plants, further details of which are set out under the sections headed "4. Information regarding the Target Power Plants" and "5. Selected financial information of the Target Power Plants" in the "Letter from the Board" of the Circular.

Set out below is a summary of certain financial and operational information relating to the Target Power Plants. The financial information is extracted from the accountants' reports for the Target Power Plants as set out in Appendices I to V to the Circular.

Location	Installed capacity (MW)	Installed capacity on an Equity Basis (MW)	Sales (RMB million)			
			For the Financial year ended 31 December			
			2001	2002	2003	
Hanfeng Power Plant	Hebei Province	1,320	528	745	2,133	2,236
Jinggangshan Power Plant	Jiangxi Province	600	540	269	587	820
Yueyang Power Plant	Hunan Province	725	399	868	795	1,045
Luohuang Power Plant	Chongqing Municipality	1,548	929	1,196	1,420	1,617
Yingkou Power Plant	Liaoning Province	640	640	723	813	945
Total		4,833	3,036	3,801	5,748	6,663

From our discussions with the management of the Company, we understand that the Target Power Plants have experienced a positive growth trend in sales although a certain level of volatility was noted at the net profit level for the three financial years ended 31 December 2003. In particular, we note that

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Hanfeng Power Plant reported a net loss in 2001, which was primarily due to the fact that 2001 was its first year of commercial operation and the on-grid electricity volume and tariff were relatively low as compared with 2002 and 2003. With respect to Jinggangshan Power Plant, it reported net losses in 2001 and 2002, which were mainly due to commencement of operation of its second generation unit in August 2001 and the on-grid electricity volume for 2001 and 2002 being much lower than that of 2003. Yueyang Power Plant also reported a net loss in 2002, which was mainly attributable to the significant exchange loss suffered from its foreign currency denominated loans while the net loss reported by Yingkou Power Plant in 2001 was primarily due to high financing costs. The decrease in net profit for Luohuang Power Plant in 2002 as compared to 2001 was mainly attributable to exchange loss suffered from its foreign currency denominated loans, while the significant increase in net profit in 2003 as compared to 2002 was due to higher on-grid electricity volume.

Further details relating to the operational and financial information of the Target Power Plants are set out under the section headed "4. Information regarding the Target Power Plants" in the "Letter from the Board" of the Circular and Appendices I to V to the Circular.

(b) Basis of the Consideration

The Transfer Agreements were entered into after arm's length negotiation among the Company, Huaneng Group and their respective financial advisers, and among the Company, HIPDC and their respective financial advisers, based on normal commercial terms. The total Consideration, which will be satisfied as to 50% by cash-on-hand and 50% by bank loans, was determined with reference to, inter alia, the asset appraisal report prepared by Zhongchenghua and after having considered various factors such as the market environments, the technical and operating conditions of the Target Power Plants, the earnings potential of the Target Power Plants and their ability to generate cash flow. However, given that Zhongchenghua is a qualified asset appraisal firm in the PRC which does not carry on such business in Hong Kong, we have not relied on its valuation in arriving at our opinion. In addition, we note that the Company has entered into a transfer agreement with Jiangxi Province Investment Corporation, which is not a connected person (as defined under the Hong Kong Listing Rules) of the Company, on 16 April 2004 pursuant to which the Company has agreed to acquire from Jiangxi Province Investment Corporation its 10% interest in Jinggangshan Power Plant whereby the consideration was determined in a manner consistent with the pricing principle of the Acquisition. Further details of the transfer agreement between the Company and Jiangxi Province Investment Corporation are set out under the sub-section headed "Jinggangshan Power Plant" in the "Letter from the Board" of the Circular.

As noted under the sub-section headed "(2) Agreement for Transfer of HIPDC Interest" in the "Letter from the Board" of the Circular, Yueyang Power Plant and Luohuang Power Plant have significant amounts of overdue accounts receivable. In view of the uncertainty over the collectability of such receivables in full, a provision for doubtful debt has been made for approximately RMB379.0 million of such receivables in the accounts of Yueyang Power Plant and Luohuang Power Plant as at 31 December 2003. The net aggregate overdue receivable balance of Yueyang Power Plant and Luohuang Power Plant was approximately RMB538.5 million as at 31 December 2003. The Company and HIPDC have agreed on certain compensating arrangements whereby the consideration under the Agreement for Transfer of HIPDC Interest will be reduced by an amount equivalent to the un-collectable portion of such receivables (net of the provision already made) attributable to the interests in the relevant power plants to be acquired by the Company under the Agreement for Transfer of HIPDC Interest. Further details of these compensating arrangements are set out under the sub-section headed "(2) Agreement for Transfer of HIPDC Interest" in the "Letter from the Board" of the Circular.

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As also noted under the section headed "3. Reasons for the Acquisition and pricing factors" in the "Letter from the Board" of the Circular, the State is considering the introduction of a pilot scheme on tariff reform in the northeast region for which details are still under formulation. Accordingly, the Company is unable to ascertain the impact of the reform on the operating results of Yingkou Power Plant nor is it able to evaluate in this respect the impact of the Acquisition on the Company's future financial position and operating results.

(c) Valuation of the Target Power Plants

Based on the total Consideration for the Acquisition of RMB4,513 million (equivalent to approximately HK\$4,258 million), together with the aggregate net debt of the Target Power Plants attributable to Huaneng Group Interest and HIPDC Interest as at 31 December 2003 (including an amount of approximately RMB1,265 million repayable to HIPDC by Yingkou Power Plant), the enterprise value ("EV") of the Target Power Plants attributable to Huaneng Group Interest and HIPDC Interest would be approximately RMB11,573 million, being the equity value (the total Consideration paid in this case) plus net debt of the Target Power Plants attributable to Huaneng Group Interest and HIPDC Interest of approximately RMB7,060 million. The source of financial information applied in conducting the ratio analysis is based on the data contained in the accountants' reports for the Target Power Plants as set out in Appendices I to V to the Circular.

We list below the multiples for the Acquisition based on the total Consideration under the Transfer Agreements:

- o an EV/earnings before interest, tax, depreciation and amortisation ("EBITDA") multiple of approximately 5.7 times, based on the EBITDA attributable to Huaneng Group Interest and HIPDC Interest for the financial year ended 31 December 2003 of approximately RMB2,029 million;
- o an EV/MW of approximately RMB3.813 million, based on the equity installed capacity of 3,036MW attributable to Huaneng Group Interest and HIPDC Interest;
- o an earnings multiple of approximately 8.7 times, based on the net profit of the Target Power Plants attributable to Huaneng Group Interest and HIPDC Interest for the financial year ended 31 December 2003 of approximately RMB516 million; and
- o a price to net asset value ratio of approximately 1.7 times, based on the aggregate net asset value ("NAV") of the Target Power Plants attributable to Huaneng Group Interest and HIPDC Interest as at 31 December 2003 of approximately RMB2,644 million.

We have analysed the total Consideration by reviewing: (a) the trading multiples of listed companies comparable to the Target Power Plants; and (b) the transaction multiples of recent acquisitions of electricity power generation companies in the PRC.

In assessing the fairness of the total Consideration, we are of the view that the analysis of the EV/EBITDA multiple versus those of comparable listed companies and comparable transactions is the most important and appropriate valuation benchmark. Due to its common use as a valuation benchmark in the electric power generation industry, we have also compared the EV/MW multiple of the Acquisition with those of comparable listed companies and comparable transactions. In addition, we have reviewed the price/earnings ratio and the price/NAV ratio of the Acquisition versus those of comparable listed companies and comparable transactions, for supplemental cross checking purposes.

(i) Comparable company analysis

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Since the revenue of the Target Power Plants is derived from their electric power generation business in the PRC, the comparable companies we have chosen are listed power companies which are primarily focused on electric power generation in the PRC. The companies which we have identified under the above selection criteria are PRC power generation companies primarily listed on the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, some of which are listed on more than one stock exchange. It should be noted that the Shanghai Stock Exchange and the Shenzhen Stock Exchange are divided into the A-share and B-share markets, which are two separate markets with different regulations and restrictions. The shares traded on the A-share market can only be invested in by domestic investors and qualified foreign institutional investors (with certain trading and ownership restrictions) whereas shares traded on the B-share market are open for investment by both international and domestic investors. We consider that the trading multiples of companies traded solely on an A-share market in the PRC are not an appropriate benchmark for the Acquisition given that trading in the PRC A-share markets is highly restricted. It should also be noted that trading in the PRC B-share markets is relatively inactive and the total market capitalisation is small. Accordingly, we consider the trading multiples of the B-share electric power generation companies less comparable for our valuation purpose.

Based on the above selection criteria, we set out in the following table the relevant ratios of the selected comparable listed companies based on their respective share prices as at the Latest Practicable Date and their latest published audited full year financial statements.

Company name NAV(6)	EV(1)/ EBITDA(3) (Times)	EV(1)/ MW(4) (RMB million)	Price(2)/ earnings(5) (Times)
Primary comparables			
HK-listed Comparable Companies(7)			
Beijing Datang Power Generation Co. Ltd.	10.0	6.894	20.4
Huadian Power International Corp. Ltd.	6.8	3.316	13.4
The Company	9.9	7.064	18.5
China Resources Power Holdings Co. Ltd. ("CR Power") (8)	19.3	11.842	28.7
Average	11.5	7.279	20.3
Average (excluding CR Power) (8)	8.9	5.758	17.5
Secondary comparables			
B-share companies			
Guangdong Electric Power Development Co. Ltd	6.9	7.292	15.1
Heilongjiang Electric Power Co. Ltd	12.9	4.431	29.2
Shenzhen Nanshan Power Station Co. Ltd	8.8	6.994	12.3

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Zhejiang Southeast Electric Power Co. Ltd	8.1	6.760	22.1
Average	9.2	6.369	19.7
The Acquisition	5.7	3.813	8.7

Sources: Bloomberg and latest published audited full year financial statements of the relevant companies available on the Latest Practicable Date

Notes:

- (1) EV of a company refers to the sum of its market capitalisation as at the Latest Practicable Date and its net indebtedness as per its latest published audited full year financial statements available on the Latest Practicable Date.
- (2) Price refers to the market capitalisation based on the closing price of a Hong Kong listed power company with main operations in the PRC as quoted on the Stock Exchange or the closing price of the B-shares of the relevant company on the Latest Practicable Date and the total number of shares in issue according to the relevant company's latest published annual report or interim report or announcement. For companies which also have an A-share listing, their A-share stock prices were not used in the above calculation of market capitalisations.
- (3) EBITDA refers to the earnings before interest, tax, amortisation and depreciation expenses as per the latest published audited full year financial statements of the relevant company available on the Latest Practicable Date.
- (4) MW refers to the net installed capacity in megawatts of the respective companies as per their latest public available information on the Latest Practicable Date.
- (5) Earnings refer to net profit excluding extraordinary items as per the latest published audited full year financial statements of the relevant company available on the Latest Practicable Date.
- (6) NAV refers to net asset value as per the latest published audited full year financial statements of the relevant company available on the Latest Practicable Date.
- (7) HK-listed Comparable Companies refers to Hong Kong listed power companies with main operations in the PRC.
- (8) CR Power is considered less comparable to the Target Power Plants than the H-share power generation companies as it is trading at significantly higher multiples, in terms of EV/EBITDA, EV/MW and price/earnings, due to the fact that CR Power has a much smaller asset base and is expected to have a much higher growth ratio after its power generation assets under construction and development have become operational in the future.

As illustrated above, the EV/EBITDA multiple of approximately 5.7 times and price/earnings multiple of approximately 8.7 times for the Acquisition are lower than the trading multiples of all of the HK-listed Comparable Companies, representing a substantial discount to the respective averages of the HK-listed Comparable Companies (excluding CR Power). In terms of EV/MW and price/NAV, the multiples for the Acquisition are within the respective ranges of trading multiples of the HK-listed Comparable Companies and are moderately lower than

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the respective averages of the HK-listed Comparable Companies (excluding CR Power).

In addition, we have compared the aforementioned acquisition multiples under the Transfer Agreements with the trading multiples of the B-share comparable companies for supplemental comparison purposes. We note that the acquisition multiples for the Acquisition are substantially lower than the respective average trading multiples of the B-share comparable companies.

(ii) Comparable transaction analysis

Our analysis also includes research into acquisition transactions in the Chinese electric power generation sector which have taken place since the recent power industry reform started in the PRC in early 2002. In selecting the comparable transactions, we have focused on material transactions and have taken into account the availability of reliable transaction information and comparability of the power plants acquired with the Target Power Plants. The following table sets out our findings:

Comparable transaction analysis

Date	Seller	Buyer	Net Installed capacity (MW)	Fuel	EV(1)/ EBITDA(3) (RMB) (Times)	EV(1)/ MW million)	P ea
05/06/2003(4)	Huaneng Group	The Company	570	Coal	6.8	2.890	9.7
09/05/2003(5)	China Huadian Corporation	Shandong International Power Development Co. Ltd.	480	Coal	9.1	4.279	18.4
16/11/2002(6)	Huaneng Group	The Company	390	Coal	4.2	1.775	7.2
09/05/2002(7)	Huaneng Group	The Company	1,687	Coal	4.5	2.273	8.1
Average					6.1	2.804	10.9
The Acquisition					5.7	3.813	8.7

Source: Companies' public filings available on the Latest Practicable Date

Notes:

- (1) EV refers to the sum of the equity purchase consideration paid in an acquisition and the proportional net indebtedness of the target power plant(s) as at the latest audited financial year end date prior to the acquisition.
- (2) Price refers to the equity purchase consideration paid in an acquisition.
- (3) EBITDA and earnings are based on the latest full year audited financials of the relevant target power plants before the acquisition took place.

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- (4) The Company acquired 100% of China Huaneng Group Xindian Power Plant in Shandong Province, 60% of Shanxi Huaneng Yushe Power Limited Liability Company in Shanxi Province, and 55% of Henan Huaneng Qinbei Power Generation Limited Liability Company in Henan Province.
- (5) Shandong International Power Development Company Limited acquired 80% of Sichuan Guangan Power Generation Company Limited in Sichuan Province.
- (6) The Company acquired 30% of Shanghai Shidongkou Power Limited Company in Shanghai and 5% of Suzhou Industrial Park Huaneng Power Limited Liability Company in Jiangsu Province.
- (7) The Company acquired 70% of Shanghai Shidongkou Power Limited Company in Shanghai, 70% of Suzhou Industrial Park Huaneng Power Limited Liability Company in Jiangsu Province, 44.16% of Jiangsu Huaneng Huaiyin Power Limited Company in Jiangsu Province, and 100% of China Huaneng Group Company Zhejiang Changxing Power Plant in Zhejiang Province.

Our review of the acquisition multiples of the above precedent transactions indicates that the EV/EBITDA, EV/MW, price/earnings and price/NAV multiples for the Acquisition are within the respective ranges of the precedent transactions. In addition, we note that the EV/EBITDA, price/earnings and price/NAV multiples for the Acquisition are lower than the respective averages of the precedent transactions. We also note that the EV/MW multiple for the Acquisition is higher than the average of the precedent transactions. We attribute the differential in the EV/MW multiple to the prevailing economic environment and conditions for each transaction, as well as plant specific operational factors such as the average life of the target power plants for each transaction. Having considered the above factors, we consider the Consideration is within an acceptable range when compared with the acquisition multiples of the precedent transactions.

On the above basis, we consider the Consideration under the Transfer Agreements is fair and reasonable so far as the Independent Shareholders are concerned.

(d) Conditions of the Acquisition

Completion of the Transfer Agreements is conditional upon fulfillment of various conditions including the approval of the Acquisition by the Independent Shareholders at the EGM. Further details of the other conditions precedent to the completion of the Acquisition are set out under the section headed "2. Transfer Agreements" in the "Letter from the Board" of the Circular.

3. Potential financial effects on the Company and its subsidiaries

This section sets out various analyses on the potential financial effects of the transactions, which include the Acquisition and the acquisition of the 10% interest in Jinggangshan Power Plant from Jiangxi Province Investment Corporation (the "Transactions"), on the Company, which were prepared based on the audited financials of the Company and its subsidiaries for the financial year ended 31 December 2003, the accountants' reports for the Target Power Plants and the unaudited pro forma net asset statement of the Company and its subsidiaries (including the Target Power Plants) (the "Combined Company and Subsidiaries") as at 31 December 2003, further details of which are set out in Appendices I to VII to the Circular, and the information provided under the section headed "3. Reasons for the Acquisition and pricing factors" in the "Letter from the Board" of the Circular. It should be noted that the unaudited pro forma net asset statement of the Company and its subsidiaries (including the Target Power Plants) as at 31 December 2003 was prepared based on certain assumptions, further details of which are set out in Appendix VII to the Circular and, accordingly, all the figures and financial effects shown in this section are for illustrative purposes only.

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(a) Net income

Based on the net income of the Target Power Plants for the financial year ended 31 December 2003, further details of which are set out in Appendices I to V to the Circular, the Company is acquiring interests in the Target Power Plants for which the attributable net income of such interests for the financial year ended 31 December 2003 was approximately RMB522 million (before taking into consideration any adjustments relating to the Transactions).

(b) Net assets

The pro forma net assets of the Combined Company and Subsidiaries would be approximately RMB33,955 million as at 31 December 2003, the same as the audited net assets reported by the Company and its subsidiaries (without taking into account the Transactions) as at the same date. As a result of the Transactions, the Combined Company and Subsidiaries will record positive goodwill of approximately RMB949 million, representing the excess of the total Consideration of RMB4,575 million over the estimated fair value of the underlying net assets of the Target Power Plants of approximately RMB3,626 million as at 31 December 2003. Further details relating to the pro forma net assets of the Combined Company and Subsidiaries are set out in Appendix VII to the Circular.

(c) Gearing

Based on the unaudited pro forma net asset statement of the Company and its subsidiaries (including the Target Power Plants) as at 31 December 2003 as set out in Appendix VII to the Circular, the total debt of the Combined Company and Subsidiaries (without the debt of Hanfeng Power Plant, which would not be consolidated into the Company's balance sheet as it will become an associated company of the Company upon Closing) would be approximately RMB23,096 million as at 31 December 2003, compared to the total debt of approximately RMB13,796 million reported by the Company and its subsidiaries (without taking into account the Transactions) as at the same date. Net debt of the Combined Company and Subsidiaries would be approximately RMB20,934 million, compared to the net debt position of approximately RMB9,522 million of the Company and its subsidiaries (without taking into account the Transactions) as at 31 December 2003. The net gearing of the Combined Company and Subsidiaries, defined as net debt divided by net debt plus net assets plus minority interests, would be approximately 36.6% as at 31 December 2003, compared to the net gearing of approximately 21.3% for the Company and its subsidiaries (without taking into account the Transactions) as at the same date.

We consider that the net gearing of the Combined Company and Subsidiaries is still within reasonable range when compared with other H-share power companies listed in Hong Kong, the net gearing of which ranged between approximately 36.1% and 48.5% as at 31 December 2003.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our conclusion:

- (i) the Acquisition would enlarge the operational scale and market share of the Company in the PRC and is an important strategic move of the Company given the backdrop of deepening power reforms in the PRC;
- (ii) the multiples for the Acquisition are reasonable considering the trading multiples of companies comparable to the Target Power Plants;
- (iii) the multiples for the Acquisition are within a reasonable range of

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relevant and comparable precedent transactions, having considered the prevailing economic environment and conditions for each transaction, as well as plant specific operational factors; and

- (iv) as set out in more detail under the sub-section headed "Net income" above, the Company is acquiring interests in the Target Power Plants for which the attributable net income of such interests for the financial year ended 31 December 2003 was approximately RMB522 million (before taking into consideration any adjustments relating to the Transactions), and the gearing ratio of the Combined Company and Subsidiaries, after completion of the Transactions, is still within a reasonable range.

RECOMMENDATION

Having considered all the above principal factors and reasons, we consider that (a) the Transfer Agreements are on normal commercial terms (as defined under the Hong Kong Listing Rules) and the terms of the Transfer Agreements are fair and reasonable so far as the Independent Shareholders are concerned; and (b) entering into the Transfer Agreements is in the interest of the Company and its shareholders as a whole. Accordingly, we advise the Independent Directors to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition as detailed in the notice of the EGM which is set out on pages 197 to 202 in the Circular.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited
Liu Xiaofeng
Director

APPENDIX I ACCOUNTANTS' REPORT OF HANFENG POWER PLANT

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix X, a copy of the following accountants' report is available for inspection.

KPMG logo omitted

8th Floor
Prince's Building
10 Chater Road
Hong Kong

The Directors
Huaneng Power International, Inc.

29 April 2004

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Hebei Hanfeng Power Generation Limited Liability Company ("Hanfeng Power Plant") in Sections I to VI below (the "Financial Information"), including the balance sheets of Hanfeng Power Plant as at 31 December 2001, 2002 and 2003, the statements of income, owners' equity and cash flows of Hanfeng Power Plant for each of the years in the three-year period ended 31 December 2003 (the "relevant

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period"), for inclusion in the shareholders' circular of Huaneng Power International, Inc. ("the Company") dated 29 April 2004 (the "Circular").

Hanfeng Power Plant is an equity sino-foreign joint venture company established on 28 October 1996 in Hebei Province, the People's Republic of China (the "PRC") by China Huabei Power Group Company ("Huabei Power"), Hebei Construction and Investment Company ("Hebei Investment"), Hebei Power Company ("Hebei Power") and Siemens Power Development Hanfeng GmbH ("Siemens Power"). The equity interest of Hanfeng Power Plant was 30% owned by Huabei Power, 20% owned by Hebei Investment, 10% owned by Hebei Power and 40% owned by Siemens Power on the date of establishment. On 18 November 1998, Siemens Power transferred 16% equity interest in Hanfeng Power Plant to HEW Power Venture Hanfeng GmbH. In January 2003, pursuant to the restructuring of the power industry in the PRC, the 30% equity interest owned by Huabei Power and 10% equity interest owned by Hebei Power were allocated to China Huaneng Group ("Huaneng Group"), the ultimate holding company of the Company. The operating period of Hanfeng Power Plant is 25 years commencing from the date of establishment. It owns and operates two coal-fired generating units with installed capacity of 660 MW each. The two generating units commenced commercial operation in March and September 2001 respectively.

The statutory financial statements of Hanfeng Power Plant were prepared in accordance with the applicable PRC accounting rules and regulations which have been audited by KPMG Huazhen Certified Public Accountants for the year ended 31 December 2001 and by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. for the years ended 31 December 2002 and 2003.

Pursuant to the transfer agreement entered into between the Company and Huaneng Group on 16 April 2004, as described more fully in the section headed "Transfer Agreements" in the letter from the Board contained in the Circular, the Company will acquire from Huaneng Group of its 40% equity interest in Hanfeng Power Plant.

BASIS OF PREPARATION

The Financial Information has been prepared by the management of Hanfeng Power Plant based on the statutory financial statements of Hanfeng Power Plant to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards and interpretations.

RESPONSIBILITY

The preparation of the Financial Information, which gives a true and fair view, is the responsibility of Hanfeng Power Plant's management. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have audited the Financial Information of Hanfeng Power Plant for the relevant period and carried out such procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA"). We have not audited any financial statements of Hanfeng Power Plant in respect of any period subsequent to 31 December 2003.

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We conducted our audit in accordance with Statements of Auditing Standards issued by HKSA. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Hanfang Power Plant's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report and on the basis stated above, gives a true and fair view of the state of affairs of Hanfeng Power Plant as at 31 December 2001, 2002 and 2003 and of the results and cash flows of Hanfeng Power Plant for each of the years in the three-year period ended 31 December 2003 and has been properly prepared in accordance with IFRS.

I STATEMENTS OF INCOME

		Years ended 31 December		
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000
Revenue	2	744,543	2,133,187	2,235,503
		-----	-----	-----
Operating expenses				
- Fuel		(242,332)	(537,758)	(579,157)
- Repairs and maintenance		(13,785)	(20,730)	(36,896)
- Depreciation and amortisation		(242,280)	(409,906)	(414,923)
- Personnel expenses		(51,779)	(79,639)	(127,021)
- Other operating expenses		(59,769)	(123,694)	(81,780)
		-----	-----	-----
Total operating expenses		(609,945)	(1,171,727)	(1,239,777)
Operating profit	3	134,598	961,460	995,726
Net financing costs	4	(221,462)	(344,084)	(293,716)
		-----	-----	-----
(Loss)/profit before taxation		(86,864)	617,376	702,010
Taxation	5	7,014	(12,823)	(899)
		-----	-----	-----

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Net (loss)/profit	(79,850)	604,553	701,111
	=====	=====	=====

II BALANCE SHEETS

	Note	31 December		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment, net	7	7,371,449	6,924,024	6,530,080
Long-term lease prepayments	8	179,747	170,207	160,667
Deferred tax assets	9	7,014	10,139	16,064
		-----	-----	-----
		7,558,210	7,104,370	6,706,811
		-----	-----	-----
Current assets				
Inventories	10	35,859	39,991	57,291
Trade receivables	11	150,433	426,262	415,538
Other receivables and prepayments		13,132	37,176	830
Cash and cash equivalents	12	366,057	311,889	167,581
		-----	-----	-----
		565,481	815,318	641,240
		-----	-----	-----
Current liabilities				
Accounts payables and other liabilities	13	586,530	285,654	160,495
Taxes payable	5(c)	13,343	86,875	64,554
Staff welfare and bonus payable		4,092	2,218	6,492
Short-term loans	14(a)	52,000	52,000	52,000
Current portion of long-term bank loans	14(b)	532,209	562,234	582,213
		-----	-----	-----
		1,188,174	988,981	865,754
		-----	-----	-----
Net current liabilities		(622,693)	(173,663)	(224,514)
		-----	-----	-----
Total assets less current liabilities		6,935,517	6,930,707	6,482,297
		-----	-----	-----
Non-current liabilities				
Long-term bank loans	14(b)	4,677,305	4,227,840	3,645,458
Other long-term loans	14(c)	464,920	464,920	404,920
		-----	-----	-----
		5,142,225	4,692,760	4,050,378
		-----	-----	-----

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Net assets	1,793,292	2,237,947	2,431,919
	=====	=====	=====
Owners' equity	1,793,292	2,237,947	2,431,919
	=====	=====	=====

III STATEMENTS OF OWNERS' EQUITY

	Total owners' equity RMB'000
Balance as at 1 January 2001	1,838,941
Net loss for the year	(79,850)
Contributions from owners	56,701
Transfer to long-term debts (note)	(22,500)
Balance as at 31 December 2001	1,793,292
Net profit for the year	604,553
Contributions from owners	102
Dividends paid	(160,000)
Balance as at 31 December 2002	2,237,947
Net profit for the year	701,111
Dividends paid	(507,139)
Balance as at 31 December 2003	2,431,919

Note: Pursuant to the approval obtained from the relevant government authority, the registered capital of Hanfeng Power Plant was reduced and an amount of RMB22,500,000 was transferred to long-term debts from owners.

IV STATEMENTS OF CASH FLOWS

		Years ended 31 December		
	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000
Cash flows from operating activities	(a)	53,358	820,617	1,135,016
Cash flows from investing activities				
Capital expenditure		(281,421)	(302,974)	(149,951)

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Lease prepayments	(186,027)	--	--
Proceeds from disposal of property, plant and equipment (note)	--	7,749	--
	-----	-----	-----
Net cash used in investing activities	(467,448)	(295,225)	(149,951)
	-----	-----	-----
Cash flows from financing activities			
Proceeds from loans and borrowings	689,869	52,000	52,000
	-----	-----	-----
Repayments of loans and borrowings	(20,000)	(471,662)	(674,234)
Payment of dividends	--	(160,000)	(507,139)
Cash contributions from owners	56,701	102	--
	-----	-----	-----
Net cash from/(used in) financing activities	726,570	(579,560)	(1,129,373)
	=====	=====	=====
Net increase/(decrease) in cash and cash equivalents	312,480	(54,168)	(144,308)
Cash and cash equivalents at beginning of year	53,577	366,057	311,889
	-----	-----	-----
Cash and cash equivalents at end of year	366,057	311,889	167,581
	=====	=====	=====

Note: Disposal of buildings in 2002 with a carrying amount of RMB57,510,000 represented disposal of staff quarters at cost. Deposit of RMB12,612,000 of which was received before 2000, RMB7,749,000 of which was received in 2002. In 2003, salaries and wages payable of RMB37,149,000 was withheld to settle the remaining balance of the consideration of RMB37,149,000 due from staff.

(a) Reconciliation of (loss)/profit before taxation to cash flows from operating activities

	Years ended 31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
(Loss)/profit before taxation	(86,864)	617,376	702,010
Adjustments for:			
Depreciation	236,000	400,366	405,383

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Amortisation of long-term lease prepayments	6,280	9,540	9,540
Interest income	(988)	(2,207)	(2,462)
Interest expenses	221,642	343,502	293,579
Unrealised exchange (gains)/losses	(508)	222	(169)
Losses on disposal of property, plant and equipment	101	7,960	1,094
Increase in inventories	(35,859)	(4,132)	(17,300)
(Increase)/decrease in trade receivables	(150,433)	(275,829)	10,724
(Increase)/decrease in other receivables and prepayments	(11,251)	13,105	36,346
Increase in accounts payables and other liabilities	37,395	13,289	19,990
Increase/(decrease) in taxes payable	13,343	57,584	(29,145)
Increase/(decrease) in staff welfare and bonus payable	4,092	(1,874)	4,274
	-----	-----	-----
Cash generated from operations	232,950	1,178,902	1,433,864
Interest received	988	2,207	2,462
Interest paid	(180,580)	(360,492)	(301,310)
	-----	-----	-----
Cash flows from operating activities	53,358	820,617	1,135,016
	=====	=====	=====

V NOTES TO THE FINANCIAL INFORMATION

1 Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

IFRS includes International Accounting Standards ("IAS") and Interpretations.

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies described below have been consistently applied by Hanfeng Power Plant during the relevant period.

(b) Property, plant and equipment and depreciation

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Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(d)). The cost of property, plant and equipment constructed by Hanfeng Power Plant includes the cost of materials, direct labour, directly attributable costs of bringing the asset to working condition and location for its intended use, and the cost of borrowed funds used during construction.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is provided to write off the cost of property, plant and equipment on a straight line basis over their respective estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Buildings	8-20 years
Generators and related machinery and equipment	6-20 years
Motor vehicles, furniture, fixtures, equipment and others	4-18 years

(c) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(d)). Cost comprises construction expenditure, including interest costs incurred during the construction period, the cost of related equipment, direct labour and other directly attributable costs.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. In respect of a generating unit, it is considered to be substantially ready for its intended use when the trial run period ends.

(d) Impairment

The carrying amounts of property, plant and equipment, and construction in progress are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been

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determined, net of depreciation, if no impairment loss had been recognised.

(e) Long-term lease prepayments

Long-term lease prepayments represent fees for land use rights paid to the PRC land bureau. Land use rights are carried at cost and amortised on a straight-line basis over Hanfeng Power Plant's operating period of 25 years.

(f) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by Hanfeng Power Plant, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of inventories is calculated on the weighted average basis.

(g) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for any amounts expected to be irrecoverable. An allowance is provided for based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and maturing within three months at acquisition.

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Hanfeng Power Plant has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

Electricity income is recognised when electricity is supplied to the provincial power grid company.

(l) Major overhauls, repairs and maintenance

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Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(m) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(n) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi yuan at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi yuan at the rates ruling at the balance sheet date. Foreign currency translation differences relating to the funds borrowed to finance construction in progress, to the extent that they are regarded as an adjustment to interest costs, are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

(o) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Retirement plan

Hanfeng Power Plant is required to make contributions to a retirement plan operated by the State at a rate of 20% of the staff salaries during the relevant period. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, Hanfeng Power Plant participates in a defined contribution retirement plan, which is also operated by the State, and makes contributions to this plan at RMB6/per month/per staff times the number of years of service with Hanfeng Power Plant to supplement the above-mentioned plan. Hanfeng Power Plant has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

(q) Related parties

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For the purposes of the Financial Information, parties are considered to be related to Hanfeng Power Plant if Hanfeng Power Plant has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Hanfeng Power Plant and the party are subject to common control or common significant influence.

(r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(s) Segment reporting

A business segment is a distinguishable component of Hanfeng Power Plant that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, Hanfeng Power Plant has one operating segment, which is the generation and sale of electricity. All the operating activities of Hanfeng Power Plant are carried out in the PRC.

2 Revenue

Revenue represents the sale of electricity by Hanfeng Power Plant to provincial power grid company, Hebei Power, net of value added tax ("VAT").

3

Operating profit

Operating profit is arrived at after charging:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Depreciation of property, plant and equipment	236,000	400,366	405,383
Amortisation of long-term lease prepayments	6,280	9,540	9,540
Cost of inventories	280,091	594,571	644,840
Contribution to retirement plans	6,819	10,699	11,713
Auditors' remuneration	340	277	387
	=====	=====	=====
4 Net financing costs			

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Interest on bank loans and other borrowings repayable within five years	321,757	312,373	264,523
Interest on other loans	30,879	31,129	29,056
Less: Interest expenses capitalised	(130,994)	--	--
	-----	-----	-----

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Net interest expense	221,642	343,502	293,579
Interest income	(988)	(2,207)	(2,462)
Exchange losses	135	727	506
Others	673	2,062	2,093
	-----	-----	-----
	221,462	344,084	293,716
	=====	=====	=====
Interest rate per annum at which borrowing costs were capitalised for construction in progress	6.34%	--	--
	=====	=====	=====

5 Taxation

(a) Taxation in the statements of income comprises:

	Years ended 31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Provision for PRC income tax	--	(15,948)	(22,772)
Deferred taxation (note 9)	7,014	3,125	5,925
	-----	-----	-----
	7,014	(12,823)	(16,847)
Tax exempted in relation to PRC income tax provided in prior year	--	--	15,948
	-----	-----	-----
Tax credit/(expense)	7,014	(12,823)	(899)
	=====	=====	=====

According to the notice Guo Shui Han [2001] 171 issued by the State Administration of Taxation, the applicable PRC income tax rate applicable to Hanfeng Power Plant is 15%. Further, according to the approval obtained from the state tax bureau of Hebei Province, Hanfeng Power Plant is exempted from PRC income tax for two years starting from the first profit-making year, after deduction of accumulated tax losses brought forward, followed by a 50% reduction of the applicable tax rate for the next three years. The first profit-making year of Hanfeng Power Plant is 2002.

In addition, Hanfeng Power Plant is subject to local income tax at a rate of 3%.

No provision for PRC income tax in 2001 has been made as there was no assessable profits in that year. In 2002 and 2003, the provision for PRC income tax has been made at a rate of 3%. According to the approval obtained from the

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state and local tax bureaux of Hebei Province on 19 June 2003, the local income tax of 2002 was exempted, which was adjusted in 2003 accordingly. It is uncertain whether such exemption will be available for 2003 or subsequent years.

(b) Reconciliation of effective tax rate:

	Years ended 31 December		
	2001	2002	2003
	RMB '000	RMB '000	RMB '000
(Loss)/profit before taxation	(86,864)	617,376	702,010
	-----	-----	-----
Expected PRC income tax expense at applicable tax rates	--	(18,522)	(21,060)
Effect of tax losses	3,025	(3,025)	--
Others	3,989	8,724	4,213
	-----	-----	-----
	7,014	(12,823)	(16,847)
	=====	=====	=====

(c) Taxes payable in the balance sheets represents:

	31 December		
	2001	2002	2003
	RMB '000	RMB '000	RMB '000
Provision for PRC income tax for the year	--	15,948	22,772
	-----	-----	-----
Taxes payable other than PRC income tax	13,343	70,927	41,782
	13,343	86,875	64,554
	=====	=====	=====

Taxes payable other than PRC income tax mainly represent VAT payable.

6 Emoluments of directors and senior management

(a) Directors' emoluments

Details of emoluments paid to directors are as follows:

	Years ended 31 December		
	2001	2002	2003
	RMB '000	RMB '000	RMB '000
Salaries, allowances and benefits in kind	400	1,334	876
Retirement benefits	63	81	70
	-----	-----	-----
	463	1,415	946
	=====	=====	=====

(b) Senior management's emoluments

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Details of emoluments paid to the five highest paid individuals are as follows:

	Years ended 31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Salaries, allowances and benefits in kind	621	2,032	1,601
Retirement benefits	109	175	157
	-----	-----	-----
	730	2,207	1,758
	=====	=====	=====

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emoluments range is as follows:

	Years ended 31 December		
	2001	2002	2003
RMB Nil -- RMB1,000,000	5	5	5
	=====	=====	=====

There was no arrangement under which an employee waived any remuneration during the relevant period.

7 Property, plant and equipment, net

	Buildings RMB'000	Generators and related Machinery and Equipment RMB'000	motors vehicles, furnitures, fixtures equipment and others RMB'000
Cost:			
Balance at 1 January 2001	--	--	2,825
Additions	--	710	6,834
Transferred from construction in progress	1,812,907	5,725,769	58,505
Disposals	--	--	(101)
	-----	-----	-----
Balance at 31 December 2001	1,812,907	5,726,479	68,063
	-----	-----	-----
Accumulated depreciation:			
Charge for the year	(63,706)	(6,084)	--
	-----	-----	-----
Balance at 31 December 2001	(63,706)	(166,210)	(6,084)
	-----	-----	-----

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Net book value at 31 December 2001	1,749,201 =====	5,560,269 =====	61,979 =====
	Buildings RMB'000	Generators and related Machinery and Equipment RMB'000	motors vehicles, furnitures, fixtures equipment and others RMB'000
Cost:			
Balance at 1 January 2002	1,812,907	5,726,479	68,063
Additions	--	11,217	7,194
Disposals	(57,510) -----	-- -----	(7,960) -----
Balance at 31 December 2002	1,755,397 -----	5,737,696 -----	67,297 -----
Accumulated depreciation:			
Balance at 1 January 2002	(63,706)	(166,210)	(6,084)
Charge for the year	(88,490) -----	(303,262) -----	(8,614) -----
Balance at 31 December 2002	(152,196) -----	(469,472) -----	(14,698) -----
Net book value at 31 December 2002	1,603,201 =====	5,268,224 =====	52,599 =====
Cost:			
Balance at 1 January 2003	1,755,397 -----	5,737,696 -----	67,297 -----
Additions	--	6,643	5,890
Disposals	-- -----	-- -----	(1,957) -----
Balance at 31 December 2003	1,755,397 -----	5,744,339 -----	71,230 -----
Accumulated depreciation:			
Balance at 1 January 2003	(152,196)	(469,472)	(14,698)
Charge for the year	(88,490)	(307,280)	(9,613)
Reversal upon disposal	-- -----	-- -----	863 -----

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Balance at 31 December 2003	(240,686)	(776,752)	(23,448)
	-----	-----	-----
Net book value at 31 December 2003	1,514,711	4,967,587	47,782
	=====	=====	=====

All of Henfeng Power Plant's buildings are located in the PRC.

8 Long-term lease prepayments

Long-term lease prepayments represent fees for land use rights paid to the PRC land bureau. It is amortised over Hanfeng Power Plant's operating period of 25 years.

Long-term lease prepayments with carrying amount of RMB91 million, RMB86 million and RMB81 million as at 31 December 2001, 2002 and 2003, respectively was pledged to secure certain bank loans (note 14).

9 Deferred tax assets

Deferred tax assets are attributable to the items set out below:

	31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Training fee and pre-operating expenses	3,989	3,989	3,989
Property, plant and equipment	--	6,150	12,075
Tax losses	3,025	--	--
	-----	-----	-----
Deferred tax assets	7,014	10,139	16,064
	=====	=====	=====

Movements in temporary differences for the three years ended 31 December 2001, 2002 and 2003 are as follows:

	Balance at 1 January 2001 RMB'000	Recognised in statement of income RMB'000	Balance at 31 December 2001 RMB'000
Training fee and pre-operating expenses	--	3,989	3,989
Tax losses	--	3,025	3,025
	-----	-----	-----
Deferred tax assets	--	7,014	7,014
	=====	=====	=====

note 5(a))

	Balance at 1 January 2002 RMB'000	Recognised in statement of income RMB'000	Balance at 31 December 2002 RMB'000

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Training fee and pre-operating expenses	3,989	--	3,989
Property, plant and equipment	--	6,150	6,150
Tax losses	3,025	(3,025)	--
	-----	-----	-----
Deferred tax assets	7,014	3,125	10,139
	=====	=====	=====
		(note 5(a))	

	Balance at 1 January 2003 RMB'000	Recognised in statement of income RMB'000	Balance at 31 December 2003 RMB'000
Training fee and pre-operating expenses	3,989	--	3,989
Property, plant and equipment	6,150	5,925	12,075
	-----	-----	-----
Deferred tax assets	10,139	5,925	16,064
	=====	=====	=====
		(note 5(a))	

10 Inventories

	2001 RMB'000	31 December 2002 RMB'000	2003 RMB'000
Coal	14,713	15,525	23,131
Fuel oil	9,407	5,787	3,669
Materials, components and spare parts	11,739	18,679	30,491
	-----	-----	-----
	35,859	39,991	57,291
	=====	=====	=====

11 Trade receivables

The balance of trade receivables as at 31 December 2001, 2002 and 2003 was due from Hebei Power and was current. Hanfeng Power Plant usually grants one month credit period to Hebei Power from the end of the month in which the sales are made.

12 Cash and cash equivalents

	2001 RMB'000	31 December 2002 RMB'000	2003 RMB'000
Cash at bank and in hand	250,185	311,889	167,581

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Time deposits with maturity within 3 months	115,872	--	--
	-----	-----	-----
	366,057	311,889	167,581
	=====	=====	=====

13 Accounts payables and other liabilities

	31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Accounts payables	42,525	40,532	58,540
Payables for construction projects	463,915	179,352	41,934
Other payables	80,090	65,770	60,021
	-----	-----	-----
	586,530	285,654	160,495
	=====	=====	=====

Ageing analysis of accounts payables is as follows:

	31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	36,299	35,865	55,610
Due after 1 month but within 3 months	6,226	4,667	2,930
	-----	-----	-----
	42,525	40,532	58,540
	=====	=====	=====

14 Interest bearing loans and borrowings

The following provides information about the contractual terms of Hanfeng Power Plant's interest bearing loans and borrowings:

(a) Short-term loans

	31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Loan from Hebei Investment	20,000	20,000	20,000
Loan from Hebei Power	32,000	32,000	32,000
	-----	-----	-----
Total	52,000	52,000	52,000
	=====	=====	=====

The weighted average interest rate of the short-term debts was 5.85%, 5.31% and 4.78% as at 31 December 2001, 2002 and 2003, respectively.

(b) Long-term bank loans

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	Interest rate and final maturity	2001 RMB'000	31 De
Bank loans - Renminbi denominated	Floating interest rate at 5.18% per annum as at 31 December 2003 with maturities through 2012	2,409,000	2
Bank loans: US dollars denominated	Fixed interest rate at 7.30% per annum with maturities through 2013	2,121,672	1
Bank loans: US dollars denominated	Floating interest rate at 2.47% per annum as at 31 December 2003 with maturities through 2009	678,842	
Total long-term bank loans		5,209,514	4
Less: current portion		(532,209)	

Non-current portion		4,677,305	4
		=====	

Certain long-term bank loans were secured over Hanfeng Power Plant's long-term lease prepayments with a carrying amount of RMB91 million, RMB86 million and RMB81 million as at 31 December 2001, 2002 and 2003, respectively.

(c) Other long-term loans

	Interest rate and final maturity	2001 RMB'000	31 De
Hebei Investment	Floating interest rate at 5.76% per annum as at 31 December 2003 with maturities through 2010	449,920	
Hebei Power	Floating interest rate at 5.76% per annum as at 31 December 2003 with maturity through 2005	15,000	

		464,920	
		=====	

The aggregate maturities of Hanfeng Power Plant's long-term bank loans and other long-term loans subsequent to 31 December 2003 are as follows:

	RMB'000
2004	582,213
2005	617,213

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2006	613,713
2007	652,213
2008	659,813
Thereafter	1,507,426
Total	----- 4,632,591 =====

15 Concentration of risks

(a) Credit and concentration risk

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and prepayments represent Hanfeng Power Plant's maximum exposure to credit risk in relation to financial assets. Hanfeng Power Plant sells the electricity generated to its sole customer, Heibei Power.

Substantially all of Hanfeng Power Plant's cash and cash equivalents are deposited with the four largest state-owned banks of the PRC.

Hanfeng Power Plant does not have concentrations of available sources of labour, services, franchises, licenses or other rights that could, if suddenly eliminated, severely impact their operations.

(b) Interest rate risk

The interest rates and terms of repayment of the outstanding loans and borrowings of Hanfeng Power Plant are disclosed in note 14.

(c) Currency risk

Hanfeng Power Plant has foreign currency risk as a portion of its interest-bearing loans and borrowings are denominated in foreign currency, principally in US dollars, as described in note 14. Fluctuation of exchange rates of Renminbi against US dollars could affect Hanfeng Power Plant's results of operations.

16 Related party transactions

The principal related party transactions with related parties, which were carried out in the ordinary course of business, are as follows:

Transaction	Note	Years ended 31 December		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Interests on loans	a	30,879	31,129	26,649
Sale of electricity	b	744,543	2,133,187	--

Notes:

- (a) This represents interest incurred on loans from Hebei Investment and Hebei Power. Details of loans from Hebei Investment and Hebei Power are disclosed in note 14.
- (b) This represents sale of electricity by Hanfeng Power Plant to

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Hebei Power. Pursuant to the restructuring of the power industry in the PRC, Hebei Power transferred all its equity interest in Hanfeng Power Plant to Huaneng Group in January 2003, and therefore, Hebei Power is no longer a related party of Hanfeng Power Plant from January 2003.

17 Fair values of financial instruments

Financial assets of Hanfeng Power Plant include cash and cash equivalents, trade receivables, and other receivables and prepayments. Financial liabilities of Hanfeng Power Plant include interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payable and staff welfare and bonus payables. Hanfeng Power Plant does not hold nor issue financial instruments for trading purposes.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for Hanfeng Power Plant's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by Hanfeng Power Plant using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Hanfeng Power Plant could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarises the major methods and assumptions used in estimating the fair values of Hanfeng Power Plant's financial instruments.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and prepayments, short-term interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payable and staff welfare and bonus payable approximate to fair value due to the short-term maturity of these instruments.

The estimated fair value of long-term debts, including current portion of long-term debts, was RMB2,591 million, RMB2,384 million and RMB2,170 million as at 31 December 2001, 2002 and 2003, respectively. The fair value of long-term debt is determined by discounting the stream of future payments of interest and principal at the interest rates available to Hanfeng Power Plant for similar indebtedness. The book value of these long-term debts was RMB2,121 million, RMB1,993 million and RMB1,793 million as at 31 December 2001, 2002 and 2003, respectively.

18 Distributable reserve

The distributable reserve of Hanfeng Power Plant as at 31 December 2003 was RMB446 million, before taking into account 2003 final dividend (note 19), which was determined under the applicable PRC accounting rules and regulations.

19 Post balance sheet event

Pursuant to a resolution passed at the directors' meeting held on 20 April 2004, a final dividend of RMB445,966,265 will be payable to owners in accordance with their respective percentage of equity interest in Hanfeng Power Plant.

VI SUBSEQUENT FINANCIAL STATEMENTS

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No audited financial statements have been prepared by Hanfeng Power Plant in respect of any period subsequent to 31 December 2003.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong, China

APPENDIX II ACCOUNTANTS' REPORT OF JINGGANGSHAN POWER PLANT

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix X, a copy of the following accountants' report is available for inspection.

KPMG LOGO omitted

8th Floor
Prince's Building
10 Chater Road
Hong Kong

The Directors
Huaneng Power International, Inc.

29 April 2004

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Jinggangshan Huaneng Power Generation Limited Liability Company ("Jinggangshan Power Plant") in Sections I to VII below (the "Financial Information"), including the balance sheets of Jinggangshan Power Plant as at 31 December 2001, 2002 and 2003, the statements of income, owners' equity and cash flows of Jinggangshan Power Plant for each of the years in the three-year period ended 31 December 2003 (the "relevant period"), for inclusion in the shareholders' circular of Huaneng Power International, Inc. ("the Company") dated 29 April 2004 (the "Circular").

Jinggangshan Power Plant was established by China Huaneng Group ("Huaneng Group"), Huazhong Power Group Company ("Huazhong Power"), Jiangxi Province Power Company ("Jiangxi Power") and Jiangxi Province Investment Corporation ("Jiangxi Investment") in Jiangxi Province, the People's Republic of China (the "PRC") as a limited liability company in March 1996. The equity interest of Jinggangshan Power Plant was 45% owned by Huaneng Group, 35% owned by Huazhong Power, 5% owned by Jiangxi Power and 15% owned by Jiangxi Investment on the date of establishment. After a series of equity interest transfers, Jinggangshan Power Plant was 60% owned by Huaneng Group, 30% owned by Jiangxi Power and 10% owned by Jiangxi Investment in December 1998. Pursuant to the restructuring plan of the power industry in the PRC, the 30% equity interest in Jinggangshan Power Plant owned by Jiangxi Power was allocated to Huaneng Group in January 2003. Jinggangshan Power Plant owns and operates two coal-fired generating units with installed capacity of 300 MW each. The two generating units commenced commercial operation in December 2000 and August 2001 respectively.

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The statutory financial statements of Jinggangshan Power Plant were prepared in accordance with the applicable PRC accounting rules and regulations which have been audited by Huajian Certified Public Accountants Company Limited ("") during the relevant period.

Pursuant to the transfer agreement entered into between the Company and Huaneng Group on 16 April 2004, as described more fully in the section headed "Transfer Agreements" in the letter from the Board contained in the Circular, the Company will acquire from Huaneng Group of its 90% equity interest in Jinggangshan Power Plant. In addition, the Company will acquire from Jiangxi Investment of its 10% equity interest in Jinggangshan Power Plant.

BASIS OF PREPARATION

The Financial Information has been prepared by the management of Jinggangshan Power Plant based on the statutory financial statements of Jinggangshan Power Plant to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards and interpretations.

RESPONSIBILITY

The preparation of the Financial Information, which gives a true and fair view, is the responsibility of Jinggangshan Power Plant's management. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report we have audited the Financial Information of Jinggangshan Power Plant for the relevant period and carried out such procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA"). We have not audited any financial statements of Jinggangshan Power Plant in respect of any period subsequent to 31 December 2003.

We conducted our audit in accordance with Statements of Auditing Standards issued by HKSA. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Jinggangshan Power Plant's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report

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and on the basis stated above, gives a true and fair view of the state of affairs of Jinggangshan Power Plant as at 31 December 2001, 2002 and 2003 and of the results and cash flows of Jinggangshan Power Plant for each of the years in the three-year period ended 31 December 2003 and has been properly prepared in accordance with IFRS.

I STATEMENTS OF INCOME

	Note	Years ended 31 December		
		2001 RMB'000	2002 RMB'000	2003 RMB'000
Revenue	2	269,022	586,599	820,152
Operating expenses				
- Fuel		(121,785)	(267,651)	(383,744)
- Repairs and maintenance		(4,315)	(16,347)	(24,148)
- Depreciation		(112,177)	(157,004)	(157,968)
- Personnel expenses		(10,145)	(13,754)	(18,450)
- Losses on disposal of assets	3	--	(61,972)	--
- Other operating expenses		(24,518)	(40,363)	(48,283)
		-----	-----	-----
Total operating expenses		(272,940) -----	(557,091) -----	(632,593) -----
Operating (loss)/profit	4	(3,918)	29,508	187,559
Net financing costs	5	(79,553)	(103,409)	(93,396)
(Loss)/profit before taxation		(83,471)	(73,901)	94,163
Taxation	6	25,385	3,666	(33,308)
		-----	-----	-----
Net (loss)/profit		(58,086) =====	(70,235) =====	60,855 =====

II BALANCE SHEETS

	Note	Years ended 31 December		
		2001 RMB'000	2002 RMB'000	2003 RMB'000
Non-current assets				
Property, plant and equipment, net	8	2,233,287	2,074,093	1,923,456
Long-term investment		500	500	500
Deferred tax assets	9	35,876	39,542	--

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		-----	-----	-----
		2,269,663	2,114,135	1,923,956
	
Current assets				
Inventories	10	22,326	41,167	38,015
Trade receivables	11	55,760	89,440	142,294
Other receivables and prepayments		9,151	16,777	16,819
Cash and cash equivalents	12	218,562	50,742	58,121
		-----	-----	-----
		305,799	198,126	255,249
	
Current liabilities				
Accounts payables and other liabilities	13	311,096	125,399	40,591
Taxes payable	6(c)	10,978	32,747	55,774
Amount due to Huaneng Group	14	--	--	6,000
Staff welfare and bonus payable		52,683	53,070	55,505
Short-term loans	15(a)	--	300,000	320,000
Current portion of long-term loans from Huaneng Group	15(b)	400,000	--	--
Current portion of long-term bank loans	15(c)	132,053	154,288	164,975
		-----	-----	-----
		906,810	665,504	642,845
	
		-----	-----	-----
Net current liabilities		(601,011)	(467,378)	(387,596)
	
		-----	-----	-----
Total assets less current liabilities		1,668,652	1,646,757	1,536,360
		-----	-----	-----
Non-current liabilities				
Long-term bank loans	15(c)	1,241,000	1,286,000	1,123,000
	
		-----	-----	-----
Net assets		427,652	360,757	413,360
		=====	=====	=====
Owners' equity		427,652	360,757	413,360
		=====	=====	=====

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III STATEMENTS OF OWNERS' EQUITY

	Note	Total owners' equity RMB'000
Balance as at 1 January 2001		449,038
Net loss for the year		(58,086)
Contributions from owners		36,700
Balance as at 31 December 2001		427,652
Net loss for the year		(70,235)
Contributions from owners		3,340

Balance as at 31 December 2002		360,757
Net profit for the year		60,855
Deferred tax assets eliminated	9	(8,252)

Balance as at 31 December 2003		413,360
		=====

IV STATEMENTS OF CASH FLOWS

	Note	Years ended 31 December		
		2001 RMB'000	2002 RMB'000	2003 RMB'000
Cash flows from operating activities	(a)	(51,884)	130,751	211,663
	
Cash flows from investing activities				
Capital expenditure		(294,588)	(273,976)	(72,189)
Proceeds from disposal of property, plant and equipment		--	4,830	218
		-----	-----	-----
Net cash used in investing activities		(294,588)	(269,146)	(71,971)
	
Cash flows from financing activities				
Proceeds from capital contribution		36,700	3,340	--
Proceeds from loans and borrowings		174,053	502,288	321,975
Repayments of loans and borrowings		(102,931)	(535,053)	(454,288)
		-----	-----	-----

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Net cash from/(used in) financing activities	107,822	(29,425)	(132,313)

	-----	-----	-----
Net (decrease)/increase in cash and cash equivalents	(238,650)	(167,820)	7,379
Cash and cash equivalents at beginning of year	457,212	218,562	50,742
	-----	-----	-----
Cash and cash equivalents at end of year	218,562	50,742	58,121
	=====	=====	=====

(a) Reconciliation of (loss)/profit before taxation to cash flows from operating activities

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
(Loss)/profit before taxation	(83,471)	(73,901)	94,163
Adjustments for:			
Depreciation	112,177	157,004	157,968
Interest income	(4,408)	(1,199)	(562)
Interest expenses	83,961	104,604	93,920
Losses on disposal of property, plant and equipment	--	61,972	609
(Increase)/decrease in inventories	(22,197)	(18,841)	3,152
Increase in trade receivables	(50,535)	(33,680)	(52,854)
Decrease/(increase) in other receivables and prepayments	49,640	(7,626)	(42)
(Decrease)/increase in accounts payables and other liabilities	(83,027)	23,667	(20,777)
Increase in taxes payable	11,078	21,769	21,009
Increase in amount due to Huaneng Group	--	--	6,000
Increase in staff welfare and bonus payable	52,127	387	2,435
	-----	-----	-----
Cash generated from operations	65,345	234,156	305,021
Interest received	4,408	1,199	562

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Interest paid	(121,637)	(104,604)	(93,920)
	-----	-----	-----
Cash flows from operating activities	(51,884)	130,751	211,663
	=====	=====	=====

V NOTES TO THE FINANCIAL INFORMATION

1 Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

IFRS includes International Accounting Standards ("IAS") and Interpretations.

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies described below have been consistently applied by Jinggangshan Power Plant during the relevant period.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(d)). The cost of property, plant and equipment constructed by Jinggangshan Power Plant includes the cost of materials, direct labour, directly attributable costs of bringing the asset to working condition and location for its intended use, and the cost of borrowed funds used during construction.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is provided to write off the cost of property, plant and equipment on a straight line basis over their respective estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Buildings	22-28 years
Generators and related machinery and equipment	8-14 years
Motor vehicles, furniture, fixtures, equipment and others	5-8 years

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(c) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(d)). Cost comprises construction expenditure, including interest costs incurred during the construction period, the cost of related equipment, direct labour and other directly attributable costs.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. In respect of a generating unit, it is considered to be substantially ready for its intended use when the trial run period ends.

(d) Impairment

The carrying amounts of property, plant and equipment, and construction in progress are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(e) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by Jinggangshan Power Plant, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of inventories is calculated on the weighted average basis.

(f) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for any amounts expected to be irrecoverable. An allowance is provided for based upon the evaluation of the recoverability of these accounts at the balance sheet date.

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(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and maturing within three months at acquisition.

(h) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Jinggangshan Power Plant has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Revenue recognition

Electricity income is recognised when electricity is supplied to the provincial power grid company.

(k) Major overhauls, repairs and maintenance

Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(l) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(m) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly

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in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Retirement plan

Jinggangshan Power Plant is required to make contributions to a retirement plan operated by the State at a rate of 21% of the staff salaries during the relevant period. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, Jinggangshan Power Plant participates in a defined contribution retirement plan, which is also operated by the State, and makes contributions to this plan at a rate of 10% of previous year's staff salaries, to supplement the above-mentioned plan. Jinggangshan Power Plant has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

(o) Related parties

For the purposes of the Financial Information, parties are considered to be related to Jinggangshan Power Plant if Jinggangshan Power Plant has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Jinggangshan Power Plant and the party are subject to common control or common significant influence.

(p) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(q) Segment reporting

A business segment is a distinguishable component of Jinggangshan Power Plant that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, Jinggangshan Power Plant has one operating segment, which is the generation and sale of electricity. All the operating activities

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of Jinggangshan Power Plant are carried out in the PRC.

2 Revenue

Revenue represents the sale of electricity by Jinggangshan Power Plant to Jiangxi Power, net of value added tax ("VAT").

3 Losses on disposal of assets

Losses on disposal of assets represent loss on allocation of quarters to the staff at nominal consideration amounting to RMB19,839,000 and loss on disposal of construction in progress amounting to RMB42,133,000 in relation to donation of a property to the local government at nil consideration.

4 Operating (loss)/profit

Operating (loss)/profit is arrived at after charging:

	Years ended 31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Depreciation of property, plant and equipment	112,177	157,004	157,968
Cost of inventories	129,602	278,806	402,026
Contribution to retirement plans	636	1,344	1,657
Auditors' remuneration	100	100	80
	=====	=====	=====

5 Net financing costs

	Years ended 31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Interest on bank loans and other borrowings repayable within five years	93,692	96,310	93,920
Interest on other loans	27,945	8,294	--
Less: Interest expenses capitalised	(37,676)	--	--
	-----	-----	-----
Net interest expense	83,961	104,604	93,920
Interest income	(4,408)	(1,199)	(562)
Others	--	4	38
	-----	-----	-----
	79,553	103,409	93,396
	=====	=====	=====

Interest rate per annum at which borrowing

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costs were capitalised for construction in progress	6.16%	--	--
	=====	=====	=====

6 Taxation

(a) Taxation in the statements of income comprises:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Provision for PRC income tax	--	--	(2,018)
Deferred taxation (note 9)	25,385	3,666	(31,290)
	-----	-----	-----
Tax credit/(expense)	25,385	3,666	(33,308)
	=====	=====	=====

The applicable statutory PRC income tax rate of Jinggangshan Power Plant is 33%.

The provision for PRC income tax in 2003 is calculated based on the estimated assessable profits at the applicable tax rate for the year determined in accordance with relevant income tax rules and regulations in the PRC. No provision for PRC income tax has been made in 2001 and 2002 as there were no tax assessable profits in these years.

(b) Reconciliation of effective tax rate:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
(Loss)/profit before taxation	(83,471)	(73,901)	94,163
	-----	-----	-----
Expected PRC income tax credit/ (expense) at statutory tax rate of 33%	27,545	24,387	(31,074)
Non-deductible expenses	(2,160)	(20,721)	(2,234)
	-----	-----	-----
Income tax credit/(expense)	25,385	3,666	(33,308)
	=====	=====	=====

(c) Taxes payable in the balance sheets represents:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year	--	--	2,018
Taxes payable other than PRC income tax	10,978	32,747	53,756
	-----	-----	-----

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10,978 32,747 55,774
 ===== ===== =====

Taxes payable other than PRC income tax mainly represents VAT payable.

7 Emoluments of directors and senior management

(a) Directors' emoluments

No directors' emoluments were paid during the relevant period.

(b) Senior management's emoluments

Details of emoluments paid to the five highest paid individuals are as follows:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	429	520	589
Retirement benefits	29	23	33
	-----	-----	-----
	458	543	622
	=====	=====	=====

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emoluments range is as follows:

	Years ended 31 December		
	2001	2002	2003
RMB Nil -- RMB1,000,000	5	5	5
	=====	=====	=====

There was no arrangement under which an employee waived any remuneration during the relevant period.

8 Property, plant and equipment, net

	Buildings RMB'000	Generators and related machinery and equipment RMB'000	Motor vehicles, furniture, fixtures, equipment and others sRMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
Balance at 1 January 2001	682,773	1,015,750	12,509	268,735	1,979,767
Additions	28,051	112,181	8,772	220,573	369,577

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Transferred from construction in progress	64,127	425,181	--	(489,308)	--
Balance at 31 December 2001	774,951	1,553,112	21,281	--	2,349,34
Accumulated depreciation					
Balance at 1 January 2001	(918)	(2,962)	--	--	(3,88)
Charge for the year	(23,833)	(86,135)	(2,209)	--	(112,17)
Balance at 31 December 2001	(24,751)	(89,097)	(2,209)	--	(116,05)
Net book value at 31 December 2001	750,200	1,464,015	19,072	--	2,233,28
Cost:					
Balance at 1 January 2002	774,951	1,553,112	21,281	--	2,349,34
Additions	5,132	1,048	3,998	54,434	64,61
Transferred from construction in progress	5,662	--	--	(5,662)	--
Disposals	(24,669)	--	(139)	(42,133)	(66,94)
Balance at 31 December 2002	761,076	1,554,160	25,140	6,639	2,347,01
Accumulated depreciation:					
Balance at 1 January 2002	(24,751)	(89,097)	(2,209)	--	(116,05)
Charge for the year	(28,357)	(125,241)	(3,406)	--	(157,00)
Reversal upon disposal	--	--	139	--	13
Balance at 31 December 2002	(53,108)	(214,338)	(5,476)	--	(272,92)
Net book value at 31 December 2002	707,968	1,339,822	19,664	6,639	2,074,09
Cost:					
Balance at 1 January 2003	761,076	1,554,160	25,140	6,639	2,347,01
Additions	5,604	431	2,123	--	8,15
Transferred from construction					

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in progress	--	4,356	--	(4,356)	--
Disposals	--	--	(1,444)	--	(1,444)
	-----	-----	-----	-----	-----
Balance at 31 December 2003	766,680	1,558,947	25,819	2,283	2,353,722

Accumulated depreciation:					
Balance at 1 January 2003	(53,108)	(214,338)	(5,476)	--	(272,922)
Charge for the year	(28,462)	(125,863)	(3,643)	--	(157,968)
Reversal upon disposal	--	--	617	--	617
	-----	-----	-----	-----	-----
Balance at 31 December 2003	(81,570)	(340,201)	(8,502)	--	(430,273)

	-----	-----	-----	-----	-----
Net book value at					
31 December 2003	685,110	1,218,746	17,317	2,283	1,923,455
	=====	=====	=====	=====	=====

All of Jinggangshan Power Plant's buildings are located in the PRC.

As at 31 December 2003, all land occupied by Jinggangshan Power Plant was allocated by the PRC government at nil consideration and cannot be transferred, leased nor mortgaged.

9 Deferred tax assets

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	Assets			Liabilities		
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2001 RMB'000	2002 RMB'000	2003 RMB'000
Provision for receivables	--	1,795	--	--	--	--
Training fee and pre-operating expenses	6,802	5,102	--	--	--	--
Property, plant and equipment	--	673	--	(1,352)	--	--
Tax losses	30,426	31,972	--	--	--	--
	-----	-----	-----	-----	-----	-----
Deferred tax assets/ (liabilities)	37,228	39,542	--	(1,352)	--	--
	=====	=====	=====	=====	=====	=====

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Movements in temporary differences for the three years ended 31 December 2001, 2002 and 2003 are as follows:

	Balance at 1 January 2001 RMB'000	Recognised in statement of income RMB'000 (note 6 (a))	Balance at 31 December 2001 RMB'000
Training and pre-operating expenses	7,909	(1,107)	6,802
Property, plant and equipment	--	(1,352)	(1,352)
Tax losses	2,582 -----	27,844 -----	30,426 -----
Net deferred tax assets	10,491 =====	25,385 =====	35,876 =====

	Balance at 1 January 2002 RMB'000	Recognised in statement of income RMB'000 (note 6 (a))	Balance at 31 December 2002 RMB'000
Provision for receivables	--	1,795	1,795
Training and pre-operating expenses	6,802	(1,700)	5,102
Property, plant and equipment	(1,352)	2,025	673
Tax losses	30,426 -----	1,546 -----	31,972 -----
Net deferred tax assets	35,876 =====	3,666 =====	39,542 =====

	Balance at 1 January 2003 RMB'000	Recognised in statement of income RMB'000 (note 6 (a))	Recognised in owners' equity RMB'000	Balance at 31 December 2003 RMB'000
Provision for receivables	1,795	--	(1,795)	--
Training and pre-operating expenses	5,102	(1,701)	(3,401)	--
Property, plant and equipment	673	2,383	(3,056)	--
Tax losses	31,972 -----	(31,972) -----	-- -----	-- -----
Net deferred tax assets	39,542	(31,290)	(8,252)	--

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=====

In connection with the acquisition of 100% equity interest of Jinggangshan Power Plant by the Company, the tax basis of Jinggangshan Power Plant's assets and liabilities that gave rise to the temporary differences above have been adjusted to conform to the related financial carrying amounts. As a result, the timing differences that gave rise to the deferred tax assets relating to the items above were eliminated. The reduction in deferred tax assets of RMB8,252,000 as at 31 December 2003 was reflected as a debit to owners' equity.

10 Inventories

	31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Coal	16,377	21,293	20,750
Fuel oil	2,425	1,080	1,273
Materials, components and spare parts	3,524	18,794	15,992
	-----	-----	-----
	22,326	41,167	38,015
	=====	=====	=====

11 Trade receivables

Jinggangshan Power Plant usually grants one month credit period to the provincial power grid company from the end of the month in which the sales are made.

Ageing analysis of trade receivables is as follows:

	31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Current, within 1 month	55,760	89,440	117,316
Overdue	-	-	24,978
	-----	-----	-----
Total	55,760	89,440	142,294
	=====	=====	=====

12 Cash and cash equivalents

31 December

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	2001 RMB'000	2002 RMB'000	2003 RMB'000
Cash at bank and in hand	182,562	20,812	1,436
Cash deposited with a related party (note)	16,000	29,930	56,685
Time deposits with maturity within 3 months	20,000	-	-
	-----	-----	-----
	218,562	50,742	58,121
	=====	=====	=====

Note: It represents cash deposited with China Huaneng Finance Company ("Huaneng Finance"), a subsidiary company of Huaneng Group.

13 Accounts payables and other liabilities

	31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Accounts payable	13,016	16,055	12,514
Payables for construction projects	296,513	87,149	23,118
Other payables	1,567	22,195	4,959
	-----	-----	-----
	311,096	125,399	40,591
	=====	=====	=====

The accounts payable as at 31 December 2001, 2002 and 2003 was due within one month or on demand.

14 Amount due to Huaneng Group

The amount due to Huaneng Group was interest free, unsecured and repayable on demand.

15 Interest bearing loans and borrowings

The following provides information about the contractual terms of Jinggangshan Power Plant's interest bearing loans and borrowings:

(a) Short-term loans

	31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Bank loans	-	-	300,000
Loan from Huaneng Finance	-	300,000	20,000
	-----	-----	-----
Total	-	300,000	320,000
	=====	=====	=====

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The weighted average interest rates of the short-term debts was 5.04% and 4.78% as at 31 December 2002 and 2003, respectively.

(b) Long-term loans from Huaneng Group

	Interest rate and final maturity	2001 RMB'000	31 RM
Loans from Huaneng Group - Renminbi denominated	Floating interest rate of 6.21% per annum as at 31 December 2001	400,000	
Less: current portion		(400,000)	

Non-current portion		-	
		=====	

(c) Long-term bank loans

	Interest rate and final maturity	2001 RMB'000	3
Bank loans - Renminbi denominated	Floating interest rates ranging from 4.78% to 6.21% per annum as at 31 December 2003 with maturities through 2010	1,373,053	
Less: current portion		(132,053)	

Non-current portion		1,241,000	
		=====	

All bank loans were guaranteed by Huaneng Group during the relevant period.

The aggregate maturities of Jinggangshan Power Plant's long-term bank loans subsequent to 31 December 2003 are as follows:

	RMB'000
2004	164,975
2005	185,000
2006	185,000
2007	185,000
2008	185,000
Thereafter	383,000

Total	1,287,975
	=====

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16 Capital commitments

As at 31 December 2001, 2002 and 2003, Jinggangshan Power Plant had capital commitments mainly in relation to the enhancement projects of its power generating units as follows:

	31 December		
	2001 RMB'000	2002 RMB'000	2003 RMB'000
Authorised but not contracted for	-	4,460	5,640
	=====	=====	=====

17 Concentration of risks

(a) Credit and concentration risk

The carry-ing amounts of cash and cash equivalents, trade receivables, other receivables and prepayments represent Jinggangshan Power Plant's maximum exposure to credit risk in relation to financial assets. Jinggangshan Power Plant sells the electricity generated to its sole customer, Jiangxi Power.

Substantially all of Jinggangshan Power Plant's cash and cash equivalents are deposited with the four largest state-owned banks of the PRC and Huaneng Finance.

Jinggangshan Power Plant does not have concentrations of available sources of labour, services, franchises, licenses or other rights that could, if suddenly eliminated, severely impact their operations.

(b) Interest rate risk

The interest rates and terms of repayment of the outstanding loans and borrowings of Jinggangshan Power Plant are disclosed in note 15.

(c) Currency risk

Jinggangshan Power Plant is not exposed to foreign currency risk as it has no financial assets and liabilities denominated in foreign currencies during the relevant period.

18 Related party transactions

The principal related party transactions with related parties, which were carried out in the ordinary course of business, are as follows:

Transaction	Note	Years ended 31 December		
		2001 RMB'000	2002 RMB'000	2003 RMB'000
Sale of electricity	a	269,022	586,599	-
Management fees	b	-	-	6,000
Interest expenses	c	31,188	20,300	14,090

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Interest income	d	1,051	491	285
		=====	=====	=====

Notes:

- (a) This represents sale of electricity by Jinggangshan Power Plant to Jiangxi Power. Pursuant to the restructuring plan of power industry in the PRC as mentioned above, Jiangxi Power transferred all its equity interest in Jinggangshan Power Plant to Huaneng Group in January 2003. Accordingly, Jiangxi Power is no longer a related party of Jinggangshan Power Plant from January 2003.
- (b) Pursuant to an arrangement between Huaneng Group and Jinggangshan Power Plant starting from 1 January 2003, Huaneng Group provides certain management support services to Jinggangshan Power Plant for return of a fee which is determined on a yearly basis.
- (c) This represents interest incurred on loans from Huaneng Group and Huaneng Finance. Details of loans from Huaneng Group and Huaneng Finance are disclosed in note 15.
- (d) This represents interest income derived from cash deposited with Huaneng Finance. Details of cash deposited with Huaneng Finance are disclosed in note 12.

Details of bank loans guaranteed by Huaneng Group is disclosed in note 15.

19 Fair values of financial instruments

Financial assets of Jinggangshan Power Plant include cash and cash equivalents, long-term investments, trade receivables, other receivables and prepayments. Financial liabilities of Jinggangshan Power Plant include interest-bearing loans and borrowings, accounts payable and other liabilities, taxes payable, amount due to Huaneng Group and staff welfare and bonus payable. Jinggangshan Power Plant does not hold nor issue financial instruments for trading purposes.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for Jinggangshan Power Plant's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by Jinggangshan Power Plant using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Jinggangshan Power Plant could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarises the major methods and assumptions used in estimating the fair values of Jinggangshan Power Plant's financial instruments.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and prepayments, short-term interest-bearing loans and borrowings, accounts payable and other liabilities, taxes payable, amount

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due to Huaneng Group and staff welfare and bonus payable approximate to fair value due to the short-term maturity of these instruments.

Long-term investment is unlisted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The carrying amounts of Jinggangshan Power Plant's non-current interest-bearing loans and borrowings approximate to their fair values based on a discounted cash flow approach using interest rates available to Jinggangshan Power Plant for similar indebtedness.

20 Distributable reserve

The distributable reserve of Jinggangshan Power Plant as at 31 December 2003 was RMB4,095,000 which was determined under the applicable PRC accounting rules and regulations.

VI ULTIMATE HOLDING COMPANY

The management of Jinggangshan Power Plant consider the ultimate holding company of Jinggangshan Power Plant to be Huaneng Group.

VII SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Jinggangshan Power Plant in respect of any period subsequent to 31 December 2003.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong, China

APPENDIX III ACCOUNTANTS' REPORT OF YUEYANG POWER PLANT

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix X, a copy of the following accountants' report is available for inspection.

[graphic omitted]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

The Directors
Huaneng Power International, Inc.

29 April 2004

Dear Sirs,

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INTRODUCTION

We set out below our report on the financial information relating to Huaneng Hunan Yueyang Power Generation Limited Liability Company ("Yueyang Power Plant") in Sections I to VII below (the "Financial Information"), including the balance sheets of Yueyang Power Plant as at 31 December 2001, 2002 and 2003, the statements of income, owners' equity and cash flows of Yueyang Power Plant for each of the years in the three-year period ended 31 December 2003 (the "relevant period"), for inclusion in the shareholders' circular of Huaneng Power International, Inc. ("the Company") dated 29 April 2004 (the "Circular").

The businesses, assets and liabilities of Yueyang Power Plant were originally owned and operated by Huaneng International Power Development Corporation, Yueyang Branch ("Yueyang Branch"). Pursuant to an agreement entered into between Huaneng International Power Development Corporation ("HIPDC"), the immediate holding company of the Company, and Hunan Local Power Assets Operation Company Limited ("Hunan Local Power"), Yueyang Branch was transformed to Yueyang Power Plant, a limited liability company established in the People's Republic of China (the "PRC"), on 16 December 2003 and the businesses, assets and liabilities were then transferred to Yueyang Power Plant. Yueyang Power Plant is 55% owned by HIPDC and 45% owned by Hunan Local Power. Yueyang Power Plant owns and operates two coal-fired generating units with installed capacity of 362.5 MW each. The generating units commenced commercial operation in September and December 1991, respectively. In addition, Yueyang Power Plant is developing phase II project of two coal-fired generating units with installed capacity of 300 MW each ("Phase II Project").

The financial statements of Yueyang Power Plant were not audited by any independent auditors during the relevant period.

Pursuant to the transfer agreement entered into between the Company and HIPDC on 16 April 2004, as described more fully in the section headed "Transfer Agreements" in the letter from the Board contained in the Circular, the Company will acquire from HIPDC of its 55% equity interest in Yueyang Power Plant.

BASIS OF PREPARATION

The Financial Information has been prepared by the management of Yueyang Power Plant based on the management accounts of Yueyang Power Plant and Yueyang Branch to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and on the basis as if Yueyang Power Plant owns and operates the businesses, assets and liabilities of Yueyang Branch throughout the period presented. IFRS includes International Accounting Standards and interpretations.

RESPONSIBILITY

The preparation of the Financial Information, which gives a true and fair view, is the responsibility of Yuegang Power Plant's management. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have audited the financial statements

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of Yueyang Power Plant for the relevant period and carried out such procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA"). We have not audited any financial statements of Yueyang Power Plant in respect of any period subsequent to 31 December 2003.

We conducted our audit in accordance with Statements of Auditing Standards issued by HKSA. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Yueyang Power Plant's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report and on the basis stated above, gives a true and fair view of the state of affairs of Yueyang Power Plant as at 31 December 2001, 2002 and 2003 and of the results and cash flows of Yueyang Power Plant for each of the years in the three-year period ended 31 December 2003 and has been properly prepared in accordance with IFRS.

I STATEMENTS OF INCOME

		Years ended 31 December		
	Note	2001	2002	2003
		RMB'000	RMB'000	RMB'000
Revenue	2	868,120	795,059	1,045,273
Operating expenses				
- Fuel		(308,526)	(306,061)	(446,041)
- Repairs and maintenance		(33,487)	(34,687)	(34,007)
- Depreciation		(201,441)	(202,631)	(202,994)
- Personnel expenses		(80,507)	(81,359)	(83,901)
- Other operating expenses		(47,439)	(46,436)	(50,772)
Total operating expenses		(671,400)	(671,174)	(817,715)
Operating profit	3	196,720	123,885	227,558

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Net financing costs	4	(75,777)	(184,674)	(118,214)
Profit/(loss) before taxation		120,943	(60,789)	109,344
Taxation	5 (a)	--	--	(30,920)
Net profit/(loss)		120,943	(60,789)	78,424

II BALANCE SHEETS

		31 December		
	Note	2001	2002	2003
		RMB'000	RMB'000	RMB'000
Non-current assets				
guide				
Net financing costs	4	(75,777)	(184,674)	(118,214)
Net profit/(loss)		120,943	(60,789)	78,424
guide				
Property, plant and equipment, net	7	940,361	761,887	673,913
Long-term lease prepayments	8	48,500	48,500	49,500
Deferred tax assets	9	4,419	4,419	--
		993,280	814,806	723,413
Current assets				
Inventories	10	57,212	60,804	74,481
Bills receivable	11	66,406	19,534	222,327
Trade receivables	12	222,810	386,427	278,294
Other receivables and prepayments	13	35,193	14,539	14,676
Amount due from HIPDC	14	155,212	332,492	--
Cash and cash equivalents	15	45,389	38,788	13,744
		582,222	852,584	603,522
Current liabilities				
Accounts payables				
and other liabilities	16	127,610	123,733	106,365
Taxes payable	5 (b)	109,138	110,907	94,422
Amount due to HIPDC	14	--	--	62,333

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Staff welfare and bonus payable		12,557	7,471	7,601
Short-term loans	17 (a)	565,968	785,617	707,678
Current portion of long-term loans from HIPDC	17 (b)	157,590	174,296	--
		972,863	1,202,024	978,399
Net current liabilities		(390,641)	(349,440)	(374,877)
Total assets less current liabilities		602,639	465,366	348,536
Non-current liabilities				
Long-term loans from HIPDC	17 (b)	867,146	784,201	--
Deferred tax liabilities	9	--	--	26,501
		867,146	784,201	26,501
Net (liabilities)/assets		(264,507)	(318,835)	322,035
Owners' equity		(264,507)	(318,835)	322,035

III STATEMENTS OF OWNERS' EQUITY

	Total owners' equity RMB'000
Balance as at 1 January 2001	(392,692)
Net profit for the year	120,943
Net contributions	7,242
Balance as at 31 December 2001	(264,507)
Net loss for the year	(60,789)
Net contributions	6,461
Balance as at 31 December 2002	(318,835)
Net profit for the year	78,424

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Net contributions	562,446
Balance as at 31 December 2003	322,035

IV STATEMENTS OF CASH FLOWS

	Note	Years ended 31 December		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities	(a)	330,488	128,296	170,883
Cash flows from investing activities				
Capital expenditure		(12,838)	(26,223)	(115,762)
Increase in long-term lease prepayments		--	--	(1,000)
Proceeds from disposal of property, plant and equipment		65	148	--
Net cash used in investing activities		(12,773)	(26,075)	(116,762)
Cash flows from financing activities				
Proceeds from bank loans		--	100,000	70,000
Repayments of bank loans		--	--	(100,000)
Repayments of HIPDC loans		(19,036)	(38,003)	(446,436)
Net funds received from HIPDC		--	--	397,271
Net funds submitted to HIPDC		(291,636)	(170,819)	--
Net cash used in financing activities		(310,672)	(108,822)	(79,165)
Net increase/(decrease) in cash and cash equivalents		7,043	(6,601)	(25,044)
Cash and cash equivalents at beginning of year		38,346	45,389	38,788
Cash and cash equivalents at end of year		45,389	38,788	13,744

Significant non-cash transaction

In 2003, in connection with the transformation of Yueyang Branch to Yueyang Power Plant, loans from HIPDC of RMB560,000,000 was capitalised as equity, loans from HIPDC of RMB120,000,000 was transferred to loan from Hunan Local

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Power.

(a) Reconciliation of profit/(loss) before taxation to cash flows from operating activities

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities	330,488	128,296	170,883
Profit/(loss) before taxation	120,943	(60,789)	109,344
Adjustments for:			
Depreciation	201,441	202,631	202,994
Interest income	(1,481)	(623)	(698)
Interest expenses	109,581	86,878	85,071
Unrealised exchange (gains)/losses	(29,986)	91,413	--
Losses/(gains) from disposal of property, plant and equipment	858	(143)	73
Decrease/(increase) in inventories	10,761	(3,592)	(13,677)
Decrease/(increase) in bills receivable	14,134	46,872	(202,793)
Decrease/(increase) in trade receivables	24,141	(163,617)	108,133
(Increase)/decrease in other receivables and prepayments	(20,884)	20,654	(137)
Decrease in accounts payables and other liabilities	(28,773)	(1,816)	(16,699)
Increase/(decrease) in taxes payable	39,930	1,769	(16,485)
(Decrease)/increase in staff welfare and bonus payable	(2,077)	(5,086)	130
Cash generated from operations	438,588	214,551	255,256
Interest received	1,481	623	698
Interest paid	(109,581)	(86,878)	(85,071)
Cash flows from operating activities	330,488	128,296	170,883

V NOTES TO THE FINANCIAL INFORMATION

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1 Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

IFRS includes International Accounting Standards ("IAS") and Interpretations.

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies described below have been consistently applied by Yueyang Power Plant during the relevant period.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(d)). The cost of property, plant and equipment constructed by Yueyang Power Plant includes the cost of materials, direct labour, directly attributable costs of bringing the asset to working condition and location for its intended use, and the cost of borrowed funds used during construction.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is provided to write off the cost of property, plant and equipment on a straight line basis over their respective estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Buildings	22-30 years
Generators and related machinery and equipment	8-27 years
Motor vehicles, furniture, fixtures, equipment and others	6-13 years

(c) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(d)). Cost comprises construction expenditure, including interest costs incurred during the construction period, the cost of related equipment, direct labour and other directly attributable costs.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. In respect of a generating unit, it is considered to be substantially ready for its intended use when the trial run period ends.

(d) Impairment

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The carrying amounts of property, plant and equipment, and construction in progress are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(e) Long-term lease prepayments

Long-term lease prepayments represent land use rights fees paid to the PRC land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights.

(f) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by Yueyang Power Plant, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of inventories is calculated on the weighted average basis.

(g) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for any amounts expected to be irrecoverable. An allowance is provided for based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and maturing within three months at acquisition.

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over

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the period of the borrowings on an effective interest basis.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Yueyang Power Plant has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

Electricity income is recognised when electricity is supplied to the provincial power grid company.

(l) Major overhauls, repairs and maintenance

Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(m) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(n) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi yuan at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi yuan at the rates ruling at the balance sheet date. Foreign currency translation differences relating to the funds borrowed to finance construction in progress, to the extent that they are regarded as an adjustment to interest costs, are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

(o) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising from the initial recognition of

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assets or liabilities that affect neither accounting nor taxable profit are not provided. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Retirement plan

Yueyang Power Plant is required to make contributions to a retirement plan operated by the State at a rate of 20% of the staff salaries during the relevant period. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. Yueyang Power Plant has no obligation to make payments in respect of pension benefits associated with the plan other than the annual contributions described above.

(q) Related parties

For the purposes of the Financial Information, parties are considered to be related to Yueyang Power Plant if Yueyang Power Plant has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Yueyang Power Plant and the party are subject to common control or common significant influence.

(r) Segment reporting

A business segment is a distinguishable component of Yueyang Power Plant that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, Yueyang Power Plant has one operating segment, which is the generation and sale of electricity. All the operating activities of Yueyang Power Plant are carried out in the PRC.

2 Revenue

Revenue represents the sale of electricity to the provincial power grid company, net of value added tax ("VAT").

3 Operating profit

Operating profit is arrived at after charging:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Depreciation of property, plant and equipment	201,441	202,631	202,994
Cost of inventories	324,629	320,623	460,648
Contribution to retirement plan	7,377	8,156	10,025

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Auditors' remuneration -- -- --

4 Net financing costs

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities	330,488	128,296	170,883
Interest on bank loans and other borrowings repayable within five years	12,831	6,114	10,173
Interest on other loans	96,750	80,764	74,898
Total interest expense	109,581	86,878	85,071
Interest income	(1,481)	(623)	(698)
Exchange (gains)/losses	(33,840)	97,029	32,580
Others	1,517	1,390	1,261
	75,777	184,674	118,214

No interest expense was capitalised during the relevant period.

5 Taxation

(a) Taxation in the statements of income comprises:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Deferred taxation (note 9)	--	--	(30,920)

Effective from 1 January 1999, in accordance with the PRC income tax rules and regulations applicable to Sino-foreign investment enterprises investing in energy business, the reduced income tax rate of 15% is applicable to such enterprises. Yueyang Power Plant originally operated as a branch of HIPDC, a Sino-foreign investment enterprise investing in energy business, was entitled to this tax privilege.

Yueyang Power Plant, originally operated as a branch of HIPDC, was exempted from PRC income tax for two years starting from the first

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profit-making year after deducting all the brought forward tax losses, and followed by a 50% reduction of the applicable tax rate for the next three years. The first profit-making year of Yueyang Power Plant is 2003. Accordingly, no provision for PRC income tax has been made during the relevant period.

Following the establishment of Yueyang Power Plant on 16 December 2003, its applicable statutory PRC income tax rate is 33%.

No deferred tax assets in respect of tax losses have been recognised during the relevant period as the applicable tax rate in the years in which the tax losses expected to be realised is zero percent.

The deferred tax charge in 2003 was due to the increase in effective tax rate.

(b) Taxes payable in the balance sheets represents:

	31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Taxes payable other than PRC income tax	109,138	110,907	94,422

Taxes payable other than PRC income tax mainly represents VAT payable.

6 Emoluments of directors and senior management

(a) Directors' emoluments

No directors' emoluments were paid during the relevant period.

(b) Senior management's emoluments

Details of emoluments paid to the five highest paid individuals are as follows:

	Years ended 31 December		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	435	458	500
Retirement benefits	70	45	58
	505	503	558

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emoluments range is as follows:

Years ended 31 December

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	2001	2002	2003
	RMB'000	RMB'000	RMB'000
RMB Nil - RMB 1,000,000	5	5	5

There was no arrangement under which an employee waived any remuneration during the relevant period.

7 Property, plant and equipment, net

	Buildings RMB'000	Generators and related machinery and equipment RMB'000	Motor vehicles, furniture, fixtures, equipment and others RMB'000	Cons in p RMB'
Cost:				
Balance at 1 January 2001	487,852	2,472,207	116,880	37,6
Additions	--	--	17	12,8
Transferred from construction in progress	595	3,970	4,550	(9,1
Disposals	(1,127)	--	(179)	
Balance at 31 December 2001	487,320	2,476,177	121,268	41,3
Accumulated depreciation:				
Balance at 1 January 2001	(197,795)	(1,717,793)	(69,106)	
Charge for the year	(18,950)	(172,903)	(9,588)	
Reversal upon disposal	214	--	169	
Balance at 31 December 2001	(216,531)	(1,890,696)	(78,525)	
Net book value at 31 December 2001	270,789	585,481	42,743	41,3
Cost:				
Balance at 1 January 2002	487,320	2,476,177	121,268	41,3
Additions	--	--	--	24,1

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Transferred from construction in progress	8,564	8,683	4,780	(22,0
Disposals	--	--	(1,138)	
Balance at 31 December 2002	495,884	2,484,860	124,910	43,4
Accumulated depreciation:				
Balance at 1 January 2002	(216,531)	(1,890,696)	(78,525)	
Charge for the year	(18,905)	(173,186)	(10,540)	
Reversal upon disposal	--	--	1,133	
Balance at 31 December 2002	(235,436)	(2,063,882)	(87,932)	
Net book value at 31 December 2002	260,448	420,978	36,978	43,4
Cost:				
Balance at 1 January 2003	495,884	2,484,860	124,910	43,4
Additions	1,566	--	13	113,5
Transferred from construction in progress	5,110	9,548	9,680	(24,3
Disposals	(259)	--	--	
Balance at 31 December 2003	502,301	2,494,408	134,603	132,6
Accumulated depreciation:				
Balance at 1 January 2003	(235,436)	(2,063,882)	(87,932)	
Charge for the year	(19,378)	(173,576)	(10,040)	
Reversal upon disposal	186	--	--	
Balance at 31 December 2003	(254,628)	(2,237,458)	(97,972)	
Net book value at 31 December 2003	247,673	256,950	36,631	132,6

All of Yueyang Power Plant's buildings are located in the PRC.

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The construction in progress as at 31 December 2003 mainly represents costs incurred for the Phase II Project.

8 Long-term lease prepayments

Long-term lease prepayments represent fees for land use rights paid to the PRC land bureau. The land is to be occupied for the development of Phase II Project. Other than this piece of land, other pieces of land occupied by Yueyang Power Plant were allocated by the PRC government at nil consideration and cannot be transferred, leased nor mortgaged.

9 Deferred tax assets

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	Assets			Liabilities			Net
	2001	2002	2003	2001	2002	2003	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Provision for trade receivables	8,890	8,890	19,558	--	--	--	8,890
Provision for other receivables	560	560	2,298	--	--	--	560
Provision for inventories	698	698	1,482	--	--	--	698
Property, plant and equipment	--	--	--	(5,729)	(5,729)	(49,839)	(5,729)
Deferred tax assets/ (liabilities)	10,148	10,148	23,338	(5,729)	(5,729)	(49,839)	4,119

There was no movement in temporary differences in 2001 and 2002. The movements in temporary differences are as follows:

	Balance at 1 January 2003 RMB'000	Recognised in statement of income RMB'000	31 December 2002
Provision for receivables	9,450	12,406	9,450
Provision for inventories	698	784	698
Property, plant and equipment	(5,729)	(44,110)	(5,729)
Net deferred tax assets/(liabilities)	4,419	(30,920)	4,419

(Note 5(a))

10 Inventories

31 December
2001 2002

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	RMB'000	RMB'000	R
Coal	13,549	18,443	3
Fuel oil	1,165	470	
Materials, components and spare parts	42,498	41,891	4
	57,212	60,804	7

The carrying amount of materials, components and spare parts is net of a provision for obsolescence of RMB4,654,000, RMB4,654,000 and RMB4,493,000 as at 31 December 2001, 2002 and 2003, respectively.

11 Bills receivable

The balances of bills receivable as at 31 December 2001, 2002 and 2003 were not yet due for settlement.

12 Trade receivables

	2001 RMB'000	31 December 2002 RMB'000	R
Trade receivables	282,075	445,692	33
Less: Allowance for doubtful accounts	(59,265)	(59,265)	(5)
	222,810	386,427	27

Yueyang Power Plant usually grants one month credit period to the provincial power grid company in which the sales are made.

Ageing analysis of trade receivables is as follows:

	2001 RMB'000	31 December 2002 RMB'000	R
Current, within one month	106,527	135,333	13
Overdue	116,283	251,094	14
	222,810	386,427	27

13 Other receivables and prepayments

	2001 RMB'000	31 December 2002 RMB'000	R
Prepayments for coals	20,999	2,072	
Prepayments for materials	2,548	2,946	

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Prepaid expenses	1,113	1,474	
Others	10,533	8,047	
	35,193	14,539	1

14 Amount due from/to HIPDC

The amount due from/to HIPDC was interest free, unsecured and receivable / repayable on demand.

15 Cash and cash equivalents

	2001 RMB'000	31 December 2002 RMB'000	R
Cash at bank and in hand	45,389	38,788	1

16 Accounts payables and other liabilities

	2001 RMB'000	31 December 2002 RMB'000	R
Accounts payable	98,463	97,948	8
Payables for construction projects	14,791	12,730	1
Other payables	14,356	13,055	1
	127,610	123,733	10

Ageing analysis of accounts payables is as follows:

	2001 RMB'000	31 December 2002 RMB'000	R
Due within 1 month or on demand	78,204	80,325	7
Due after 1 month but within 3 months	20,259	17,623	
	98,463	97,948	8

17 Interest bearing loans and borrowings

The following provides information about the contractual terms of Yueyang Power Plant's interest bearing loans and borrowings:

(a) Short-term loans

	2001	31 December 2002
--	------	---------------------

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	RMB'000	RMB'000	R
Bank loans	--	100,000	7
Loan from HIPDC	565,968	685,617	51
Loan from Hunan Local Power	--	--	12
Total	565,968	785,617	70

The weighted average interest rate of the short-term debts was 5.95%, 5.42% and 5.23% as at 31 December 2003, 2002 and 2001 respectively.

(b) Long-term loans from HIPDC

	Interest rate and final maturity	2001 RMB'000	31 December 2002 RMB'000	R
Loan from HIPDC (note)				
- Pound Sterling denominated	Fixed interest rate at 5% per annum as at 31 December 2002	1,024,736	958,497	
Less: current portion		(157,590)	(174,296)	
Non-current portion		867,146	784,201	

Note: Foreign currency denominated loan from HIPDC were originated from loan borrowed by HIPDC from the parent company. HIPDC on-lent this loan to Yueyang Power Plant at cost. In 2003, in connection with the transfer of the Branch to Yueyang Power Plant, loans from HIPDC of RMB560,000,000 was capitalised as equity. RMB120,000,000 was transferred to loan from Hunan Local Power.

18 Capital commitments

Yueyang Power Plant had capital commitments as follows:

	2001 RMB'000	31 December 2002 RMB'000	R
Authorised and contracted for	10,500	7,000	9
Authorised but not contracted for	--	--	2,38
	10,500	7,000	2,38

Capital commitments as at 31 December 2003 mainly related to the Phase II Project.

19 Concentration of risks

(a) Credit and concentration risk

The carrying amounts of cash and cash equivalents, bills and trade receivables, other receivables and prepayments represent Yueyang Power Plant's

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maximum exposure to credit risk in relation to financial assets. Yueyang Power Plant sells the electricity generated to its sole customer, the provincial power grid company. Yueyang Power Plant maintains an allowance for doubtful accounts in respect of those overdue debts after evaluation of the recoverability of these accounts at the balance sheet date.

Substantially all of Yueyang Power Plant's cash and cash equivalents are deposited with the four largest state-owned banks of the PRC.

Yueyang Power Plant does not have concentrations of available sources of labour, services, franchises, licenses or other rights that could, if suddenly eliminated, severely impact their operations.

(b) Interest rate risk

The interest rates and terms of repayment of the outstanding loans and borrowings of Yueyang Power Plant are disclosed in note 17.

(c) Currency risk

Yueyang Power Plant has foreign currency risk as at 31 December 2001 and 2002 as a portion of their long-term loans were denominated in sterling pound as described in note 17. Such loans were either converted to Renminbi denominated loans or capitalised as equity in 2003, and Yueyang Power Plant no longer exposed to currency risk as at 31 December 2003.

20 Related party transactions

The principal related party transactions with related parties, which were carried out in the ordinary course of business, are as follows:

Transaction	Note	Years ended 31 December		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Interests on loans	a	73,519	80,763	74,899
Management fee	b	6,154	5,562	8,103
Fees on discounted bills	c	--	--	1,414

Notes:

- (a) This represents interest incurred in relation to loans from HIPDC. Details of loans from HIPDC are disclosed in note 17.
- (b) This represents fees paid to HIPDC in connection with the provision of management services to Yueyang Power Plant. The fee is charged based on the volume of electricity generated.
- (c) This represents fees paid for bills receivables with face value of RMB 211,009,000 discounted to Huaneng Finance at discounted rates ranging from 3.0% to 3.3% per annum.

21 Fair values of financial instruments

Financial assets of Yueyang Power Plant include cash and cash equivalents,

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bills and trade receivables, amount due from HIPDC and other receivables and prepayments. Financial liabilities of Yueyang Power Plant include interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payable, amount due to HIPDC and staff welfare and bonus payable. Yueyang Power Plant does not hold nor issue financial instruments for trading purposes.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for Yueyang Power Plant's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by Yueyang Power Plant using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Yueyang Power Plant could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarises the major methods and assumptions used in estimating the fair values of Yueyang Power Plant's financial instruments.

The carrying amounts of cash and cash equivalents, bills and trade receivables, other receivables and prepayments, short-term interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payable, amount due from / to HIPDC and staff welfare and bonus payable approximate to fair value due to the short-term maturity of these instruments.

The carrying amounts of Yueyang Power Plant's non-current interest-bearing loans and borrowings approximate to their fair values based on a discounted cash flow approach using interest rates available to Yueyang Power Plant for similar indebtedness.

22 Distributable reserves

Yueyang Power Plant had no distributable reserve as at 31 December 2003.

VI ULTIMATE HOLDING COMPANY

The management of Yueyang Power Plant considered the ultimate holding company of Yueyang Power Plant to be Huaneng Group.

VII SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yueyang Power Plant in respect of any period subsequent to 31 December 2003.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong, China

APPENDIX IV ACCOUNTANTS' REPORT OF LUOHUANG POWER PLANT

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting

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accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix X, a copy of the following accountants' report is available for inspection.

[KPMG logo graphic omitted]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

29 April 2004

The Directors
Huaneng Power International, Inc.

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Huaneng Chongqing Luohuang Power Generation Limited Liability Company ("Luohuang Power Plant"), in Sections I to VII below (the "Financial Information"), including the balance sheets of Luohuang Power Plant as at 31 December 2001, 2002 and 2003, the statements of income, owners' equity and cash flows of Luohuang Power Plant for each of the years in the three-year period ended 31 December 2003 (the "relevant period"), for inclusion in the shareholders' circular of Huaneng Power International, Inc. ("the Company") dated 29 April 2004 (the "Circular").

The businesses, assets and liabilities of Luohuang Power Plant were originally owned and operated by Huaneng International Power Development Corporation, Chongqing Branch ("Chongqing Branch"). Pursuant to an agreement entered into between Huaneng International Power Development Corporation ("HIPDC"), the immediate holding company of the Company, and Chongqing Construction and Investment Corporation ("Chongqing Investment"), Chongqing Branch was transformed to Luohuang Power Plant, a limited liability company established in the People's Republic of China (the "PRC"), on 16 December 2003 and the businesses, assets and liabilities were then transferred to Luohuang Power Plant. Luohuang Power Plant is 60% owned by HIPDC and 40% owned by Chongqing Investment. Luohuang Power Plant owns and operates four coal-fired generating units with installed capacity of 360 MW each and two gas-fired generating units with installed capacity of 54 MW each. The first phase of two coal-fired generating units commenced commercial operation in September 1991 and February 1992, respectively, and the second phase of two coal-fired generating units commenced commercial operation in December 1998. In addition, Luohuang Power Plant is developing phase III project of two coal-fired generating units with installed capacity of 600 MW each ("Phase III Project").

The financial statements of Luohuang Power Plant were not audited by any independent auditors during the relevant period.

Pursuant to the transfer agreement entered into between the Company and HIPDC on 16 April 2004, as described more fully in the section headed "Transfer Agreements" in the letter from the Board contained in the Circular, the Company will acquire from HIPDC of its 60% equity interest in Luohuang Power Plant.

BASIS OF PREPARATION

The Financial Information has been prepared by the management of Luohuang Power Plant based on the management accounts of Luohuang Power Plant and Chongqing Branch to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and on the basis as if Luohuang Power Plant owns and operates the businesses, assets and

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liabilities of Chongqing Branch throughout the period presented. IFRS includes International Accounting Standards and interpretations.

RESPONSIBILITY

The preparation of the Financial Information, which gives a true and fair view, is the responsibility of Luohuang Power Plant's management. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have audited the Financial Information of Luohuang Power Plant for the relevant period and carried out such procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA"). We have not audited any financial statements of Luohuang Power Plant in respect of any period subsequent to 31 December 2003.

We conducted our audit in accordance with Statements of Auditing Standards issued by HKSA. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Luohuang Power Plant's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report and on the basis stated above, gives a true and fair view of the state of affairs of Luohuang Power Plant as at 31 December 2001, 2002 and 2003 and of the results and cash flows of Luohuang Power Plant for each of the years in the three-year period ended 31 December 2003 and has been properly prepared in accordance with IFRS.

I STATEMENTS OF INCOME

	Note	2001 RMB'000	Years ended 31 December 2002 RMB'000	2003 RMB'000
		-----	-----	-----
Revenue	2	1,196,111	1,419,574	1,616,536
Operating expenses		-----	-----	-----

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- Fuel		(332,241)	(442,438)	(507,721)
- Repairs and maintenance		(68,857)	(94,675)	(96,341)
- Depreciation		(413,713)	(414,787)	(416,931)
- Personnel expenses		(53,614)	(61,185)	(70,115)
- Other operating expenses		(75,869)	(89,348)	(90,200)
		-----	-----	-----
Total operating expenses		(944,294)	(1,102,433)	(1,181,308)
		=====	=====	=====
Operating profit	3	251,817	317,141	435,228
Net financing costs	4	(193,647)	(309,723)	(348,396)
		-----	-----	-----
Profit before taxation		58,170	7,418	86,832
Taxation	5 (a)	--	--	(10,184)
		-----	-----	-----
Net profit		58,170	7,418	76,648
		=====	=====	=====

II BALANCE SHEETS

	Note	2001 RMB'000 -----	31 December 2002 RMB'000 -----	2003 RMB'000 -----
Revenue	2	1,196,111	1,419,574	1,616,536
Non-current assets				
Property, plant and equipment, net	7	3,756,537	3,387,296	3,122,773
Deferred tax assets	8	42,737	42,737	32,553
		-----	-----	-----
		3,799,274	3,430,033	3,155,326
		-----	-----	-----
Current assets				
Inventories	9	97,428	90,444	85,669
Trade receivables	10	697,830	719,460	588,235
Other receivables and prepayments	11	34,901	39,179	24,809
Amount due from HIPDC	12	--	--	154,845
Cash and cash equivalents	13	221,296	309,721	28,926
		-----	-----	-----
		1,051,455	1,158,804	882,484
		-----	-----	-----
Current liabilities				
Accounts payables and other liabilities	14	48,480	52,770	57,019
Taxes payable	5 (b)	139,824	173,634	106,016
Amount due to HIPDC	12	444,779	264,047	--
Staff welfare and bonus payable		68,384	63,662	62,372
Short-term bank loans	15 (a)	513,148	768,982	312,584
Current portion of long-term loans from HIPDC	15 (b)	338,419	345,770	262,617
		-----	-----	-----
		1,553,034	1,668,865	800,608
		=====	=====	=====
Net current (liabilities)/assets		(501,579)	(510,061)	81,876
		=====	=====	=====
Total assets less current liabilities		3,297,695	2,919,972	3,237,202

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Non-current liabilities				
Long-term loans from HIPDC	15 (b)	2,596,927	2,366,829	2,243,346
		=====	=====	=====
Net assets		700,768	553,143	993,856
		=====	=====	=====
Owners' equity		700,768	553,143	993,856
		=====	=====	=====

III STATEMENTS OF OWNERS' EQUITY

	Total owners' equity
	RMB'000
Balance as at 1 January 2001	586,697
Net profit for the year	58,170
Net contributions	55,901
Balance as at 31 December 2001	700,768
Net profit for the year	7,418
Net distributions	(155,043)
Balance as at 31 December 2002	553,143
Net profit for the year	76,648
Net contributions	364,065
Balance as at 31 December 2003	993,856

IV STATEMENTS OF CASH FLOWS

		Years ended 31 December		
	Note	2001	2002	2003
		RMB'000	RMB'000	RMB'000
		-----	-----	-----
Cash flows from operating activities	(a)	512,240	545,017	700,073
		-----	-----	-----
Cash flows from investing activities				
Capital expenditure		(61,031)	(43,878)	(145,198)
Proceeds from disposal of property, plant and equipment		4,434	--	--
		-----	-----	-----
Net cash used in investing activities		(56,597)	(43,878)	(145,198)
		-----	-----	-----

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Cash flows from financing activities			
Proceeds from bank loans	--	--	75,000
Proceeds from HIPDC loans	239,330	255,834	--
Repayments of HIPDC loans	(654,081)	(332,773)	(515,259)
Net funds received from HIPDC	38,333	--	--
Net funds submitted to HIPDC	--	(335,775)	(395,411)
	-----	-----	-----
Net cash used in financing activities	(376,418)	(412,714)	(835,670)
	=====	=====	=====
Net increase/(decrease) in cash and cash equivalents	79,225	88,425	(280,795)
Cash and cash equivalents at beginning of year	142,071	221,296	309,721
	-----	-----	-----
Cash and cash equivalents at end of year	221,296	309,721	28,926
	=====	=====	=====

Significant non-cash transaction

In 2003, in connection with the transformation of Chongqing Branch to Luohuang Power Plant, loans from HIPDC of RMB340,584,000 was capitalised as equity, loans from HIPDC of RMB237,584,000 was transferred to loan from Chongqing Investment.

(a) Reconciliation of profit before taxation to cash flows from operating activities

	2001	Years end
	RMB'000	RM
Profit before taxation	58,170	
Adjustments for:		
Depreciation	413,713	41
Interest income	(3,014)	(
Interest expense	207,437	18
Unrealised exchange (gains)/losses	(32,747)	11
(Gains)/losses on disposal of property, plant and equipment	(2,620)	
Decrease in inventories	12,929	
Decrease/(increase) in trade receivables	15,351	(2
Decrease/(increase) in other receivables and prepayments	25,647	(
Increase/(decrease) in accounts payables and other liabilities	8,034	
Increase/(decrease) in taxes payable	15,776	3
Decrease in staff welfare and bonus payable	(2,013)	(
	-----	---
Cash generated from operations	716,663	72
Interest received	3,014	

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Interest paid	(207,437)	(18)
	-----	---
Cash flows from operating activities	512,240	54
	=====	===

V NOTES TO THE FINANCIAL INFORMATION

1 Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

IFRS includes International Accounting Standards ("IAS") and Interpretations.

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies described below have been consistently applied by Luohuang Power Plant during the relevant period.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(d)). The cost of property, plant and equipment constructed by Luohuang Power Plant includes the cost of materials, direct labour, directly attributable costs of bringing the asset to working condition and location for its intended use, and the cost of borrowed funds used during construction.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is provided to write off the cost of property, plant and equipment on a straight line basis over their respective estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Buildings

22-30 years

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Generators and related machinery and equipment	8-13 years
Motor vehicles, furniture, fixtures, equipment and others	6-13 years

(c) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(d)). Cost comprises construction expenditure, including interest costs incurred during the construction period, the cost of related equipment, direct labour and other directly attributable costs.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. In respect of a generating unit, it is considered to be substantially ready for its intended use when the trial run period ends.

(d) Impairment

The carrying amounts of Luohuang Power Plant's property, plant and equipment, and construction in progress are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(e) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by Luohuang Power Plant, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of inventories is calculated on the weighted average basis.

(f) Trade and other receivables

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Trade and other receivables are stated at their cost less allowance for any amounts expected to be irrecoverable. An allowance is provided for based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and maturing within three months at acquisition.

(h) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Luohuang Power Plant has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Revenue recognition

Electricity income is recognised when electricity is supplied to the municipal power grid company.

(k) Major overhauls, repairs and maintenance

Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(l) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(m) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi yuan at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi yuan at the rates ruling at the balance sheet date. Foreign currency translation differences relating to the funds borrowed to finance construction in progress, to the extent that they are regarded as an adjustment to interest costs, are capitalised during the construction period. All other exchange differences are dealt with in the combined income statement.

(n) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Retirement plan

Luohuang Power Plant is required to make contributions to a retirement plan operated by the State at rates of 19%, 19% and 20% of the staff salaries for the years ended 31 December 2001, 2002 and 2003, respectively. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, Luohuang Power Plant participates in a defined contribution retirement plan, which is also operated by the State, and makes contributions to this plan at 15% of previous year's staff salaries, to supplement the above-mentioned plan. Luohuang Power Plant has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

(p) Related parties

For the purposes of the Financial Information, parties are considered to be related to Luohuang Power Plant if Luohuang Power Plant has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making

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financial and operating decisions, or vice versa, or where Luohuang Power Plant and the party are subject to common control or common significant influence.

(q) Segment reporting

A business segment is a distinguishable component of Luohuang Power Plant that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, Luohuang Power Plant has one operating segment, which is the generation and sale of electricity. All the operating activities of Luohuang Power Plant are carried out in the PRC.

2 Revenue

Revenue represents the sale of electricity to municipal power grid company, net of value added tax ("VAT").

3 Operating profit

Operating profit is arrived at after charging:

	2001 RMB'000	Years end RMB
Depreciation of property, plant and equipment	413,713	414
Cost of inventories	412,577	497
Contribution to retirement plans	9,405	10
Auditors' remuneration	-	
	=====	=====
 4 Net financing costs		
	Years ended 31 2001 RMB'000	RMB
Interest on bank loans and other borrowings repayable within five years	37,977	36
Interest on other loans	169,460	146
	-----	---
Total interest expense	207,437	183
Interest income	(3,014)	(5)
Exchange (gains)/losses	(20,680)	122
Others	9,904	8
	-----	----
	193,647	309
	=====	=====

No interest expense was capitalised during the relevant period.

5 Taxation

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(a) Taxation in the statements of income comprises:

	Years ended 31	
	2001	
	RMB'000	RMB
Deferred taxation (note 8)	-	
	=====	=====

Effective from 1 January 1999, in accordance with the PRC income tax rules and regulations applicable to Sino-foreign investment enterprises investing in energy business, the reduced income tax rate of 15% is applicable to such enterprises. Luohuang Power Plant originally operated as a branch of HIPDC, a Sino-foreign investment enterprises investing in energy business, was entitled to this tax privilege.

Luohuang Power Plant, originally operated as a branch of HIPDC, was exempted from PRC income tax for two years starting from the first profit-making year after deducting all the brought forward tax losses, and followed by a 50% reduction of the applicable tax rate for the next three years ("tax holiday"). The first profit-making year of Luohuang Power Plant is 2003. Accordingly, no provision for PRC income tax has been made during the relevant period.

Following the transformation to a limited liability company, Luohuang Power Plant's PRC income tax rate is 15% as it is located in the western region of the PRC, and is now no longer entitled to the tax holiday as mentioned in the preceding paragraph.

No deferred tax assets in respect of tax losses have been recognised during the relevant period as the applicable tax rate in the years in which the tax losses expected to be realised is zero percent.

The deferred tax charge in 2003 is due to the effect of increase in effective tax rate.

(b) Taxes payable in the balance sheets represents:

	2001	31 De
	RMB'000	RMB
Taxes payable other than PRC income tax	139,824	173
	=====	=====

payable. Taxes payable other than PRC income tax mainly represents VAT

6 Emoluments of directors and senior management

(a) Directors' emoluments

No directors' emoluments were paid during the relevant period.

(b) Senior management's emoluments

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Details of emoluments paid to the five highest paid individuals are as follows:

	2001 RMB'000	Years ended 2001 RMB
Salaries, allowances and benefits in kind	563	
Retirement benefits	88	
	651	
	651	

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emoluments range is as follows:

	2001	Years ended 2001
RMB Nil - RMB 1,000,000	5	
	5	
	5	

There was no arrangement under which an employee waived any remuneration during the relevant period.

7 Property, plant and equipment, net

	Buildings RMB'000	Generators and related machinery and equipment RMB'000	Motor vehicles, furniture, fixtures, equipment and others RMB'000	
Cost:				
Balance at 1 January 2001	441,225	6,071,182	23,970	
Additions	4,851	22,799	3,450	
Transferred from construction in progress	-	15,760	-	
Disposals	(4,157)	(32)	(3,815)	
	441,919	6,109,709	23,605	
Balance at 31 December 2001	441,919	6,109,709	23,605	
Accumulated depreciation:				
Balance at 1 January 2001	(160,714)	(2,252,310)	(20,785)	
Charge for the year	(16,632)	(396,127)	(954)	
Reversal upon disposal	2,343	32	3,815	
	(175,003)	(2,648,405)	(17,924)	
Balance at 31 December 2001	(175,003)	(2,648,405)	(17,924)	

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	=====	=====	=====
Net book value at 31 December 2001	266,916	3,461,304	5,681
	=====	=====	=====
Cost:			
Balance at 1 January 2002	441,919	6,109,709	23,605
Additions	-	20,941	6,767
Transferred from construction in progress	-	15,650	-
Disposals	(1,302)	(434)	(3,286)
	-----	-----	-----
Balance at 31 December 2002	440,617	6,145,866	27,086
	-----	-----	-----
Accumulated depreciation:			
Balance at 1 January 2002	(175,003)	(2,648,405)	(17,924)
Charge for the year	(16,433)	(396,651)	(1,703)
Reversal upon disposal	637	364	3,193
	-----	-----	-----
Balance at 31 December 2002	(190,799)	(3,044,692)	(16,434)
	=====	=====	=====
Net book value at 31 December 2002	249,818	3,101,174	10,652
	=====	=====	=====
Cost:			
Balance at 1 January 2003	440,617	6,145,866	27,086
Additions	671	5,046	3,990
Transferred from construction in progress	-	53,794	-
Disposals	-	(412)	-
	-----	-----	-----
Balance at 31 December 2003	441,288	6,204,294	31,076
	=====	=====	=====
Accumulated depreciation:			
Balance at 1 January 2003	(190,799)	(3,044,692)	(16,434)
Charge for the year	(16,402)	(398,861)	(1,668)
Reversal upon disposal	-	406	-
	-----	-----	-----
Balance at 31 December 2003	(207,201)	(3,443,147)	(18,102)
	=====	=====	=====
Net book value at 31 December 2003	234,087	2,761,147	12,974
	=====	=====	=====

All of Luohuang Power Plant's buildings are located in the PRC.

The land occupied by Luohuang Power Plant was allocated by the PRC government at nil consideration and cannot be transferred, leased nor mortgaged.

The construction in progress as at 31 December 2003 mainly represents costs incurred for the Phase III Project.

8 Deferred tax assets

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

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	Assets			Liabilities			N
	2001	2002	2003	2001	2002	2003	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'00
Provision for receivables	48,548	48,548	49,021	-	-	-	48,54
Provision for inventories	1,076	1,076	1,076	-	-	-	1,07
Property, plant and equipment	-	-	-	(6,887)	(6,887)	(17,544)	(6,88
Deferred tax assets/(liabilities)	49,624	49,624	50,097	(6,887)	(6,887)	(17,544)	42,73
	=====	=====	=====	=====	=====	=====	=====

There was no movement in temporary differences in 2001 and 2002. The movements in temporary differences in 2003 are as follows:

	Balance at 1 January 2003 RMB'000	Recognise statemen in RMB
Provision for receivables	48,548	
Provision for inventories	1,076	
Property, plant and equipment	(6,887)	(10
	-----	-----
Net deferred tax assets/(liabilities)	42,737	(10
	=====	=====
		(note 5

9 Inventories

	2001 RMB'000	31 D RMB
Coal	8,670	14
Fuel oil	6,560	2
Materials, components and spare parts	82,198	73
	-----	-----
	97,428	90
	=====	=====

The carrying amount of materials, components and spare parts is net of a provision for obsolescence amounting to approximately RMB9,133,000, RMB8,197,000 and RMB7,171,000 as at 31 December 2001, 2002 and 2003, respectively.

10 Trade receivables, net

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	2001 RMB'000	31 De RMB
Trade receivables	1,074,465	1,069
Less: Allowance for doubtful accounts	(376,635)	(350)
	-----	-----
	697,830	719
	=====	=====

The following table summarises the changes in the allowance for doubtful accounts for each of the years in the three-year period ended 31 December 2003:

	2001 RMB'000	Years end RMB
Balance at 1 January	376,635	376
Trade receivables written off	-	(26)
	-----	-----
Balance at 31 December	376,635	350
	=====	=====

Luohuang Power Plant usually grants one month credit period to the municipal power grid company from the end of the month in which the sales are made.

Ageing analysis of trade receivables is as follows:

	2001 RMB'000	31 De RMB
Current, within one month	139,523	193
Overdue	558,307	525
	-----	-----
	697,830	719
	=====	=====

11 Other receivables and prepayments

	2001 RMB'000	31 De RMB
Prepayments for coals	10,647	5
Prepayments for materials	2,972	6
Others	21,282	26
	-----	-----
	34,901	39
	=====	=====

12 Amount due from/to HIPDC

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The amount due from/to HIPDC is interest free, unsecured and receivable/repayable on demand.

13 Cash and cash equivalents

	2001 RMB'000	31 De RMB
Cash at bank and in hand	80,628	63
Cash deposited with a related party (note)	140,668	246
	-----	-----
	221,296	309
	=====	=====

Note: It represents cash deposited with China Huaneng Finance Company ("Huaneng Finance"), a subsidiary company of China Huaneng Group, the ultimate holding company of the Company.

14 Accounts payables and other liabilities

	2001 RMB'000	31 De RMB
Accounts payables	27,108	36
Payables for construction projects	5,140	7
Other payables	16,232	9
	-----	-----
	48,480	52
	=====	=====

The accounts payables as at 31 December 2001, 2002 and 2003 was due within one month or on demand.

15 Interest bearing loans and borrowings

The following provides information about the contractual terms of Luohuang Power Plant's interest bearing loans and borrowings:

(a) Short-term bank loans

	2001 RMB'000	31 Decem RMB
Bank loan	-	
Loan from HIPDC	513,148	768
Loan from Chongqing Investment	-	
	-----	-----
Total	513,148	768
	=====	=====

The interest rate of the short-term bank loan was 4.54% per annum

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as at 31 December 2003. The interest rate of the loan from HIPDC was 5.76% per annum as at 31 December 2001 and 2002. The interest rate of the loan from Chongqing Investment was 5.31% per annum as at 31 December 2003.

(b) Long-term loans from HIPDC

	Interest rate and final maturity	2001 RMB'000	
Loans from HIPDC (note 1):			31
-US dollars denominated	Fixed interest rates ranging from 5.95% to 6.97% per annum with maturities through 2011	2,079,882	1,
-US dollars denominated	Floating interest rate at 2.3% per annum as at 31 December 2002	183,741	
-France Francs/Euro dollars denominated (note 2)	Fixed interest rate at 2% per annum with maturities through 2024	671,723	
		-----	--
Less: current portion		2,935,346 (338,419)	2, (
		-----	--
Non-current portion		2,596,927	2,
		=====	==

Note 1: Foreign currency denominated loans from HIPDC is originated from loans borrowed by HIPDC from overseas banks. HIPDC on-lent these loans to Luohuang Power Plant at cost.

Note 2: The loan denominated in France Francs was converted to Euro dollar denominated loan on 1 January 2002.

The aggregate maturities of Luohuang Power Plant's long-term loans subsequent to 31 December 2003 are as follows:

	RMB'000
2004	262,617
2005	262,641
2006	264,853
2007	264,853
2008	264,853
Thereafter	1,186,146

Total	2,505,963
	=====

In 2003, in connection with the transformation of Chongqing Branch to Luohuang Power Plant, loans from HIPDC of RMB340,584,000 was capitalised as equity, loans from HIPDC of RMB237,584,000 was transferred

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to loan from Chongqing Investment.

16 Capital commitments

Luohuang Power Plant had capital commitments as follows:

	2001 RMB'000	31 December 2002 RMB'000
Authorised and contracted for	2,475	3,036
Authorised but not contracted for	437	562
	-----	-----
	2,912	3,598
	=====	=====

Capital commitments as at 31 December 2003 mainly relate to the Phase III Project.

17 Concentration of risks

(a) Credit and concentration risk

The carrying amounts of cash and cash equivalents, trade receivables, amount due from HIPDC, other receivables and prepayments represent Luohuang Power Plant's maximum exposure to credit risk in relation to financial assets. Luohuang Power Plant sells the electricity generated to its sole customer, the municipal power grid company. Luohuang Power Plant maintains an allowance for doubtful accounts in respect of those overdue debts after evaluation of the recoverability of the receivable at the balance sheet date.

Substantially all of Luohuang Power Plant's cash and cash equivalents are deposited with the four largest state-owned banks of the PRC.

Luohuang Power Plant does not have concentrations of available sources of labour, services, franchises, licenses or other rights that could, if suddenly eliminated, severely impact their operations.

(b) Interest rate risk

The interest rates and terms of repayment of the outstanding loans and borrowings of Luohuang Power Plant is disclosed in note 15.

(c) Currency risk

Luohuang Power Plant has foreign currency risk as a portion of its long-term loans are denominated in foreign currency, principally in US dollars and Euro dollar as described in note 15. Fluctuation of exchange rates of Renminbi against foreign currencies could affect Luohuang Power Plant's results of operations.

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18 Related party transactions

The principal related party transactions with related parties, which were carried out in the ordinary course of business, are as follows:

Transaction	Note	2001 RMB'000	Years en R
Interests on loans	a	207,437	1
Management fee	b	9,093	
Interest income on deposits	c	63	
Purchase of raw materials	d	27,331	

Notes:

- (a) This represents interest incurred in relation to loans borrowed from HIPDC. Details of loans borrowed from HIPDC are disclosed in note 15.
- (b) This represents fees paid to HIPDC in connection with the provision of management services to Luohuang Power Plant. The fee is charged based on the volume of electricity generation.
- (c) This represents interest income derived from cash deposited with Huaneng Finance. Details of cash deposited with Huaneng Finance are disclosed in note 13.
- (d) This represents production materials purchased from an associated company of HIPDC. The transaction was entered into in the normal commercial terms.

19 Fair values of financial instruments

Financial assets of Luohuang Power Plant include cash and cash equivalents, trade receivables, amount due from HIPDC and other receivables and prepayments. Financial liabilities of Luohuang Power Plant include interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payable, amount due to HIPDC and staff welfare and bonus payable. Luohuang Power Plant does not hold nor issue financial instruments for trading purposes.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for Luohuang Power Plant's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by Luohuang Power Plant using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Luohuang Power Plant could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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The following summarises the major methods and assumptions used in estimating the fair values of Luohuang Power Plant's financial instruments.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and prepayments, short-term interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payables, amount due from/to HIPDC and staff welfare and bonus payable approximate to fair value due to the short-term maturity of these instruments.

The estimated fair value of long-term debt, including current maturities, was RMB2,322 million, RMB2,108 million and RMB1,892 million as at 31 December 2001, 2002 and 2003, respectively. The fair value of long-term debt is determined by discounting the stream of future payments of interest and principal at the interest rates available to Luohuang Power Plant for similar indebtedness. The book value of these long-term debts was RMB2,080 million, RMB1,870 million and RMB1,660 million as at 31 December 2001, 2002 and 2003, respectively.

20 Distributable reserves

Luohuang Power Plant had no distributable reserve as at 31 December 2003.

VI ULTIMATE HOLDING COMPANY

The management of Luohuang Power Plant considers the ultimate holding company to be Huaneng Group.

VII SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Luohuang Power Plant in respect of any period subsequent to 31 December 2003.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong, China

APPENDIX V ACCOUNTANTS' REPORT OF YINGKOU POWER PLANT

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix X, a copy of the following accountants' report is available for inspection.

[GRAPHIC OMITTED]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

29 April 2004

The Directors
Huaneng Power International, Inc.

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Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Huaneng International Power Development Corporation, Yingkou Branch Company ("Yingkou Power Plant"), in Sections I to VI below (the "Financial Information"), including the balance sheets of Yingkou Power Plant as at 31 December 2001, 2002 and 2003, the statements of income, head office account and cash flows of Yingkou Power Plant for each of the years in the three-year period ended 31 December 2003 (the "relevant period"), for inclusion in the shareholders' circular of Huaneng Power International, Inc. ("the Company") dated 29 April 2004 (the "Circular").

Yingkou Power Plant is a branch of Huaneng International Power Development Corporation ("HIPDC"), the immediate holding company of the Company, established in March 1987 in Liaoning Province, the People's Republic of China ("the PRC"). It owns and operates two coal-fired generating units with installed capacity of 320 MW each. The generating units commenced commercial operation in January and December 1996 respectively.

The financial statements of Yingkou Power Plant were not audited by any independent auditors during the relevant period.

Pursuant to the transfer agreement entered into between the Company and HIPDC on 16 April 2004, as described more fully in the section headed "Transfer Agreements" in the letter from the Board contained in the Circular, the Company will acquire from HIPDC all of Yingkou Power Plant's assets and assumption of all its liabilities.

BASIS OF PREPARATION

The Financial Information has been prepared by the management of Yingkou Power Plant based on the management accounts of Yingkou Power Plant to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards and interpretations.

RESPONSIBILITY

The preparation of the Financial Information, which gives a true and fair view, is the responsibility of Yingkou Power Plant's management. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

For the purpose of this report, we have audited the Financial Information of Yingkou Power Plant for the relevant period and carried out such procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA"). We have not audited any financial statements of Yingkou Power Plant in respect of any period subsequent to 31 December 2003.

We conducted our audit in accordance with Statements of Auditing Standards issued by HKSA. An audit includes examination, on a test basis, of

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evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Yingkou Power Plant's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Financial Information, for the purpose of this report and on the basis stated above, gives a true and fair view of the state of affairs of Yingkou Power Plant as at 31 December 2001, 2002 and 2003 and of the results and cash flows of Yingkou Power Plant for each of the years in the three-year period ended 31 December 2003 and has been properly prepared in accordance with IFRS.

I STATEMENTS OF INCOME

	Note	Years ended 2001 RMB'000	2002 R
Revenue	2	722,873	8
Operating expenses			
- Fuel		(270,094)	(3
- Repairs and maintenance		(22,010)	(
- Depreciation		(265,355)	(2
- Personnel expenses		(52,408)	(
- Other operating expenses		(48,655)	(
Total operating expenses		(658,522)	(7
Operating profit	3	64,351	1
Net financing costs	4	(89,718)	(
(Loss)/profit before taxation		(25,367)	
Taxation	5 (a)	-	
Net (loss)/profit		(25,367)	

II BALANCE SHEETS

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	Note	2001 RMB'000	31 Dec R
Non-current assets			
Property, plant and equipment, net	7	2,576,884	2,3
Current assets			
Inventories	8	30,490	
Trade receivables	9	57,433	1
Other receivables and prepayments		6,846	
Cash and cash equivalents	10	134,968	
		229,737	2
Current liabilities			
Accounts payables and other liabilities	11	32,547	
Taxes payable	5(b)	16,166	
Amount due to HIPDC	12	915,084	1,3
		963,797	1,4
Net current liabilities		(734,060)	(1,2)
Total assets less current liabilities		1,842,824	1,1
Non-current liabilities			
Long-term loans from HIPDC	13(a)	1,086,830	5
Long-term bank loans	13(b)	329,000	1
		1,415,830	7
Net assets		426,994	4
Head office account		426,994	4

III STATEMENTS OF HEAD OFFICE ACCOUNT

Balance as at 1 January 2001
Net loss for the year

Balance as at 31 December 2001
Net profit for the year

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Balance as at 31 December 2002
Net profit for the year

Balance as at 31 December 2003

IV STATEMENTS OF CASH FLOWS

	Note	2001 RMB'000	Years end 2001 RMB'000
Cash flows from operating activities	(a)	298,309	2
Cash flows from investing activities			
Capital expenditure		(28,288)	(
Proceeds from disposal of property, plant and equipment		467	
Net cash used in investing activities		(27,821)	(
Cash flows from financing activities			
Repayments of bank loans		(97,490)	(2
Proceeds from HIPDC loans		199,662	
Repayments of HIPDC loans		-	(5
Net funds received from HIPDC		-	4
Net funds submitted to HIPDC		(260,396)	
Net cash used in financing activities		(158,224)	(2
Net increase/(decrease) in cash and cash equivalents		112,264	(
Cash and cash equivalents at beginning of year		22,704	1
Cash and cash equivalents at end of year		134,968	

(a) Reconciliation of (loss)/profit before taxation to cash flows from operating activities

		2001 RMB'000	Years end 2001 RMB'000
(Loss)/profit before taxation		(25,367)	
Adjustments for:			

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Depreciation	265,355	26
Interest income	(499)	
Interest expenses	78,937	6
Unrealised exchange (gains)/losses	(11,383)	3
(Gains)/losses from disposal of property, plant and equipment	(40)	
Decrease/(increase) in inventories	7,747	(
Decrease/(increase) in trade receivables	98,858	(9
Decrease/(increase) in other receivables and prepayments	2,022	(
(Decrease)/increase in accounts payables and other liabilities	(26,320)	4
(Decrease)/increase in taxes payable	(12,563)	(
	-----	-----
Cash generated from operations	376,747	30
Interest received	499	
Interest paid	(78,937)	(6
	-----	-----
Cash flows from operating activities	298,309	24
	=====	=====

V NOTES TO THE FINANCIAL INFORMATION

1 Principal accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

IFRS includes International Accounting Standards ("IAS") and Interpretations.

The measurement basis used in the preparation of the Financial Information is historical cost.

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies described below have been consistently applied by Yingkou Power Plant during the relevant period.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(d)). The cost of property, plant and equipment constructed by Yingkou Power Plant includes the cost of materials, direct labour, directly attributable costs of bringing the asset to working condition and location for its intended use, and the cost of borrowed funds used during construction.

Subsequent expenditure is capitalised only when it increases

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the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is provided to write off the cost of property, plant and equipment on a straight line basis over their respective estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Buildings

Generators and related machinery and equipment

Motor vehicles, furniture, fixtures, equipment and others

(c) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(d)). Cost comprises construction expenditure, including interest costs incurred during the construction period, the cost of related equipment, direct labour and other directly attributable costs.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. In respect of a generating unit, it is considered to be substantially ready for its intended use when the trial run period ends.

(d) Impairment

The carrying amounts of Yingkou Power Plant's property, plant and equipment, and construction in progress are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that

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the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(e) Inventories

Inventories, comprising coal, fuel oil, materials, components and spare parts for consumption by Yingkou Power Plant, are stated at cost, less provision for obsolescence. Cost includes cost of purchase and, where applicable, transportation cost and handling fee. The cost of inventories is calculated on the weighted average basis.

(f) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for any amounts expected to be irrecoverable. An allowance is provided for based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and maturing within three months at acquisition.

(h) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Yingkou Power Plant has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Revenue recognition

Electricity income is recognised when electricity is supplied to the provincial power grid company.

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(k) Major overhauls, repairs and maintenance

Expenditure on major overhauls, repairs and maintenance is charged to the income statement as it is incurred.

(l) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(m) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi yuan at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi yuan at the rates ruling at the balance sheet date. Foreign currency translation differences relating to the funds borrowed to finance construction in progress, to the extent that they are regarded as an adjustment to interest costs, are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

(n) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Retirement plan

Yingkou Power Plant is required to make contributions to a retirement plan operated by the State at rates of 19%, 20% and 20% of the staff salaries for the years ended 31 December 2001, 2002 and 2003 respectively. A member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. In addition, Yingkou

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Power Plant participates in a defined contribution retirement plan, which is also operated by the State, and makes contributions to this plan at 15% of previous year's staff salaries, to supplement the above-mentioned plan. Yingkou Power Plant has no obligation to make payments in respect of pension benefits associated with these plans other than the annual contributions described above.

(p) Related parties

For the purposes of the Financial Information, parties are considered to be related to Yingkou Power Plant if Yingkou Power Plant has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Yingkou Power Plant and the party are subject to common control or common significant influence.

(q) Segment reporting

A business segment is a distinguishable component of Yingkou Power Plant that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, Yingkou Power Plant has one operating segment, which is the generation and sale of electricity. All the operating activities of Yingkou Power Plant are carried out in the PRC.

2 Revenue

Revenue represents the sale of electricity to provincial power grid company, net of value added tax ("VAT").

3 Operating profit

Operating profit is arrived at after charging:

	2001 RMB'000	Years ended 2001 RMB
Depreciation of property, plant and equipment	265,355	267
Cost of inventories	284,553	331
Contribution to retirement plans	5,652	11
Auditors' remuneration	-	-
	=====	=====
	2001 RMB'000	Years ended 2001 RMB
Interest on bank loans and other borrowings repayable within five years	22,458	10
Interest on other loans	56,479	51
	-----	-----
Total interest expense	78,937	61
Interest income	(499)	(

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Exchange losses	9,917	36
Others	1,363	
	-----	-----
	89,718	97
	=====	=====

No interest expense was capitalised during the relevant period.

5 Taxation

- (a) Effective from 1 January 1999, in accordance with the PRC income tax rules and regulations applicable to Sino-foreign investment enterprises investing in energy business, the reduced income tax rate of 15% is applicable to such enterprises. Yingkou Power Plant, operated as a branch of HIPDC, a Sino-foreign investment enterprise investing in energy business, is entitled to this tax privilege.

Yingkou Power Plant, originally operated as a branch of HIPDC, was exempted from PRC income tax for two years starting from the first profit-making year after deducting all the brought forward tax losses, and followed by a 50% reduction of the applicable tax rate for the next three years. Up to 31 December 2003, the brought forward tax losses have not been fully covered, and accordingly, no provision for PRC income tax has been made during the relevant period.

No deferred tax assets in respect of tax losses have been recognised as the applicable tax rate in the years in which the tax losses expected to be realised is zero percent.

- (b) Taxes payable as at 31 December 2001, 2002 and 2003 mainly represent VAT payable.

6 Emoluments of senior management

- (i) Directors' emoluments

No board of directors or similar corporate governance body was established by Yingkou Power Plant during the relevant period.

- (ii) Details of emoluments paid to the five highest paid individuals are as follows:

	Years ended 31	
	2001	
	RMB'000	RMB
Salaries, allowances and benefits in kind	435	
Retirement benefits	70	
	-----	-----
	505	-----
	=====	=====

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An analysis of emoluments paid to the five highest paid individuals by number of individuals and emoluments ranges is as follows:

	Years ended 31 2001
RMB Nil - RMB100,000	5 =====

There was no arrangement under which an employee waived any remuneration during the relevant period.

7 Property, plant and equipment, net

	Buildings RMB'000	Generators and related machinery and equipment RMB'000	Motor vehicles, furniture, fixtures, equipment and others RMB'000
Cost:			
Balance at 1 January 2001	1,092,674	2,851,369	34,283
Additions	-	2,140	1,332
Transferred from construction in progress	4,622	18,497	4,390
Disposals	-	-	(1,882)
	-----	-----	-----
Balance at 31 December 2001	1,097,296	2,872,006	38,123
	-----	-----	-----
Accumulated depreciation:			
Balance at 1 January 2001	(183,277)	(987,160)	(12,621)
Charge for the year	(41,439)	(221,096)	(2,820)
Reversal upon disposal	-	-	1,455
	-----	-----	-----
Balance at 31 December 2001	(224,716)	(1,208,256)	(13,986)
	=====	=====	=====
Net book value at 31 December 2001	872,580	1,663,750	24,137
	=====	=====	=====
	RMB'000	RMB'000	RMB'000
Cost:			
Balance at 1 January 2002	1,097,296	2,872,006	38,123
Additions	-	1,672	221
Transferred from construction in progress	11,627	16,086	429
Disposals	(3,387)	-	-
	-----	-----	-----
Balance at 31 December 2002	1,105,536	2,889,764	38,773
	=====	=====	=====

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Accumulated depreciation:			
Balance at 1 January 2002	(224,716)	(1,208,256)	(13,986)
Charge for the year	(41,580)	(222,835)	(3,108)
Reversal upon disposal	1,121	-	-
	-----	-----	-----
Balance at 31 December 2002	(265,175)	(1,431,091)	(17,094)
	=====	=====	=====
Net book value at 31 December 2002	840,361	1,458,673	21,679
	=====	=====	=====
Cost:			
Balance at 1 January 2003	1,105,536	2,889,764	38,773
Additions	-	-	1,142
Transferred from construction in progress	10,140	60,763	373
Disposals	(427)	-	-
	-----	-----	-----
Balance at 31 December 2003	1,115,249	2,950,527	40,288
	=====	=====	=====
Accumulated depreciation:			
Balance at 1 January 2003	(265,175)	(1,431,091)	(17,094)
Charge for the year	(42,045)	(224,233)	(2,011)
Reversal upon disposal	169	-	-
	-----	-----	-----
Balance at 31 December 2003	(307,051)	(1,655,324)	(19,105)
	=====	=====	=====
Net book value at 31 December 2003	808,198	1,295,203	21,183
	=====	=====	=====

All of Yingkou Power Plant's buildings are located in the PRC.

The land occupied by Yingkou Power Plant was allocated by the PRC government at nil consideration and cannot be transferred, leased nor mortgaged.

8 Inventories

	2001	31 December 2002	2003
	RMB'000	RMB'000	RMB'000
Coal	10,961	17,655	6,617
Fuel oil	2,324	2,269	2,395
Materials, components and spare parts	17,205	14,356	12,031
	-----	-----	-----
	30,490	34,280	21,043
	=====	=====	=====

The carrying amount of materials, components and spare parts is net of a provision for obsolescence amounting to approximately RMB 1,883,000,

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RMB 1,595,000 and RMB 1,336,000 as at 31 December 2001, 2002 and 2003, respectively.

9 Trade receivables

The balance of trade receivables as at 31 December 2001, 2002 and 2003 was due from the provincial power grid company and was current. Yingkou Power Plant usually grants one month credit period to the provincial power grid company from the end of the month in which the sales are made.

10 Cash and cash equivalents

	2001 RMB'000	31 Dec RMB
Cash at bank and in hand	134,968 =====	38 =====

11 Accounts payables and other liabilities

	2001 RMB'000	31 Dec RMB
Accounts payables	13,173	54
Payables for construction projects	12,464	11
Other payables	6,910	10
	-----	---
	32,547 =====	76 =====

The accounts payables as at 31 December 2001, 2002 and 2003 was due within one month or on demand.

12 Amount due to HIPDC

The amount due to HIPDC was interest free, unsecured and repayable on demand.

13 Interest-bearing loans and borrowings

The following provides information about the contractual terms of Yingkou Power Plant's interest bearing loans and borrowings:

- (a) Long-term loans from HIPDC

Interest rate and final maturity

2001

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RMB'000

Loans from HIPDC

- Renminbi denominated	Floating interest rate at 5.18% per annum as at 31 December 2003 with maturities through 2009	606,623
- Swiss Francs denominated	Floating interest rate at 6.21% per annum as at 31 December 2002	480,207

		1,086,830
		=====

Foreign currency denominated loans from HIPDC originated from loans borrowed by HIPDC from overseas banks. HIPDC on-lent the loans to Yingkou Power Plant at cost.

In 2003, the loan denominated in Swiss Francs was converted into Renminbi denominated loan.

The balance of loan from HIPDC as at 31 December 2003 is repayable in five equal instalments annually commencing 2005.

(b) Long-term bank loans

	Interest rate and final maturity	2001 RMB'000
Bank loans	Floating interest rate at 5.76% per annum as at 31 December 2002	329,000
- Renminbi denominated		=====

The repayment of the bank loans was guaranteed by HIPDC.

14 Capital commitments

As at 31 December 2001, 2002 and 2003, Yingkou Power Plant had capital commitments mainly in relation to enhancement projects of generating units as follows:

	2001 RMB'000	31 De RMB
Authorised and contracted for	-	
Authorised but not contracted for	4,703	1
	-----	---
	4,703	1
	=====	====

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15 Concentration of risks

(a) Credit and concentration risk

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and prepayments represent Yingkou Power Plant's maximum exposure to credit risk in relation to financial assets. Yingkou Power Plant sells the electricity generated to its sole customer, the provincial power grid company.

Substantially all of Yingkou Power Plant's cash and cash equivalents are deposited with the four largest state-owned banks of the PRC.

Yingkou Power Plant does not have concentrations of available sources of labour, services, franchises, licenses or other rights that could, if suddenly eliminated, severely impact its operations.

(b) Interest rate risk

The interest rates and terms of repayment of the outstanding loans and borrowings of Yingkou Power Plant are disclosed in note 13.

(c) Currency risk

Yingkou Power Plant has foreign currency risk as at 31 December 2001 and 2002 as a portion of their long-term loans were denominated in Swiss Francs as described in note 13. Such loans were converted to Renminbi denominated loans in 2003, and Yingkou Power Plant no longer exposed to currency risk as at 31 December 2003.

16 Related party transactions

The principal related party transactions with related parties, which were carried out in the ordinary course of business, are as follows:

Transaction	Note	Years ended	
		2001	2002
		RMB'000	RMB'000
Interests on loans	a	56,479	
Management fee	b	5,096	

Notes:

- (a) This represents interest incurred in relation to loans from HIPDC. Details of loans from and guaranteed by HIPDC are disclosed in note 13.
- (b) This represents fees paid to HIPDC in connection with the provision of management services to Yingkou Power Plant. The fee is charged based on the volume of electricity generated.

17 Fair values of financial instruments

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Financial assets of Yingkou Power Plant include cash and cash equivalents, trade receivables, and other receivables and prepayments. Financial liabilities of Yingkou Power Plant include interest-bearing loans and borrowings, accounts payables and other liabilities, taxes payable and amount due to HIPDC. Yingkou Power Plant does not hold nor issue financial instruments for trading purposes.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for Yingkou Power Plant's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by Yingkou Power Plant using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Yingkou Power Plant could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarises the major methods and assumptions used in estimating the fair values of Yingkou Power Plant's financial instruments.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and prepayments, accounts payables and other liabilities, taxes payable and amount due to HIPDC, approximate to fair value due to the short-term maturity of these instruments.

The carrying amounts of Yingkou Power Plant's interest-bearing loans and borrowings approximate to their fair values based on a discounted cash flow approach using interest rates available to Yingkou Power Plant for similar indebtedness.

18 Distributable reserve

Yingkou Power Plant had no distributable reserve as at 31 December 2003.

VI SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yingkou Power Plant in respect of any period subsequent to 31 December 2003.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong, China

APPENDIX VI

FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES

The following consolidated balance sheets of Huaneng Power International, Inc. (together with its subsidiaries are referred to as the "Company and its subsidiaries") as at 31 December 2001, 2002 and 2003 and the

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consolidated statements of income, shareholders' equity, and cash flows for the years ended 31 December 2001, 2002 and 2003 are derived from the audited financial statements of the Company and its subsidiaries prepared under IFRS. All such financial information should be read in conjunction with the audited consolidated financial statements and accompanying notes, which are included in the Company's annual reports mailed to you or otherwise available on request from Huaneng Power International, Inc.

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 2001 RMB'000	2002 RMB'000
Operating revenue, net	15,791,362	18,477,362
Operating expenses		
Fuel	(5,147,364)	(6,912,364)
Maintenance	(765,712)	(607,362)
Depreciation	(3,261,001)	(3,532,362)
Labor	(807,136)	(1,032,362)
Service fees to HIPDC	(307,322)	(267,362)
Others	(488,793)	(532,362)
Total operating expenses	(10,777,328)	(12,892,362)
Profit from operations	5,014,034	5,575,000
Interest income	113,081	8,000
Interest expense	(867,538)	(567,000)
Bank charges and exchange losses, net	(41,758)	(37,000)
Total financial expenses	(796,215)	(596,000)
Share of (loss)/profit of associates	(5,381)	(17,000)
Gain from disposal of investments	24,671	-
Other income, net	-	-
Profit before tax	4,237,109	5,055,000
Income tax expense	(715,220)	(98,000)
Profit before minority interests	3,521,889	4,077,000
Minority interests	(71,231)	(157,000)
Net profit attributable to shareholders	3,450,658	3,920,000
Proposed dividend	-	-

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Proposed dividend per share (Rmb)	0.30	=====
Basic earnings per share (Rmb)	0.61	=====
Diluted earnings per share (Rmb)	0.60	=====

Consolidated Balance Sheet

	2001 RMB '000	31 De RM
ASSETS		
Non-current assets		
Property, plant and equipment, net	37,557,114	41,10
Investment in associates	226,488	20
Available-for-sale investments	-	25
Land use rights and other assets	970,759	1,06
Deferred tax assets	-	-
Goodwill	-	12
Less: Negative goodwill	(2,225,505)	(1,97
	-----	-----
Total non-current assets	36,528,856	40,77
	-----	-----
Current assets		
Inventories, net	718,997	92
Other receivables and assets, net	240,545	24
Accounts receivable	1,407,171	2,36
Due from related parties	-	-
Restricted cash	-	1
Temporary cash investments	6,224,070	1,14
Cash and cash equivalents	2,173,136	3,00
	-----	-----
Total current assets	10,763,919	7,68
	-----	-----
Total assets	47,292,775	48,46
	=====	=====
EQUITY AND LIABILITIES		
Shareholders' equity		
4,250,000,000 PRC Domestic Shares,		

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Par value Rmb1.00 each, in		
form of legal person shares	4,250,000	4,250,000
250,000,000 A shares, Par value Rmb1.00 each	250,000	250,000
1,527,671,200 (2001 and 2002: 1,500,273,960) Overseas Listed	1,500,000	1,500,000
Foreign Shares, par value Rmb 1.00 each		
Additional paid-in capital	10,137,732	10,137,732
Dedicated capital	2,659,012	2,659,012
Equity component of convertible notes	510,506	510,506
Retained earnings	8,986,280	8,986,280
	-----	-----
Total shareholders' equity	28,293,530	28,293,530
	-----	-----
Minority interests	486,261	486,261
	-----	-----
Non-current liabilities		
Liability component of convertible notes	-	-
Long-term loans from shareholders	777,717	777,717
Long-term bank loans	8,691,246	8,691,246
Other long-term loans	106,799	106,799
Other financial liabilities	14,875	14,875
Deferred tax liabilities	-	-
	-----	-----
Total non-current liabilities	9,590,637	9,590,637
	-----	-----
Current liabilities		
Accounts payable and other liabilities	2,657,223	2,657,223
Taxes payable	521,193	521,193
Due to HIPDC	36,584	36,584
Due to other related parties	3,225	3,225
Staff welfare and bonus payable	376,193	376,193
Short-term loans	40,000	40,000
Current portion of long-term loans from shareholders	15,565	15,565
Current portion of long-term bank loans	2,630,008	2,630,008
Current portion of other long-term loans	283,273	283,273
Liability component of convertible notes	1,703,443	1,703,443
Other financial liabilities	655,640	655,640
	-----	-----
Total current liabilities	8,922,347	8,922,347
	-----	-----
Total equity and liabilities	47,292,775	47,292,775
	=====	=====

Consolidated Statements of Shareholders' Equity

	Share Capital	Additional Paid-in Capital	Dedicated Capital Statutory and discretionary surplus reserve fund	Statutory public welfare fund	Sub-total	Equity Component of Convertible Notes
--	---------------	----------------------------	--	-------------------------------	-----------	---------------------------------------

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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January						
2001	5,650,000	7,717,674	1,532,664	490,037	2,022,701	510,506
Effect of adoption of IAS 39	-	-	-	-	-	-
Dividend relating to 2000	-	-	-	-	-	-
Net profit for the year ended 31 December 2001	-	-	-	-	-	-
Transfer to dedicated capital	-	-	363,606	272,705	636,311	-
Issuance and sale of 350,000,000 new Domestic Shares, net of direct issuance costs	350,000	2,420,058	-	-	-	-
	-----	-----	-----	-----	-----	-----
Balance at 31 December 2001	6,000,000	10,137,732	1,896,270	762,742	2,659,012	510,506
Dividend relating to 2001	-	-	-	-	-	-
Net profit for the year ended 31 December 2002	-	-	-	-	-	-
Conversion of convertible notes to share capital	274	1,696	-	-	-	(444)
Redemption of convertible notes	-	465,415	-	-	-	(465,415)
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	15,398	(15,398)	-	-
Transfer to dedicated capital	-	-	408,235	306,176	714,411	-
	-----	-----	-----	-----	-----	-----
Balance at 31 December 2002	6,000,274	10,604,843	2,319,903	1,053,520	3,373,423	44,647
Dividend relating to 2002	-	-	-	-	-	-
Net profit for the year ended 31 December 2003	-	-	-	-	-	-
Conversion of convertible notes to share capital	27,397	175,290	-	-	-	(44,392)
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	2,104	(2,104)	-	-
Transfer to						

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dedicated capital	-	-	545,714	409,286	955,000	-
	-----	-----	-----	-----	-----	-----
Balance at 31						
December 2003	6,027,671	10,780,133	2,867,721	1,460,702	4,328,423	255
	=====	=====	=====	=====	=====	=====

Consolidated Statements of Cash Flow

	For the years ended	
	2001	2000
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4,237,109	5,050,000
Adjustments to reconcile profit before tax to net cash provided by operating activities:		
Depreciation	3,261,001	3,530,000
Amortization of prepaid land use rights	14,359	14,359
Amortization of goodwill and negative goodwill	(247,279)	(247,279)
Amortization of other long-term assets	19,600	19,600
Provision for bad debts	1,030	1,030
Reversal of provision for inventory obsolescence	2,576	2,576
Gain from disposal of investments	(24,671)	(24,671)
Loss on disposals of fixed assets	36,592	36,592
Unrealized exchange (gain)/loss	(1,429)	(1,429)
Unrealised loss on put option of convertible notes	46,562	46,562
Gain on interest rate swaps	14,875	14,875
Share of loss/(profit) of associates	5,381	5,381
Interest income	(113,081)	(113,081)
Interest expenses	867,538	867,538
Changes in working capital:		
Restricted cash	-	(1,000)
Accounts receivable	(28,510)	(49,000)
Due from other related parties	-	-
Inventories	(62,063)	(3,000)
Other receivables and assets	20,228	9,000
Accounts payable and other liabilities	(370,300)	27,000
Taxes payable	(57,289)	4,000
Due to HIPDC	(93,574)	6,000
Due to Huaneng Group	-	-
Due to other related parties	(49,118)	(1,000)
Staff welfare and bonus payable	(199,973)	(15,000)
Interest paid	(715,846)	(73,000)
Income tax paid	(799,669)	(98,000)
Interest received	154,847	9,000
Net cash provided by operating activities	5,918,896	7,070,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,870,858)	(1,590,000)
Proceeds from disposals of fixed assets	32,904	4,000
Decrease/(increase) in other long-term assets	81,646	81,646
(Increase)/decrease in temporary cash investments	(4,665,290)	5,080,000
Proceeds from disposal of investments	384,569	384,569

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Cash consideration paid for available-for-sale investment	-	(25)
Repayment of payable to Nanjing investment	(141,641)	
Cash consideration paid for acquisitions	-	(2,75)
Direct costs paid for acquisitions	-	(1)
Cash inflow from the acquired power plants	-	56
Net cash inflow from the Acquisition of Shandong Huaneng	2,635,695	
Expenditures for Shandong Huaneng acquisition	(21,561)	
Net cash (used in)/provided by investing activities	(4,564,536)	1,07
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of short-term loans	1,300,000	12
Repayment of short-term loans	(2,560,000)	(19)
Repayment of long-term loans from shareholders	(208,538)	(1)
Drawdown of long-term bank loans	1,604,100	17
Repayment of long-term bank loans	(2,233,721)	(2,95)
Drawdown of other long-term bank loans		
Repayment of other long-term loans	(575,179)	(28)
Capital injection from minority shareholders of the subsidiaries		
Dividend paid to shareholders of the Company	(1,266,317)	(1,80)
Dividend paid to minority shareholders of the subsidiaries	-	(13)
Redemption of convertible notes	-	(2,23)
Net proceeds from issuance of Domestic shares	2,770,058	
Net cash used in financing activities	(1,169,597)	(7,32)
NET INCREASE IN CASH AND CASH EQUIVALENTS	184,763	82
Cash and cash equivalents, beginning of year	1,988,373	2,17
CASH AND CASH EQUIVALENTS, END OF YEAR	2,173,136	3,00
	=====	=====

APPENDIX VII

FINANCIAL INFORMATION OF THE COMBINED COMPANY
AND SUBSIDIARIES (INCLUDING THE TARGET POWER PLANTS)

(A) UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE COMBINED COMPANY AND
SUBSIDIARIES

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents for inspection" in Appendix X, a copy of the following report is available for inspection.

[GRAPHIC OMITTED]

8th Floor
Prince's Building
10 Chater Road
Hong Kong

29 April 2004

Board of Directors

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Huaneng Power International, Inc.

Dear Sirs

We report on the unaudited pro forma net assets statement set out in Section A of Appendix VII to the shareholders' circular of Huaneng Power International, Inc. (the "Company") dated 29 April 2004 (the "Pro Forma Net Assets Statement"), which has been prepared by the Company solely for illustrative purposes to provide information about how the proposed acquisition of 100% equity interest in Jinggangshan Huaneng Power Generation Company Limited, 60% equity interest in Huaneng Chongqing Luohuang Power Generation Company Limited, 55% equity interest in Huaneng Hunan Yueyang Power Generation Company Limited, 40% equity interest in Hebei Hanfeng Power Generation Company Limited and all the assets of Huaneng International Power Development Corporation, Yingkou Branch Company ("Yingkou Power Plant") and assumption of all the liabilities of Yingkou Power Plant, might have affected the consolidated net assets of the Company and its subsidiaries as at 31 December 2003. The basis of preparation of the Pro Forma Net Assets Statement is set out in the accompanying introduction thereto.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Net Assets Statement in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Net Assets Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Net Assets Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work consisted primarily of comparing the historical financial information contained therein with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Net Assets Statement with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Net Assets Statement.

The Pro Forma Net Assets Statement is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of:

- o the Company and its subsidiaries had the acquisition actually occurred on 31 December 2003; or
- o the Company and its subsidiaries at any future date.

Opinion

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In our opinion:

- a) the unaudited Pro Forma Net Assets Statement has been properly compiled on the basis stated;
- b) such basis is consistent with the principal accounting policies of the Company, and
- c) the adjustments are appropriate for the purposes of the Pro Forma Net Assets Statement as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong, China

Introduction to unaudited pro forma net assets statement of the Combined Company and Subsidiaries

The accompanying unaudited pro forma net assets statement of the Combined Company and Subsidiaries, as defined below, has been prepared giving effect to Huaneng Power International, Inc's proposed acquisition of the following entities (the "Acquisition"):

Name of entities	Percentage of interest to be acquired
Jingganshan Huaneng Power Generation Company Limited ("Jingganshan Power Plant")	100%
Huaneng Chongqing Luohuang Power Generation Company Limited ("Luohuang Power Plant")	60%
Huaneng Hunan Yueyang Power Generation Company Limited ("Yueyang Power Plant")	55%
Hebei Hanfeng Power Generation Company Limited ("Hanfeng Power Plant")	40%
Huaneng International Power Development Corporation, Yingkou Branch Company ("Yingkou Power Plant")	100% (note)

Note: Yingkou Power Plant is a branch of Huaneng International Power Development Corporation ("HIPDC"), all the assets and liabilities of Yingkou Power Plant will be acquired and assumed.

The above entities, excluding Hanfeng Power Plant, are collectively referred to as the "Target Power Plants". Huaneng Power International, Inc. (the "Company") together with its subsidiaries are referred to as the "Company and Subsidiaries". The total purchase price of the Acquisition is RMB4,575 million, including RMB2,564 million payable to HIPDC for the acquisition of 55% equity interest in Yueyang Power Plant, 60% equity interest in Luohuang Power Plant and all the assets and liabilities of Yingkou Power Plant, RMB1,949 million payable to China Huaneng Group for the acquisition of 40% equity interest in Hanfeng Power Plant and 90% equity interest in Jinggangshan Power Plant, RMB62 million payable to Jiangxi Province Investment Corporation for the acquisition of 10% equity interest in Jingganshan Power Plant. The purchase price will be satisfied by a cash payment of RMB4,575 million on the completion date. RMB2,288 million of which will be financed by internal resources, and all the remaining balance of RMB2,287 million will be financed by bank loans.

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The accompanying unaudited pro forma net assets statement of the Target Power Plants and the Company and Subsidiaries (collectively referred to as the "Combined Company and Subsidiaries") and Hanfeng Power Plant as at 31 December 2003 gives effect to the Acquisition as if the Acquisition had been completed on 31 December 2003.

The unaudited pro forma net assets statement of the Combined Company and Subsidiaries is based upon the audited financial statements of the Target Power Plants and Hanfeng Power Plant and the audited consolidated financial statements of the Company and Subsidiaries after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Company and Subsidiaries, the Target Power Plants and Hanfeng Power Plant; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma net assets statement of the Combined Company and Subsidiaries is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma net assets statement of the Combined Company and Subsidiaries does not purport to describe the actual financial position of the Combined Company and Subsidiaries that would have been attained had the Acquisition been completed on 31 December 2003. Further, the accompanying unaudited pro forma net assets statement of the Combined Company and Subsidiaries do not purport to predict the Combined Company and Subsidiaries' future financial position.

The unaudited pro forma net assets statement of the Combined Company and Subsidiaries should be read in conjunction with the audited financial information of the Target Power Plants as set out in Appendices II to V, the audited financial information of the Company and Subsidiaries as set out in Appendix VI and other financial information included elsewhere in this circular.

Unaudited pro forma net assets statement of the Combined Company and Subsidiaries as at 31 December 2003

	The Company and Subsidiaries RMB'000	Target Power Plants combined RMB'000 (Note)	Pro Forma combined RMB'000	Pro Forma adjustments RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment, net	42,658,365	7,856,654	50,515,019	1,772,476
Investment in associates	2,766,031	-	2,766,031	1,138,281
Available-for-sale investments	254,990	500	255,490	-
Land use rights and other assets	1,037,859	49,500	1,087,359	-
Deferred tax assets	21,311	32,553	53,864	-
Goodwill	298,876	-	298,876	949,121
Less: Negative goodwill	(1,730,949)	-	(1,730,949)	-
	-----	-----	-----	-----
Total non-current assets	45,306,483	7,939,207	53,245,690	3,859,878
	-----	-----	-----	-----

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Current assets				
Inventories, net	800,281	219,208	1,019,489	-
Other receivables and assets, net	259,421	68,317	327,738	-
Bills receivable	-	222,327	222,327	-
Accounts receivable	2,804,026	1,213,110	4,017,136	-
Due from related parties	5,862	154,845	160,707	-
Restricted cash	159,961	-	159,961	-
Temporary cash investments	144,996	-	144,996	-
Cash and cash equivalents	4,128,648	176,491	4,305,139	(2,288,000)
	-----	-----	-----	-----
Total current assets	8,303,195	2,054,298	10,357,493	(2,288,000)
	=====	=====	=====	=====
Total assets	53,609,678	9,993,505	63,603,183	1,571,878
	=====	=====	=====	=====
Non-current liabilities				
Long-term loans from shareholders	-	2,857,621	2,857,621	-
Long-term bank loans	8,305,320	1,123,000	9,428,320	2,287,000
Other long-term loans	848,284	-	848,284	-
Deferred tax liabilities	103,114	26,501	129,615	409,290
	-----	-----	-----	-----
Total non-current liabilities	9,256,718	4,007,122	13,263,840	2,696,290
	-----	-----	-----	-----
Current liabilities				
Accounts payable and other liabilities	3,342,517	231,368	3,573,885	-
Taxes payable	917,362	273,925	1,191,287	-
Due to HIPDC	87,508	1,326,986	1,414,494	-
Due to other related parties	27,338	6,000	33,338	-
Staff welfare and bonus payable	220,896	125,478	346,374	-
Short-term loans	1,600,000	1,340,262	2,940,262	-
Current portion of long-term loans from shareholders	388,875	262,617	651,492	-
Current portion of long-term bank loans	2,409,240	164,975	2,574,215	-
Current portion of other long-term loans	243,386	-	243,386	-
Liability component of convertible notes	935	-	935	-
Other financial liabilities	4,351	-	4,351	-
	-----	-----	-----	-----
Total current liabilities	9,242,408	3,731,611	12,974,019	-
	=====	=====	=====	=====
Total liabilities	18,499,126	7,738,733	26,237,859	2,696,290
	=====	=====	=====	=====
Minority interests	1,155,197	-	1,155,197	1,130,360
	=====	=====	=====	=====
Net assets	33,955,355	2,254,772	36,210,127	(2,254,772)
	=====	=====	=====	=====

Note: See historical net assets statement of the Target Power Plants on pages 157 and 158.

See accompanying notes to unaudited pro forma net assets statement of the Combined Company and Subsidiaries.

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Historical net assets statement of the Target Power Plants
as at 31 December 2003

	Jingganshan Power Plant RMB'000	Luohuang Power Plant RMB'000	Yueyang Power Plant RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment, net	1,923,456	3,122,773	673,913
Investment in associates	-	-	-
Available-for-sale investments	500	-	-
Land use rights and other assets	-	-	49,500
Deferred tax assets	-	32,553	-
Goodwill	-	-	-
Less: Negative goodwill	-	-	-
	-----	-----	-----
Total non-current assets	1,923,956	3,155,326	723,413
	-----	-----	-----
Current assets			
Inventories, net	38,015	85,669	74,481
Other receivables and assets, net	16,819	24,809	14,676
Bills receivable	-	-	222,327
Accounts receivable	142,294	588,235	278,294
Due from related parties	-	154,845	-
Restricted cash	-	-	-
Temporary cash investments	-	-	-
Cash and cash equivalents	58,121	28,926	13,744
	-----	-----	-----
Total current assets	255,249	882,484	603,522
	=====	=====	=====
Total assets	2,179,205	4,037,810	1,326,935
	=====	=====	=====
Non-current liabilities			
Long-term loans from shareholders	-	2,243,346	-
Long-term bank loans	1,123,000	-	-
Other long-term loans	-	-	-
Deferred tax liabilities	-	-	26,501
	-----	-----	-----
Total non-current liabilities	1,123,000	2,243,346	26,501
	-----	-----	-----
Current liabilities			
Accounts payable and other liabilities	40,591	57,019	106,365
Taxes payable	55,774	106,016	94,422
Due to HIPDC	-	-	62,333
Due to other related parties	6,000	-	-
Staff welfare and bonus payable	55,505	62,372	7,601
Short-term loans	320,000	312,584	707,678
Current portion of long-term loans from shareholders	-	262,617	-
Current portion of long-term bank loans	164,975	-	-
Current portion of other long-term loans	-	-	-
Liability component of convertible notes	-	-	-

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Other financial liabilities	-	-	-
 Total current liabilities	 642,845	 800,608	 978,399
	-----	-----	-----
Total liabilities	1,765,845	3,043,954	1,004,900
	=====	=====	=====
 Minority interests	 -	 -	 -
	=====	=====	=====
 Net assets	 413,360	 993,856	 322,035
	=====	=====	=====

Notes to unaudited pro forma net assets statement of the Combined Company and Subsidiaries

- (1) In connection with the Acquisition, a cash consideration of RMB4,575 million will be paid by the Company on the completion date. RMB2,288 out of the purchase price will be financed by internal resources, and all the remaining balance of RMB2,287 will be financed by bank loans. The pro forma net assets statement adjustment reflects the decrease in cash and increase in bank loans as a result of the payment for the consideration as if the payment for the consideration had taken place on 31 December 2003.
- (2) Following completion of the Acquisition, the assets and liabilities of the Target Power Plants will be accounted for in the consolidated financial statements of the Company at their fair value under purchase method of accounting. According to the Directors' assessment, with reference to a valuation performed by a registered professional valuer in the PRC on the Target Power Plants' assets and liabilities as at 31 December 2003, the fair value of the Power Plants' property, plant and equipment was higher than their net book value by RMB1,772 million. The pro forma net assets statement adjustment reflects the increase in value of property, plant and equipment compared with their respective historical net book value as if the Acquisition had taken place on 31 December 2003.
- (3) As described in note (2) above, following completion of the Acquisition, the assets and liabilities of the Target Power Plants will be accounted for in the consolidated financial statements of the Company at their fair value. According to the relevant PRC rules and regulations, the original book value of Luohuang Power Plant and Yueyang Power Plant's property, plant and equipment will continue to serve as the tax base for future years as the acquisition of the equity interest in Luohuang Power Plant and Yueyang Power Plant is less than 100%. Accordingly, the pro forma net assets statement adjustment reflects the increase in deferred tax liabilities of RMB409 million as a result of the upward fair value adjustment on the property, plant and equipment of Luohuang Power Plant and Yueyang Power Plant as if the Acquisition had taken place on 31 December 2003. The tax rates applied for the calculation of the deferred tax liabilities are 15% and 33% for Luohuang Power Plant and Yueyang Power Plant, respectively.
- (4) Following completion of the Acquisition, Hanfeng Power Plant will become a 40% owned associated company of the Company, which will be accounted for under equity method of accounting. According to the Directors' assessment, with reference to a valuation performed by a

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registered professional valuer in the PRC on Hanfeng Power Plant's assets and liabilities as at 31 December 2003, the 40% share of the assets and liabilities of Hanfeng Power Plant at their fair value as at 31 December 2003 is estimated to be RMB1,138 million. The pro forma net assets statement adjustment reflects the increase in investment in associates as a result of equity account for the 40% interest in Hanfeng Power Plant as if the Acquisition had taken place on 31 December 2003.

- (5) Positive goodwill represents the excess of the total purchase consideration of RMB4,575 million and the estimated fair value of the underlying net assets of the Target Power Plants and Hanfeng Power Plant as of 31 December 2003. The pro forma net assets statement adjustment reflects the recording of positive goodwill as a result of the acquisition of the Target Power Plants and Hanfeng Power Plant as if the Acquisition had taken place on 31 December 2003.
- (6) Following completion of the Acquisition, Luohuang Power Plant and Yueyang Power Plant will become 60% and 55% owned subsidiaries of the Company, respectively. The pro forma net assets statement adjustment reflects the minority owners' share of these companies' net assets as if the Acquisition had taken place on 31 December 2003.

(B) Working Capital

The Directors are of the opinion that the Combined Company and Subsidiaries will, following the completion of the Acquisition, have sufficient working capital for its present requirements.

(C) Indebtedness

At the close of business on 31 March 2004, being the latest practicable date for the purpose of this indebtedness statement, the Combined Company and Subsidiaries had outstanding borrowings of approximately Rmb19,816 million in aggregate. These borrowings comprise unsecured bank loans of approximately Rmb12,803 million, unsecured loans of approximately Rmb2,916 million from China Huaneng Finance Company, unsecured loans of approximately Rmb3,077 million from Huaneng International Power Development Corporation, other unsecured loans of approximately Rmb1,019 million and unsecured convertible notes of Rmb1 million.

In respect of the above borrowings, approximately Rmb740 million of the unsecured bank loans are guaranteed by certain minority owners of the Company's subsidiaries, approximately Rmb3,044 million of unsecured banks loans are guaranteed by China Huaneng Group, approximately Rmb4,428 million of unsecured bank loans are guaranteed by Huaneng International Power Development Corporation and approximately Rmb315 million of other unsecured loans are guaranteed by third parties.

As at 31 March 2004, the Company had provided guarantee in respect of a bank loan of approximately RMB 331 million granted to an associate of the Company. Upon completion date of the Acquisition, the Company will guarantee certain bank loans borrowed by Hanfeng Power Plant, to an extent which is proportional to the Company's interest in the power plant. The bank loans to be guaranteed by the Company as at 31 March 2004 were RMB1,484 million.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Combined Company and Subsidiaries had outstanding at the close of business on 31 March 2004 any mortgages, charges or debentures, loan capital, bank overdrafts, loans and other similar indebtedness, hire purchase commitments, liabilities under acceptances, guarantees or other material contingent liabilities.

[GRAPHIC OMITTED] [GRAPHIC OMITTED]

29 April, 2004

The Directors
Huaneng Power International, Inc.
West Wing, Building C,
Tianyin Mansion,
2C Fuxingmennan Street,
Xicheng District,
Beijing 100031,
The People's Republic of China

Dear Sirs,

In accordance with your instructions for us to value the property interests to be acquired by Huaneng Power International, Inc. (the "Company") in the People's Republic of China ("the PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such property interests as at 31 December, 2003.

Our valuation is our opinion of the open market value which we would define as intended to mean - "the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:-

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a special purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

In valuing the property in the PRC, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land price and the sales evidence as available to us in the locality. Due to the nature of the buildings and structures cannot be valued on the basis of open market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the

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property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests.

We have not provided with extracts from title documents relating to such property interest. We have not, however, searched the original documents to verify ownership or to verify existence of any lease amendment which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property interests are free from defect.

We have relied to a considerable extent on information provided by you and have accepted advise given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of those property interests in which the Group has a valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all money amounts stated are in Renminbi. The exchange rate used in valuing the property interests in the PRC on at 31 December, 2003 was HK\$1=RMB1.06. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of our valuation and the valuation certificate.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LTD
Raymond Ho Kai Kwong,
Registered Professional Surveyor
MRICS, MHKIS MSc(e-com)
Executive Director

Note: Raymond K.K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc(e-com) has extensive experience in undertaking valuations of properties in Hong Kong and Macau and has over ten years' experience in the valuation of properties in the PRC.

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SUMMARY OF VALUATION

Property

1. Lands, various buildings and structures of Yingkou Power Plant, Liaoning Province, The PRC
2. Lands, various buildings and structures of Yueyang Power Plant, Hunan Province, The PRC
3. Lands, various buildings and structures of Hanfeng Power Plant, Hebei Province, The PRC
4. Lands, various buildings and structures of Jinggangshan Power Plant, Jiangxi Province, The PRC
5. Lands, various buildings and structures of Luohuang Power Plant, Chongqing, The PRC

Total:

VALUATION CERTIFICATE

Property	Description	Particulars of occupancy
<p>1. Lands, various buildings and structures of Yingkou Power Plant, Liaoning Province,</p>	<p>The property comprises 14 parcels of land with a total site area of approximately 1,853,324 sq.m. and a number buildings and structures erected thereon.</p> <p>The buildings and structures of the property has a total gross floor area of approximately 91,552 sq.m. The PRC Major buildings and structures erected on the site include power station building, chimneys, coal storage facilities and transformer station.</p> <p>These buildings and structures of the property was completed between 1996 to 2003.</p>	<p>The property is at present occupied as a power plant.</p>

Notes:

1. Pursuant to the State-owned Land Use Rights Certificates (document no.:

[GRAPHIC OMITTED]

the land use rights of the property is vested to Huaneng International Power Development Corporation Yingkou Branch Company ([GRAPHIC OMITTED] [GRAPHIC OMITTED]).

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2. Pursuant to the Building Ownership Certificates (document nos.:

[GRAPHIC OMITTED]

the building ownership of the property is vested in Huaneng International Power Development Corporation Yingkou Branch Company ([GRAPHIC OMITTED] [GRAPHIC OMITTED])).

3. A portion of land of the property is administratively allocated land in nature. Huaneng International Power Development Corporation Yingkou Branch Company is in process of applying for the change of the nature of this land portion from "administratively allocated land" to "granted land". As the property at present cannot be freely transferred in the open market, in valuing this portion of the property and buildings and structures erected thereon, we have attributed no commercial value to it.
4. In valuing the granted land portion and the buildings and structures erected thereon of the property, we have assumed that the aforesaid portion of the property can be freely transferred in the open market.
5. The depreciated replacement cost of the buildings and structures portion of the property as at 31 December, 2003 was RMB 873,630,000 and the incurred construction cost in respect of construction in progress as at 31 December, 2003 was RMB 2,980,000.
6. Based on the assumption that the land portion of the property can be freely transferred in the open market, the capital value of the land portion of the property as at 31 December, 2003 was as follows:

Nature	Capital Value (RMB)
Administratively allocated land	159,760,000
Granted Land	260,000
Total:	160,020,000

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Property	Description	Particulars of occupancy
2. Lands, various buildings and structures of Yueyang Power Plant, Hunan Province, The PRC	The property comprises 21 parcels of land with a total site area of approximately 3,473,002 sq.m. and a number buildings and structures erected thereon. The buildings and structures of the property has a total gross floor area of approximately 95,587 sq.m. Major buildings	The property is at present occupied as power plant.

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and structures erected on the site include power station building, chimneys, coal storage facilities and transformer station.

These buildings and structures of the property was completed between 1985-1996.

Notes:

1. Pursuant to the State-owned Land Use Rights Certificates (document no.:

[GRAPHIC OMITTED])

the land use rights of the property is vested to Huaneng Hunan Yueyang Power Generation Limited Liability Company (GRAPHIC OMITTED)].

2. Pursuant to the Building Ownership Certificates (document nos.: [GRAPHIC OMITTED])

the building ownership of the property is vested in Huaneng Hunan Yueyang Power Generation Limited Liability Company ([GRAPHIC OMITTED])[GRAPHIC OMITTED]).

3. A portion of land of the property is administratively allocated land in nature. Huaneng Hunan Yueyang Power Generation Limited Liability Company is in process of applying for the change of nature of this land portion from "administratively allocated land" to "granted land". As the property at present cannot be freely transferred in the open market, in valuing this portion of the property and buildings and structures erected thereon, we have attributed no commercial value to it.
4. In valuing the granted land portion and the buildings and structures erected thereon of the property, we have assumed that the aforesaid portion of the property can be freely transferred in the open market.
5. The depreciated replacement cost of the buildings and structures portion of the property as at 31 December, 2003 was RMB 308,170,000 and the incurred construction cost in respect of construction in progress as at 31 December, 2003 was RMB 52,770,000.
6. Based on the assumption that the land portion of the property can be freely transferred in the open market, the capital value of the land portion of the property as at 31 December, 2003 was as follows:

Nature	Capital Value (RMB)
Administratively allocated land	390,540,000
Granted Land	122,010,000
Total:	512,550,000

Property	Description	Particulars occupancy
2. Lands, various buildings and structures of Hanfeng Power Plant, Hebei Province, The PRC	<p>The property comprises 36 parcels of land with a total site area of approximately 1,315,015 sq.m. and a number buildings and structures erected thereon.</p> <p>The buildings and structures of the property has a total gross floor area of approximately 61,126 sq.m. Major buildings and structures erected on the site include power station building, chimneys, coal storage facilities and transformer station.</p> <p>These buildings and structures of the property was completed between 2000 and 2001.</p>	The property is at present occupied as power plant.
1. Pursuant to the State-owned Land Use Rights Certificates (document no.:	[GRAPHIC OMITTED]	
	the land use rights of the property is vested to Hebei Hanfeng Power Generation Limited Liability Company ([GRAPHIC OMITTED][GRAPHIC OMITTED]).	
2. Pursuant to the Building Ownership Certificates (document nos.:	[GRAPHIC OMITTED]	
	the building ownership of the property is vested in Hebei Hanfeng Power Generation Limited Liability Company [GRAPHIC OMITTED]	
3. In valuing the property, we have assumed that the property can be freely transferred in the open market without any extra land premium		
4. The depreciated replacement cost of the buildings and structures portion of the property as at 31 December, 2003 was RMB 1,589,040,000.		
5. As the land portion of the property can be freely transferred in the open market, the capital value of the land portion of the property as at 31 December, 2003 was as follows:		
Nature		Capital Value

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(RMB)

Administratively allocated land	-
Granted Land	175,810,000
Total:	175,810,000

	Property	Description	Particulars occupancy
2.	Lands, various buildings and structures of Jinggangshan Power Plant, Jiangxi Province, The PRC	<p>The property comprises 6 parcels of land with a total site area of approximately 2,464,129 sq.m. and a number buildings and structures erected thereon.</p> <p>The buildings and structures of the property has a total gross floor area of approximately 93,236 sq.m. Major buildings and structures erected on the site include power station building, chimneys, coal storage facilities and transformer station.</p> <p>These buildings and structures of the property was completed between 1994 and 2003.</p>	The property is at present occupied as power plant.

Notes:

1. Pursuant to the State-owned Land Use Rights Certificates (document no.: [GRAPHIC OMITTED])

the land use rights of the property is vested to Jianggangshan Huaneng Power Generation Limited Liability Company ([GRAPHIC OMITTED]).
2. Jinggangshan Huaneng Power Generation Limited Liability Company is in process of obtaining the building ownership certificate for the buildings of the property..
3. The land portion of the property is administratively allocated land in nature. Jinggangshan Huaneng Power Generation Limited Liability Company is in process of applying the change of the nature of this land portion from "administratively allocated land" to "granted land". As the property at present cannot be freely transferred in the open market, in valuing this portion of the property and buildings and structures erected thereon, we have attributed no commercial value to it.
4. The depreciated replacement cost of the buildings and structures portion of the property as at 31 December, 2003 was RMB 625,710,000 and the incurred construction cost in respect of construction in progress as at 31 December, 2003 was RMB 1,630,000.

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5. Based on the assumption that the land portion of the property can be freely transferred in the open market , the capital value of the land portion of the property as at 31 December, 2003 was as follows:

Nature	Capital Value (RMB)
Administratively allocated land	150,690,000
Granted Land	-
Total:	150,690,000

Property	Description	Particulars of occupancy
5. Lands, various buildings and structures of Luohuang Power Plant, Chongqing, The PRC	<p>The property comprises 40 parcels of land with a total site area of approximately 2,316,727 sq.m. and a number buildings and structures erected thereon.</p> <p>The buildings and structures of the property has a total gross floor area of approximately 153,303 sq.m. Major buildings and structures erected on the site include power station building, chimneys, coal storage facilities and transformer station.</p> <p>These buildings and structures of the property was completed between 1989 to 1999.</p>	The property is at present occupied as power plant

Notes:

1. Pursuant to the State-owned Land Use Rights Certificates (document no.:

[GRAPHIC OMITTED]

, the land use rights of the property is vested to Huaneng Chongqing Luohuang Power Generation Limited Liability Company ([GRAPHIC OMITTED][GRAPHIC OMITTED]).

2. Pursuant to the Building Ownership Certificates (document nos.:

[GRAPHIC OMITTED]

, the building ownership of the property is vested in Huaneng Chongqing Luohuang Power Generation Limited Liability Company ([GRAPHIC OMITTED][GRAPHIC OMITTED]).

3. The portion of land of the property is administratively allocated land in nature. Huaneng Chongqing Luohuang Power Generation Limited Company is in process of applying for the change of nature of this land portion from "administratively allocated land" to "granted land". As the property at present cannot be freely

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transferred in the open market, in valuing this portion the property and buildings and structures erected thereon, we have attributed no commercial value to it.

4. In valuing the granted land portion and the buildings and structures erected thereon of the property, we have assumed that the aforesaid portion of the property can be freely transferred in the open market.
5. The depreciated replacement cost of the buildings and structures portion of the property as at 31 December, 2003 was RMB 873,530,000.
6. Based on the assumption that the land portion of the property can be freely transferred in the open market, the capital value of the land portion of the property as at 31 December, 2003 was as follows:

Nature	Capital Value (RMB)
Administratively allocated land	303,700,000
Granted Land	33,800,000
Total:	337,500,000

APPENDIX IX

PLANT AND MACHINERY VALUATION

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

29 April, 2004

The Directors
Huaneng Power International, Inc.
West Wing, Building C,
Tianyin Mansion
2C Fuxingmennan Street,
Xicheng District,
Beijing 100031,
The People's Republic of China

Dear Sirs,

In accordance with your instructions for us to value the plant machinery and equipment (collectively referred to as the "Machinery") exhibited to us as being owned by various power generation plants (the "Plants") and to be acquired by Huaneng Power International, Inc. (the "Company") we confirm that we have carried out inspections, made relevant enquiries and obtained such

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further information as we consider necessary for the purpose of providing you with our opinion of the fair market value in continued use of the Machinery as at 31 December, 2003.

Basis of Valuation

We have valued the Machinery on the basis of its fair market value in continued use which is defined as the estimated amount at which the subject assets in their continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts and with equity to both, and contemplating the retention of the assets in their present existing use as part of an on-going business.

The opinion of fair market value is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the subject Machinery in the open market or from alternative use of the Machinery.

In forming our opinion of the fair market value in continued use, we have assumed that the Machinery will continue in its present existing use in the business of the Company for which it was designed, built and erected, subject to potential profitability of the business.

Assets Appraised

The fixed assets subject of this appraisal, as per list provided to us, consist of machinery and equipment, motor vehicles and transport equipment, and electronics equipment utilized by the following plants in electric power generation.

Yingkou Power Plant

The power plant with a total rated output of 640 MW, which was operated in 1996, was designed by various companies from the former Soviet Union. These companies also supplied the major equipment. It consists of two-(2) 320 MW coal-fired steam-electric generating facilities. The boilers which are each rated at 1,000 tons per hour are outdoor type with rain proof, wind proof, corrosion proof and lighting provisions. The steam turbines with a rating of 320 MW each are multi-stage impulse type with single shaft directly coupled with the generators. The generators' stator core, rotor and windings are water-hydrogen cooled. Further particulars of each equipment are as follows:

Steam Boilers (2-units)

Model	:	Knn-1000-25-545KT
Steam Flow	:	1,000 T/H
Steam Pressure	:	25.0 Mpa
Steam Temperature	:	545°C
Reheat Steam Condition	:	824 T/H

Steam Turbines (2-units)

Model	:	K-320-23.5-4
Rated Output	:	320 MW
Steam Pressure Inlet	:	23.5 Mpa
Steam Temperature Inlet	:	540(0)C
Reheat Steam Pressure	:	3.69 Mpa
Reheat Steam Temperature	:	540(0)C
HP Exhaust Pressure	:	4.08 Mpa
HP Exhaust Temperature	:	294(0)C
Speed	:	3000 rpm

AC Generators (2-units)

Model	:	TBB-320-3EV2
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Rated Power	:	320 MW
Rated Voltage	:	20 KV
Rated Current	:	10,870 A
Power Factor	:	0.85
Frequency	:	50 hz
Number of Phases	:	3
Speed	:	3000 rpm

Yueyang Power Plant

The power plant, which operated in 1991, was designed and equipped by GEC Turbine Generators Limited of UK. The plant's total rated output is 725 MW. It consists of 2 x 362.5 MW coal-fired steam-electric generating facilities. The boilers which are each rated at 1,160 tons per hour are outdoor type, natural circulation, sub-critical, single reheat, single furnace, drum type, balanced draft coal-fired with rain proof, wind proof, corrosion proof and lighting provisions. The steam turbines with a rating of 362.5 MW each are multi-stage, impulse, single reheat, three cylinders, condensing type with single shaft directly coupled with the generators. The generator's stator core and rotor is cooled by closed circulation of hydrogen using a single-stage axial flow fan. An internal circulation of deionized water cools the stator windings. Excitation system is of brushless type. Further particulars of each equipment are as follows:

Steam Boilers (2-units)

Maker	:	Babcock Energy Ltd.
Type	:	Furnace Coal Fired
Steam Flow	:	1,160 T/H
Steam Pressure Outlet	:	175 bar
Steam Temperature Outlet	:	543(0)C
Reheat Steam Flow	:	992.2 T/H
Reheat Steam Temperature	:	541(0)C

Steam Turbines (2-units)

Maker	:	GEC Turbine Generators Ltd.
Rated Output	:	362.5 MW
Steam Pressure Inlet	:	172.8 kg/cm ² (a)
Steam Temperature Inlet	:	540(0)C
Reheat Steam Temperature	:	540(0)C
Speed	:	3000 rpm
No. of Extraction Stages	:	8

AC Generators (2-units)

Maker	:	GEC Turbine Generators Ltd.
Rated Power	:	362.5 MW
Rated Voltage	:	18 KV
Rated Current	:	13679 A
Power Factor	:	0.85
Frequency	:	50 hz
Number of Phases	:	3
Speed	:	3000 rpm

AC Exciters (2-units)

Maker	:	GEC Turbine Generators Ltd.
Type	:	Brushless Rotating Diodes
Rated Output	:	2097 kw AC; 2025 kw DC
Rated Voltage	:	400 V AC; 505 V DC
Rated Current	:	3170 A AC; 4010 A DC
Speed	:	3000 rpm

Hanfeng Power Plant

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The power plant, which was operated in 2001, has a total rated output of 1,320 MW. It consists of 2 x 660 MW coal-fired steam-electric generating facilities. Foster Wheeler of USA supplied the boilers and auxiliaries. The boilers each rated at 2026 tons per hour are outdoor type natural circulation, drum type, arch-fired arranged, wall-fired mono-wall all welded finned tube construction. The steam turbines, generators and electrical equipment were supplied by Siemens of Germany. The steam turbines with a rating of 660 MW each are multi-stage, impulse, single reheat, condensing type with single shaft directly coupled with the generators. The generators which are rated at 765 MVA (660 MW) each are two-pole, hydrogen-cooled with a direct water cooling system for the stator winding, a direct hydrogen cooled rotor winding, with a static excitation system with two-channel digital voltage regulator and requisite supply system. Further particulars of each equipment are as follows:

Steam Boilers (2-units)

Maker	:	Foster Wheeler
Type	:	Furnace, Mono-Wall, Coal Fired
Steam Flow	:	2026 T/H (563 kgs/sec)
Steam Pressure Outlet	:	175 bar
Steam Temperature Outlet	:	540.8(0)C
Reheat Steam Condition	:	1865 T/H at 41 bar & 540.8 Oc

Steam Turbines (2-units)

Maker	:	Siemens AG
Rated Output	:	660 MW
Steam Pressure Inlet	:	16.089 MPa
Steam Temperature Inlet	:	538(0)C
Reheat Steam Temperature	:	538(0)C
Rated Exhaust Pressure	:	3.97/5.42 Kpa (abs)
Speed	:	3000 rpm
Number of Extractions	:	7

AC Generators (2-units)

Maker	:	Siemens AG
Type	:	THDF115/676
Rated Power	:	765 MVA (660 MW)
Rated Terminal Voltage	:	21 KV
Rated Phase Current	:	21.032 kA
Power Factor	:	0.90
Frequency	:	50 hz
Number of Phases	:	3
Speed	:	3000 rpm

AC Exciters (2- units)

Make	:	Siemens AG
Type	:	750/5000
Rated Excitation Current	:	5085 A
Maximum Continuous Current	:	5594 A
AC Input Voltage	:	650 V
Surge Voltage	:	780 V
Speed	:	3000 rpm

Jinggangshan Power Plant

The power plant, which was operated in 2000 and 2001, has a total rated output of 600 MW. It consists of 2 x 300 MW coal-fired steam-electric generating facilities. Various companies from the People's Republic of China supplied the machinery and equipment and auxiliaries. The boilers each rated at 1,025 tons per hour are outdoor type natural circulation with rain proof, wind proof, corrosion proof and lighting provisions. The steam turbines with a rating of 300 MW each are multi-stage, impulse, single reheat, condensing type with single shaft directly coupled with the generators. The generators which

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are rated at 300 MW each are hydrogen-cooled with a direct water cooling system for the stator winding, a direct hydrogen cooled rotor winding, with a static excitation system. Further particulars of each equipment are as follows:

Steam Boilers (2-units)
Origin : People's Republic of China
Model : SG-1025/18.2-M848
Type : Furnace Coal Fired
Steam Flow : 1,025 T/H
Steam Pressure Outlet : 17.3 MPa
Steam Temperature Outlet : 541(0)C
Reheat Steam Condition : 834.45 T/H

Steam Turbines (2-units)
Origin : People's Republic of China
Model : N300-16.7/538/538
Rated Output : 300 MW
Steam Pressure Inlet : 16.7 MPa
Steam Temperature Inlet : 538(0)C
Reheat Steam Temperature : 538(0)C
Speed : 3000 rpm

AC Generators (2-units)
Origin : People's Republic of China
Model : QFSN-300-2
Rated Power : 300 MW
Rated Terminal Voltage : 18 KV
Rated Phase Current : 11,320 A
Power Factor : 0.85
Frequency : 50 hz
Number of Phases : 3
Speed : 3000 rpm

Luohuang Power Plant

Jiangjin Luohuang Power Plant

The power plant, with a total rated output of 1,440 MW, was designed by GEC Alsthom of France. The same company supplied the major equipment. It consists of four-(4) 360 MW coal-fired steam-electric generating facilities. Generating sets 1 and 2 were commercially operated in 1991 and 1992, respectively. While generating sets 3 and 4 were put into stream in 1998. The boilers which are each rated at 1,099.3 tons per hour are outdoor type, double arch furnace water-wall with rain proof, wind proof, corrosion proof and lighting provisions. The steam turbines with a rating of 360 MW each are multi-stage, impulse, single reheat, condensing type with single shaft directly coupled with the generators. The generator's stator core and rotor is cooled by closed circulation of hydrogen using two (2) shaft-mounted fans. An internal circulation of deionized water cools the stator windings. Excitation system is of brushless type. Further particulars of each equipment are as follows:

Steam Boilers (4-units)
Maker : Stein Industrie (Alsthom Groupe)
Type : Furnace Coal Fired
Steam Flow : 1,099.3 T/H
Steam Pressure Outlet : 184 bar
Steam Temperature Outlet : 541(0)C
Reheat Steam Inlet : 989.0 T/H
Reheat Steam Pressure : 43.8 bar
Reheat Steam Temperature : 336(0)C

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Radiant Heat Surface : 4,573 m²

Steam Turbines (4-units)

Maker : GEC Alsthom
 Rated Output : 360 MW
 Steam Pressure Inlet : 23.5 Mpa
 Steam Temperature Inlet : 538(0)C
 Reheat Steam Pressure : 37.95 bar
 Reheat Steam Temperature : 538(0)C
 HP Exhaust Pressure : 41.7 bar
 HP Exhaust Temperature : 326(0)C
 Speed : 3000 rpm

AC Generators (4-units)

Maker : GEC Alsthom
 Rated Power : 360 MW
 Rated Voltage : 24 KV
 Rated Current : 10,189 A
 Power Factor : 0.85
 Frequency : 50 hz
 Number of Phases : 3
 Speed : 3000 rpm

AC Exciters (4 units)

Maker : GEC Alsthom
 Type : Brushless Rotating Diodes
 Model : TKJ 91-35
 Rated Output : 1882 Kw
 Rated Voltage (DC) : 643 V
 Rated Current (DC) : 2927 A
 Speed : 3000 rpm

Jiangbei Combined-cycle Power Plant

The plant with a rated capacity of approximately 108 MW is a gas and steam combined cycle electric generating power plant commercially operated in 1990. It consists of two-(2) 37.5 MW compact, self contained combustion gas turbine generating stations and one-(1) 37.5 MW steam turbine generating station. The generator package houses the generator, which is water-cooled, generator load gearbox, excitation equipment and ancillary equipment. The gas turbines are single shaft each consisting of axial-flow compressor and fuel and combustion system. The steam turbine is a single cylinder, single flow, axial exhaust condensing impulse type. Further particulars of each equipment are as follows:

Power Plant Station Nos. 1 & 2

Gas Turbines (2-units)

Manufacturer : John Brown Engineering Ltd, England
 Model Number : PG6541-B
 Series Number : MS6001-B
 Rated Power : 36,750 kw
 Gas Flow : 11,833 Nm³/hr
 Working Temperature : 15(0)C

AC Generators (2-units)

Manufacturer : Brush Electric
 Model : RDAX-7-265ERH
 Maximum Output : 37.5 MW
 Rated Voltage : 10,500 V
 Rated Current : 2,400 A
 Frequency : 50 hz

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Number of Phases : 3
Speed : 3000 rpm

Waste Reheat Thermal Boilers (2-units)

Manufacturer : Standard Kasel
Model : 65.75-40/455
Design Flue Gas Quantity : 133 kg/s
Design Flue Gas Temperature : 542(0)C
Design HP Steam Outlet : 42.8 kg/cm2

Power Plant Station No. 3

Steam Turbine (1-unit)

Manufacturer : Mitsubishi Heavy Industries, Japan
Model Number : 10CL-16
Rated Power : 37,500 kw
Inlet Pressure : 4,020 Kpa
Inlet Temperature : 450(0)C
Exhaust Pressure : 6.57 Kpa
Number of Stages : 16
Rated Speed : 3000 rpm

AC Generator (1-unit)

Manufacturer : Brush Electric
Model : RDAX-7-265ERH
Maximum Output : 37.5 MW
Rated Voltage : 10,500 V
Rated Current : 2,400 A
Frequency : 50 hz
Number of Phases : 3
Speed : 3000 rpm

Surface Condenser (1-unit)

Manufacturer : Mitsubishi Heavy Industries, Japan
Surface Area : 2,950 m2
Shell Design Pressure : 49 Kpag
Shell Design Temperature : 120(0)C
Tube Design Pressure : 353 Kpag
Tube Design Temperature : 70(0)C

Other major and ancillary equipment include electrostatic precipitators, ball mills, condensing plant, coal and ash handling equipment, blowers, air pre-heaters, classifiers, coal feeders, hydrogen production system, chemical water treatment plant, water supply and discharge plant, overhead traveling cranes, compressed air system, heating and ventilating and air-conditioning system, instrumentation and controls, transformers, switchyard, electrical cables and raceway system, piping system and fire protection system.

Construction-In-Progress are assets that are not fully constructed or installed. The value indicated is based on the recorded costs as reported to us as of the appraisal date.

At the time of our inspection, the Machinery was observed to be generally in good working condition. It is our opinion that it is capable of performing the function for which it was designed, built and erected. The Machinery undergoes periodic maintenance in accordance with the manufacturer's schedule and system.

The Machinery was inspected at the Company's operating facilities at various locations in the People's Republic of China.

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Valuation Methodology

In arriving at our opinion of value, we have considered the two generally accepted approaches to values; namely:

Cost Approach - considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history.

Physical depreciation is the loss in value due to physical deterioration resulting from wear and tear in operation and exposure to elements. Deterioration due to age and deterioration due to usage are the main factors that affect physical condition. Physical condition due to wear and tear is proportional to use rather than age. Use is the best indicator to estimate physical deterioration.

Market Data or Comparative Sales Approach - considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. Asset for which there is an established secondhand market comparable is best appraised by this approach.

Scope of Investigation and Considerations

Before arriving at our opinion of value, we have personally conducted a physical inventory and inspection of the subject Machinery, investigated market condition, interviewed personnel, and examined documents and specifications provided to us.

During our inspection we observed the various Machinery. Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or any observable conditions distinguishing the appraised machinery from assets of like kind in new conditions were noted and made part of our judgement in arriving at the values.

In arriving at our opinion of the defined value using the cost approach, we have considered the cost of reproduction new of the subject assets, defined as the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets, taking into consideration current prices of materials, labor, manufactured equipment, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition and installation in place, without provision for overtime or bonuses for labor, and premiums for materials.

Consideration has been given to accrued depreciation that was based on the observed condition and present and prospective serviceability in comparison with new units of like kind.

We have assumed that the Machinery will be used in its present existing state with the benefit of continuity of the tenure of land and buildings during the foreseeable future.

We have relied to a considerable extent on information such records, listings and specifications provided to us by the Plants. We have made no investigation of and assume no responsibility for titles to or liabilities against the Machinery appraised.

We have not made any deduction in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts

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owing under financing agreements.

Our investigation was restricted to a detailed inventory and appraisal of the subject Machinery and does not attempt to arrive at any conclusion of values of the Plants as a total business entity.

Opinion of Value

Based on the foregoing and as supported by the accompanying summary, we are of the opinion that as at 31 December, 2003, the fair market value in continued use of the Machinery, as part of a going-concern, is fairly represented in the amount of Rmb12,228,135,000 (Renminbi Twelve Billion Two Hundred Twenty Eight Million One Hundred Thirty Five Thousand), broken down as follows:

	Rmb
Yingkou Power Plant	1,142,033,000
Yueyang Power Plant	1,058,715,000
Hanfeng Power Plant	5,354,825,000
Jinggangshan Power Plant	1,369,835,000
Luohuang Power Plant:	
(i) Jiangjin Luohuang Power Plant	3,265,565,000
(ii) Jiangbei Combined-cycle Power Plant	37,162,000
Total	12,228,135,000

We hereby certify that we have neither present nor prospective interest in the Plants and the Company or the appraised Machinery or the value reported.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Executive Director

Maximo I. Montes Jr.
PME BSME
Associate Director
Plant and Machinery Valuation

Note: Maximo I. Montes Jr. is a Professional Mechanical Engineer who has 34 years experience in industrial plant valuation. He has 24 years experience in the valuation of plant machinery and equipment in Hong Kong, the PRC and Asia Pacific Rim.

SUMMARY OF VALUES

	Fair Market Value in continued use as at 31 December, 2003 Rmb
Company	
Yingkou Power Plant Machinery and Equipment	1,123,707,000
Motor Vehicles & Transportation Equipment	5,443,000
Electronics Equipment	5,275,000
Construction-In-Progress	7,608,049
Sub-total	1,142,033,049

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Rounded to	1,142,033,000
Yueyang Power Plant	
Machinery and Equipment	950,653,000
Motor Vehicles & Transportation Equipment	11,471,000
Electronics Equipment	32,045,000
Construction-In-Progress	64,546,305

Sub-total	1,058,715,305
Rounded to	1,058,715,000
Hanfeng Power Plant	
Machinery and Equipment	5,333,884,000
Motor Vehicles & Transportation Equipment	14,244,000
Electronics Equipment	6,697,000

Sub-total	5,354,825,000
Jinggangshan Power Plant	
Machinery and Equipment	1,351,330,000
Motor Vehicles & Transportation Equipment	9,576,000
Electronics Equipment	8,267,000
Construction-In-Progress	662,303

Sub-total	1,369,835,303
Rounded to	1,369,835,000
Luohuang Power Plant	
Jiangjin Luohuang Power Plant	
Machinery and Equipment	3,128,530,000
Motor Vehicles & Transportation Equipment	17,277,000
Electronics Equipment	5,944,000
Construction-In-Progress	113,814,386

Sub-total	3,265,565,386
Rounded to	3,265,565,000
Jiangbei Combined-cycle Power Plant	
Machinery and Equipment	33,526,000
Motor Vehicles & Transportation Equipment	1,852,000
Electronics Equipment	1,784,000

Sub-total	37,162,000
Grand Total	12,228,135,000
	=====

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong

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Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, none of the Directors, chief executive officer or Supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.
- (b) As at the Latest Practicable Date, so far as the Directors, chief executive officer and Supervisors of the Company are aware, each of the following persons, not being a Director, chief executive or Supervisor of the Company, had an interest in the Company's shares which falls to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Shares held/Approximate shareholding percentage

Name of shareholder

Name of shareholder	Shares	Number of shares held	Interest Approximate percentage of share holding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued domestic shares
HIPDC (Note)	domestic shares	2,554,840,000	42.39%	56.77%
Hebei Provincial Construction Investment Company	domestic shares	452,250,000	7.50%	10.05%
Fujian International Trust & Investment Company	domestic shares	334,850,000	5.56%	7.44%
Jiangsu Province International Trust & Investment Company	domestic shares	312,375,000	5.18%	6.93%
Liaoning Energy Investment (Group) Limited Liability Company	domestic shares	229,685,000	3.80%	5.11%

Note: As at the Latest Practicable Date, China Huaneng Group holds 51.98% of

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the equity interest in HIPDC.

Save as disclosed above and so far as the Directors, chief executive officer and Supervisors of the Company are aware, as at the Latest Practicable Date, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

- (c) None of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Company.
- (d) As at the Latest Practicable Date, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.
- (e) As at the Latest Practicable Date, none of JP Morgan, Rothschild, KPMG nor Vigers had any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.
- (f) As at the Latest Practicable Date, none of the Directors, Supervisors, JP Morgan, Rothschild, KPMG nor Vigers had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to the Company, or was proposed to be acquired, or disposed of by, or leased to the Company, since 31st December, 2003, the date to which the latest published financial statements of the Company and its subsidiaries were made up.

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31st December, 2003, the date to which the latest published audited financial statements of the Company and of its subsidiaries were made up.

4. LITIGATION

None of the Company, nor its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or its subsidiaries.

5. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Names	Qualifications
JP Morgan	licensed by the Securities and Futures Commission for Types 1, 4, 6 and 7 regulated activities under the Securities and Futures Ordinance
Rothschild	previously registered with the Securities and Futures Commission as

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an investment adviser and is deemed to be currently licensed to carry out Types 1, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance

KPMG

Certified Public Accountants

Vigers Appraisal &
Consulting Limited
("Vigers")

Chartered surveyor

6. Directors, Supervisors and Senior Management

The Directors, Supervisors and senior management of the Company remain unchanged after the Closing. The following table sets out the name and business address of each of the Directors, Supervisors and members of senior management:

Position	Name	Address
Chairman	Li Xiaopeng	Nanshagou, Xicheng District, Beijing, PRC
Vice Chairman	Wang Xiaosong	No. 58, Xizhimenbei Avenue, Haidian District, Beijing, PRC
Director and President	Ye Daji	No. 58, Xizhimenbei Avenue, Haidian District, Beijing, PRC
Director	Huang Jinkai	Donghuashi North Road west, Chongwen District, Beijing, PRC
	Liu Jinlong	No. 4, Cuiwei Road, Haidian District, Beijing, PRC
	Shan Qunying	No. 13, Changfeng Road, Shijiazhuang City, PRC
	Yang Shengming	No. 19, Xinyang Branch, Fuxin Road, Fuzhou Province, PRC
	Xu Zujian	No. 11, Nantai Road, Nanjing City, Jiangsu Province, PRC
Independent Director	Gao Zongze	Taipingqiao East Road, Fengtai District, Beijing, PRC
	Zheng Jianchao	Guocheng Garden, Baihuayi Road, Futian District, Shenzhen City, PRC
	Qian Zhongwei	No. 1225, Changle Road, Shanghai, PRC
	Xia Donglin	Lanqiying Uptown, Haidian District, Beijing, PRC
Chairman of the Supervisory Committee	Wei Yunpeng	Jinhuijiayuan, Haidian District, Beijing, PRC
Vice Chairman of the Supervisory Committee	Liu Shuyuan	No. 106, Qingnian Avenue, Shenhe District, Shenyang City, PRC
Supervisor	Pan Jianmin	Building 3, Baizhifangdong Avenue, Xuanwu District, Beijing, PRC
	Li Yonglin	Zhenhua Avenue, Shahekou District, Dalian City, PRC
	Shen Weibing	Jinxinyuan, Nantong City, PRC

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Senior Management	Shen Zongmin	Lirizhuang East, Zhujiangzhong Road, Sha PRC
	Zhao Xisheng	Zone 2, Yutaoyuan, Xizhimennei, Beijing,
	Ye Daji	No. 58, Xizhimenbei Avenue, Haidian Dist
	Na Xizhi	Building 3, Baizhifangdong Street, Xuanw PRC
	Zhang Hong	Building 3, Baizhifangdong Street, Xuanw PRC
	Chen Baoliang	No. 58, Xizhimenbei Avenue, Haidian Dist
	Huang Long	No. 58, Xizhimenbei Avenue, Haidian Dist
	Hu Jianmin	No. 58, Xizhimenbei Avenue, Haidian Dist
	Wu Dawei	No. 58, Xizhimenbei Avenue, Haidian Dist
	Liu Guoyue	No. 58, Xizhimenbei Avenue, Haidian Dist
	Li Shiqi	No. 58, Xizhimenbei Avenue, Haidian Dist
	Huang Jian	Zone 2, Yutaoyuan, Xicheng District, Bei

The following are the brief biographical details in respect of the Directors, Supervisors and the members of the senior management of the Company:

Directors

Li Xiaopeng Mr. Li is Chairman of the Company, Chairman and President of HIPDC, as well as President of China Huaneng Group. Starting from June 1994, Mr. Li was Vice President, President and Vice Chairman of the Company as well as Vice President, President and Vice Chairman of HIPDC, Chairman of China 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. Mr. Li is a senior engineer and graduated from the North China Institute of Electric Power specializing in power plants and power systems.

Wang Xiaosong Mr. Wang is Vice Chairman of the Company, Director and Vice President of HIPDC, and Vice President of China Huaneng Group. Beginning from June 1994, he was General Manager of the Capital Market Department of the Company, Vice President of the Company, Vice President of HIPDC and Director of China Huaneng Group. Before joining the Company, he had served as Deputy General Manager of Fushun Power Plant, General Manager of Yuanbaoshan Power Plant and Chief of the Labour and Wages Division of Northeast Power Administration. Mr. Wang is a senior engineer and graduated from Beijing Institute of Electric Power specializing in thermal power engineering.

Ye Daji Mr. Ye is Director and President of the Company. After joining the Company, he has been Deputy General Manager of Huaneng Shanghai Branch and General Manager of Huaneng Shanghai Shidongkou Second Power Plant. From December 1995, he was Vice President of the Company, Vice President of HIPDC

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and Director of China Huaneng Group. Before joining the Company, he had served as Deputy Chief Engineer of Huaneng Shanghai Shidongkou Second Power Plant. Mr. Ye is a senior engineer and graduated from Shanghai Jiaotong University specializing in mechanical engineering.

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

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

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

Yang Shengming Mr. Yang is Director of the Company, Vice President of Fujian International Trust and Investment Company Limited and Chairman of Fujian International Leasing Company. Mr. Yang is a senior economist and graduated from Beijing Light Industries Institute.

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

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

Zheng Jianchao Mr. Zheng is an Independent Director of the Company and Honorary President of China Electric Power Research Institute in China and Vice Chairman of its Academic Committee. He was elected Fellow of Chinese Academy of Engineering in 1995. He is Vice President of China Electrical Engineering Institute, editor-in-chief of the Journal of Chinese Electrical Engineering and chief of the Science and Technology Committee of China Guangdong Nuclear Power Group Corporation. Mr. Zheng graduated from Qinghua University majoring in electrical engineering and graduated from its Graduate School.

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

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

Supervisors

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

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

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

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

Shen Weibing Mr. Shen is Supervisor of the Company and Chief Officer of Nantong Investment Management Center. He worked in Nantong Planning Commission He was the Vice President and President of Nantong Municipal Oil Company, Vice President and legal representative of Nantong Municipal Construction Investment Company, and Deputy Chief Officer of Nantong Investment Management Centre. Mr. Shen graduated from the Department of Materials Management of Beijing Materials Management Institute with a bachelor degree in engineering . In 2002, he studied the MBA course in Nanjing University and obtained a Master of Business Administration degree. Mr. Shen is a senior economist.

Shen Zongmin Mr. Shen is Supervisor of the Company and President of Shantou Electric Power Development Company. Previously, he was the President of Shantou Light Industry Mechanical (Group) Company and Chairman of Shantou Power Development Joint Stock Company Limited.

Zhao Xisheng Mr. Zhao is Supervisor and Senior Consultant of the Company. He has served as Deputy General Manager of the Finance Department, General Manager of the Management Department of the Company and the General Manager of the Company's Supervising and Auditing Department. Before joining the Company, he served as Section Chief, Deputy Chief Accountant and Deputy

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General Manager of Beijing Shijingshan Power Plant. Mr. Zhao is a senior accountant and graduated from the People's University of China specializing in industrial economics.

Senior Management

Ye Daji (Mr), aged 58, is Director and President of the Company. After joining the Company, he has been Deputy General Manager of Huaneng Shanghai Branch and General Manager of Huaneng Shanghai Shidongkou Second Power Plant. From December 1995 to December 2002, he was Vice President of the Company, Vice President of HIPDC and Director of China Huaneng Group. Before joining the Company, he had served as Deputy Chief Engineer of Huaneng Shanghai Shidongkou Power Plant. Mr. Ye is a senior engineer and graduated from Shanghai Jiaotong University specializing in mechanical engineering.

Na Xizhi (Mr), aged 50, is Vice President of the Company and Adjunct Deputy Chief Engineer of China Huaneng Group. Before he joined the Company, he served in China Huaneng Group as Deputy Manager of the Power Generation Department, General Manager of the Operation Department, General Manager of the Power Safety and Production Department, and Deputy Chief Engineer of China Huaneng Group. Previously, Mr Na was the Vice General Manager of Fuxin Power Plant, Deputy Officer of the Planning Department of Suizhong Power Plant, Deputy Chief and Chief of the Bio-technology Department of Northeast Power Administration Bureau, and General Manager of Shenyang Shenhai Thermal Power Plant. Mr Na is a senior engineer. He graduated from Wuhan Hydro-electric University, specializing in thermal power with a master degree in engineering.

Zhang Hong (Mr), aged 57, is the Vice President of the Company and Deputy Chief Engineer of China Huaneng Group. Mr. Zhang served as the General Manager of Dandong Branch of the Company, General Manager of Yingkou Branch of HIPDC, General Manager of Power Construction Department and Planning Department of China Huaneng Group, and Deputy Chief Engineer of China Huaneng Group. Previously, Mr. Zhang was the Manager of the Fourth Engineering Company of Northeast Power Administration Group. He is a senior engineer and graduated from Northeast Power Institute specializing in Management Engineering.

Chen Baoliang (Mr), aged 49, is Vice President of the Company. He joined the Company in 1996 and has worked as General Manager of Huaneng Dalian Branch and Superintendent of Dalian Power Plant. Before joining the Company, he had been Deputy Chief Engineer of Liaoning Qinghe Power Plant, Deputy Chief of the Planning Department and Deputy General Manager of the Construction Department of Tieling Power Plant, and Superintendent of Yuan Bao Shan Power Plant. Mr. Chen is a senior engineer and graduated with a M.S. degree from North China Electric Power University specializing in thermal power engineering.

Huang Long (Mr), aged 50, is Vice President of the Company as well as Secretary of the Board of Directors. After joining the Company, he served as Deputy General Manager and General Manager of the International Co-operation Department of the Company. Mr. Huang is a senior engineer and graduated with a M.S. degree from North Carolina State University in the U.S. specializing in communications and auto-control.

Hu Jianmin (Mr), aged 49, is Vice President of the Company. From April 1998 to January 2001, he worked as Chief Engineer of Shandong Electric Power Group Corp. Before joining the Company, he had been Chairman of Shandong Rizhao Power Company Limited, General Manager of Shandong Liaocheng Power Plant, Shiheng Power Plant and Zouxian Power Plant respectively. Mr. Hu is a senior engineer and graduated from Shandong Industrial Institute specializing in relay protection.

Wu Dawei (Mr), aged 50, is Vice President of the Company. He joined the Company in 1988 and has served as Deputy General Manager of Huaneng Shanghai

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Shidongkou Second Power Plant, Deputy Manager of Shanghai branch of the Company, and the General Manager of Huaneng Shanghai Shidongkou Second Power Plant. Mr. Wu is a senior engineer. He has obtained a Master of Business Administration degree from the Central Europe International Business School.

Liu Guoyue (Mr), aged 40, is Vice President of the Company. He joined the Company in 1987 and served as the Deputy General Manager (Vice President) and General Manager (President) of Shijiazhuang branch (power plant) of the Company as well as the President of Huaneng Dezhou Power Plant. Mr. Liu is a senior engineer, graduated from Northern China Electric Power University with a bachelor degree in engineering and a bachelor degree in business management.

Li Shiqi (Mr), aged 47, is the Chief Economic Engineer of the Company. During the period from 1996 to 2002, he served as Chief Accountant of Beijing Branch Company of HIPDC, Deputy General Manager and General Manager of the Finance Department of the Company, and General Manager of the Marketing Department of China Huaneng Group. Before these, Mr. Li worked in Power Science Institute as Deputy Manager, Deputy Chief, Chief and Deputy Chief Accountant, and in Beijing Power Research and Hi-Tech Business Corporation as Chief Accountant. Mr. Li is a senior accountant and graduated from Renmin University of China, specializing in finance.

Huang Jian (Mr), aged 41, is the Chief Accountant of the Company. He served as Deputy Chief, Chief of the Finance Department of the Company, Chief Accountant of the Beijing Branch Company of HIPDC, Deputy General Manager of the Finance Department of the Company, Deputy Chief Accountant of the Company. Mr. Huang is a senior accountant and graduated from Finance and Administration Research Institute of the Ministry of Finance, specializing in accounting, with a master degree in economics.

7. CONSENT

Each of JP Morgan, Rothschild, KPMG and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter or report (as the case may be), in the form and context in which they appear.

8. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the articles of association of the Company, a general voting shall be made at the shareholders meeting by a show of hands. However, (i) chairman of the meeting, (ii) at least two shareholders or proxies of such shareholders with voting rights, and (iii) one or more shareholders including proxy or proxies of such shareholders accounting individually or jointly 10% or more of the Company shares with voting right(s), shall have the right to request for a voting by poll before or after a voting by show of hands.

Issues concerning election of the chairman or suspension of a meeting shall be voted by poll. Other issues shall be voted by poll at the time to be decided by the chairman, and the meeting can go on with discussion of other matters. The result of such voting shall also be regarded as the resolution adopted at the meeting. A person who has made a request for voting by poll can withdraw it.

9. MATERIAL CONTRACTS

The following contracts (including contracts not entered into in the ordinary course of business) have been entered into by the Company and its subsidiaries (including the Target Power Plants) within the two years immediately preceding the date of this circular, and are or may be material:

- (a) An agreement regarding the acquisition of interest in four

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power plants by the Company from Huaneng Group on 9th May, 2002, details of which were set out in the Company's circular dated 13th May, 2002;

- (b) An agreement regarding the acquisition of the interest in three power plants by the Company from Huaneng Group on 5th June, 2002, details of which were set out in the Company's circular dated 12th June, 2003;
- (c) Agreement for Transfer of Huaneng Group Interest; and
- (d) Agreement for Transfer of HIPDC Interest.

10. MISCELLANEOUS

- (1) The legal address of the Company is at West Wing, Building C, Tianyin Mansion, 2C Fuxingmennan Street, Xicheng District, Beijing, The People's Republic of China.
- (2) The share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Room 1901-5, 19/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (3) The secretary of the Company is Mr. Huang Long.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Herbert Smith at 23rd Floor, Gloucester Tower, 11 Pedder Street, Hong Kong during normal business hours on any day (except public holidays) up to and including 15th June, 2004:

- (1) the Transfer Agreements;
 - (2) the letter from the Independent Directors as set out in this circular;
 - (3) the letter from Rothschild as set out in this circular;
 - (4) the written consent referred to in paragraph 7 of this appendix;
 - (5) the material contracts referred to in paragraph 9 of this appendix;
 - (6) the annual report of the Company for the year ended 31st December, 2003;
 - (7) the accountants' reports from KPMG on the financial information for each of the Target Power Plants dated 29th April, 2004, the text of which are set out in Appendix I to Appendix V;
 - (8) the report from KPMG on the pro forma net assets statement of the Combined Company and Subsidiaries dated 29th April, 2004, the text of which is set out in Appendix VII;
 - (9) the property valuation report and the plant and machinery valuation report set out in Appendix VIII and Appendix IX; and
 - (10) the articles of association of the Company.
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NOTICE OF EXTRAORDINARY GENERAL MEETING

[GRAPHIC OMITTED]

(A Sino-foreign joint stock limited company
incorporated in the People's Republic of China)

Notice is hereby given that an extraordinary general meeting of Huaneng Power International, Inc. (the "Company") will be held at 9 a.m. on 15th June, 2004 (Tuesday) at Beijing International Convention Centre at No. 8 Beichen East Road, Chaoyang District, Beijing, The People's Republic of China, for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

Ordinary resolutions:

1. To approve the acquisition of 40% interest in Hebei Hanfeng Power Generation Limited Liability Company and 90% interest in Jinggangshan Huaneng Power Generation Limited Liability Company held by China Huaneng Group by the Company and the Agreement for Transfer of Huaneng Group Interest.
2. To approve the acquisition of 55% interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company, 60% interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and the entire assets and liabilities of Huaneng International Power Development Corporation Yingkou Branch Company and the Agreement for Transfer of HIPDC Interest.
3. To approve the guarantee arrangements and agreements between Hebei Hanfeng Power Generation Limited Liability Company, Jinggangshan Huaneng Power Generation Limited Liability Company and China Huaneng Group, and subject to the completion of the Acquisition and the transfer of 10% interest in Jinggangshan Huaneng Power Generation Limited Liability Company held by Jiangxi Province Investment Corporation to the Company, the Company's taking up of the existing guarantee of Jinggangshan Huaneng Power Generation Limited Liability Company originally provided by China Huaneng Group. (Note 1)
4. To approve the entrusted loan arrangement between Huaneng Hunan Yueyang Power Generation Limited Liability Company, Huaneng International Power Development Corporation and China Huaneng Finance Company; To approve the entrusted loan arrangement in respect of Yingkou Power Plant between the Company, Huaneng International Power Development Corporation and China Huaneng Finance Company; To approve the arrangement between the Company and Huaneng International Power Development Corporation regarding the account payables of Yingkou Power Plant; and To approve the arrangement regarding the foreign loan between Huaneng International Power Development Corporation and Huaneng Chongqing Luohuang Power Generation Limited Liability Company.
(Note 2)
5. To approve the the loan and deposit arrangement between Jinggangshan Huaneng Power Generation Limited Liability Company and China Huaneng Finance Company; To approve, subject to the completion of the Acquisition and the transfer of 10% interest in Jinggangshan Huaneng Power Generation Limited Liability Company held by Jiangxi Province Investment Corporation to the Company, the Company's taking up of the aforesaid rights and obligations of Jinggangshan Huaneng Power Generation Limited Liability Company; To approve the deposit

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arrangement between Huaneng Chongqing Luohuang Power Generation Limited Liability Company, Huaneng Hunan Yueyang Power Generation Limited Liability Company and China Huaneng Group. (Note 3)

By Order of the Board
Huang Long
Company Secretary

29th April, 2004

Registered address of the Company:
West Wing, Building C,
Tianyin Mansion,
2C Fuxingmennan Street,
Xicheng District,
Beijing 100031,
The People's Republic of China

Notes:

1. (The terms used hereinafter shall have the same meaning as stated in the announcement made by the Company dated 16th April, 2004)
 - (i) Pursuant to the four (loan) guarantee agreements (numbered [98]01, [98]02, [98]03, [99]02 respectively), Hebei Province Power Company provided joint liability guarantee for the loans of an aggregate amount of RMB1,684 million that Hanfeng Power Plant borrowed from China Construction Bank Handan Hanfeng Power Plant Branch between 1996 and 1999. According to the guarantee agreement dated 30th September, 2000 and the amendment agreement dated 10th October, 2002 between Hebei Province Power Company and the State Development Bank, Hebei Province Power Company provided joint liability guarantee for 42% of the RMB745 million loan that Hanfeng Power Plant borrowed from the State Development Bank (i.e. RMB312.9 million). On 27th November, 2003, China Huaneng Group entered into the Agreement. According to the Approval regarding reorganization and division of power generating assets of China Power Corporation (Jijichu [2002]2704) issued by the former State Development and Planning Commission and other relevant documents, 40% of the interest in the registered capital of Hanfeng Power Plant held by Hebei Province Power Company was transferred to China Huaneng Group. On 27th November, 2003, China Huaneng Group entered into an agreement in relation to the transfer and delivery of Hanfeng Project as part of power system reform with Hebei Province Power Company, pursuant to which, inter alia, the five commercial bank loan guarantee provided by Hebei Province Power Company to Hanfeng Power Plant, with an aggregate guarantee amount of RMB1736.9 million, were to be taken over by China Huaneng Group. As at 31st March, the total outstanding amount of the aforesaid guarantee was RMB1.48430 billion.
 - (ii) Pursuant to the (loan) guarantee agreement dated 24th October, 2000 between China Huaneng Group and China Construction Bank Jian City Branch, China Huaneng Group provided joint liability guarantee for the RMB1,560 million loan borrowed by Jinggangshan Power Plant from China Construction Bank Jian City Branch pursuant to the loan agreement numbered GDZCDK - 2000-519. The outstanding amount of the above guarantee was RMB1.24525 billion as at 31st March, 2004.

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As at 31st March 2004, the outstanding amount of the above guarantee transactions in total was RMB2.72955 billion.

2. (The terms used hereinafter shall have the same meaning as stated in the announcement made by the Company dated 16th April, 2004)
 - (i) Pursuant to the contract for incorporation of Huaneng Yueyang Power Generation Limited Liability Company entered into between HIPDC and Hunan Provincial Local Power Assets Management Limited Company in September 2003, the investment of RMB546.97 million originally made by HIPDC into Yueyang Power Plant would be treated as a debt owned by Yueyang Power Plant to HIPDC by entering into entrusted loan arrangement at the time when the conversion of Yueyang Power Plant into a limited liability company from HIPDC's branch company took place. The entrusted loan agreement would be for a term from 30th September, 2003 to 30th September, 2004 at the interest rate of 5.31% per annum. As at 31st March, 2004, the amount involved was RMB510.86 million.
 - (ii) Pursuant to the loan transfer agreement regarding the mixed term loan by Credit Mutuel Confederation Nationale and Credit Agricole (Chongqing Luohuang Power Plant Project) dated 2nd June, 1988 between HIPDC and the Bank of China, the Bank of China transferred to HIPDC loans with the aggregate amount not exceeding 1,477,085,485 francs (of which approximately 45% being government loan, approximately 54% as purchaser credit and approximately 1% being purchaser credit insurance fee loan). The term of the loan was 30 years. The interest rate for the government loan was 2% per annum, the purchaser credit interest rate was 7.4% per annum, the rate of the loan transfer fee for the government loan was 0.15% per annum and the rate of the loan transfer fee for the purchaser credit is 0.1%. As at 31st March, 2004, the outstanding amount of the above loans is Euro 80,979,180 and RMB816.8 million.
 - (iii) Pursuant to the loan transfer agreement regarding the French purchaser credit loan for the project of Huaneng Luohuang Power Plant Phase II dated 28th November, 1995 between HIPDC and the Bank of China, the Bank of China transferred to HIPDC loans with an aggregate amount of USD297,746,666. The term of the loan was 16 years. The first repayment date was 21st March, 2000, and there should be 24 instalments of payment in 12 years, with the same amount of repayment being made each half year. The interest rate was 5.95% per annum, the rate of the transfer handling fee was 0.35% per annum. As at 31st March 2004, the outstanding amount of the above loans was US180,896,874 (i.e. RMB1.46730 billion).
 - (iv) According to Yingkou Power Plant's balance sheet as at 31st December 2003 audited by KPMG, Yingkou Power Plant owed to HIPDC a short term payable of RMB1,264,651,910 and a long term loan of RMB614,275,497. According to the Agreement for Transfer of HIPDC Interest, upon completion, the Company should repay the short term payable of RMB1,264,651,910 in full (without interest) to HIPDC within two years from the closing of the acquisition of the HIPDC Interest; while in relation to the RMB614,275,497 long-term loan owed by Yingkou Power Plant to HIPDC, the Company should arrange an entrusted loan arrangement with HIPDC through China Huaneng Finance Company, with a term of 5 years payable by equal instalments annually at an annual interest rate as quoted by The People's Bank of China from time

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to time.

3. (The terms used hereinafter shall have the same meaning as stated in the announcement made by the Company dated 16th April, 2004)
- (i) According to the RMB loan agreement entered into between Jinggangshn Power Plant and China Huaneng Finance Company in July 2003, Jinggangshan obtained a loan of RMB20 million from China Huaneng Finance Company for a term from 27th June, 2003 to 27th June, 2004 at a monthly interest rate of 3.9825%, which at the time of signing the agreement, lower than the leading rate of The People's Bank of China. As at 31st March, 2004, the outstanding loan amount was RMB20 million.
 - (ii) As at 31st March, 2004, the deposit of Jinggangshan Power Plant in China Huaneng Finance Company was RMB97.64 million. The interest rate of the above deposit was not lower than the then prevailing bank deposit interest rate.
 - (iii) As at 31st March, 2004, the deposit of Yueyang Power Plant in China Huaneng Finance Company was RMB30.41million. The interest rate of the above deposit was not lower than the then prevailing bank deposit interest rate.
 - (iv) As at 31st March, 2004, the remaining deposit of Luohuang Power Plant in China Huaneng Finance Company was RMB215.02million. The interest rate of the above deposit is not lower than the then prevailing bank deposit interest rate.
 - (v) An entrusted loan agreement to be entered into between HIPDC, China Huaneng Finance Company and Yueyang Power Plant, pursuant to which the entrusted term loan would be for a term from 30th September, 2003 to 30th September, 2004 at the interest rate of 5.31% per annum. As at 31st March, 2004, the outstanding amount was RMB510.86 million.
 - (vi) An entrusted loan agreement to be entered into between China Huaneng Finance Company, and the Company's Yingkou Power Plant for a term of 5 year (same amount on equal instalment) at a rate same as the heading rate quoted by The People's Bank of China from time to time.

4. Eligibility for attending the Extraordinary General Meeting

Holders of the Company's foreign Shares whose names appear on the HK\$ Dividend foreign Shares Register and/or the US\$ Dividend foreign Shares Register maintained by Hong Kong Registrars Limited and holders of domestic shares whose names appear on the domestic shares register maintained by the Company at the close of business on 14th May, 2004 are eligible to attend the Extraordinary General Meeting.

5. Proxy

- (i) A member eligible to attend and vote at the Extraordinary General Meeting is entitled to appoint, in written form, one or more proxies to attend and vote on behalf of him. A proxy needs not be a shareholder.
- (ii) A proxy should be appointed by a written instrument signed by the appointor or its attorney duly authorised in writing. If the form of proxy is signed by the attorney of the appointor, the power of attorney authorising that attorney to sign or

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other authorisation document(s) shall be notarised.

- (iii) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed form of proxy must be delivered, in the case of holders of domestic shares, to the Company and, in the case of holders of foreign Shares, to Hong Kong Registrars Limited, not less than 24 hours before the time designated for holding of the Extraordinary General Meeting.
- (iv) A proxy may exercise the right to vote by a show of hands or by poll. However, if more than one proxy is appointed by a shareholder, such proxies shall only exercise the right to vote by poll.

6. Registration procedures for attending the Extraordinary General Meeting

- (i) A shareholder or his proxy shall produce proof of identity when attending the meeting. If a shareholder is a legal person, its legal representative or other persons authorised by the board of directors or other governing body of such shareholder may attend the Extraordinary General Meeting by producing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such persons to attend the meeting.
- (ii) Holders of foreign Shares and domestic shares intending to attend the Extraordinary General Meeting should return the reply slip for attending the Extraordinary General Meeting to the Company on or before 25th May, 2004.
- (iii) Shareholders may send the above reply slip to the Company in person, by post or by fax (Attn: The Secretary office of the Board).

7. Closure of Register of Members

The register of members of the Company will be closed from 14th May, 2004 to 14th June, 2004 (both days inclusive).

8. Other Businesses

- (i) The Extraordinary General Meeting will not last for more than half day. Shareholders who attend shall bear their own travelling and accommodation expenses.
- (ii) The address of the share registrar for Foreign Shares of the Company, Hong Kong Registrars Limited is at:

1901-5
19/F., Hopewell Centre
183 Queen's Road East,
Hong Kong

- (iii) The registered address of the Company is at:

West Wing, Building C,
Tianyin Mansion,
2C Fuxingmennan Street,
Xicheng District,
Beijing 100031,
The People's Republic of China

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Telephone No.: (+86)-10-66491999
Facsimile No.: (+86)-10-66491860

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incorporated in the People's Republic of China)

Proxy Form for Extraordinary General Meeting

I/(We) (Note 2) _____
of _____
Shareholders' Account: _____ and I.D. No.: _____
being the holder(s) of _____ H Share(s)/Domestic Share(s)* (Note 1) of Hu
Inc. (the "Company") now appoint (Note 3) _____
I.D. No.: _____ (of _____

or failing him the Chairman of the meeting as my(our) proxy to attend and vote for me(us) on the
in accordance with the instruction(s) below and on my(our) behalf at the Extraordinary General Me
9:00 a.m. on Tuesday, 15th June, 2004 at Beijing International Convention Centre at No. 8 Beichen
District, Beijing, the People's Republic of China for the purpose of considering and, if thought
ordinary resolution as set out in the notice convening the said meeting. In the absence of any in
may vote for or against the resolution at his own discretion. (Note 6)

Ordinary Resolutions

For (Note

1. To approve the acquisition of 40% interest in Hebei Hanfeng Power Generation Limited Liability Company and 90% interest in Jinggangshan Huaneng Power Generation Limited Liability Company held by China Huaneng Group by the Company and the Agreement for Transfer of Huaneng Group Interest.
2. To approve the acquisition of 55% interest in Huaneng Hunan Yueyang Power Generation Limited Liability Company, 60% interest in Huaneng Chongqing Luohuang Power Generation Limited Liability Company and the entire assets and liabilities of Huaneng International Power Development Corporation Yingkou Branch Company and the Agreement for Transfer of HIPDC Interest.
3. To approve the guarantee arrangements and agreements between Hebei Hanfeng Power Generation Limited Liability Company, Jinggangshan Huaneng Power Generation Limited Liability Company and China Huaneng Group, and subject to the completion of the Acquisition and the transfer of 10% interest in Jinggangshan Huaneng Power Generation Limited Liability Company held by Jiangxi Province Investment Corporation to the Company, the Company's taking up of the existing guarantee of Jinggangshan Huaneng Power Generation Limited Liability Company originally provided by China Huaneng Group.
4. To approve the entrusted loan arrangement between Huaneng Hunan Yueyang Power Generation Limited Liability Company, Huaneng International Power Development Corporation and China Huaneng Finance Company; To approve the entrusted loan arrangement in respect of Yingkou Power Plant between the Company, Huaneng

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International Power Development Corporation and China Huaneng Finance Company; To approve the arrangement between the Company and Huaneng International Power Development Corporation regarding the account payables of Yingkou Power Plant; and To approve the arrangement regarding the foreign loan between Huaneng International Power Development Corporation and Huaneng Chongqing Luohuang Power Generation Limited Liability Company.

-
5. To approve the the loan and deposit arrangement between Jinggangshan Huaneng Power Generation Limited Liability Company and China Huaneng Finance Company; To approve, subject to the completion of the Acquisition and the transfer of 10% interest in Jinggangshan Huaneng Power Generation Limited Liability Company held by Jiangxi Province Investment Corporation to the Company, the Company's taking up of the aforesaid rights and obligations of Jinggangshan Huaneng Power Generation Limited Liability Company; To approve the deposit arrangement between Huaneng Chongqing Luohuang Power Generation Limited Liability Company, Huaneng Hunan Yueyang Power Generation Limited Liability Company and China Huaneng Group.
-

Date: _____ 2004

Signature: _____

Notes:

1. Please insert the number of Share(s) registered in your name(s) relating to this form of proxy. If no number is inserted, this form of proxy will be deemed to relate to all of the shares in the capital of the Company registered in your name(s).
2. Please insert full name(s) and address(es) in BLOCK LETTERS.
3. Please insert the name and address of your proxy. If this is left blank, the chairman of the Extraordinary General Meeting will act as your proxy. One or more proxies, who may not be member(s) of the Company, may be appointed to attend and vote in the meeting provided that such proxies must attend the meeting in person on your behalf. Any alteration made to this proxy form must be signed by the signatory.
4. Attention: If you wish to vote FOR any resolution, please indicate with a "6" in the appropriate space under "For". If you wish to vote AGAINST any resolution, please indicate with a "6" in the appropriate space under "Against". In the absence of any such indication, the proxy will vote or abstain at his discretion.
5. This form of proxy must be signed underhand by you or your attorney duly authorised in that behalf. If the appointer is a corporation, this form must be signed under its common seal or under hand by any directors or agents duly appointed by such corporation.
6. This form of proxy together with the power of attorney or other authorisation document(s) which have been notarised, must be delivered, in the case of a holder of Domestic Share(s), to the Company and in the case of a holder of H Share(s), to Hong Kong Registrars Limited, at least 24 hours before the time designated for the holding of the Extraordinary General Meeting.

* Please delete as appropriate.

[GRAPHIC OMITTED]

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Reply Slip for Extraordinary General Meeting

I/(We)

of

Telephone number: _____ and Fax
number: _____, being the
holder(s) of _____ H Share(s)/Domestic
Share(s)* of Huaneng Power International, Inc. (the "Company") hereby reply
that I/(We) wish to attend or appoint a proxy to attend (on my/(our)
behalf) the extraordinary general meeting (the "EGM") to be held at 9:00
a.m. on Tuesday, 15th June, 2004 at Beijing International Convention Centre
at No. 8 Beichen East Road, Chaoyang District, Beijing, the People's
Republic of China.

Signature: _____

Date: _____

Note: Eligible shareholders who wish to attend the EGM are advised to
complete and return this reply slip to the Company at West Wing,
Building C, Tianyin Mansion, 2C, Fuxingmennan Street, Xicheng
District, Beijing 100031, the PRC by post or by facsimile (Fax no.:
(+86)-10-66491888). Failure to sign and return this reply slip,
however, will not preclude an eligible shareholder from attending the
EGM.

* Please delete as appropriate.