HUANENG POWER INTERNATIONAL INC
Form 20-F
April 18, 2008

HUANENG POWER INTERNATIONAL, INC.

Annual Report On Form 20-F

2007

As filed with the Securities and Exchange Commission on April 18, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 20-F

(Mark One)

£	REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
	OR
R	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007
	OR
£	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
	OR
£	SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report …….

For the transaction period form _____ to _____

Commission file number: 1-13314

HUANENG POWER INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

NONE

(Title of Class)

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

NONE

(Title of Class)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes R No £

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes £ No R

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

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

Yes R No £

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

Large accelerated filer R Accelerated filer £ Non-accelerated filer £

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

Item 17 R Item 18 £

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

Yes £ No R

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

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INTRODUCTION

We maintain our accounts in Renminbi yuan ("Renminbi" or "RMB"), the lawful currency of the People's Republic of China (the "PRC" or "China"). References herein to "US$" or "US Dollars" are to United States Dollars, and references to "HK$" are to Hong Kong Dollars. References to ADRs and ADSs are to American Depositary Receipts and American Depositary Shares, respectively. Translations of amounts from Renminbi to US Dollars are solely for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to US Dollars or from US Dollars to Renminbi were translated at the average rate announced by the People's Bank of China (the "PBOC Rate") on December 31, 2007 of US$1.00 to RMB7.3046. No representation is made that the Renminbi or US Dollar amounts referred to herein could have been or could be converted into US Dollars or Renminbi, as the case may be, at the PBOC Rate or at all.

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

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

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

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

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

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

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

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

References to "power companies" or "our power companies" are to the power companies in which we hold minority equity interests.

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

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

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

References to "tons" are to metric tons.

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

GLOSSARY

actual generation	The total amount of electricity generated by a power plant over a given period of time.
auxiliary power	Electricity consumed by a power plant in the course of generation.
availability factor	For any period, the ratio (expressed as a percentage) of a power plant's available hours to the total number of hours in such period.
available hours	For a power plant for any period, the total number of hours in such period less the total number of hours attributable to scheduled maintenance and planned overhauls as well as to forced outages, adjusted for partial capacity outage hours.
capacity factor	The ratio (expressed as a percentage) of the gross amount of electricity generated by a power plant in a given period to the product of (i) the number of hours in the given period multiplied by (ii) the power plant's installed capacity.
demand	For an integrated power system, the amount of power demanded by consumers of energy at any point in time.
dispatch	The schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a plant means to direct the plant to operate.
GW	Gigawatt. One million kilowatts.
GWh	Gigawatt-hour. One million kilowatt-hours. GWh is typically used as a measure for the annual energy production of large power plants.
installed capacity	The manufacturers' rated power output of a generating unit or a power plant, usually denominated in MW.

kV	Kilovolt. One thousand volts.
kW	Kilowatt. One thousand watts.
kWh	Kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.
MVA	Million volt-amperes. A unit of measure used to express the capacity of electrical transmission equipment such as transformers.
MW	Megawatt. One million watts. The installed capacity of power plants is generally expressed in MW.
MWh	Megawatt-hour. One thousand kilowatt-hours.
peak load	The maximum demand on a power plant or power system during a specific period of time.

planned generation	An annually determined target gross generation level for each of our operating power plants used as the basis for determining planned output.
total output	The actual amount of electricity sold by a power plant in a particular year, which equals total generation less auxiliary power.
transmission losses	Electric energy that is lost in transmission lines and therefore is unavailable for use.

PART I.

ITEM 1 Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2 Offer Statistics and Expected Timetable

Not applicable.

ITEM 3 Key Information

A. Selected financial data

Our consolidated balance sheet data as of December 31, 2007 and 2006 and the consolidated income statement and cash flow data for each of the years in the three-year period ended December 31, 2007 are derived from the historical financial statements included herein. Our consolidated balance sheet data as of December 31, 2005, 2004 and 2003 and income statement and cash flow data for each of the years in the two-year period ended December 31, 2004, are derived from the historical financial statements not included herein. The Selected Financial Data should be read in conjunction with the consolidated financial statements and "Item 5 – Operating and Financial Review and Prospects". The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The Selected Financial Data may not be indicative of future earnings, cash flows or financial position.

	Year Ended December 31,					
	2003	2004	2005	2006	2007	2007
RMB and US Dollars in thousands except per share data	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US$)(1)
Income Statement Data IFRS						
Operating revenue	23,433,572	30,150,602	40,190,004	44,301,403	49,767,849	6,813,220
Sales tax	(45,335)	(32,324)	(113,475)	(148,057)	(139,772)	(19,134)
Operating expenses	(16,315,075)	(23,200,088)	(33,067,563)	(35,594,935)	(41,705,766)	(5,709,521)
Profit from operations	7,073,162	6,918,190	7,008,966	8,558,411	7,922,311	1,084,565
Total financial expenses, net	(544,285)	(739,784)	(1,124,391)	(1,471,304)	(1,874,461)	(256,614)
Investment income, net	10,705	20,554	60,872	128,614	127,281	17,425
(Loss)/Gain on disposal of investments	-	-	-	(19)	545,230	74,642
Share of profits of associates	160,509	312,037	644,376	790,629	586,323	80,268
Other income, net	12,070	18,666	2,385	10,442	12,617	1,727
Profit before tax	6,712,161	6,529,663	6,592,208	8,016,773	7,319,301	1,002,013
Income tax expense	(1,097,859)	(948,734)	(1,044,297)	(1,127,699)	(838,270)	(114,760)

Profit for the year	5,614,302	5,580,929	5,547,911	6,889,074	6,481,031	887,253
Attributable to:						
Equity holders of the Company	5,430,408	5,323,876	4,871,794	6,071,154	6,161,127	843,459
Minority interests	183,894	257,053	676,117	817,920	319,904	43,794
Net profit	5,614,302	5,580,929	5,547,911	6,889,074	6,481,031	887,253
Basic earnings per share	0.45	0.44	0.40	0.50	0.51	0.07
Diluted earnings per share	0.45	0.44	0.40	0.50	0.51	0.07

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RMB and US Dollars in thousands	As of December 31, 2003 (RMB)	2004 (RMB)	2005 (RMB)	2006 (RMB)	2007 (RMB)	2007 (US$)(1)
Balance Sheet Data						
IFRS						
Current assets	8,303,195	9,653,653	12,063,175	13,564,516	18,551,059	2,539,641
Property, plant and equipment, net	42,658,365	57,780,410	78,997,297	90,444,225	90,125,919	12,338,242
Available-for-sale investments	254,990	254,990	1,033,225	1,458,759	3,462,158	473,970
Investments in associates	2,766,031	4,328,307	4,593,984	5,418,213	8,731,490	1,195,341
Land use rights and other non-current assets	1,037,859	1,771,916	2,016,144	2,282,884	2,658,583	363,959
Deferred income tax assets	21,311	97,539	64,075	98,429	211,654	28,975
Goodwill	298,876	376,726	671,796	671,796	555,266	76,016
Less: negative goodwill	(1,730,949)	(1,483,670)	--	--	--	--
Total assets	53,609,678	72,779,871	99,439,696	113,938,822	124,296,129	17,016,144
Current liabilities	(9,242,408)	(16,732,953)	(23,107,142)	(26,842,684)	(31,376,561)	(4,295,452)
Non-current liabilities	(9,256,718)	(16,515,006)	(30,188,367)	(36,487,446)	(40,839,926)	(5,590,987)
Total liabilities	(18,499,126)	(33,247,959)	(53,295,509)	(63,330,130)	(72,216,487)	(9,886,439)
Net assets	35,110,552	39,531,912	46,144,187	50,608,692	52,079,642	7,129,705
Total equity	35,110,552	39,531,912	46,144,187	50,608,692	52,079,642	7,129,705

RMB and US Dollars in thousands except per share data	Year Ended December 31, 2003 (RMB)	2004 (RMB)	2005 (RMB)	2006 (RMB)	2007 (RMB)	2007 (US$)(1)
Cash Flow Data						
IFRS						
Purchase of property, plant and equipment	(3,606,704)	(9,877,553)	(13,842,293)	(15,998,575)	(14,223,310)	(1,947,172)
Net cash provided by operating activities	9,533,289	8,162,701	8,680,850	11,494,713	9,351,600	1,308,584
Net cash used in investing activities	(5,225,080)	(13,650,285)	(15,413,369)	(15,915,542)	(16,257,355)	(2,225,638)
Net cash (used in) / provided by financing activities	(3,182,162)	3,654,467	7,084,653	4,980,356	11,010,828	1,507,383
Other Financial Data						

IFRS						
Dividend declared per share	0.25	0.25	0.25	0.28	0.30	0.04
Number of ordinary shares ('000)	12,055,342	12,055,383	12,055,383	12,055,383	12,055,383	12,055,383

(1) The US Dollar data has been translated from RMB solely for convenience at the PBOC Rate on December 31, 2007 of US$1.00 to RMB7.3046. See "Item 10 Additional Information — Exchange control for more information on exchange rates between RMB and US Dollars".

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

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

Government regulation of on-grid power tariffs and other aspects of the power industry may adversely affect our business

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

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

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

The on-grid tariff-setting mechanism is evolving with the reforming of the PRC electric power industry. There is no assurance that it will not change in a manner which could adversely affect our business and results of operations. See "Item 4 Information of the Company – B Business Overview – Pricing Policy".

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

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

The dispatch of electric power generated by a power plant is controlled by the dispatch centre of the applicable grid companies pursuant to a dispatch agreement with us and to governmental dispatch regulations. In each of the markets we operate, we compete against other power plants for power sales. No assurance can be given that the dispatch centres will dispatch the full amount of the planned generation of our power plants. A reduction by the dispatch centre in the amount of electric power dispatched relative to a power plant's planned generation could have an adverse

effect on the profitability of our operations. However, we have not encountered any such bias in the past.

In August 2007, General Office of the State Council issued a notice, providing that the energy saving and electricity dispatch shall consolidate with the development of the power market, which optimize the power market. The State Electricity Regulatory Commission is conducting research on how to effectively combine the energy saving and electricity dispatch with the development of the power market, and the detailed measures are still in the process of drafting. Currently, some pilot provinces are actively preparing for the implementation of the policy of energy saving and electricity dispatch. There can be no assurance that such implementation will not result in any decrease in the amount of the power dispatched of any of our power plants, our operating results could be adversely affected.

The power industry reform may affect our business

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

On April 6, 2007, the PRC State Council issued the Opinions on Implementing Further Reform in Power Industry during the "Eleventh Five-Year Plan" period, or the Implementing Opinions, which confirm the direction of reform and present further guidance. According to the Implementing Opinions, the government encourages environment protection and renovation and replacement of outdated generating units. The further reform will not only bring opportunities to power industry but also intensify the competition which may affect our business.

We are effectively controlled by Huaneng Group and HIPDC, whose interests may differ from those of our other shareholders

Huaneng Group and HIPDC currently directly hold 8.75% and 42.03% of our total outstanding shares respectively. As Huaneng Group is HIPDC's parent company, they may exert effective control over us in concert. Their interests may sometimes conflict with those of our other minority shareholders. There is no assurance that Huaneng Group and HIPDC will always vote their shares, or direct the directors nominated by them to act in a way that will benefit our other minority shareholders.

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

A substantial majority of our power plants are fueled by coal. We have obtained coal for our power plants through a combination of purchases pursuant to the key contracts and purchases in the open market. Although we have received sufficient and timely coal supply and transportation services for our operations and have not experienced shutdowns or reduced electricity generation caused by inadequate coal supply or transportation services, there can be no assurance that, in the event of national coal supply shortfalls, our operations will not be adversely affected. For instance, during the first two months in 2008, China's southern region experienced inclement weather caused by rare sleet, which led to the shortage of the coal supply due to, among other things, transportation disruption. The coal inventory of our power plants in affected regions during that period were negatively affected, although none of our power plants was shutdown due to inadequate coal supply.

In addition, our results of operation are sensitive to the fluctuation of coal price. Since 2003, the continuous increase of coal price has increased our costs substantially and caused our profits to decline. Although the government has established a coal-electricity price linkage mechanism to allow power generation companies to increase their power tariffs to respond to the increase of coal price, the implementation of the mechanism involves significant uncertainties. There is no assurance that we will be able to adjust our power tariff to pass on the increase of coal price to our customers. For a detailed discussion of the coal-electricity price linkage mechanism, see "Item 4 Information of the Company-B Business Overview – Pricing Policy". Due to the significant increase of the coal price in the first quarter of 2008, we expect the consolidated net profit attributable to the Company's Shareholders for the first quarter of 2008 to decrease by more than 50% compared to the same period of previous year.

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

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

We have generally acted as, and intend to continue to act as, the general contractor for the construction of our power plants. As with any major infrastructure construction effort, the construction of a power plant involves many risks, including shortages of equipment, material and labor, labor disturbances, accidents, inclement weather, unforeseen

engineering, environmental, geological, delays and other problems and unanticipated cost increases, any of which could give rise to delays or cost overruns. Construction delays may result in loss of revenues. Failure to complete construction according to specifications may result in liabilities, decrease power plant efficiency, increase operating costs and reduce earnings. Although the construction of each of our power plants was completed on or ahead of schedule and within its budget, no assurance can be given that construction of future projects will be completed on schedule or within budget.

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

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

An important component of our growth strategy is to develop new power plants and acquire operating power plants and related development rights from HIPDC, Huaneng Group or other companies on commercially reasonable terms. Our ability to arrange financing and the cost of such financing depend on numerous factors, including general economic and capital market conditions, credit availability from banks or other lenders, investor confidence in us and the continued success of our power plants. For instance, the PRC government has raised the benchmark lending interest rates several times in 2007, in order to control the excessive growth of investment and lending, which had an impact on our control of finance costs. Although we have historically been able to obtain financing on terms acceptable to us, there can be no assurance that financing for future power plant developments and acquisitions will be available on terms acceptable to us or, in the event of an equity offering, that such offering will not result in substantial dilution to existing shareholders.

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

The operation of power plants involves many risks and hazards, including breakdown, failure or substandard performance of equipment, improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards and industrial accidents. The occurrence of material operational problems, including but not limited to the above events, may adversely affect the profitability of a power plant.

We currently maintain insurance coverage that is typical in the electric power industry in the PRC and in amounts that we believe to be adequate. Such insurance, however, may not provide adequate coverage in certain circumstances. In particular, in accordance with industry practice in the PRC, we do not generally maintain business interruption insurance, or any of third party liability insurance other than that included in construction all risks insurance or erection all risks insurance to cover claims in respect of bodily injury or property or environment damage arising from accidents on our property or relating to our operation. Although each of our power plants has a good record of safe operation, there is no assurance that the afore-mentioned accidents will not occur in the future.

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

Our power plants, like all coal-fired power plants, discharge pollutants into the environment. We are subject to central and local government environmental protection laws and regulations, which currently impose base-level discharge fees for various polluting substances and graduated schedules of fees for the discharge of waste substances. These laws and regulations impose fines for violations of laws, regulations or decrees and provide for the possible closure by the central government or local government of any power plant which fails to comply with orders requiring it to cease or cure certain activities causing environmental damage. In 2007, the PRC government issued additional policies on discharge of polluting substances and on desulphurization for coal-fired generating units. Certain provinces have raised the rates of waste disposal fees. For instance, from July 1, 2007, Jiangsu Province increased the rates of pollutants discharge fees for waste gas from RMB0.6 per pollutant equivalents to RMB1.2 per pollutant equivalents, and the rate for waste water from RMB0.7 per pollutant equivalents to RMB0.9 per pollutant equivalents. Such increases in the discharge fees and in the environmental protection expenditure will lead to an increase of the operating costs of power plants like ours and may have adverse impact on our operating results.

We attach great importance to the environmental related matters of our existing power plants and our power plants under construction. We have implemented a system that is designed to control pollution caused by our power plants, including the establishment of an environmental protection office at each power plant, adoption of relevant control

and evaluation procedures and the installation of certain pollution control equipment. We believe our environmental protection systems and facilities for the power plants are adequate for us to comply with applicable central government and local government environmental protection laws and regulations. The PRC Government may impose new, stricter laws and regulations which would require additional expenditure on environmental protection.

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

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

Prior to January 1, 2008, according to the relevant income tax law, foreign invested enterprises were, in general, subject to statutory income tax of 33% (30% corporate income tax and 3% local income tax). If these enterprises are located in certain specified locations or cities, or are specifically approved by State Tax Bureau, a lower tax rate would be applied. Effective from January 1, 1999, in accordance with the practice notes on the PRC income tax laws applicable to foreign invested enterprises investing in energy and transportation infrastructure businesses, a reduced corporate income tax rate of 15% (after the approval of State Tax Bureau) was applicable across the country. We applied this rule to all of our wholly owned operating power plants after obtaining the approval of State Tax Bureau. In addition, certain power plants were exempted from corporate income tax for two years starting from the first profit-making year, after offsetting all tax losses carried forward from the previous years (at most of five years), followed by a 50% reduction of the applicable tax rate for the next three years. The statutory income tax was assessed individually based on each of their results of operations.

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

Although the State Council f PRC promulgated the implementing rules of the New Corporate Income Tax Law in December 2007, a number of detailed implementing rules are still in the process of promulgation and we are currently unable to accurately evaluate its impact on us. However, the increase of applicable income tax rate and elimination of the preferential tax treatment with regard to certain of our power plants may adversely affect our financial condition and results of operations. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax benefits currently available to us.

In addition, according to the New Corporate Income Tax Law and its implementation rules, any dividends derived from the revenues accumulated from January 1, 2008 and are paid to the shareholders who are non-resident enterprises in the PRC will be subject to the PRC withholding tax at the rate of 10%. The withholding tax will be exempted if such dividends are from the revenue accumulated before January 1, 2008. The implementation of such withholding tax remains uncertain, however, we may be required to withhold taxes when paying any dividends to our overseas shareholders who are non-resident enterprises.

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

As a power producer operating mainly in China, we collect our revenues in Renminbi and have to convert Renminbi into foreign currencies to (i) repay some of our borrowings which are denominated in foreign currencies, (ii) purchase foreign made equipment and parts for repairs and maintenance, and (iii) pay out dividend to our overseas shareholders.

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

Forward-looking information may prove inaccurate

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

Risks relating to the PRC

China's economic, political and social conditions as well as government policies could significantly affect our business

As of December 31, 2007, all of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including government involvement, level of development, economy growth rate, control of foreign exchange, and allocation of resources.

The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a high level of management autonomy. Some of these measures will benefit the overall economy of China, but may have a negative effect on us. For example, our operating results and financial condition may be adversely affected by changes in taxation, changes in power tariff for our power plants, changes in the usage and costs of State controlled transportation services, and changes in State policies affecting the power industry.

Interpretation of PRC laws and regulations involves significant uncertainties

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

We are subject to certain PRC regulations governing PRC companies that are listed overseas. These regulations contain certain provisions that are required to be included in the articles of association of these PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the US, the UK and other developed countries or regions. Such limited investor protections are compensated for, to a certain extent, by the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas and certain additional requirements that are imposed by the Listing Rules of The Hong Kong Stock Exchange with a view to reduce the magnitude of

differences between the Hong Kong Company Law and PRC Company Law. The articles of association of all PRC companies listed in Hong Kong must incorporate such Mandatory Provisions and these additional requirements. Although our Articles of Association have incorporated such provisions and requirements, there can be no assurance that our shareholders will enjoy protections to which they may be entitled in other jurisdictions.

ITEM 4 Information on the Company

A. History and development of the Company

Our legal and commercial name is Huaneng Power International, Inc. Our head office is at West Wing, Building C, Tianyin Mansion, 2C, Fuxingmennan Street, Beijing, People's Republic of China and our

telephone number is (8610) 66491999. We were established in June 1994 as a company limited by shares organized under the laws of the People's Republic of China.

On April 19, 2006, we carried out the reform to convert all non-tradable domestic shares to tradable domestic shares. According to the reform plan, Huaneng Group and HIPDC offered three shares to each holder of A Shares for every ten shares held by them. The total number of shares offered in connection with the reform was 150,000,000 shares. As a result, all non-tradable domestic shares were permitted to be listed on stock exchange for trading with certain selling restrictions. The period of selling restrictions is sixty months for the non-tradable shares held by Huaneng Group and HIPDC, and one year for most non-tradable shares held by others starting from April 19, 2006. As of March 31, 2008, approximately 6.122 billion of our shares, including our shares held by Huaneng Group and HIPDC, remained subject to selling restrictions. The reform did not affect the rights of shareholders of our overseas listed foreign shares.

As of December 31, 2006, we held 60% equity interest in Sichuan Hydropwer and were its controlling shareholder. In January 2007, Huaneng Group increased its capital investment in Sichuan Hydropower by RMB615 million, which resulted in that our shareholding in Sichuan Hydropower decreased to 49% and Huaneng Group became the controlling shareholder of Sichuan Hydropower. Starting from 2007, the operating results of Sichuan Hydropower are no longer consolidated into our consolidated financial statements.

On August 9, 2007, we issued unsecured short-term RMB-denominated debentures in the amount of RMB5 billion with a coupon rate of 3.84% and maturity date of 364 days.

On August 23, 2007, our board of directors approved the resolution of issuing corporate bonds of no more than RMB10.0 billion, and such board resolution was later approved by the extraordinary shareholders general meeting held on October 9, 2007. We issued bonds with maturity of 5 years, 7 years and 10 years in December 2007. The face values of such bonds are RMB1 billion, RMB1.7 billion and RMB3.3 billion with annual coupon rates of 5.67%, 5.75% and 5.90%, respectively.

On December 3, 2007, we entered into a share transfer agreement with HIPDC, pursuant to which we agreed to acquire from HIPDC 60% equity interests of Nanjing Jinling Power Ltd., Co., ("Jinling Power Plant" or "Jinling Power Company"), for consideration of RMB420 million. We paid the full amount of consideration on December 29, 2007. The acquisition took effect in the same month with satisfaction of all the conditions, payment of the full amount of consideration and the transfer of the related ownership and controlling power.

In December 2007, we susbscribed for and purchased 200 million shares, representing a 9.08% equity interests in Shenzhen Energy Investment Company Limited ("Shenzhen Energy") for consideration of RMB1.52 billion.

On March 25, 2008, we signed a letter of intent with Huaneng Group on the transfer of the equity of SinoSing Power Pte. Ltd. ("SinoSing Power"), which is a wholly-owned subsidiary of Huaneng Group that was established to acquire 100% equity interest in Tuas Power Ltd. from Temasek Holdings (Private) Limited. Huaneng Group's equity investment in SinoSing Power is US$985 million.

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

B. Business overview

We are one of the China's largest independent power producers based on the total attributable generation capacity of 33,723 MW as of March 31, 2008. We wholly own 16 operating power plants and have controlling interests in 13

operating power plants and minority interests in 5 operating power companies. Our power plants are located in 12 of China's provinces: Liaoning, Hebei, Shanxi, Shandong, Henan, Fujian, Jiangsu, Zhejiang, Guangdong, Jiangxi, Gansu, Hunan and in Shanghai and Chongqing Municipalities. In 2007, our power plants had an average availability factor of 93.53% and an average capacity factor of 59.04%. We also have 4,560 MW total generation capacity of construction projects in the same areas. We believe that these areas where our power plants are located present greater potential for increasing demand for electricity and enjoy the most favorable conditions for running power plants.

In 2007, seven new coal-fired generating units were put into commercial operations with a total installed capacity of 5,000 MW.

In 2007, we achieved good results on safe, reliable and increased power generation. Our total power generation reached 173.7 billion kWh, representing an increase of 13.21% from 2006. Although the average utilization hours of our coal-fired generating units were decreased to 5,656 hours in 2007 from 6,045 hours in 2006, they were still 340 hours above the industry average and remained at the highest level among power generation companies in China.

In 2007, we continue to take various measures to control our fuel cost, and achieved good results in respect of coal purchase and transportation, quality control and inventory enhancement. The coal purchase under key contracts accounted for 63.3% of our total coal purchases, compared to 62.0% in 2006. Our average unit fuel cost increased by 10.04% from 2006.

We will also continue to leverage our relationship with HIPDC, our controlling shareholder, as well as with Huaneng Group, the controlling shareholder of HIPDC, in respect of acquisition and development of power projects. We have a preferential right to purchase equity interests in existing power plants owned by Huaneng Group and HIPDC and the preferential right on all of their respective future power development projects that we may realistically develop. Furthermore, we entered into an Entrusted Management Agreement with Huaneng Group and HIPDC in relation to the management of their respective coal-fired power plants. By entering into the Entrusted Management Agreement, we will further accumulate management experience as a result of the expansion of our operation scale and set a precedent for large-scale and multi-entities entrusted management in the PRC. Some of these coal-fired power plants could be our potential acquisition targets. Please see "Item 7 — Major Shareholders and Related Party Transactions" for a detailed description of the Entrusted Management Agreement.

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

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

Development of power plants

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

Opportunity identification and feasibility study

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

Approval process

Prior to July 2004, any project proposal and supporting documents for new power plants must first be submitted to the NDRC for approval and then be submitted to the State Council. In July 2004, the State Council of the PRC reformed the fixed asset investment regulatory system in China. Under the new system, new projects in the electric power industry that do not use government funds will no longer be subject to the examination and approval procedure. Instead, they will only be subject to a confirmation and registration process. Coal-fired projects will be confirmed by and registered with the relevant department of the central government while non-coal fired power plants will be subject to confirmation and registration by the relevant local government departments. Under a circular issued by NDRC in September 2004, coal-fired power plants

with installed capacity of 1,200 MW or more will be subject to confirmation by the NDRC and the State Council.

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

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

Permits and contracts

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

Power plant construction

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

Import duties

China's general import-tariff level has been declining since China acceded to the WTO in November 2001. China's average import-tariff rate was reduced annually from 15.3% in 2001 to 9.9% in 2005 and 2006. Starting from January 1, 2007, the average import-tariff rate was further reduced to 9.8%. In general, China's accession to WTO will bring its import-tariff to a level consistent with the average level of all other WTO members.

Under the relevant PRC laws and regulations, foreign invested enterprises, or "FIE", will be entitled to import duty exemption in respect of self-use imported equipment and raw materials for investment projects that fall into the encouraged category under the Catalogue for the Guidance of Foreign Investment Industries (the "Catalogue"). Pursuant to the current Catalogue effective on December 1, 2007, construction and operation of power stations using integrated gasification combined cycle, circulating fluidized bed with a generating capacity of 300MW or above, pressurized fluided bed combustor with a generating capacity of 100MW or above and other clean combustion technologies belong to the category of encouraged projects. Therefore, our construction projects that meet the conditions for encouraged projects under the current catalogue are eligible for import-duty exemption for imported generating units.

In addition, pursuant to the Interim Rules to Promote Structural Adjustment of Industries and Guidance Catalogue for Structural Adjustment of Industries issued in December 2005, our power plants construction projects with independent legal person status belong to an encouraged category of investments, and therefore are eligible for exemption from import duty and related value-added tax with regard to the imported equipments used in such projects, subject to the approval of the relevant government authorities.

Plant start-up and operation

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

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

Pricing policy

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

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

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

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

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

In May 2007, NDRC and the State Environment Protection Administration jointly promulgated Interim Administrative Measures on Electricity Price of Coal-fired Generating Units installed with Desulphurization Facilities and the Operations of Such Facilities, which provided that a premium for desulphurization may be charged on the price of the electricity generated by generating units installed with desulphurization facilities on and from the date on which such desulphurization facilities are tested and accepted by relevant environment protection regulator. Such pricing policy is also applicable to the old generating units which are installed with desulphurization facilities. The new measures are more stringent on the regulation of the coal-fired power plants with desulphurization facilities, setting forth the categories under which the price including a desulphurization premium will be offset or otherwise

penalized based on the ratio of utilization of the relevant desulphurization facilities on annual basis. As of December 31, 2007, we have completed the installation of desulphurization facilities for 47 generating units with a total capacity of 19,280 MW, representing 51.5% of our controllable power generation installed capacity. We plan to install desulphurization facilities for all of our generating units by 2009.

Power sales

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

In 2003, SERC and the State Administration of Commerce and Industry jointly promulgated a model contract form (the "Model Contract Form") for use by power grid companies and power generation companies in connection with electricity sale and purchase transactions. The Model Contract Form contains provisions on the parties' rights and obligations, amount of electricity subject to purchase, payment method and liabilities for breach of contract, etc. We believe that the publication of the Model Contract Form has facilitated the negotiation and execution of electricity purchase contracts between power grid companies and power generation companies in a fair, transparent and efficient manner. In 2007, most of the agreements entered into between our power plants and the local grid companies were based on the Model Contract Form.

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

Power market in the Northeastern region

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

We have three power plants in the Northeast region, namely Dalian Power Plant, Dandong Power Plant and Yingkou Power Plant with a total of 10 generating units and an aggregate generation capacity of 3,940 MW. All of these power plants consist of generating units with large-capacity and the management has put in place a strong management team to manage these plants.

To ensure a fair market environment for the three power plants in Liaoning, we will keep ourselves updated on the changes of the relevant rules and will actively support and participate in the establishment of the power market of the Northeast region. We believe that we can optimize our competitive strengths under a fair, reasonable and open market environment.

Power market in the Eastern region

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

power market carried out two trial operations of daily price bidding respectively, and the bidding results were used in actual settlements.

We have eleven power plants in the Eastern region with a total of 36 generating units and an aggregate generation capacity of 15,434 MW.

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

Power market in the other regions

The power market in the southern region continued carrying out the simulated operations in 2007. The plans for establishment of

power market in central region, northwestern region and northern region have been formulated, and have been officially issued to the public for comments.

Establishing regional power markets and increasing the use of the bidding method are the general trend in China's power market reform, which is conducive to creating a competition environment that is fair, transparent and equitable. We believe that this reform will benefit us in the long-term. We will adopt different bidding strategies and fully take advantage of the large scales of our power plants in accordance with the specific circumstances of different power grids and different power plants, thereby maximizing our profits in the power bidding process. We also believe that our large and highly efficient generating units are competitive in a more open, orderly and fair market.

The following table sets forth the average power tariff (RMB/MWh) of electric power sold by our power plants, for each of the five years ended December 31, 2007 and the approved power tariff for 2008.

	Year Ended December 31,					
	2003 Average Tariff (1)	2004 Average Tariff (1)	2005 Average Tariff (1)	2006 Average Tariff (1)	2007 Average Tariff (1)	2008 Approved Tariff(1)
Dalian Power Plant	272.69	283.62	317.58	315.95	323.27	324.7
Dandong Power Plant	276.95	289.05	301.67	322.76	330.38	331.8
Yingkou Power Plant	--	315.48	360.09	334.47	343.37	343.8
Fuzhou Power Plant	331.82	365.00	367.06	342.46	369.61	386.5
Shang'an Power Plant	307.94	303.25	319.91	340.22	344.47	350.5
Nantong Power Plant	312.52	325.18	343.00	344.92	339.47	371.3
Nanjing Power Plant	307.31	321.67	340.65	345.56	342.99	363.7
Taicang Power Plant						393.2
Phase I	321.80	341.10	360.00	361.64	359.69	--
Phase II	--	--	--	371.50	358.08	--
Huaiyin Power Plant						
Phase I	317.21	330.88	346.43	366.44	N/A(2)	363.7
Phase II	--	--	373.77	362.26	357.47	390.0
Phase III	--	--	--	362.26	357.47	390.0
Shidongkou I	256.64	285.43	320.30	358.85	369.54	364.21
Shidongkou II	332.85	342.56	357.60	357.08	347.93	364.21
Shantou Power Plant						
Phase I	435.17	446.86	462.83	487.55	497.7	497.71
Phase II	--	--	--	446.54	453.2	453.2
Dezhou Power Plant (Phases I, II & III)	333.34	332.58	349.56	360.68	360.45	369.9
Jining Power Plant						

Phases I, II	274.66	299.89	323.41	342.42	310.90	330.9
Phase III	--	299.89	323.41	342.42	370.90	370.9
Weihai Power Plant	386.50	394.06	398.93	402.99	403.00	406.0
Xindian Power Plant						
Phases I, II	342.41	320.83	337.25	350.54	379.71	355.9
Phase III	--	--	--	351.90	356.01	354.9
Changxing Power Plant	320.57	351.94	392.83	408.90	428.16	434.3
Yushe Power Plant						
Phase I	200.63	282.10	319.37	316.16	332.53	339.4
Phase II	--	282.10	256.00	268.21	274.16	275.4

	Year Ended December 31,					
	2003 Average Tariff (1)	2004 Average Tariff (1)	2005 Average Tariff (1)	2006 Average Tariff (1)	2007 Average Tariff (1)	2008 Approved Tariff(1)
Qinbei Power Plant	--	--	299.77	311.20	311.86	334.2
Jinggangshan Power Plant	--	--	353.90	369.87	366.94	378.0
Yueyang Power Plant						
Phase I	--	316.52	341.34	360.88	366.49	387.5
Phase II	--	--	--	363.38	378.91	402.5
Luohuang Power Plant						
Phases I, II	--	286.74	300.90	314.87	308.65	322.4
Phase III	--	--	--	337.30	337.30	337.3
Pingliang Power Plant	--	--	211.43	216.27	223.31	232.8
Sichuan Hydropower	--	--	262.52	266.32	N/A(2)	N/A(2)
Yuhuan Power Plant	--	--	--	360.95	415.05	419.5
Shanghai CCGT	N/A	N/A	N/A	N/A	N/A	N/A
Jinling Power Plant	--	--	--	--	481.99	520.0

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Notes: (1) Includes value-added tax.
(2) Unit I of Huaiyin Power Plant was shut down in December 2007. Sichuan Hydropower was excluded from our consolidation scope since 2007.

Fuel supply arrangements

In 2007, all of our power plants were fueled by either coal or gas.

Coal

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

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

From 2002 to 2003, there was no longer official State Plan for coal supplies, but the government continued to coordinate the coal prices at the annual national coal purchase conferences attended by, among others, representatives of each of power companies, coal suppliers, and the railway authorities and sponsored and coordinated by NDRC. Power companies obtain allocations for coal on a plant-by-plant basis. Each of the power plants then signs supply contracts with the coal suppliers, and with the railway and shipping companies for the amount of coal and transportation allocated to them. Starting from 2004, although such annual coal purchase conferences continue to be held, only key contracts are negotiated and executed at such conferences.

In 2005, coal price increased by a substantial amount compared to the same period in 2004. We purchased 68.08 million tons of coal and consumed 66.03 million tons of coal. Of our total coal purchases, 55% was purchased under the key contracts and medium and long-term agreements, and the remainder was purchased in the open market. The coal purchase price for our company, including transportation costs and miscellaneous expenses, averaged approximately RMB338.03 per ton.

In 2006, the national supply and demand of coal reached equilibrium. We purchased 67.76 million tons of coal and consumed 68.83 million tons of coal. Of our total coal purchases, 62% was purchased under the key contracts, and the remainder was purchased in the open market. The coal purchase price for our company, including transportation costs and miscellaneous expenses, averaged approximately RMB343.73 per ton.

In 2007, the power generation companies and coal suppliers were permitted to negotiate coal price and execute coal purchase contracts. The government will take temporary interventional measures to regulate coal price only in exceptional circumstances. In 2007, we purchased 76.72 million tons of coal and consumed

77.20 million tons of coal. Of the coal purchases in 2007, 63.3% was purchased under the key contracts and the remainder was purchased in the open market. The coal purchase price for our company, including transportation costs and miscellaneous expenses, averaged approximately RMB417.77 per ton.

We strive to reduce our fuel costs in a number of ways, including seeking to purchase high quality coal at competitive prices directly from coal mines or coal shipment terminals, improving coal storage management and inspection and demanding compensation from suppliers for failure to deliver coal of the specified quantity and quality in accordance with the relevant purchase arrangements. We have also started to experiment in some of our power plants with a method of mixing different types of coal as a measure of cost reduction. In order to address the shortage of coal supplies, we have entered into seven medium and long-term agreements with major coal suppliers to secure stable prices for our coal supplies from 2005 to 2009. At the same time, we also increased the percentage of the key coal supply contracts with coal suppliers at the annual national coal purchase conference, the coal purchase price of which is typically lower than the purchase price on open market. Through these measures, we seek to further strengthen the stable coal supplies for our power plants.

We expect the coal required for our planned generation in 2008 to be 82.00 million tons. As of April 15, 2008, we have entered into coal purchase contracts for a total of 55.89 million tons, with an average purchase price of RMB386.2 per ton. We anticipate entering into coal purchase contracts for another 9.00 million tons, which, in aggregate with the 55.89 million tons, would account for 80.0% of our coal required in 2008. During the first two months of 2008, China's southern region experienced inclement weather caused by rare sleet, which lead to the shortage of the coal supply due to, among other things, transportation disruptions. The coal price increased significantly during the two-month period and our coal inventory has decreased. We plan to actively take measures to control our fuel cost in 2008.

Gas

Huaneng Shanghai Combined Cycle Gas Turbine Power Plant ("Shanghai CCGT") is a gas-fired power plant. The gas supply for Shanghai CCGT is transported through the pipeline of "West-East Gas Transport Project".

Huaneng Jinling Combined Cycle Gas Turbine Power Plant ("Jinling Power Plant") is a gas-fired power plant. The gas supply for Jingling Power Plant is transported through the pipeline of "West-East Gas Transport Project".

Repairs and maintenance

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

Pursuant to our procedures, coal-fired generating units are currently operating on a cycle of four to six years. At the end of each operating cycle, an overhaul is carried out. In each cycle, there are four different levels of maintenance:

(i) regular checks and routine maintenance are carried out throughout the period during which generating unit is in operation;

(ii) a small-scale servicing is performed every year, which takes approximately 20 days;

(iii) a medium-scale check-up is carried out between the two overhauls, the length of which depends on the actual condition of the generating unit at

the time of the check-up; and

(iv) a full-scale overhaul is conducted at the end of each operating cycle, which takes approximately 60 days.

C. Organizational structure

We are 42.03% owned by HIPDC, which in turn is a subsidiary of Huaneng Group. Huaneng Group was established in 1988 with the approval of the State Council. Huaneng Group also directly holds an 8.75% equity interest in us. In 2002, Huaneng Group was restructured as one of the five independent power generation

group companies to take over the power generation assets originally belonging to the State Power Corporation of China. Huaneng Group has a registered capital of RMB20 billion and is controlled and managed by the central government. Huaneng Group is principally engaged in the development, investment, construction, management and operation of energy related projects as well as the production and sale of electricity. In addition to this core business, Huaneng Group also engages in the development, investment, construction, production and sale of projects and products in the information, transportation, new energy source and environmental industries.

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

The following organizational chart sets forth the organizational structure of HIPDC and us as of April 10, 2008:

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

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

D. Property, plants and equipment

The following table presents certain summary information on our power plants as of March 31, 2008.

Plant or Expansion (Names as defined below)		Province/ Municipality	Actual In-service Date(1)	Current Installed Capacity (MW)	Ownership %	Attributable Capacity MW	Type of Fuel
Dalian	Phase I	Liaoning	Unit I: Sep. 1988	2 x 350	100%	700	Coal
			Unit II: Dec. 1988				
	Phase II		Unit III: Jan. 1999	2 x 350	100%	700	Coal
			Unit IV: Jan. 1999				
Dandong		Liaoning	Unit I: Jan. 1999	2 x 350	100%	700	Coal
			Unit II: Jan. 1999				
Yingkou	Phase I	Liaoning	Fujian	2 x 320	100%	640	Coal
			Unit II: Dec. 1996				
	Phase II		Unit III: Aug. 2007	1 x 600	100%	600	Coal
			Unit IV: Oct. 2007	1 x 600	100%	600	Coal
Fuzhou	Phase I	Fujian	Unit I: Sep. 1988	2 x 350	100%	700	Coal
			Unit II: Dec. 1988				
	Phase II		Unit III: Oct. 1999	2 x 350	100%	700	Coal
			Unit IV: Oct. 1999				
Shang'an	Phase I	Hebei	Unit I: Aug. 1990	2 x 350	100%	700	Coal
			Unit II: Dec. 1990				
	Phase II		Unit III: Oct. 1997	2 x 300	100%	600	Coal
			Unit IV: Oct. 1997				
Nantong	Phase I	Jiangsu	Unit I: Sep. 1989	2 x 352	100%	704	Coal
			Unit II: Mar. 1990				

	Phase II		Unit III: Jul. 1999	2 x 350	100%	700	Coal
			Unit IV: Oct. 1999				
Nanjing		Jiangsu	Unit I: Mar. 1994	2 x 320	100%	640	Coal
			Unit II: Oct. 1994				
Taicang	Phase I	Jiangsu	Unit I: Dec. 1999	2 x 300	75%	450	Coal
			Unit II: Apr. 2000				
	Phase II		Unit III: Jan. 2006	2 x 600	75%	900	Coal
			Unit IV: Feb. 2006				
Huaiyin(2)	Phase I	Jiangsu	Unit II: Aug. 1994	1 x 220	90%	198	Coal
	Phase II		Unit III: Jan. 2005	2 x 330	63.64%	420	Coal
			Unit IV: Mar. 2005				
	Phase III		Unit V: May 2006	2 x 330	63.64%	420	Coal
			Unit VI: Sep. 2006				
Shidongkou I		Shanghai	Unit I: Feb. 1988	1 x 300	100%	1,270	Coal
			Unit II: Dec. 1988(3)	1 x 325			
			Unit III: Sep. 1989(3)	1 x 325			
			Unit IV: May 1990	1 x 320			
Shidongkou II		Shanghai	Unit I: Jun. 1992	2 x 600	100%	1,200	Coal
			Unit II: Dec. 1992				
Shanghai CCGT		Shanghai	Unit I: May 2006	3 x 390	70%	819	Gas
			Unit II: Jun. 2006				
			Unit III: Jul. 2006				
Shantou	Phase I	Guangdong	Unit I: Jan. 1997	2 x 300	100%	600	Coal
			Unit II: Jan. 1997				
	Phase II		Unit III: Oct. 2005	1 x 600	100%	600	Coal

Dezhou	Shandong	Units I: 1992	1 x 330	100%	650	Coal
		Unit II: 1992	1 x 320			
		Units III: Jun. 1994	2 x 300	100%	600	Coal
		Unit IV: May 1995				
		Units V: Jun. 2002	2 x 700	100%	1,400	Coal
		Unit VI: Oct 2002				

Plant or Expansion (Names as defined below)		Province/ Municipality	Actual In-service Date(1)	Current Installed Capacity (MW)	Ownership %	Attributable Capacity MW	Type of Fuel
Jining(2)		Shandong	Unit IV: 1978	1 x 110	100%	110	Coal
			Unit V: Jul. 2003	2 x 135	100%	270	Coal
			Unit VI: Aug. 2003				
Weihai		Shandong	Units I: May. 1994	2 x 125	60%	150	Coal
			Unit II: Jan. 1995				
			Units III: Mar. 1998	2 x 300	60%	360	Coal
			Unit IV: Nov. 1998				
Xindian		Shandong	Unit III: Jan 2002	2 x 225	100%	450	Coal
			Unit IV: Dec 2001				
			Unit V: Sep 2006	2x300	95%	570	Coal
			Unit VI: Nov 15				
Changxing		Zhejiang	Unit I: Jan. 1992	1 x 135	100%	260	Coal
			Unit II: Aug. 1992	1 x 125			
Yuhuan	Phase I	Zhejiang	Unit I: Nov. 2006	2 x 1000	100%	2,000	Coal
			Unit II: Dec. 2006				
	Phase II		Unit III: Nov. 2007	1 x 1000	100%	1000	Coal
			Unit IV: Nov. 2007	1 x 1000	100%	1000	Coal
Yushe	Phase I	Shanxi	Unit I: Jun. 1994	2 x 100	60%	120	Coal
			Unit III: Dec 1994				
	Phase II		Unit IV: Oct. 2004	2 x 300	60%	360	Coal
			Unit II: Nov. 2004				
Qinbei	Phase I	Henan	Unit I: Dec. 2004	2 x 600	60%	720	Coal

			Unit II: Dec. 2004				
	Phase II		Unit III: Nov. 2007	1 x 600	60%	360	Coal
			Unit IV: Nov. 2007	1 x 600	60%	360	Coal
Jinggangshan		Jiangxi	Unit I: Dec. 2000	2 x 300	100%	600	Coal
			Unit II: Aug. 2001				
Yueyang	Phase I	Hunan	Unit I: Aug. 1991	2 x 362.5	55%	398.75	Coal
			Unit II: Sep. 1991				
	Phase II		Unit III: Mar. 2006	2 x 300	55%	330	Coal
			Unite IV: May 2006				
Luohuang	Phase I	Chongqing	Unit I: Sep. 1991	2 x 360	60%	432	Coal
			Unit II: Feb. 1992				
	Phase II		Unit III: Dec. 1998	2 x 360	60%	432	Coal
			Unit IV: Dec. 1998				
	Phase III		Unit V: Dec. 2006	2x600	60%	720	Coal
			Unit VI: Jan. 2007				
Pingliang		Gansu	Unit I: Sep. 2000	4 x 300	65%	780	Coal
			Unit II: Jun. 2001				
			Unit III: Jun. 2003				
			Unit IV: Nov. 2003				
Jinling	Phase I	Jiangsu	Unit I: Dec. 2006	1 x 390	60%	234	Gas
			Unit II: Mar. 2007	1 x 390	60%	234	Gas

Notes:

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

(2) The Unit I of Huaiyin Phase I and Unit III of Jinling were shut down in December 2007.

(3)

The installed capacities of Unit II and Unit III of Shidongkou I were expanded to 325 MW in September 2007 and January 2008, respectively.

The following table sets forth certain summary information on our construction projects as of March 31, 2008.

Plant or Expansion (Names as defined below)	Province/ Municipality	Expected Installed Capacity (MW)	Ownership %	Attributable Capacity MW	Type of Fuel
Shang'an Phase III	Hebei	2x600	100%	1,200	Coal
Haimen Phase I	Guangdong	2x1,000	100%	2,000	Coal
Rizhao Phase II	Shandong	2x680	100%	1,360	Coal

The following table presents the availability factors and the capacity factors of our operating coal-fired power plants for the years ended December 31, 2005, 2006, and 2007.

	Availability factor (%)			Capacity factor (%)		
	2005	2006	2007	2005	2006	2007
Dalian	97.49	93.96	97.31%	75.29	81.76	83.39%
Dandong	97.09	93.93	96.39%	69.12	80.66	80.58%
Yingkou	93.72	92.04	95.97%	83.48	87.22	73.07%
Fuzhou	93.60	98.37	93.80%	75.14	68.02	66.34%
Shang'an	93.45	91.76	92.42%	74.21	69.38	63.36%
Nantong	93.50	94.32	92.93%	68.32	62.28	67.85%
Nanjing	90.97	93.76	92.61%	70.21	61.56	65.25%
Taicang	95.53	93.22	93.35%	75.51	63.94	68.60%
Huaiyin	94.38	94.16	93.87%	68.49	60.27	55.38%
Shidongkou I	83.35	92.22	89.06%	71.18	70.15	64.35%
Shidongkou II	92.63	97.21	90.58%	75.71	70.45	75.70%
Shantou	92.35	92.51	88.74%	89.80	80.35	70.38%
Dezhou	90.58	92.22	92.21%	65.37	62.48	56.95%
Jining	94.37	94.37	96.08%	65.55	65.61	59.48%
Weihai	95.70	95.18	96.51%	65.64	59.50	54.73%
Xindian	93.29	96.21	85.62%	67.35	60.93	52.03%
Changxing	95.31	95.33	91.18%	84.36	78.25	70.37%
Yushe	92.27	93.16	94.48%	77.37	79.45	81.22%
Qinbei	92.58	90.59	96.72%	70.85	66.84	64.96%
Jinggangshan	93.16	92.74	91.67%	65.96	68.09	67.10%
Yueyang	93.70	95.14	93.24%	71.89	60.39	58.14%
Luohuang	89.44	90.88	91.30%	65.01	69.93	49.62%
Pingliang	95.39	93.08	94.97%	76.80	75.48	77.15%
Yuhuan	----	N/A	94.23%	----	N/A	60.05%

The details of our operating power plants and construction projects as of March 31, 2008 are described below.

Power plants in Liaoning Province

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

The coal supply for Dalian Power Plant is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and shipped by special 27,000 ton automatic unloading ships to the wharf at the Dalian Power Plant. The wharf is owned and maintained by the Dalian Port Authority and is capable of handling 30,000 ton vessels. Dalian Power Plant typically stores 200,000 tons of coal on site.

In 2007, Dalian Power Plant obtained 47% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Dalian Power Plant was RMB421.45 (2006: RMB393.67) per ton in 2007.

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

Huaneng Dandong Power Plant ("Dandong Power Plant") is located on the outskirts of the city of Dandong in Liaoning. Dandong Power Plant had originally been developed by HIPDC which, pursuant to the Reorganization Agreement, transferred all its rights and interests therein to us effective December 31, 1994. In March 1997, we began the construction of Dandong Power Plant, which comprises two 350 MW coal-fired generating units.

The coal supply for Dandong Power Plant is obtained from several coal producers in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and shipped by barge to the Dandong port in Dandong, where it is unloaded and transported to Dandong Power Plant using special coal handling facilities. The wharf is owned and maintained by Dandong Power Plant and is capable of handling 28,000 ton vessels. Dandong Power Plant typically stores 220,000 tons of coal on site.

In 2007, Dandong Power Plant obtained 60% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Dandong Power Plant was RMB379.21 (2006: RMB355.58) per ton in 2007.

All the electricity generated by Dandong Power Plant is delivered to the Liaoning Provincial Power Grid and was sold through the Liaoning Electric Power Co., Ltd. and the Northeastern Power Grid.

Huaneng Yingkou Power Plant ("Yingkou Power Plant") is located in Yingkou City in Liaoning Province. Yingkou Power Plant Phase I has an installed capacity of 640 MW and consists of 2 x 320 MW supercritical coal-fired generating units which commenced commercial operations in January and December 1996, respectively. Yingkou Power Plant Phase II has an installed capacity of 1,200MW and consists of two 600 MW coal-fired generating units which commenced operations in August and October 2007, resepectively.

The coal supply for Yingkou Power Plant is mainly obtained from Shanxi Province. In 2007, Yingkou Power Plant obtained 57% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Yingkou Power Plant was RMB385.60 (2006: RMB360.41) per ton in 2007. Yingkou Power Plant typically stores 200,000 tons of coal on site.

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

Power plant in Fujian Province

Huaneng Fuzhou Power Plant ("Fuzhou Power Plant") is located on the south bank of the Min River, southeast of the city of Fuzhou. Fuzhou Power Plant, including Phase I and Phase II, has an installed capacity of 1,400 MW and consists of four 350 MW coal-fired generating units which commenced commercial operations in 1988 and 1999, respectively.

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

In 2007, the Fuzhou Power Plant obtained 48% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Fuzhou Power Plant in 2007 was

RMB437.03 (2006: RMB411.43) per ton.

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

Power plant in Hebei Province

Huaneng Shang'an Power Plant ("Shang'an Power Plant") is located on the outskirts of Shijiazhuang. Shang'an Power Plant has been developed in two separate expansion phases. The Shang'an Power

Plant Phase I has an installed capacity of 700 MW and consists of two 350 MW coal-fired generating units which commenced commercial operations in 1990. Shang'an Power Plant Phase II shares with the Shang'an Power Plant Phase I certain facilities, such as coal storage facilities and effluence pipes, which have been built to accommodate the requirements of plant expansions. The Shang'an Power Plant Phase II utilizes two 300 MW coal-fired generating units, which commenced commercial operation in 1997.

The coal supply for Shang'an Power Plant is obtained from numerous coal producers in Central Shanxi Province, which is approximately 64 kilometers from Shang'an Power Plant. The coal is transported by rail from the mines to the Shang'an Power Plant. We own and maintain the coal unloading facilities which are capable of unloading 10,000 tons of coal per day. Shang'an Power Plant typically stores 300,000 tons of coal on site.

In 2007, Shang'an Power Plant obtained 72% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Shang'an Power Plant in 2007 was RMB312.26 (2006: RMB297.91) per ton.

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

Construction Project in Hebei Province

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

Power plants in Jiangsu Province

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

The coal supply for Nantong Power Plant is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and then shipped to the Nantong Power Plant. Nantong Power Plant typically stores 300,000 tons of coal on site.

In 2007, Nantong Power Plant obtained 54% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Nantong Power Plant in 2007 was RMB425.59 (2006: RMB390.00) per ton.

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

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

The coal supply for the Nanjing Power Plant is obtained from several coal producers located in the Shanxi and Anhui Provinces. The coal is transported by rail from the mines to Yuxikou Port and Pukou Port and shipped to the plant's own wharf facilities. The wharf is capable of handling 6,000 ton vessels. Nanjing Power Plant typically stores 120,000 tons of coal on site and consumes 5,000 tons of coal per day when operating at maximum generating capacity.

In 2007, Nanjing Power Plant obtained approximately 14% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Nanjing Power Plant in 2007 was RMB427.13 (2006: RMB404.29) per ton.

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

Huaneng Taicang Power Plant ("Taicang Power Plant") is located in the vicinity of Suzhou, Wuxi and Changzhou, which is the most affluent area in Jiangsu Province. Taicang Power Plant is an ancillary facility of the China-Singapore Suzhou Industrial Park and has a total planned capacity of 1,200 MW. Taicang Power

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

The coal supply for Taicang Power Plant is primarily from Shenhua in Inner Mongolia and Datong in Shanxi Province. In 2007, Taicang Power Plant obtained approximately 43% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Taicang Power Plant in 2007 was RMB435.53 (2006: RMB404.15) per ton. Taicang Power Plant typically stores 350,000 tons of coal on site.

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

Huaneng Huaiyin Power Plant ("Huaiyin Power Plant") is located in the Centre of the Northern Jiangsu Power Grid. The plant's 2 x 220 MW coal-fired generating units commenced operation in November 1993 and August 1994, respectively. In order to reduce energy consumption and increase capacity, one generating unit of Huaiyin Power Plant was upgraded in October 2001, which increased the maximum generation capacity of that unit to 220 MW. In 2002, upgrading of the second generating unit was completed, and the actual generation capacity of Huaiyin Power Plant is 440 MW. In December 2007, Unit I of Huaiyin Power Plant was shut down. The other two 330 MW coal-fired generating units of Huaiyin Power Plant Phase II Expansion have commenced commercial operations in January and March 2005, respectively. Huaiyin Power Plant Phase III consists of two 330 MW coal-fired generating units, and was put into operations in August and September 2006, respectively.

In 2007, Huaiyin Power Plant obtained approximately 40% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Huaiyin Power Plant in 2007 was RMB436.08 (2006: RMB398.05) per ton.

The coal supply for the Huaiyin Power Plant is primarily from Anhui Province, Henan Province and Shanxi Province. Huaiyin Power Plant typically stores 180,000 tons of coal on site.

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

Huaneng Nanjing Jinling Power Plant ("Jinling Power Plant") is located in Nanjing, Jiangsu, which has an installed capacity of 780 MW. Jingling Power Plant consists of 2 x 390 MW gas-fired generating units, which commenced operation in December 2006 and March 2007, respectively. The gas supply for Jingling Power Plant is transported through the pipeline of "West-East Gas Transport Project".

Power plants in Shanghai Municipality

Huaneng Shanghai Shidongkou First Power Plant ("Shidongkou I") is located in the northern region of the Shanghai Power Grid. The plant comprises 2x 325 MW, 1 x 300 MW and 1 x 320 MW coal-fired generating units, which commenced operation in February and December 1988, September 1989 and May 1990 respectively, and has a total installed capacity of 1,270 MW. The installed capacities of Unit II and Unit III were expanded from 300 MW to 325 MW in September 2007 and January 2008, respectively.

The coal supply for Shidongkou I is primarily from Shanxi Province, Anhui Province and Henan Province. In 2007, Shidongkou I obtained approximately 24% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Shidongkou I in 2007 was

RMB435.89 (2006: RMB407.68) per ton. Shidongkou I Power Plant typically stores 150,000 tons of coal on site.

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

Huaneng Shanghai Shidongkou Second Power Plant ("Shidongkou II") is located in the northern suburbs of Shanghai. Shidongkou II has an installed capacity of 1,200 MW and consists of two 600 MW coal-fired super-critical units which commenced commercial operations in June and December 1992, respectively.

The coal supply for Shidongkou II is obtained from several coal producers located mostly in Northern Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port or Tianjin port

and shipped to the plant's own wharf facilities. The wharf is capable of handling 35,000 ton vessels. Shidongkou II typically stores 180,000 tons of coal on site.

In 2007, Shidongkou II obtained 56% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Shidongkou II in 2007 was RMB423.41 (2006: RMB388.05) per ton.

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

Huaneng Shanghai Combined Cycle Gas Turbine Power Plant ("Shanghai CCGT") is located in Baoshan District of Shanghai Municipality. Shanghai CCGT consists of three 390 MW gas-fired combined-cycle generating units with a total installed capacity of 1,170 MW, which were put into operation in May, June and July 2006, respectively.

The gas supply for Shanghai CCGT is transported through the pipeline of "West-East Gas Transport Project". Shanghai CCGT generates electricity during the peak load periods and sells its electricity through Shanghai Municipal Electric Power Company.

Power plants in Guangdong Province

Huaneng Shantou Coal-Fired Power Plant ("Shantou Power Plant") had originally been developed and constructed by HIPDC which transferred all its rights and interests therein to us effective on December 31, 1994. Located on the outskirts of the city of Shantou, Shantou Power Plant was set up with the support of the Shantou municipal government and the Guangdong provincial government. Shantou Power Plant Phase I consists of two 300 MW coal-fired generating units with boilers, which commenced commercial operation on January 1997. Shantou Power Plant Phase II consists of one 600 MW coal-fired generating unit and commenced operation in October 2005.

The coal supply for Shantou Power Plant is obtained from several coal producers located mostly in the northern area of Shanxi Province. The coal is transported by rail from the mines to Qinhuangdao port and by ship down the east coast of China to the wharf located at Shantou Power Plant, which is maintained by the Shantou Port Authority and is capable of handling 35,000 ton vessels. The Shantou Power Plant typically stores 300,000 tons of coal on site.

In 2007, the Shantou Power Plant obtained 45% of its total consumption of coal pursuant to the key contracts and the remainder was purchased in the open market. The weighted average costs of coal for Shantou Power Plant in 2007 was RMB461.55 (2006: RMB424.69) per ton.

The electricity sales of Shantou Power Plant are made to the Guangdong Power Grid. Electricity generated by Shantou Power Plant is delivered to the Guangdong Power Grid.

Construction Project in Guangdong Province

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

Power plants in Shandong Province

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

Dezhou Power Plant comprises of three phases, with Phases I consisting of one 320MW and one 330MW coal-fired generating units, phase II consisting of two 300 MW coal-fired generating units, and Phase III consisting of two 700 MW coal-fired generating units.

Dezhou Power Plant is approximately 200 km from Taiyuan, Shanxi Province, the source of the plant's coal supply. The plant is located on the Taiyuan-Shijiazhuang-Dezhou rail line, giving it access to transportation facilities for coal. In 2007, Dezhou Power Plant obtained approximately 97% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Dezhou Power Plant in 2007 was RMB309.34 (2006: RMB282.73) per ton.

The plant is connected to the main trunk rail line at Dezhou by a dedicated 3.5 km spur line owned by us. Dezhou Power Plant typically stores 400,000 tons of coal on site.

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

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

Jining Power Plant facilities have undergone replacement, renovation and construction as necessary. Jining Power Plant has higher rates of auxiliary power and coal consumption than many larger and newer plants. In 2006, Units I and II of Jining Power Plant with a total capacity of 100 MW were put out of operation. In 2007 Unit III of Jining Power Plant with the capacity of 115 MW was put out of operation. As a result, Jining Power Plant currently comprises three coal-fired generating units, with an aggregate installed capacity of 380 MW. Jingling Power Plant typically stores 100,000 tons of coal on site.

In 2007, Jining Power Plant obtained approximately 82% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Jining Power Plant in 2007 was RMB377.64 (2006: RMB345.03) per ton.

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

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

Weihai Power Plant, developed in two phases, consists of four coal-fired generating units with an aggregate capacity of 850 MW. Phase I consists of two 125 MW generating units (Units I and II), and Phase II consists of two 300 MW generating units (Units III and IV). Unit I began commercial operation in May 1994, and Unit II began commercial operation in January 1995. Unit III commenced commercial operation in March 1998. Unit IV commenced commercial operation in November 1998.

In 2007, Weihai Power Plant obtained approximately 58% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Weihai Power Plant in 2007 was RMB407.64 (2006: RMB368.76) per ton. The coal supply for Weihai Power Plant is obtained from Shanxi Province and Inner Mongolia. Weihai Power Plant typically stores 160,000 tons of coal on site.

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

Huaneng Xindian Power Plant ("Xindian Power Plant") is located in Zibo Municipality of Shandong Province. Xindian Power Plant currently has an installed capacity of 450 MW and consists of two 225 MW coal-fired generating units which commenced commercial operations in December 2001 and January 2002, respectively. Xindian Power Plant Phase III Expansion consists of two 300 MW generating units with a total installed capacity of 600 MW, which were put into operation in September and November 2006, respectively.

The coal supply for Xindian Power Plant is obtained from several coal producers located mostly in Shanxi Province. In 2007, Xindian Power Plant obtained 73% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. The weighted average cost of coal for Xindian Power Plant in 2007 was RMB378.45 (2006: RMB376.67) per ton. Xindian Power Plant typically stores 250,000 tons of coal on site.

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

Construction Project in Shandong Province

Huaneng Rizhao Power Plant Phase II ("Rizhao Power Plant Phase II") is planned to consist of two 680 MW generating units with a total installed capacity of 1,360 MW. We own 100% equity interests in this project.

Power plants in Zhejiang Province

Huaneng Changxing Power Plant ("Changxing Power Plant") is located at the intersection of Zhejiang Province, Jiangsu Province and Anhui Province. Changxing Power Plant is a key power plant in northern Zhejiang area. It has one 125 MW and one 135 MW coal-fired generating units which commence operation in January and August 1992, respectively.

The coal supply for Changxing Power Plant is primarily from Jungar in Inner Mongolia and Xuzhou in Jiangsu Province. In 2007, Changxing Power Plant obtained approximately 61% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Changxing Power Plant in 2007 was RMB420.17 (2006: RMB388.87) per ton. Changxing Power Plant typically stores 80,000 tons of coal on site.

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

Huaneng Yuhuan Power Plant ("Yuhuan Power Plant") is located in Taizhou of Zhejiang Province. Yuhuan Power Plant Phase I consists of two 1,000 MW ultra-supercritical coal-fired generating units with a total installed capacity of 2,000 MW. Unit I and Unit II were put into operations in November 2006 and December 2006, respectively. Yuhuan Power Plant Phase II consists of two 1,000 MW ultra-supercritical coal-fired generating units with a total installed capacity of 2,000 MW, which commenced operations in November 2007.

The coal supply for Yuhuan Power Plant is primarily obtained from Shanxi Province and Inner Mongolia Autonomous Region. In 2007, Yuhuan Power Plant obtained approximately 69% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Yuhuan Power Plant in 2007 was RMB438.42 (2006: RMB424.63). Yuhuan Power Plant typically stores 500,000 tons of coal on site. Yuhuan Power Plant sells its electricity to Zhejiang Power Grid.

Power Plant in Shanxi Province

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

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

The coal supply for Yushe Power Plant is obtained from several coal producers located mostly in Shanxi Province. In 2007, Yushe Power Plant obtained approximately 100% of its total consumption of coal from the key contracts. The weighted average cost of coal for Yushe Power Plant in 2007 was RMB257.98 (2006: RMB245.04) per ton. Yushe Power Plant typically stores 500,000 tons of coal on site.

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

Power Plant in Henan Province

Huaneng Qinbei Power Plant ("Qinbei Power Plant") is located in Jiyuan City of Henan Province. Its installed capacity is 2,400 MW which consists of four 600 MW supercritical coal-fired generating units. Two units commenced commercial operations in November and December 2004, and the other two units commenced commercial operation in November 2007.

The coal supply for Qinbei Power Plant is obtained from Shanxi Province. In 2007, Qinbei Power Plant obtained 13% of its total consumption of coal pursuant to the key contracts and the remainder was obtained in the open market. The weighted average cost of coal for Qinbei Power Plant in 2007 was RMB358.69 (2006: RMB348.59) per ton. Qinbei Power Plant typically stores 270,000 tons of coal on site.

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

Power plant in Jiangxi Province

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

The coal supply for Jinggangshan Power Plant is obtained from Henan Province, Anhui Province and Jiangxi Province. In 2007, Jinggangshan Power Plant obtained 66% of its total coal consumption pursuant to the key contracts and the remainder in the open market. In 2007, the weighted average cost of coal for Jinggangshan Power Plant was RMB403.71 (2006: RMB382.64) per ton. Jinggangshan Power Plant typically stores 255,000 tons of coal on site.

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

Power plant in Hunan Province

Huaneng Yueyang Power Plant ("Yueyang Power Plant") is located in Yueyang City of Hunan Province. Yueyang Power Plant Phase I has an installed capacity of 725 MW and consists of two 362.5 MW sub-critical coal-fired generating units which commenced commercial operation in September and December 1991 respectively. Yueyang Power Plant Phase II consists of two 300MW coal-fired generating units with installed capacity of 600 MW, which were put into operation in March and May 2006, respectively.

The coal supply for Yueyang Power Plant is obtained from Datong in Shanxi Province. In 2007, Yueyang Power Plant obtained 73% of its total consumption of coal pursuant to the key contracts and the remainder in the open market. In 2007, the weighted average cost of coal for Yueyang Power Plant was RMB396.05 (2006: RMB388.50) per ton. Yueyang Power Plant typically stores 500,000 tons of coal on site.

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

Power Plant in Chongqing Municipality

Huaneng Luohuang Power Plant ("Luohuang Power Plant") is located in Chongqing Municipality. Each of Phase I and Phase II of Luohuang Power Plant has an installed capacity of 720 MW and consists of two 360 MW coal-fired generating units. The two units in Phase I commenced commercial operation in September 1991 and February 1992 respectively, and the two units in Phase II commenced commercial operation in December 1998. Luohuang Power Plant Phase III consist of two 600 MW coal-fired generating units with an installed capacity of 1,200 MW, which were put into operations in December 2006 and January 2007, respectively.

The coal supply for Luohuang Power Plant is obtained from Chongqing Municipality. In 2007, Luohuang Power Plant obtained all of its coal supplies from the key contracts. In 2007, the weighted average cost of coal for Luohuang Power Plant was RMB261.03 (2006: RMB227.74) per ton. Luohuang Power Plant typically stores 450,000 tons of coal on site.

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

Power plant in Gansu Province

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

The coal supply for Pingliang Power Plant is obtained from local coal mines. In 2007, Pingliang Power Plant obtained all of its coal supplies from the key contracts. The weighted average cost of coal for Pingliang Power Plant in 2007 was RMB158.00 (2006: RMB137.82) per ton. Pingliang Power Plant typically stores 230,000 tons of coal on site.

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

Competition and dispatch

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

A number of foreign power developers and foreign companies (including Hong Kong companies), have been pursuing investment opportunities in the PRC electric power industry, which opportunities include the development of power plants (through joint ventures with PRC partners) or the purchase of interests in existing power plants. While we believe that we currently possess advantages over such foreign developers because of our extensive experience in the electric power industry of China and our close relationships with the central and local governments, there can be no assurance that we will not experience increased competition in the future.

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

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

In 2007, with the purpose of improving energy usage efficiency, the government implemented a electricity optimized-dispatch policy in Henan Province, Sichuan Province, Jiangsu Province, Guangdong Province and Guizhou Province on a pilot basis, and plans to roll out to others if the trial operation is successful. In addition, in 13 provinces (municipality) of the 18 provinces (municipality) in which we operate power plants, the government's power administrative departments take different electricity plan policies to improve the planned useful hours of the environmental protection and energy convention units.

Environmental regulation

We are subject to the PRC Environmental Protection Law, the regulations of the State Council issued thereunder, the PRC Law on the Prevention and Treatment of Water Pollution, the PRC Law on the Prevention and Treatment of Air

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

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

Effective July 1, 2003, all power plants in China became subject to the pollutant discharge levy system, pursuant to which discharge fees are levied based on the actual amount of pollutants discharged. As a result, all of our power plants are now required to pay discharge fees in such manner. Under this new regulation, the discharge fees for sulphur dioxide were increased annually by RMB0.21 per kilogram from RMB0.21 in 2003 to RMB0.63 in 2005 and 2006. Discharge fees for nitrous oxide were increased to RMB0.63 per kilogram on July 1, 2004. The discharge fees for the dust have been RMB0.28 per kilogram since July 1, 2003. In 2007, certain provinces have raised the rates of waste disposal fees. For instance, from July 1, 2007, Jiangsu Province increased the rates of pollutants discharge fees for waste gas from RMB0.6 per pollutant equivalents to RMB1.2 per pollutant equivalents, and the rate for waste water from RMB0.7 per pollutant equivalents to RMB0.9 per pollutant equivalents. In 2005, 2006 and 2007, we paid to the local governments total discharge fees of approximately RMB376.72 million, RMB432 million and RMB507 million, respectively.

According to the New Emission Standards, promulgated by SEPA and State Technology Supervision Administration with effect from January 1, 2004, more restrictive standards to control sulfur dioxide and nitrous oxide emissions are applicable to all thermal power plant projects for which environmental impact study reports are yet to be approved. These restrictive standards govern both the total sulfur dioxide emissions from the power plant and the emission density of each chimney. The emission of sulfur dioxide by newly constructed coal-fired power plants is required to be no more than 400mg per standard cubic meter. Due to shortage of low-sulfur content coal, we generally install flue gas desulphurization ("FGD") equipment with all of our newly constructed generating units.

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

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

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

We believe we have implemented systems that are adequate to control environmental pollution caused by our facilities. In addition to the measures identified above, each power plant has its own environment protection office and staff responsible for monitoring and operating the environmental protection equipment. The environmental protection departments of the local governments monitor the level of emissions and base their fee assessments on the results of their tests.

We believe our environmental protection systems and facilities for the power plants are adequate for us to comply with the currently effective national and local environmental protection regulations. It is expected that the PRC Government will impose additional and stricter regulations to implement the emission plan which would require additional expenditure in compliance with environmental regulations.

Insurance

We currently maintain property all risks insurance and machinery breakdown insurance for all of our power plants, and construction all risks insurance or erection all risks insurance for all of ou